TRIBHUVAN UNIVERSITY

A COMPARATIVE STUDY ON THE FINANCIAL PERFORMANCE OF NEPAL INVESTMENT BANK LTD. (NIBL) AND LAXMI BANK LTD. (LXBL)

A THESIS SUBMITTED TO:

Office of the Dean
The Faculty of Management
In partial fulfillment of the requirement for the Degree of
Master in Business Studies (M.B.S)

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June, 2009

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Entitled:
"A Comparative Study on the Financial Performance Of Nepal Investment Bank Ltd. (NIBL) and Laxmi Bank Ltd. (LXBL)"

and found that the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment for the requirement for the degree of

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DECLERATION

I hearby declare that the work reported in this thesis entitled **"A Comparative Study On The Financial Performance of Nepal Investment Bank Ltd. (NIBL) And Laxmi Bank Ltd. (LXBL)"** submitted to Patan Multiple Campus, Lalitpur Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's of Business Studies under the guidance and supervision of **Mr. Rakesh Chandra Mishra** of Patan Multiple Campus.

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ACKNOWLEDGEMENT

This thesis entitled **"A Comparative Study On The Financial Performance Of Nepal Investment Bank Ltd. (NIBL) And Laxmi Bank Ltd. (LXBL)"** has been a matter of great pleasure for me to complete this thesis under the supervision and constructive guidance of respected adviser **Mr. Rakesh Chandra Mishra**, Patan Multiple Campus. He has been highly helpful in providing all sorts of guidelines, constructive, critical and analytical support in order to complete this thesis in the form as required by the Faculty of Management, Patan Multiple Campus, and Tribhuvan University for the partial fulfillment – Degree of Master in Business Studies (M.B.S).

I would like to extend my profound gratitude to all honorable teachers of Patan Multiple Campus, staffs of library and administration of Patan Multiple Campus and all my colleagues who helped me directly and indirectly for the completion of this thesis.

I would like to extend my appreciation to the staffs of LXBL and NIBL who provided me the necessary data and information

I must also acknowledge to Central Department of Management – TU, Central Library of TU, for providing encouragement and necessary books, journals and articles.

Finally, I would like to extend my heartily thanks to all the members of my family and relatives who inspired me in many ways to cope during the entire period of the study.

Namrata Shakya
June, 2009

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ABBREVIATION USED

ADB	Asian Development Bank
&	And
B.S	Bikram Sambat
CAR	Capital adequacy ratio
CB	Commercial Bank
CE	Capital Employed
CRR	Cash Reserve Requirement
C.V	Coefficient of Variance
DPS	Dividend Per Share
EBIT	Earning Before Interest and Tax
EBL	Everest Bank Limited
EPS	Earning Per Share
FOREX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Domestic Product
HBL	Himalayan Bank Limited
HMG/N	His Majesty Government of Nepal
i.e	That is
ICR	Interest Coverage Ratio
IMF	International Monetary Fund
JVB	Joint Venture Bank
LDO	Loan, Discount and Overdraft
LLP	Loan Loss Provision
LXBL	Laxmi Bank Limited
MBS	Master In Bussiness Studies
MVPS	Market Value Per Share
NABIL	Nabil Bank Limited
NBBL	Nepal Bangladesh Bank Limited
NBL	Nepal Bank Limited
NIBL	Nepal Investment Bank Limited
No.	Number
NPAT	Net Profit After Bank
NRB	Nepal Rastra Bank
NSIBN	Nepal SBI Bank Limited
OBS	Off- Balance Sheet
P. Er	Probable Error
Pvt. Ltd.	Private Limited
r	Coefficient of Correlation
r^2	Coefficient of Determination
RBB	Rastriya Banijaya Bank
ROTA	Return on Total Assets
RWA	Risk Weighted Assets
SCBNL	Standard Chartered Bank Nepal Limited

S.D	Standard Deviation
TT	Telegraphic Transfer
TU	Tribhuvan University
USA	United States of America

CHAPTER I

INTRODUCTION

1.1 Background of the study:

Every country has to give an emphasis on upliftment of the stable growth and sustainable economy. Until and unless a nation can mobilize its own domestic resources, the nation cannot achieve economic growth. Transfer of scattered capital funds from various savers to productive sectors is the major function of financial market. Financial market consists of Financial Institutions including financial intermediaries using various financial instruments and linking savers and users of funds.

The major concern of many countries of the world has to accelerate their development process and thereby increase the welfare of their people. This can be done only through rapid industrial development. This would require gearing up savings, creating conducive and enabling investment atmosphere and developing efficient capital market to facilitate mobilization of both ownership and debt capital through appropriate instrument. Such a scenario will help to grow corporate enterprise capable of ushering into a high growth era.

Nepal is land locked agricultural country between two big nations – China and India. More than 80% Nepalese people are involved in agriculture and on the other hand the population of the country is on rise. “The emergence and expansion of productive industries are necessary for the all rounds development of the country. However, the share of industry in Nepal’s GDP consists of only round 10% and limited portion of labor force is involved in industry, consequently more than 80% of the total population depends on agriculture for their livelihood.” Agriculture is still not sufficient to feed the growing population in Nepal. Therefore, the manpower from agriculture sector must be transferred to other sectors for economic development. Industrial sectors have contributed to national economy less than 56.1% of the GDP.

Industrial Development will play the key role for stable economic development. Since the past few years the non-agriculture income of the nation is leading the agriculture income slowly. The non-agriculture income refers to the income from industrial, tourism, trade

areas and other income areas. “Industrialization is the most essence element of rapid economic development for a developing country like Nepal. Therefore, these countries should be well informed about the need and significance of industrialization. So, for the rapid development of developing countries like Nepal, development in agriculture sector alone is not sufficient, it is essential to develop industrial sector too. Thus industries have an important role to play in accelerating the rate of economic development. What are the ultimate objectives of economic development? Different Government may have different objectives in mind and still certainly disagree about the weight to be attached to them. Generally however they will include faster growth of national income, alleviation of poverty reduction of incomes inequalities.”

Capital accumulation plays an important role in accelerating the economic growth of the nation, which in turn is basically determined, among others, by saving and investment propensities. But the capacity to save in the developing countries is quite low with a relatively higher marginal propensity of consumption. As a result, such countries are badly entrapped into the vicious circle of poverty. So, the basic problem for the developing countries is raising the level of saving and thus investments.

“Banking institutions are inevitable for the resource mobilization and all round development of the country. It is resource for economic development; it maintains economic confidence of various segments and extends credit to people”

“Banking concept existed even in the ancient period when the goldsmiths and the rich people used to issue the common people against the promise of safe keeping of their valuable items on the presentation of the receipt; the depositors would get back their gold and valuables after paying a small amount for safe-keeping and saving.”

In order to collect the scattered meager saving and put them into productive channels, financial institutions (like banks) are a necessity. In the absence of such institutions, the saving will not be safely and profitably utilized within the economy and will either be diverted abroad or used for unproductive consumption or speculative activities.

List of Class A Licensed Financial Institution (Commercial Banks)

Mid – July, 2007 has been in Table No.1

S.No	Names	Operation	Head Office
1	Nepal Bank Limited	1937/11/15	Dharmapath, Kathmandu
2	Rastriya Banijya Bank	1966/01/03	Singhdarbarplaza, Kathmandu
3	NABIL Bank Limited	1984/07/16	Kantipath, Kathmandu
4	Nepal Investment Bank Ltd	1986/02/27	Durbar Marg, Kathmandu
5	Standard Chartered Bank Nepal Ltd	1987/01/30	Naya Baneshwor, Kathmandu
6	Himalayan Bank Ltd.	1993/01/18	Thamel, Kathmandu
7	Nepal SBI Bank Ltd.	1993/07/07	Hattisar, Kathmandu
8	Nepal Bangladesh Bank Ltd	1993/06/05	Naya Baneshwar, Kathmandu
9	Everest Bank Ltd.	1994/10/18	Lazimpat, Kathmandu
10	Bank of Kathmandu Ltd.	1995/03/12	Kamaladi, Kathmandu
11	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar, Rupandehi
12	Lumbini Bank Ltd.	1998/07/17	Narayangadh, Chitawan
13	Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biratnagar, Morang
14	Machhapuchhre Bank Ltd.	2000/01/03	Prithvichowk, Pokhara
15	Kumari Bank Ltd.	2001/04/03	Putalisadak, Kathmandu
16	Laxmi Bank Ltd.	2002/04/03	Adarshanagar, Birgunj
17	Siddhartha Bank Ltd.	2002/12/24	Kamaladi, Kathmandu
18	Agriculture Development Bank Ltd.	2006/03/16	Ramshahapath, Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/06/21	Kamaladi, Kathmandu

The above Table No. 1 clearly indicates that the increasing number of Banks and their branches in Nepal can play an effective role in mobilizing the meager saving scattered in

different parts of the country and putting them into productive channels. At the same time it is also an indication of increasing competition among the banks in Nepal.

1.2 Statement of the problem:

Various financial institutions have been established to assist the process of economic development of Nepal. Emphasizing the role of commercial banks, India Dani says, "The major problem in almost all underdeveloped countries and Nepal is no exception, is that of capital formation and proper utilization. In such countries the commercial banks have to shoulder more responsibilities and act as development banks, due to the lack of other specialized institutions." To avoid problems and thereby contribute to the national economy, various commercial banks have played vital role by accepting deposits and providing various types of loans. Loan affects overall development of the country. The development of the country is directly related to the volume of loan, which is also obtained from commercial banks. The problem of lending has become very serious for developing countries like Nepal. This is due to lack of sound policy of commercial banks. Establishment of private joint venture banks have been continued in response to the economic liberalization policies of the government. The tendency to concentrate these banks only in urban areas has raised certain questions. This state of affairs cannot contribute much to the socio-economic development of the country where 90% of the population lives in the rural areas and 81% of that population depends upon agriculture. These joint venture banks are reluctant to extend their operation in rural areas. Despite the circular of NRB, the Central Bank of the country, regarding compulsory investment of 10% of their resources to such less profitable sector. This problem remains to be solved, so that even the small investor in the rural areas will benefit from the services of such banks. Moreover, even the existing branches of the commercial banks in the rural areas do not seem to have been able to mobilize the local resources effectively.

Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instructions and guidelines of NRB. They do not have clear view towards investment policy. Furthermore, the implementation of policy is not in an effective way.

Commercial banks are found to be making loan only on short-term basis against movable merchandise. There is hesitation to investment on long-term projects as they are much more safety minded. So, they follow conservative loan policy, which is based on string security, they do not consider the profit potential of the project. There is raised criticism that commercial banks have served only richer communities and not the poor. This has directly had negative impact on economic growth. Nowadays commercial banks do not seem to be capable to invest their funds in more profitable sector. They are found to be more interested in investment in less risky and highly liquid sector i.e. treasury bills, development bonds and other securities. They keep high liquid position and flow lower funds to the productive sectors; this results in lower profitability to commercial banks and ignorance to the national economies growth process. This is the main reason of crisis in the commercial banks and in the whole national economy as well.

Delivering efficient services to the common people by enhancing efficiency of the commercial banks and improving their management style pose a challenge to the banks and financial institutions. The existing condition of the liquidity of the banking and financial institutions also needs to be reduced through an appropriate investment policies. Equally important is the challenge to minimize the margin of interest rates these institutions charge by minimizing their intermediation cost.

At present, as the outstanding loan amount is increasing, these institutions need to give special attention towards loan recovery. It is also necessary to put sound regulatory and supervision system or be put in place for timely recovery of outstanding loans.

In order to help realize the goal of poverty alleviation, access to increased flow of credit and investment in the economic activities of direct benefit to the maximum number of low-income people through micro and medium size loan needs serious attention in days to come. It is also necessary to identify the activities that ensure quick return of investment.

The mushrooming of banking and finance companies and about a dozen of rural banks and co-operative societies in short span of time has brewed new comparative scenario, and has posed a challenge to the banks like NIBL and LXBL, which are making attractive profits. In the changed scenario these banks need to explore their strengths and weakness,

and improve their performance because their success depend upon their ability to boost their productivity and financial performance.

Thus, the present study seeks to explore the efficiency and weakness of NIBL and LXBL. Attempts are also being made to explore the following questions,

a) How far have NIBL and LXBL been able to convert the mobilized resources into investment,
b) To what extent these banks have been able to raise their profitability,
c) How efficiently these banks are managing their liquidity, assets, capital structure, etc.,
d) Based on the above questions which banks have faced more financial risks.

1.3 Need of the study:

The proper mobilization and utilization of domestic resources become indispensable for any developing country aspiring for a sustainable economic development and there is no doubt that commercial banks have a pivotal role in the collection of dispersed small savings of Nepalese people and transforming them into meaningful capital investment. The success and prosperity of the bank relies heavily upon the successful investment of collected resources to the important sectors of economy. Successful formulation, effective implementation of investment policy is the prime requisite for the successful performance of commercial banks. Good investment policy has positive impact on economic development of the country and vice versa. So, investment policy of commercial banks should be in accordance with the spirit of the economic upliftment of the people.

As mentioned above, there are many loopholes in the investment policies of commercial banks of Nepal, which affect their performance to great extent. It becomes everybody's concern when their performance does not seem so 'satisfactory' in terms of utilizing its resources efficiently in productive sectors. The study of commercial banks investment policy focusing on interest rate structure, portfolio management and credit management will strive to disclose the internal weakness and furnish the ideas for improvement policy of commercial banks and point out the defects inherent in it and provide package of suggestion for its improvement.

1.4 Objective of the study:

The basic objective of this study is to make comparative analysis of the financial performance of two banks, joint venture bank NIBL and private bank LXBL, and to recommend suggestion for the improvements of state of affairs. More specifically,

a) To compare analyze the liquidity, profitability, capital structure, capital adequacy, leverageness and operation of NIBL and LXBL.
b) To evaluate trend in growth of net profit, loan and advances, total deposit, net interest earned EPS and DPS of these selected banks and make a projection of these for next five years.
c) To analyze the relationship between DPS and EPS of NIBL and LXBL.
d) To evaluate the soundness of profitability and operating efficiency of LXBL comparing with that of NIBL.
e) To evaluate the relationship between the two variables in terms of total deposit to total investment, total deposit to total net profit of LXBL and NIBL.
f) To make suggestions for the improvements of financial performance of NIBL and LXBL for the future.

1.5 Scope of the study:

The scope of this study lies mainly in feeling a research gap on the study of investment policy and financial performance of commercial banks. This study is basically confined to reviewing the investment policy of commercial banks in five years from 2003/04 to 2007/01.

This study is expected to definitely provide a useful feedback to the policy makers of commercial banks of Nepal, and also to the government and the central bank (NRB) in formulating appropriate strategies for the improvement in the performance of commercial banks. Moreover this study can also be used as reference point by the international organization like ADB, IMF, World Bank etc.

1.6 Importance of the study:

The study has multidimensional significance:

i) The study enlightens the shareholders about the financial performance of their respective banks. This allows them to have a comparative retrospect whether their fund was better utilized or not.

ii) The study also compels the management of respective banks for self assessment of what they have done in the past and guides them in their future plans and programs.

iii) The financial agencies, stock exchange and stock traders are also interested in the performance of the banks as well as the customers' depositors and debtors, who can objectively identify the better bank to deal with in terms of profitability, safety and liquidity.

iv) Policy makers at the macro level that is Government and Nepal Rastra Bank will also benefit regarding the formulation of further policies in regard to economic development through banking institutions.

1.7 Limitation of the study:

i) This research paper is prepared, especially, in fulfillment of degree course for MBS. Since, the collection of data through primary sources requires on the spot visit, consuming lots of time and money, not affordable by a student, all the relevant data and information are collected and consolidated from the based on the published financial documents like balance sheet, profit and loss account, Annual Report and other related journals, the authenticity of which has not been questioned. Other information has been taken form the company's executive officials; Ministry of Finance; National Planning Commission, Nepal Rastra Bank, Centre Bereau of Statistics, TU Central Library, Patan Multiple Campus Library; British Council, TU - MBS students Thesis etc.

ii) Limited resources and time at the disposal of the researcher did not allow a much more extensive analysis of the subject in question.

iii) The study covers only five years data from 2003/04 to 2007/08.

1.8 Chapter Scheme:

The whole study has been divided into five chapters. Each is developed to some aspects of the study.

Chapter I deals with introduction, which includes general background, statement of the problem, need of the study, objective of the study, scope of the study, importance of the study, limitation of the study and chapter plan.

Chapter II deals with the review of available literature. It includes review of books, journals, review of legislation related to commercial banks, review of other relevant books, review of bullentins and annual reports published by bank review of related articles and review of previous thesis.

Chapter III explains the research methodology used in the study, which includes research design, sources of data, population and samples methods of data analysis (various tools i.e. financial and statistical tool).

Chapter IV deals with presentation and analysis of data through definite course of research methodology. The main working of this chapter is to analyze different financial ratios related to the financial performance and fund mobilization of LXBL in comparision to the NIBL.

Ultimately, Chapter V discusses summary, recommendations and suggestions for futher improvement. Beside these, bibliography and appendices are also included.

This chapter has focused on giving general introduction to readers regarding the commercial banks' growth, functions, policies, problems and limitations. Furthermore, it provided the chapter plan of the study. Now, the next step is to give fundamental base to the study through the review of relevant literature available at present, which will be discussed comprehensively in the next chapter.

CHAPTER II

REVIEW OF LITERATURE

This chapter highlights upon the existing literature and research related to the present study with a view of finding out what had already been explained and how the present research adds to the dimension. This has been grouped under the concept of banking, historical development of banking system in Nepal, concept of OFF – BALANCE SHEET (OBS) operations, financial performance, definition of variables, review of related thesis works and background of NIBL and LXBL.

2.1 Conceptual Review:

2.1.1 Concept of Banking:

Bank is a financial institution, which plays a significant role in the development of the country. It facilitates the growth of trade and industry and other sectors of the national economy. It is a resource for economic development, which maintains the self-confidence of segments of society and extends credit to the people.

The more development financial system of the world characteristically falls into three parts: The central bank, the commercial banks and other financial institutions. They are also known as financial intermediaries.

A bank is a business organization that receives and holds deposits of funds from others makes loans or extends credits and transfers funds by written orders of depositors.

The business in banking is one of collecting funds from the community and extending credit (making loans) to people for useful purpose. Banks have played a pivotal role in moving money from lenders to borrowers. Banking is a profit seeking business not a community charity. As a profit seeker, it is expected to pay dividends and otherwise add to the wealth of its shareholders.

In the Nepalese context, nowadays three types of banks are being operated by performing their activities in different sectors, such as Central Bank (Nepal Rastra Bank), Commercial Banks and Development Banks, commercial banking are either operated fully in the public sector (RBB) or the joint sector (NBL) or being operated under joint venture with foreign banks with private participation (NABIL/ NIBL).

2.1.2 Concept of Commercial Bank:

Commercial Banks are those financial institutions, which deal in accepting deposits of persons and institutions and giving loan against securities. They provide working capital needs of trade, industry and even to agricultural sectors. Moreover commercial banks also provide technical and administrative assistance to industries, traders and business enterprises. The main purpose of priority sector investment scheme is to uplift the backward sector of economy.

A commercial bank is one, which exchange money deposits money, accept deposits grants loans and performs commercial banking functions and which is not a bank meant for co-operation, agriculture and industries or for such specific purpose.

The American Institute of Banking has laid down the four major functions of Commercial Bank such as receiving and handling deposits, handling payments for its clients making loan and investments and creating money by extension of credit.

Commercial Banks are the heart of the financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing activities activities to borrowers, individuals, business firms and services from the producers to customers and the financial activities of the government. They provide a large portion of the medium of exchange and they are medial through which monetary policy is affected. These facts show that the commercial banking system of the nation is important to the functioning of the economy.

Principally commercial banks accept deposits and provide loans, primary to business firms, thereby facilitating the transfer of funds in the economy.

A commercial banker is dealer in money and substitute for money such as cheque or bill of exchange. He also provides a variety of financial service.
Commercial Bank is a corporation, which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services.

Under the Nepal Commercial Bank Act, 2031 B.S., the commercial banks are those banks which provide short term and long term debts whenever necessary for trade and commerce. They accept deposit from the public, and grant loans in different forms. They purchase and discount the bills for exchange of promissory notes and foreign currency.

Similarly, Commercial banks pool together saving of the community and help in the capital formation. Commercial banks obtain the deposits from the customer under different accounts and such savings are distributed to the public in the form of credit for productive use. Basically, commercial banks finance short-term needs of trade and industry. They supply working capital to trade industry and even to agriculture sector. Commercial banks in a developing country like Nepal also finance the almost all small and cottage industries under priority sector investment scheme in order to uplift the property sector of nation.

On the other hand, Central Bank's main task is to monitor, direct and control the lending activities in the country. In Nepal commercial banks perform their function under the rules and regulations of the Nepal Rastra Bank.

Nepal is a very poor, least developed country having low per capita income and gross domestic product. As a result it has to face economic problem like inflation and devaluation of money trade, trade defeat, budget defeat etc. To attain such problem

JVBs are in corporate in Nepal by sharing Nepali and foreign towards making more by using the fund in profitable sector. Profit is necessary for each and every organization but it does not mean that the main objective of JVBs for making more profit they should consider about social responsibility towards the society too.

Meanwhile, under the free enterprises system like USA the interest of the nation as well as these of the individuals stockholders are supposes to be best serve by vigorously seeking profit. But, profit cannot be a sole objective of an enterprise and should not be evaluated just on the ground of the profit it earned. Neither the bank nor the community will be best served if the banker unreasonably sacrifices the safety of his funds or the liquidity of his bank is an effort to increase income.

2.1.3 Function of Commercial Banks:

Commercial banks are the important type of financial institution for the nation in terms of aggregate assets. The business of banking is very broad in modern business age. The number and variety of services provided by commercial bank will probably expand. Recent innovation in banking includes the introduction of credit cards, accounting services for business firms, factoring, leasing participation in the Eurodollar market, and lock-box banking . The major functions of commercial banks are explained in brief below:

a. Creating Money

One of the major functions of the commercial bank that separates it from other financial institutions is its ability to create money and to destroy money, which is accomplished by the lending and investing activities. The power of commercial banking system to create money is of great economic significance as it results in the elastic credit system that is necessary for economic progress at relatively steady rate of growth.

b. Payment Mechanism

Providing for a payment mechanism or the transfer of funds is one of the important functions performed by commercial banks and it is increasing in importance as greater

reliance is placed on the use of cheques and credit cards. Moreover, bank credit card can be used to withdraw cash from a depositors account, make deposits and loan payment and transfer funds between a depositor's saving and checking account.

c. Pooling of Nation is Saving

Commercial banks perform vital services to all sector of the economy by providing facilities for the pooling of national saving and making them available for economically and socially desirable purposes. The saver is rewarded by the payment of interest on is saving. These pooled funds are made available to businessman who may use them for the expansion of their productivity capacity and to consumers for such items as housing and consumer goods.

d. Extension of Credit

The major function of commercial bank is the extension of credit to worthy borrowers. Bank lending is very important to the economy for it makes possible the financing of agriculture, commercial and industrial activities of the country. Moreover, the provision of bank credit provides for the smooth operation of government such as capital improvements for building of school and hospitals and purchasing of new fire-trucks, construction of highways and dams and for the nation defense.

e. Facilities for the financing of Foreign Trade

The other primary function of commercial banks is making arrangements for the amount of foreign exchange needed by business organization to pay in foreign country. Banks provide more satisfactory guarantee to an individual or firms bought the issuance of commercial letter of credit, drafts telegraphic transfer (TT) and an accepting travelers letter of credit or traveler's cheques.

f. Trust Service

Increased incomes have made possible the accumulation of wealth, which in turn has contributed to the growth of the trust services of commercial banks. Trust department

serve as trustees in connection with bond issues and as transfer agents and registers for corporation. They may also administer sinking funds and perform other related activities with the issuance and redemption of bonds and stocks.

g. Safekeeping of Valuables

The safekeeping of valuables is one of the oldest services provided by commercial banks. The protection of valuables falls into two areas or a department of a bank: safe deposit boxes and safekeeping. Safe deposit boxes are made available to customer on a rental basis that may be useful provides a place for securities, deeds, insurance policies and personal items of valuable only to the owners. In other hand, safekeeping differs form safe deposits box services in that the bank has custody of valuables and acts as an agent for the customer.

2.1.4 Concept of Joint Venture Banks (JVBs):

Joint venture is a jointing of forces between two and more enterprises for the purpose of carrying out a specific operation (Industrial and Commercial Investment Production or Trade).

All the Nepalese JVBs are established and operated under the rules regulation and guidance of Nepal Rastra Bank. Nepal Rastra Bank has issued a certain directive to those banks, regarding the mandatory credit allocation to the priority sector, the Nepal Rastra Bank has directed to the government owned banks to invest 3% and the JVBs to invest 0.5% of their total outstanding credit to the poverty stricken community.

Joint Venture Banks are the mode of trading to achieve mutual exchange of goods and services for sharing comparative advantage by performing joint investment schemes between Nepalese investors, financial, non-financial institution as well as private investors and their parent bank each supply 50 percent of total investment. The parent banks, which have been experiencing highly merchanized and efficient modern banking services in many parts of world, have come to Nepal with higher technology, advanced management skills and an international of banking institutions. JVBs are formed in Nepal as full-fleged commercial bank under the economy act, 2021 B.S. and operated under the Banijya Bank Act 2032 B.S.

HMG's deliberate policy of allowing foreign JVBs to operate in Nepal is basically targeted to encourage local traditionally run commercial banks to enhance their bankable capacity through competition efficiency, modernization and mechanization via computerization and prompt customer service.

2.1.5. Role of Joint Venture Banks:

Joint venture banks pose a serious challenge to the existence of the inefficient native banks. But the same challenge can be taken by the domestic banks as an opportunity to modernize themselves and sharpen their competitive zealous. It is undoubtedly true that the JVBs are already playing an increasingly dynamic and vital role in the economic development of the country.

a. Introducing New Methods and Technology in Banking Services

The JVBs have invited a new era of banking in this remote Himalayan Kingdom by introducing high technology and efficient methods in the banking business. Other areas of expertise are forward cover for foreign exchange transaction by importers and exporters, merchant banking inter-bank market for money and securities, arranging foreign currency loans etc.

b. Providing New Services

Even though the JVBs so far have not provided any remarkable new services that was not offered by the domestic banks they have drawn a large number of customer who assume that they will eventually benefit from their association with these banks when they introduce new services. At present, a speedier service than that of the domestic banks is the hallmark of the JVBs though their services are basically in traditional areas, which could highly be educative for the domestic banks.

c. Offering better Links with International Market

The JVBs are usually better place to raise resources internationally for viable projects in a developing country like Nepal mainly due to their credibility in and easier access to

international markets. In other words it is very much easier for Nepalese business to produce international linkage through the joint venture banks.

d. Creating a Competitive Environment

The JVBs have created a competitive environment in banking business in Nepal. Prior to the arrival of JVBs there was little competitive zeal between the Nepal Bank Limited and Rastriya Banijya Bank as they had almost set bunch of customer, working areas and services. This competitive environment will benefit the common man, business and industry, and the country as a whole.

e. Providing more Resources for Investment

The JVBs have played a significant role in channeling additional resources for investment for the development of the country. Although it is argued by many that resources raised to locally in the prevailing market those resources would have been mobilized by any other domestic institution, it is assumed that the JVBs have mobilized net additional resources if they tap so far untapped resources in the local market.

2.1.6 Historical Development of Banking System in Nepal:

The history of organized banking system in Nepal is very short. Its establishment can be traced back to the year 1937 only, when in the history of modern banking in Nepal, Nepal Bank Limited was started during the reign of Prime Minister Juddha Shumshere J.B. Rana. The bank was established to remove the inconveniences caused to the people. However, when the concept of planning was conceived and the First plan was formulated, need for establishing a central bank was felt. From the point of view of planning it is necessary that banking activities especially, the loans, should be regulated as per the priority. Thus, Nepal Rastra Bank as the Central Bank was established in 1956 with following objectives:

1. to ensure facilities and maintain economic interest of general public for safeguarding the issue of paper currency,
2. to secure country-wide circulation of the Nepalese currency,
3. to mobilize capital for economic development and stipulation of trade and industries,

4. to achieve stability system in its exchange rate and

5. to develop the banking system in the country.

In a developing country like Nepal the Central Bank is supposed to help developed banking system for the mobilization of resources and using them in the priority areas as fixed in the development plans.

In the year 1966, another commercial bank – Rastriya Banijya Bank was established under the State commercial Bank Act, 1965. The bank was specially established in response to the need for forming a Government – owned commercial bank to look after the convenience and economic interest of the general public.

In early 1980's to meet the need of healthy competition in the financial system, Nepal allowed the entry of foreign bank as joint venture with up to a maximum of 50 percent equities participation.

2.1.7 NRB Rules Regarding Fund Mobilization of Commercial Bank

To mobilize bank's deposit in different sectors of the different parts of the nation and to prevent them form the financial problems, Nepal Rastra Bank (NRB) can establish a legal framework by formulating various rules and regulation (Prudential Norms). These directive must have direct or indirect impact while making decisions to discuss those rules and regulations which are formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit, cash reserve requirement (CRR), loan loss provision, capital adequacy ratio, interest spread, productive sector investment. A commercial bank is directly related to the fact that how much fund must be collected as paid up capital while being established at a certain place of the nation, how much fund is needed to expand the branch and counters, how much flexible and helpful the NRB rules are also important, but we discuss only those, which are related to investment function of commercial banks. The main provisions, established by NRB in the form of prudential norms in above relevant area are briefly discussed here under:

a. Provision for investment in the deprived sector

Some rules, which are formulated by NRB, affect areas of credit and investment extension to the deprived sector by the commercial bank. According to the new provision, with effect from 3rd quarter of FY 1995/96, investment in share of the rural development bank by commercial banks (CBs), which used to be counted for the priority sector lending, only is now to be included under the deprived sector lending. According to the new provision effective form FY 1997/98, Nepal Bank Ltd. (NBL), Rastriya Banijaya Bank (RBB), Nabil Bank Ltd. (NABIL), Standard Chartered Bank Nepal Ltd. (SCBNL), Nepal Investment Bank Ltd. (NIBL) are required to invest 3 percent, Himalayan Bank Ltd. (HBL), Nepal SBI Bank Ltd. (NSIBL), Nepal Bangladesh Bank Ltd. (NBBL), Everest Bank Ltd. (EBL) are required to invest 2 percent, Bank of Kathmandu is requires to invest 1.75 percent, NBCL is required to invest 0.75 percent while new commercial banks are required to invest 0.25 percent of their total loans and advances to the deprived sector.

b. Provision for credit to the priority sector

NRB requires commercial banks to extend loan and advances, amounting to at least 12 percent of their total outstanding credit to the priority sector. Commercial banks' credit to the deprived sector is also a part of priority sector credit. Under priority sector, credit to agriculture, credit to the cottage and small industries and credit to service are counted commercial banks' loan to the co-operatives licensed by the NRB is also to be computed as the priority sector credit from the fiscal year 1995/96 onwards.

c. Provision for the investment in productive sector

Nepal, being a developing country needs to develop infrastructure and other primary productive sectors like agriculture, industry etc. For this, NRB has directed commercial banks to extend at least 40 percent of their total credit to the productive sectors. Loans to priority sector, agriculture sector, industrial sector have to be included in productive sector investment.

d. Provision for the single borrower credit limit

With the objective of lowering the risk of over concentration of bank loans to a few big borrowers and also to increase the access of small and middle size borrower to the bank loans, NRB directed CBs to set an upper limit on the amount of loan financed to an individual, firm, company or group of companies. According to this CBs are required not to exceed the single borrower limit of 35 percent in the case of fund-based credit and 50 percent, in case of non-fund based credit such as the letter of credit, guarantee, acceptance letter, commitment has been fixed in a proportion of capital funds of bank. Similarly, NRB has graded six foreign joint venture banks now as the prestigious class 'A' bank, which are NABIL, SCBNL, NIBL, HBL, NSBL and NBBL. These banks have been kept outside the preview of the single borrower credit limit. Likewise, in the case of consortium financing, commercial banks are permitted to extend and additional 10 percent credit above the limit fixed by the NRB as before. In addition, Nepal oil-corporation, agriculture-inputs Corporation and Nepal Food Corporation for their imports of petrol, diesel, kerosene, fertilizer and food stuffs respectively have been removed from the restrictions of single borrower credit limit.

e. Directives to raise capital funds (CAR)

The commercial banks under operation and having low capital base have been directed to raise their capital funds at a minimum level of Rs.500 million with 5 years of period i.e. by the end of FY 2000/01. Moreover, the commercial banks are allowed to include paid up capital and reserve for meeting the minimum capital requirement but they have to deduct the net loss from such if they are in loss.

Besides this, NRB has directed commercial banks to maintain at least 8 percent capital adequacy ratio (CAR) of their risk weighted assets (RWA) and off balance sheet transactions i.e. letter of credit, letter of acceptance, Bonds, Guarantees etc. they are further required to classify their capital requirement into (1) core capital (Tier 1) and (2) supplementary capital (Tier 2) and maintain at least 4 percent of their total capital in the form of core capita. As per the provision, risk weighted assets (RWA) are to be calculated by classifying assets and giving them different risk weights as presented below:

Allocation of Risk Factors

S.No.	Assets	Weights
1	Cash Balance	0
2.	Bank Balance	
	With NRB	0
	With other domestic banks	20
	With foreign banks	20
3	Call deposits	10
4	Investments:	
	Government papers	0
	Share and Debentures	50
	Other investment	50
5	Loan and Advances	100
6	Fixed Assets	100
7	Contingent Liabilities:	
	Fully secured three month LC	20
	Commitment of more than a year	50
	Letter of acceptance, simple commitment and other L/C transactions	100

f. <u>Cash Reserve Requirement (CRR)</u>

To ensure adequate liquidity in the commercial banks, to meet the depositors' demand for cash at anytime and to inject the confidence in depositors regarding the safety of their deposited funds, commercial banks are required to deposit minimum 8 percent of current and saving and 6 percent of fixed deposits in the NRB as primary cash reserve. The commercial banks are further required to have 3 percent cash of total deposits in their own bank as secondary reserve.

g. Loan Classification and Loss Provision

With a view to improving the quality of assets of commercial banks NRB has directed commercial banks to classify their out-standing loan and advances, investment and other assets into six categories. The classification is done in two ways. The loans of more than 1 lakh are to be classified as debt service charge ratio, repayment situation and financial condition of borrower, management efficiency, quality of collateral. The loans of less than 1 lakh have to be classified as per maturity period.

Furthermore, NRB has directed commercial banks to maintain certain reserves for loans so classified. The existing loan loss provisioning is as follows:

Loan Loss Provisioning (LLP)

(in percent of overdue loan)

Loan Classification	Loan Loss Provisioning
Good	1
Acceptable	1
Evidence of substandard	5
Doubtful	25
Bad	50
Total	100

LLP has affected banks' capability to extend loans and make them risk averse in issuing newer loans, particularly to the private sector and priority sector where the loan default is high.

h. Directives regarding interest rate spread

The interest rate spread, the differences between interests charged on loan and advances and the interest paid to the depositors, has widened significantly in the aftermath of deregulation in interest rates which has caused lower financial intermediation. Therefore, NRB has required commercial banks to limit interest rate spread between deposit and lending rates to a maximum extent of 5 percent. NRB has also provided commercial banks with new calculation method of interest rate spread for a certain period recently.

The review of above relevant literature has no doubt enhanced fundamental understanding and foundation knowledge base, which is prerequisite to make his study meaningful and purposive. Based on feedback divided from the literature review of relevant literature, the choice of research methodology and further analysis in this study would be under better track and to the point to suggest future workable suggestions for commercial banks.

2.1.8. Concept of OFF-Balance Sheet (OBS) operations

a. Introduction

A balance sheet is a statement of those assets and liabilities of a business enterprise that can be given a value in terms of money; it shows both assets and how these assets are financed. The liabilities indicate what money has been available to the enterprise and from where. The assets show how the enterprise has used the money made available to it.

The name off-balance sheet itself gives the identification that these transactions or operations are not included or are not the part of balance sheet items-assets or liabilities.

Therefore, present day balance sheets may not give true picture of financial position. Off-balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations that are not recognized as assets or liabilities on balance sheet.

b. Evaluation of OBS operation

The massive expansion and growth of banking in last couple of decades and constant pressure on improving the rate of return have forced the banking sector to diversify from its traditional function of lending and deposit mobilization with deregulation of financial system, new financial institution mostly in the form of off-balance sheet commitment have increasingly figured in the financial operations, and banks have been placing increasingly emphasis on activities that generate income without increasing the assets in the balance sheet.

The banks, in their traditional function, increased lending and committed itself beyond the strength of the bank. Quality of the assets were questioned, i.e. lending became bad due to slow recovery but banks continued its lending and thereby increasing portfolio and the

balance sheet footing. At this point of time the NRB and the regulatory bodies were forced to introduce control mechanism, in terms of capital adequacy ratios. The banks in order to come out of this situation were forced to diversify its activity in order to maintain the ratios and increase profitability thus the introduction of off-balance sheet transactions.

c. Growth of OBC Operation

Off-balance sheet activities arise from the contingent commitments of banks in the present time, which can appear as real liabilities in the future. These activities are not recognized as asset and liabilities in balance sheet. These activities are very important, as they are the good source of profit to the bank, though they have risk. The off-balance sheet items are not included in the balance sheet until they are recognized as real liabilities. Off-balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations that are not recognized as assets or liabilities on balance sheet.

Various sources of income the banks have found fee and commission income very attractive. There are various off-balance sheet transactions that a bank can undertake. It depends upon the enterprise and resources available to the bank. Few typical off-balance sheet transactions are as follows:

I. Letter of credit
II. Letter of guarantees
III. Documents negotiated under reserve (DNUR)
IV. Commitments
V. Acceptance
VI. Bills of collection
VII. Performance bond
VIII. Bid bond
IX. Forward foreign exchange transaction
X. Currency swap
XI. Option, etc.

d. Nepalese Context

In the context of off-balance sheet activities, letters of credit and letter of guarantees were in practice from the very beginning. But there has been a rapid growth of other fee-based, off-balance sheet activities like acceptance, commitments and forward foreign exchange transactions after the establishment of foreign joint venture banks. These activities have become attractive to these banks because of constraint imposed on the fund based activity, slowing down on the growth of lending activities, non disclosure of information and growing attraction to improve profits in the face of competition.

It is estimated that the joint venture banks generate more than one third of their total income funds from fee-based activities. The volume of fee-based activity is not dependent on the size of banks but on the mode of operation, management strategy and foreign linkage and to very structure of the bank itself. The joint venture banks have been successful in harnessing the fee-based activity to the maximum possible extent so as to earn profit.

According to Nepal Rastra Bank's latest directives, commercial banks are required to maintain their capital fund at minimum 8 percent (minimum 6 percent to be maintained by mid July,1991 and minimum 8 percent by mid-July 1992 and there after) of the risk adjusted assets, of which minimum 4 percent must be towards the core capital. The core capital includes paid up capital, preference share capital, share capital, share premium, undistributed profit and general reserves. To arrive the risk assets, the transactions of the commercial banks have been categorized into on-balance sheet and off-balance sheet items. According to risk involved amounts of on-balance sheet transactions as per balance sheets are multiplied by the suitable risk weights, which vary from zero to 100 percent.

Similarly, off-balance sheet transactions are also multiplied by the risk weights. Since the off-balance sheet transactions are not the credit (funded facility) of the bank, it is required to convert such transactions into credit by applying generally "credit conversion factor". In Nepal, the credit conversion factor for all types of off-balance sheet transactions is assumed as 1 i.e. 100 percent. The risk weight given for different types of off-balance sheet transactions ranges from 20 to 100 percent, viz.20 for the fully secured letter of credit up to 3 months, 50 for the performance bond, bid bind and commitments of having more than 1 year and 100 for all other off-balance sheet transactions.

Thus, the off-balance sheet exposures of the commercial banks are also taken into consideration while determining the capital fund ratio of the banks.

2.2 Review of Studies

2.2.1 Review of Journals and Books

The banks are such types of institutions, which deal in money and substitute for money. They deal with credit and credit instruments. Good circulation of credit is very much important for the bank. Unsteady and unevenly flow of credit with ad-hoc decisions harm the economy and the bank as well. Thus, to collect fund and utilize it in a good investment, is not a joke for such organization. An investment of fund may be the question of life and death for the bank.

In the words of Gitman & Joehnk(1990), Investment is any vehicle into which funds can be placed with the expection that will preserve or increase in value and generate positive returns”

L.V.Chandler (1973) says in this regard, "A banker seeks optimum combination of earning, liquidity and safety, while formulating investing policy."

Emphasizing the importance of investment policy, H.D. Crosse puts in this way, “ Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well-concieved lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit.”

He further adds, the formulation of sound lending policies for all banks should have adequate and careful consideration over community needs, size of loan portfolio, character of loan, credit worthiness of borrower and assets pledged to security borrowing interest rate policy.

Frank K.Relly defines investment in this words, “An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time the funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of the funds.”

From the above definition, it is clear that an investment means to trade a know rupee amount today for some expected future stream of payments or benefits, that will expect the current outlay by an amount that will compensate the investor for the time the funds are committed for the expected changes in prices during the period and for the uncertainty involved in expected future cash flows. Thus investment is the most important function of commercial banks. It is the long-term commitment of bank in the uncertain and risky environment. It is very challenging task for commercial banks. So, a bank has to be very cautious while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of its investable funds.

Investment management of a bank is guided by the investment policy adopted by the bank. The investment policy of the bank helps the investment operation of the bank to be efficient and profitable by minimizing the inherent risk.

William F. Sharpe and Alexander J. Gorden defines investment in this way, " Investment in its broadest sense means the sacrifice of certain present value for (possible uncertain) future value."

Various authors have expressed their views regarding investment policies of commercial banks, then formulation and implementation differently. In the words of S.P. Sing & Sing(1983) "the investment (Credit) policies of Banks are conditioned, to great extent, by national policy framework, every banker has to apply his own judgement for arriving at a credit decision, keeping of course his banker's credit policy also in mind."

They further state "The field of investment is more challenging as it offers relatively greater scope to banker for judgment and discretion in selecting their loan portfolio. But this higher degree of freedom in the field of credit management is also accompanied by greater risk. Particularly during recent years, the credit functions have become more complex."

James B Besley (1973), expresses his views as "Investment policy fixes responsibilities for the investment disposition of the banks assets in terms of allocating funds for investment and loan, and establishing responsibility for day to day management of those assets."

A commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a handsome profit as well as it should be secured and

can be converters into cash whenever needed. Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when and how it will be able to repay the loan. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

2.2.2 Review of Articles

In this section, effort has been made to examine and review of some related articles in different economic journals, World Bank discussion papers, magazines, newspapers and other related books.

There are not much articles published related to investment management in Nepal. Shiba Raj Shrestha (2055), Deputy Chief Officer of Nepal Rastra Bank, Banking Operation Department , has given a short glimpse on the " Portfolio management in commercial bank theory and practice."

Mr. Shrestha has highlighted following issues in the articles. The portfolio management becomes very important both for individuals as well as institutional investors. Investors would like to select a best mix of investment assets subject to following aspect:

1. Higher return which is comparable with alternative opportunities available according to the class of inventor.
2. Certain capital gains.
3. Good liquidity with adequate safety of investment.
4. Maximum tax concession.
5. Flexible investment.
6. Economic, efficient and effective investment mix.

In view of above aspect, following strategies are adopted:

1. Do not hold any single security i.e. try to have a portfolio of different securities.
2. Do not put all the eggs in the one basket i.e. to have a diversified investment.
3. Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower or return but added objective of wealth maximization.

However, Mr. Shrestha has also presented following approach to be adopted for designing a good portfolio and its management.

1. To find out the investible assets (generally securities) having scope for better returns depending upon individual characteristics like age, health, need, disposition, liquidity, tax liability etc.
2. To find out the risk of the securities depending upon the altitude of investor towards risk.
3. To develop alternative investment strategies for selecting a better portfolio, which will ensure a trade-off between risk and return so as attach the primary objective of wealth maximization at lower risk.
4. To identify securities for investment to refuse volatility of return and risk.

Mr. Shrestha has presented two types of investment analysis technique i.e. fundamental analysis and technical analysis to consider any securities such as equity, debentures or bond and other money and capital market instrument. He has suggested that the banks having international network can also offer access to global financial markets. He has pointed out the requirement of skilled manpower, research and analysis team and proper management information system (MIS) in any commercial bank to get success in portfolio management and customers' confidence.

Portfolio management in Nepalese Banks

According to Mr.Shrestha, the portfolio management activities of Nepalese commercial bank at present are in ascent stage. However, on the other hand, most of the banks are not doing such activities so far because of following reasons:

- Unawareness of the clients about the service available.
- Hesitation of taking risk by the clients to use such facililty.

- Lack of proper techniques to run such activities in the best and successful manner.
- Less development capital market and availability of few financial instruments in the financial market.

Regarding the joint venture commercial banks, they are very eager to provide such services but because of above mentioned problems, very limited opportunities are available to the banks for exercising the portfolio management.

Mr. Shrestha has thrown following concluding remarks:

- The survival of the banks depends upon its own financial health and various activities.
- In order to develop and expand the portfolio management activities successfully the investment management methodology of a portfolio manager should reflect high standards and give their clients the benefits of global strengths, local insights and prudent philosophy.
- With the disciplined and systematic approval to the selection of appropriate countries, financial assets and the management of various risks, the portfolio manager could enhance the opportunity for each investor (client) to earn superior returns overtime.
- The Nepalese banks having greater network and access to national and international capital markets have to go for portfolio management activities for the increment of their fee based income as well as to enrich the client base and contribute in national economy.

Dr. Sunity Shrestha (1993), in her research, " Investment planning of commercial banks in Nepal" has made remarkable efforts to examine the investment planning of commercial banks in Nepal. On the basis of the study she concludes that bank portfolio (loans and investments) of commercial banks has been influenced by the variable securities rates. Investment planning of commercial banks in Nepal is directly traced to fiscal policy of government and heavy regulatory procedure of the central bank (NRB). So the investment is not made in professional manner. Investment planning and operation

of commercial banks in Nepal has not been found satisfactory in terms of profitability, safety, liquidity, productivity and social responsibility. To overcome this problem, she has suggested, "Commercial banks should take their investment function with proper business altitude and should perform lending and investment operation efficiently with proper analysis of the projects."

Dr. Radhe S. Pradhan (1994), in his research "Financial Management practices in Nepal" has studied about the major feature of financial management practices in Nepal. To address his issue, distributing a multiple questionnaire, which contained questions on various aspects of financial management practices in Nepal, carried out a survey of 78 enterprises.

He found among the several finance functions, the most important finance function appeared to be working capital management, while the least important one appeared to be maintaining good relations which stockholders. The finding reveals that banks and retained earnings are the two most widely used financing sources. Most enterprises do not borrow from one bank only and they so switch between banks to whichever offers best interest rates. Most enterprises find that banks are flexible in interest rates and covenants. He further found that among the bank loans of 1-5 years are more popular in private sector. In periods of tight money, the majority of private sector enterprises fell that bank will treat all firms equally while public sector does not feel so. Similarly he concluded that the majority of enterprises in trade sector find that banks, interest rate is just right while the majority in non-traded sector find that the same is one higher side.

Dr. Govinda Bahadur Thapa (1994) has expressed his view that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing their lending to non- traditional sectors along with the traditional sectors.

Among the commercial banks, Nepal Bank Ltd and Rastriya Banijya Bank are operating with a nominal profit. The later turning towards negative from time to time because of non – recovery of accrued interest also the margin between interest income and interest expenses are declining. Because of these two local banks, in traditional off-balance sheet operations, these banks have not been able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected.

On the other hand, the foreign venture banks have been functioning in an extremely efficiently way. They are making huge profit year after year and have been distributing large amount of bonus and dividends to its employees and shareholders. Because of their effective persuasion for loan recovery, overdue and defaulting loans have been limited resulting in high margins between interest income and interest expenses. Similarly, concentration of these banks to modern off-balance sheet operations and efficient personnel management has added to the maximization of their profits.

At the end of this article, he concludes that by its very nature of the public sector, the domestic banks could not compete with the private sector banks, so, only remedy to the problems of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private hands.

Manohar Krishna Shrestha (2047), in his article, " Commercial banks comparative performance evaluation", concludes that JVBs are new, operationally more efficient, having superior performance comprisals with local banks. Better performance of JVBs is due to their sophisticated technology, modern banking method, and skill. Their better performance is also due to the government's branching policy in rural areas and financing pees. Local banks are efficient in rural sector. Despite having number of deficiencies, local banks have to face growing constraints of socio-economic political system on one hand spectrum and that of issues and challenges of JVBs commanding significant banking business of other spectrum.

Dr. Sunity Shrestha (2055), in her article, “Lending operation of commercial banks of Nepal and its impact on GDP” has presented with the objectives to make an analysis of contribution of commercial banks’ lending to the Gross Domestic Product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending viz. Agriculture, Industrial, Commercial service and General and Social sector as independent variables. A multiple regression technique has been applied to analyze the contribution.

The multiple analysis have shown that all the variables except service sector lending have positive impact on GDP. Thus, in conclusion she has accepted the hypothesis i.e. there has been positive impact on GDP. In conclusion, she has accepted the hypothesis i.e. there has been positive impact by the lending of commercial banks in various sector of economy, except service sector investment.

Similarly, Mr. Bhagat Bista (2048), in his research paper, “ Nepalma Adhunik Banking Byabastha” has made an attempt to highlight some of the important indicators, which have contributed to efficiency and performance of JVBs in the field of CBs. At the end of the paper, he has concluded that the establishment of JVBs a decade ago, marks beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, hypothecation, consortium finance and modern fee based activities into the economy. These are indeed significant milestone in the financial development process to the economy. Likewise, Mr. Bishowambhar Pyakuryal in his article, “Workshop on banking and National Development” writes, “The present changing context of the economy calls for a substantial revitalization of the resources. How much they have gained over the years depends chiefly on how far they have been able to utilize their resources in an efficient manner. Therefore, the task of utilization of resources is as much crucial as the mobilization. The under utilization of resources not only results in loss of income but also goes further to discourage the collection of deposits.”

Thus in his paper, he has emphasized on paper utilization of mobilized resources and profitability increment.

In the same way, Mr. Dev Lal Kishi (1996), in his article. “The changing face of the banking sector and the HMG/N recent budgetary policy” concludes that following an introduction of the reform in the banking sectors as an integrate part of the liberal economic policy, more banks and finance companies have come up as a welcome measure of competition. Slowly and steadily, the two government controlled banks, Nepal Bank Ltd. and Rastriya Banijaya Bank have also shown an improvement of non-performing loans and are taking steps to adopt improved technology. However, higher economic growth with social justice bringing a significant benefit to the poor is yet to achieve as envisaged by the HMG/N.

Similarly, Mr. Ramesh Lal Shrestha (2045) in his article, “A study on deposit and credits of commercial banks in Nepal” concluded that the credit deposit ratio would be 51.30 percent, other things remaining the same, in 2004 AD, which was the lowest under the period of review. So he had strongly recommended that the commercial bank should try to give more credit entering new field as far as possible. Otherwise, they might not be able to absorb even its total expenses.

Beside this, Mr. Bodhi B. Bajracharya (2047) in his article “Monetary policy and Deposit mobilization in Nepal” has concluded that mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal and commercial banks and the more active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investor in different sectors of the economy.

Another article outlines “The role of the commercial banks in Nepalese contest” of Mr. Gill Serra (2047), concluded that the five commercial banks were improving their services, due to the pressure of competition for the public benefits.

2.2.3 Review of Previous Thesis

Before this, various students regarding the various aspects of commercial banks such as financial performance, lending policy, investment policy, interest rate structure, resources mobilization and capital structure, have conducted several thesis works. Some of them, are supposed to be relevant for the study are presented below:

Mr. Bindeswor Mahato (1998), in his thesis paper, "A comparative study of the financial performance of NABIL and NIBL" concludes that NABIL pays more attention towards the attainment of national objective through participation in the task of economic development with liberal attitude towards the government and being more responsive to the national priorities like branch expansion, more employment opportunities and more resources mobilization. So, from the point of view of shareholders and government, NABIL is performing much better than NIBL. He has recommended all the commercial banks to:

- Investment in productive sectors.
- Control operating costs
- Increase portion of equity capital in their capital structure
- Increase liquidity as per the new regulation NRB
- Meet social responsibility

Mr. Mahendra Mandal (1998) in his thesis paper, "Comparative financial performance appraisal of joint venture banks" has studied mainly three banks i.e. Nepal Arab Bank Ltd. (NABIL), Nepal Indosuez Bank Ltd. (NIBL) and Nepal Grindlays Ltd. (SCBNL). His main finding is that both SCBNL and NABIL have mobilized the debt funds in proper way for generating more return but NIBL could not do as good as NABIL and SCBNL. He has recommended enhancing banking facilities in rural areas by encouraging small entrepreneurs development programmes, to play merchant banking role, to mobilize the deposit funds in productive sectors and to grant more priority to the local manpower.

Mr. Bishnu Prasad Kishi (1998), in his thesis paper, " A comparative study on the financial performance of Nepal Indoseuz Bank Ltd. (NIBL) and Nepal Grindlays Bank

Ltd. (SCBNL)" has mainly focused that SCBNL's loan and advance to total deposits ratios are significantly lower than that of NIBL. SCBNL is recommended to follow liberal lending policy to invest more portions of deposits in loan and advances.

He has further stated that both the banks should not highly prefer the government securities to invest their funds because of low interest rate on such securities but they are recommended to boost up their campaign of deposit mobilization and credit disbursement in rural areas preferring priority sector, too.

In the same way, Mr. N. Karmacharya (1997), in this thesis pape, "A study on the deposit mobilization by the NBL" has concluded to the utilization side of Nepal Bank Ltd. is week as compared to the collection of resources. He has mentioned that the bank has successfully maintained its liquid assets position but could not mobilize its resources efficiently. He has suggested setting up more banking branches to increase the deposit collection and long term as well as short-term credit. He has recommended not to consider security factor only but to provide loan to genuine projects without security.

Mr. Upendra Tuladhar (1999) on his thesis entitled, " A Study on Investment Policy of Nepal Grindlays Bank Ltd. In comparison to Other Joint Venture Banks (NABIL and HBL)." The main objective of the study was to evaluate the liquidity. Assets management, efficiency, profitability and risk position of NGBL in comparison to NABIL and HBL and to examine the fund mobilization and investment policy of NGBL. The study found that NGBL has been successful to maintain in the best way both liquidity position and their consistency among three banks. Income from loan and advance and total investment is the main income sources of NGBL and it can affect the bank's net profit. Profitability position of NGBL is better than NABIL and HBL. Joint venture banks of Nepal are not effectively informative to their clients. These banks have given first priority on education sectors while making investment. The poverty stricken and deprived sectors are given second priority. His study found that the reason behind not providing banking facilities to the rural areas is that these banks are profit oriented only.

Mr. Keshav Raj Joshi(1989), on his thesis entitled "A study on financial performance of commercial banks" concluded that the liquidity position of commercial bank is

satisfactory. Local commercial banks have been found relatively highly leveraged compared to the joint venture banks. Loan and advances have been their main form of the investment. Two third assets have been used to earning purpose. Profitability position of NABIL is stronger than other banks.

Mr. Ganesh Regmi (2001) on his thesis entitled, "A Comparative Study of Financial Performance of Himalayan Bank Ltd and Nepal Bangladesh Bank Ltd." The main objective of the study is to analyze and to evaluate the financial performance of the selected banks. He conducted a study between HBL and NBBL. Some of the findings of the researcher are that HBL has better profitability position than NBBL, so it is recommended to NBBL to utilize its resources more efficiently. Capital structures of both the banks are highly levered, so both should maintain mix of debt and owners equity by increasing shares. Comparatively NBBL is not maintaining adequate liquidity position than HBL. HBL should improve the efficiency in utilizing the deposits in loan and advances for generating profit. He has further suggested that both the banks should extend their resource to rural areas to promote development.

Another study titled "A comparative study on Financial Performance of Nepal Bangladesh Bank Limited and Everest Bank Limited" by Dinesh Kumar Pokhrel (2002) was conducted to analyze, examine and interpret the financial performance on NBBL and EBL for the study. The study finds out that the average net profit margin remains greater in NBBL. Higher CV in EBL suggests greater fluctuations in the ratio over the period. EBL found to be weaker in utilizing the bank assets for the profit generation. EBL holds greater capacity in paying immediate obligation as revealed by the higher cash and bank balance to current asset ratio. Total deposits, loan and advances, total investment, net worth, net profit, EPS and MVPS showed the increasing trend over the study period in both banks. Loan and advances to total deposit ratio appeared considerably higher in NBBL. Provision for possible losses to loans and advances ratio in NBBL exceeded than in EBL, which indicates that loan and advances granted by the banks are inferior in contrast to EBL. But NBBL has maintained the consistency in the ratios than that of EBL over the period.

Mr. Babu Kaji Karki on his thesis entitled, "A Comparative Study on the Financial Performance of Nepal Arab Bank Ltd.(NABIL) and Standard Chartered Bank Nepal Ltd.(SCBNL)" The main objective of the study is to analyze and to evaluate the financial performance of the selected banks. The study finds out that the six important variable(except earning per share of SCBNL) of the financial performance like net profit, loan and advance, total deposit, net interest, dividend per share and earning per share reflect the overall improving performance of NABIL and SCBNL. Both banks indicates towards the better financial performance in coming year. He has further suggested that bank's performance cannot be judge solely interns of the profit it has earned by maintaining adequate liquidity and safety, but it should also be evaluated on the ground of the contribution it has made to the community, to the government as well as national economy. It means that the banks should come forward with the national priorities like more fund mobilization and service to maximum customers, developing skill and expertise in the local staffs, earning satisfactory profit and discharging their accountability toward the government.

2.3 Financial Performance

Profit is one of the indicators of sound financial performance. It is usually the result of sound business management, cost control, credit-risk management, and general efficiency of operation. Profit is essential for an enterprise for its survival and growth and to maintain capital adequacy through profit retention. Though profit is important for any business concern including joint venture banks but profit cannot be the sole objective. For example neither the banks nor the community will be best served if the banker unreasonably sacrifices the safety of its funds or the liquidity of the banking in an effort to increase income.

“Liquidity refer to the pay one hands on cash when it is needed; without to sell long-term assets at a loss in unfavorable market.” Enough liquidity is needed to honor cheques and at the same time to enable its bank to make profitable loans when an opportunity arises.

A bank must maintain adequate liquidity to meet a wide range of contingencies. If ban fails to maintain adequate liquidity, it faces obvious difficulties. On the other hand if it

maintains excess liquidity, it may be retained earning to the point where it can be build up the capital needed to holds its relative position in the banking structure. Excess liquidity is the loss of income. A bank must maintain adequate cash and bank balance to meet day-to-day operations as well as for remote contingencies. It measures the extent to which it can oblige its short- term obligations.

A firm must maintain a proper capital structure. High leveragedness might make an enterprise insolvent during loss making years. But high leveargedness is desirable during profit making years.

“Investors more concerned with long term’s financial strength or solvency. While evaluating the financial performance of business with concerning with resource mobilization, failure to collect enough deposit and exhibit inefficiency of the bank. In this context, some of the research worth has been examined.”

Govinda Bahadur Thapa has expressed view that the commercial banks including joint venture banks, seems to be doing pretty well in mobilizing deposits and the wxtent of loans and advances of these banks are also expanding.

It seems that the bank loans are the sufficient to meet the demand of various emerging industries and banks are found have been directed to them resources event towards not traditional sectors.

Out of the commercial bank currently in operation, the indigenous commercial bank i.e. Nepal Bank Ltd and National Commercial Bank are operating with nominal profit. Because Off-Balance sheet oprations, they have not been able to increase their income from commission and discount. Moreover, they are faced with the problem of overstaffing, accumulated over due and defaulting loans.

However, the joint venture banks are efficient enough to generate large profit and have been distributing significant amount of bonus and dividend. Because of their effectiveness in loan recovery, overdue and defaulting loans have been minimized and this is high margin between interest income and interest expenses. These banks are restored to modern off-balance sheet operation like foreign exchange (FOREX) dealing along with traditional operations.

Dr. Govinda concludes these public sector banks are unable to complete with private sector banks and he suggests towards either privatization or management contract policy for these banks.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

In the earlier chapters, backgrounds of commercials banks has been highlighted and review of literature with possible reviews of relevant books articles, thesis and research finding has also been discussed. This has equipped researchers with the inputs necessary for the study and help to make choice of research methodology to support the study in realistic terms with sound empirical analysis. "Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view."

This chapter attempts to have an insight into the investment, liquidity, profitability and leverageness policy adopted by LXBL and NIBL. This will help to evaluate and analyze performance of LXBL in comparison to the NIBL of Nepal.

This study will seek the conclusion to the point that what position LXBL and NIBL has got in the whole CBS of Nepal and recommended the useful and meaning points so that all concerned can achieve something from this study. To accomplish the goal, the study follows the research methodology described in this chapter.

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variances. To achieve the objective of this study, descriptive and analytical research design has been used.

Some financial and statistical tool has also been applied to examine facts and descriptive techniques have been adopted to evaluate financial performance of LXBL and compare it with NIBL.

3.3 Sources of Data

Mainly, the study is conducted on the basis of the secondary data. The data required for the analysis are directly obtained from the balance sheet and the P/L a/c of the concerned banks' annual reports. Supplementary data and information are collected from number of institutions and regulating authorities like NRB, security exchange board, Nepal stock exchange Ltd, Ministry and finance, budget speech of different fiscal years, economic survey and national planning commission etc.

All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. Formal and informal talks with the concerned authorities of the bank were also helpful to obtain the additional information of the related problem.

Likewise, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

3.4 Population and Sample

The limitation of time and unavailability of the relevant data has forced to take research on the few CBs. In this study LXBL's financial performance has been compared with that average of NIBL's, which are selected from population. The populations of Class A Licensed Financial Institution (Commercial Bank) till mid-July, 2007 are as follows:

i) Nepal Bank Ltd. (NBL)
ii) Rastriya Banijya Bank Ltd. (RBB)
iii) NABIL Bank Ltd. (NABIL)
iv) Standard Chartered Bank Ltd. (SCBN)
v) Nepal Indosuez Bank Nepal Ltd. (NIBL)
vi) Himalayan Bank Ltd. (HBL)
vii) Nepal SBI Bank Ltd.(NSBL)
viii) Nepal Bangladesh Bank Ltd. (NBBL)
ix) Everest Bank Ltd. (EBL)
x) Bank of Kathmandu Ltd. (BKL)
xi) Bank of Cylon Ltd. (BCL)
xii) Nepal Industrial & Commercial Bank Ltd. (NICL)
xiii) Lumbini Bank Ltd. (LBL)
xiv) Macchapuchre Bank Ltd. (MBL)
xv) Kumari Bank Ltd. (KBL)
xvi) Laxmi Bank Ltd. (LBL)
xvii) Siddhartha Bank Ltd.(SBL)
xviii) Agriculture Development Bank Ltd. (ADBL)
xix) Global Bank Ltd. (GBL)
xx) Citizens Bank International Ltd. (CBIL)

From these samples, Laxmi Bank Ltd. (LXBL) has been selected and its data related to financial performance are comparatively studied with the average of the Nepal Investment Bank Ltd. (NIBL).

3.5 Method of Analysis

In this study, various financial, accounting and statistical tool have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Due to limited time and resources, simple analytical statistical tool such as the method

of least square, correlation analysis and trend analysis is used in this study. Likewise, some financial tools such as ratio analysis has also been used for financial analysis.

3.5.1 Ratio Analysis

Financial ratio is the mathematical relationship between two accounting figures. "Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions."Thus, ratio analysis is used to compare a firm's financial and status to that of other firm's or to itself overtime. The qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis.

Even though, there are many ratios, only those have been covered in this study, which are related to the performance of the bank. "Ratio analysis is one of the most frequently used tools to evaluate the financial health, operating result and growth. Financial ratios by themselves do not indicate position of the institution. A standard or norms is needed against which to judge them." It is powerful tool of financial analysis. "A ratio is defined as the indicated quotient of two mathematical expressions and as relationship between two or more things."

3.5.1.1 Liquidity Ratio

Liquidity ratios are used to judge the ability of bank to meet its short-term liabilities that are likely to mature in this short period. From them much insight can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of adversities. It is the measurement of speed with a bank's asset can be converted into cash to meet deposit withdrawal and other current obligations. "Liquidity is the ability to meet anticipated and contingent cash needs. Cash needs arise from deposit withdrawals; liability maturity and loan disbursals (new loans and the draw down of outstanding leading commitments). Cash needs are met by increase in deposit and borrowing, loan repayment, investment maturity and the sale of assets." Commercial banks need liquidity to meet loan demand and deposit withdraws. Liquidity is needed also for the purpose of meeting cash reserve ratio (CRR) and statutory liquidity ratio requirement prescribed by the Central bank. The following ratios are calculated under the liquidity ratios:

3.5.1.1.1 Current Ratio

This ratio shows the bank short-term solvency. It shows the relationship between current assets and current liabilities. Lower current ratios create difficulties in meeting short run commitments as they mature. If the ratio is too high the bank has an excessive investment in current assets or is under utilizing short-term credit. This ratio is calculated using the following basic formula.

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

The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business ratio and the nature of business. Current assets include normally those assets of a firm, which are converted into cash within one year. These assets of a firm include cash, bank balance, and investment in treasury bills, discounts, overdrafts, short-term advance loans, and foreign currency loan, bills for collections, customer acceptance, stock, receivable and prepaid expenses.

Similarly, current liabilities include those liabilities of a firm which are paid within one year, like current payments, cash margin, current deposits, saving deposits, inter bank reconciliation account, bills payable for overdrafts, dividend payable and provision for taxation.

3.5.1.1.2 Cash and Bank Balance to Deposits Ratio (without fixed deposits)

This ratio is applied to measure whether bank and cash balance is sufficient to cover its current call margin including deposits, current deposits and saving deposits. It is calculated by dividing cash and bank balance by saving and current deposits.

$$\text{Cash and bank balance to deposits ratio} = \frac{\text{Cash and bank balance}}{\text{Deposits}}$$

Higher ratio shows higher liquidity and ability to cover deposits and vice-versa.

3.5.1.1.3 Cash and Bank Balance to Current Deposits Ratio

The ratio is calculated to find out the ability of a bank to pay call made on current deposits and computed by dividing cash and bank balance by current deposits.

$$\text{Cash and bank balance to current deposits ratio} = \frac{\text{Cash and bank balance}}{\text{Current deposits}}$$

If the ratio is higher there is high margin and if lower, the bank is less liquid. This ratio not only measures the use of total resources of a firm but also measures the use of various components of total assets.

3.5.1.1.4 Cash and Bank Balance to Current Assets Ratio

This ratio reflects the proportion of cash and bank balance out of total current assets. It is calculated by dividing cash and bank balance by total current assets.

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash and bank balance}}{\text{Total current assets}}$$

Cash and bank balance are highly liquid assets than other current assets.

3.5.1.1.4 Loan and Advance to Current Assets Ratio

It shows the relationship between loan and advance to current assets or shows the capacity of a bank to purchase, discount bill and loan, cash credit and over draft facility to its customer. It is calculated as:

$$\text{Loan and advance to current assets ratio} = \frac{\text{Loan and advance}}{\text{Current assets}}$$

Loan and advance represent local and foreign bills discounted and purchased and loan, cash credit and overdraft in local currency as well as inconvertible foreign currency.

3.5.1.2 Capital Structure Ratio

The second type of financial ratio is leverage/capital structure ratio. The long-term creditors would judge the soundness of a firm on the basis of long-term financial strength measured in terms of its ability to pay the interest regularly as well as repaying the installment of the principal on due dates. It represents the long – term solvency of a firm. There are two aspects regarding long – term solvency of a firm .a) ability to repay the principal when due (b) regular payment of the interest. According to this, long – term creditors calculate what portion constitutes the equity and borrowed finds in total capital of a firm. This ratio can be calculated from the balance sheet of a firm. Creditors are hesitant in supporting the firm if equity/owner's portion is less than the borrowed fund in capital structure of a firm. This ratio highlights the long – term financial health, debt servicing capacity and strength and weakness of the firm. There are different ratios, which justify the long-term financial solvency of a firm.

3.5.1.2.1 Total Debts to Equity Ratio

This ratio reflects the relationship between borrowed funds and owner's capital. It refers to the relative proportion of debt and equity in financing the assets of a firm. The relationship between outsider's claims and owner's capital can be shown in different the funds invested by the owners. So, it is the test of the financial strength of the Company. It can be computed by dividing total debt by total equity.

$$\text{Total debts to equity ratio} = \frac{\text{Total debts}}{\text{Total equity}}$$

A total debt refers to all deposits, bills payable, borrowing from other banks and other liabilities. Total equity refers to paid up capital, reserve and surplus and undistributed profit.

Simply high debt to equity ratio is unfavorable for the firm because creditors have more claim on the company. They should be paid interest as principal at due time by the firm. So, if a firm raises excess debt, company's cash out flow is very than the cash inflow. If the firm is for some

time unable to pay interest, the creditors can take legal action on the firm, due to which the firm may reach liquidation.

On the other hand, very low debt equity ratio is also unfavorable from the shareholders' point of view; shareholders want excess use of debt in the firm with low rate of interest but high return form that debt. When the return is high than the cost, the shareholder will be benefited. So, an appropriate mix of capital structure is needed to employ by a firm so that the wealth of the shareholders can be maximized.

3.5.1.2.2 Total Debts to Total Assets Ratio

This ratio reflects the claim of outsiders and owners on the total assets of the firm. it also measures the financial security to the outsiders. It is also like a debt equity ratio. Higher ratio indicates higher financial risk as well as increasing claims of outsiders in total assets. Similarly lower ratio indicates lower financial risk as well as decreasing claim of outsider on the assets of a firm. This ratio can be computed by dividing total debts by total assets.

$$\text{Total debts to total assets ratio} = \frac{\text{Total debts}}{\text{Total assets}}$$

Total debts represent long-term debt and current liabilities whereas total assets represent all the assets of the balance sheet.

3.5.1.2.3 Long-term Debts to Total Assets Ratio

This ratio reflects the percentage of total assets financed by long-term debts. If the firm uses more long-term debt, it is said to be a firm having following conservative financing policy and has less risk and less return. But if the firm is using less long-term debt and more short-term debt it is said to have adopted aggressive financing policy and it is more risky as well as higher return. The following formula can be used to calculate this ratio.

$$\text{Long-term debt to total asset ratio} = \frac{\text{Long-term debt}}{\text{Total assets}}$$

Long-term debt represents fixed deposits and borrowed loan from other and total assets represent all the assets shown on the balance sheet.

3.5.1.2.4 Long-term Debts to Net Worth Ratio

The main objective of this ratio is to evaluate on the capital formation of a company and to test on the solvency position for the payment of long term liability. This ratio measures the proportion of long-term debt in relation to net worth. Long-term debt includes fixed deposit, plus

bank loan, debenture, debenture premium, mortgage loan and net worth includes share capital, share premium reserve and surplus, retained earning, capital reserve, profit and loss a/c. following formula can be used to measure this ratio.

$$\text{Long-term debt to net worth ratio} = \frac{\text{Long-term debt}}{\text{Shareholders' equity (net worth)}}$$

3.5.1.2.5 Net Fixed Assets to Net Worth Ratio

This ratio measures the proportion of net fixed assets out of owner's equity. Higher ratio denotes their higher involvement of owner's equity financing in fixed assets and vice versa. The following formula can be used to measure this ratio.

$$\text{Net fixed assets to net worth ratio} = \frac{\text{Net fixed assets}}{\text{Net worth}}$$

Net fixed assets include total value of fixed assets after depreciation and net worth includes paid up capital and surplus and undistributed profits.

3.5.1.2.6 Long-term Debt to Capital Employed Ratio

This ratio measures the proportion of long-term debts in relation to total capital employed in a firm. Higher ratio indicates the higher risk to creditors and also to shareholders and lower ratio indicates the lower risk to creditors and shareholders to pay their funds. This ratio can be computed as:

$$\text{Long-term debt to capital employed ratio} = \frac{\text{Long-term debt}}{\text{Capital employed}}$$

A long-term debt includes fixed deposits and borrowing from other banks whereas capital employed refers to the net worth and long-term debt.

3.5.1.2.7 Capital Adequacy Ratio

This ratio is important to every business firm so, commercial banks must evaluate this ratio. Capital is important for an organization. Holding excess capital than required may have higher holding cost and low return from investment. Similarly holding too little capital may have inefficiency in paying liabilities of a firm.

So a firm should maintain an optimal level of cash. For maintaining optimum cash by the CBS, NRB directs the commercial banks to increase or decrease or fix a certain percentage of capital

funds out of total deposits. According to NRB's directives, commercial banks should maintain their capital fund of 8% by mid July 1992.

Besides, banks have been directed to meet any shortage of capital by transferring part of profit to general reserve a/c or by increasing paid up capital. This ratio can be

$$\text{Capital adequacy ratio} = \frac{\text{Capital fund}}{\text{Total deposits}}$$

3.5.1.3 Activity Ratio

Activity ratio is concerned with measuring the efficiency in assets management. Some time, these ratios are called efficiency ratios or assets utilization or turnover ratio. Because they indicate the speed with which assets are converted or turned over into sales.

This ratio involves a relationship between sales. The greater the rate of turnover of conversion, the more efficient the utilization and management of assets. If the available assets are not utilized, the investment upon them will be idle and profit will also decrease, on the other hand insufficient investment causes less production, less sales, less profit etc. so, proper balance on sales and assets is important for a firm. Various ratios are used to compute the efficiency of a firm.

3.5.1.3.1 Loans and Advances to total deposits Ratio

Most of the commercial banks earn more profit by using funds of outsider deposited in terms of loan and advance. This ratio shows whether the banks are efficient to utilize he outsiders' fund (i.e. total deposits) for the purpose of profit generation on the loans and advance thus provided.

Generally higher ratio reflects higher efficiency in utilizing outsiders' fund and vice versa. This ratio can be computed by dividing the total amounts of loans and advance by total deposited funds.

$$\text{Loans and advance to total deposits ratio} = \frac{\text{Loans and advance}}{\text{Total deposits}}$$

Loans and advance refers to the total amount of loan and advance and overdraft (i.e. in local currency plus convertible foreign currencies) and total deposits refers the total of all kinds of deposits.

3.5.1.3.2 Loan and Advances to Fixed deposits Ratio

This ratio represents how many times the funds are used is loans and advances against fixed deposits. Fixed deposits are long-term interest bearing obligations and loan and advance are the

main sources of earning of the bank. This ratio can be computed by dividing loans and advance by fixed deposits.

$$\text{Loans and advance to fixed deposits ratio} = \frac{\text{Loans and advance}}{\text{Fixed Deposits}}$$

A high ratio indicates idle cash balances, measuring are not utilized properly.

3.5.1.3.3 Loans and Advance to Saving Deposits Ratio

This ratio examines how many times the funds are used to loans and advance against saving deposits. Saving deposits are interest bearing short-term obligations and loan and advance are the major sources of generating income. This can be computed as dividing loan and advance by saving deposits.

$$\text{Loans and advance to saving deposits ratio} = \frac{\text{Loans and advance}}{\text{Saving deposits}}$$

3.5.1.3.4 Performing Assets to Total Assets Ratio

Performing assets represents those total assets that are invested in the form of loan and advance like; bills purchased and discounted, investment and money on the short call. This ratio can be computed by dividing performing assets by total assets.

$$\text{Performing assets to total assets ratio} = \frac{\text{Performing Assets}}{\text{Total Assets}}$$

This ratio shows how much the banks are successful in utilizing their assets for profit generating purpose. Generally higher ratio represents the higher efficiency in utilizing assets and vice versa.

3.5.1.4 Profitability Ratio

Profitability ratio is one of the main indicators to analyze the financial performance of a firm. So profitability ratio measures the degree of success in achieving desired level of the firm. Profitability also indicates public acceptance of the product and shows that the firm can produce competitively. This ratio can be computed on the basis of either sales or investment. This ratio gives the answer to following question.

a. Does the firm adequate earn the profit?
b. What rate of return does it represent?
c. What is the rate of profit for various divisions and segments of the firm?
d. What is the earning per share?

e. What amount was paid as dividends?
f. What is the rate of return to equity holders?

In this study, this ratio can be computed on the basis of investment so it is also known as return on investment ratio. Here return refers to return on assets, return on capital employed and return on shareholders' equity.

3.5.1.4.1 Return on Net worth/ Total Equity Ratio

This ratio measures, how much profit is earned by utilizing funds of total equity by the firm. The objectives of joint venture bank are to earn profit so as to provide a reasonable return to the owners. Total shareholders' equity consists of preference share capital, ordinary shareholder equity consisting of equity share capital, share premium, reserve and surplus less accumulated losses. This ratio can be computed as Net profit after taxes (NPAT) divided by average total shareholders' equity.

$$\text{Return on net worth/ Total equity ratio} = \frac{\text{Net profit after tax}}{\text{Net worth/ total equity}}$$

Higher ratio indicates the sound management and efficiency of a firm and vice versa.

3.5.1.4.2 Return on Capital Employed Ratio

It is also on of the ratio used to measure the profitability of a firm on the basis of investment term. Capital employed refers to long- term fund supported by the creditors and the owners of the firm. This ratio can be computed as dividing NPAT by capital employed (C.E.)

Capital employed basis provides a test of profitability related to the sources of long-term funds. It is also shows how much the creditors' funds and owners' funds are utilized to generate profit. The high ratio indicates the more efficiency in the use of the capital employed.

3.5.1.4.3 Return on Total Assets Ratio (ROTA)

This ratio is related on NPAT and total assets. How efficiently the assets is of a firm able to generate more profit are measured by this ratio provides the foundation necessary for a company to deliver a good return on equity. A company without a good return on total assets (ROTA) is almost impossible to generate a satisfactory ROTA.

$$\text{Return on total assets ratio} = \frac{\text{Net profit after tax}}{\text{Total assets}}$$

Higher ratio indicates higher efficiency in utilization of asset of the firm and vice versa.

3.5.1.4.4 Return on Total Deposits Ratio

This ratio measures the level of NPAT by using total deposits. It reveals the relationship between NPAT and Total Deposit with an ability of a firm to utilize maximum of deposits to earn much profit. This ratio can be computed by dividing the NPAT by total deposits.

$$\text{Return on total deposit ratio} = \frac{\text{Net profit after tax}}{\text{Total Deposit}}$$

3.5.1.4.5 Interest Earned to Total Assets Ratio

This ratio indicates how much interest mobilizing the assets in the banks has generated. Interest is the main source of income of banks'. Interest is received from generally loans and advance, overdraft and investment in securities. This ratio can be computed as interest earned dividend by total assets.

$$\text{Interest earned to total assets ratio} = \frac{\text{Interest earned}}{\text{Total assets}}$$

Higher ratio indicates higher efficiency in the mobilization of resources and ability in interest earning and vice versa.

3.5.1.5 Other Ratio

Different types of ratios have been discussed already. Besides, some of the following are to be considered regarding the performance of a firm.

3.5.1.5.1 Interest Coverage Ratio (ICR)

It is known as "time interest earned ratio". This ratio measures the debt servicing capacity of a firm. It is determined by dividing earning before interest and tax (EBIT) by fixed interest charges on loans.

$$\text{Interest coverage ratio} = \frac{\text{Earning before interest and tax}}{\text{Total interest}}$$

This ratio show how many times the interest charged are covered by the EBIT out of which they will be paid. Higher ICR indicates unused debt capacity from firm's point of view and higher capacity of firm to handle the fixed charge. The lower ratio indicates danger signal that the firm is in, using excessive debt and unable to pay fixed charge of a firm to its creditors.

3.5.1.5.2 Earning per Share

Apart from the rate of return, the profit ability of a firm, from the point of view of the ordinary shareholders', is the Earning per share (EPS). It measures profit available to the equity holders on per share basis. It is calculated by dividing the profit available to the shareholders by the number of outstanding shares. This profit represents the net profit after tax and preference dividends.

$$\text{Earning per share} = \frac{\text{Profit after tax}}{\text{Total no. of shares}}$$

3.5.1.5.3 Dividend per share

This is a portion of profit allowed to shareholders of a company on every share basis. Apart from dividend, the net profit belonging to the firm is retained earning and remaining amount is paid to shareholders of a company as a dividend. The dividend to the shareholders on a per share basis is the dividend per share (DPS). It is calculated by dividing dividend by the number of share outstanding.

$$\text{Dividend per share} = \frac{\text{Earning paid to shareholders (proposed dividend)}}{\text{Number of common share issued}}$$

3.5.1.5.4 Dividend Payout Ratio

It is known as payout ratio. It measures the relationship between the earning belonging to the ordinary shareholders and the dividend paid to them. This ratio can be calculated by dividing the total dividend paid to the owners by the total profit / earning available to them.

$$\text{Dividend payout ratio} = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

3.5.1.5.5 Earning Yield Ratio

Earning yield ratio is expressed in terms of the market value per share. The earning yield may be defined as the ratio of earning per share to the market value per share.

$$\text{Earning yield ratio} = \frac{\text{Earning per share}}{\text{Market value per share}}$$

3.5.1.5.6 Dividend Yield Ratio

This ratio is calculated by dividing DPS by market value per share.

$$\text{Dividend yield ratio} = \frac{\text{Dividend per share}}{\text{Market value per share}}$$

3.5.1.5.7 Earning Power Ratio

The overall profitability is referred to as the earning power of the firm. This ratio may be defined as the overall profitability of the firm. this ratio can be computed by dividing NPAT by total assets of the firms.

$$\text{Earning power ratio} = \frac{\text{Net profit after tax}}{\text{Total assets}}$$

3.5.1.5.8 Price Earning Ratio (P/E Ratio)

This ratio is closely related to the earning yield /earning price ratio. This is computed by dividing the market price of share by the EPS.

$$\text{Price earning ratio} = \frac{\text{Market price of share}}{\text{Earning per share}}$$

3.5.1.5.9 Interest Earning Assets to Total Assets Ratio

This ratio reflects the proportion of investment of assets from the total assets to earn interest. Higher ratio implies higher portion of interest earning assets by total assets.

$$\text{Interest earning assets to total assets ratio} = \frac{\text{Interest earning assets}}{\text{Total assets}}$$

3.5.1.5.10 Interest Paying Liabilities to Total Liabilities

This ratio shows the proportion of interest paying liabilities of a bank out of its total liabilities. Interest paying liabilities include all type of deposits except current deposit plus borrowing from other banks.

$$\text{Interest paying liabilities to total liabilities} = \frac{\text{Interest paying liabilities}}{\text{Total liabilities}}$$

3.5.1.5.11 Interest Paid to Interest Income

This ratio reveals the proportionate relationship between interest paid on different liabilities and interest income from different sources. Higher ratio indicates the bank has paid higher amount of interest on liabilities in relating to interest and vice versa.

Interest paid includes interest paid on deposits and borrowing and interest income includes the interest from loan, advance, overdraft, investment on government securities and debentures, money at short call and inter bank loan. Following formula is used.

$$\text{Interest paid to interest income} = \frac{\text{Interest paid}}{\text{Interest income}}$$

3.5.1.5.12 Spread

Here the spread of commercial bank is defined into various ways and interpreted according to Fred, C, Yeojer. The spread is defined as the ratio of net interest revenue minus interest expenses to the total assets.

Similarly, according to George Hemple and Jess B Yawdthi, spread management emphasizes the deficiencies between the return on assets and cost of liabilities over time, generally higher spread is desirable by any type of financial institution. In this study spread of joint venture bank is to be measured in terms of difference between interest income and interest expenses.

3.5.1.5.13 Loan Loss Ratio

This is also an important ratio for JVBS lending portfolio should be effective, other wise there may be chance of not recovered if loan and advance, over drafts. Sometimes even the management of bank may be confused about the recovery loan, advance and overdraft. So a certain portion of amount is kept in bank as provision on loan and advance, overdraft. If this ratio increases, then the bank may suffer loss and vice versa. This ratio can be calculated by dividing general loan loss provision by total loan advance and overdraft.

$$\text{Loan loss ratio} = \frac{\text{General loan loss provision}}{\text{Total loan, advance \& overdraft}}$$

3.5.1.6 Operating Income Analysis

Operating income refers to the income generated by the use of labors, investment and advance and providing regular service. This income is an important for measuring the financial performance of a firm. This income generates from operation of different resources of a firm. Specially income resources advances and government securities commission and discount, dividend received foreign exchange fluctuation again and other miscellaneous sources.

3.5.1.6.1 Interest Earned

Interest earned by a firm is also one of the major indicators of a good financial performance. Interest earned reflects to the operational efficiency of banks, so higher ratio indicates higher efficiency and vice versa. Interest earned covers much portion of income of the commercial banks. Specially, interest earned includes the commercial banks' interest income from loan,

advance, overdraft, investment on government securities, investment on debentures and money at short call and inter bank loans.

3.5.1.6.2 Commission and Discount Earned

Commission and discount earned by a firm is also one of the sources of income. This income plays a significant role in the commercial banks because most portion of income of CBs is covered by this income. This income of CBs includes commission and discount received from letter of credit, collection fees, letter of guarantee, remittance fees and other fees and commissions.

3.5.1.6.2 Other Income

It is also one of the income resources of commercial banks. This income refers to those incomes that do not come under the above income discussed. Generally this income of commercial banks is of a very normal level.

3.5.1.7 Operating Expenses Analysis

A firm does some expenses to earn income or to minimize profit and lower rate of operating expenses reflects higher efficiency, higher profit of firm. Similarly commercial banks make expenses on various topics to generate income or to operate its daily operation. So operation expenses of commercial banks are interest and commissions, staff expenses, office-operating expenses, provision for staff operating expenses, provision for staff operating expenses, provision for staff bonus and other.

3.5.1.7.1 Interest and Commission Paid

It is also one of the operating expenses of a firm for commercial banks. Interest and commission paid refers to the interest paid on deposits, borrowing fees, loans, advance and commission paid. High expense, low will be the profit and vice versa for a firm.

3.5.1.7.2 Staff Expenses

Here the staff expenses of commercial banks include the total of salaries and allowances, expenses, bank contribution on provident fund and training and other personnel expenses. This expense occupies a significant space in overall expenses of commercial banks.

3.5.1.7.3 Office Overhead Expenses

This expense occupies a major portion of expenses of the commercial banks. These expenses include rent, water charge, lighting and heating, normal repair and maintenance of premises and other assets. Insurance charges, postage, telex and telephone, office equipment and furniture repair, traveling, printing and stationeries, subscription, advertisement, legal expenses, debenture, bond expenses, audit fees, depreciation on fixed assets, computer maintenance, entertainment, annual general meeting expenses, technical service, reimbursement, loss written

off, commission fund transfer, security guard service, premium to credit guarantee corporation, charges on foreign currency notes, provision for other assets, sundries expenses, tax on inter bank interest, amortization of deferred and revenue expenditure etc.

3.5.1.7.4 Provision for Bonus

Bonus is an extra dividend paid to shareholders in the bank as an incentive, to the employees for their efficient service. Bonus is distributed from profit and it helps to lift the moral of employees as well as shareholders. The higher bonus payment reduces the level of dividend payment to the shareholders because both are distributed from profit.

3.5.2 Trend Analysis

The trend analysis of ratios indicates the direction of change. This kind of analysis is particularly applicable to the items of profit and loss account. For example the ratio may be low as compared to the normal standard. But the trend may be upward, on the other hand, the present level may be satisfactory but the trend may be declining one. Thus trend analysis is of great significance. Trend analysis informs about the expected future return, future achievement of bank, future credit worthiness of the bank, financial capability of the bank and many other information which would be helpful to concerned parties of the bank such as shareholders, professional bankers, depositors and borrowers. This study changes the trend of various items contained in the balance sheet and items of profit and loss account to compare with ratio analysis and also to state the real position of a firm. In this study, the method least square is selected as statistical tools for the analysis of selected banks. The formula of least square method for the straight line is represented by the equation.

$$yc = a + bx$$

Where,

yc = trend value
a = y intercept or the computer trend figure of the y variables when x = 0
b = slop of the trend line of the amount of change in y variables that is associated with the change in 1 unit in x variable.
x = variables that represent time. i.e. time variable.

The value of the constants a and b can be determined by solving the following two normal equations.

$$\Sigma y = Na + b\Sigma x \ldots\ldots\ldots\ldots\ldots\ldots (i)$$
$$\Sigma xy = a\Sigma x + b\Sigma x^2 \ldots\ldots\ldots\ldots\ldots (ii)$$

Where N = total number of years.

But for simplification, if the time variable is measured as deviation form its means, i.e. mid point is taken as the origin the negative values in the first half of the series balance out of the positive

values in the second half so that Σ = 0, the value of constant a and b can easily determined by using following formula.

$$a = \frac{\Sigma x}{n}$$

$$b = \frac{\Sigma xy}{\Sigma x2}$$

After reviewing the relevant literatures and highlighting the research methodology now the analysis part of the research is going to be undertaken.

3.5.3 Correlation Analysis

Correlation analysis is the analysis, which reflects that the variables of the two different data are related or we can say that correlation is the analysis of relation between more than one variable. In other words, correlation is a statistical tool measures the relationship between/among variables, it shows the degree and direction of such relationship. In this analysis we examine that the data are mutually dependent or not. "When the relation is of quantitative nature, the appropriate statistical tools for discovering and measuring the relationship and expressing it in a belief formula is known as correlation." (Gupta, 1997/1998)

The relation between the data may be either positive or negative. It can be determined by different ways such as graphical representation, formula method etc. When both variables are moving upwards or downwards in the same proportion, it is said to be the condition of positive correlation and if the condition is vice-versa then the condition is said to be negative correlation. The main purpose of this study is to find out the correlation between selected ratios with each other. The correlation coefficient is denoted by the symbol 'r'. To calculate correlation between variables, we use the following formula.

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

Where,

r = Coefficient of correlation between variable x and y
N = Number of pairs in observation
Σxy = Sum of product of the variables x and y
Σx = Sum of the x
Σy = Sum of the y
Σx^2 = Sum of the square of x
Σy^2 = Sum of the square of y

The value of the coefficient of correlation as obtained by the above formula shall always lie between +1 to -1. Where r = +1 means there is perfect positive correlation between the variables. Where r = -1 means there is perfect negative correlation between the variables. Where r = 0 it means there is no relationship between the two variable. However, in practices such values of r as +1, -1 and 0 are rare.

CHAPTER IV

Data Presentation and Analysis

This chapter of thesis presents the data, facts figures relating to different aspects of LXBL and NIBL. These available data are translated analyzed and interpreted so that financial forecast of banks can be done easily. Hence, the financial ratios have been taken for this. Though there are many ratios but due to some sort coming and constraints, only related ratios have been taken for analyzing the strength and weakness of the sample joint venture banks.

4.1 Ratio Analysis

The term ratio refers to the numerical or quantities relationships between two variables. Important ratios can be calculated from the balance sheet and profit and loss account and thus calculated financial ratios can be useful for analyzing and assessing the performance and position of the bank, which reflect the relative strength and weakness of any particular bank over others. The ratio analysis is the most powerful tool of the financial analysis and it is used in analyzing the financial information to indicated the operating and financial efficiency and growth of the bank.

As mentioned in the previous chapter i.e. research methodology, various ratios are calculated to determine the potential for a company's success considering certain relationship between various financial statement items which are relevant indicators of the company's prospects to produce new information that has additional value.

4.1.1 Liquidity Ratios

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

Adequate liquidity is a must in the banking sector also, in order to product its solvency and to honor its short-term obligations or liabilities. Failing to do so, banks might have to go for liquidation, and hence to protect the creditor's interest, NRB has directed all the banks to maintain adequate CRR. A bank must insure that it has a sound liquidity position to face the instant claims by its creditors or in other words, its current liabilities should be fully backed by its current assets to build good credit image and gain creditor's confidence.

Liquidity ratio measured the ability to meet the short-term obligations and reflects the short-term financial strength and solvency of any bank. Since, the depositors of the banks are interested in the short-term solvency or liquidity of the firm; it is regarded as one of the most important ratios. To measure the bank's debt paying ability or the probability that cash will be continuously available to meet its maturing obligations, various liquidity ratios are calculated as below:

4.1.1.1 Current Ratio

It is the ratio of total current assets to total current liabilities calculated by dividing the company's current assets by current liabilities.

Current assets of joint venture bank refers to cash and near cash items (i.e. cash and bank balance, money at call and short notice, loans and advances, cash credit, bills discounted, investment, interest receivables, miscellaneous current assets) and current liabilities are deposits (i.e. saving, fixed, current call and short deposit, other bill's payable Miscellaneous liabilities)

The following table shows the current ratio of LXBL and NIBL.

Current Ratio (in times)
Table 2

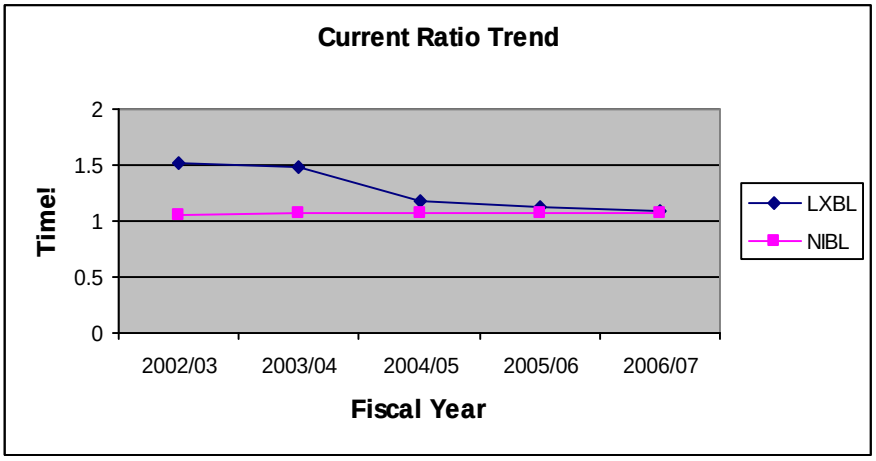
Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	1.52	1.49	1.17	1.12	1.09	1.28	0.19	14.84
NIBL	1.05	1.07	1.08	1.08	1.08	1.07	0.01	0.93

This table shows that the current ratio of both banks has been below the standard 2:1.
The ratio of LXBL under the study period has ranged between 1.09 in (2006/07) to 1.52 in(2002/03) where as NIBL ratio is in between 1.05 in(2002/03) to 1.08 (2004 to 07). However LXBL has less consistency in its current ratio with C.V 14.84% than that of NIBL with C.V of 0.93% and the mean ratios of 1.28 and 1.07of LXBL and NIBL respectively.

Current ratios of both the banks are below the required standard but it cannot conclude the liquidity position of both banks to be poor. As this ratio shows the quantity and not the quality of assets and second reason is that it does not distinguish between the types of current assets. However, lower assets ratio implies that for both the sample banks, current assets are either declining in value or being utilized in some other profit generating investment. Both banks should cut off the investment of such assets. From the viewpoint of working capital policy and utilizing of current fund both the sample banks are following the aggressive working capital policy and better utilization of current fund. Both banks are following aggressive policy.

The train of current ratio of LXBL and NIBL has been presented below.

Figure 1



4.1.1.2 Quick Ratio

This ratio establishes a relationship between quick or liquid assets and current liabilities. Liquid refers to such assets that can be converted into cash immediately. This ratio is determines by dividing the total of quick assets by total current liabilities.

Generally, 1:1 quick ratio is considered satisfactory and standard. Here liquid assets of bank refer to cash and bank balance, money at call and short notice, loans and cash credit, advances, bill purchases and discounted. Investment and receivables are excluded and current liabilities refer all types of deposits, call and short deposits; bill payable and miscellaneous income.

The following table shows Quick ratio of the sample bank under study.

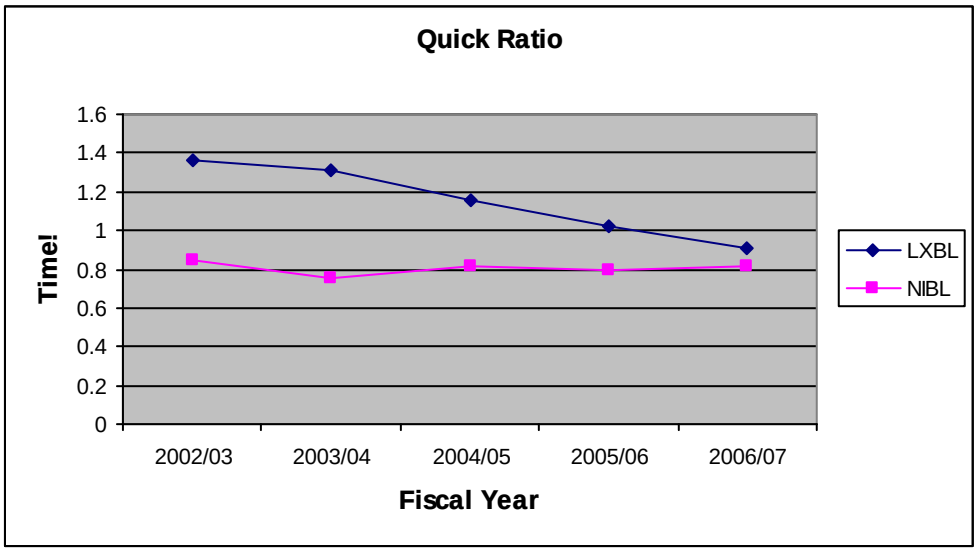
Quick Ratio (in times)
Table 3

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	1.36	1.31	1.16	1.02	0.91	1.15	0.17	14.78
NIBL	0.85	0.75	0.82	0.79	0.82	0.81	0.03	0.85

The above table shows the quick ratio of LXBL over the study period ranges between the lowest of 0.91 in (2006/07) to the highest of 1.36 in (2002/03) and the mean of 1.15 where as for NIBL, the quick ratio ranged between the lowest of 0.75 in (2003/04) to the highest of 0.85 in (2002/03) and mean of 0.81. Similarly, LXBL has less consistency with C.V of 14.78% than that of NIBL with 0.85%. In conclusion, NIBL has higher and better liquidity position than that of LXBL but however both the banks have less liquidity ratio that the standard and required (1:1) quick ratio. Hence it can be said that both the banks have taken risk by investing their liquid assets in higher profit generating field and adopting aggressive working capital policy.

The trend of quick ratio of the LXBL and NIBL has been presented below:

Figure 2



4.1.1.3 Cash and Bank Balance to Deposits Ratio (Fixed Deposit Excluded)

Cash and bank balance to deposits ratio measures the capacity of the banks to meet unexpected demand made by the depositors i.e. current account holders, saving account holders, other and margin holders. Higher ratio shows high liquidity position and ability to cover the deposits and vice versa. This ratio excludes fixed deposit.

Cash and bank balance includes total cash in hand and total cash at bank; similarly deposits include all type of deposits excluding fixed deposits.

The following table shows the comparative cash and bank balance to deposits ratio of LXBL and NIBL.

Cash and Bank Balance to Deposits (Exclude fixed deposit)

(in percentage)

Table 4

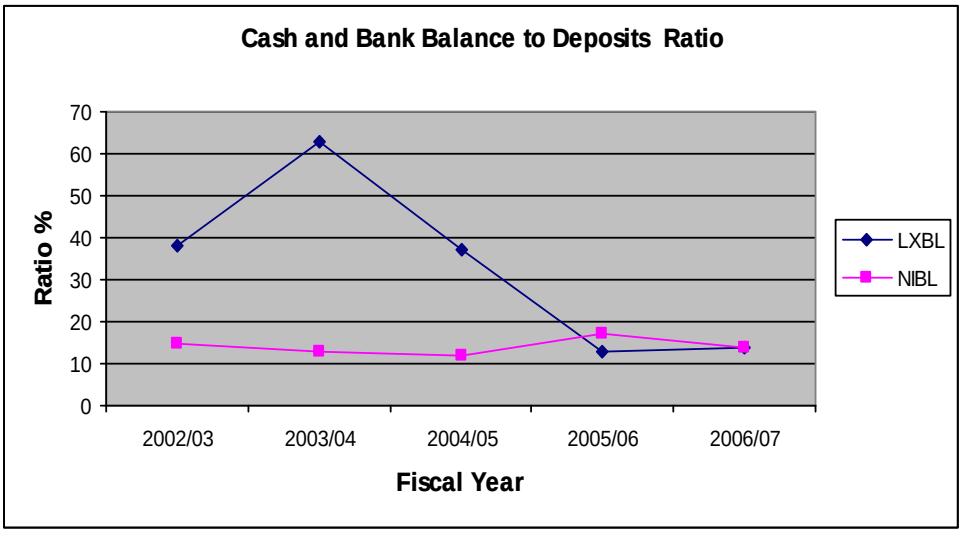
Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	38	63	37	13	14	33	18.45	55.91
NIBL	15	13	12	17	14	0.14	0.02	14.29

The above table reveals that the ability of LXBL to cover its short term deposit is better than NIBL.

This ratio of LXBL has ranged between 13% in (2005/06) to 63% the highest in (2003/04) where as NIBL has ranged between 12% the lowest in (2004/05) to 17% the highest in (2005/06) over the study period. The mean ratio of LXBL is 33% and NIBL is 0.14% respectively. But NIBL has high consistency in the ratio with C.V of 14.29% than that of LXBL with C.V of 55.91%. However, LXBL is holding greater amount of idle cash than NIBL which is one of the major factor of earning less profit. Hence LXBL should use its funds in purchasing marketable securities or Treasury Bills to get proper return. Similarly NIBL is efficient in cash management but however it requires increasing the portion of cash to meet needs of (deposit holders) its customers.

The trend of cash and bank balance to deposit ratio of LXBL and NIBL has been presented below.

Figure 3



4.1.1.4 Cash and Bank Balance to Current Deposit Ratio

This ratio measures the bank's ability in paying interest and principal to current depositors as well as other depositors. Dividing cash and bank balance calculate it by the total amount of current deposit.

The following table shows the capacity of both the sample banks to discharge current deposits

Cash and Bank Balance to Current Deposits Ratio (in percentage)

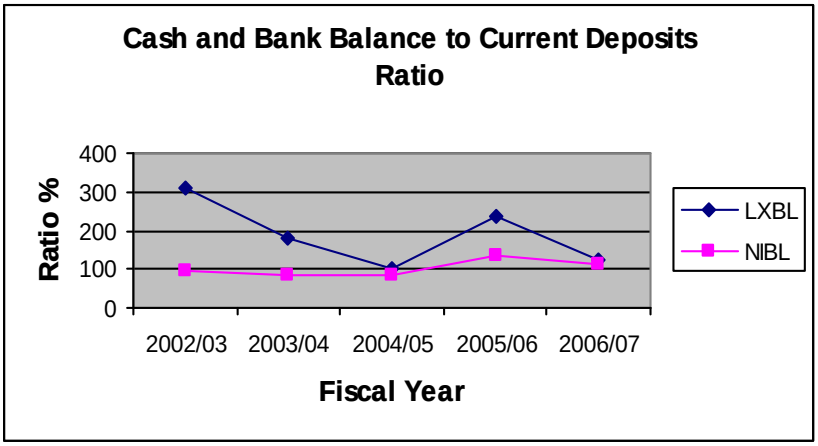
Table 5

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	38	63	37	13	14	190.94	75.36	39.47
NIBL	94.64	81.78	84.67	136.9	112.5	1.02	0.2	19.61

The above table shows the percentage of cash and bank balance to current deposits of the sample banks NIBL and LXBL. NIBL has the highest percentage ratio of 136.9% in 2005/06 and lowest percentage ratio of 81.78 in(2003/04). LXBL maintains its range of highest and lowest between 63% and 13% in 2003/04 and 2005/06 respectively. The mean ratio of NIBL bank is 1.02% and LXBL is 190.94 respectively. But LXBL has less consistency than NIBL with C.V of 39.47%.Thus the above table shows that the cash and bank balance to current deposit ratio of LXBL is higher than that of NIBL. LXBL bank seems to be holding idle cash, which is unproductive. But at the same time making immediate payment to its deposit holders. NIBL on the other hand seems to be using its cash and bank balance in some productive field than LXBL. However holding higher amount of idle cash cannot be regarded favorable for bank depriving themselves form the profitable opportunities whenever invested.

The trend of cash and bank balance to current deposit ratio of LXBL and NIBL has been presented below.

Figure 4



4.1.1.5 Cash and Bank Balance to Current Assets Ratio

This ratio reflects the portion of cash and bank balance to current assets. Cash and bank are highly liquid assets than other current assets. Here cash and bank balance refers to the total of local currencies, cheque in hand and various bank balance.

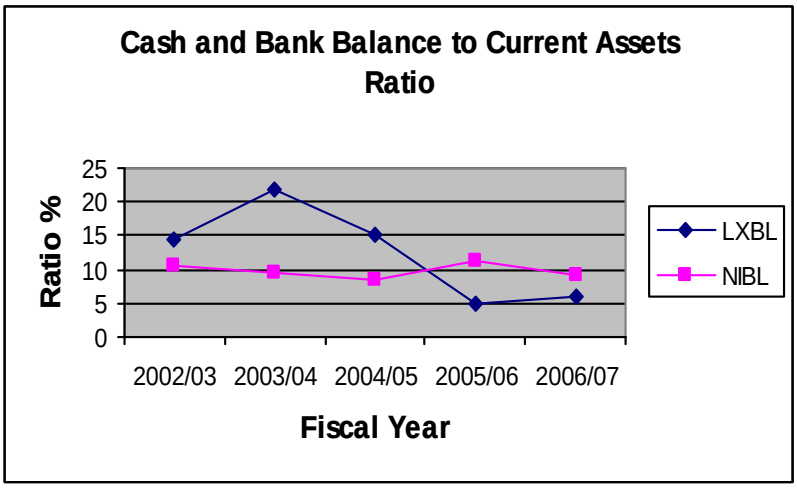
Cash and Bank Balance to Current Assets Ratio (in percentage)
Table 6

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	14.4	22	15	5	6	12.48	6.3	50.48
NIBL	10.5	9.43	8.4	11.13	9.1	9.71	0.98	10.09

The above table shows that the cash and bank balance to current assets ratio of LXBL range between 5% in (2005/06) to 22% in (2003/04) and average of 12.48% where as the ratio of NIBL has ranged between 8.4% in (2004/05) to 11.13% in (2005/06) and average of 9.71% which is less than that of LXBL 12.48%. So, in short this ratio for LXBL bank is higher than for NIBL. But LXBL has less consistency than NIBL with C.V of 50.48% and 10.09% respectively. It reveals that the liquidity position of LXBL is better but it is holding idle cash where as NIBL is utilizing cash in profit generating fields. However, holding less cash and bank balance can have negative impact on the goodwill and reputation of the bank to fulfill the demand of the profit holder so NIBL should maintain required and sufficient cash and bank balance so that there is no shortage of highly liquid assets.

The trend of Cash and Bank Balance to Current Assets ratio of the LXBL and NIBL has been presented below:

Figure 5



4.1.1.6 Loan and Advance to Current Assets Ratio

This ratio measures the relationship between loan and advances to current assets. It shows the banks (liquid) capacity of discounting and purchasing the bills and loans, cash credit and

overdraft facilities to the customers. In this study loan and advances refers to local and foreign bill discounted and purchased and loans, cash credit and overdraft in local currency as well and inconvertible foreign currency. This ratio is calculated by dividing loans and advances by current assets.

This ratio of both the banks presented in the following table.

Loan and Advance to Current Assets Ratio (in percentage)
Table 7

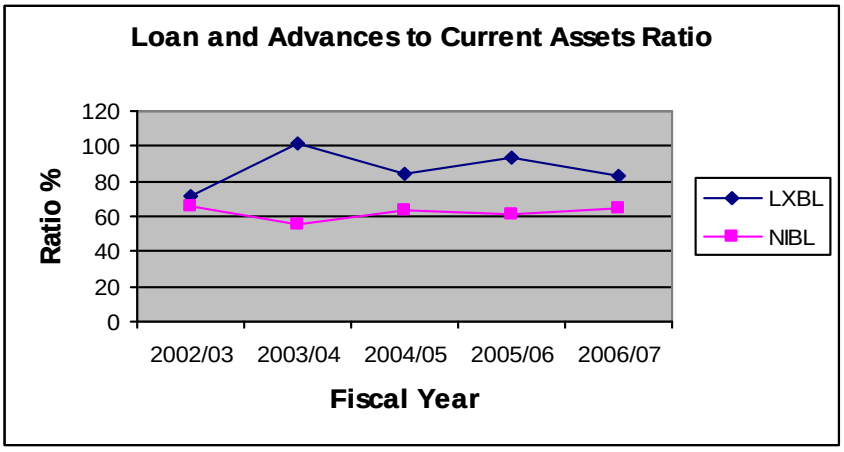
Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	72	101.28	84.44	93.46	83.41	86.92	9.9	11.39
NIBL	65.42	54.82	63.47	60.88	64.43	61.8	3.8	6.15

The above table shows that the loan and advance to current assets ratio of LXBL is 72% in (2002/03) and 101.28% the highest in (2003/04) and average of 86.92 where as NIBL has ranged 54.82% lowest in (2003/04), highest upto 65.42% in (2002/03) and average of 61.8.

Similarly, LXBL has less consistency than NIBL with C.V if 11.39% and 6.15% respectively. The table shows that LXBL is not efficiently utilizing its current assets in terms of loan and advance than NIBL. So LXBL has to increase the utilization of its current assets by providing loan and advances.

The trend of loan and advance to current asset ratio of the LXBL and NIBL has been presented below:

Figure 6



4.1.2 Capital Structure Ratio

This ratio is calculated to judge the long-term financial position of the firm. This ratio indicates mixture of funds provided by the owners and lenders, as per the general rule. Debt is more risky from firm's point of view. The firm has a legal obligation to pay interest to debt holders, irrespective of the profit or loss incurred by the firm.

An institution should have short term liquidity as well as long term solvency as short term creditors are interested to know about the liquidity position and long term creditors are interested to know the long term financial position of the firm to determine whether the firm can pay regular interest or not.

This ratio of institution highlights the long term financial position, debt servicing capacity and strength and weaknesses of the firm. The following ratios are examined under these heading. The financial position of the banks especially LXBL and NIBL, which are under study.

4.1.2.1 Total Debt to Equity Ratio

This ratio is calculated by dividing total debt by total equity. This ratio measures the proportion of external liability in the total capital of the firm.

It is calculated to measure the firm's obligation to creditors in relation to the funds invested by the owners.

In this study, total debt refers to all depositors, bills payable, borrowing made from other banks and other liabilities. Similarly, total equity refers to paid up capital, reserve and surplus and undistributed profit.

Generally, very high debt to equity ratio is unfavorable to the business firm because debt gives third parties legal claims over the company which can be for regular payment of interest plus repayment of principal within the agreed time.

On the other hand, a very low debt to equity ratio is also unfavorable from the shareholder's point of view. They want this ratio to be high so that they can have better return with smaller capital. Investment of debt in the business is considered beneficial when the interest rate is less than the return as increase shareholders wealth. This process is known as trading on equity. Therefore, an appropriated mixture of debt and equity capital should be maintained by the firm for maximization of owner's wealth (shareholders).

The following table shows the ratio of total debt to total capacity of LXBL and NIBL.

Total Debt to Equity Ratio (in percentage)
Table 8

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	234.87	364.08	486.82	665.84	892.54	528.83	230.81	43.65
NIBL	1255.83	1684.32	1252.5	2867.56	1245.96	1659.23	622.19	37.5

The above table shows the debt to equity ratio of the sample banks. This ratio is 234.87% in (2002/03) and 892.54% in(2006/07) and average is 528.83%. the highest ratio is 892.54% in (2006/07) and the lowest is 234.87% in (2002/03).

Similarly, NIBL has 1245.96% lowest in (2006/07) and highest 2867.56% highest in(2005/06) and has average of 622.19. Similarly, NIBL has more consistency than LXBL with C.V of 37.5% and 43.65% respectively.

Generally 50:50 debt equity ratio is considered good.

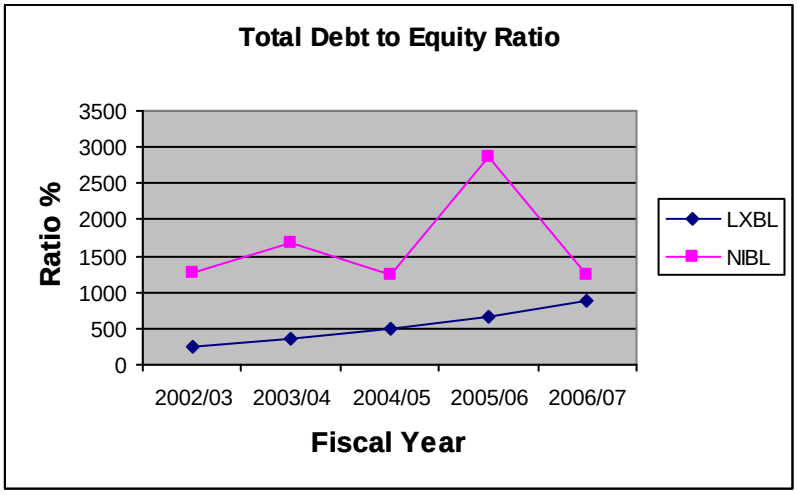
Above table indicates that both the banks are highly leveraged and in other words, the claim of the outsiders is high than that of owners over the bank's assets.

Comparatively, NIBL bank seems to be more leveraged than LXBL. This is due to the growth in the amount of deposits. This ratio indicates margin of safety to the creditors against the possible losses in case of liquidation (LXBL is required to be more serious)

However, both the banks are required to maintain an optimum debt to equity ratio by increasing their equity capital in order to avoid financial risk and it is duty of management to maintain a proper balance between debt and equity.

The trend of total debt to equity ratio of LXBL and NIBL has been presented below:

Figure 7



4.1.2.2 Total Debt to Total Assets Ratio

This ratio measures the relationship between financial contribution of outsiders and owners on total assets of the firm or it measures the proportion of debt out of total assets of the firm. It also provides security to outsider to pay their regular interest, dividend and principal within prescribed time. Generally creditor prefers the components to use low debts and owners, on the contrary prefer high debt ratio to earn more return. This ratio is similar as debt to equity ratio. Higher debt ratio indicates higher financial risk as well as increasing claims of outsiders in total assets and lower ratio indicates lower financial risk as well as decreasing claims of outsiders over the total assets of the firm. Generally 1:2 ratios are considered good but however no hard and fast rule is prescribed.

Here, total debt refers to short-term loan; long term loans and all kinds of deposits and other liabilities and total assets include all the assets that are in the assets side of balance sheet of the firm.
The following table shows total debt to total assets of LXBL And NIBL.

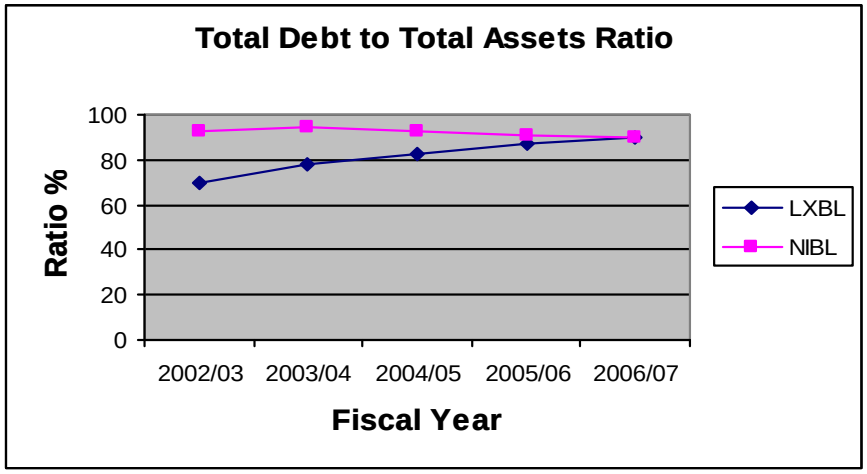
Total Debt to Total Assets Ratio (in percentage)
Table 9

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	70	78.44	82.24	86.86	89.89	81.49	6.95	8.53
NIBL	92.92	94.5	92.75	90.79	90	92.25	1.53	1.66

The above table shows that the debt-financing ratio of both banks is very high. The ratio of LXBL is 70% in (2002/03) and 89.89% in (2006/07) and that of NIBL is 90% lowest in (2006/07) and 94.5% highest in (2003/04). The mean ratio of LXBL and NIBL is 81.49% and 92.25% respectively. The total debts includes short-term, long term loan as well as various types of deposits, the ratio may not reflect the actual portion of debt in total assets of the firm. Higher flow of deposit influences this ratio. However both banks are suggested to minimize actual debt financing over total assets of the firm and rather increase owner's equity to finance in assets of the firm.

The trend of total debt to total assets ratio of LXBL and NIBL has been presented in the figure below:

Figure 8



4.1.2.3 Long-term Debt to Total Assets Ratio

This is the ratio, which measures the portion of long-term debts financed in assets of the firm. If the firm uses more long-term debt it is said to be following conservative financing policy with less risk of facing the problem of shortage of fund.

Similarly, if the firm uses less long-term debt and more short-term debt it is said to be following aggressive financing policy, which makes firm more risky.

Here, long-term debts include fixed deposits and borrowing from other banks and total assets to the total assets on the side of the balance sheet.

The following table shows comparative long-term debts to total assets ratio of LXBL and NIBL.

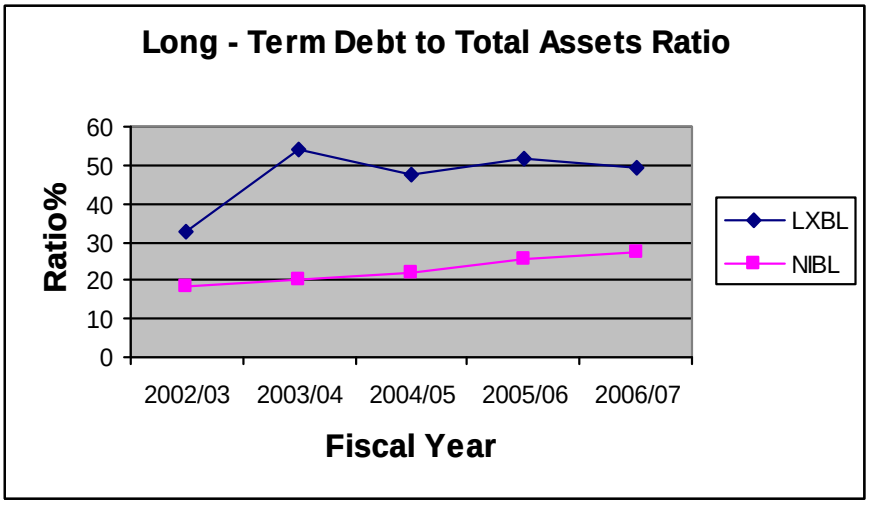
Long-term Debt to Total Assets Ratio (in percentage)
Table 10

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	32.70	54.15	47.38	51.64	49.46	47.07	7.53	16
NIBL	18.63	20.04	21.89	25.38	27.24	22.64	3.23	14.27

The above table shows that the long-term debt to total assets ratio of LXBL is ranged between the lowest of 32.70% (2002/03) to the highest of 54.15% in (2003/04) with mean being 47.07%. At the same time NIBL has it ranged between 18.63% in (2002/03) the lowest and 27.24% in (2006/07) the highest with mean being 22.64%. Likewise NIBL bank has more consistency with C.V of 14.27% than LXBL with C.V of 16%.
Comparatively, this ratio of LXBL is higher with higher mean ratio than that of NIBL. It shows that LXBL has used more long term funds than NIBL to finance its assets. Similarly, the cost of long term debt is higher than that of short term debt but however the former is risky. So, an appropriate risk return trade off is required between two sources.

The trend of long term debt to total assets ratio of the LXBL and NIBL has been presented below:

Figure 9



4.1.2.4 Long-term Debt to Net Worth Ratio

This ratio of a firm measures the portion of long-term debt in relation to net worth. Here, long-term debt includes fixed deposits plus bank loan and net worth includes total equity (i.e. paid up capital + Reserve and surplus + undistributed profit).

This ratio of both the sample banks is presented in the following table.

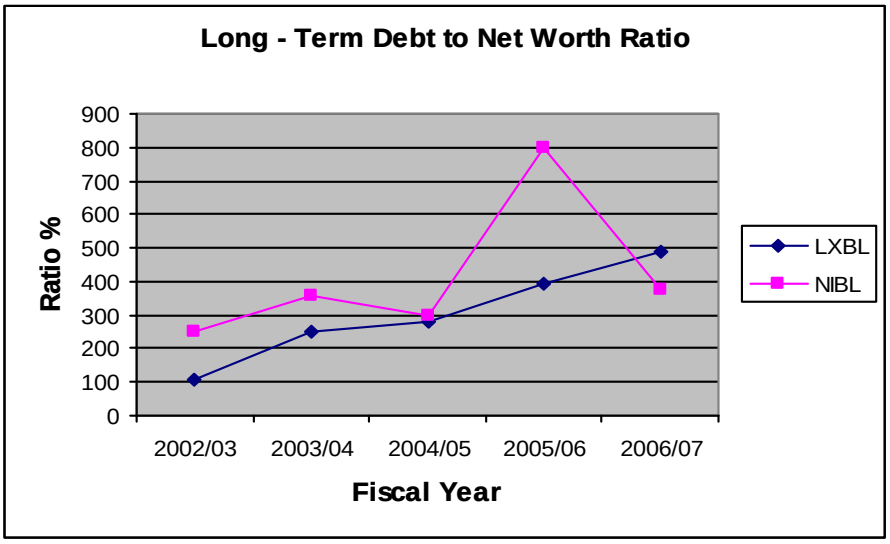
Long-term Debt to Net worth Ratio (in percentage)
Table 11

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	109.73	251.30	280.48	395.85	491.10	305.69	130	42.53
NIBL	251.84	357.15	295.6	798.77	375.93	415.86	196.48	47.25

The above table shows that this ratio of LXBL has ranged between 109.73% lowest in (2002/03) and 491.10% highest in (2006/07) with mean of 305.69% and NIBL has ranged between 251.84% lowest in (2002/03) to 798.77% highest in (2005/06) with mean of 415.86%. LXBL has more consistency in ratio with C.V of 42.53% than NIBL with C.V of 47.25%. Generally, higher ratio is unfavorable for the firm when the rate of return is less than the rate of interest (cost of capital) and vice versa. So, it is specially suggested to draw attention to NIBL to reduce the proportion of long term debt in relation to net worth.

The trend of long term debt to net worth ratio of the LXBL and NIBL has been presented bellow:

Figure 10



4.1.2.5 Net Fixed Assets to Net worth Ratio

This ratio of a firm measures the portion of net fixed assets in relation to net worth of a firm. Higher the ratio indicates the higher involvement of owner's equity in financing fixed assets of a firm and vice-versa.

Here, net fixed assets refer to the value of assets after deduction of depreciation and net worth refers to paid up capital, reserve, surplus and undistributed profit. This ratio of both the banks under study is presented in the following table.

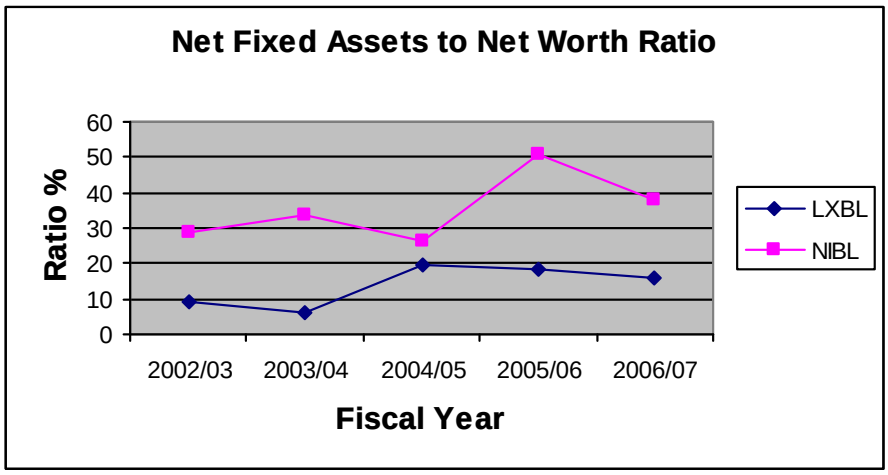
Net Fixed Assets to Net worth Ratio (in percentage)
Table 12

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	9.47	5.86	19.33	18.43	16.2	13.86	5.28	38.1
NIBL	28.66	33.59	26.6	50.68	37.98	35.5	8.56	24.11

The above table shows that this ratio of LXBL has ranged between 5.86% lowest in (2003/04) to 19.33% highest in (2004/05) with mean of 13.86% and that of NIBL has ranged between 26.6% lowest in (2004/05) to 50.68% highest in (2005/06) with mean of 35.5%. Further NIBL has more consistency with C.V of 24.11% than LXBL with C.V of 38.1%.
Further more the above table clearly states that investments of owner's equity in financing assets of NIBL is higher than that of LXBL. This ratio of both the banks here is minimum. So, it is suggested to both the banks that they should increase the portion of the fixed assets invested by the net worth.

The trend of net fixed assets to net worth ratio of the LXBL and NIBL has been presented below:

Figure 11



4.1.2.6 Long-term Debt to Capital Employed Ratio

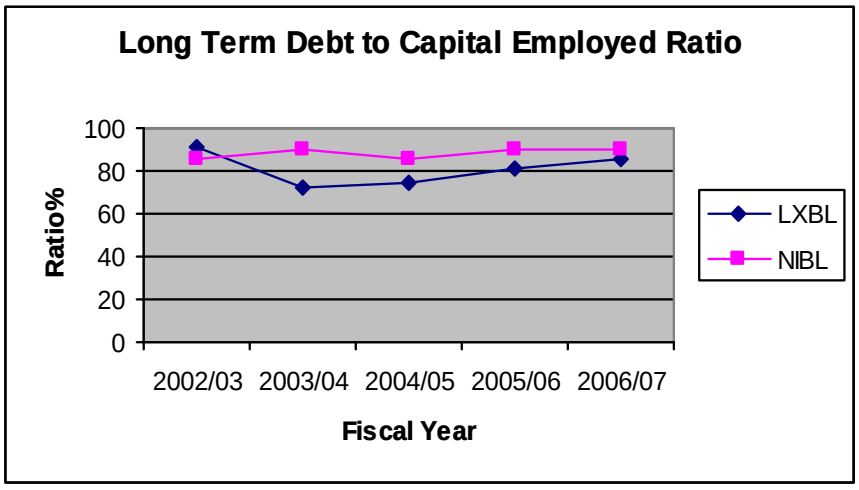
This ratio of the firm measures the proportion of long-term debt out to total capital employed in the firm. Higher ratio represents higher risk to creditors and also to shareholders under existing business situation while lower ratio assures security to creditors. In other words higher ratio is unfavorable when the rate of interest is higher than the return and vice-versa from the viewpoint of firm. However and appropriate mixture of long-term debt and net worth should be maintained.

Long-term Debt to Capital Employed Ratio (in percentage)
Table 13

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	91.57	71.80	74.75	81.51	85.33	80.99	7.13	8.8
NIBL	85.05	90	85.84	90.16	90.37	88.25	2.33	2.64

The above table shows that the ratio of LXBL is ranged between 71.80% the lowest in 2003/04 to 91.57% the highest in 2002/03 with mean ratio 80.99% where as NIBL has the highest ratio of 90.37% in 2006/07 and lowest ratio of 85.05% in 2002/03 with mean ratio of 88.25%. NIBL has more consistency with C.V of 2.64% than LXBL with C.V of 8.8 % which clearly shows that LXBL is using more debt than NIBL in total capital. But higher amount of debt is risky to the firm. However LXBL bank should pay attention, which will be beneficial from creditors as well as owner's point of view.
The trend of long term debts to capital employed ratio of NIBL and LXBL has been presented below.

Figure 12



4.1.2.7 Capital Adequacy Ratio

This ratio measures the portion of firm's capital fund with respect to total deposit. In case of commercial banks this ratio is considered to be more important. Banks should maintain the capital fund according to their requirement. If banks have been holding more capital than their minimum requirement, can cause them to have higher holding cost and low return and at the

same time holding too little amount of capital than required may have disadvantage of inadequacy and shortage of fund.
So, in this context Nepal Rastra Bank directs the commercial banks to increase or decrease by fixing their percentage of capital fund out of total deposit. According to NRB's directories, commercial banks should maintain their capital fund of 8% out of total deposits by mid July 1992. If the banks are unable to meet this rate, they would increase paid up capital or transfer a part of profit to general reserve to meet the requirement.
Here, capital fund includes total of paid up capital, reserve and surplus and undistributed profit and total deposit includes total of current deposits, plus saving deposits plus fixed deposits plus call and other deposits. This ratio of both the sample banks has been presented as such.

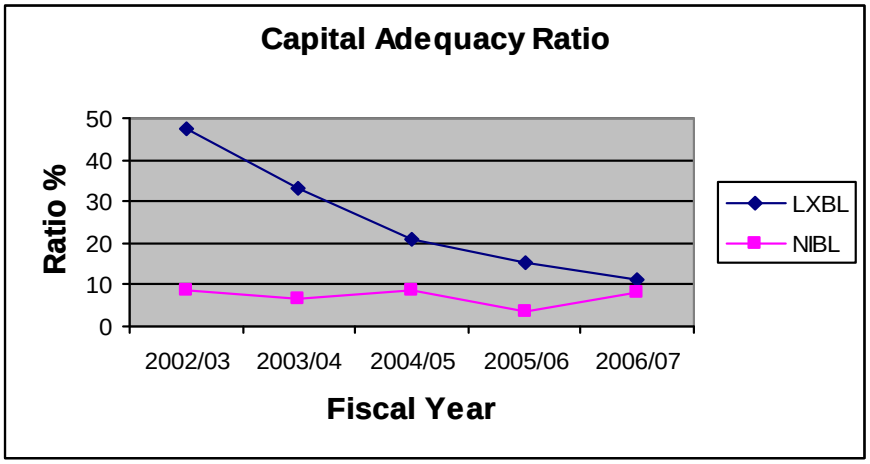
Capital Adequacy Ratio (in percentage)
Table 14

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	47.24	33.08	21.09	15.28	11.36	25.61	13.07	51.03
NIBL	8.42	6.45	8.45	3.58	8.16	7.01	1.87	26.68

The table shows that the capital employed ratio of LXBL is ranged between 11.36% lowest in (2006/07) and 47.24% highest in (2002/03) with mean of 25.61% and NIBL is ranged between 3.58% lowest in (2005/06) and 8.45% highest in (2004/05) with mean of 7.01%. NIBL has more consistency in this ratio with C.V of 26.08% than that of LXBL that has C.V of 51.03%.

The trend of capital adequacy ratio of LXBL and NIBL has been presented below:

Figure 13



4.1.3 Activity Ratio

This ratio measures the efficiency of management in utilizing assets/fund in profit generating field and available assets are utilized. This ratio is called turnover or efficiency or assets utilization ratio. The efficiency with which the assets are used would be reflected in the speed and capacity with which the assets are converted into sales. The greater the rate of turnover or

conversion, the more efficient the utilization of assets. If available assets are not properly utilized the management fails to increase profit, investment will not generate sufficient production and sales cannot make a returnable profit. So, a proper balance between sales and assets should be managed. In this study efficiency ratios are computed to determine the banks' efficiency in utilizing available resources (Deposits). The ratios computed under this heading are shown and interpreted as follows:

4.1.3.1 Loans and Advances to Total Deposits Ratio

This ratio measures whether the banks are successfully utilizing outsider's funds in profit generating purpose by extending for use of loan and advances.

Generally, a high ratio reflects higher efficiency to the utilization of outsiders fund and vice-versa.

Here, loan and advances refers to total of loan, advances and overdraft (i.e in local currency plus convertible foreign currency) and total deposits refer to total of all kinds of deposits.

Loan and Advances to Total Deposits Ratio (in percentage)
Table 15

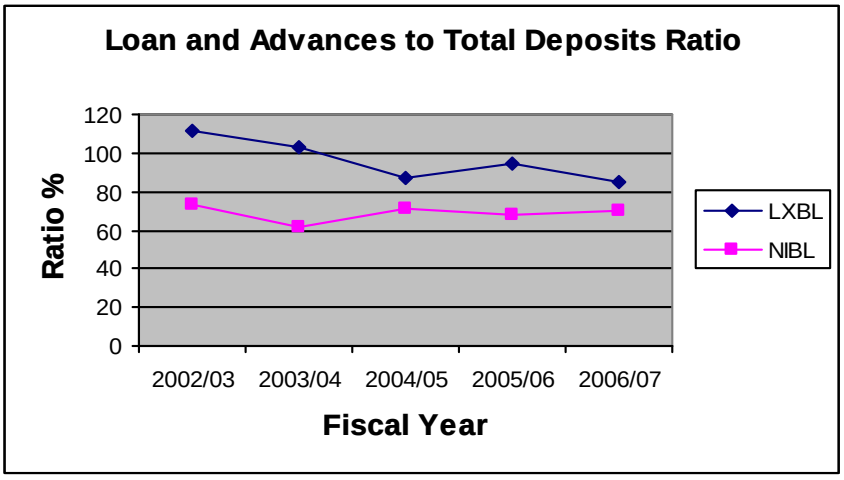
Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	111.04	102.92	87.09	94.56	84.57	96.04	9.86	10.27
NIBL	72.86	61.87	71.04	67.5	70.59	68.77	3.86	5.61

The above table shows that this ratio of LXBL is ranged between 84.57% lowest in (2006/07) and 111.04% highest in (2002/03) with and average of 96.04% and NIBL is ranged between 61.87% lowest in (2003/04) and 72.86% highest in (2002/03) with and average of 68.77%. Similarly NIBL has more consistency with C.V of 5.61% than LXBL with C.V of 10.27%.

The above table shows that LXBL is successfully utilizing its resources in profit generating field than NIBL. Lower ratio of NIBL represents lower deposit portion invested in loan and advances. So, it will be better for NIBL to increase the portion of loan and advance to earn more interest.

The trend of loan and advances to total deposit ratio of LXBL and NIBL has been presented in next page:

Figure 14



4.1.3.2 Loan and Advance to Fixed Deposits Ratio

This ratio of commercial banks indicates, how much of loan and advances are granted against fixed deposits. Fixed deposits are the higher interest rate payable deposits. Hence, commercial bank should utilize the fixed deposits properly.

The following table displays the ratio of loan and advance to fixed deposits of LXBL and NIBL.

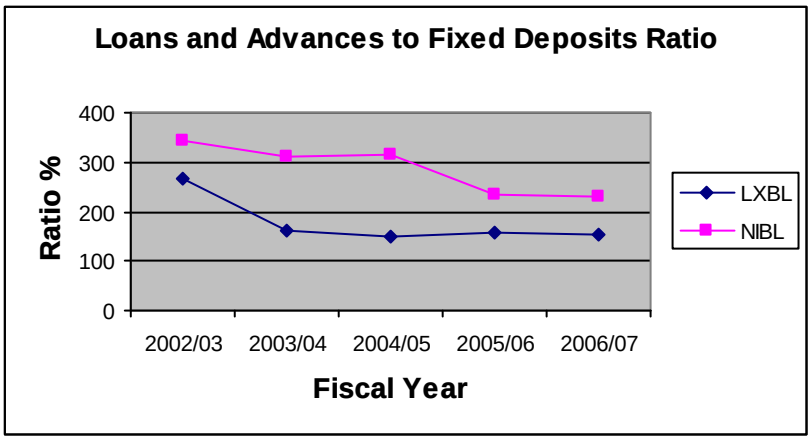
Loans and Advance to Fixed Deposits Ratio (in percentage)
Table 16

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	266.17	160.07	148.79	158.09	151.65	176.95	44.8	25.32
NIBL	345.05	310.72	315.23	236.03	229.97	287.4	46	16.01

From the above table it can be observed that this ratio of the both banks is fluctuating merely over the study period. In case of LXBL this ratio has ranged between 148.79% in 2004/05 to 266.17% in 2002/03. The mean ratio is 176.95% whereas NIBL has ranged between 229.97% in (2006/07) to 345.05% in (2002/03) having mean ratio of 287.4%.
Thus the above table clearly indicates that loan and advances to fixed deposit ratio are being efficiently and properly utilized by NIBL than LXBL bank. So, LXBL bank requires to utilize fixed deposit in loans and advance more efficiently.

The trend of loan and advances to fixed deposit ratio of LXBL and NIBL has been presented next page.

Figure 15



4.1.3.3 Loans and Advances to Saving Deposits Ratio

This ratio indicated the portion of total saving deposits utilized in loans and advances. Saving deposits are interest paying deposits. So, the banks should utilize them properly. Following table displays this ratio of both banks and study.

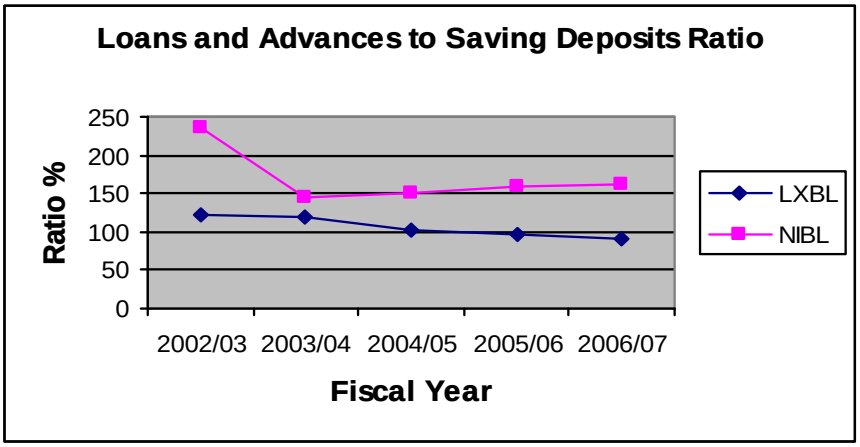
Loans and Advances to Saving Deposits Ratio (in percentage)
Table 17

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	121.09	119.03	103.32	97.53	91.17	106.43	11.79	11.08
NIBL	237.14	145.93	151.06	158.08	160.92	170.63	33.67	19.73

This ratio of LXBL has ranged between 91.17% in (2006/07) to 121.09% in (2002/03) with mean of 106.43. The highest being 121.09% in (2002/03) and the lowest being 91.17% in (2006/07). Similarly, NIBL has ranged between 145.93% in (2003/04) to 237.14% in (2002/03) with mean of 170.63%. The highest being 237.14% in (2002/03) and the lowest being 145.93% in (2003/04). LXBL has more consistency in this ratio with C.V of 11.08%. It also means that LXBL is utilizing its saving deposits properly than NIBL.

The trend of loan and advances to Saving Deposit Ratio of the LXBL and NIBL has been presented in next page:

Figure 16



4.1.3.4 Performing Assets to Total Assets Ratio

In this study performing assets represents the total assets that are invested in loan and advances; bill purchased and discounted investment and money on the short cell.

This ratio shows that how far the banks are successful in utilizing their assets in profit generating investment/sectors.

Generally, higher ratio reveals higher efficiency of proper utilization of assets and vice-versa.

Hence, total assets refer to total assets of balance sheet. Following table represents the ratio of both the sample banks.

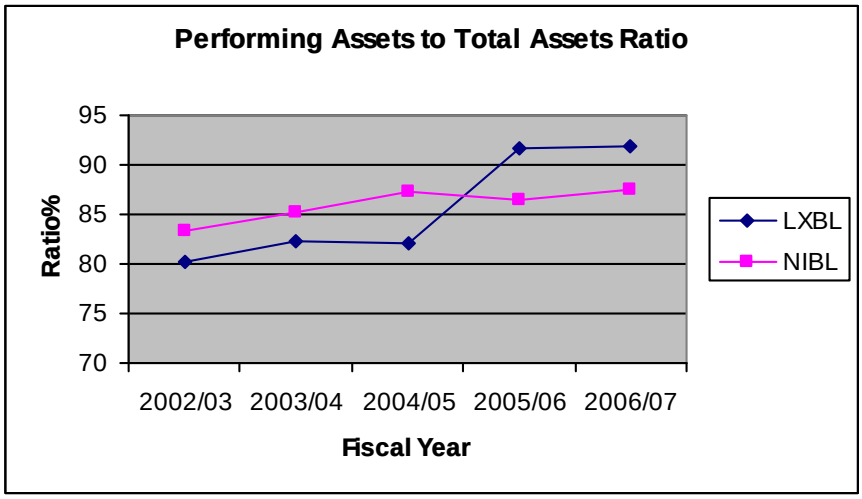
Performing Assets to Total Assets Ratio (in percentage)
Table 18

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	80.17	82.33	82.06	91.67	91.90	85.63	5.08	5.93
NIBL	83.39	85.27	87.26	86.49	87.55	85.99	1.52	1.77

The above table reflects that this ratio of LXBL is fluctuating in between the range of 80.17% in (2002/03) and 91.90% in (2006/07) with mean being 85.63%. Similarly, this ratio of NIBL has ranged between 83.39% in (2002/03) and 87.55% in (2006/07) with mean being 85.99%. NIBL has more consistency than LXBL with C.V of 1.77% which shows that NIBL is utilizing its performing assets out of total assets in profit generating purpose.

The trend of performing assets to total assets ratio of the LXBL and NIBL has been presented next page:

Figure 17



4.1.4 Profitability Ratio

Profit is the main element for financial institution to survive and grow over the long run. But only earning profit is not the ultimate aim of the institution and it should never be earned at the cost of employees, customers and society. However profitability is a measure of efficiency and search for it provides an incentive to outside efficiency. This ratio indicates the degree of success in achieving desired profit levels of the working funds. These ratios are two types: those showing profitability in relation to sales and those showing profitability in relation to investment. In this study profitability ratios are computed by relating the profit of bank to its investment. Such ratios are known as return on investment. Many ratios are determined under this heading.

4.1.4.1 Return on Net Worth Equity Ratio

This ratio measures the profit earned by the commercial banks by utilizing owners' equity there by generating return to satisfy the owners.

Higher the ratio indicates sound management and efficiency and wealth maximization of the banks, which in turn is the wealth maximization of the banks.

Here, NPAT refers to net profit after tax from profit and loss a/c and net worth refers to paid up capital, reserve and surplus and undistributed profit. The following table shows return on equity of both the banks.

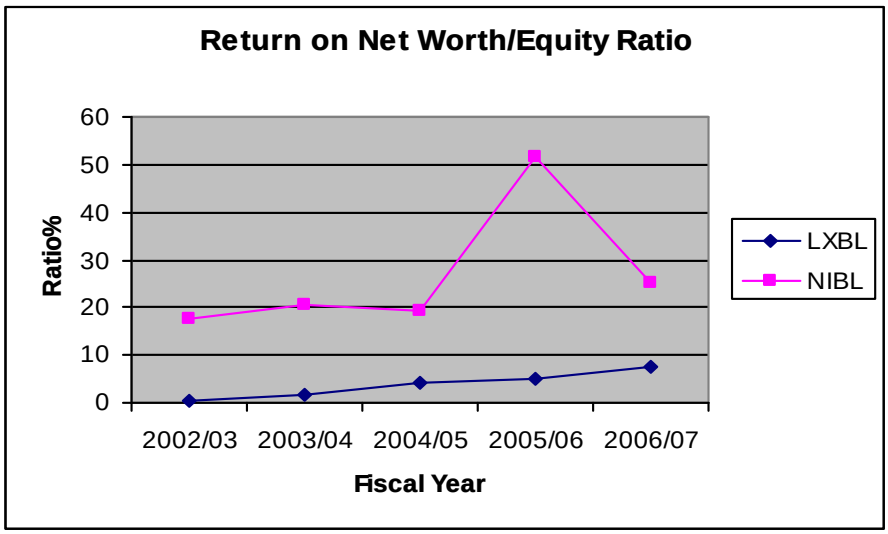
Return on Net Worth/ Equity Ratio (in percentage)
Table 19

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	0.32	1.88	4.11	5.21	7.59	3.82	2.54	66.49
NIBL	17.52	20.53	19.26	51.73	25.08	26.82	12.7	47.35

The above table shows that the ratio of LXBL has ranged between 0.32% in (2002/03) to 7.59% in (2006/07). The highest being 7.59% in (2006/07) and lowest being 0.32% in (2002/03). Similarly, this ratio of NIBL has ranged between 17.52% in (2002/03) and 51.73% in (2005/06).The highest being 51.73% in (2005/06) and lowest being 17.52% in (2002/03). Beside the ratio of NIBL is higher than that of LXBL. NIBL has more consistency with C.V of 47.35%.

The trend of Return on Net Worth/ Equity Ratio of LXBL and NIBL has been presented below:

Figure 18



4.1.4.2 Return on Capital Employed Ratio

This ratio measures the efficiency of a firm to its equity for profit purpose. This ratio provides test profitability related to the source of long-term fund. It also reveals how much the creditors fund and owners' equity is efficiently utilized by the bank. Higher the ratio implies the more efficiency in utilizing the capital employed and vice-versa.

Following table provides ratio relating to both banks under study

Return on Capital Employed Ratio (in percentage)
Table 20

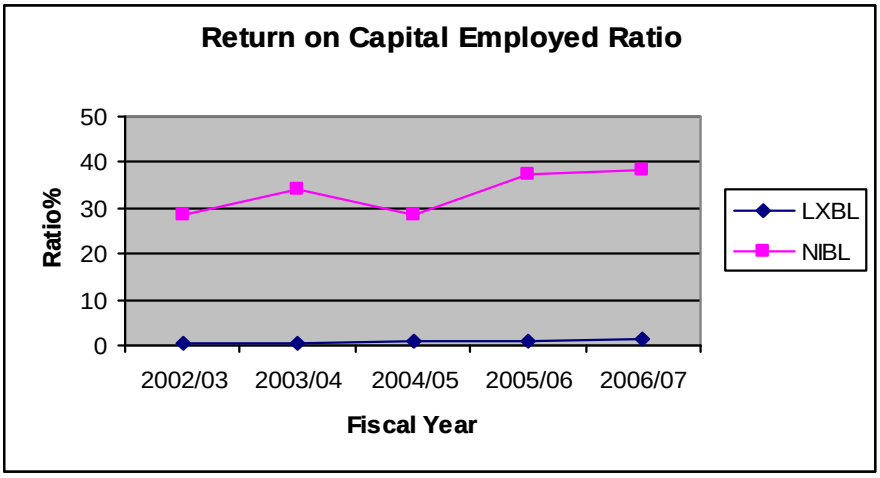
Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	0.26	0.54	1.10	1.07	1.31	0.86	0.39	45.35
NIBL	28.35	34.08	28.31	37.25	38.49	33.3	4.3	12.91

The above table shows that return on capital employed ratio of LXBL has fluctuated between 0.26% in (2002/03) and 1.31% in (2006/07) with mean of 0.86%. Similarly, this ratio of NIBL has fluctuated between 28.31% in (2004/05) and 38.49% in (2006/07) with mean of 33.3%. The

mean of NIBL is higher and highly consistent than that of LXBL with C.V of 12.91%. Thus NIBL's performance is better than LXBL. It is managed to LXBL bank to utilize optimally both its equity fund and long-term fund.

The trend of return on capital employed ratio of the LXBL and NIBL has been presented below.

Figure 19



4.1.4.3 Return on Total Assets Ratio (ROTA)

This ratio measures how far the management has utilized all the assets of a firm for profit generating activities. This ratio provides the foundation necessary for a company to deliver a good return on equity. Higher ROTA ratio indicates higher efficiency in the utilization of total assets and vice-versa.

The ratio of both the banks is presented in the following table.

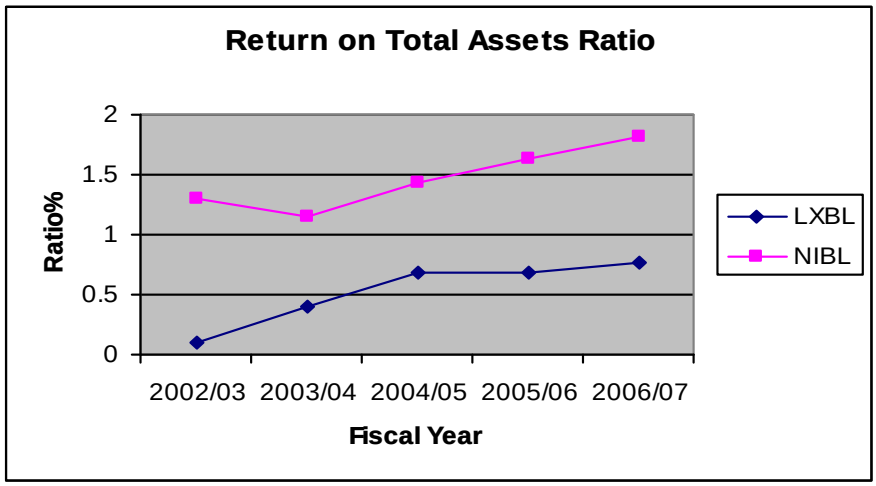
Return on Total Assets Ratio (in percentage)
Table 21

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	0.94	0.40	0.69	0.68	0.76	0.52	0.25	48.08
NIBL	1.3	1.15	1.43	1.64	1.82	1.47	0.24	16.33

The table shows that this ratio of LXBL bank has ranged between 0.40% in (2003/04) and 0.94% in (2002/03). Similarly, NIBL has ranged between 1.3% in (2002/03) and 1.82% in (2006/07). The mean ratio of NIBL is higher than LXBL. Also NIBL is highly consistent than LXBL with C.V of 16.33% and 48.08% respectively. Although both the banks does not seem to be utilizing their assets more efficiently. So, the banks are required to increase the rate of return on total assets by making investment in higher return sectors.

The trend of return on total assets ratio of LXBL and NIBL has been presented in the next page:

Figure 20



4.1.4.4 Return on Total Deposits Ratio

This ratio of commercial bank measures the degree of NPAT earned by using total deposits. This ratio shows how efficiently the management is utilizing its deposits in profit generating activities. This ratio is a mirror for bank's overall financial performance as well as its success in profit generation, the reason being that the deposits made by its customer's is the major source of earning of the joint venture banks as the earning is made by the efficient and effective utilization of these deposits.

Here, NPAT is calculated from profit and loss a/c and total deposit refers to all kinds of deposits, (i.e current, saving, fixed, other, margin and call at short notice) respectively. The following table shows the ratio of return on total deposits of LXBL and NIBL.

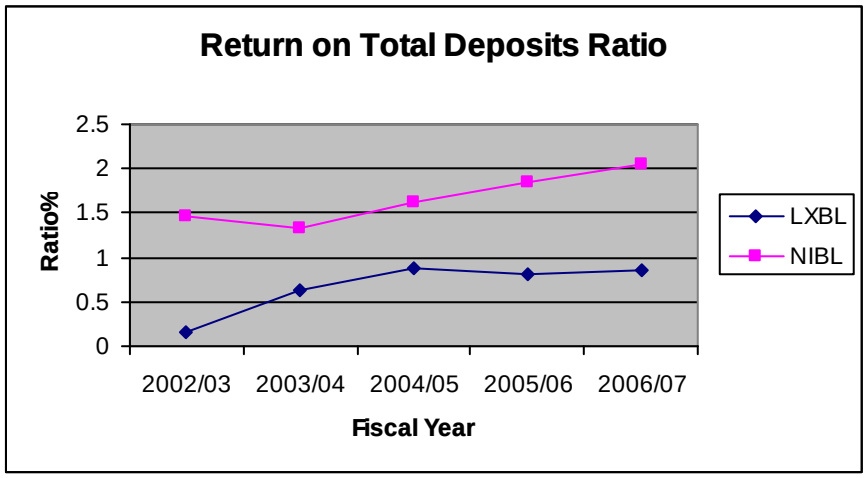
Return on Total Deposits Ratio (in percentage)
Table 22

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	0.15	0.62	0.87	0.80	0.86	0.66	0.27	40.91
NIBL	1.47	1.32	1.63	1.85	2.05	1.66	0.26	15.66

The above table shows that this ratio of LXBL has ranged between 0.15% in (2002/03) and 0.87% in (2004/05) with mean being 0.66% whereas, this ratio of NIBL has ranged between 1.32% in (2003/04) and 2.05% in (2006/07) with mean of 1.66% which is higher than LXBL. Also NIBL has more consistency than LXBL with C.V of 15.66% and 40.91% respectively. However, these of both the banks are not satisfactory level the reason for which may not be the optimum utilization of deposits and lower interest rate on loans extended.

The trend of return on total deposits ratio of the LXBL and NIBL has been presented below:

Figure 21



4.1.4.5 Interest Earned to Total Assets Ratio

This ratio shows the interest generated by mobilizing the assets in the banks. Interest occupies significant place of income for the banks. Generally, banks earn interest through the provisional of gains and advances, overdraft and investment in securities.

Higher the ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa.

Here, interest earned includes interest earned from commission and discount ;exchange income, dividend and other resources and total assets refer to total assets shown on the balance sheet.

This ratio of both the banks presented in following table

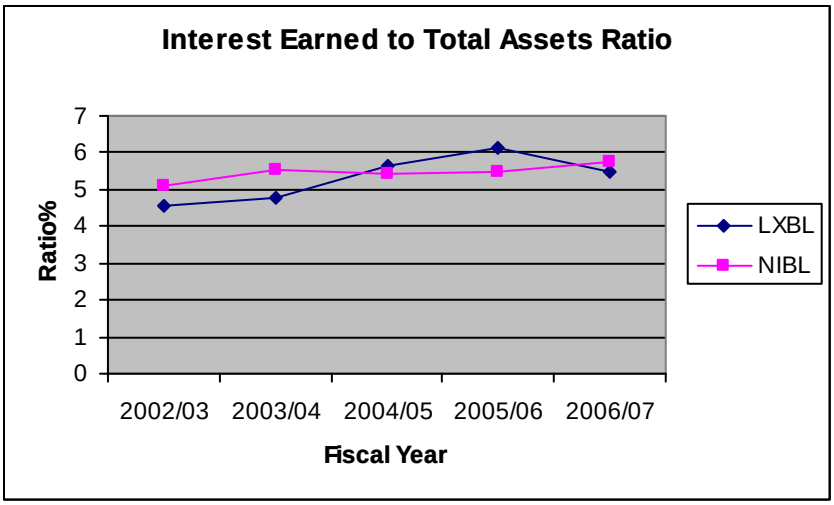
Interest Earned to Total Assets Ratio (in percentage)
Table 23

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	C.V
LXBL	4.54	4.80	5.62	6.13	5.48	5.31	0.57	10.73
NIBL	5.1	5.52	5.45	5.5	5.74	5.46	0.21	3.85

The above table shows that the interest earned to total assets ratio of LXBL has ranged between 4.54% in (2002/03) to 6.13% in (2005/06). Simialarly, this ratio of NIBL has ranged between 5.1% in (2002/03) to 5.74% in (2006/07). The mean ratio of NIBL is slightly higher than LXBL. NIBL has more consistency than LXBL with C.V of 3.85% and 10.73% respectively. This shows that NIBL is able to utilize its assets successfully to earn more interest than LXBL.

The trend of interest earned to Total Assests Ratio of the LXBL and NIBL has been presented below.

Figure 22



4.1.5 Other Ratios

There are several other widely used ratios relating to the financial aspects of the company. Although various ratios have been calculated and analyzed for the sake of completeness some other indicators have also been considered in this section

4.1.5.1 Interest Coverage Ratio

Interest coverage ratio indicates the debt servicing capacity of the bank. The ratio shows that how many times is the interest charge covered by the EBIT of the banks out of which the interest will be paid. Higher the ratio indicates the higher capacity of the firm to handle fixed charge liabilities and lower ratio indicates the danger signal that the firm is using excessive debt and unable to pay fixed charge of the firm to its customer.

Here, EBIT denotes earning before interest and taxes and total interest denotes all kinds of interest payable on both the deposits and borrowing.

This ratio of both the sample banks is presented in the following table.

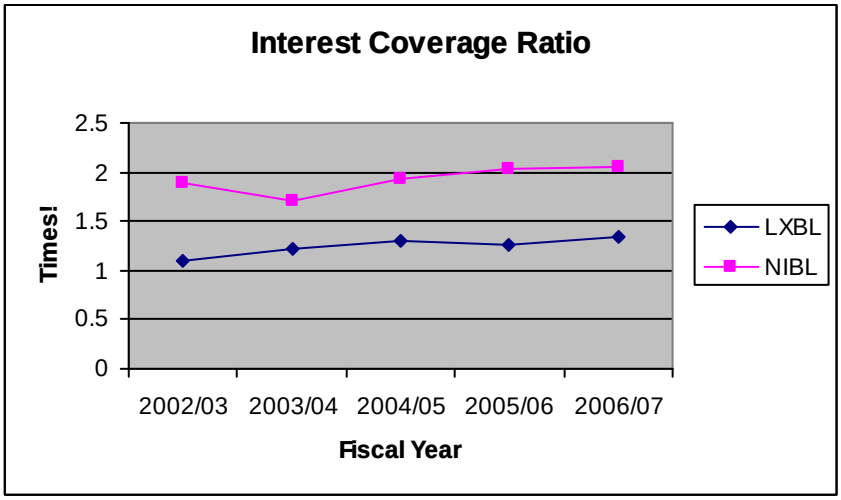
Interest Coverage Ratio (in times)
Table 24

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SV	C.V
LXBL	1.1	1.21	1.31	1.27	1.34	1.25	0.09	7.2
NIBL	1.9	1.71	1.94	2.03	2.06	1.93	0.12	6.22

According to the table, the interest coverage ratio of LXBL has ranged between 1.1 in (2002/03) to 1.34 in (2006/07) in increasing trend. Similarly, this ratio of NIBL has ranged between 1.71 in (2003/04) to 2.06 in (2006/07) in increasing trend except in (2003/04). The mean ratio of NIBL is higher than LXBL with 1.93 times and 1.25 times and again NIBL has more consistency than LXBL with C.V of 6.22 and 7.2 respectively.

The trend of interest coverage ratio of the LXBL and NIBL has presented below:

Figure 24



4.1.5.2 Interest Earned to total Loan, Discount and Overdraft (LDO) ratio

This ratio expresses one of the key measurements in the management discretion in the primary function of commercial banks. The major source of income for commercial banks is lending. Interest earned form LDO is more important income base than interest earned from other investments and inter-bank borrowings. Since, earnings are recognized on an accrual basis, this ratio should be interpreted with the types and quality of LDO.

Note: However, as per latest NRB guidelines, interest income should be reported on the cash receipt basis form fly 2058/59 onward.

This ratio of both the sample banks is presented in the following table.

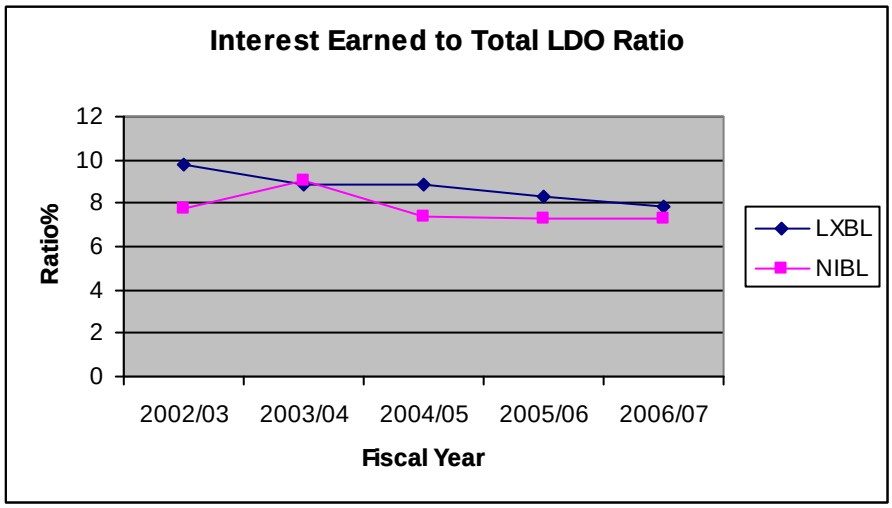
Interest Earned to LDO (in %)
Table 25

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SV	C.V
LXBL	9.75	8.87	8.86	8.3	7.84	8.72	0.64	7.34
NIBL	7.8	9.03	7.36	7.32	7.33	7.77	0.66	8.49

The above table shows that the ratio of LXBL has ranged between 7.84% in the year (2006/07) to 9.75% in the year (2002/03) in decreasing trend. Similarly, the ratio of NIBL has ranged from 7.32% in (2005/06) and 90.3% in (2003/04). The mean ratio of LXBL is higher than NIBL with 8.72% and 7.77% respectively. The C.V of both bank shows that the interest earning on LDO is more consistent in case of LXBL with C.V of 7.34% than that of NIBL with C.V of 8.49%.

The trend of Interest Earned to LDO ratio of LXBL and NIBL has been presented below:

Figure 24



4.1.5.3 Earning Per Share (EPS)

Earning per share is one of the most widely quoted statistics when there is a discussion of company's performance of share value. It is the profit after tax (available after deduction profit, dividend, if any) divided by the number of common shares outstanding. This ratio measures how much earning does the common shareholder get for every share held.
This ratio of banks presented in following

Earning Per Share Ratio (EPS) in Rs.
Table 26

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SV	C.V
LXBL	0.31	1.90	4.34	5.80	10.75	4.62	3.61	78.14
NIBL	39.56	51.70	39.50	59.35	62.57	50.54	9.66	9.11

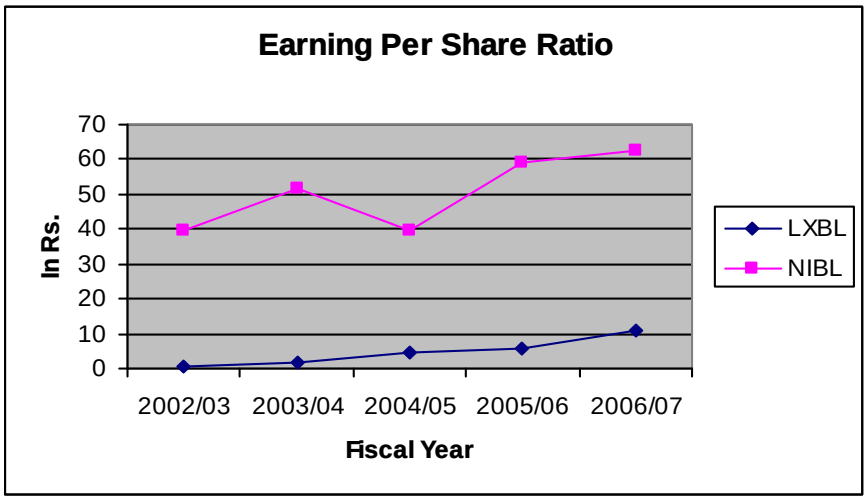
The above table reveals that this ratio of both banks has wide fluctuation over the study period. The ratio of LXBL has ranged between the least of Rs. 0.31 in (2002/03) and Rs. 10.75 in (2006/07) with increasing trend. The mean ratio of LXBL is lesser than NIBL. Similarly, for NIBL this ratio has ranged between Rs.39.50 in (2004/05) and Rs.62.57 in(2006/07) with increasing trend except in year 2004/05. The mean ratio of NIBL is higher than LXBL and has

high consistency than LXBL with C.V of 9.11% which shows that NIBL has better signal from investor's point of view.

However, EPS does not reveal how much amount out of the earning is paid to the owners as dividend or how much of the earning are retained in the business.

The trend of Earning per share of the LXBL and NIBL has been presented below:

Figure 25



4.1.5.4 Dividend Per Share (DPS)

Dividend implies that portion of net profit, which is allocated to shareholders as their return in terms of cash. DPS is the portion of EAT that cash amount is allocated to shareholders dividend by total numbers of ordinary shares outstanding.
This ratio of both the banks is presented in the following table.

Dividend Per Share Ratio (DPS) in Rs.
Table 27

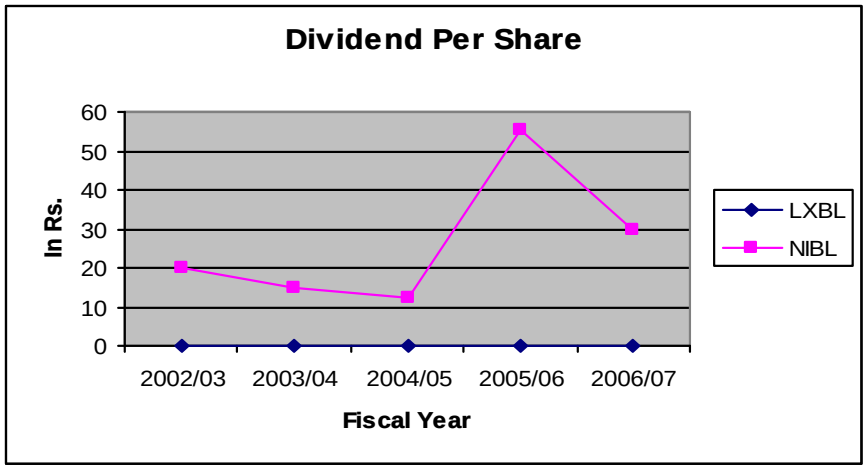
Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SV	CV
LXBL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NIBL	20	15	12.50	55.46	30	26.59	15.63	58.78

The above table shows that this ratio is nil for all five years in case of LXBL. This shows that no profit is allocated to its shareholders in past five years by LXBL. In case of NIBL it has ranged between Rs. 12.50 in (2004/05) and Rs. 55.46 in(2005/06) with mean of Rs.26.59 and C.V of 58.78%. From this view we can conclude that NIBL seems better offering dividend.

However like EPS, DPS also should not be taken at its face value as the increased DPS may not be reliable measure of the profitability as the equity base may have increased due to increased retention without any change in the numbers of outstanding shares.

The trend of Dividend Per Share Ratio of the LXBL and NIBL has been presented below:

Figure 28



4.1.5.5 Dividend Payout Ratio (D/P Ratio)

This ratio indicates how much of the earning amount is paid to the shareholders out of EPS. Usually shareholders prefer a higher dividend payout ratio although companies adopt dividend policies to suit their business needs. Fast growing companies have a great need for cash and they payout little dividend. On the other hand stable and low growth companies pay out a high percentage of earnings.
This ratio of both the banks is presented in the following table.

Dividend Payout Ratio (D/P ratio) in percentage
Table 28

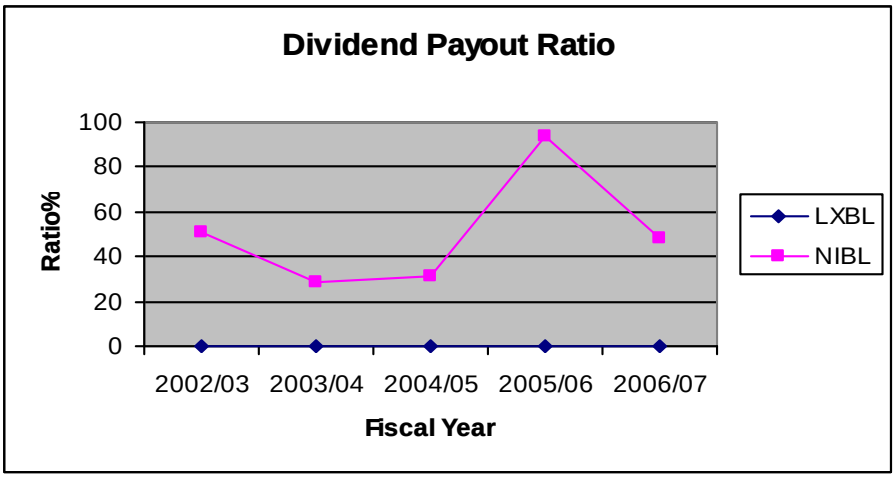
Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	CV
LXBL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NIBL	50.56	29.01	31.65	93.45	47.95	50.52	23.1	45.72

The above table shows that this ratio is nil for all five years in case of LXBL. This shows that no earning amount is paid to the shareholders out of EPS in past five years by LXBL. But this ratio of NIBL is fluctuating between 29.01% in (2003/04) and 93.45% in (2005/06) with mean of 50.52% and C.V of 45.72%. From the view of shareholders' NIBL affects a better scenario also has retained a higher portion of earning.

In fact there is no any hard and fast rule regarding the ideal dividend payout ratio and it is a controversial issue as well as the management should maintain a trade off between paying and retaining in order to achieve shareholder's satisfaction and banks' sustainable growth.

The trend of Dividend Payout Ratio of the LXBL and NIBL has been presented below:

Figure 27



4.1.5.6 Earning Yield Ratio (E/Y Ratio)

This ratio reflects how much EPS is available from market value per share. This ratio may be defined as the ratio of earning per share to the market value per share.
This ratio evaluates the shareholders return in relation to the market value of the share.
This ratio is known as earning price ratio. The following table presents the earning yield ratio of both the banks under study.

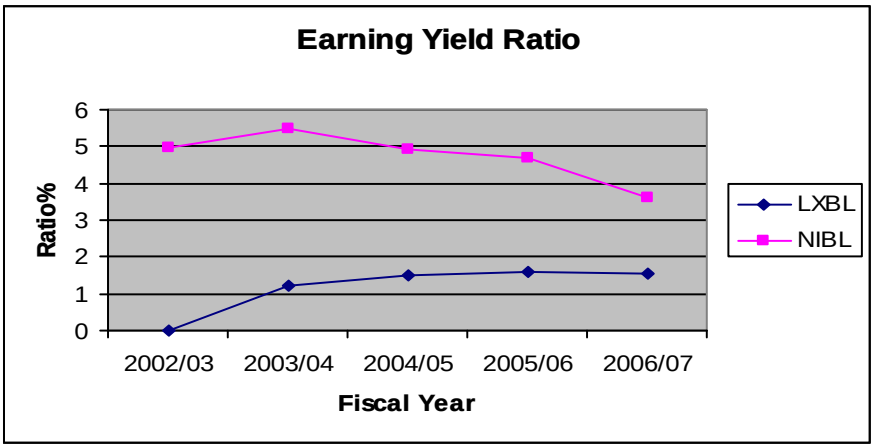
Earning Yield Ratio (in percentage)
Table 29

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	CV
LXBL	0.00	1.22	1.52	1.58	1.56	1.18	0.6	50.85
NIBL	4.98	5.5	4.94	4.71	3.62	4.75	0.62	13.05

The ratio of LXBL has ranged between 0.00 in (2002/03) and 1.58% in (2005/06) with mean of 1.18%. Whereas this ratio of NIBL has ranged between 3.62% in (2006/07) and 5.5% in (2003/04) with mean of 4.75%. The mean ratio of NIBL is higher than that of LXBL. It shows that NIBL has higher and better earning in relation to market value per share than that of LXBL. And also NIBL has more consistency with C.V of 13.05% than LXBL with C.V of 50.85%.

The trend of Earning Yield Ratio of the LXBL and NIBL has been presented in the next page:

Figure 28



4.1.5.7 Dividend Yield Ratio

This ratio is the dividend per share divided by market value per share. This ratio evaluates the shareholders' return in relation to the market value of the share.
Following table presents dividend ratio of both the sample banks.

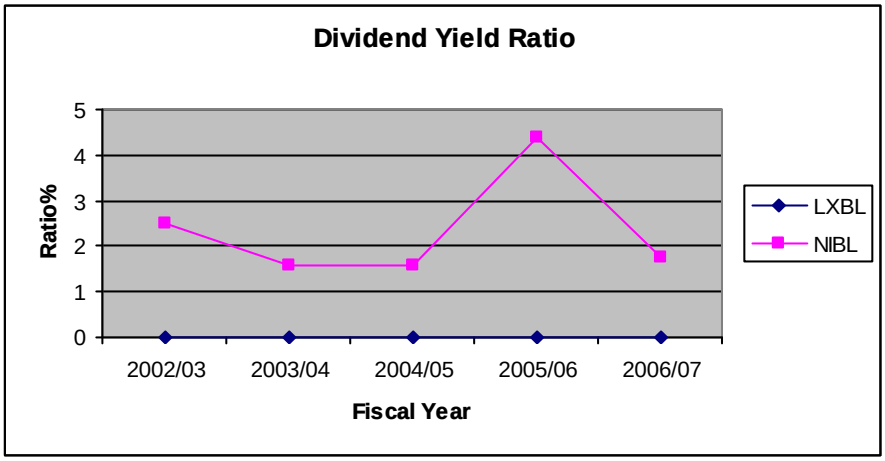
Dividend Yield Ratio
Table 30

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SV	CV
LXBL	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NIBL	2.52	1.6	1.56	4.4	1.74	2.36	1.08	45.76

The above table shows that this ratio is nil for all five years in case of LXBL. This shows that the shareholders of LXBL has got no return in relation to market value of the share for the past five years. But the ratio of NIBL has ranged between 1.56% in (2004/05) and 4.4% in (2005/06) with mean of 2.36% and C.V of 45.76%. It shows that NIBL has better performance regarding dividend yield.

The trend of Dividend Yield Ratio of LXBL and NIBL has been presented in the next page:

Figure 29



4.1.5.8 Price Earning Ratio (P/E Ratio)

The reciprocal of the earning yield is the price-earning ratio (P/E ratio). This ratio is widely used by the security analysis to value the firms' performance as accepted by investors. It indicates investor's judgement for or expression about the firm's performance. This ratio reflects investors' expectations about the growth in the firm's earnings.

Following table presents the price-earning ratio of both the banks under study.

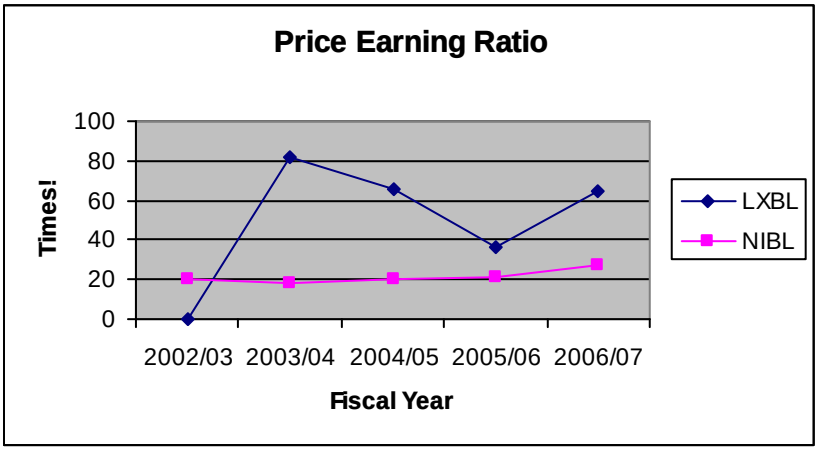
Price-Earning Ratio (in times)
Table 31

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SV	CV
LXBL	0.00	82.11	65.69	63.44	64.18	49.68	28.85	58.07
NIBL	20.10	18.18	20.25	21.23	27.63	21.48	3.23	15.04

The ratio of LXBL has ranged between 0.00 in (2002/03) and 82.11 in (2003/04) with mean of 49.68. Whereas this ratio of NIBL has ranged between 18.18 in (2003/04) and 27.63 in (2006/07) with mean of 4.75. The mean ratio of LXBL is higher than that of NIBL. But NIBL has more consistency with C.V of 15.04% than LXBL with C.V of 58.07% which shows that NIBL has better performance for growth in earning than that of LXBL.

The trend of Price Earning Ratio of LXBL and NIBL has been presented in the next page:

Figure 30



4.1.5.9 Interest Earning Assets to Total Assets Ratio

This ratio reflects the proportionate relationship between interest earning assets and total assets. Higher this ratio implies the higher portion of interest generating assets and vice versa.
Here, interest earning assets refer to loans, advances, overdraft and investment at cost and total assets refers to the amount of total assets presented on the right side of the balance sheet.
This ratio of both the banks is presented in the following table.

Interest Earning Assets to Total Assets Ratio (in percentage)
Table 32

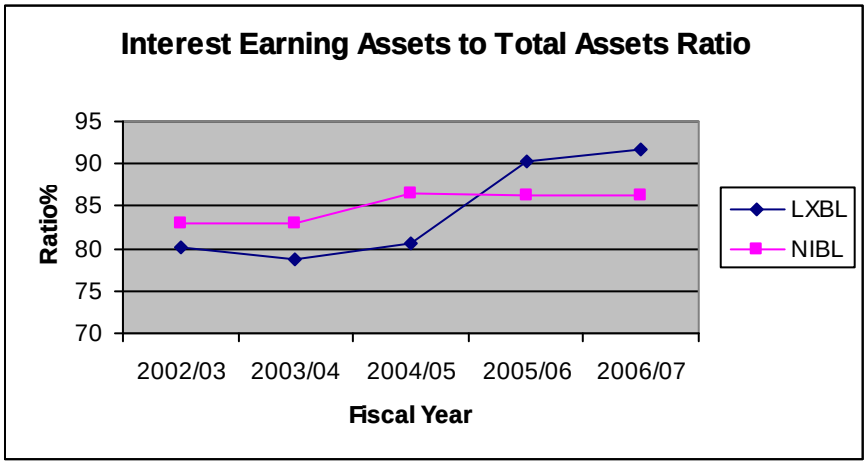
Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SV	CV
LXBL	80.17	78.76	80.55	90.33	91.75	84.31	5.54	6.57
NIBL	82.95	82.93	86.4	86.16	86.23	84.93	1.63	1.92

The ratio of LXBL has ranged between 78.76% in (2003/04) and 91.75% in (2006/07) with mean of 84.31%. Whereas this ratio of NIBL has ranged between 82.93% in (2003/04) and 86.23% in (2006/07) with mean of 84.93%. The mean ratio of NIBL is slightly higher than that of LXBL. And also NIBL has more consistency with C.V of 1.92% than LXBL with C.V of 6.57%.

As this ratio indicates the efficiency of utilization of total assets in interest generating assets, NIBL has been more capable on the efficient utilization of assets in comparison of LXBL with reference to mean ratio and C.V.

The trend of Interest Earning Assets to Total Assets Ratio of LXBL and NIBL has been presented in the next page:

Figure 31



4.1.5.10 Interest Paying Liabilities to Total Liabilities Ratio

This ratio shows the proportion of interest paying liabilities out of banks' total liabilities. Interest paying liabilities in this study includes all types of deposits except current deposits plus borrowing from other banks. Similarly, total liabilities refer to the total of liabilities column of balance sheet. These types of liabilities occupy an important place of source from which the bank sources its funds for operation.

The optimist of this ratio can be compared with interest earning assets to total assets ratio. Lower this ratio than the interest earning to total assets ratio is regarded to be good.

This ratio of both the banks is presented in the following table:

Interest Paying Liabilities to Total Liabilities Ratio (in percentage)
Table 33

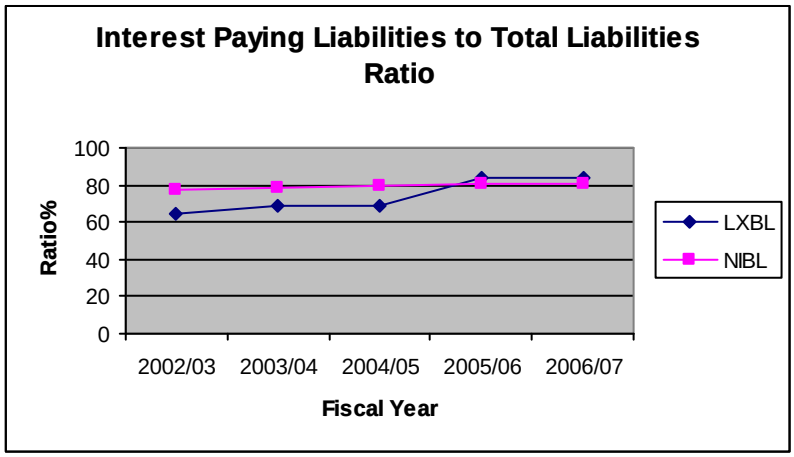
Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	CV
LXBL	64.94	69.23	68.71	84.14	84.28	74.26	8.26	11.12
NIBL	77.11	78.35	80.01	80.74	80.87	79.42	1.46	1.84

The ratio of LXBL has ranged between 64.94% in (2002/03) and 84.28% in (2006/07) with mean of 74.26%. Whereas this ratio of NIBL has ranged between 77.11% in (2002/03) and 80.87% in (2006/07) with mean of 79.42%. The mean ratio of NIBL is higher than that of LXBL. And also NIBL has more consistency with C.V of 1.46% than LXBL with C.V of 8.26%.

In short NIBL has higher interest paying liability than that of LXBL. So, it will be better for NIBL to decrease the portion of interest paying liabilities out of total liabilities.

The trend of Interest Paying Liabilities to Total Liabilities Ratio of the LXBL and NIBL has been presented below:

Figure 32



4.1.5.11 Interest Paid to Interest Income Ratio

This ratio of banks reveals the proportionate relationship between interest paid to different liabilities and interest income made from different sources. Higher the ratio indicates that the banks had paid higher amount of interest on liabilities in relation to interest income and vice-versa.

In this study, interest paid includes interest paid on deposits and borrowing. Similarly, interest income includes the interest from loan, advance, overdraft, bank loan.

This ratio of both the banks over the study has been tabulated below:

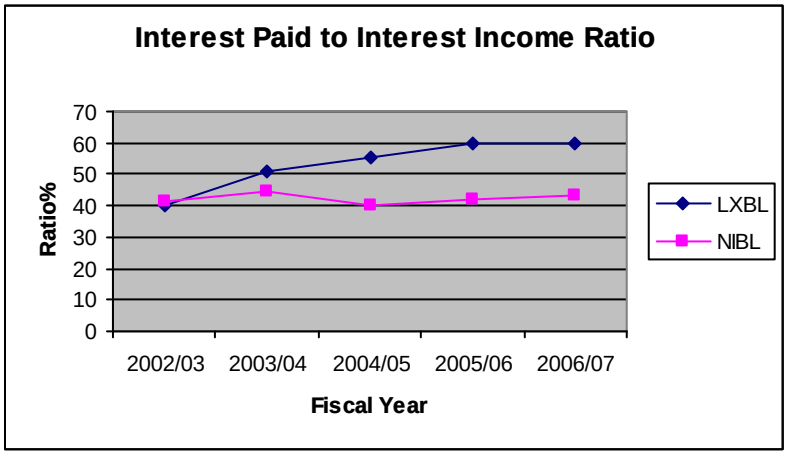
Interest Paid to Interest Income Ratio (in percentage)
Table 34

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	CV
LXBL	40.36	50.93	55.31	59.7	59.57	53.17	7.17	13.49
NIBL	41.18	44.6	39.98	41.86	43.25	42.17	1.61	3.82

The ratio of LXBL has ranged between 40.36% in (2002/03) and 59.57% in (2006/07) with mean of 53.17%. Whereas this ratio of NIBL has ranged between 39.98% in (2004/05) and 43.25% in (2006/07) with mean of 42.17%. The mean ratio of LXBL is higher than that of NIBL. And NIBL has more consistency with C.V of 3.82% than LXBL with C.V of 13.49%.

The trend of interest paid to interest income ratio of LXBL and NIBL has been presented in the next page:

Figure 33



4.1.5.12 Spread

In this study spread is considered as the difference of interest income and the interest expense. Spread of both the banks over the study period has been visualized in the following table

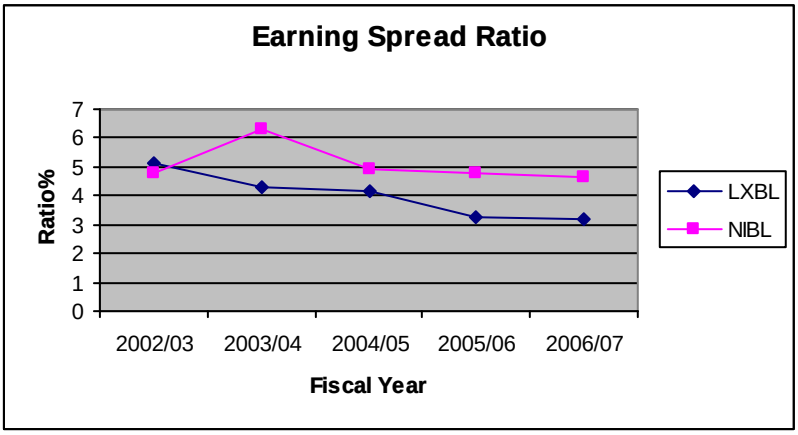
Earning Spread Ratio (in percentage)
Table 35

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	CV
LXBL	5.15	4.3	4.19	3.25	3.2	4.02	0.73	18.16
NIBL	4.8	6.29	4.93	4.8	4.62	5.09	0.61	11.98

The ratio of LXBL has ranged between 3.2% in (2006/07) and 5.15% in (2002/03) in decreasing trend with mean of 4.02%. Whereas this ratio of NIBL has ranged between 4.62% in (2006/07) and 6.29% in (2003/04) with mean of 5.09%. The mean ratio of NIBL is higher than that of LXBL. And also NIBL has more consistency with C.V of 11.98% than LXBL with C.V of 18.16%.

The trend of Earning Spread Ratio of LXBL and NIBL has been presented in the next page:

Figure 34



4.1.5.13 Loan Loss Ratio

This ratio of commercial banks describes the proportion of provision for loss to the loan. The control of loan is and important factor for bank's operation and the bank is generally concerned to minimize it. A poorly administered loan portfolio usually has significant negative impact on the earning and capital of the banks. Provision of loan loss leads to loan profit and decrease in the capital.
The loan loss ratio (Garden and Miller) indicates the adequacy of allowance for loan and trend in the collection of loan and the performance in loan portfolio. It is obtained by dividing the loan loss provision by the total loan.

Higher this ratio indicates that the performance of the bank in terms of recovery of loan is low and vice versa.

This ratio of both the banks is presented in the following table.

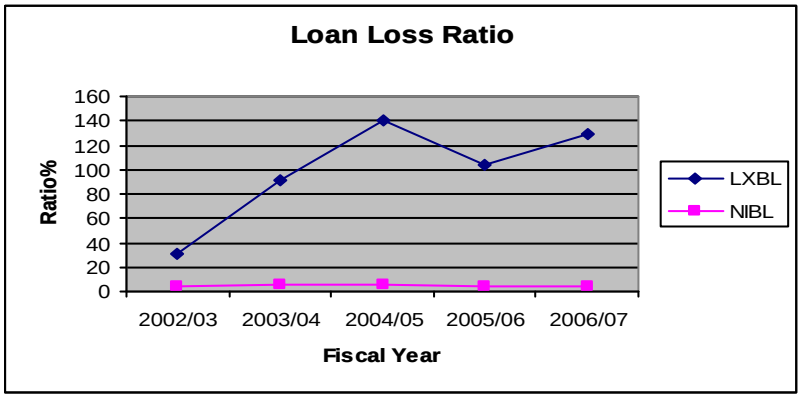
Loan Loss Ratio (in percentage)
Table 36

Banks	2002/03	2003/04	2004/05	2005/06	2006/07	Mean	SD	CV
LXBL	7.76	17.51	33.58	47.97	70.33	35.43	22.21	62.69
NIBL	30.34	91.09	140.41	103.81	129.72	99.07	38.62	38.98

The ratio of LXBL has ranged between 7.76% in (2002/03) and 70.33% in (2006/07) in increasing trend with mean of 35.43%. Whereas this ratio of NIBL has ranged between 30.34% in (2002/03) and 140.41% in (2004/05) with mean of 99.07%. The mean ratio of NIBL is higher than that of LXBL. And also NIBL has more consistency with C.V of 38.98% than LXBL with C.V of 62.69%.This shows that LXBL loans are still to be recovered and it has lower performance on interest recovery of loans than NIBL.

The trend of Loan Loss Ratio of LXBL and NIBL has been presented below:

Figure 35



4.1.5.14 Operating Income Analysis

Income refers to the financial return from one's business, labour or invested capital. The basic sources of income of a commercial banks are the interest earned from various heads of investment title i.e. loans and advances, Government securities, foreign exchange and gain made from foreign exchange fluctuation and other miscellaneous items.

The firm income usually refers to money received by an individual whether earned through work or unearned through dividend, interest "everything then must be assessed in money; for this enable men always to exchange their service and to make society possible" (ARISTOTLE, 384-322 B.C.) Although the term is complex, varying in meaning, however, income is an important indicator of financial performance of banks. So, it will be relevant to analyze the sources of income. Both the sample banks income is presented in the following table:

Operating Income (in percentage)
Table 37

Fiscal Year	Interest Earned		Commission and Discount Earned		Foreign Exchange Fluctuation		Other Income		Total %	
	LXBL	NIBL	LXBL	NIBL	LXBL	NIBL	LXBL	NIBL	LXBL	NIBL
2002/03	84.28	77	7.21	6.05	7.67	12.4	0.83	4.55	100	100
2003/04	87.08	77.2	7.93	6.11	4.27	12.65	0.72	4.04	100	100
2004/05	90.89	73.63	4.78	8.21	2.45	13.2	1.88	4.96	100	100
2005/06	90.31	76.86	4.25	7.26	2.67	13.4	2.77	2.48	100	100
2006/07	90.09	78.06	2.9	8.49	4	11	3.01	2.45	100	100
Mean	88.53	80.11	5.41	7.57	4.21	14.3	1.84	3.7		
S.D	2.5	1.4	1.88	0.87	1.87	1.14	0.95	1.05		
C.V	2.82	1.75	34.75	11.49	44.42	7.97	51.63	28.38		

In this study interest earned includes the interest income from loan and advance, overdraft, investment on government securities, investment on debenture, money and short call and inter-bank loans. This ratio of bank reflects the operational efficiency. So, higher the ratio indicates higher efficiency and vice-versa. This ratio of LXBL is in increasing trend for first three years and then in decreasing trend for last two years. Similarly this ratio of NIBL is almost constant for first two years and then in increasing trend for last three years.

The mean ratio of LXBL is higher than that of NIBL (i.e. 88.53% and 80.11% respectively) But in case of consistency NIBL has more consistency than LXBL with C.V of 1.75% and 2.82% respectively which shows that NIBL bank has better operational efficiency or higher risk than that of LXBL.

4.1.5.15 Commission and Discount Earned

This reserve is to be the second income of commercial bank. This ratio reflects the extent of services provided to the customers. In this study commission and discount earned includes the commission and discount received form letter of credit, collection fees, letter of guarantee, remittance fees, and other fee and commission.

The above table shows that this ratio of LXBL has ranged between the highest of 7.93% in (2003/04) to the lowest of 2.9% in (2006/07). Similarly, this ratio of NIBL has ranged between the highest of 8.49% in (2006/07) to the lowest of 6.05% in (2002/03). The mean ratio of NIBL is higher than that of LXBL (i.e 7.57% and 5.41% respectively) and also NIBL has more consistency than LXBL with C.V of 11.49% and 34.75% respectively.

4.1.5.16 Foreign Exchange Earning

Both the banks are authorized by Nepal Rastra Bank to deal in foreign exchange. Income is made by dealing in foreign exchange and appears are to be changed in foreign exchange rate. It includes not only gain on sale of foreign currency but also gain from the revaluation of our currency.

The above table shows that this ratio of LXBL has ranged between the highest of 7.67% in (2002/03) to the lowest of 2.45% in (2004/05). Similarly this ratio of NIBL has ranged between the highest of 13.4% in (2005/06) to the lowest of 11% in (2006/07). The mean ratio of NIBL is higher than that of LXBL (i.e 14.3% and 4.21% respectively). Also NIBL has more consistency than LXBL with C.V of 7.97% and 44.42% respectively. Which shows that NIBL is able to make more income from foreign exchange than LXBL bank.

4.1.5.17 Other Income

Other income in this study refers to other operating incomes except than the previous discussed in this section or in other words, the other income is the non-operating income form sale of investment and assets, non-banking assets, subsidy from Nepal Rastra Bank, fixed assets written back and others.

The above table shows that other income has a very nominal contribution out of the total income incase of both the sample banks. This ratio of LXBL has ranged between 0.72% in (2003/04) to 3.01% in (2006/07). Similarly, this ratio of NIBL has ranged between 2.45% in (2006/07) to 4.96% in (2004/05). The mean ratio of NIBL is higher than that of LXBL (i.e 3.7% and 1.84%) respectively. Also NIBL has more consistency than LXBL with C.V of 28.38% and 51.63% respectively.

This operating income analysis shows that interest earning has the highest contribution in case of both the banks. It shows that NIBL is comparatively better than LXBL in earning income.

4.1.5.18 Operating Expenses Analysis

Commercial banks have various heads under which expenses are made. But the income statement of the bank shows only major heading and other sub-heading are grouped with in other major heading for easiness in the preparation, deposits, loan and advances, staff cost, office operating expenses, provision expenses, provision for staff bonus, general loans which is against loss, provision for income tax, provision for staff gratuity and exchange equalization trend. Office expensed include sundries as credit card expenses, written of expenses, annual general meeting expenses, board meeting fee and expenses fee and commission paid, contribution and donation, advertisement, insurance, audit fees professional services, depreciation, supplies and stationery.

All these operating and non-operating expenses of both the banks have classified into only four heading again for easing the calculation procedures.

Operating Expenses (in percentage)
Table 38

Fiscal Year	Interest Expenses		Staff Expenses		Office Overhead Expenses		Provision for Bonus		Total %	
	LXBL	NIBL	LXBL	NIBL	LXBL	NIBL	LXBL	NIBL	LXBL	NIBL
2002/03	38.7	50.13	27.72	16.24	33.36	28.62	0.22	5.01	100	100
2003/04	52.84	55.18	16.06	15.18	29.88	25.29	1.22	4.35	100	100
2004/05	65.87	52.8	16.65	14.44	15.43	27.24	2.05	5.52	100	100
2005/06	72.89	60.13	14.4	14.78	10.77	18.91	1.94	6.18	100	100
2006/07	74.31	63.14	12.93	13.39	10.23	16.81	2.53	6.66	100	100
Mean	60.92	56.28	17.55	14.81	19.93	23.37	1.59	5.54		
S.D	13.46	4.75	5.25	0.93	9.77	4.67	0.81	0.82		
C.V	22.09	8.44	29.91	6.28	49.02	19.98	50.94	14.8		

The above table shows that LXBL is paying comparatively more interest than NIBL (mean 60.92% and 56.28%) and it has less consistency than NIBL (C.V of 8.44% and 22.09%) which indicates that it is using more outsiders' fund. In this study interest paid denotes the interest paid on deposits, borrowing fees, loan and advances.

4.1.5.19 Staff Expenses

Here staff expenses refer to the total of salaries and allowances expenses, bank's contribution on provident fund and training and other personal expenses. This title of operating expenses plays a significant role for both the banks. The mean ratio of expenses made under the heading of LXBL is slightly more (i.e 17.55%) than that of NIBL (i.e 14.81%) and it has less consistency than NIBL with C.V of 29.91% and 6.28% respectively.

4.1.5.20 Office Overhead Expenses

This heading includes cost of expenses incurred in office operation. The above table shows that this heading has covered second major position in the total expenses in both the banks. This ratio of LXBL is in decreasing trend. It has ranged between the highest of 33.36% in (2002/03) to 10.23% in (2006/07). Similarly in case of NIBL it has ranged between the highest of 28.62% in (2002/03) to 16.81% in (2006/07). The mean ratio of NIBL is higher than that of LXBL (i.e 23.37% and 19.93%) respectively. Also NIBL has more consistency than LXBL with C.V of 4.67% and 9.77% respectively which shows that NIBL is paying more in office overhead expenses than LXBL.

The ratio during the study period is following a fluctuating trend incase of both the banks.

4.1.5.21 Provision for Bonus

It is an extra dividend paid to the shareholders in the banks as an incentive or to the employee as an incentive for their efficient services. Bonus is distributed form profit and it helps to uplift moral of employees as well as shareholders.

The mean percentage of bonus distributed by NIBL is higher than LXBL bank (i.e 5.54% and 1.59% respectively) and it has high consistency than LXBL bank with C.V of 14.8% and 50.94% respectively.

However, higher bonus payment reduces the degree of dividend payment to the shareholders because both are distributed from profit. So this controversial issue and relationship between bonus and dividend is conflicting.

Comparatively, LXBL bank has higher interest and commission expenses and staff expenses whereas NIBL has higher office operating expenses and bonus expenses. Both the banks can achieve better performance either by increasing operating income or by decreasing operating expenses.

4.2 Trend Analysis and Projection for next five years

Trend analysis is also one of the statistical tool used for the study forecasting. Various methods are used for trend analysis out of which least square method is one of the popular method used in this study.

Trend Analysis very effectively, informs various personnel, directly or indirectly, related to JVBs. For shareholders of the banks, it informs about the expected future returns, which helps them to decide whether to stick in the present investment or to search for the alternative investment opportunities. For professional bankers, it indicates the future achievement of the bank. For depositors, it provides degree of safety in the form of financial credit worthiness of the bank in future. For the borrowers, it assures about the financial capability of the bank to furnish their loans and advances in future provided that the present trend will continue. Last but not the least, for academicians; they can relate their theoretical growth rate factor with the practical financial results of the selected JVBs in different trends.

In this section, the researcher analyzed the trends of the six basic financial indicators, i.e. Net Profit, Loan and Advances, Total Deposit, Net Interest Earned, Dividend per Share and Earning per Share.

Since for any bank these indicators are very crucial financial variables with which we can relate the financial performance, these indicators have been chosen. The trend of previous five-year period and the expected future results for the period of five years have been calculated and analyzed which will be helpful to the various parties concerned with the bank. Lastly, the summary of the comparative financial trends of all the two selected banks have been presented in such a manner, so as the readers know which of the banks is expected to perform better in the coming year.

The projections are based on the following assumptions:

a. The main assumption is that other things will remain unchanged.
b. The forecast will be true only when the limitation of least sqare method is carried out.
c. The banks will running present position.
d. The economy will remain in the present stage.
e. Nepal Rastra Bank will not change its guidelines to commercial banks.

4.2.1 Trend Analysis of Net Profit

The following table No. 39 shows the trend values of ten years form Mid July 2003 to 2012 of LXBL and NIBL (details in appendix II)

Trend Values of Net Profit of LXBL and NIBL (2003-2012)

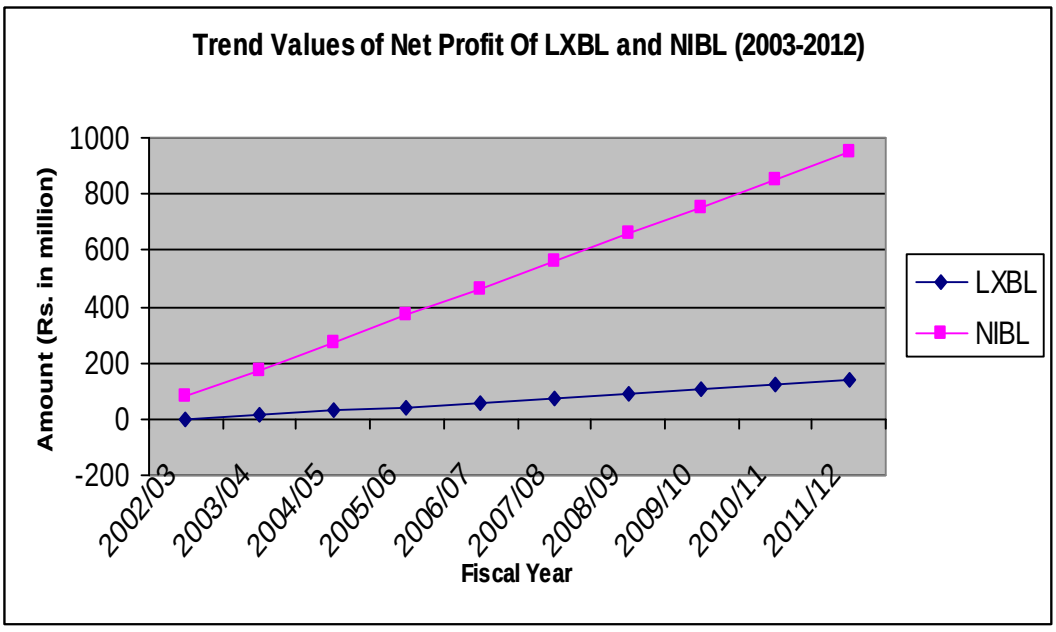
Table No.39
(Rs.in million)

Year	Trend Values LXBL	Trend Values NIBL
2003	-3.02	77.32
2004	12.38	174.02
2005	27.78	270.72
2006	43.18	367.42
2007	58.58	464.12
2008	73.98	560.82
2009	89.38	657.52
2010	104.78	754.22
2011	120.18	850.92
2012	135.58	947.62

From the above mentioned comparative table of net profit, it is clear that net profit of both banks are in increasing trend there things remaining the same, the net profit of LXBL in mid – July 2012 will be the highest Rs. 135.58 million. In case of NIBL other things remaining same, the net profit will be Rs. 947.62 million.

The net profit in volume is greater in NIBL due to its average profit per year being greater. So, it can be concluded that, if this trend continues, LXBL will soon surpass NIBL in providing net profit. The success to achieve this highly competitive growth rate can be attributed to its aggressiveness in advancing credits to various sectors by diversifying its business to various parts of the country. Hence, we can draw a conclusion that LXBL seems to have failed to utilize its funds to earn handsome amount of profit in comparison to NIBL. The above given trend values of table No. 39 have been fitted in the trend lines given below.

Figure No. 36



4.2.2 Trend Analysis of Loan and Advances

Here the trend values of loan and advances of LXBL and NIBL have been calculated for 5 years for Mid – July 2003 to 2007. The forcast for next 5 years till 2012 has been done.

The following table no. 40 shows the trend values of 10 years from mid-July 2003 to 2012 of LXBL and NIBL (details in appendix III)

Trend values of Loan and Advances of LXBL and NIBL (2003-2012)

Table No. 40

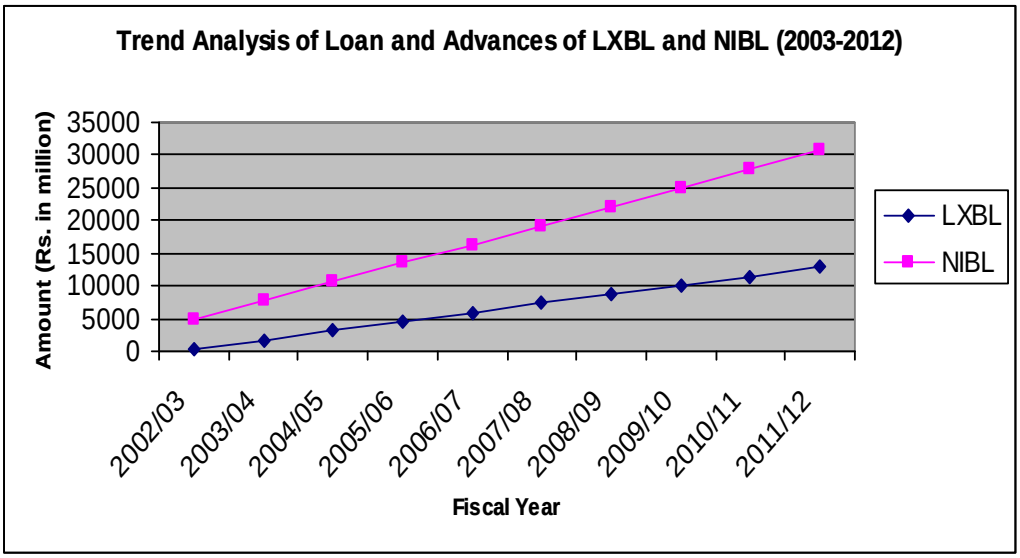
(Rs. in million)

Years	Trend values LXBL	Trend values NIBL
2003	398.37	7302.12
2004	1779.12	8682.87
2005	3159.87	10063.62
2006	4540.62	11444.37
2007	5921.37	12825.12
2008	7302.12	19220.6
2009	8682.87	22088.07
2010	10063.62	24955.54
2011	11444.37	27823.01
2012	12825.12	30690.48

The above comparative table No. 40 makes clear that the loan and advances of both banks LXBL and NIBL are in increasing trend. Other things remaining the same, the loan and advances of LXBL in mid – July 2012 will be Rs. 12825.12 million, which is the highest amount during the period of study. Similarly, the same of NIBL will be Rs. 30690.48 million.

From the above trend analysis, it is clear that NIBL's utilization of deposit in terms of loan and advances is comparatively better than that of NIBL. This proves that NIBL bank is very aggressive in mobilizing its collected deposit to earn a huge return. But this does not guarantee the quality return on loans as the evaluation of credit worthiness of the customer is the prime factor to make any good credit decision, with the easily realizable collateral. There is a need of similar growth in deposit position as well to keep up with the growth rate in loans and advances. The above calculated trend values of loan and advances of LXBL and NIBL are fitted in the trend lines, which is given in the next page.

Figure No.37



4.2.3 Total Deposit Trend

The researcher now starts the trend analysis by analyzing the total deposit trend of LXBL and NIBL (details in appendix IV)

Trend values of total deposit of LXBL and NIBL (2003-2012)

Table No. 41
(Rs. in million)

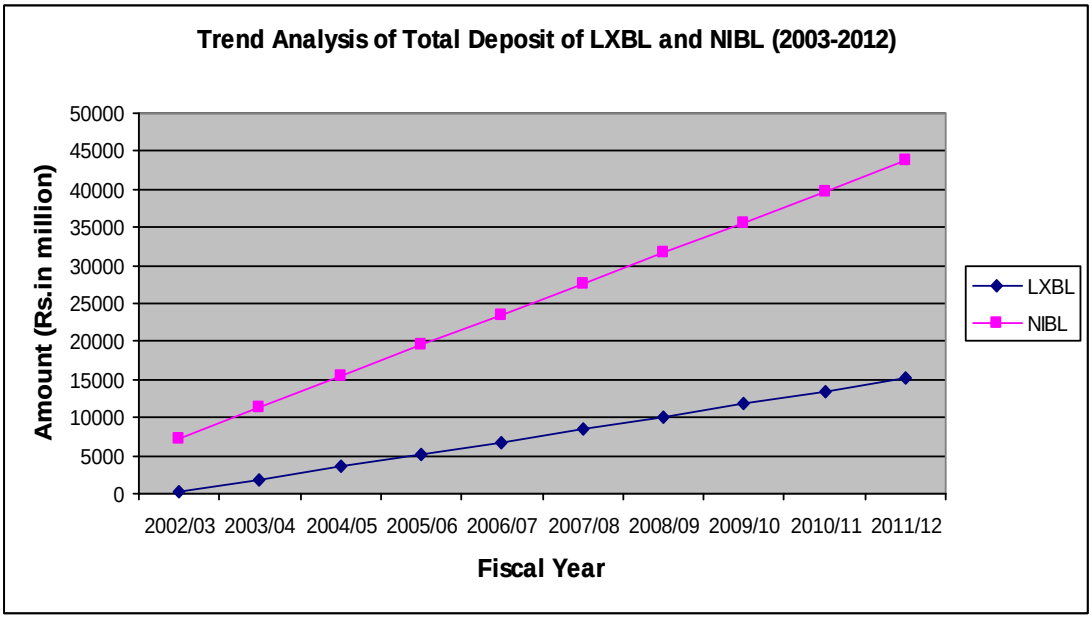
Years	Trend Values LXBL	Trend Values NIBL
2003	176.77	7316.68
2004	1836.76	11370.16
2005	3496.75	15423.64
2006	5156.74	19477.12
2007	6816.73	23530.6
2008	8476.72	27584.08
2009	10136.71	31637.56
2010	11796.7	35691.04
2011	13456.69	39744.52
2012	15116.68	43798

The above comparative table no. 41 shows that LXBL and NIBL total deposit has been in increasing trend. Other things remaining the same, the total deposit in mid- July 2003 will be Rs.15116.68 million, which is the highest amount during the study period of LXBL. Similarly, the same of NIBL will be Rs. 43798 million.

From the above trend analysis, it is clear that NIBL's collection of deposit in terms of total deposit is better than that of LXBL during trend forcasting period.

The above calculated trend values of total deposit of LXBL and NIBL are fitted in the trend lines, which is given below:

Figure No.38



4.2.4 Net Interest Earned Trend

Here the trend values of Net Interest of LXBL and NIBL has been calculated for 5 years for mid – July 2003-2007. The forecast for next 5 years till 2012 of LXBL and NIBL has also been done.(details in appendix V)
Trend values of Net Interest Earned of LXBL and NIBL (2003-2012)

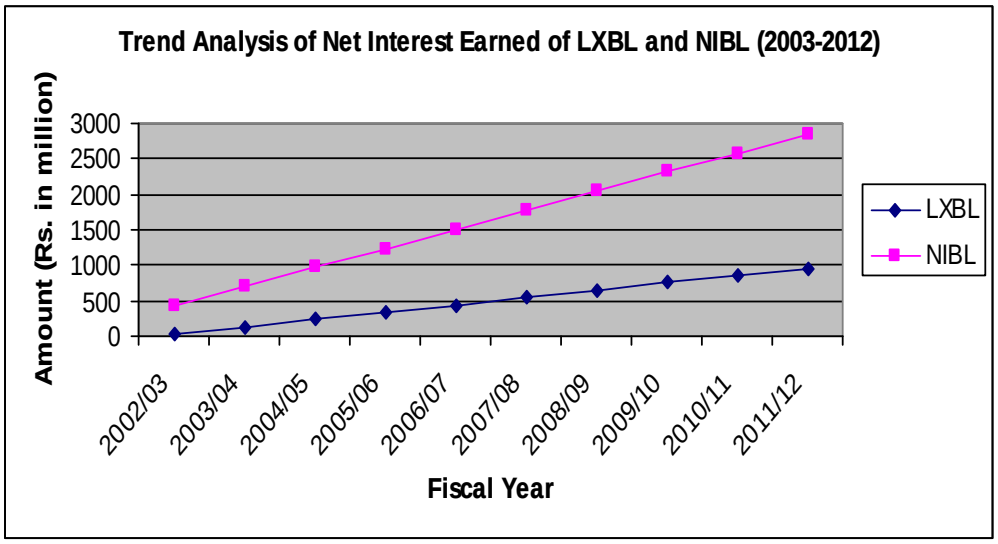
Table No. 42
(Rs. in million)

Years	Trend Values LXBL	Trend Values NIBL
2003	28.22	428.63
2004	131.88	697.86
2005	235.54	967.09
2006	339.2	1236.32
2007	442.86	1505.55
2008	546.52	1774.78
2009	650.18	2044.01
2010	753.84	2313.24
2011	857.5	2582.47
2012	961.16	2851.7

The above comparative table no. 42 shows that LXBL and NIBL net interest earned has been in increasing trend. Other things remaining the same, the net interest earned of LXBL in mid-July 2012 will be Rs. 961.16 million, which is the highest amount during the study period. Similarly, the same of NIBL will be Rs. 2851.7 million. From the above trend analysis, it is clear that NIBL has comparatively better net interest earning power than LXBL, which indicate that NIBL has been utilizing resources better than that of LXBL.

The above calculated trend values of net interest earned of LXBL and NIBL are fitted in the trend lines which are given below:

Figure No. 39



4.2.5 Earning Per Share Trend

Here, the trend values of earning per share of LXBL and NIBL have been calculated for 5 years mid- July 2003 to 2007. The forecast for next 5 years till 2012 has also been done.

The following table no. 43 shows that trend values of 10 years from mid – July 2003 to 2012 of LXBL and NIBL (details in appendix VI)

Table No. 43
(In Rs.)

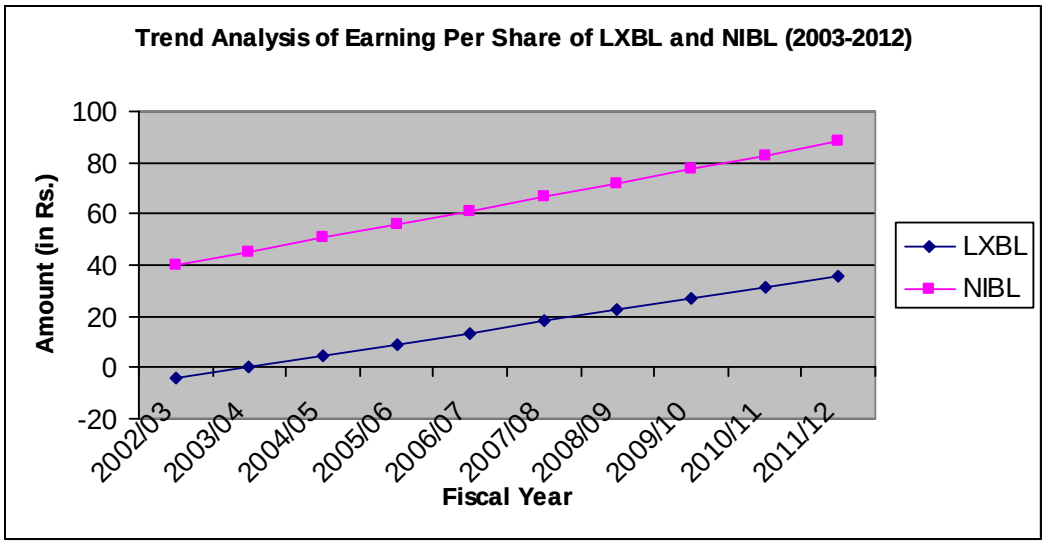
Years	Trend Values LXBL	Trend Values NIBL
2003	-4.34	39.8
2004	0.14	45.17
2005	4.62	50.54
2006	9.1	55.91
2007	13.58	61.28
2008	18.06	66.65
2009	22.54	72.02
2010	27.02	77.39
2011	31.5	82.76
2012	35.98	88.13

We will now analyze the earning per share trend of LXBL and NIBL banks. The above table and calculation in appendix X shows that both banks earning per share has been in increasing trend. Other things remaining the same earning per share in mid – July 2012 will be Rs. 35.98 which is the highest amount during study period of LXBL. Other things remaining the same NIBL's earning per share in mid – July 2012 will be Rs. 88.13 which is the highest amount during the study period.

From the above table, it can be concluded that there is a positive growth in earning per share of both the banks. EPS depends on many factors like bonus shares, dividend, retained earnings etc. Therefore, the policy of the banks may effect the EPS largely.

The above calculated trend values of earning per share of LXBL and NIBL are fitted in the trend lines shown below:

Figure No. 40



4.2.6 Dividend Per Share Trend

Here, the trend values of dividend per share of LXBL and NIBL have been calculated for 5 years for mid – July 2003 to 2007. The forecast for next 5 years till 2012 has also been done.

The following table no. 44 shows that trend values of 10 years from mid – July 2003 to 2012 of LXBL and NIBL (details in appendix VII)

Trend values of Dividend Per Share of LXBL and NIBL (2003-2012)

Table No. 44
(In Rs)

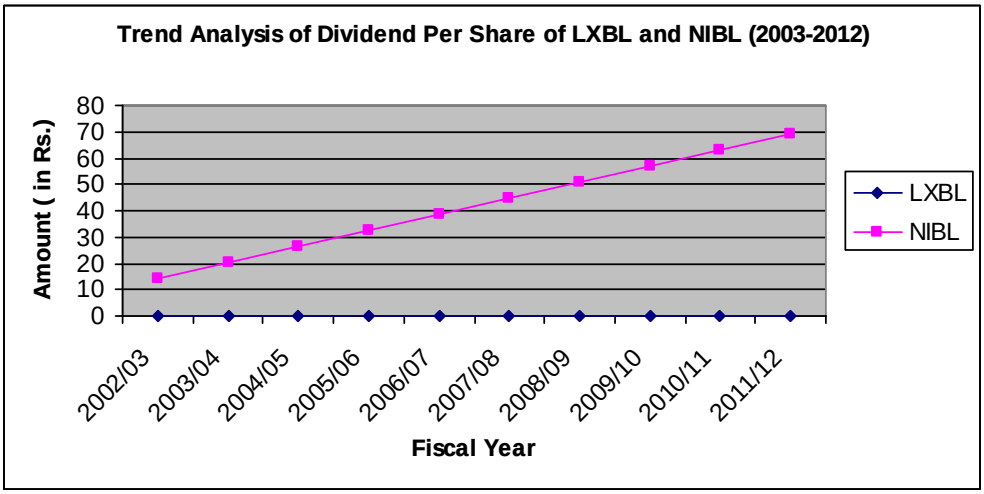
Years	Trend Values LXBL	Trend Values NIBL
2003	0	14.49
2004	0	20.54
2005	0	26.59
2006	0	32.64
2007	0	38.69
2008	0	44.74
2009	0	50.79
2010	0	56.84
2011	0	62.89
2012	0	68.94

The above table shows that dividend per share of LXBL has been nil whereas NIBL's dividend per share has been in increasing trend. Other things remaining the same, dividend per share in mid- July 2012 will be Rs. 68.94. This is the highest amount during study period of NIBL.

From the above trend analysis, it is clear that NIBL is comparatively better than LXBL. Most corporations seek to maintain a target dividend per share. However, dividend increase with a lag after earning rise. When dividend has been increased, strenuous effects are made to maintain them of the new level.

The above calculated trend values of dividend per share of LXBL and NIBL are fitted in the trend lines, which is shown in next page.

Figure No. 41



With the completion of trend analysis, the researcher comes to the end of analytical section in this study. In this chapter, we dealt with ratio analysis, income and expenditure analysis, gross spread analysis, tabular and graphical analysis and trend analysis. Now the hidden implications of the figures portrayed in this chapter have to be interpreted, in terms of their findings. The results shown by these analysis have to be highlighted and the recommendations have to be made in order to make this thesis more effective. Therefore, the following conclusion chapter covers highlighting about the findings based on the analysis and recommendations based on findings.

4.3 Coeffcient of Correlation Analysis

Correlation analysis is the analysis, which reflects that the variables of the two different data are related or we can say that correlation is the analysis of relation between more than one variable. In other words, correlation is a statistical tool measures the relationship between/among variables, it shows the degree and direction of such relationship. In this analysis we examine that the data are mutually dependent or not. "When the relation is of quantitative nature, the appropriate statistical tools for discovering and measuring the relationship and expressing it in a belief formula is known as correlation." (Gupta, 1997/1998)

The relation between the data may be either positive or negative. It can be determined by different ways such as graphical representation, formula method etc. When both variables are moving upwards or downwards in the same proportion, it is said to be the condition of positive correlation and if the condition is vice-versa then the condition is said to be negative correlation. The main purpose of this study is to find out the correlation between selected ratios with each other. The correlation coefficient is denoted by the symbol 'r'. To calculate correlation between variables, we use the following formula.

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

4.3.1 Coefficient of Correlation between Total Deposit and Loans & Advances

Table No.45
Correlation between Total Deposit and Loan & Advances

Banks	Coefficient of correlation (r)	Coefficient of determination (r^2)	Probable Error (P.Er)	6. P. Er
LXBL	0.9972	0.9944	0.0017	0.0102
NIBL	0.994	0.988	0.0036	0.0217

(Sources: Appendix VIII)

Table 45 shows the degree of relationship between total deposit and loan and advance, the independent variable(x) (i.e. Total Deposit) and the dependent variable(y) (i.e.Loan and Advances). The purpose of computing the coefficient of correlation is to observe to what extent and in which direction the loan and advances is associated with total deposit. In other words, to what degree loan and advances (y) is affected by a unit charge in total deposit (x). In case of LXBL, the coefficient of correlation is 0.9972, which is more than 0.5 and the coefficient of correlation is significant. In other words, the total deposit is significantly correlated to the loan and advances of LXBL, in the study period of F.Y. 2002/03 to 2006/07. In case of NIBL, the coefficient of correlation is 0.994, which is more than 0.5 and the coefficient of correlation is significant. In other words, the total deposit is significantly correlated to the loan and advances of NIBL, in the study period of F.Y. 2002/03 to 2006/07.

The coefficient of determination (r^2) of LXBL and NIBL is 0.9944 and 0.988 respectively, which indicates that 99.44% and 98.8% variation in the dependent variable (loan and advances) of LXBL and NIBL have been explained by the independent variable (deposit). In the study of probable error, the value of r^2 of LXBL and NIBL are greater than the 6 P.Er., which shows the significant relationship between deposit and loan and advances.

From the above details analysis, we can draw a conclusion that in both banks, there is positive relationship between deposit and loan and advances, the relationship is significant and the value of r^2 shows high percent in the dependent variable has been explained by the independent variable. This indicates that LXBL and NIBL are successful to mobilize their deposits in proper way as loan and advances.

4.3.2 Coefficient of Correlation between Total Deposit and Total Investment

Table No. 46
Correlation between Total Deposit and Total Investment

Banks	Coefficient of correlation (r)	Coefficient of determination (r^2)	Probable Error (P.Er)	6. P. Er
LXBL	0.9603	0.9223	0.0234	0.1406
NIBL	0.9670	0.9352	0.0195	0.117

(Sources: Appendix IX)

The above analysis shows the degree of relationship between total deposit and total investment. The independent variable i.e. total deposit (x) and the dependent variable i.e total investment (y). The purpose of computing the coefficient of correlation is to observe to what extent and in which direction the total investment (y) is affected by a unit charge in total deposits (x). In case of LXBL, the coefficient of correlation is 0.9603 and in case of NIBL, the coefficient of correlation is 0.9670, which is more than 0.5 and the coefficient of correlation is significant. In other words, the total deposit is significantly correlated to the total investment, in the study period of F.Y. 2002/03 to 2006/07.

The coefficient of determination (r^2) of LXBL is 0.9223 which indicates that 92.23% of the variation in the dependent variable (total investment) has been explained by the independent variable (deposit). Moreover, by considering the probable errors, the value of r^2 is greater than 6 P. Er. so we can say that there is signigicant relationship between deposits and total investment. Similarly, the coefficient of determination (r^2) of NIBL is 0.9352, which indicates that 93.52% variation in the dependent variable. The value of r^2 is greater than the 6 P.Er., which shows the significant relationship between total deposit and total investment.

4.3.3 Coefficient of Correlation between Total Assets and Net Profit After Tax

Table No. 47
Correlation between Total Assets and Net Profit After Tax

Banks	Coefficient of correlation (r)	Coefficient of determination (r^2)	Probable Error (P.Er)	6. P. Er
LXBL	0.8777	0.7703	0.0693	0.4158
NIBL	0.9905	0.981	0.0057	0.0342

(Sources: Appendix X)

The above analysis shows that the degree of relationship between total assets and net profit after tax. The independent variable i.e. total assets (x) and the dependent variable i.e. net profit after tax (y). The purpose of computing the coefficient of correlation is to observe to what extent and in which direction the net profit after tax is associated with total assets. In other words to what degree net profit after tax (y) is affected by a unit charge in total assets (x).

The table shows the value of correlation coefficient between total assets and net profit is 0.8777 in case of LXBL. It shows the positive relationship between assets and net profit. By considering coefficient of determination, the value of r^2 is 0.7703, which indicates that 77.03% of the variation in the dependent variable has been explained by the independent variable. By considering probable error, the value of r^2 is greater than 6 P.Er. which shows the value of r is significant i.e. there is significant relationship between assets and net profit. In case of NIBL, he table shows the value of correlation coefficient between total assets and net profit is 0.9905 the value of r^2 is 0.981, which indicates 98.1% variation in the dependent variable is greater than 6 P.Er. which shows the value of r is significant.

From the above analysis, we found that both bank has positive relationship between total assets and net profit after tax. We found both banks has been mobilizing the total assets in profitable sectors.

4.4 Main findings of the study:

On the basis of the comprehensive analysis of the data of LXBL and NIBL, the study has following findings:

1. Liquidity Ratio

The liquidity position of LXBL and NIBL reveals that the current ratio of both banks is below the normal standard 2:1 which indicate unsatisfactory liquidity position. In other words from the working capital point of view both the sample banks are following an aggressive working capital policy. The Cash and Bank balance to deposit ratio, Cash and Bank balance to current deposit ratio, Cash and Bank balance to current assets ratio and Loan and Advance to current assets ratio of LXBL is higher than that of NIBL as per the mean ratio. Analysis to liquidity ratio indicates better liquidity position of the LXBL bank. Although liquidity position of LXBL and NIBL are lower, they are still able to meet their current obligation.

2. Leverage or Capital Structure

Analysis of leverage or capital structure ratios shows that the capital structure of both the banks is highly leveraged. The long- term debt to net worth ratio of NIBL is high leveraged than LXBL. Unbalance capital structure is the common situation in all commercial banks. These banks are using excessive debt capital. This proves that these banks are extremely leveraged. Total debt to equity ratio, total debt to total assets ratio, net fixed assets to net worth ratio and long term debt to capital employed ratio of NIBL is higher than that of LXBL. So, LXBL has relatively lower leverage.

3. Capital Adequacy

Capital adequacy ratio calculated for these banks stood below the prescribed adequacy ratio by NRB to provide cushion to the depositors to absorb unexpected losses that can be incurred in the bank. Comparatively NIBL's position is better than that of LXBL.

4. Management of Assets

Analysis of activity or turnover ratio indicated that both the banks have been able to utilize or manage the resources of assets satisfactorily. Comparatively, loan and advance to total deposit ratio of LXBL is higher than that of NIBL and loan and advance to saving deposit and fixed deposit ratio of NIBL is higher than that of LXBL. This implies that LXBL is

more efficiently utilizing the outsider funds in extending credit for profit generation and also it indicates that NIBL is utilizing its assets on profit generation activities.
Hence, it can be concluded that both the banks have been skillfully utilizing the assets especially performing assets to total assets ratio of both the banks are nearly equal in terms of mean ratio which indicates better efficiency.

5. Profitability

Profitability ratio indicates the degree of success in achieving desired profit by the companies. According to the study both the banks under the study have been able to earn positive profit but not to the satisfactory level. Among the various profitability ratios, return on net worth ratio, return on capital employed ratio, return on total assets, return on total deposit ratio and interest earned to total assets ratio of NIBL are greater than that of LXBL. These ratios show that NIBL is more successful in generating profit than LXBL with inconsistency on those ratios. It concludes that NIBL has efficiently operated its long term fund, deposit and assets to generate more profits.

6. Other Ratios

From the analysis of other financial ratios, of LXBL and NIBL, it is clear that:

i. Interest coverage ratio, earning per share, dividend per share, dividend payout ratio, earning yield ratio, dividend yield ratio, earning spread ratio of NIBL is greater and consistent than that of LXBL except interest earned to loan, discount and overdraft. However interest coverage ratio of both banks is not that satisfactory over the study period, which may ultimately threaten the solvency of both the sample banks. EPS can only show theoretically how much earning belongs to common shareholders and cannot reveal how much is to be paid as dividend and how much to retain. DPS, like EPS cannot provide reliable tool in measuring the profitability; the reason being that dividend can be increased from retained earning without any change in the number of outstanding share. D/P ratio of NIBL reflects better scenario from the view point of shareholders which means that it has retained lower portion of profit in comparison to LXBL. Though it can be seem that a higher portion of earning has been retained on average. On the other side, price earning ratio of LXBL is on average higher with inconsistency than that of NIBL, which reflects that LXBL bank has better performance for growth in earning than that of NIBL.

ii. The higher the portion of interest earning assets with consistency of NIBL and lower portion of interest paying liabilities with inconsistency of LXBL banks shows that both the banks have more chance of interest generating income and surplus of interest income. The reason being that banks have been utilizing more efficiently its funds in interest generating assets.

iii. The ratio analysis reveals that loan loss provision of NIBL is higher than that of LXBL. Loan loss provides a cushion for banks in case of borrower's default in

payment of loans and ensures the continued solvency of the banks. So, it indicates that NIBL bank has more bad loans than LXBL bank.

iv. The major source of operating income of these banks is income from interest which is higher in LXBL where as income from other sources like commission and discount, foreign exchange and other income is higher in NIBL. Thus LXBL is earning high interest income by utilizing its deposit in income generating assets whereas NIBL is earning high income from other sources.

v. On the other side, LXBL is paying higher percentage of interest expenses for its deposits collected and staff expenses, whereas NIBL is spending higher on its provision for bonus and other office expenses.

7. Trend Analysis

Trend analysis of net profit, loan and advance, total deposit, net interest earned, dividend per share and earning per share for next five years of LXBL and NIBL reveals that:

a. Trend values of net profit of LXBL and NIBL are found increasing. In case of NIBL, the highest trend value in 2012 Rs. 947.62million. Whereas, the same of LXBL is Rs. 135.58 million.

b. Trend values of loan and advance of LXBL and NIBL have been found increasing. Incase of LXBL the highest trend values in 2012 is Rs.12825.12 million and the same of NIBL is Rs. 30690.48 million.

c. Trend values of total deposit of LXBL and NIBL are found increasing. Incase of NIBL, the highest trend value in 2012 Rs. 43798 million, whereas the same of LXBL is Rs. 15116.68 million.

d. Trend values of net interest earned of LXBL and NIBL are found increasing. Incase of NIBL, the highest trend value is in 2012 Rs. 2851.7 million, whereas the same of LXBL is Rs. 961.16 million.

e. Trend values of earning per share of LXBL and NIBL are found increasing. The highest trend value of NIBL is in 2012 i.e Rs. 88.13 and of LXBL is in 2012 i.e Rs. 35.98.

f. Trend values of Dividend per share of LXBL are found nil and that of NIBL is found increasing. The highest trend value of NIBL is in 2012 i.e Rs. 68.94.

Thus it can be concluded that NIBL has higher trend values in net profit, loan and advances, total deposits, interest earned, earning per share and dividend per share in comparison to LXBL.

8. Coefficient of Correlation Analysis

a. Correlation of Total Deposit and Loan and Advances of LXBL and NIBL

Correlation coefficient between total deposit and loan and advances of LXBL and NIBL shows positive relation of deposit and loan and advances. By application of the coefficient of determination, it indicates that 99.44% and 98.8% variation in the loan and advances has been explained by the deposit of LXBL and NIBL respectively.

b. Correlation of Total Deposit and Total Investment of LXBL and NIBL

Correlation coefficient between total deposit and total investment of LXBL and NIBL shows the positive relationship of total deposit and total investment. By considering the coefficient of determination, it indicates that 92.23% and 93.52% variation in the investment has been explained by the total deposit of LXBL and NIBL respectively.

c. Correlation of Total Assets and Net Profit after tax of LXBL and NIBL.

Correlation coefficient between total assets and net profit of LXBL and NIBL shows the positive relation of total assets and net profit. By application of the coefficient of determination, it indicates that 77.03% and 98.1% of the variation in the net profit has been explained by the total assets of LXBL and NIBL respectively.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The proceeding chapters have discussed and explored the facts and matters required for the various parts of the study. Analytical part, which is the heart of the study, made a comparative analysis of various aspects of the financial performance of commercial banks by using some important financial as well as statistical tool (least square method). Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist findings and give recommendation for further improvement. This would be meaningful to top management of the bank to initiate action and achieve the desired result. The objective of the researcher is not only to point out errors and mistakes but also to correct them and give directions for further growth and improvement.

5.1 Summary:

The development of any country largely depends upon its economic development. Capital formation is prerequisite in setting the overall pace of the economic development of a country. Well – organized financial system contributes a lot to the process of capital formation by converting scattered saving into meaningful capital investment in order to aid industry, trade, commerce and agriculture for the economic development of the nation. The financial institutions play dominant role in the process of economic development. Banks are indispensable elements in these systems. Commercial banks furnish necessary capital needed for trade and commerce for mobilizing the dispersed saving of the individuals and institutions. They provide the bank of the money supply as well as the primary means of facilitating the flow of credit. Apart from these, the basic objectives of commercial and JVBs in Nepal are:

- To welcome foreign investment in the country in the form of JVB's capital.
- To develop the capital market in the country, with the expectation, that these JVBs and commercial banks invest in the shares of other companies.
- To mobilize the idle resources for income generating purposes in a most effective way.
- To develop the Nepalese banking sector in order to make it proficient with the help of sharing technical foreign service agreement and ultimately expertise the Nepalese personnel to make them capable of operating these banks efficiently.

In this study regarding the financial performance of the two banks namely LXBL and NIBL has been conducted to highlight the hidden implications of figures portrayed in the balance sheet of the banks by interpreting their cause effect relationship with regard to their finance performance and to identify their contribution to the national economy. The objective of this study can also be identified as to come up with conclusion and findings of the financial performance of banks with regard to their key financial variables and based on the findings of the analysis; provide specific suggestion which will be beneficial for these banks as well as for the entire economy. The financial statement of five years 2002/03 to 2006/07 has been examined to fulfill the objective of the study.

5.2 Conclusions:

Nepal is a developing country. It needs to strengthen its economic structure to achieve rapid overall nation development. Commercial banks play vital role in the economic growth of any country. And in Nepal too, they have proved as prime mover of the economic development. The number of commercial bank branches operating in the country reached to 552 including 45 commercial bank branches and 102 other non commercial bank branched of ADB/N in mid July 2007. Of the total bank branches more than 46 percent bank branches are concentrated in the central region. By the end of mid July 2007, 254 branches are being operated in this region. In the eastern, western, mid-western and far-western region 119, 114, 36, 29 bank branches are in operation respectively. By the end of mid July 2007 the total number of development banks reached to 38 from 18 in the last year. Out of them, 7 are national level and rest district level development banks. The market seems over crowed and the banks are now finding a tough competition among themselves.

The increasing trend of the six important variable of the financial performance like net profit, loan and advance, total deposit, net interest earned, dividend per share and earning per share reflect the overall improving performance of LXBL and NIBL. Both banks indicate towards the better financial performance in coming years.

A bank's performance cannot be judge solely interns of the profit it has earned by maintaining adequate liquidity and safely, but it should also be evaluated on the ground of the contribution it has made to the community, to the government as well as national economy. It means the banks should come forwarded with the national priorities like more fund mobilization and service to maximum customers, developing skill and expertise in the local staffs, earning satisfactory profit and discharging their accountability towards the government. These banks should have a satisfactory profit goal, but not maximum one.

5.3 Recommendations

From the summary of the main findings of the analysis of financial performance of the selected banks following recommendations can be advanced to overcome the weakness, inefficiency and to improve present financial performance position of LXBL and NIBL.

- LXBL and NIBL must identify the quality of current assets and current liabilities to develop their own standard current ratio. The fluctuation of ratio must be stabilized after proper diagnosis of the quality, such as the prevailing interest rates, supply and demand position of loans, saving and investment situations. The proposed recommendation for these banks is to reduce its excessive non-performing assets (cash and bank balance) and invest on the income generating current assets (treasury bills) and strengthen the liquidity position.
- It is recommended for these banks excessive use of debt capital, enhance the rate of return on its shareholder's fund. High leverage cost of capital can be considered as positive development if the increased debt can be invested on income generating performing assets. Failure of advancing loans and advances and high cost bearing debt may lead ultimately to liquidity or bankruptcy. Therefore, it is recommended to increase

their equity capital by issue of shares, expending general reserves and retaining more earning. Furthermore, the LXBL and NIBL must identify the investment opportunity and assort the risk assets portfolio carefully before accepting higher volume of deposits, especially high cost bearing fixed deposit.

- It is recommended that LXBL should be more serious to improve the efficiency in utilizing its deposits loan and advance for generating the profit. But however, both the banks should keep up their efforts in utilizing their assets in performing assets at their best level.

- It has been found LXBL and NIBL have preferred to pay penalty for the non compliance with mandatory credit requirements rather than allocate priority sector credit. Therefore, they should change their attitude. They should also make efforts to contribute towards uplifting the economic conditional of the managerial derived sector.

- In order to mobilize the deposits in the productive sectors, they have to set according to the plans and the policy of the government. They should come forward to generate new service ideas to run income-generating programmes, to bring women development programmes, to take part in the priority sector development programmes and poverty alleviation programmes.

- Profit is essential for the survival and growth of banks. It should be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors and its customers. Comparatively NIBL's profit ability position is better than that of LXBL. Therefore, LXBL is recommended to utilize its risky assets and shareholders funds to gain highest profit margin. Likewise NIBL should also reduce its expenses for being more profitable. The profit earned by these banks constitute the second biggest portion of foreign exchange fluctuation gain, which is the temporary source of income and is non operational, so the banks should come forward to earn operational profits by increasing their operational efficiency.

- It is recommended to LXBL and NIBL the excessive loan loss provision to evaluate the financial of their borrowers more meticulously to identify the possibility if risk before granting the loans, which will help in decreasing the volume of downgraded loans and hence the provision will go down hence increasing the profit to be distributed. It seems that especially NIBL should be careful over the study period and mobilize their staff for quick collection from the debtors.

- LXBL and NIBL are using high cost bearing deposits therefore, they must try to decrease them and increase the non interest bearing deposits for the reduction of its operational expenses. Without planning and control mechanism, such types of expenses are increasing every year, so , it is recommended to control and reduce various cost in order to boost up profit. Moreover, cost control measures should also be effectively implemented in LXBL and NIBL. They should find out for loopholes in their operations and eliminate the unnecessary costs.

- The banks in Nepal should come forward to show what they can contribute for the development of this country. One of the present national priorities is small entrepreneurs' development. There JVBs are at present concentrating their business with big clients, like big groups in trade and industry, manufacturers, exporters of garments, carpets and pashminas industries and services related to tourism industries, subsidiaries of multinational companies operating in the country etc. Their depositors are mainly provident fund. Insurance companies, individual and foreign subsidiaries. Actually the banks should come forward to increase the number of clients, develop entrepreneurship, diversify their business with large number of small investors and come forward to meet the national objective of privatization by mobilizing more entrepreneurs.

They should promote and mobilize small investors by making a small investors development units, such can fund and advice the investors. The unit can create innovation upon them. The advice and innovation given will help the investors to tackle the operational problems. In this way, the whole nation will be benefited.

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