# CHAPTER I
# INTRODUCTION

## 1.1  General Background

A bank is an institution, which deals with money by accepting various types of deposits, disbursing loans and rendering other financial services. Banks render a wide range of services to the people of different walks of life. The term 'Bank' derives from Latin word 'Bancus' which refers to the bench on which the banker would keep the money and his records. Some persons trace its origin to the French word 'Banque' and the Italian word 'Banca' which means a bench for keeping, lending and exchanging of money or coins in the market place by moneylenders and moneychangers. The concept of banking has developed from the ancient history with the effort of ancient goldsmith who developed the practice of storing people's gold and valuables. The history reveals that it was the merchant banker who first evolved the system of banking by trading in commodities than money. Then they issued different documents as the near substitutes of money, called drafts or hundis in modern days.

As a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy and the bank of Venice, founded in 1157 A. D. Broadly speaking, a bank draws surplus idle money in the hand of public in the form of deposits and supplies that money in the form of loans to those who are in a position to utilize the same for some productive uses. With the passage of time, functions of banks have increased manifold. Since Banks are rendering a wide range of services to the people of different walks of life, they have become an essential part of modern society.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deal in the process of channeling the available resources in the needed sectors. It is the intermediary between the deficit and surplus of financial resources. All the economic activities are directly or

indirectly channeled through these banks. People keep their surplus money as deposits in the banks and hence banks can provide such funds to finance the industrial activities in the form of loans and advances.

In our country, the development of banking is relatively recent. However, some crude banking operations were in practice even in the ancient times. In Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Sankhadhar, a Sudra merchant of Kantipur in 879 A. D or 880 A.D. after having paid all the outstanding debts in the country. The establishment of the 'Tejarath Adda' during the year 1877 A.D. was fully subscribed by the government of Kathmandu Valley, which played a vital role in the banking system. Hence, the establishment of 'Tejarath Adda' was running smoothly for the following decades.

Modern commercial banks are identified with different names such as Business Banks, Retail Banks, Clearing Banks, Joint Venture Banks, Merchant Banks, and Development Banks etc. No matter what name we give to banks, they all perform the same basic function: i.e. they provide a link between lenders, those who have surplus money and do not wish to spend immediately, with borrowers, and those who do not have surplus money but wish to borrow for investment in productive purposes. Basically, by charging a rate of interest to borrowers slightly higher than they pay to lenders, the Banks make their profit. This is known as financial intermediation.

A Joint Venture is an association of two or more persons or parties, having mutual advantages in a specific operation, and is undertaken to make the operation highly remunerative with their collective efforts. Joint Venture Banks are partnering having alliance Banks with more than one nation. Joint Venture Banks (JVBs) are financial intermediaries, financing deficit units with money deposited to them by surplus units. The financial system of a banking industry in precise is a complex network embracing payments mechanisms and the borrowing and lending of funds. Though they have other important functions, the key role played by these banks in the system is to act as financial

intermediaries channeling funds from those with income in excess of their needs to those wishing to borrow.

To the greater extent, economic growth rate is based on the Banks and other financial institutions' performance in an economy. Many researches have revealed that Banks and economic condition are two wheels of the same chariot. Now-a-days, Banking activities are spreading all over the world.

Following are the list of commercial banks licensed by NRB for financial transaction as of 2066 B.S.

## Table No. 1
## List of Licensed Commercial Banks

| S. No. | Commercial Banks | Established Date (B.S.) | Operation Date (B.S.) | Head Office |
|---|---|---|---|---|
| 1. | Nepal Bank Ltd | 1994/07/30 | 1994/07/30 | Kathmandu |
| 2. | Rastriya Banijya Bank | 2022/10/10 | 2022/10/10 | " |
| 3. | Nabil Bank Ltd. | 2041/03/29 | 2041/03/29 | " |
| 4. | Nepal Investment Bank Ltd. | 2042/11/16 | 2042/11/16 | " |
| 5. | Standard Chartered Bank Nepal Ltd. | 2043/10/16 | 2043/10/16 | " |
| 6. | Himalayan Bank Ltd. | 2049/10/05 | 2049/10/05 | " |
| 7. | Nepal Bangladesh Bank Ltd. | 2050/02/23 | 2050/02/23 | " |
| 8. | Nepal SBI Bank Ltd. | 2050/03/23 | 2050/03/23 | " |
| 9. | Everest Bank Ltd. | 2051/07/01 | 2051/07/01 | " |
| 10. | Bank of Katmandu Ltd | 2051/11/28 | 2051/11/28 | " |
| 11. | Nepal Credit and Commerce Bank Ltd. | 2053/06/28 | 2053/06/28 | Siddhartha Nagar |
| 12. | Lumbini Bank Ltd. | 2055/04/01 | 2055/04/01 | Narayangarh |
| 13. | Nepal Industrial and Commercial Bank Ltd. | 2055/04/05 | 2055/04/05 | Biratnagar |
| 14. | Kumari Bank Ltd. | 2056/08/24 | 2056/12/21 | Kathmandu |
| 15. | Machhapuchchhre Bank Ltd. | 2057/06/01 | 2057/06/01 | Pokhara |

| 16. | Laxmi Bank Ltd. | 2058/06/11 | 2058/12/21 | Birgunj |
|---|---|---|---|---|
| 17. | Siddhartha Bank Ltd. | 2058/06/12 | 2058/09/09 | Kathmandu |
| 18. | Global Bank Ltd. | 2063/02/15 | 2063/08/30 | Birgunj |
| 19. | Citizens Bank International Ltd. | 2064/01/07 | 2064/01/07 | Kathmandu |
| 20. | Prime Bank Ltd. | 2064/06/07 | 2064/06/07 | Kathmandu |
| 21. | Sunrise Bank Ltd. | 2064/06/20 | 2064/06/25 | Kathmandu |
| 22. | Bank of Asia Nepal Ltd. | 2064/06/25 | 2064/06/25 | Kathmandu |
| 23 | Agricultural Development Bank Ltd. | 2024/10/07 | 2024/10/07 | Kathmandu |
| 24 | Development Credit Bank Ltd. | 2057/10/10 | 205710/10 | Kathmandu |
| 25 | NMB Bank Ltd. | 2053/08/11 | 2053/08/11 | Kathmandu |
| 26 | Kist Bank | 2059/10/29 | 2066/01/24 | Kathmandu |

(Source: www.nrb.org.np)

### 1.1.1  Joint Venture Banks

Joint Venture Banks are partnering having alliance Banks with more than one nation. Joint Venture Bank (JVBs) is financial intermediaries, financing deficit units with money deposited with them by surplus units. The financial system of a banking industry in precise is a complex network embracing payments mechanisms and the borrowing and lending of funds. Though they have other important functions, the key role played by these banks in the system is to act of their needs to those wishing to borrow.

One of the pre-requisite for the economic development process is the existing of a sound and healthy financial system, with high level of operating efficiency. The operating efficiency is mainly tested by their ability to mobilize savings and its deployment for production purposes. After the onset of economic liberalization process, there has been visible expansion in the financial system of Nepal. In this connection, Nepalese economy has witnessed several changes in the financial systems as a result of which several JVBs evolved in the last decade.

The overall market is relatively small and existing financial institutions are competing among themselves for their share in it. Few years back, Nepalese owned banks dominated the entire financial market of the country. However, JVBs have been making inroads, starting with Nepal Arab Bank Limited in 1985, Nepal Indosuez Bank in early 1986, Nepal Grindlays Bank in 1987 and Himalayan Bank Limited in 1992. In recent years, several new banks, viz. Nepal Bangladesh Bank, Nepal SBI Bank and Everest Bank Limited have entered the market, and there are six foreign joint venture banks operating in Nepal.

Joint Venture Banks were established to invite foreign investment and modern technologies to provide financial services to the target market in the kingdom of Nepal.

Government's policy of economic liberalization has opened its doors to private foreign investments in conjunction with Nepalese investors. This has intensified the competition, which has ultimately affected the profitability of the banks. Hence to become successful in the competition environment, all banks are moving ahead with to become the most preferred supplier of financial services to the target market and to become noted for their professionalism of its management and staff; to gain their position as the leading bank in the provision of their financial performance and to be able to provide stable and consistent return to their shareholders.

Therefore to meet the objectives of the JVBs, they are concentrating in their thrust areas, viz., Corporate Banking, Retail and Private Banking, Investment Banking, Credit Cards and Technology and at the same time they must maintain their asset quality by keeping intact the lending standards.

The role and importance of Joint Venture Banking system is extremely enhanced in the prevailing Nepalese economy due to the indispensable functions played by them, as a result of which, they have managed to perform in a significant way by gaining their position as the leading banks.

The management of these JVBs is mainly held by foreign banks, due to which they enjoy some of the competitive advantageous factors like electronic banking services, scientific credit evaluation, worldwide fund transfer systems, credit cards, tele-banking, automatic teller machines and fully computerized banking networks with highly skilled personnel, advanced management skills and international chain of branches.

Hence they have been able to perform satisfactory through service excellence and customer satisfaction, thereby earning a stable and consistent return to their shareholders.

Nevertheless, Nepalese banking system is still a crossroads; rapid changes to ways of working are needed in order to improve profitability via innovation, flexibility and efficiency. These banks in terms of commitment and financial resources must pay a high price, but they have no choice if they want to remain competitive and set an example towards economic prosperity.

This study titled **'Comparative SWOT Analysis of Nepalese Joint Venture Banks'** focuses at the financial intermediations of the Joint Venture Banks operating in Nepal.

### 1.1.2   Swot Analysis

**Strengths, Weaknesses, Opportunities and Threats (SWOT).[1]**

**SWOT** analysis is a tool for auditing an organization and its environment. It is the first stage of planning and helps marketers to focus on key issues. *SWOT* stands for **strengths, weaknesses, opportunities, and threats.** Strengths and weaknesses are **internal** factors. Opportunities and threats are **external** factors.

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[1] http://www.marketingteacher.com/Lessons/lesson_swot.htm

**In SWOT, strengths and weaknesses are internal factors. For example: strength could be:**

- ➢ Powerful Strategy.
- ➢ Location of your business.
- ➢ Strong financial Condition.
- ➢ Your specialist marketing expertise.
- ➢ A new, innovative product or services.
- ➢ Better Quality processes and procedures.

**A weakness could be:**

- ➢ Weak marketing skills.
- ➢ Undifferentiated products or services (i.e. in relation to your competitors).
- ➢ Weak financial position.
- ➢ Poor quality of goods or services.
- ➢ Small Market Share.
- ➢ Higher costs.

**In *SWOT*, opportunities and threats are external factors. For example: An opportunity could be:**

- ➢ A developing market such as the Internet.
- ➢ Mergers, joint ventures or strategic alliances.
- ➢ Moving into new market segments that offer improved profits.
- ➢ A new international market.
- ➢ A market vacated by an ineffective competitor.
- ➢ Serving additional customer groups.

**A threat could be:**

- ➢ Entry of new competitors.
- ➢ Shift in buyers need for product
- ➢ Price war with competitors.
- ➢ A competitor has a new, innovative product or service.
- ➢ Competitors have superior access to channels of distribution.
- ➢ Taxation is introduced on your product or service.

A word of caution, SWOT analysis can be very subjective. Two people rarely come-up with the same final version of SWOT. It simply looks at the negative factors first in order to turn them into positive factors. So use of SWOT should be as guide and not a prescription.

**Simple rules for successful SWOT analysis.**

- ➢ Be realistic about the strengths and weaknesses of your organization when conducting **SWOT** analysis.
- ➢ SWOT analysis should distinguish between where your organization is today, and where it could be in the future.
- ➢ SWOT should always be specific. Avoid grey areas.
- ➢ Always apply SWOT in relation to your competition i.e. better than or worse than your competition.
- ➢ Keep your SWOT short and simple. Avoid complexity and over analysis
- ➢ SWOT is subjective.

Once key issues have been identified with your SWOT analysis, they feed into marketing objectives. **SWOT** can be used in conjunction with other tools for audit and analysis, such as PEST analysis and Porter's Five-Force analysis. So SWOT is a very popular tool with marketing students because it is quick and easy to learn.

Here, the focus is on the Financial SWOT which analyses basically on the financial aspects.

## 1.2    Focus of The Study

This study **'Comparative SWOT Analysis of Nepalese Joint Venture Banks'** concentrates on the financial performance of Joint Venture Banks operating in Nepal. The performance of the Joint Venture Banks is evaluated along with the brief analysis of the state of the economy, which provides the opportunities as well as threats to the commercial banks. This study is basically focused on financial performance of the selected JVBs to know their impacts on the national economy as a whole. The financial performance of any bank can be evaluated on the basis of meeting of their objectives and fulfillment of the functions. Analyzing financial performance is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a bank's position and performance.

## 1.3    Statement of The Problem

Due to the economic recession in the nation, there has been lower investment in the agriculture, manufacturing, industrial and financial sectors which has caused lower growth of gross domestic product and hence foreign trade deficit is increasing day by day. JBVs are also facing this economic chaos and difficulties in extending their loan and advances towards the profitable sectors. Because of economic recession, only few entrepreneurs are able to survive and others, who are less competitive, are backing out from the industry. In this situation, banks invest their surplus funds in the non-risky portfolios like treasury bills, or government securities, which yield lower rate of returns in comparison to credit to be in safer side.

Slower pace of economy with absence of profitable investment opportunities forces people to save their surplus money in form of bank deposits. This results in higher growth of deposit volumes as compared to credits, which affects C/D ratios of banks adversely.

The economic slowdown of expansion is occurred mainly because of elasticity of credit supply. The elasticity of credit supply basically depends on the functioning of the central banking system. Central bank has issued directives to regulate the activities of commercial banks with the objective of safeguarding the public sector. Despite of

prevailing economic recession in the country, Joint Venture Banks operating in Nepal have managed to perform well in terms of their work efficiency and profitability. However, they are also facing problems in generating an adequate return on their investment and the role of banking sector has been further increased for the upliftment of the country's economy from the present condition. They must attempt to find the potential areas of profitable investment in order to get themselves and the nation away from this economic turmoil.

This study will support in identifying weak areas and determining strategies relating to these banks. The study analyzes not only the financial information of JBVs but also the cause of their **Strength** and **Weakness**. The **Opportunities** and **Threats** facing the Banking sector would be dealt and analyzed as well. This study will be of great importance to the parties concerned and hence the topic has been identified as the problem of the study. This study will cover all the financial aspects of the JVBs and will be highly instrumental in recognizing the potential areas of investment.

In order to appraise the financial performance of these banks the financial ratios are considered as the major tools. The term ratio refers to the numerical or quantitative relationship between two variables. Crucial ratios can be calculated from the balance sheet and profit & loss account. Important ratios like Capital structure ratio, debt equity ratio, liquidity ratio, efficiency ratio, interest coverage ratio and profitable ratios can be calculated from the balance sheet and profit & loss account which will be relevant in evaluating the overall financial performance and the position of the bank.

Besides financial ratios, comparative graphical presentations will also be used for the purpose of presenting the comparative results of the JVBs in an effective way. The main goal of this study is to identify the problems faced by these banks and to meet the objectives mentioned below.

## 1.4 Objectives of the Study

The general purpose of this study is to examine and assess the financial **Strength** and **weakness** of the selected Joint Venture Banks. The following objectives have been considered as prime objectives of this study.

- ➢ To analyze the growth, objectives, functions, and role of the selected commercial Joint Venture Banks.
- ➢ To evaluate the comparative financial strengths & weakness of three competitive JVBs.
- ➢ To provide package of suggestions and possible guidelines to improve the banking operation based on the findings of the study.

## 1.5 Introduction of Sampled Organizations under Study

### Standard Chartered Bank Nepal Limited (SCBNL)

Standard Chartered Bank Nepal Ltd. is the second Joint Venture Bank established in 1985 in association with Australia and New Zealand (ANZ) banking group. Initially, 50% of its share was owned by ANZ Grindlays Bank PLC, 35% by Nepal Bank Limited and 15% by the general public. The shares owned by ANZ Grindlays Bank Ltd., Australia were transferred to Standard Chartered Bank PLC United Kingdom on August 2000. Consequently, the name of the Bank was changed form Nepal Grindlays Bank Limited to Standard Chartered Bank Nepal limited effective from July 16, 2001.

The Bank places a great emphasis on being equipped with the best human resources so as to continue to be the leader of the Banking industry. In order to improve the skills and knowledge of the staffs, the Bank continues to provide development programs, including on the job training and job rotation. In its report, the Bank has stated that it has followed latest performance management technique to measure the staff effectiveness, which involves planning for, agreeing to, achieving & reviewing results for each job position

within stipulated time frames. This program links staff to the overall objectives of the Bank giving each employee a clear role to play in the strategic action plans of the organization. The Bank is also using part time employee to improve the service delivery standard especially during peak pressure periods.

The Bank has its own V-Sat international communication link which enables them to centralize data processing in Kathmandu and has greatly improved local and international communication. With the acquisition of the institution by SCB group, the Bank has spent considerable efforts to change the system platform, both software and technology infrastructure.

## Nabil Bank Limited (NABIL)

NABIL was established in 1984 as the first JVB in Nepal. Now it has grown large number of branches currently operating in Nepal. Initially, 50% of its share was owned by Dubai Bank Ltd., U.A.E. and 20% of the share by Nepalese Financial Institutions. Remaining Shares were undertaken by the general public of Nepal. The Shares owned by Dubai Bank Ltd. were transformed to Emirates Bank International Ltd. (EBIL), Dubai by virtue of its annexation with the latter. Later on, EBIL sold its entire 50% equity holding to National Bank Ltd., Bangladesh. National Bank Ltd. Bangladesh is managing the Bank in accordance with the technical services agreement signed between it and the Bank on June 1995. The Bank has changed its name from Nepal Arab Bank Limited to NABIL Bank Ltd. from 1st January 2002.

NABIL has continued to extend its network and has given emphasis for its own office premises. It has laid its commitment for the managerial and technical skill development programs, in house training and training at different institutes in India and the entrepreneurial development program for graduates. The Bank has laid greater emphasis in technology venturing into new areas of banking activities and also for the improvement of quality of manpower.

## Himalayan Bank Limited (HBL)

Himalayan Bank Limited was established in 1992 by the distinguished business personalities of Nepal in partnership with Habib Bank Limited, one of the largest commercial banks of Pakistan. Banks operations were commenced form January 1993. It is the first commercial bank of Nepal with maximum shareholding by Nepalese Private Sector. Besides commercial activities, the bank also offers industrial and merchant banking facilities. The bank at present has twenty three branches in Kathmandu valley and outside the valley. The bank is also operating a counter in the premise of the Royal Palace. The bank has a very aggressive plan of establishing more branches in different pats of the kingdom in near future. The bank's policy is to extend quality and personalized service to its customers as promptly as possible. The bank, as far as possible, offers tailor made facilities to its clients, based on the unique needs and requirements, to extend more efficient services to its customers. Himalayan Bank has been adopting innovative and latest banking technology. This has not only helped the bank to constantly improve its service level but has also kept it prepared for future adoption of new technology. HBL has listed on Nepal stock exchange in July 5, 1993. The share participation of the bank is 51% Nepalese Promoters, 14% employment provident fund, 15% general public and 20% Habib Bank of Pakistan.

## 1.6    Significance of the Study

Banking sector plays a vital role for the country's economic development and considered as a pre-requisite for the economy. It is source for economic development; it maintains economic confidence of various segments and extends credit to people. The banking sector has to take great responsibilities since the country is undergoing through a deteriorating economic situation.

A analytical comparative financial analysis of three JVBs namely NABIL (Nepal Arab Bank Limited), Standard Chartered Bank Nepal Limited (Nepal Grindlays Bank Limited) and Himalayan Bank Limited, will be of great importance for policy makers,

academicians, professional bankers, shareholders, management, stock brokers, depositors, prospective customers, investors and the general public. I believe that this study will be valuable primarily to the students of Finance, because they can relate their theoretical knowledge of finance to the practical results derived from this study.

The analysis of the financial performance will stress the strength and weakness of these banks and hence this study will be able to provide suggestive improvements for their operation. Furthermore, the comparative financial position of three JVBs will help the shareholders and general public to know the best performing bank in this banking environment.

## 1.7    Limitation of the Study

Basically, the study has been conducted as partial fulfillment of the requirement of the 'Master of Business Studies'. So this study has the following limitations:

- ➢ Among the various JVBs, the study is focused only on three JVBs namely, NABIL, SCBNL & HBL. NABIL and SCBNL being the first two banks to operate in Nepal are considered as 'established banks' and hence have been selected. Himalayan Bank Limited, though considered as the second-generation bank has also been able to expose as established bank since the performance of this bank is very much comparable and competitive with the established banks.

- ➢ This study covers the period of five years only.

- ➢ The study is based on secondary data and the findings will be based on the information provided by the banks.

- ➢ This study is prepared in a limited period of time for the partial fulfillment of MBS and cannot be considered as masterpiece.

## 1.8    Organization of the Study

The study has been organized in the following chapters in order to make it easy to understand.

The **first chapter** is an introductory chapter which contains background of the study, introduction of commercial banks, focus of the study, statement of the problems, objectives of the study, limitation of the study and organization of the study.

The **second chapter** is concerned with review of literature. This contains conceptual framework, review of legislative provision, review of research paper and published and unpublished master's thesis of T.U.

The **third chapter** is the most important part of the study. It deals with the research methodology, which is applied to collect the data and analyze them in this study. It contains introduction, research design, sources of data, population and sample, financial analysis and statistical analysis.

The **fourth chapter** is analyzing one, which deals with presentation and analysis of relevant data through definite courses of research methodology with financial and statistical analysis related to financial performances of JBVs. Major findings of the study have been presented at the end of this chapter.

The **fifth chapter** is the last part of the study, which provides summary and conclusion, suggestions and recommendations for improving the future performance of the sample banks. Finally, an extensive, bibliography and appendices are also presented at the end of the thesis work.

# CHAPTER II

# REVIEW OF LITERATURE

A literature review is an essential part of all studies. It is a way to discover what other researchers have covered and left in the area. A critical review of the literature helps the researcher to develop a thorough understanding and insight into previous research works that relates to the present study. It is also a way to avoid investigation problems that have already been definitely answered. Thus a literature review is the process of locating, obtaining, reading and evaluating the research literature in the area of the student's interest[2]. The primary purpose of literature review is to learn not to accumulate. It enables the researcher to know.

- ➢ What research has been done in the subject?
- ➢ What theories have been advanced?
- ➢ What are the approaches taken by the other researchers?
- ➢ What are the areas of agreement or disagreement?
- ➢ Whether there are gaps that can be filled through the proposed research?

In this chapter, the overall concept and view of 'Financial Performance' will be streamlined by making comprehensive review of relevant literature related to this study which would enable us to know the comparative strength and weakness of the chosen JBVs and the opportunities/ threats they possess in the dynamic environment. The review of literature is arranged in the following order:

i. Conceptual/Theoretical Review

ii. Review of related studies

iii. Research Gaps

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[1] Wolff Howard K. and P.R. Pant (2005), '*Social Science Research and Thesis writing*', Buddha Academic publishing and distributors, Kathmandu, Nepal, p. 29

## 2.1 Conceptual / Theoretical Review

## 2.1.1 Review from Books

Books relating to Finance

Finance is a broad field and there are various books written in this subject. The book by **M.Y. Khan and P.K. Jain**[3] is considered to be a useful book in the Financial Management. According to them, 'the finance function covers both acquisition of funds as well as their allocation, hence, apart from the issues of acquiring external funds, the main concern of financial management is the efficient and wise allocation of funds to various uses.' The three major financial decisions, according to Khan & Jain are:

⇒ The investment decision

⇒ The financing decision and

⇒ The dividend policy decision

The book on 'Managerial Finance' written by **Weston and Brigham**[4] stresses on Risk-Return trade off as one of the major financial functions. They believe that the maximization of the value of the firm can be achieved through maximization of returns in one hand and through minimization of the risk in the other. The relationship between the expected future state of the economy and the performance of individual firms enables a relationship to be set forth between the state of the economy and the returns from the investments in firms.

Likewise, **James C. Van Horne**[5] in his book 'Financial Management and Policy' describes about the new areas of finance. He emphasizes on two broad functions of finance, they are:

➢ Investment in assets and new products;

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[3] Khan M.Y.; Jain P.K. (1980), *'Financial Management', Tata McGraw-Hill Publishing Co. Ltd.,* New Delhi, p. 9

[4] Weston J.F., Besley S. & Brigham E.F. (1996), *'Essentials of Managerial Finance'*, Dryden Press, Hart court Brace College Publishers, p. 182

[5] Van Horne J.C. (1998), *'Financial Management and Policy'*, Prentice Hall of India Pvt. Ltd, New Delhi, p-3. 7

➢ Determining the best mix of financing and dividends in relation to a company's overall valuation.

According to him, 'Investment of funds in assets determines the size of the firm, its profits from the operations, its business risk and its liquidity. Obtaining the best mix of financing and dividends determine the firm's financial charges and its financial risk, it also impacts its valuation.' He further incorporates other core financial areas, such as:

- Creation of Value;
- Investment Decision;
- Financing Decision;
- Dividend Decision; and
- Financial Management.

The objectives of a company must be to **Create Value** for its shareholders. Market price of company's stock represents its value and this can be maximized by firm's optimum investment, financing and dividend decisions.

The **Capital Investment decision** is the allocation of the capital to investment proposals whose benefits are to be realized in the future. As the future benefits are not known with certainty, investment proposals necessarily involve risk. Consequently they should be evaluated in relation to their expected return and risk.

In the **Financing Decision**, the financial manager is concerned with determining the best financing mix of an optimum 'Capital Structure'. If a company can change its total valuation by varying its capital structure, an optimal financing mix would exist, in which market price per share could be maximized.

Another important decision of the firm, according to Van Horne is its **Dividend Policy**. The dividend decision includes the percentage of earnings paid to stockholders in cash dividends. The dividend-payout ratio determines the amount of earnings retained in the firm and must be evaluated in the light of the objective of maximizing shareholder's wealth.

The **Financial Management** involves the solution of the three major decisions. Together, they determine the value of a company to its shareholders. Van Horne believes that the

objective of any firm is to maximize its value, and therefore, the firm should strive for an optimal combination of the three inter-related decisions, solved jointly. The main thing is that the financial manager relates each decision to its effect on the valuation of the firm.

The book by **I.M. Pandey**[6] on 'Financial Management' defines financial management as that managerial activity which is concerned with the planning and controlling of the firm's financial resources. I.M. Pandey believes that among the most crucial decisions of the firm are those which relate to finance, and an understanding of the theory of financial management provides the conceptual and analytical insights to make the decisions skillfully. I.M. Pandey further identifies two kinds of finance functions:

- Routine and
- Managerial finance functions.

The **Routine Finance functions** do not require a great managerial ability to carry them out and they are chiefly clerical in nature. **Managerial Finance functions**, on the other hand are so called because they require skillful planning, control and execution of financial activities. According to him, there are four important managerial finance functions:

➢ Investment or long-term asset mix decision.
➢ Financing or Capital-mix decision.
➢ Dividend or Profit allocation decision.
➢ Liquidity or short-term asset-mix decision.

After reviewing these various books, Finance can be defined as the acquisition and investment of fund for the purpose of enhancing the value and wealth of an organization. The various areas under finance include investment, public finance, corporate finance and financial institutions. The basic function of finance is to manage the firm's balance sheet in the most efficient way. The balance sheet reflects how a firm acquired financing through debt and equity sources, and it reflects the disposition of acquired financing among the various asset accounts.

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[6] Pandey I.M. (1995), '*Financial Management*', Vikash Publishing House Pvt. Ltd., New Delhi, p. 3-5

The major financial functions required for managing the Bank's balance sheet are summarized below:

1. Analysis and Planning;
2. Financial Structure Management; &
3. Asset Management.

The first function, **financial analysis and planning**, is to understand the Bank's current financial condition and plan for its future financial requirement in different economic scenarios.

After analyzing the financial needs, the second function is to **manage the financial structure** of the Bank, which can be done by optimizing the use of debt and equity in the capital structure. While deciding about this optimum structure, a financial manager must concentrate in minimization of cost of funds in one hand, and maximization of value of the firm in the other. Moreover, financial structure management for a Banking sector includes, a typical treasury function, which is also called 'Funds Management.' This function contributes a significant portion in profits earned by Banks.

The final function is the **management of asset structure** of the Bank. Advances of credit and investment in certain portfolios constitute the major portion of the Bank's asset. The major financial function related to Assets Management is to decide for the least risky and most profitable alternatives of investments. This can be conducted by determining returns and risks associated with the loans and advances made by Bank.

All the above financial decisions or functions as mentioned by different writers are instrumental towards effective handling of financial management, which includes activities beginning form raising of funds to efficient and effective use of funds; no matter either it is a Banking or a non-Banking institution.

Books relating to Commercial Banks

There are various books written on commercial Banks. Some of them are reviewed for our purpose.

In his book named 'Success in Elements of Banking', **David Cox** stresses in three major functions to be performed by the commercial banks:

$\Rightarrow$ To accept and safeguard deposits of money from customers;

$\Rightarrow$ To permit money to be withdrawn or transferred from one account to another;

$\Rightarrow$ To lend the surplus of deposited money to suitable customers who wish to borrow.

Cox believes that the word- **money** is common to all the basic functions of the bank. Money, according to him, can be defined as anything, which is generally acceptable in the settlement of the debt and passes freely from hand to hand.

**Don Wright & Wally Valentine** in their book 'Business of Banking' consider commercial banks as those 'financial intermediaries' having the following significance:

$\Rightarrow$ They have access to large amounts of deposits and so have funds available when required by borrowers.

$\Rightarrow$ Commercial Banks can transform Maturities. Lenders of depositors often want fairly immediate access to their deposits. Borrowers often want to borrow for a long period of time. Commercial Banks use their skill to make long term loan to customers, keeping enough liquid assets on hand to meet the demands of depositors.

$\Rightarrow$ They minimize the risk of loss if the borrower does not repay the loan. They can do this because of their large reserves.

$\Rightarrow$ Commercial Banks have large scale of operations. They operate on a very large scale and so gain economies of scale.

**R.S. Sayers**, in his book 'Modern Banking' stresses in the economic importance of commercial Banks and highlights the function of 'creation of money' by banks. According to Sayers, "The special interest of economists in the activities of banks is due to the monetary nature of the deposit liabilities of the banks." There lies the community's interest in banks because by their operations, they can effect 'the monetary situation', in sense of the availability of the purchasing power. This can most readily be understood by reference to the ordinary lending business of the bank. When a bank makes an advance, by allowing a customer to overdraw his account, the bank in effect exchanges its own promise to pay immediately against the customer's promise to pay off the advance later on; the economic importance of this exchange is that the bank's promise to pay

immediately is absolutely effective purchasing power, which plays an instrumental role in increasing the total demand of the goods and services.

The book on 'Banking and Economic Development' by **Rondo Cameron** has expressed a wide variety of opinions on the effectiveness of Banking systems in promoting or facilitating economic development. Cameron indicated that where banking was left most free to develop in response to the demand for its services, it produced the best results. Restrictions on freedom of entry of commercial banks almost always reduce the quality and quantity of financial services available to the economy, and thus hinder or distort economic growth. Competition in banking, on the other hand, acts as a spur to the mobilization of idle financial resources and to their efficient utilization in commerce and industry.

The book on 'Money and Banking' written by **D.G. Luckett** highlights a typical problem faced by the commercial bank. He considers commercial bank as a sort of 'pumping station' on a pipeline through which money is flowing. Money flows into the bank when customers add to their deposits, when outstanding loans come due and are repaid, when the bonds held by the bank are matured, and so forth. Money is 'pumped out' of the bank when customers withdraw their deposits, when the banks new loans, when the bank invests its assets in government backed securities, and likewise. Clearly, money going out of the bank cannot be greater than the money coming in; moreover, if the bank is to realize its profit potential, the money moving out of the bank should not be less than the money coming in. Thus in very general terms, the problem faced by the bank is to 'recycle' all the money moving through it. This short-run adjustment problem faced by the bank can be solved through efficient servicing of customer needs, proper investment strategy and maintaining appropriate legal reserve requirements.

The book on 'Nepalese Banking System' written by **Madhav Prasad Aryal** highlights the following characteristics of the commercial banks operating in Nepal:
$\Rightarrow$ Commercial banks, having limited liability are established under the Company Act 2021 with the approval of the Nepal Rastra Bank.

⇒ Commercial banks are established with the objective of profit maximization and are managed by its shareholders.

⇒ Commercial banks, except performing primary functions of accepting deposits and lending, also deal in foreign currency exchange and trade finance activities.

⇒ Commercial banks in Nepal are established in government, semi-government, private and joint venture sectors.

⇒ Nepal Rastra Bank recommends, directs and controls the establishment, operations and dissolutions of all the commercial banks in Nepal.

The reviewing of all these above books has given us good insight knowledge about the theoretical aspects of the commercial banks. However, our economy is still facing unhealthy financial situation of the banking institution.

## 2.1.2 Review of Journals/Articles

After reviewing the books, certain useful journals on domestic market, banking, financial statement analysis and monetary credit situation of Nepal are studied.

When government decided to establish banks with joint ventures, two benefits were expected. First that competition would force domestic banks, such as Nepal Bank ltd. and Rastriya Banijya Bank to improve their services and efficiency, second that introduction of new banking procedures methods and technology would occur.

There has been substantial growth in the number of Joint Venture banks in Nepal since 1990s. The basic reason behind this is the government's deliberate policy of allowing foreign joint venture banks to operate in Nepal. Government's liberalization policy of allowing also encourages the traditionally run commercial banks to enhance their efficiency and competitiveness through modernization, mechanization, and computerization and prompt customer services by setting them to the exposure of the joint venture banks.[7]

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[7] Shrestha Dr. Manohar K. (1990), '*Commercial Banks, Comparative Performance Evaluation'*, (Karmachari Sanchaya Kosh Publication), Kosh Year 16, p. 22

The existence of foreign joint venture banks has presented an environment of healthy competition among the existing commercial banks. The main beneficiary of this is the Bank-client. The increased competition forces the existing banks to improve their quality and extend services by simplifying procedures and by training, motivating own staffs to respond to the new challenges.

The joint venture banks are in a better position than local commercial banks in profit making. In an average, no freight banks have suffered loss till now, but local banks owned negative profits.[8]

Despite the increase in number, the joint venture banks are concentrated in urban centers, especially in major cities, with all their headquarters in Kathmandu alone except that of Nepal Bank of Ceylon *(name changed to Nepal Credit and Commerce Bank ltd.)* which is based in Rupandehi. This trend has resulted in two-way effects on the operation of the government owned commercial banks in Nepal. First, the comparatively attractive interest rates and devices promptness of these private banks have drawn the public deposit to their side thereby reducing financial liabilities of the former. Second, as a result of reduction in the financial liabilities, the government-operated commercial banks have been forced to shut down some of their branches in the remote areas of the country. Nevertheless, a look at the activities of these JVBs provides a fill up in to the tremendous aid they provide to the national economy. They have been instrumental in mobilizing capital more effectively and to a large extend. Especially, they have been more helpful in founding the private sector.[9]

An article written by Radha Krishna Poudel on 'Banking: Challenges Ahead' focuses in the potential areas where banks should invest to fight the prevailing economic recession. Currently, growth in the profitability of JVBs has been mainly due to external factors such as foreign exchange rate but not to the growth in the real sector of the economy. Therefore, to sustain the current financial position in the long run, banks should enter

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[8] Pradhan K. (1991), '***Nepal Ma Banijya Banking- Upalabdhi Tatha Chunauti***', Kathmandu, p. 12

[9] Facts about Nepalese Economy (1998), '***Joint Venture Banks in Nepal***', Nepal society for applied economics, July 1998, p. 38

new areas by marketing their credit in important sub-sectors such as Hydro-electricity, tourism, irrigation etc.

Mr. Poudel further writes that "Saving collection is another factor which is necessary for banks to balance their operations and generate sufficient surplus in their cash-flows. In recent years, growth rate of bank deposits has declined comparatively. Mobilization of internal resources in the country demands that banks attract more financial resources from the public."

For our purpose, another useful article 'Financial Statement Analysis' published in Nepal Rastra Bank Samachar on 2053 by Narayan Pd. Poudel[10]is reviewed.

According to Mr. Poudel, Balance sheet, profit & loss a/c and the accompanying notes are the most useful aspects of the Bank. We need to understand the major characteristics of bank's balance sheet and profit & loss account. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets form a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items.

Interest received on loans/advances and investment and paid on deposit liabilities are the major components of profit & loss a/c. The other sources of income are fee, commission, discount and service charges.

The major balance sheet characteristics of commercial banks are shown in the following tabular form:

**Table-1**

**Characteristics of Balance Sheet**

| Characteristics | Significance | Risk | Return |
|---|---|---|---|
| -Few fixed assets | Low degree of operating leverage | Reduce | Reduce |
| -Substantial amount of short term liabilities (Deposits) | To be liquid | Increase | Increase |
| -Substantial amount of financial assets | High degree of operating leverage | Increase | Increase |

[10] Paudel Narayan Pd. (2053), *'Financial **Statement Analysis: An approach to Evaluate Bank's Performance'*, NRB Samachar (An annual Publication-2053), p. 13

A typical format of profit & loss a/c is given below:

**Table-2**

**Profit & Loss Account**

| | |
|---|---|
| Interest income | R |
| Interest expenses | C |
| Net-Interest income | R-C |
| Provision for loan loss | PLL |
| Net interest income after PLL | R-C-PLL |
| Non-interest income | F |
| Non-interest expenses | O |
| Net non-interest income | F-O |
| Net income before Tax | (R-C)-PLL+(F-O) |
| Income Tax | T |
| *Net Income after Tax* | (R-C)-PLL+(F-O)-T |

The users of the financial statements of a bank need relevant, reliable and comparable information which assists them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of bank's financial statements has been expressly laid down in the concerned act. Commercial Banking Act 1974 requires the audited balance sheet and profit & loss a/c to be published in the leading newspaper for the information of general public.

According to Poudel, the principal objectives of analyzing financial statements are to identify:

- Financial adaptability (liquidity);
- Financial performance (profitability); and
- Financial position of the bank (solvency).

Most of the users of financial statements are interested in assessing the banks overall performance, i.e. profitability which is affected by the following factors:

1. The structure of balance sheet and profit & loss a/c.

2. Operating efficiency and internal management system.

3. Managerial decisions taken by the top management regarding interest rate, exchange rate, lending policies etc.

4. Environmental changes (technology, government, competition, economy)

He has laid down an approach to evaluate the bank's overall performance through balancing between the risk and return components of the bank which is explicitly shown in the chart below:

## Table-3

## Bank's Overall Performance

| BANK'S OVERALL PERFORMANCE |
| --- |

ROE = ROA * EM = NET INCOME / AVERAGE EQUITY

ROA = PM * AU = NET INCOME / AVERAGE ASSETS

| EM | = AVERAGE ASSETS / AVERAGE EQUITY |
|---|---|
| PM | = NET INCOME / TOTAL INCOME |
| AU | = TOTAL INCOME / AVERAGE ASSETS |

Dr. Manohar K. Shrestha, in his work 'Commercial Banks' Comparative Performance Evaluation'[11] stresses on a proper risk management. He believes in the appropriate classification of loans under performing and non-performing category. In this context, he writes, "Adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear-out criterion is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six months need to be treated as unearned income." Regarding the risk management of the bank, Dr. Shrestha's other suggestions include:

⇒ Any customer having overdue loan of two years or more in his account should not be given other loan facilities.

⇒ Strong provisioning or reservations are required in restructuring portfolio relating to overdue loans.

⇒ All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorized as good, substandard or doubtful loans.

⇒ Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

## 2.1.3 Concept of Financial Analysis

Financial Analysis involves the use of various financial statements. The first is the balance sheet, which represents a snapshot of the firms' financial position at the

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[11] Shrestha Dr. Manohar K. (1990), '*Commercial Banks, Comparative Performance Evaluation*', (Karmachari Sanchaya Kosh Publication), Kosh Year 16, p. 38

movement in time and next is the income statement that depicts a summary of the firms' profitability over time.[12]

Analysis and interpretation of financial statements is an attempt to determine the financial performance of any organization so that a forecast may be made of the prospects for future earning, ability to pay interest, debt maturity and probability of a sound dividend policy.

In the words of Myers, "Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statement and a study of trends of these factors as shown in series of statement."[13]

Financial Statement Analysis involves a comparison of a firm's performance with that of other firms in the same line of business, which is often, identified by the firm's industry classification.[14]

The analysis of transaction determines the solvency of business and the major efficiency of operation as compared to similar concerns. The analysis reveals how far the dreams and ambitions of the tough management have been converted into reality during each financial year. The analysis being a technique of x-raying the financial position as well as progress of concern, it enables managers and investors to take the decisions that will affect the company's future. Hence, much information can be attained about various aspects of a business through the analysis, which other ways would have been buried in a maze of details.

<u>**Objectives of Financial Analysis:**</u>

From the concept of financial performance analysis, it has been proved that one can explore various facts related to the past performance of business and predict out the future potentials for achieving expected results. Various parties are involved in the business directly or indirectly. Therefore, objective of analysis also differs from one party

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[12] Van Horne J.C. & Wachowicz H.N. (1997), '*Fundamentals of Financial Management*', Prentice Hall of India P. Ltd., p. 126

[13] Myers J.C. (1961), '*Financial Statement Analysis*', Anglewood Cliffs, Prentice Hall of India Pvt. Ltd., p. 4

[14] Weston J.F., Besley S. & Brigham E.F. (1996), '*Essentials of Managerial Finance*', Dryden Press, Hart court Brace College Publishers, p. 7-8

to other. However, major objectives of the analysis, in broad sense, can be stated as follows.[15]

$\Rightarrow$ Assessment of past performance & current position

$\Rightarrow$ Assessment of potential & related risks.

Assessment of past performance & current position

Past performance is often good indicator of future performance. Therefore, an investor or creditor is interested in the past sales, expenses, net income, cash flow and return on investment. In addition, an analysis of current position will tell what assets the business owns and what liabilities must be paid. Besides, it will provide the information about various facts in relation to the business such as-

- Earning capacity or the profitability of the concern.
- Operational efficiency of the concern as a whole of its various departments.
- Long term and short term solvency of the business for the benefit of debenture holders and trade credit.
- Real meaning and significance of financial data.

Assessment of potential and related risk

The past and present information are useful only to the extent that has been bearing on future decisions. Investor judges the potential earning capacity of a company because that will affect the value of the investment or share and the amount of dividend the company will pay. The creditors judge the potential debt paying ability of the company. The potentials of the existing company are easier to predict than that of others. This means there is less risk associated with them. The risk of the investment or loan hinges on how easy it is to predict the future profitability and liquidity. Besides, managers of the business concern will get various information about the potentials, such as-

- Possibility of development in near future through forecast & budget allocation.
- Financial stability of the business concern.
- Reforms needed in the present policies and procedures that will help reduce weaknesses and strengthen performance.

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[15] Needles B.E. (1989), *'Financial Accounting'*, Houghton Mifflin Company, Boston, p. 78

## Major Steps in Financial Analysis:

The basis for financial analysis is financial information obtained from balance sheet and profit & loss a/c. The analysis of financial statements is completed in three major steps.[16]

a) The first steps involve the reorganization and rearrangement of the entire financial data as contained in the financial statements. This calls for regrouping them into few principle elements according to their resemblance and affinities. Thus, the balance sheet and income statement are completely recast and presented in the condensed form entirely different from their original shape.

b) The next step is the establishment of the significant relationship between the individual components of balance sheet and profit & loss a/c. This is done through the application of tools of financial analysis.

c) Ultimately, significance of result obtained by means of financial tools is evaluated. This requires establishment of standard against which actual be compared.

## Techniques of Financial Analysis:

To evaluate the financial condition and performance of a company, the financial analyst needs certain yardsticks. The yardstick frequently used is a ratio or index relating two pieces of financial data to each other. Analysis and interpretation of various financial data would give experienced and skilled analyst a better understanding of the financial condition and performance of the firm, than they will obtain from analysis of the financial data alone.[17]

The technique of analysis are employed to ascertain or measure the relationship among the financial statement items of a single set of statement and changes that have taken place in these items as reflected in successive financial statement. The fundamental of the analytical technique is to simplify or reduce the data under review to the understandable terms.

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[16] *I bid, p. 56*

[17] Van Horne J.C. (1998), *'Financial Management and Policy'*, Prentice Hall of India Pvt. Ltd, New Delhi, p. 691-692

Out of various techniques, selection of a technique or combination of the techniques can be used for the analysis depending on the purpose and availability of the materials demanded by the technique.

## a) Funds Flow Analysis

The statements of change in financial position prepared to determine only the sources and uses of fund between two dates of balance sheets is known as funds flow statements. It is prepared to uncover the information that financial statements fail to describe clearly. It spells out the sources from which funds were derived and uses to which these funds were put.

This statement is prepared to summarize the change in assets and liabilities resulting from financial and investment transactions during the period as well as those changes occurred due to change in owners' equity. It is also aimed to depict the way in which the firm used its financial resources during the period.

Method of preparing funds flow statement depends essentially upon the sense in which the term fund is used. There are three concepts of fund: Cash concept, Total resources concept and Working capital concept. According to cash concept, the word fund is synonymous with cash. Total resources concept represents the total assets and resources as fund. The term fund refers only to working capital on working capital concept.

However, the concept of fund as working capital has gained wide acceptance as source of fund while conducting funds flow analysis. Transaction that decreases working capital is treated as application. But any transaction that affects current liabilities or current assets without making any change in working capital is not taken as source or use.

The utility of this technique stems from the fact that it enables shareholders, creditors and other interested persons to evaluate the use of funds. It also enables them to determine how these uses were financed. In the light of information supplied by statement, the outsider can decide whether or not to invest in the enterprise. It enables finance manager to detect the imbalances in the use of funds and undertake remedial actions. It serves as control device to measure the deviation between actual use of fund and the estimated budget. Analysis can evaluate the financial pattern of the concern (what portion of growth was financed internally and what portion externally).

In spite of the great significance of funds flow analysis to various parties associated with the business, it is not free from drawbacks. Its shortcomings can be listed as:

- This is not full proof as it depends on conventional financial statements.
- It cannot introduce any new items, which causes changes in financial status of the business.
- It is not much relevant technique as study of change in cash position is more useful rather than fund position.
- It is historical in nature so cannot estimate source and application of fund in near future.
- It does not reflect the structural and policy changes.

**b) <u>Cash Flow Analysis</u>**

This statement is prepared to clearly know the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital. It summarizes the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash receipts from debtor against credit dates are recognized as the source of cash. Similarly, cash purchases and cash payments to suppliers for credit purpose is regarded as the use of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

This type of analysis is useful for short-run planning of the firm. The firm needs sufficient cash to pay debt maturing in near future, to pay interest and other expenses and to pay dividend to shareholders. The projection of cash flow for near future can be made to determine the availability of cash. This cash balance can be matched with firms' need for cash during the period and accordingly, arrangement can be made to meet the deficit or invest the surplus cash temporarily.

Though it is more confidential than funds flow analysis for the decision related to the near future, it is also free from drawbacks. Its drawbacks can be listed as:

- It is not perfect evident as it depends on conventional statements.
- It is historical in nature.

- It doesn't reflect structural and policy changes.


## c) <u>Trend Analysis</u>

This method is immensely helpful in making comparative analysis of financial statements of several years. This method of analysis involves the computation of percentage relationship that each statement item bears to the same item in the base year. Base year for the comparison may be earliest year, the latest year or any intervening year under the study. This exhibits the direction to which the concern is preceding.

Trend analysis reveals whether the current financial position of the company has improved over the past years or not. It shows which of the items have moved in a favorable direction and which of them in unfavorable direction. Though it is the important tool of analysis, it too is bound by limitations. They are:

- Trend for a single balance sheet or income statement is seldom very informative.
- It does not give accurate result if accounting principles followed by the accountants is not consistent over the period of study.
- Price level change adversely affects the comparison.
- Selected base year for some of the items in the statements may not be typical.


## d) <u>Ratio Analysis</u>

Ratio analysis is carried out to develop meaningful relationship between individual items or group of items usually shown in the periodical financial statements. An accounting ratio shows the relationship between the two interrelated figures. Ratios are guides or shortcuts that are useful in evaluating the financial position and operation of a company when the relationship between two figures in the balance sheet is established. Ratio may be expressed in the form of quotient, percentage or proportion.

Ratio analysis involves two types of comparisons for the useful interpretation of the financial statement. A ratio itself doesn't indicate the favorable or unfavorable position. Most commonly used standards to evaluate the ratios are:

- ⇒ Comparison of present ratio with past or expected future ratios.
- ⇒ Comparison of the ratio of the firm with other similar firms over the period of time or with industry average at the same point of time.

With the help of ratio, one can judge financial performance of a business concern over a period of time and against the industry average. The ratio helps the analyst to form the judgment whether the performance of the firm is good, questionable or poor. Management of the firm can take strategic decisions on the basis of position revealed by ratio. Investors can decide about the future of their investment. Creditors judge whether the firm is able to meet its obligations and whether the more lending would be beneficial for them or not.

Liquidity ratio measures the ability of the firm to meet its current obligations. Leverage ratio evaluates the long-term financial position of the firm. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. Finally, profitability ratios are calculated to measure the operating efficiency of the company. Though ratio analysis is powerful technique of financial analysis, it should be used with extreme care and considered judgment because it suffers from certain drawbacks. The drawbacks of the ratio analysis are listed below:

- It is difficult to decide the proper basis of comparison.
- It calls interpretation to certain aspects of the business, which needs detailed investigation before arriving any financial conclusion.
- Unless there is a consistency in adoption of accounting methods, ratios may not prove of greater use in case of inter-firm comparison.
- The price level changes make the interpretation of ratios invalid.
- The ratios are generally calculated from past financial statements and thus, are no indicators of future.

## 2.2 Review of Related Studies

## 2.2.1 Review of policy documents

Central Bank is an important financial institution in every sovereign independent state in modern times. It is the apex body of Banking System. Of the various banks, most or the

supreme bank is the central Bank. The central bank plays an important role in the economic development of a country. This bank is established to develop banking through strategy on its own to issue the notes, to control the credit, to act as the bank of banks, in each country. Central Bank is the lender of the last resort. Having felt the need of development of banking sector and to help the government formulate monetary policies, Nepal Rastra Bank (NRB)-central Bank, was set up in 2013/1/14. Since then, it has been functioning as the government's bank and has contributed to the growth of financial sector. Commercial banks, including JVBs, established under the company Act 2021 may perform various functions aimed at ensuring the economic interests and convenience of the public, facilitating the supply of credit to agriculture, industry and commerce by making available the banking and financial services to the people as mentioned in the preamble of the 2031 Commercial Bank Act, and subject to Nepal Rastra Bank Act 2012, Foreign Exchange Regulation Act 2019 along with the current Nepalese law.

**NRB regulatory issues for operation of JVBs**

1. Banks are required to open two 'rural' branch for every 'urban' branch opened. The definition of 'rural' includes some very small communities. Essentially, this forces banks to operate in areas with limited profit potential.

2. Banks are required to lend certain percentage of their loan to 'Priority Sector' and 'Deprived Sector'. This is supposed to encourage the development of small business and rural industries. The investment in the rural branches can be counted towards the deprived sector target. Significant penalties are charged for failure to meet these targets.

3. The Nepal Rastra Bank is committed to reduce the number of expatriates in joint venture banks in order to create opportunities for local staffs.

4. The Nepalese Rupee is not freely convertible and the central bank must approve the repatriation of hard currency including dividends and the Technical service fees to be reimbursed to foreign holding companies.

5. While the JVBs are free to set their own interest rates on loans/deposits, they are required to publish a schedule of rates for various types of loan/deposits. There is no prime rate or base rate in Nepal at any bank.

6. The government has been actively encouraging the development of the banks. At present, there are 26 Commercial Banks. The increased number in these banks will lead to increased pressure on interest margins and deteriorating loan quality. Ultimately, there will have to be some attrition in the financial services industry.

**Company Act 2021**- (Amended to Company Act, 2053)

Commercial Banks including JVBs in Nepal can be established only as a company with limited liability under the 2021 Company Act on the recommendation of Nepal Rastra Bank. The provisions mentioned in the Act strictly regulate the commercial banks in all the aspects, starting from the incorporation to the winding up of the bank.

**Commercial Bank Act 2031** – (Amended to Commercial Bank Act, 2049)

▪ **Establishment of Bank**

1. A Bank shall be established under the Company Act with the recommendation of the NRB. For obtaining such recommendation, an application shall be filed, along with the particulars prescribed by the NRB. Only in case the Rastra Bank so recommends shall such bank be registered according to the Company Act for working under this Act.

2. The NRB may prescribe necessary conditions while recommending the establishment of a bank under sub-section (1), and it shall be the duty of the concerned bank to fulfill the conditions so prescribed.

3. The bank may determine the location of its head office with the approval of the NRB.

4. The banks shall be an autonomous corporate body with the perpetual succession. It may sue or be sued in its own name.

5. Subject to this Act and other current Nepal Law, the bank may acquire, use, and sell movable and immovable properties.

6. Any bank may open or shift the location of, or close branches depots or other offices with the approval of the NRB.

▪ **Establishment of Branches of Joint Venture Foreign Banks**

1. In case any foreign commercial bank desires to open a branch, representative office or liaison office in the Kingdom of Nepal, it may register such branch under the Company Act with the approval of NRB, and provisions of this Act shall apply to such foreign bank.

2. The NRB shall obtain the consent of Nepal Government before granting such approval under sub section 1.

3. While granting approval under sub section (1), the NRB may prescribe conditions according to the need, and the foreign bank shall comply with the conditions thus prescribed by the NRB.

**Nepal Rastra Bank Act 2012** – (Amended to NRB Act, 2049)

As per the provisions of the NRB Act, 2012, Rastra Bank may issue directives from time to time to commercial banks regarding banking, currency and credit. It shall be the duty of the commercial banks to comply with such directives.

## 2.2.2 Review of Thesis

In the process of reviewing the important and relevant materials for this study, some of the financial studies of JVBs conducted by the students of MBA/ MBS are reviewed. References of these studies have been very useful to complete this dissertation and it is believed that these studies have contributed significantly towards identifying the **Strength** and **Weakness** of the concerned JVBs.

The study conducted by Mr. Vikram Chandra Gurung entitled "A financial Study of Joint venture bank in Nepal- with reference to Nepal Grindlays Bank limited and Nepal Indosuez Bank Ltd." concludes that the liquidity position of NGBL is unsatisfactory which is below the standard and that can not meet the liabilities obligation. According To Mr. Gurung, Activity ratios of both the banks show that they are efficient in utilization of

their total assets. Profitability trend is increasing but yet to be satisfactory. The bank has been maintaining sound capital adequacy ratio as directed by the central bank (NRB)[18]

Mr. K.R. Joshi in his thesis "A study on financial performance of commercial banks" has concluded that the liquidity position of local commercial banks have been found relatively highly leveraged as compared to other joint venture banks. Loans and Advances have been the main form of the investment. Two thirds of the assets have been used for earning purpose. Profitability position of NABIL is stronger than that of other commercial banks.[19]

Another study entitled "A comparative financial statement analysis of HBL & NGBL" by Mr. Rajendra Lamshal has concluded that liquidity ratios of both the banks are fluctuating and are unsatisfactory. So the banks are suggested to keep the reasonable amount of liquidity in order to maintain their short-term solvency position. The capital adequacy position of HBL is not satisfactory. HBL is suggested to involve in social activities. Both the banks are advised to open their branches in the remote areas and offer cheaper banking services affordable to the general public.[20]

The study conducted by P. Dhungana entitled "A study of the Joint Venture Banks' Profitability" has revealed that interest income of NIBL was highest. NABIL's other operating income appeared higher than that compared to other commercial banks. NGBL has the highest EPS.[21]

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[18] Gurung Vikram Chandra (1995), *'A Financial Study of Joint Venture Banks in Nepal-A comparative study of Nepal Grindlays Bank Ltd. and Nepal Indosuez Bank Ltd.'*, An unpublished Masters Degree Dissertation, T.U., p. 115

[19] Joshi K.R. (1998), *'A study on Financial Pattern of Nepalese Commercial Banks-An unpublished Masters Degree Thesis'*, T.U., p. 98

[20] Lamshal Rajendra (1999), *'A comparative financial statement analysis of Himalayan Bank Ltd. and Nepal Grindlays Bank Ltd.'* –An unpublished Masters Degree Dissertation, T.U., p. 118

[21] Dhungana P. (1992), *'A Study of Joint Venture Banks Profitability'*, Unpublished Masters Degree Dissertation, T.U., p. 125

Mr. Bohora[22] has conducted a research on "Comparative study of the financial performance of NABIL & NIBL". The basic objectives of his study were to highlight the financial performance and role of JVBs in the liberalized Nepalese economy. His attempts of analyzing financial performance were concentrated in 'Ratio Analysis' and he derived the strength and weakness of two major JVBs by calculating important ratios. He had come out with some valuable suggestions to the JVBs which are outlined below:

⇒ JVBs need to make balance between disbursing of cash dividend and issuing of bonus shares.

⇒ They need to increase their equity base to maintain the capital adequacy.

⇒ JVBs need to increase operational profit by concentrating in consistent earnings rather than fluctuating earnings.

⇒ They need to maintain liquidity in the form of Cash Reserve Ratio (CRR) as per the regulation of NRB.

Mr. Shakya[23], in his study has introduced the hypothesis test in the process of evaluating the financial performance of the JVBs. He had set the null hypothesis as 'There is no significant difference in the mean values of each selected ratio of NABIL and NGBL'. By establishing the relationships between various Balance Sheet and Profit & Loss a/c figures, and calculating the correlation between them, he was successful in deriving a true financial position of the two JVBs. After analyzing various ratios, Mr. Shakya's main finding was that 'There is a significant difference between mean values of the selected ratios of NABIL and NGBL except in the cases of Fixed Deposits to Total Deposits Ratio, Loans & Advances to Total Deposits Ratio and Loans & Advances to Total Assets Ratio."

After testing the correlation between mean values and analyzing the various ratios, Mr. Shakya has come out with various recommendations which are summarized below:

1. To get out with the pressure of deposit collection, with the increase in competition, both the JVBs are suggested to:

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[22] Bohora Bhoj Raj (1992), *'A comparative study of the financial performance of NABIL and NIBL'*, Unpublished Masters Degree Thesis, T.U., Kirtipur, p. 116

[23] Shakya Dinesh Raj (1998), *'Financial Analysis of JVBs in Nepal; with the Reference to NABIL and NGBL'*- Unpublished Masters Degree Thesis, T.U., Kirtipur, p. 109-110

- Simplify present complicated and lengthy depositing process;
- Set a more convenient minimum balance requirement to open an account;
- Provide incentives to attract new fixed depositors

2. In spite of decrease in interest rates on loans and advances, NABIL's and NGBL's average 'Deposits Utilization Rates' are only 50.04% and 34.01% respectively. To overcome this situation, Mr. Shakya recommends:
   - Follow liberal lending policy;
   - Develop a special investment promotion unit for seeking new profitable investment opportunities and identifying promising small entrepreneurs lacking any contact and approach;
   - Grant mid-term loans for more deposits utilization.

3. They should open the new branches in non-representing urban areas for more deposit collection and the utilization of the same.

4. Mr. Shakya recommends NABIL to increase its Cash and Bank Balance as well as Money at Call (or Placement) for improving its liquidity position. Whereas NGBL is recommended to provide incentives for customers for fixed deposits.

5. With NABIL and NGBL both investing considerable percentage of their total deposits on the heading Investment (which includes investment on government securities, development bonds, shares of companies etc.). So, both the banks are recommended to alter their present investment portfolios by reducing investment on these securities and increasing their lending (Risk Assets).

6. NABIL's all three capital adequacy ratios, according to Mr. Shakya, are in declining trend, hence it is recommended to increase its shareholder's fund for maintaining proper capital adequacy position. NGBL, however, with its favorable capital adequacy position, is recommended to maintain the same.

7. NABIL's profitability ratios are in fluctuating trend as compared to that of NGBL's. Hence, it is recommended to utilize its Risk Assets and Shareholders' Fund more efficiently for generating more profit margins.

8. Both the banks are recommended by Mr. Shakya to sponsor the socially motivated programs in order to maintain good public image in the country.

Finally, Mr. Shakya, in line with government's objective of permitting the JVBs to operate in Nepal, recommends both the major JVBs to increase the foreign investment to enhance the economic development in the nation.

## 2.3 Research Gaps

Research Gap is the difference between previous works done and the present research work. Earlier works conducted by the superiors in the matching topic 'Comparative Analytical Performance of Commercial Banks' are very useful and appreciated by personnel in various related fields, including academicians, bankers, shareholders and the general public. Those dissertations, in a great extent have been successful in highlighting the **strengths** and **weaknesses** of the concerned JVBs. The suggestions and recommendations given by the preceding researchers to improve and strengthen the financial decisions have been really benefiting to the relevant banks.

However, all the previous works were basically focused in highlighting the financial performance of the related banks in the competitive environment. They have somehow, overlooked the bank's prominent role in the economy and failed to give the specific financial decisions which directly or indirectly influence the pace of economic development of the nation. Further, this **SWOT** analysis would not just reveal the comparative **strengths** and **weaknesses** but in addition would provide insights on **opportunities** for the relevant JVBs and **threats** facing those JVBs. Besides, there has been a long gap in the continuation of the same topic which would help us to know the very recent situation.

# CHAPTER III
# RESEARCH METHODOLOGY

Research methodology is a systematic way to solve the research problem. In other words, research methodology describes the methods and process applied in the entire aspect of the study. Research methodology refers to the various sequential steps (along with a rational of each steps) to be adopted by a researcher in studying a problem with certain objectives in view.[24] Thus the overall approach to the research is presented in this chapter. This chapter consists of research design, sample size and selection process, data collection procedure and data processing techniques and tools.

## 3.1    Research Design

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework for the project that stipulates what information is to be collected, from which sources and by what procedures. Thus a research design is a plan for the collection an analysis of data. For research there exits different types of research design like; Historical research, Descriptive research, Case study research, Field study research, Analytical research, True experimental research and so on. This study is mainly concerned with historical research. If applicable, sometimes descriptive and analytical approach may also be used. But generally, to analyze the comparative **SWOT** of the commercial JVBs, past historical data are used. The relevant and needed data have been collected from various publications of different commercial banks and Nepal Rastra Bank. The study is based on the wide range of variables and factors influencing financial decisions of the JVBs. Comparative data of JVBs are presented in such a way, so as to make the research actually informative to the readers.

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[24] Kothari, C.R., (1994), "*Research Methodology, Methods and Techniques*", Vikash Publication House Pvt. Ltd, New Delhi, p. 9

## 3.2  Population and Sample

The term "population" or universe for research means the universe of research study in which the research is based.[25] Since the research topic is about Comparative SWOT Analysis of Nepalese Commercial JVBs, all the Commercial Banks in Nepal are the member of population study. The population for the study basically comprises 26 commercial banks. Out of these, three JVBs, namely NABIL, SCBNL and HBL are selected as sample for the purpose of this study. The coherent reason for selecting these JVBs is that they account for the significant market share of the Banking Sector. The recommendations and suggestions derived from this study will be equally useful to the other JVBs operating in Nepal.

## 3.3  Sources of Data

For this study, mainly secondary data are used. These secondary data are collected mainly from official publication of the relevant JVBs.
- Annual Reports of Nepal Arab Bank Limited (NABIL)
- Annual Reports of Standard Chartered Bank Nepal Limited (SCBNL)
- Annual Reports of Himalayan Bank Limited (HBL)
- Previous related research and dissertations.
- Books, Magazines, Newspapers and Journals.
- Internet and Other sources.

Other than the above mentioned sources, the information collected through verbal communications with the staffs of related Banks has also been used in the research.

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[25] Wolf, Howard K. & Pant, P.R. (2000), "*Social Science Research & Thesis Writing*" second edition, Buddha Academic Enterprises Pvt. Ltd, Kathmandu, p. 75

## 3.4 Data Collection Techniques

The research consists of both primary and secondary data, basically the latter one. Since the nature of these two types of data is different, the data collection procedure also varies. To collect the secondary data, published materials are viewed in various spots. Books by different writers, unpublished thesis reports, journals, magazines, internet, and AGM reports of the relevant JVBs etc. are reviewed. To collect these secondary data, the researches visited NCC library, Central library, NRB library and library of Shankar Dev. On the other hand, the primary data are collected through questionnaire with the staffs of concerned JVBs.

## 3.5 Data Analysis Tools

In order to get the concrete results from this research, data are analyzed using different types of tools. As per topic requirements, emphasis is given on financial tools. In addition, statistical tools are also used where applicable. The methods used for the **Comparative SWOT Analysis of JVBs** are outlined below:

➢ **Financial Tools:**

The considerable assistance of Financial Ratios has been taken to measure the Strengths and Weaknesses of the JVBs. Further, Return on Assets and Cost of Funds are computed to analyze the Gross Spread of each JVB selected for this study.

➢ **Statistical Tools:**

In order to analyze the future trends of financial results of JVBs, Trend Analysis has been used as a part of statistical tools in this research.

### 3.5.1 Financial Tools

This study is related to financial SWOT Analysis. So, financial tools are more useful. They help to identify the financial Strengths & Weaknesses of the firm. In spite of

various financial tools available, the research has primarily stressed on Ratio Analysis assuming it to be the most suitable one.

A ratio is a number expressed in terms of other number and it expresses quantitative relation between any two variable.[26]

Moreover, it is used as a technique to quantify the relationship between two sets of financial data taken from either profit & loss a/c or balance sheet. It provides information relating to Strengths & Weaknesses of financial data in relation to others.[27]

Ratio can be calculated between any two items of financial statements. It means there may be as many ratios as there is the number of items. But under the ratio analysis technique, it is not practical to work out all the ratios. Hence only the required ratios have been worked out. The calculated ratios have been grouped into the following headings:

### 3.5.1.1 Profitability Ratios

The primary object of the JVBs operating in Nepal is the maximization of the profit. Profit is essential for their survival and future growth. The various profitability ratios, which reflect the operating efficiency of the Bank, have been analyzed comparatively for the three JVBs.

**a) Return on Total Assets**

The Return on Total Assets Ratio is calculated by dividing Net Profit by the Total Assets.

*Net Profit*

*Return on Total Assets =    -------------- x 100*

*Total Assets*

Return on Total Assets Ratio measures the profitability with respect to the total assets. In the present study, this ratio is examined to measure the profitability of all the financial resources invested in the Bank's Assets.

The higher 'Return on Assets' ratio reflects the efficiency of the bank in utilizing its overall resources. A higher ratio also indicates the lower volume of non-performing

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[26] C.R. Kothari, "*Quantitative Techniques*", Vikash Publishing House Pvt. Ltd. New Delhi, p-187
[27] Lawrence, J. Uithan, "*Principal of Managerial Finance*,", San Diego University, Haper anoing Publishers, 1988, p-275

assets employed by the bank. Non performing assets are very harmful for the bank, so they should try to reduce their proportion in the assets structure.

### b) Return on Total Deposits

The Return on Total Deposits Ratio is calculated by dividing Net Profit by the Total Deposits.

$$Return\ on\ Total\ Assets = \frac{Net\ Profit}{Total\ Deposits} \times 100$$

Deposits collected by the banks are one of the major sources of funds. These collected deposits have to be mobilized into loans and advances in an efficient way so as to maximize their return on deposits. The net profit to total deposit ratio enables to evaluate what extent the management has been successful to mobilize and utilize deposits in generating profit.

Higher return on deposit ratio signifies better utilization of deposits. Higher volumes of deposits employed by the bank means higher degree of leverage and hence the higher risk. Therefore, the adequate return on deposit should be earned to offset the risk borne by the bank.

### c) Return on Net Worth

The Return on Net worth Ratio is calculated by dividing Net Profit by the Total Shareholder's Fund.

$$Return\ on\ Total\ Assets = \frac{Net\ Profit}{Total\ Shareholder's\ Fund} \times 100$$

One of the many objectives of any firm is its shareholders' wealth maximization. Shareholders wealth can be maximized by earning an adequate return on the shareholder's fund. Return on Net worth ratio expresses the capacity of the banks to utilize its owner's fund. This ratio is important as it judges whether the firm has earned a satisfactory return for its equity-holders or not. It reveals how well the firm has deployed the resources of the owners to earn profit. So, higher the ratio, the more favorable it is for

the stockholders which represents the sound management and efficient mobilization of the owners' equity.

### d) Interest Earned on Total Assets

The interest earned to total assets ratio is calculated by dividing interest income by the total assets.

$$Interest\ earned\ on\ Total\ Assets = \frac{Interest\ Income}{Total\ Assets} \times 100$$

Interest income forms the major portion of the JVBs' total revenue. Banks earn interest from loans, advances and investments, hence higher proportion of Risk Assets and Investments in the Assets structure of the bank lead to higher Interest Earned to Total Assets Ratio.

The ratio measures the percentage of interest earned in relation to total assets of the banks. Thus, it signifies the mobilization of its assets in interest generating purposes. The ratio plays an important role in evaluating the JVBs efficiency in earning assets.

Higher ratio reflects the better efficiency in utilizing the resources in interest generating sectors and vice-versa.

### e) Return on Risk Assets

The Return on Risk Assets Ratio is calculated by dividing Net Profit by Risk Assets.

$$Return\ on\ Risk\ Assets = \frac{Net\ Profit}{Risk\ Assets} \times 100$$

Return on Risk Assets Ratio measures the percentage of net profit earned in relation to the volumes of loans and advances. The ratio shows the capacity of JVBs to mobilize risk assets in the income generating purposes. A higher ratio signifies that bank is able to disburse good loans in a higher proportion, whereas lower ratio indicates lower net profit resulting from advancing of downgraded loans.

## 3.5.1.2　Liquidity Ratios

It is very important for a firm to be able to meet its obligations as they become due. Liquidity ratios measure 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 obligations, due to the 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 funds will be unnecessarily tied up in the current assets. Therefore, it is necessary to strike a proper balance between liquidity and lack of liquidity.

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

Liquidity ratio measures the ability to meet the short-term obligations and reflects the short-term financial strength and solvency of the 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. The following ratios are evaluated under liquidity ratios-

### a)　Current Ratio

The Current Ratio is calculated by dividing Current Assets by Current Liabilities.

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities} \times 100$$

Current Assets include cash and those assets which can be converted into cash within a year, such as investments in the government securities, money at call, bills for collection, loans and advances and customer acceptances. Similarly, current liabilities include obligations maturing within a year, such as current, saving and short deposits, borrowings, accrued expenses, bills for collections and customer acceptances.

The current ratio is a measure of the bank's short term solvency. It indicates the availability of current assets (in percentage) to the current liabilities. A ratio greater than 100% means that the bank has more current assets than its current claims. As a conventional rule, a current ratio of 200% or more is considered satisfactory. The rule is based on the worst case scenario, even if the value of current assets becomes half, the bank will be able to meet its obligations. However, an arbitrary Current Ratio standard of 2:1 should not be blindly followed, because it only measures the quantity but not the quality of assets.

### b)  Cash & Bank Balance to Deposits Ratio

The Cash & Bank Balance to Deposits Ratio is calculated by dividing Cash & Bank Balance by Deposits (exc*l*. Fixed deposits)

$$\text{Cash \& Bank Balance to Deposits Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposits (excl. FDs)}} \times 100$$

A bank must ensure that it is liquid enough to face heavy deposit withdrawals, or in other words, it has to maintain adequate balances in the form of cash and bank balance in order to honor the large withdrawals by its customers.

This ratio indicates the ability of the banks to immediately fund the withdrawals of their current, savings, short and margin deposits. A high ratio represents the greater ability to cover their deposits (excluding fixed deposits) and vice versa and it is advantageous as it provides cushion or safety to the depositors. However, too high ratio is disadvantageous as funds will be tied up in unproductive assets, such as cash and bank balance.

### 3.5.1.3 Activity (Utilization) Ratios

The funds of creditors and owners of the bank, which are reflected under Liabilities side of the Balance Sheet, form the sources of Fund, whereas the loans and advances and investments, reflected under the Assets side of Balance Sheet are the Uses of Funds. These funds are invested by the banks in various assets to generate profit margins. The better the management of assets, the larger the amount of utilization of the available funds. Activity ratios are employed to evaluate the efficiency with which the bank manages and utilizes the funds.

Activity ratios indicate the degree of efficiency in Asset management; hence they are often referred as efficiency ratios. Some of the efficiency ratios are calculated to assess the JVB's efficiency in utilizing the available resources.

**a) Loans & Advances to Total Deposit (C/D) Ratio**

The Ratio is calculated by dividing total loans and advances by total deposits.

$$\textit{Loans \& Adv. to Total Deposit Ratio} = \frac{\textit{Total Loans \& Advances}}{\textit{Total Deposits}} \times 100$$

The core banking function is to mobilize the funds from the depositors to the borrowers. Banks make profit by lending or utilizing the deposited funds by charging a higher rate of interest to the borrowers than they pay to the depositors. Hence they are known to be efficient in utilizing the funds if they can advance a greater proportion of the deposited funds into Risk Assets.

Loans & Advances to Total Deposit or Total Credit to Total Deposit ratio measures the extent to which the banks are successful to mobilize the outsider's fund, i.e., total deposits in loans and advances for the purpose of profit generation.

### b) Performing Assets to Total Assets Ratio

Performing assets to total assets ratio is calculated by dividing performing assets by total assets.

$$Performing\ Assets\ to\ Total\ Assets\ Ratio = \frac{Performing\ Assets}{Total\ Assets} \times 100$$

Performing Assets include those assets which have been invested in loans & advances, bills purchased and discounted, investments and money at call. Higher ratio indicates the higher utilization of resources in relation to the total assets and yields a higher return for the banks.

Non-performing Assets are very harmful for the banks, so they should try to reduce their proportion in the asset structure.

### c) Performing Assets to Total Debit Ratio

The ratio is calculated by dividing performing assets by total debts.

$$Performing\ Assets\ to\ Total\ Debt\ Ratio = \frac{Performing\ Assets}{Total\ Debts} \times 100$$

Debtors of the bank are concerned towards the asset structure of the bank. Higher performing assets to debts ratio provide a cushion of safety for depositors. Higher investment in the non-performing assets decrease the rate of return on investments and the solvency of the banks will be in danger.

### d) Investments to Total Deposits Ratio

The ratio is calculated by dividing Investments by total deposits.

$$Investments\ to\ Total\ Deposits\ Ratio = \frac{Investments}{Total\ Deposits} \times 100$$

Investment function or funds management is gaining a widespread importance in the banking sector. Treasury of the bank is involved in investing the surplus fund with the bank in the income generating investments. Bank cannot utilize whole of its fund, raised

through deposits and borrowings, into loans and advances. In order to fill this gap between borrowing and lending, bank rather goes for investments such as treasury bills, government securities, development bonds, FCY overseas placements and interbank lendings.

These investments earn a lower rate of return in comparison of loans and advances, but they, under most of the circumstances, generate higher return than their cost of funds, hence would prove beneficial to the banks.

### 3.5.1.4   Leverage Ratios

The use of the fixed-charge sources of funds, such as debt along with the owner's equity in the capital structure is described as 'financial leverage' or trading on equity. The term 'leverage' is used to represent the proportionate relationship between debt and equity. The long term investment proposals of a bank can be financed either by increasing owner's claim, i.e., by issuing common shares or by retaining the earnings or by increasing creditor's claims, i.e., by accepting long term borrowings and deposits from creditors. The various means used to raise funds represent the 'Financial Structure' of the bank and whenever funds have to be raised to finance investments; a capital structure decision is involved.

Employment of debt or outsider's fund involves risk to the bank, because the rate of interest on debt is fixed irrespective of the bank's rate of return on assets.

Moreover, the bank has a legal binding to pay interest on debt. Hence, the financial leverage employed by a bank is intended to earn more on the fixed-charges funds than their costs. The surplus or deficit will increase or decrease the return on the owner's equity, i.e., the rate of return on the owner's equity is levered above or below the rate of return on total assets.

Leverage ratios are concerned with the long-term solvency of the bank and show the proportion of 'outsider's fund' and 'shareholder's fund' of the bank. The leverage ratios given below for the major JVBs has been planned to analyze the long-term financial health, debt servicing capacity and strengths and weaknesses of the concerns.

**a) Total Debts to Total Assets Ratio**

Total Debts to Total Assets ratio is calculated by dividing total outsider's fund by total assets.

$$Total\ Debts\ to\ Total\ Assets\ Ratio = \frac{Total\ Outsider's\ Fund}{Total\ Assets} \times 100$$

The ratio signifies the extent of debt financing on total assets and measures the financial security to the outsiders. Despite of higher risk, owners of the bank prefer a high debt ratio because it magnifies their earnings on the one hand and enables them to maintain their concentrated control over the bank on the other. The creditors, however, prefer a low debt ratio as it provides a sufficient cushion against losses in the event of liquidation.


**b) Long Term Debts to Total Assets Ratio**

Total Long Term Debts to Total Assets ratio is calculated by dividing total fixed deposits by total assets.

$$Long\ Term\ Debts\ to\ Total\ Assets\ Ratio = \frac{Total\ Fixed\ Deposits}{Total\ Assets} \times 100$$

Long term debts in the form of fixed deposits cost higher rate of interest for the banks, and the bank, which relies more on long term debts and less to short term debts, is said to have adopted a conservative financing policy. Banks can utilize long term debts (fixed deposits) towards granting of term loans. Term loans generally have a maturity period of more than one year.

The long term debts to total assets ratio measures the percentage of total assets that has been financed by long-term debts.

**c) Total Debts to Net Worth (Shareholder's Fund) Ratio**

The ratio is calculated by dividing total debts by total shareholder's fund.

$$Total\ Debts\ to\ Net\ worth\ Ratio = \frac{Total\ Debts}{Total\ Shareholder's\ Fund} \times 100$$

Bank's total fund, which is invested in various income generating assets, consist of debts as well as shareholder's fund. Debts for the banks usually include deposits and borrowings from the customers whereas shareholder's fund includes equity capital and reserves. Debtors and owners of the bank expect return for investing their funds.

Debts to net worth ratio measures the relative claims of outsiders and owners over the bank's assets, indicating the extent of debt financing in the bank compared to net worth financing. In other words, the debt to equity ratio indicates the relative contribution of debt and equity fund to the total investment.

A very low debt to net worth ratio is disadvantageous from the owner's point of view, especially in the situation where the bank is earning a higher return on capital employed. Since with the increase in debt, bank can enhance its return on total fund, 'trading on equity' policy is very much favored in this kind of situation.

However, a very high debt to net worth ratio is also unfavorable, because debts are considered to be more risky than equity funds in the sense that the bank has a compulsory obligation to pay interest to the debt holders, irrespective of the profit made or losses incurred. Therefore, an appropriate mix of debt and owner's fund is desired by the banks.

**d) Long Term Debts to Net Worth (Shareholder's Fund) Ratio**

The ratio is calculated by dividing total fixed deposits by total shareholder's fund.

$$Long\ Term\ Debts\ to\ Net\ worth\ Ratio = \frac{Total\ Fixed\ Deposits}{Total\ Shareholder's\ Fund} \times 100$$

Long term debts in the form of fixed deposits cost higher rate of interest to the banks, but at the same time, can be invested in the higher income generating term loans.

The ratio measures the relative proportion of long-term debts in relation to the shareholder's fund. This ratio is helpful in determining whether the long term debt financing is adequate to strengthen the profitability of the bank. Higher long-term debt to net worth ratio is disadvantageous, when the bank is incurring losses, or the overall rate of earning is lower than the interest payable to the debt holders and vice versa.

### e) Net Fixed Assets to Net Worth (Shareholder's Fund) Ratio

The ratio is calculated by dividing total net fixed assets by total shareholder's fund.

$$Net\ Fixed\ Assets\ to\ Net\ worth\ Ratio = \frac{Total\ Fixed\ Assets - Depreciation}{Total\ Shareholder's\ Fund} \times 100$$

Fixed assets of a bank include land, building, vehicles, machinery, equipment, furniture etc. These assets are known as 'non performing assets' of the bank because they don't generate income directly, rather they are instrumental in increasing bank's profit by enhancing the operating efficiency.

The acquisitions of fixed assets involve a capital expenditure, and the costs of these assets are allocated in the form of depreciation over their useful lives. Capital expenditures are generally financed by the net worth or shareholder's fund.

Net fixed assets to net worth ratio measures the contribution of owner's fund to the fixed assets. In other words, it explains how much owner's fund has been involved in financing fixed assets. Generally, higher ratio indicates the greater involvement of owner's equity in financing fixed assets and vice-versa.

### f) Capital Adequacy Ratio
   (Capital Fund to Total Deposits)

The ratio is calculated by dividing total capital fund (net worth) by total deposits.

$$Capital\ Adequacy\ Ratio = \frac{Total\ Capital\ Fund\ (Shareholder's\ Fund)}{Total\ Deposits} \times 100$$

Capital Adequacy has remained on of the biggest single issue in the banking industry, and the appropriate capital adequacy ratio for commercial banks has always been a controversial issue. According to the capital adequacy principle, safety and stability of the fragile financial system ultimately rests upon the confidence of the depositors and creditors. Nepal Rastra Bank emphasizes upon capital as a cushion to absorb unexpected losses arising form various risks that can create instability in bank earnings. NRB prescribes the capital adequacy to be maintained by the commercial banks through various directives and circulars.

Extremely high or low capital adequacy ratio is not desirable in terms of lower return and lower solvency respectively.


## 3.5.1.5   Other Financial Indicators

All the above ratios throw light on various aspects of the bank. Different stakeholders, management, investors and creditors can get information regarding their interest. Some other financial indicators are dealt here in order to provide more information about the effective performance of the bank. They are listed below:


a) **Loan Loss Coverage Ratio**
   **(Loan Loss Provision to Total Risk Assets)**

The ratio is calculated by dividing loan loss provision by total risk assets.

$$Loan\ loss\ coverage\ Ratio = \frac{Loan\ Loss\ Provision}{Total\ Risk\ Assets} \times 100$$

Banks disburse their loans and advances into various sectors, and the possibility of their loans going bad can not be fully ruled out.  In case of borrowers going bankrupt, banks have no choice, but to write off their loans. In order to maintain bank's profitability, and to protect them from the possible loan loss in future, NRB has classified all the credits into different categories, assigning each category a risk grade. Banks are required to maintain a certain percentage for each category as loan loss provision.

Loan loss provision provides a cushion for banks in case of borrower's default in payment of loans and ensures the continued solvency of the banks. Loan loss coverage ratio measures the proportion of the loan loss provision in relation to the total assets.

## b) Other Performance Indicators

In the process of analyzing the financial performance of JVBs, some of the important financial indicators have been examined below:

### i. Dividend Payout Ratio

The ratio is calculated by dividing cash dividends per share by earnings per share.

$$Dividend\ Payout\ Ratio = \frac{Cash\ Dividends\ per\ Share}{Earnings\ per\ Share} \times 100$$

Profit after tax earned by the banks has to be distributed among the shareholders. Banks usually do not distribute 100% of the earnings; they tend to retain certain portion in order to expand their business. The retained portion in relation to the dividend payout ratio is known as 'retention ratio'. Cash dividends paid in relation to the earnings per share constitutes the dividend payout ratio. Profits are retained in the bank if these retained earnings can earn higher return than the opportunity cost of these funds. Otherwise, earnings are paid out as dividends, decreasing the shareholder's fund.

Higher dividend payout ratio indicates lower retained profits and higher cash dividends to the shareholders.

### ii. Earning Per Share

Earning per share is calculated by dividing profit after tax by total number of shares.

$$Earning\ per\ share = \frac{Profit\ after\ Tax}{Total\ No.\ of\ Shares}$$

The main concentration of shareholders lies in the bottom line of the bank, i.e., its profit after tax. It doesn't matter whether the earnings are retained or distributed; higher earning

per share enhances the value of the shareholder's wealth. Higher profitability of the bank results in the higher earnings per share.

## 3.5.2  Statistical Tools

Quantitative or numerical information may be found almost everywhere in business, economics and many other areas. It is probably more common to refer to data in quantitative form as 'statistical data'. But not all numerical data is statistical. The large volume of numerical information gives rise to the need for systematic methods which can be used to organize, present, analyze and interpret the information effectively. Following are the statistical tools used for the analysis:

## 3.5.2.1    Arithmetic Mean (X)

An average is a single value selected from a group of values to represent them in same way, which is supposed to stand for a whole group of which is a part, as typical of all the values in the group (Waugh A.E.). Out of the various measures of the central tendency, arithmetic mean is one of the useful tools applicable here. It is easy to calculate, understand and is based on all observations.

Arithmetic mean of a given set of observations is their sum divided by the number of observations. In general, X1, X2, X3……………Xn are the given n observations, then their arithmetic mean, usually denoted by $\overline{X}$ , and is given by:

$$Mean\ (\overline{X}\ ) = \frac{(X1 + X2 + X3 + ………… Xn)}{n}$$

or,  $Mean\ (\overline{X}\ ) = \dfrac{\sum X}{n}$

Where,

$\overline{X}$ = Mean

$\sum X$ = Sum of all the Variable X

n = Variables involved

### 3.5.2.2 Standard Deviation (σ)

Karl Pearson introduced the standard deviation concept in 1823. It is by far the most important & widely used measure of studying dispersion. Standard deviation is also known as root mean of the squared deviation for the reason that it is the square root of the mean of the squared deviation from the arithmetic mean. Standard deviation is denoted by the small Greek letter "σ "(read as sigma) or S.D.

The standard deviation measures the absolute dispersion for variability of distribution; the greater the amount of dispersion or variability; the greater the standard deviation, for the greater will be the magnitude of the deviations of the value from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposite.

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

Where,

$\quad$ S.D. = σ = Standard Deviation

$\quad \overline{X} = \text{Mean} = \dfrac{\sum X}{n}$

$\quad$ X = Variable X
$\quad$ n = Variables involved

### 3.5.2.3 Coefficient of Variance (C.V.)

It is the measurement of the relative dispersion developed by Karl Pearson. It is used to such problems where we want to compare the variability of two or more than two series. That series (or group) for which the coefficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous. On the other hand, the series for which coefficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogeneous. Coefficient of Variance usually denoted by (C.V.) and the formula is:

$$C.V. = \frac{\text{-------}}{\overline{X}}$$

Where,

      C.V. = Coefficient of Variance

      δ = Standard Deviation

      $\overline{X}$ = Mean = $\dfrac{\sum X}{n}$

## 3.5.2.4   Trend Analysis (From Least Square Method)

Trend analysis is a statistical tool, which will highlight the previous trend of the financial performance, and in a great extent becomes instrumental in forecasting the future financial results of these JVBs.

The straight-line trend implies that irrespective of the seasonal and cyclic swings and irregular fluctuations, the trend values increases or decreases by a constant absolute amount 'b' per unit of time. Hence, the linear trend values form a series in arithmetic progression, the common difference being 'b' the scope of the trend line.

The straight line trend between the dependent variable 'y' and the independent variable 'x' (i.e., time) is represented by the equation:

      $Yc = a + bx$

Where, $Yc$ = Estimated value of 'Y' for any given value of independent    variable 'x'.

       $a$ = Y-intercept or value of Y when $x = 0$.

       $b$ = slope of the trend line or amount of change in 'y' per unit change    in 'x'

In order to determine the values of the constants 'a' and 'b', the following two normal equations are to be solved.

$$Y = Na + b \; X \ldots\ldots\ldots\ldots\ldots\ldots \; (i)$$
$$XY = a \; X + b \; X^2 \ldots\ldots\ldots\ldots \; (ii)$$

Where *N* represents number of years (months or any other period) for which data are given.

It should be noted that the first equation is merely the summation of the given function, the second is the summation of *X* multiplied by the given function.

We can measure the variable *X* from any point of time in origin such as the first year. But the calculations are very much simplified when the mid-point in time is taken as the origin because in that case the negative values in the first half of the series balance out the positive values in the second half so that $X = 0$. In other words, the time variable is measured as a deviation from its mean. Since $X = 0$ the above two normal equations would take the form-

$$Y = Na \quad \text{.....................} \quad (i)$$
$$XY = b \, X^2 \quad \text{...............} \quad (ii)$$

The values of 'a' and 'b' can now be determined easily.

$$a = \; Y / N$$
$$b = \; XY / \; X^2$$

The constant *'a'* is simply equal to the mean of *Y* values and the constant *'b'* gives the rate of change.

It should be noted that in case of odd number of years, when the deviations are taken from the middle year *X* would always be zero provided that there is no gap in the data given. However, in case of even years also *X* will be zero if the *X* origin is placed midway between the two middle years.

# CHAPTER IV

# DATA PRESENTATION AND ANALYSIS

This is the section where, the filtered data are presented and analyzed. This is one of the major chapters of this research because it includes detail analysis and interpretation of data from which concrete result of Nepalese Commercial JVBs can be obtained. In this chapter, the relevant data and information necessary for the study are presented and analyzed keeping the objectives set in mind. This chapter consists of various calculations made for the analysis of **Strengths** & **Weaknesses** of concerned JVBs and the probable **Opportunities** & **Threats** relating these JVBs. To make our study effective and precise as well as easily understandable, this chapter is categorized in three parts; presentation, analysis and interpretation. The analysis is fully based on secondary data available. In presentation section data are presented in terms of table, graph chart of figures, according to need. The presented data are then analyzed using different financial & statistical tools earlier mentioned in chapter three. At last the results of analysis are interpreted. Though there is no distinct line of demarcation for each section (like presentation section, analysis section & interpretation section) but the arrangement of writing is made by afore mentioned way. Similarly it is also noted that almost all data used for analysis are of secondary type.

For our simplicity, in this thesis, presentation, analysis and interpretation of data are made according to the nature. At first, analysis is done through tabular & graphical presentation. Then after, various ratios are calculated and analyzed as earlier mentioned in analysis of ratios. Lastly trend analysis is done using the statistical tool.

## 4.1 Comparative Analysis of Financial Statements

In this section, Comparative financial results of JVBs (for the period of five years, i.e. from 2003/2004 to 2007/2008) are presented in the Tabular form, with the Graphical presentations of major financial highlights. These presentations will help to measure the comparative financial position of the JVBs.

**Table No. 1**

**Financial Highlights of SCBNL from 2003/04 to 2007/08**

| Comparative Financial Results of SCBNL | | | | | |
|---|---|---|---|---|---|
| As of Year 2003/04 to 2007/08 | | | | | |
| in NRs. '000' | | | | | |
| Balance Sheet | | | | | |
| **Assets** | **2003/04** | **2004/05** | **2005/06** | **2006/07** | **2007/08** |
| Cash & Bank Balance | 187,705 | 195,459 | 279,511 | 378,422 | 414,875 |
| Balance with Banks | 1,835,459 | 915,658 | 996,730 | 1,642,598 | 1,635,367 |
| Money at Call | 2,218,600 | 2,259,691 | 1,977,271 | 1,761,151 | 2,197,538 |
| Investments | 11,360,328 | 9,702,553 | 12,847,536 | 13,553,233 | 13,902,819 |
| Loans & Advances | 6,693,862 | 8,420,869 | 9,206,280 | 10,790,148 | 13,963,983 |
| Net Fixed Assets | 136,234 | 71,412 | 101,302 | 125,590 | 117,272 |
| Other Assets | 1,493,492 | 605,597 | 799,258 | 633055 | 1,349,319 |
| **Total Assets** | **23,925,680** | **22,171,239** | **26,207,888** | **28,884,197** | **33,581,173** |
| Loan & Advances from Banks | 78,283 | 55,926 | 28,375 | 400000 | - |
| Customer's Deposits | 21,161,442 | 19,335,095 | 23,061,032 | 24,647,021 | 29,743,999 |
| Other Liabilities | 906,596 | 920,142 | 1,121,856 | 1,480,375 | 1,114,081 |
| General Loan Loss Provision | 283,620 | 277,661 | 242,486 | 240,448 | 230,545 |

| | | | | | |
|---|---|---|---|---|---|
| **Liabilities** | **22,429,941** | **20,588,824** | **24,453,749** | **26,767,844** | **31,088,625** |
| | | | | | |
| Paid up Capital | 374,640 | 374,640 | 374,640 | 413,255 | 620,784 |
| Reserves | 903,513 | 956,439 | 1,008,914 | 1,198,373 | 1,488,476 |
| Profit(Loss) Account Balance | 217,586 | 251,336 | 370,585 | 504,725 | 383288 |
| **Total Shareholders' Equity** | **1,495,739** | **1,582,415** | **1,754,139** | **2,116,353** | **2,492,548** |
| **Total Liabilities** | **23,925,680** | **22,171,239** | **26,207,888** | **28,884,197** | **33,581,173** |
| **No of Common Shares** | **3,746,404** | **3,746,400** | **3,746,404** | **4,132,548** | **6,207,840** |
| Guarantees | 1,675,401 | 1,531,069 | 1,924,001 | 2,389,969 | 2,800,466 |
| Letter of Credit | 1,669,867 | 1,456,762 | 1,837,398 | 1,861,944 | 1,857,994 |
| Others | 986,388 | 1,089,637 | 1,423,428 | 2602209 | 1,481,324 |
| **Total Contingent Liabilities** | **4,331,656** | **4,077,468** | **5,184,827** | **6854122** | **6,139,784** |
| | | | | | |
| **Profit & Loss Account** | | | | | |
| *Interest Income* | | | | | |
| Loan & Advances | 558,006 | 581,664 | 596,622 | 728,588 | 872,690 |
| Others | 484,170 | 477,014 | 592,981 | 683,393 | 718,504 |
| Interest Expenses | (275,809) | (254,127) | (303,198) | (413,055) | (471,729) |
| **Net Interest Income** | **766,367** | **804,551** | **886,405** | **998,926** | **1,119,465** |
| Exchange Earnings | 273,050 | 266,865 | 283,472 | 309,086 | 345,653 |
| Commission Earnings | 198,948 | 184,830 | 222,929 | 221,207 | 276,432 |
| Other Operating Income | 69,835 | 62,945 | 25,442 | 28,784 | 32,594 |
| Other Non Operating Income | - | 2,957 | 3,010 | 9,492 | 1,682 |
| **Gross Income** | **1,308,200** | **1,322,148** | **1,421,258** | **1,567,495** | **1,775,826** |

| | | | | | |
|---|---|---|---|---|---|
| Staff Costs | (134,685) | (148,586) | (168,231) | (199,778) | (225,256) |
| Provision for Staff Bonus | (85,955) | (88,683) | (93,937) | (101,610) | (119,337) |
| Premises Costs | (23,151) | (26,105) | (28,944) | (29,194) | (33,055) |
| Other Operating Costs | (256,543) | (230,544) | (192,143) | (199,256) | (197,516) |
| Other Non Operating Costs | (10,756) | - | - | - | - |
| **Total Costs** | **(511,090)** | **(493,918)** | **(483,255)** | **(529,838)** | **(575,164)** |
| | | | | | |
| Profit Before Tax | 797,110 | 828,230 | 938,003 | 1,037,657 | 1,200,662 |
| Income Tax | (235,793) | (258,944) | (274,505) | (324,427) | (374,451) |
| Provision For Non-Banking Assets | - | - | - | - | - |
| Book write off of Bad Loans | (23,517) | - | (3,988) | (5,935) | (33,906) |
| Provision for Loan Loss | - | (30,082) | (44,730) | (36,808) | 48,510 |
| **Net Profit (Loss) After Tax** | **537,800** | **539,204** | **614,780** | **670,487** | **743,795** |
| Return on Total Assets | 2.25% | 2.43% | 2.35% | 2.32% | 2.21% |
| Return on Total Deposits | 2.54% | 2.79% | 2.67% | 2.72% | 2.5% |
| Return on Net Worth | 35.96% | 34.07% | 35.05% | 31.68% | 29.84% |
| Return on Risk Assets | 8.03% | 6.40% | 6.68% | 6.21% | 5.33% |
| Interest Earned to Total Assets | 5.77% | 5.84% | 5.39% | 5.80% | 5.71% |
| Market Price per Share | 1,745 | 2,345 | 3,775 | 5,900 | 6,830 |
| Book Value per Share | 399 | 422 | 468 | 512 | 401 |

## Table No. 2

### Financial Highlights of NABIL from 2003/04 to 2007/08

| Comparative Financial Results of NABIL | | | | | |
|---|---|---|---|---|---|
| As of Year 2003/04 to 2007/08 | | | | | |
| **in NRs. ' 000** | | | | | |
| **Balance Sheet** | | | | | |
| **Assets** | **2003/04** | **2004/05** | **2005/06** | **2006/07** | **2007/08** |
| Cash & Bank Balance | 286,886 | 146,353 | 237,818 | 270,407 | 511,426 |
| Balance with Banks | 683,600 | 413,028 | 392,420 | 1,129,419 | 2,159,714 |
| Money at Call | 918,733 | 868,428 | 1,734,902 | 563,533 | 1,952,361 |
| Investments | 5,835,949 | 4,267,233 | 6,178,533 | 8,945,311 | 9,939,771 |
| Loans & Advances | 8,548,657 | 10,946,737 | 13,278,782 | 15,903,034 | 21,759,460 |
| Net Fixed Assets | 338,126 | 361,235 | 319,086 | 286,895 | 598,039 |
| Other Assets | 492,199 | 543,883 | 654,041 | 512,050 | 606,394 |
| **Total Assets** | **17,104,150** | **17,546,897** | **22,795,582** | **27,610,639** | **37,527,164** |
| Loan & Advances from Banks | 229,660 | 17,063 | 173,202 | 882,572 | 1,360,000 |
| Customer's Deposits | 14,119,032 | 14,586,609 | 19,347,399 | 23,342,285 | 31,915,047 |
| Other Liabilities | 915,112 | 925,021 | 1,044,049 | 966,607 | 1,449,490 |
| General Loan Loss Provision | 358,664 | 360,566 | 355,938 | 362,126 | 365,428 |
| **Liabilities** | **15,622468** | **15,889,259** | **20,920,588** | **25,553,590** | **35,089,965** |
| Paid up Capital | 491,654 | 491,654 | 491,654 | 491,654 | 689,216 |
| Reserves | 960,234 | 1,136,002 | 1,349,902 | 1,452,013 | 1,585,438 |
| Profit (Loss) Account Balance | 29,794 | 29,982 | 33,438 | 113,382 | 162,545 |
| **Total Shareholders' Equity** | **1,481,682** | **1,657,638** | **1,874,994** | **2,057,049** | **2,437,199** |

| | | | | | |
|---|---|---|---|---|---|
| **Total Liabilities** | **17,104,150** | **17,546,897** | **22,795,582** | **27,610,639** | **37,527,164** |
| **No of Common Shares** | **4,916,544** | **4,916,544** | **4,916,544** | **4,916,544** | **6,892,160** |
| Guarantees | 2,133,340 | 1,784,902 | 2,019,959 | 2,026,467 | 2,484,562 |
| Letter of Credit | 2,315,201 | 2,304,143 | 2,481,592 | 2,564,470 | 3,707,504 |
| Others | 849,195 | 602,495 | 997,390 | 1,104,390 | 1599,320 |
| **Total Contingent Liabilities** | **5,297,736** | **4,691,540** | **5,498,941** | **5,695,327** | **7,791,386** |
| | | | | | |
| **Profit & Loss Account** | | | | | |
| *Interest Income* | | | | | |
| Loan & Advances | 761,617 | 831,830 | 988,413 | 789,387 | 989,765 |
| Others | 240,000 | 236,917 | 321,586 | 798371 | 988,931 |
| Interest Expenses | (282,948) | (243,545) | (357,161) | (555710) | (758,436) |
| **Net Interest Income** | **718,669** | **825,202** | **952,838** | **1,032,048** | **1,220,260** |
| Exchange Earnings | 157,324 | 184,879 | 185,484 | 209,926 | 196,487 |
| Commission Earnings | 135,958 | 128,883 | 138,294 | 150,608 | 156,235 |
| Other Operating Income | 38,755 | 55,934 | 82,898 | 87,574 | 97,444 |
| Other Non Operating Income | 92,781 | 72,241 | 74,293 | 5280 | 24,084 |
| **Gross Income** | **1,143,487** | **1,267,139** | **1,433,807** | **1,485,436** | **1,694,510** |
| Staff Costs | (180,840) | (199,516) | (219,781) | (240,161) | (262,908) |
| Provision for Staff Bonus | (71,941) | (84,198) | (89,800) | (99,504) | (108,899) |
| Premises Costs | (19,259) | (22,237) | (23,381) | (26,354) | (32,447) |
| Other Operating Costs | (131,500) | (168,062) | (159,315) | (1,61,829) | (188304) |
| Other Non Operating Costs | - | - | - | - | - |
| **Total Costs** | **(403,540)** | **(474,013)** | **(492,277)** | **(527,848)** | **(592,558)** |

| | | | | | |
|---|---|---|---|---|---|
| Profit Before Tax | 739,947 | 793,126 | 941,530 | 957,588 | 1,101,952 |
| Income Tax | (201,763) | (239,149) | (262,563) | (321,086) | (342,522) |
| Provision For Non-Banking Assets | - | - | - | - | - |
| Book write off of Bad Loans | (82,873) | (31,133) | (47,484) | (2858) | 10390 |
| Provision for Loan Loss | | (4,207) | (3,102) | (3208) | 48263 |
| **Net Profit (Loss) After Tax** | **455,311** | **518,637** | **628,381** | **630436** | **700,777** |
| Return on Total Assets | 2.66% | 2.96% | 2.76% | 2.28% | 1.87% |
| Return on Total Deposits | 3.22% | 3.56% | 3.25% | 2.7% | 2.20% |
| Return on Net Worth | 30.73% | 31.29% | 33.51% | 30.65% | 28.75% |
| Return on Risk Assets | 5.33% | 4.74% | 4.73% | 3.96% | 3.22% |
| Interest Earned to Total Assets | 6.96% | 7.02% | 6.73% | 6.39% | 6.24% |
| Market Price per Share | 1,000 | 1,505 | 2,240 | 5,050 | 5,275 |
| Book Value per Share | 301 | 337 | 381 | 418 | 353 |

**Table No. 3**

**Financial Highlights of HBL from 2003/04 to 2007/08**

| Comparative Financial Results of HBL | | | | | |
|---|---|---|---|---|---|
| **As of Year 2003/04 to 2007/08** | | | | | |
| **in NRs. ' 000** | | | | | |
| **Balance Sheet** | | | | | |
| **Assets** | **2003/04** | **2004/05** | **2005/06** | **2006/07** | **2007/08** |
| Cash & Bank Balance | 274,235 | 286,530 | 305,428 | 177,242 | 278,183 |
| Balance with Banks | 1,726,949 | 1,727,941 | 1,411,924 | 1,580,099 | 1,169,959 |
| Money at Call | 368,900 | 441,081 | 1,005,280 | 1,710,023 | 518,529 |
| Investments | 9,292,103 | 11,692,341 | 10,889,031 | 11,822,985 | 13,340,176 |
| Loans & Advances | 12,919,631 | 13,451,168 | 15,761,976 | 17,793,723 | 20,179,613 |

| | | | | | |
|---|---:|---:|---:|---:|---:|
| Net Fixed Assets | 299,643 | 295,822 | 540,824 | 574,060 | 726,068 |
| Other Assets | 903,671 | 976,459 | 1,153,296 | 656,734 | 645,094 |
| **Total Assets** | **25,785,132** | **28,871,342** | **31,067,759** | **34,314,866** | **36,857,622** |
| Loan & Advances from Banks | 659,006 | 506,048 | 504,625 | 595,968 | 943,178 |
| Customer's Deposits | 22,010,333 | 24,814,012 | 26,490,852 | 30,048,418 | 31,842,789 |
| Other Liabilities | 823,865 | 982,888 | 1,186,689 | 476,920 | 876,189 |
| General Loan Loss Provision | 967,762 | 1,026,648 | 1,119,417 | 795,727 | 682,474 |
| **Liabilities** | **24,460,966** | **27,329,596** | **29,301,583** | **31,917,033** | **34,344,630** |
| | | | | | |
| Paid up Capital | 536,250 | 643,500 | 772,200 | 810,810 | 1,013,513 |
| Reserves | 617,948 | 740,071 | 837,418 | 1,402,637 | 1,402,637 |
| Profit (Loss) Account Balance | 169,968 | 158,175 | 156,558 | 184,386 | 96,842 |
| **Total Shareholders' Equity** | **1,324,166** | **1,541,746** | **1,766,176** | **2,397,833** | **2,512,992** |
| **Total Liabilities** | **25,785,132** | **28,871,342** | **31,067,759** | **34,314,866** | **36,857,622** |
| | | | | | |
| **No of Common Shares** | **5,362,500** | **6,435,000** | **7,722,000** | **8,108,100** | **10,135,125** |
| Guarantees | 2,705,637 | 2,978,247 | 3,148,694 | 3,097,655 | 2,001,474 |
| Letter of Credit | 2,420,343 | 3,469,134 | 3,068,891 | 2,916,470 | 6,125,565 |
| Others | 1,103,919 | 1,271,367 | 361,524 | 839,511 | 2,744,902 |
| **Total Contingent Liabilities** | **6,229,899** | **7,718,748** | **6,579,109** | **6,853,636** | **10,871,941** |
| | | | | | |
| **Profit & Loss Account** | | | | | |
| *Interest Income* | | | | | |
| Loan & Advances | 970,166 | 1,122,392 | 1,140,687 | 1,242,850 | 1,444,245 |

| | | | | | |
|---|---|---|---|---|---|
| Others | 275,729 | 324,076 | 485,787 | 532,732 | 519,401 |
| Interest Expenses | (491,543) | (561,964) | (648,842) | (767,411) | (823,744) |
| **Net Interest Income** | **754,352** | **884,504** | **977,632** | **1,008,171** | **1,139,902** |
| Exchange Earnings | 112,419 | 137,301 | 198,130 | 151,637 | 192,601 |
| Commission Earnings | 123,929 | 132,816 | 165,448 | 193,224 | 202,888 |
| Other Operating Income | 34,076 | 41,301 | 52,325 | 40,329 | 62,103 |
| Other Non Operating Income | 3,299 | 2,794 | 7,070 | 3,493 | 9,700 |
| **Gross Income** | **1,028,075** | **1,198,716** | **1,400,605** | **1,396,854** | **1,607,194** |
| Staff Costs | (152,509) | (178,589) | (234,589) | (290,921) | (307,528) |
| Provision for Staff Bonus | (46,731) | (58,060) | (67,240) | (71,740) | (94,884) |
| Premises Costs | (25,137) | (33,262) | (37,772) | (40,726) | (48959) |
| Other Operating Costs | (185,910) | (244,113) | (291,927) | (282,138) | (280,046) |
| Other Non Operating Costs | - | - | - | - | - |
| **Total Costs** | **(410,287)** | **(514,024)** | **(631,528)** | **(685,525)** | **(731,417)** |
| | | | | | |
| Profit Before Tax | 617,788 | 684,692 | 769,077 | 711,329 | 875,777 |
| Income Tax | (157,522) | (214,265) | (214,941) | (225,580) | (312,970) |
| Provision For Non-Banking Assets | (10,987) | (15,012) | (20,483) | (8,609) | (4,574) |
| Book write off of Bad Loans | (186,226) | (88,253) | (8,086) | (322,353) | (94,995) |
| Provision for Loan Loss | | (58,886) | (143,813) | (83,839) | (52,423) |
| **Net Profit (Loss) After Tax** | **263,053** | **308,276** | **381,754** | **70,948** | **410,815** |
| Return on Total Assets | 1.02% | 1.07% | 1.23% | 0.21% | 1.11% |
| Return on Total Deposits | 1.20% | 1.24% | 1.44% | 0.24% | 1.29% |
| Return on Net Worth | 19.87% | 20.00% | 21.61% | 2.96% | 16.35% |

| | | | | | |
|---|---|---|---|---|---|
| Return on Risk Assets | 2.04% | 2.29% | 2.42% | 0.40% | 2.04% |
| Interest Earned to Total Assets | 5.61% | 5.75% | 6.10% | 6.00% | 5.86% |
| Market Price per Share | 840 | 920 | 1,100 | 1,740 | 1,980 |
| Book Value per Share | 247 | 240 | 229 | 296 | 248 |

As per table no. 1, 2 and 3, the comparative financial results for FY 2003/04, showed that the profit before tax of SCB was highest at NRS 797 M due to lower interest expense and higher exchange earning coupled with higher interest earning in investment as compared to NABIL and HBL. The interest income on investment of SCB was highest at NRS 484 M compared to NRS. 276 M and NRS 240 M of HBL and NABIL respectively. And return on the net worth decreased for all three JVBs, SCBNL standing at 35.96% compared to 30.73% and 19.87% of NABIL and HBL respectively. The book value per share of SCB was highest at NRS 399.25 compared to NRS 301 and NRS 246.93 of NABIL and HBL respectively.

At the end of FY 2004/2005, SCBNL continued dominating the Banking business by generating highest profit before tax and after tax as well. In this year, the Profit before Tax of SCB was highest at NRS 828 M chiefly due to higher commission and exchange earnings as compared to NABIL and HBL. The profit before tax of HBL and NABIL were NRS. 685 M & NRS. 793 M correspondingly. And return on the net worth for three JVBs stood at 34.07%, 31.29% and 20.00%, for SCB, NABIL and HBL respectively. The Book Value per share of SCB continued to be highest at NRS 422.38 compared to NRS 337 and NRS 239.59 of NABIL and HBL respectively.

At the end of FY 2005/2006, NABIL dominating the Banking business by generating highest profit before tax and after tax. This year, the profit before tax of NABIL was highest at NRS 628 M. The profit before tax of SCBNL and HBL were NRS. 615 M & NRS. 382 M respectively. And return on the net worth for three JVBs stood at 35.05%, 33.51% and 21.61%, for SCBNL, NABIL and HBL respectively. The book value per

share of SCB continued to be highest at NRS 468.22 compared to NRS 381.36 and NRS 228.72 of NABIL and HBL respectively.

At the end of FY 2006/2007, SCBNL again dominating the banking business by generating highest profit before tax and after tax. This year, the profit before tax of SCBNL was highest at NRS 1037 M. The profit before tax of NABIL and HBL were NRS 957M and NRS 711 M respectively. And return on the net worth for JVBs stood at 31.68%30.65 and 2.96% for SCBNL, NABIL and HBL respectively. The book value per share of SCBNL continued to be highest at NRS 512.11 compared to NRS 418.39 and NRS 295.73 of NABIL and HBL respectively.

At the end of FY 2007/2008, SCBNL dominating again the banking business by generating highest profit before tax and after tax. This year, the profit before tax of SCBNL was highest at NRS 1200. The profit before tax of NABIL and HBL were NRS 1101 M and 875 M respectively. And return on the net worth for three JVBs stood at 29.84%, 28.75% and 16.35% for SCBNL, NABIL and HBL respectively. The book value per share of SCB continued to be highest at NRS 401.51 compared to NRS 353.62 and NRS 247.95 of NABIL and HBL respectively.

The components of gross income, total cost and profit before tax for the review period 2003/4 to 2007/8 are shown comparatively in the following graph.

# Figure No. 1

## Gross Income for the period of 2003/04 to 2007/08
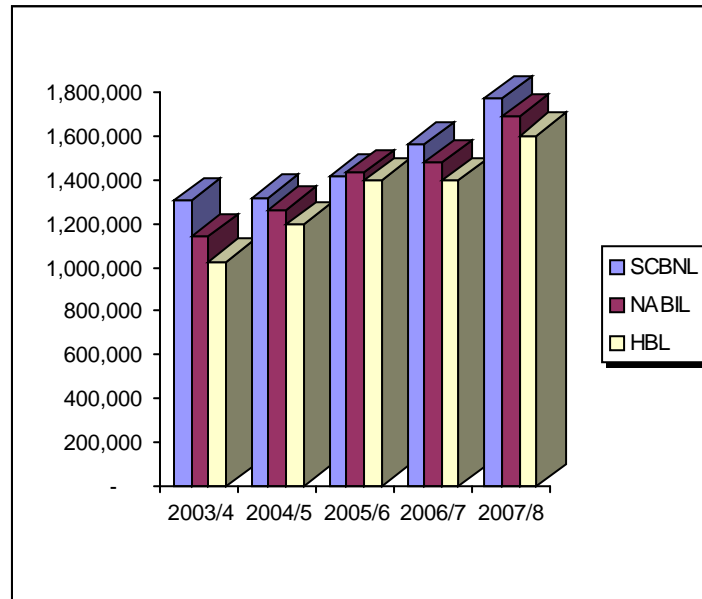


Studying the above bar diagram, we found that during the year 2003/4 and 2004/5 SCBNL has the highest gross income but in year 2005/6 NABIL broke up that trend and got highest gross income. It shows that SCBNL has strong strength but in this year NABIL utilized full strength and got highest gross income. But HBL was getting lowest gross income. It shows the HBL's weakness.

**Figure No. 2**

### Total Cost for the period of 2003/04 to 2007/08
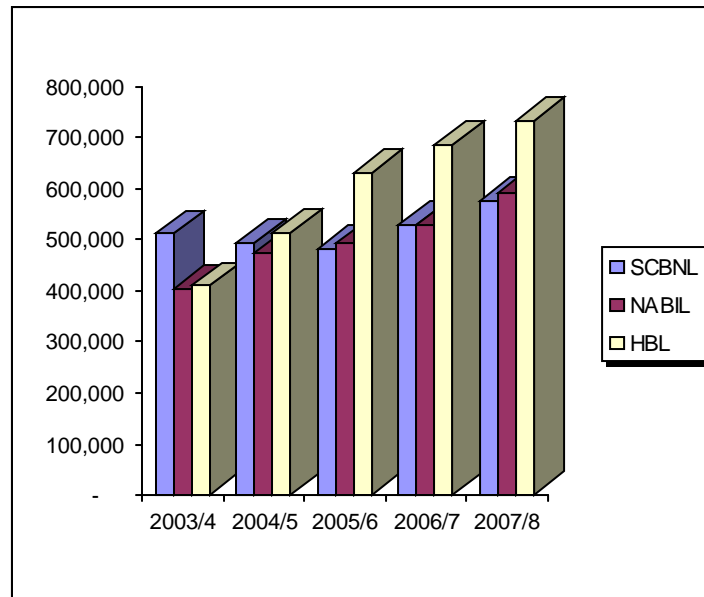


From the above bar diagram, we found that during the year 2003/4 SCBNL has the highest total cost. Then after total cost of HBL is highest and is in increasing trend. Due to highest cost its income is getting lower than other two banks. Comparatively total cost of NABIL seems to be lower than other two banks. During the year, 2005/6 and 2007/8 its cost is higher than SCBNL but during other years its total cost is lower than HBL and SCBNL. Hence, in this case also HBL shows its weakness.

## Figure No. 3

### Profit before Tax for the period of 2003/04 to 2007/08
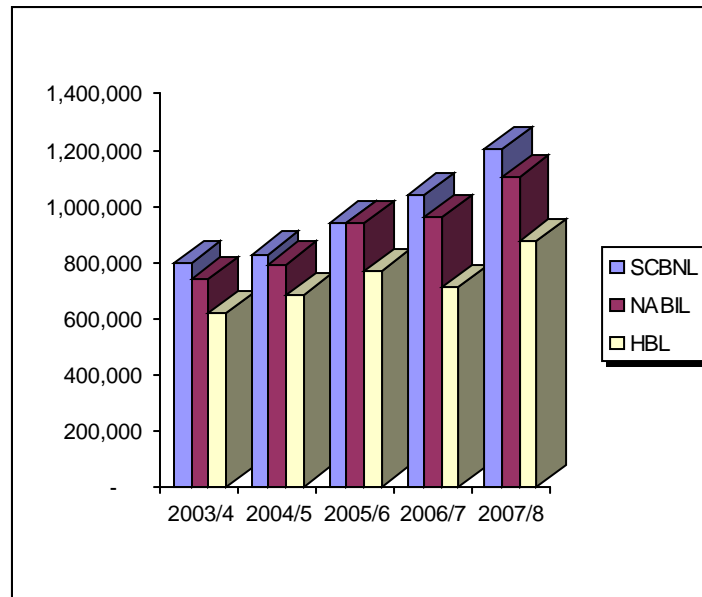


Studying above diagram, we found that the SCBNL has the highest Profit before tax in all four year but in year 2005/06 NABIL broke up that trend and got the highest Profit before tax. It shows that SCBNL has strong strength but in this year NABIL utilized their full strength and got highest Profit before tax. But HBL bank was getting lowest income, because above graphs we can see that, its total cost was highest and increasing trend. And this year HBL got lowest Profit before tax with compare to SCBNL and NABIL. It shows HBL weakness.

The comparative graphical presentation of total deposits, investments and loans and advances for the review period 2003/4 to 2007/8 has been shown below:

# Figure No.4

**Total Deposits for the period of 2003/04 to 2007/08**
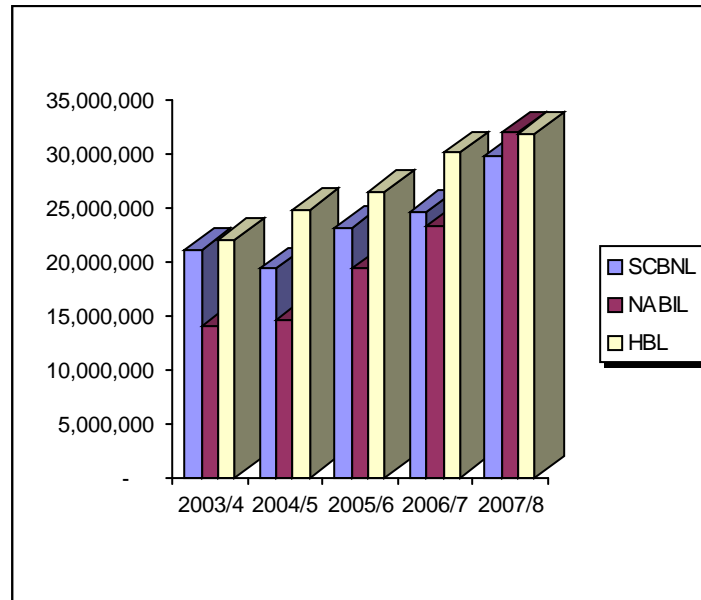


By studying above figure, we found that HBL has the highest total deposit and is in increasing trend during all five years. HBL was able to increase its loans and advances volume also due to mobilization of highest deposit. In comparison to HBL, SCBNL and HBL have lower deposit. During the four years (2003/4 to 2006/7), total customer deposit of SCBNL is higher than NABIL. But in the year 2007/8 total customer deposit of NABIL is higher than SCBNL. However, HBL is able to collect highest deposit and mobilize that deposit by lending higher loans and advances to customers.

**Figure No. 5**

**Investments for the period of 2003/04 to 2007/08**
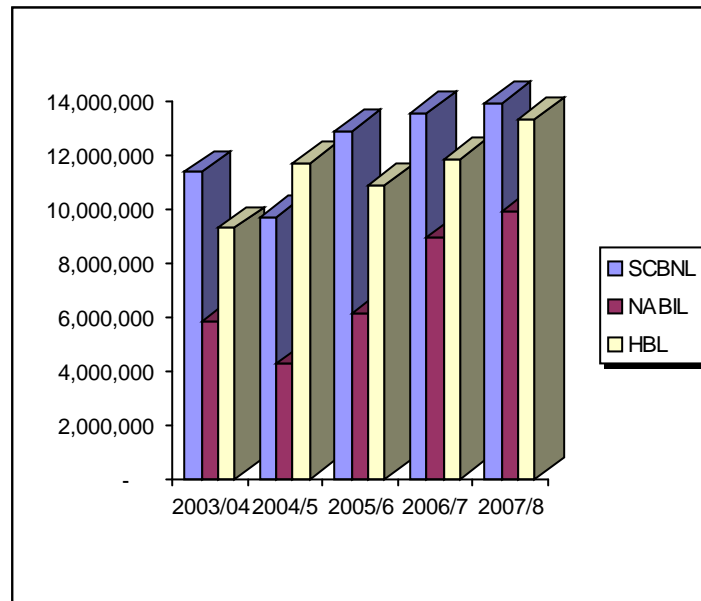


Studying above bar diagram, we found that SCBNL has the highest investment during the year 2003/4. But in the year 2004/5 HBL broke up the trend getting the highest investment. Then after the year 2004/5 SCBNL again lead and became the bank in doing highest investment. NABIL has been doing lowest investment during all four years. This shows that SCBNL has been utilizing its fund fully and able to earn adequate profit.

# Figure No. 6

## Loan and Advances for the period of 2003/04 to 2007/08
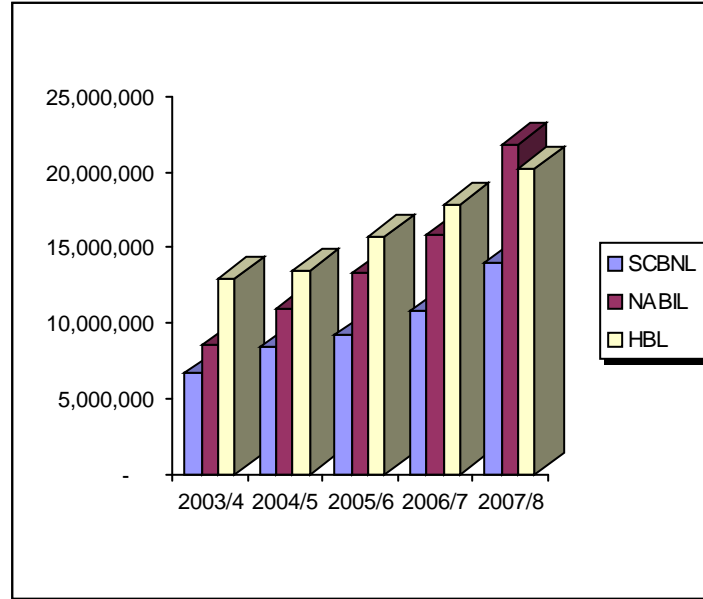


For the year 2003/04, HBL continued to be the JVB with the highest deposit among these three banks. Due to mobilization of highest deposit during the year 2003/04, HBL was able to further increase its loan and advances volume to NRS 12,920 M. During the year 2003/04, HBL again recorded an increment of 19.13 % over previous year due to its aggressive lending policy. SCB and NABIL had recorded increment of 17.52% and 10.22% in lending respectively over previous year. C/D ratio of NABIL for the review period 2003/04 stood highest at 60.55% against 58.70% and 31.63% of HBL and SCB respectively.

For the year 2004/05, the credit volume of NABIL increased and stood at second position. NABIL recorded the highest C/D ratio for the review period at 75.05% against 54.21% and 43.55% of HBL and SCB respectively. In other words, NABIL was able to extend 75.05% of its deposit to its credit-worthy customers. The investment in this period

was highest for HBL at NRS. 11,692 M compared to NRS. 9,703 M of SCB & NRS. 4,267 M of NABIL.

For the year 2005/06, the credit volume of NABIL increased and stood at second position. NABIL recorded the highest C/D ratio for the review period at 68.63% against 59.50% and 39.92% of HBL and SCB respectively. In other words, NABIL was able to extend 68.63% of its deposit to its credit-worthy customers. The investment in this period was highest for SCB at NRS. 12,848 M compared to NRS. 10,889 M of HBL & NRS. 6,179 M of NABIL.

For the year 2006/07, the credit volume of NABIL increased and stood at second position. NABIL recorded the highest C/D ratio for the review period at 68.13% against 59.21% and 43.78% of HBL and SCB respectively. In other words, NABIL was able to extend 68.13% of its deposit to its credit-worthy customers. The investment in this period was highest for SCB at NRS. 13,553 M compared to NRS. 11823 M of HBL & NRS 8945 M of NABIL.

For the year 2007/8, the credit volume of NABIL increased and stood again at second position. NABIL recorded the highest C/D ratio for the review period at 68.18% against 63.37% and 46.95% of HBL and SCB respectively. In other words, NABIL was able to extend 68.18% of its deposit to its credit-worthy customers. The investment in this period was highest for SCB at NRS. 13903 M compared to NRS. 13340 of HBL & NRS. 9940 M of NABIL.

## Analysis of Graph

The above analysis of gross income, total cost and profit before tax and loans & advances, investments and deposits of three JVBs has been able to show the comparative **Strengths** and **Weaknesses** of these banks over the period of five years.

## 4.2 Analysis of Financial Ratios

As earlier mentioned in the Chapter three, various ratios are calculated and analyzed to determine the comparative **Strengths** & **Weaknesses** of these JVBs.

## 4.2.1 Profitability Ratios

### a) Return on Total Assets (ROA)
### (Net Profit to Total Assets)

$$Return\ on\ Total\ Assets = \frac{Net\ Profit}{Total\ Assets} \times 100$$

**Table No. 4**

**Calculation of St. Deviation, Mean and C.V. of Return on Total Assets:-**

| Year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/2004 | 2.25 | 2.66 | 1.02 |
| 15/07/2005 | 2.43 | 2.96 | 1.07 |
| 16/07/2006 | 2.35 | 2.76 | 1.23 |
| 16/07/2007 | 2.32 | 2.28 | 0.21 |
| 16/07/2008 | 2.21 | 1.87 | 1.11 |
| Total | 11.56 | 12.53 | 4.64 |
| Mean ( ) | 2.31 | 2.51 | 0.93 |
| Standard Deviation ( ) | 0.09 | 0.43 | 0.41 |
| C.V. | 0.04 | 0.17 | 0.44 |

*(Source: Appendix table 1)*

The comparative ratios & Mean depicted above shows that NABIL's return on assets is highest during the span of five years. This means that NABIL is relatively efficient in utilizing its overall resources. But its S.D. was also highest which means that its ROA was too much disperse from mean data, which was risky. Its risk was also 17% for every unit of return.

Return on assets of SCBNL and HBL are fluctuating. ROA of SCBNL stood at 2.25 % in the first year, i.e. 2004 and it increased to 2.43 % in the next year. However, it has been decreased on 2006 at 2.35% but next year on 2007 again decreased on 2.32 %. During the five years, its mean ROA is 2.31, which was greater than HBL 0.93 but lower than NABIL 2.51 but its S.D. was only 0.09. It means that the SCBNL fluctuation was not higher than NABIL. Its disperse rate of mean data are not excess than NABIL and its return was lower risky than NABIL as well as HBL also.

 HBL with its ROA at 1.02 % in the year 2004 maintained the increasing trend till the year 2006 but decreased in the year 2007 and again increased in year 2008. While comparing these three JVBs, ROA for HBL is at lowest over the whole period of analysis.

The above analysis proves that the increase in net profit alone is not sufficient for the steady ROA; Banks must also increase their performing assets, which generate income proportionately in order to have remarkable return on assets ratio.

## b)  Return on Total Deposit

### (Net Profit to Total Deposits)

$$Return\ on\ Total\ Deposits = \frac{Net\ Profit}{Total\ Deposits} \times 100$$

**Table No. 5**

**Calculation of St. Deviation, Mean and C.V. of Return on Total deposit:-**

| year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/2004 | 2.54 | 3.22 | 1.20 |
| 15/07/2005 | 2.79 | 3.56 | 1.24 |

| | | | |
|---|---|---|---|
| 16/07/2006 | 2.67 | 3.25 | 1.44 |
| 16/07/2007 | 2.72 | 2.70 | 0.24 |
| 16/07/2008 | 2.50 | 2.20 | 1.29 |
| | | | |
| **Total** | **13.22** | **14.93** | **5.41** |
| **Mean ( )** | *2.64* | *2.99* | *1.08* |
| **Standard Deviation ( )** | *0.12* | *0.54* | *0.48* |
| **C.V.** | **0.05** | **0.18** | **0.44** |

*(Source: Appendix table 2)*

The mean return of NABIL is highest than other two banks. It's been good syndrome but its S.D. was also too much high than other two bank (i.e. 0.54>0.48 & 0.12), which show that its mean return was too risky. Its 54% dispersion rate of mean return on total deposit was too much higher than SCBNL 48% & HBL 12%.

With compare to three banks, SCBNL was on good position because its mean return was 2.64 but its dispersed rate from mean data was only 12% with compare of mean return, it has lower risk. And its C.V. (5%) was also lower than other NABIL 18% & HBL 44%. So, it's per unit risk been also lower than other two banks.

Despite the highest deposit trend of HBL, return on deposit of HBL was found low during the review period between the ranges of 1.44 % to 0.24 %, which shows it was weak in mobilizing its deposits in purpose of making profit out of it. Its means return (1.08) was also lower on 48% of S.D. and 44% of C.V.

Return on deposit ratio is very much affected by volume of interest free deposits employed by the banks. The higher volumes of free-costs deposits tend to lower interest cost and contributes to increase the profits, which leads to higher return on Deposit.

## c) Return on Net Worth

### (Net Profit to Total Shareholder's Fund)

$$Return\ on\ Total\ Assets = \frac{Net\ Profit}{Total\ Shareholder's\ Fund} \times 100$$

**Table No. 6**

**Calculation of St. Deviation, Mean and C.V. of Return on net worth: -**

| Year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/2004 | 35.96 | 30.73 | 19.87 |
| 15/07/2005 | 34.07 | 31.29 | 20.00 |
| 16/07/2006 | 35.05 | 33.51 | 21.61 |
| 16/07/2007 | 31.68 | 30.65 | 2.96 |
| 16/07/2008 | 29.84 | 28.75 | 16.35 |
| Total | 166.60 | 154.93 | 80.79 |
| Mean ( ) | *33.32* | *30.99* | *16.16* |
| Standard Deviation ( ) | *2.52* | *1.71* | *7.62* |
| C.V. | 0.08 | 0.06 | 0.47 |

*(Source: Appendix table 3)*

Mean, C.V. & standard deviation of three JVBs have been calculated above. SCBNL's mean (33.32) over the comparison period high but its S.D. was higher than NBIL but lower than HBL. Its Risk per unit is also higher than NABIL but lower than HBL.

NABIL's return on net worth has increased from 30.73% in 2003/2004 to 31.29 % in 2004/2005. It again increased to 33.51% in 2005/2006. Then after it was decreased to 30.65 & 28.75% in year 2006/2007 & 2007/2008 respectively. Due to that, its mean return and standard deviation was staying on 30.99 & 1.71 respectively. This clarifies that NABIL was not able to earn the proportionate increase in its net profits to increase the shareholders' fund.

HBL was able to earn return of 19.87 % in the year 2003/2004, which later on increased to 20.00 % & 21.61% in 2004/2005. Then after it decreased to 2.96 % and again increased to 16.35 %.  With compare to NABIL & SCBNL, it has lowest mean return.

Therefore, JVBs should increase their equity funds by issuing bonus shares or retaining their profits in the form of reserves only if they can earn adequate return on net worth, otherwise it will be beneficial for them to distribute cash dividend.

## d) Interest Earned on Total Assets

$$Interest\ earned\ on\ Total\ Assets = \frac{Interest\ Income}{Total\ Assets} \times 100$$

**Table No. 7**

**Calculation of St. Deviation, Mean and C.V. of Interest Earned to Total Assets:-**

| Year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/2004 | 5.77 | 6.96 | 5.61 |
| 15/07/2005 | 5.84 | 7.02 | 5.75 |
| 16/07/2006 | 5.39 | 6.73 | 6.10 |
| 16/07/2007 | 5.80 | 6.39 | 6.00 |
| 16/07/2008 | 5.71 | 6.24 | 5.86 |
| Total | 28.51 | 33.34 | 29.32 |
| Mean ( ) | 5.70 | 6.67 | 5.86 |
| Standard Deviation ( ) | 0.18 | 0.34 | 0.19 |
| C.V. | 0.03 | 0.05 | 0.03 |

*(Source: Appendix table 4)*

SCBNL's interest earned to total assets ratio increased from 5.77 % in 2003/2004 to 5.84 % in 2004/2005. Similarly NABIL's and HBL's ratio too have increased from 6.96 % and 5.61 % in 2003/2004 to 7.02 % and 5.75 % in 2004/2005 respectively. However, NABIL has been seen to maintain the consistency. So that NABIL has higher mean 6.67, in higher risk 0.34 and it's per unit risk (C.V.) was also higher than other two JVBs (i.e. 5%>3% & 3%).

This indicates that SCBNL & HBL was failed to earn a consistent interest income in relation to their total assets. The reason for lower ratio of interest can be attributed to increased non-performing assets in the assets structure.

### e) Return on Risk Assets

### (Net Profit to Loans / Advances)

$$Return\ on\ Risk\ Assets = \frac{Net\ Profit}{Risk\ Assets} \times 100$$

**Table No. 8**

## Calculation of St. Deviation, Mean and C.V. of Return on Risk Assets:-

| Year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/2004 | 8.03 | 5.33 | 2.04 |
| 15/07/2005 | 6.40 | 4.74 | 2.29 |
| 16/07/2006 | 6.68 | 4.73 | 2.42 |
| 16/07/2007 | 6.21 | 3.96 | 0.40 |
| 16/07/2008 | 5.33 | 3.22 | 2.04 |
| Total | 32.65 | 21.98 | 9.19 |
| Mean ( ) | 6.53 | 4.40 | 1.84 |
| Standard Deviation ( ) | 0.98 | 0.82 | 0.82 |
| C.V. | 0.15 | 0.19 | 0.45 |

*(Source: Appendix table 5)*

SCBNL's return on risk assets ratio was highest at 8.03 %, 6.40 %, 6.68 %, 6.21 % and 5.33 % during the year ends –2004, 2005, 2006, 2007 and 2008 respectively as compared to other JVBs. So that, its mean ratio at 6.53 and S.D. at 0.98 was also highest than other JVBs. But its C.V. at 0.15 was lower than NABIL. Mean Return on Risk Assets of NABIL and HBL seem lower than SCBNL.

It is noticeable that Net Profit to Loan and Advances ratio of NABIL and HBL are lower than that of SCBNL, despite their high volume of Risk Asset than SCBNL through out the review period. This implies that SCBNL's interest income from Risk Assets is lower as compared with others, whereas its net profit among other JVBs is attributable to the higher interest received from investments, commissions and exchange earnings.

## 4.2.2 Liquidity Ratios

Current Ratio, in case of Bank, is not of much significance. Thus, it has not been calculated.

## a) Cash & Bank Balance to Deposits Ratio

$$\text{Cash \& Bank Balance to Deposits Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposits}} \times 100$$

### Table No. 9

### Calculation of St. Deviation, Mean and C.V. of Cash & Bank Balance to Total Deposit Ratio: -

| Year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/2004 | 9.56 | 6.87 | 9.09 |
| 15/07/2005 | 5.75 | 3.83 | 8.12 |
| 16/07/2006 | 5.53 | 3.26 | 6.48 |
| 16/07/2007 | 8.20 | 6.00 | 5.85 |
| 16/07/2008 | 6.89 | 8.37 | 4.55 |
| | | | |
| Total | 35.93 | 28.33 | 34.09 |
| Mean (  ) | 7.19 | 5.67 | 6.82 |
| Standard Deviation ( ) | 1.70 | 2.12 | 1.81 |
| C.V. | 0.24 | 0.37 | 0.26 |

*(Source: Appendix table 6)*

The mean ratio of HBL was 7.19, which was highest than NABIL 5.67 & HBL 6.82. And its S.D. at 1.7& C.V. at 0.24 are also lower than other JVBs. So, with compare of HBL & NABIL, SCBNL maintain its cash & bank balance. HBL mean ratio, S.D. & C.V. are 6.82, 1.81 & 0.26 respectively. But NABIL has lower mean ratio at 5.67 on higher S.D. at 2.12 & C.V. at 0.37, with compare of other two JVBs.

But all JVBs have maintained adequate funds against the deposits, which stood at 9.56%, 6.78 % and 9.09 % respectively for SCBNL, NABIL, and HBL in the year-end 2004. The

ratio showed the fluctuation at same level during the review period of all JVBs, which implies that JVBs have properly monitored their liquidity knowing that a very high ratio indicates the unwise investment decision.

## 4.2.3  Activity (Utilization) Ratios

## a)  Loans & Advances to Total Deposit (C/D) Ratio

$$Loans\ \&\ Adv.\ to\ Total\ Deposit\ Ratio = \frac{Total\ Loans\ \&\ Advances}{Total\ Deposits} \times 100$$

**Table No. 10**

**Calculation of St. Deviation, Mean and C.V. of Credit Deposit Ratio:-**

| Year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/200/4 | 31.63 | 60.55 | 58.70 |
| 15/07/2005 | 43.55 | 75.05 | 54.21 |
| 16/07/2006 | 39.92 | 68.63 | 59.50 |
| 16/07/2007 | 43.78 | 68.13 | 59.21 |
| 16/07/2008 | 46.95 | 68.18 | 63.37 |
| **Total** | **205.83** | **340.54** | **294.99** |
| **Mean ( )** | *41.17* | *68.11* | *59.00* |
| **Standard Deviation ( )** | *5.88* | *5.14* | *3.26* |
| **C.V.** | **0.14** | **0.08** | **0.06** |

*(Source: Appendix table 7)*

Credit deposit ratio of NABIL has been highest among three JVBs over the review period. The mean ratio stood at 68.11 and the ratios stood at 60.55%, 75.05 %, 68.63 %, 68.13 % & 68.18% respectively during 15/07/2004, 15/07/2005, 16/07/2006, 16/07/2007 and 16/07/2008. The credit deposit ratio of HBL has been the second highest for the review period with getting 59.00 mean ratio, which indicates that it too was successful in maintaining the favorable portion of its deposits towards loan and advances.

NABIL and HBL both had moderate credit deposit ratio during the study period. NABIL has been maintaining the credit deposit ratio ranging from 60.55 % to 68.18 % during the study period. So that its ratio disperse from mean data was higher than HBL. Due to that its S.D. stood at 5.14 that is higher than HBL at 3.26 & lower than SCBNL at 5.97.

However, SCBNL has the lowest credit deposit ratios standing at 31.63 %, 43.55 %, 39.92 %, 43.78% % & 46.95% respectively during 15/07/2004, 15/07/2005, 16/07/2006, 16/07/2007 and 16/07/2008. Its S.D was 5.88 and its per unit risk was higher than other JVBs because its C.V. stood at 0.14 was highest than other two JVBs.

The SCBNL has the significant volume of foreign currency deposit in its deposit structure, which was placed in the foreign currency overseas placement. Therefore, CD ratio calculated for SCBNL including both Local and Foreign currency deposit were lowest as compared with the other JVBs.

## b) Performing Assets to Total Assets Ratio

$$Performing\ Assets\ to\ Total\ Assets\ Ratio = \frac{Performing\ Assets}{Total\ Assets} \times 100$$

### Table No. 11

### Calculation of St. Deviation, Mean and C.V. of Performing Assets to Total   Assets Ratio: -

| Year | SCBNL | NABIL | HBL |
|------|-------|-------|-----|
| 15/07/2004 | 84.73 | 89.47 | 87.57 |
| 15/07/2005 | 91.93 | 91.65 | 88.62 |
| 16/07/2006 | 91.69 | 92.47 | 89.01 |
| 16/07/2007 | 90.38 | 92.04 | 91.30 |
| 16/07/2008 | 89.53 | 89.67 | 92.35 |
| | | | |
| **Total** | **448.26** | **456.73** | **448.85** |
| **Mean   (    )** | *89.65* | *91.35* | *89.77* |
| **Standard Deviation (  )** | *2.92* | *1.71* | *1.98* |
| **C.V.** | **0.03** | **0.02** | **0.02** |

*(Source: Appendix table 8)*

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Performing assets to total assets ratio has been highest in case of SCBNL & NABIL as compared to HBL. However, all the three JVBs under study are found to have maintained consistency in this ratio, more or less. The mean ratio of NABIL stood at 91.35, was higher than SCBNL at 89.65 & HBL at 89.77. Similarly the ratios of NABIL in the following years were also favorable as compared to other JVBs. This can be regarded as one of the major factors for NABIL's highest profit in the later years of the review period. And its S.D. & C.V. was also favourable because with compare of its mean ratio, both are on lower level.

## c) Performing Assets to Total Debt Ratio

The ratio is calculated by dividing performing assets by total debts.

$$Performing\ Assets\ to\ Total\ Debt\ Ratio= \frac{Performing\ Assets}{Total\ Debts} \times 100$$

**Table No. 12**

## Calculation of St. Deviation, Mean and C.V. of Performing Assets to Total Debt Ratio: -

| Year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/2004 | 91.54 | 100.26 | 92.60 |
| 15/07/2005 | 100.35 | 103.57 | 97.27 |
| 16/07/2006 | 99.26 | 103.05 | 98.13 |
| 16/07/2007 | 98.41 | 100.87 | 100.66 |
| 16/07/2008 | 97.43 | 96.91 | 101.12 |
| | | | |
| Total | 486.99 | 504.66 | 489.78 |
| Mean ( ) | 97.40 | 100.93 | 97.96 |
| Standard Deviation ( ) | 3.45 | 2.65 | 3.41 |
| C.V. | 0.04 | 0.03 | 0.03 |

(Source: Appendix table 9)

The mean ratios of all the JVBs have been higher during the review period. This implies that all of these JVBs are capable of utilizing outsiders' fund towards performing assets,

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which generates income for them and their solvency position is better. NABIL have been able to utilize cent percent of the outsiders' fund in the performing assets.

The S.D. of SCBNL, NABIL & HBL is 3.45, 2.65 & 3.41 respectively, which indicate that the SCBNL debt ratio was more disperse from mean data. And SCBNL C.V. (0.04) was also higher than other JVBs (0.03 & 0.03).

## d) Investments to Total Deposits Ratio

$$Investments\ to\ Total\ Deposits\ Ratio = \frac{Investments}{Total\ Deposits} \times 100$$

**Table No. 13**

**Calculation of St. Deviation, Mean and C.V. of Investments to Total Deposit Ratio: -**

| Year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/2004 | 53.68 | 41.33 | 42.22 |
| 15/07/2005 | 50.18 | 29.25 | 47.12 |
| 16/07/2006 | 55.71 | 31.93 | 41.10 |
| 16/07/2007 | 54.99 | 38.32 | 39.35 |
| 16/07/2008 | 46.74 | 31.14 | 41.90 |
| | | | |
| **Total** | **261.30** | **171.97** | **211.69** |
| **Mean (    )** | *52.26* | *34.39* | *42.34* |
| **Standard Deviation ( )** | *3.75* | *5.16* | *2.90* |
| **C.V.** | **0.07** | **0.15** | **0.07** |

*(Source: Appendix table 10*)

The average Investment to total deposit ratios of SCBNL has been highest during the review period, which stood at 52.26. The Ratios of NABIL has been average at 34.39 during the review period. And HBL's mean ratios during the whole review period stood at 42.34.

The S.D. of SCBNL, NABIL & HBL are 3.75, 5.16 & 2.90 respectively. It shows that NABIL bank ratio was more fluctuated and too much disperse from its mean ratio.

The C.V. of SCBNL, NABIL & HBL are 0.07, 0.15 & 0.07 respectively. Among these, NABIL bank per unit ratio was more risky.

This indicates that except NABIL, other two JVBs are relying significantly on the investments to mobilize the surplus deposits volume.

## 4.2.4  Leverage Ratios

## a)  Total Debts to Total Assets Ratio

$$Total\ Debts\ to\ Total\ Assets\ Ratio = \frac{Total\ Outsider's\ Fund}{Total\ Assets} \times 100$$

**Table No. 14**

**Calculation of St. Deviation, Mean and C.V. of Total Debt to Total Assets Ratio: -**

| year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/2004 | 92.56 | 89.24 | 94.57 |
| 15/07/2005 | 91.61 | 88.50 | 91.10 |
| 16/07/2006 | 92.38 | 90.21 | 90.71 |
| 16/07/2007 | 91.84 | 91.24 | 90.69 |
| 16/07/2008 | 91.89 | 92.53 | 91.33 |
| Total | 460.28 | 451.72 | 458.40 |
| Mean ( ) | 92.06 | 90.34 | 91.68 |
| Standard Deviation ( ) | 0.40 | 1.60 | 1.64 |
| C.V. | 0.00 | 0.02 | 0.02 |

*(Source: Appendix table 11)*

The mean ratio of SCBNL, NABIL & HBL is, 92.06%, 90.34 & 91.68% respectively. In case of all three JVBs, the average debt financing had almost exceeded than 90 % of the total assets over the review period, which indicates the excessively geared capital structure of these banks, which signifies the excessive use of debt to finance total assets.

The S.D. of HBL was higher than other two JVBs at 1.64. It shows that HBL total debt to total assets ratio over study period are more fluctuate and risky.

The high 'total outsider's fund to total assets' ratio implies bank's success in exploiting debts to the more profitable assets. Since all the JVBs had been extensively using debt financing to the total assets, it can be concluded that these banks are highly levered.

## b) Long Term Debts to Total Assets Ratio

$$Long\ Term\ Debts\ to\ Total\ Assets\ Ratio = \frac{Total\ Fixed\ Deposits}{Total\ Assets} \times 100$$

**Table No. 15**

**Calculation of St. Deviation, Mean and C.V. of Long Term Debt to Total Assets Ratio: -**

| Year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/2004 | 5.97 | 13.51 | 18.27 |
| 15/07/2005 | 6.39 | 11.85 | 21.15 |
| 16/07/2006 | 8.15 | 15.13 | 20.44 |
| 16/07/2007 | 11.07 | 19.69 | 23.90 |
| 16/07/2008 | 9.83 | 22.55 | 17.43 |
| | | | |
| **Total** | **41.41** | **82.74** | **101.19** |
| **Mean  (    )** | *8.28* | *16.55* | *20.24* |
| **Standard Deviation ( )** | *2.19* | *4.45* | *2.55* |
| **C.V.** | **0.26** | **0.27** | **0.13** |

*(Source: Appendix table 12)*

## c) Total Debts to Net Worth (Shareholder's Fund) Ratio

$$Total\ Debts\ to\ Net\ worth\ Ratio = \frac{Total\ Debts}{Total\ Shareholder's\ Fund} \times 100$$

**Table No. 16**

**Calculation of St. Deviation, Mean and C.V. of Total Debt to Net Worth Ratio: -**

| Year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/2004 | 14.81 | 10.30 | 18.41 |
| 15/07/2005 | 12.84 | 9.37 | 17.06 |
| 16/07/2006 | 13.80 | 10.97 | 15.96 |
| 16/07/2007 | 12.53 | 12.25 | 12.98 |
| 16/07/2008 | 12.38 | 14.25 | 13.40 |
| | | | |
| **Total** | **66.36** | **57.14** | **77.81** |
| **Mean ( )** | *13.27* | *11.43* | *15.56* |
| **Standard Deviation ( )** | *1.02* | *1.89* | *2.34* |
| **C.V.** | **0.08** | **0.17** | **0.15** |

*(Source: Appendix table 13)*

HBL has over than 15% mean ratio, so that it has highest debt to net worth ratio holder among these three JVBs during the review period.

Ratios of the other two banks have been in decreasing trend over the first two years, then after increasing for one year and again decreasing on during the last year. Due to that, its mean ratio are stay on 11% to 13%. Between these two banks, SCBNL has highest mean ratio at 13.27%.

The above mean ratios, S.D. & C.V. show that the total debt to net worth ratio of all three JVBs is significantly high or these JVBs are highly levered. In other words, the outsiders' claim exceed far more than that of the owners over the bank's assets. The extensive use of debt financing by these JVBs is due to increased volumes of deposits. Since the banking business is basically based on mobilization of deposits, and extending the same as loans and advances to the borrowers, increase in deposits is considered to be increase in the business, provided banks can extend those deposits towards good loans.

Hence, it can be said that the highly geared capital structure has been good mix for selected JVBs as they have been able to give higher return to shareholders' funds.

Nevertheless, extensive use of debts, coupled with failure in extending good loans can endanger the solvency of these banks. Therefore, they are required to assess the risk asset

portfolios, before accepting the interest bearing deposits in order to maintain an optimum Debt to net worth ratio, thereby avoiding the financial risk.

## d)   Long Term Debts to Net Worth (Shareholder's Fund) Ratio

*Total Fixed Deposits*

*Long Term Debts to Net worth Ratio= -------------------------------- x 100*

*Total Shareholder's Fund*

**Table No. 17**

## Calculation of St. Deviation, Mean and C.V. of Total Long Term Debt to Net Worth Ratio: -

| Year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/2004 | 0.96 | 1.56 | 3.56 |
| 15/07/2005 | 0.90 | 1.25 | 3.96 |
| 16/07/2006 | 1.22 | 1.84 | 3.60 |
| 16/07/2007 | 1.51 | 2.64 | 3.42 |
| 16/07/2008 | 1.32 | 3.47 | 2.56 |
| | | | |
| **Total** | **5.91** | **10.76** | **17.10** |
| **Mean (    )** | *1.18* | *2.15* | *3.42* |
| **Standard Deviation (  )** | *0.25* | *0.90* | *0.52* |
| **C.V.** | **0.21** | **0.42** | **0.15** |

*(Source: Appendix table 14)*

## e)  Net Fixed Assets to Net Worth (Shareholder's Fund) Ratio

*Total Fixed Assets - Depreciation*

*Net Fixed Assets to Net worth Ratio= --------------------------------------- x 100*

*Total Shareholder's Fund*

**Table No. 18**

**Calculation of St. Deviation, Mean and C.V. of Net Fixed Assets to Net Worth Ratio: -**

| Year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/2004 | 9.11 | 22.82 | 22.63 |
| 15/07/2005 | 4.51 | 21.79 | 19.19 |
| 16/07/2006 | 5.77 | 17.02 | 30.62 |
| 16/07/2007 | 5.93 | 13.95 | 23.94 |
| 16/07/2008 | 4.70 | 24.54 | 28.90 |
| | | | |
| **Total** | **30.02** | **100.12** | **125.28** |
| **Mean ( )** | *6.00* | *20.02* | *25.06* |
| **Standard Deviation ( )** | *1.85* | *4.39* | *4.67* |
| **C.V.** | **0.31** | **0.22** | **0.19** |

*(Source: Appendix table 15)*

A net fixed asset to net worth ratio of HBL has been highest during the year 2006, 2007, 2008 & its average ratio of review period is also high. So that, it's mean ratio at 25.06 is higher than other two banks. The SCBNL has lowest ratios during the entire review period & its mean ratio at 6.00 is also too much lower than HBL & NABIL but its C.V. was higher than other two banks.

The higher ratio means the lower return for the shareholders. The above table reveals that all the JVBs have limited their net fixed assets to net worth ratio at adequate level. Banks being the non-manufacturing enterprises have the minimal investment of owners' equity in the fixed assets, hence it is advisable to HBL to further decrease its Fixed Assets to reduce their non-performing assets in order to maximize the return on shareholders' fund.

**f) Capital Adequacy Ratio**

**(Capital Fund to Total Deposits)**

$$Capital\ Adequacy\ Ratio = \frac{Total\ Capital\ Fund\ (Shareholder's\ Fund)}{Total\ Deposits} \times 100$$

**Calculation of St. Deviation, Mean and C.V. of Total Shareholders'
Fund to Total Deposit: -**

| Year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/2004 | 7.07 | 10.49 | 6.02 |
| 15/07/2005 | 8.18 | 11.36 | 6.21 |
| 16/07/2006 | 7.61 | 9.69 | 6.67 |
| 16/07/2007 | 8.59 | 8.81 | 7.98 |
| 16/07/2008 | 8.38 | 7.64 | 7.89 |
| **Total** | **39.83** | **47.99** | **34.77** |
| **Mean ( )** | *7.97* | *9.60* | *6.95* |
| **Standard Deviation ( )** | *0.62* | *1.45* | *0.93* |
| **C.V.** | **0.08** | **0.15** | **0.13** |

*(Source: Appendix table 16)*

NABIL was maintained capital adequacy ratio at 9.80% mean ratio & ranging from 7.64% to 11.36%, so that its S.D. was stay on 1.45. As well as, SCBNL was also maintained capital adequacy ratio at 7.97% mean ratio with S.D. at 0.62 & ranging between 7.07% to 8.59 % during the review period. But HBL's ratios were lower ranging from 6.02 % to 7.98 %.

According to the unified directives of NRB-061/62, Commercial Banks are required to maintain core capital of 6% and capital fund of 12% on the basis of their risk weighted assets. Hence it is advisable to all JVBs to increase their capital fund to total deposits ratio further as prescribed by NRB.

However, extremely high or low capital adequacy ratio is not desirable in terms of lower return and lower solvency respectively.

## 4.2.5  Other Financial Indicators

### a)  Loan Loss Coverage Ratio

**(Loan Loss Provision to Total Risk Assets)**

$$\textit{Loan loss coverage Ratio} = \frac{\textit{Loan Loss Provision}}{\textit{Total Risk Assets}} \times 100$$

**Table No. 20**

**Calculation of St. Deviation, Mean and C.V. of Loan Coverage Ratio: -**

| Year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/2004 | 4.24 | 4.20 | 7.49 |
| 15/07/2005 | 3.30 | 3.29 | 7.63 |
| 16/07/2006 | 2.63 | 2.68 | 7.10 |
| 16/07/2007 | 2.23 | 2.28 | 4.27 |
| 16/07/2008 | 1.65 | 1.68 | 3.38 |
| **Total** | **14.05** | **14.13** | **29.87** |
| **Mean  (    )** | *2.81* | *2.83* | *5.97* |
| **Standard Deviation (  )** | *1.00* | *0.97* | *2.00* |
| **C.V.** | **0.36** | **0.34** | **0.33** |

*(Source: Appendix table 17)*

Loan loss coverage ratio of NABIL was lowest during the first year of the study period. Its ratio was 4.20 % as compared to 4.24 % & 7.49 % of SCBNL & HBL respectively. However, its loan loss coverage ratio increased in subsequent years, with the increase in non-performing risk assets. So that, its average mean ratio at 2.83 that is lower than HBL & higher than SCBNL.

In other hand, HBL average mean ratio stood at 5.97 is higher than other two banks. That because, HBL's loan loss coverage ratios are found to be somewhat at the same level for the first two years which stood at 7.49 %, 7.63 %, 7.10 % and it decreased to 4.27 % and 3.38 % for the last two years. These ratios are relatively higher as compared to the other two banks. This is because of the aggressive lending policy of the bank during the latter years.

## b) Other Performance Indicators

In the process of analyzing the financial performance of JVBs, some of the important financial indicators have been examined below:

## iii. Dividend Payout Ratio

$$Dividend\ Payout\ Ratio = \frac{Cash\ Dividends\ per\ Share}{Earnings\ per\ Share} \times 100$$

## iv. Earning Per Share

$$Earning\ per\ share = \frac{Profit\ after\ Tax}{Total\ No.\ of\ Shares}$$

**Table No. 21**

**Calculation of St. Deviation, Mean and C.V. of Dividend Payout Ratio: -**

| Year | SCBNL | NABIL | HBL |
|---|---|---|---|
| 15/07/2004 | 76.63 | 70.19 | 0.00 |
| 15/07/2005 | 83.37 | 66.36 | 24.17 |
| 16/07/2006 | 79.26 | 66.50 | 60.68 |
| 16/07/2007 | 49.31 | 77.98 | - |
| 16/07/2008 | 60.77 | 59.00 | 61.68 |
| | | | |
| **Total** | **349.34** | **340.03** | **146.53** |
| **Mean ( )** | *69.87* | *68.01* | *36.63* |
| **Standard Deviation ( )** | *14.33* | *6.90* | *30.02* |
| **C.V.** | **0.21** | **0.10** | **0.82** |

*(Source: Appendix table 18)*

As per appendix table 18, SCBNL's earning per share stood at NRS 143.55, NRS 143.93, NRS 164.01, NRS 162.25 and NRS 119.82 in 15/07/2004, 15/07/2005, 16/07/2006, 16/07/2007 and 16/07/2008 respectively. Out of which 76.63 % (NRS 110.00), 83.37 % (NRS 120.00) and 79.26 % (NRS 130.00), 49.31 % (NRS 80.00), 66.77 % (NRS 80) cash dividend to shareholders respectively. The book value per share stood at NRS 399.25,

NRS 422.38, NRS 468.22, NRS 512.11 and 401.51 in 15/07/2004, 15/07/2005, 16/07/2006, 16/07/2007 and 16/07/2008 respectively.

As per appendix table 18, NABIL's earning per share stood at NRS 92.61, NRS 105.49 and NRS 127.81, 128.23, 101.68 in 15/07/2004, 15/07/2005, 16/07/2006, 16/07/2007 and 16/07/2008, respectively. Out of which it paid 70.19 % (NRS 65.00), 66.36 % (NRS 70.00). 66.50 % (NRS 85.00), 77.98 % (NRS 100) and 59.00 % (NRS 60) cash dividend to shareholders respectively. The book value per share stood at NRS 301.00, NRS 337.00 and NRS 381.36, NRS 418.39 NRS 353.62 in 15/07/2004, 15/07/2005, 16/07/2006, 16/07/2007 and 15/07/2008 respectively.

As per appendix table 18, HBL's earning per share stood at NRS 49.05, NRS 47.91 and NRS 49.44, NRS 8.75, NRS 40.53 in 15/07/2004, 15/07/2005, 16/07/2006, 16/07/2007 and 16/07/2008 respectively. Out of which it paid 0.00 % (NRS 0), 24.17 % (NRS 11.58) 60.68 % (NRS 30.00), and 61.68 % (25) cash dividend to shareholders respectively. The book value per share stood at NRS 246.93, NRS 239.59, NRS 228.72, NRS 295.73, and NRS 247.95 in 15/07/2004, 15/07/2005, 16/07/2006, 16/07/2007 and 16/07/2008 respectively.

The average mean dividend payout ratio of SCBNL stood at 69.87 was higher than NABIL & HBL. But its S.D. & CV is lower than HBL and higher than NABIL. But the average mean dividend payout ratio of HBL stood at 36.63 was lower than SCBNL & HBL but its S.D. (30.02) & C.V. (at 0.82) both are higher. It shows the weakness of HBL.

The above indicators tabulated and described above reflect the *strengths* and *weakness* of the JVBs selected for the study and shows the efficiency of these banks in maximizing the shareholders' wealth.

## 4.3 Trend Analysis

### (From Least Square Method)

This method is most widely used in practice. It is a mathematical method and with its help a trend line is fitted to the data.

In this section of analysis, trends of three basic financial indicators have been analyzed:

➢ Profit Before Tax;

➢ Loans & Advances; and

➢ Total Deposits.

These are very crucial financial variables with which we can relate the financial performance. So these indicators have been chosen. The trend of previous five years have been analyzed separately for each bank selected for the study, and the expected future trend for the period of next three years have been calculated for each JVB. This analysis would help to assess the better performing bank in the coming years.

### 4.3.1 Trend Analysis of Profit Before Tax

#### a) Standard Chartered Bank Nepal Ltd.

**Table No. 22**

**Trend Analysis of Profit before tax for SCBNL**

| Year x | Profit Before Tax (in Mill.) Y | X= x-2006 | $X^2$ | XY | Trend Values $Yc = a + bX$ |
|--------|--------|--------|--------|--------|--------|
| 2004 | 797.11 | -2 | 4 | -1594.22 | 757.032 |
| 2005 | 828.23 | -1 | 1 | -828.23 | 858.68 |
| 2006 | 938 | 0 | 0 | 0 | 960.33 |
| 2007 | 1037.66 | 1 | 1 | 1037.66 | 1061.98 |
| 2008 | 1200.66 | 2 | 4 | 2401.32 | 1163.63 |
| N = 5 | Y=4801.66 | X=0 | $X^2$=10 | XY=1016.53 | |
| | | | | | |
| 2009 | | 3 | | | 1265.28 |
| 2010 | | 4 | | | 1366.93 |
| 2011 | | 5 | | | 1468.58 |

# Figure No. 7

## Trend Line of Profit before Tax for SCBNL



Now,
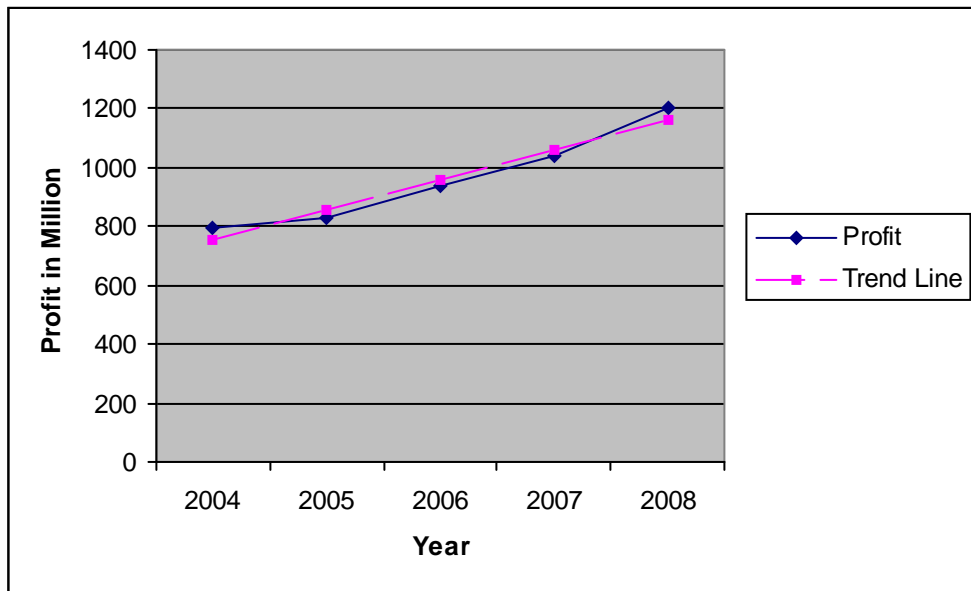
$$a = \sum Y / N$$

$$=4801.66 / 5 = 960.332$$

$$b = \sum XY / \sum X^2$$

$$=1016.53 / 10 = 101.65$$

On the basis of the above calculations, we can predict the future Profit before Tax of SCBNL.

The trend equation is $Yc = a + bX$

When $x = 2009$, X=3,

Thus Yc = 960.33 + 101.65*3 = *Rs. 1265.28*

When $x$ =2010, X=4,

Thus Yc = 960.33 + 101.65*4 = *Rs. 1366.93*

When $x$ =2011, X=5,

Thus Yc = 960.33 + 101.65*5 = Rs. *1468.58*

## b) NABIL Bank Ltd.

**Table No. 23**

**Trend Analysis of Profit before tax for NABIL**

| Year<br>x | Profit Before<br>Tax (in Mill.)<br>Y | X=<br>x-2006 | $X^2$ | XY | Trend Values<br>Yc = a + bX |
|---|---|---|---|---|---|
| 2004 | 739.95 | -2 | 4 | -1479.9 | 729.13 |
| 2005 | 793.13 | -1 | 1 | -793.13 | 817.98 |
| 2006 | 941.53 | 0 | 0 | 0 | 906.83 |
| 2007 | 957.59 | 1 | 1 | 957.59 | 995.68 |
| 2008 | 1102.95 | 2 | 4 | 2203.9 | 1084.53 |
| N = 5 | Y=4534.15 | X=0 | $X^2$=10 | XY=888.46 | |
| | | | | | |
| 2009 | | 3 | | | 1173.38 |
| 2010 | | 4 | | | 1262.23 |
| 2011 | | 5 | | | 1351.08 |

## Figure No. 8
### Trend Line of Profit before Tax for NABIL



Now,
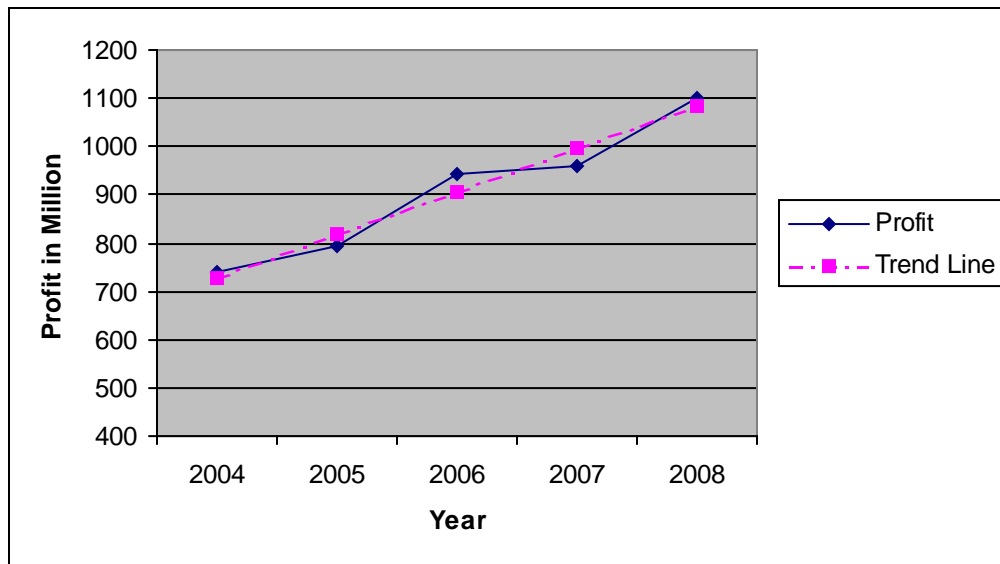
$$a = \frac{\sum Y}{N}$$
$$= 4534.15 / 5 = 906.83$$
$$b = \frac{\sum XY}{\sum X^2}$$
$$= 888.46 / 10 = 88.85$$

On the basis of the above calculations, we can predict the future Profit before Tax of NABIL.

The trend equation is **$Yc = a + bX$**

When $x = 2009$, X=3,

Thus Yc = 906.83 + 88.85*3 = *Rs. 1173.38*

When $x = 2010$, X=4,

Thus Yc = 906.83 + 88.85*4 = *Rs. 1262.23*

When *x* =2011, X=5,

Thus Yc = 906.83 + 88.85*5 = *Rs. 1351.08*

c)  **Himalayan Bank Ltd.**

**Table No. 24**

**Trend Analysis of Profit before tax for HBL**

| Year x | Profit Before Tax (in Mill.) Y | X= x-2006 | $X^2$ | XY | Trend Values Yc = a + bX |
|---|---|---|---|---|---|
| 2004 | 617.79 | -2 | 4 | -1235.58 | 623.21 |
| 2005 | 684.69 | -1 | 1 | -684.69 | 677.47 |
| 2006 | 769.077 | 0 | 0 | 0 | 731.73 |
| 2007 | 711.33 | 1 | 1 | 711.33 | 786 |
| 2008 | 875.78 | 2 | 4 | 1751.56 | 840.26 |
| N = 5 | Y=3658.67 | X=0 | $X^2$=10 | XY=542.62 | |
| | | | | | |
| 2009 | | 3 | | | 894.52 |
| 2010 | | 4 | | | 948.78 |
| 2011 | | 5 | | | 1003.04 |

# Figure No. 9

**Trend Line of Profit before Tax for HBL**
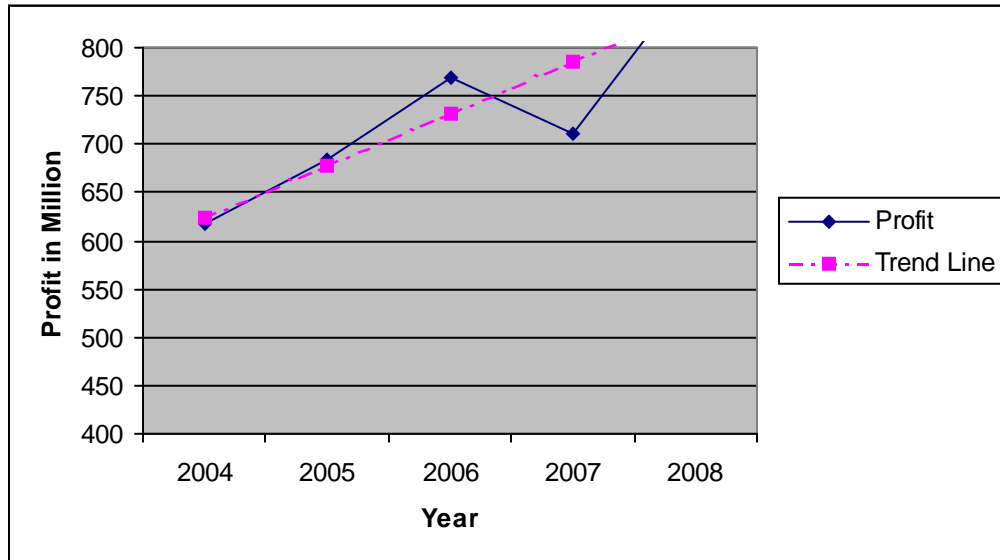
Now,

$$a = \sum Y / N$$
$$= 3658.67 / 5 = 731.734$$
$$b = \sum XY / \sum X^2$$
$$= 542.62 / 10 = 54.26$$

On the basis of the above calculations, we can predict the future Profit before Tax of HBL.

The trend equation is **Yc = a + bX**

When $x = 2009$, X=3,

Thus Yc = *731.73 + 54.26\*3 = Rs. 894.52*

When $x = 2010$, X=4,

Thus Yc = *731.73 + 54.62\*5 = Rs. 948.78*

When $x = 2011$, X=5,

Thus Yc = *731.734 + 54.26\*5 = Rs1003.04*

## 4.3.2  Trend Analysis of Loans & Advances

### a)  Standard Chartered Bank Nepal Ltd.

**Table No. 25**

**Trend Analysis of Loans & Advances for SCBNL**

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| Year x | Loans & Advances (in Mill.) Y | X= x-2006 | $X^2$ | XY | Trend Values $Yc = a + bX$ |
|---|---|---|---|---|---|
| 2004 | 6693.86 | -2 | 4 | -13387.72 | 6433.12 |
| 2005 | 8420.87 | -1 | 1 | -8420.87 | 8124.07 |
| 2006 | 9206.28 | 0 | 0 | 0 | 9815.03 |
| 2007 | 10790.15 | 1 | 1 | 10790.15 | 11505.98 |
| 2008 | 13963.98 | 2 | 4 | 27927.96 | 13196.93 |
| N = 5 | Y=49075.14 | X=0 | $X^2$=10 | XY=16909.52 | |
| | | | | | |
| 2009 | | 3 | | | 14887.88 |
| 2010 | | 4 | | | 16578.83 |
| 2011 | | 5 | | | 18269.78 |

**Figure No. 10**

**Trend Line of Loans & Advances for SCBNL**
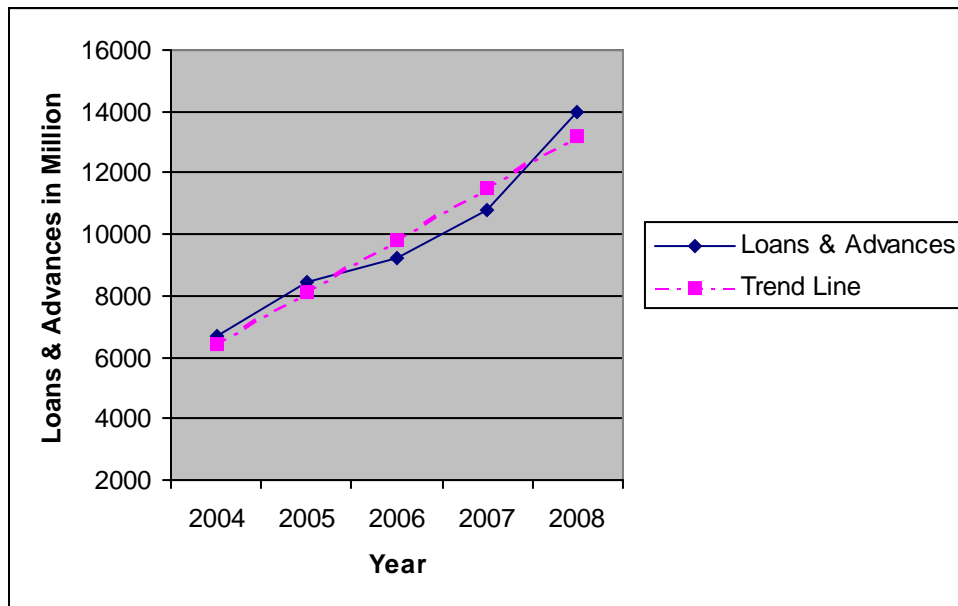


Now,

$$a = Y / N$$

$$= 49075.14 / 5 = 9815.03$$

$$b = XY / X^2$$

$$= 16909.52 / 10 = 1690.95$$

On the basis of the above calculations, we can predict the future Loans & Advances of SCBNL.

The trend equation is $Yc = a + bX$

When $x = 2009$, X=3,

Thus Yc = $9815.028 + 1690.95*3$ = Rs. $14887.884$

When $x = 2010$, X=4,

Thus Yc = $9815.03 + 1690.95*4$ = Rs. $16578.83$

When $x = 2011$, X=5,

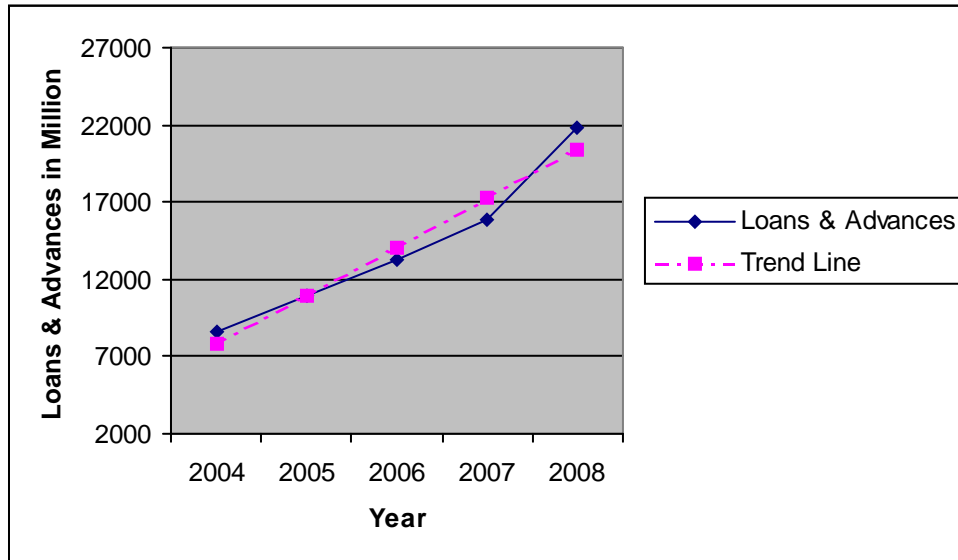Thus Yc = $9815.03 + 1690.95*5$ = Rs. $18269.78$.

## b) NABIL Bank Ltd.

**Table No. 26**

**Trend Analysis of Loans & Advances for NABIL**

| Year x | Loans & Advances (in Mill.) Y | X= x-2006 | $X^2$ | XY | Trend Values Yc = a + bX |
|---|---|---|---|---|---|
| 2004 | 8548.66 | -2 | 4 | -17097.32 | 7811.75 |
| 2005 | 10946.74 | -1 | 1 | -10946.74 | 10949.54 |
| 2006 | 13278.78 | 0 | 0 | 0 | 14087.33 |
| 2007 | 15903.03 | 1 | 1 | 15903.03 | 17225.12 |
| 2008 | 21759.46 | 2 | 4 | 43518.92 | 20362.91 |
| N = 5 | Y=70436.67 | X=0 | $X^2$=10 | XY=31377.90 | |
| | | | | | |
| 2009 | | 3 | | | 23500.70 |
| 2010 | | 4 | | | 26638.16 |
| 2011 | | 5 | | | 29775.95 |

# Figure No. 11

**Trend Line of Loans & Advances for NABIL**

Now,

$$a = \quad Y / N$$
$$= 70436.67 / 5 = 14087.334$$
$$b = \quad XY / \quad X^2$$
$$= 31377.90 / 10 = 3137.79$$

On the basis of the above calculations, we can predict the future Loans & Advances of NABIL.

The trend equation is **Yc = a + bX**

When *x* = 2009, X=3,

Thus Yc = *14087.33+ 3137.79\*3 = Rs. 23500.7.*

When *x* = 2010, X=4,

Thus Yc = *14087.33 + 3137.79\*4 = Rs. 26638.16.*

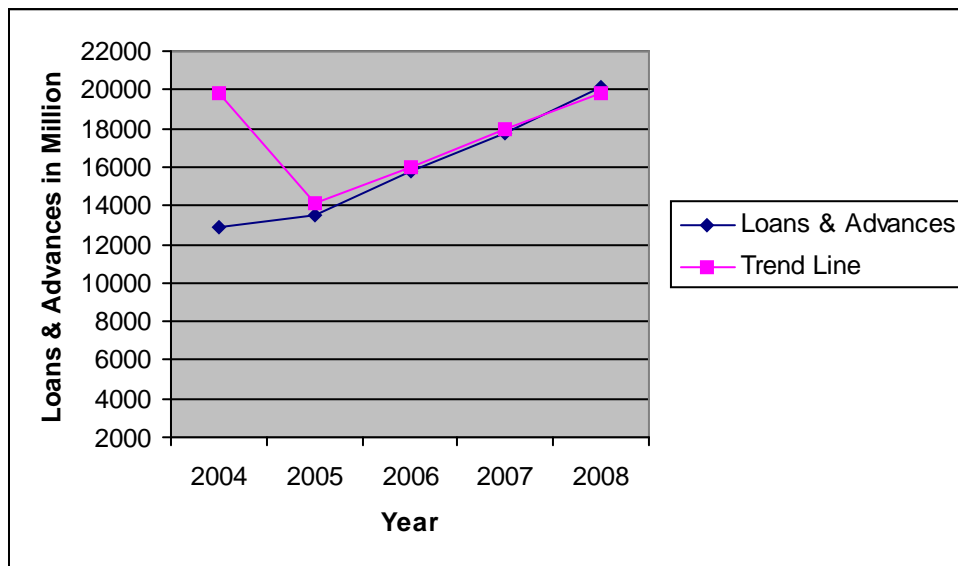When *x* = 2011, X=5,

Thus Yc = *14087 + 3137.79\*5 = Rs. 29775.95.*

## c) **Himalayan Bank Ltd.**

**Table No. 27**

**Trend Analysis of Loans & Advances for HBL**

| Year x | Loans & Advances (in Mill.) Y | X= x-2006 | $X^2$ | XY | Trend Values $Yc = a + bX$ |
|---|---|---|---|---|---|
| 2004 | 12919.63 | -2 | 4 | -25839.26 | 19794.00 |
| 2005 | 13451.17 | -1 | 1 | -13451.17 | 14134.97 |
| 2006 | 15761.98 | 0 | 0 | 0 | 16021.16 |
| 2007 | 17793.72 | 1 | 1 | 17793.72 | 17907.35 |
| 2008 | 20179.31 | 2 | 4 | 40358.62 | 19793.54 |
| N = 5 | Y=80105.81 | X=0 | $X^2$=10 | XY=18861.91 | |
| | | | | | |
| 2009 | | 3 | | | 21679.74 |
| 2010 | | 4 | | | 23565.93 |
| 2011 | | 5 | | | 25452.12 |

**Figure No. 12**

**Trend Line of Loans & Advances for HBL**



Now,

$$a = \ Y / N$$

$$=80105.81 / 5 = 16021.16$$

$$b = \ XY / \ X^2$$

110

=18861.91 / 10 = 1886.19

On the basis of the above calculations, we can predict the future Loans & Advances of HBL.

The trend equation is **Yc = a + bX**

When $x$ =2009, X=3,

Thus Yc = *16021.16 + 1886.19.63\*3 = Rs. 21679.74.*

When $x$ =2010, X=4,

Thus Yc = *16021.16 + 1886.19\*4 = Rs. 23565.93.*

When $x$ =2011, X=5,

Thus Yc = *16021.16 + 1886.19\*5 = Rs. 25452.12.*

### 4.3.3 Trend Analysis of Total Deposits

#### a) Standard Chartered Bank Nepal Ltd.

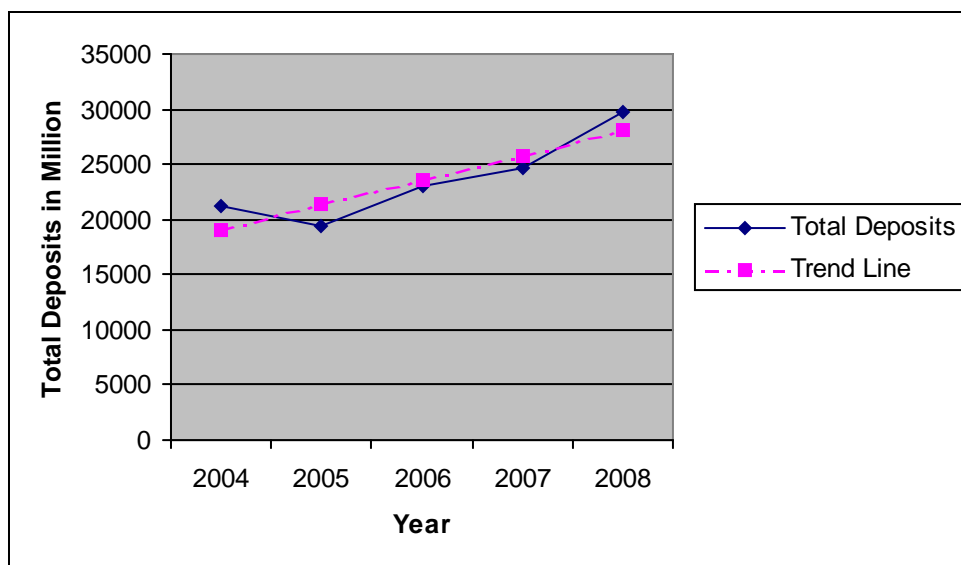**Table No. 28**

**Trend Analysis of Total Deposits for SCBNL**

| *Year* *x* | *Total Deposits (in Mill.) Y* | *X= x-2006* | *$X^2$* | *XY* | *Trend Values Yc = a + bX* |
|---|---|---|---|---|---|
| *2004* | 21161.44 | -2 | 4 | -42322.88 | 19094.31 |
| *2005* | 19335.09 | -1 | 1 | -19335.09 | 21342.02 |
| *2006* | 23061.03 | 0 | 0 | 0 | 23589.72 |
| *2007* | 24647.02 | 1 | 1 | 24647.02 | 25837.43 |
| *2008* | 29744.00 | 2 | 4 | 59488 | 28085.13 |
| *N = 5* | *Y=117948.58* | *X=0* | *$X^2$=10* | *XY=22477.05* | |
| | | | | | |
| *2009* | | 3 | | | *30332.84* |
| *2010* | | 4 | | | *32579.82* |
| *2011* | | 5 | | | *34827.50* |

**Figure No. 13**

**Trend Line of Total Deposits for SCBNL**

Now,

$$a = \Sigma Y / N$$

$$= 117948.58 / 5 = 23589.72$$

$$b = \Sigma XY / \Sigma X^2$$

$$= 22477.05 / 10 = 2247.71$$

On the basis of the above calculations, we can predict the future Total Deposits of SCBNL.

The trend equation is $Yc = a + bX$

When $x = 2009$, X=3,

Thus Yc = $23589.72 + 2247.71*3 = Rs.\ 30332.84.$

When $x = 2010$, X=4,

Thus Yc = $23589 + 2247.71*4 = Rs.\ 32579.82.$

When $x = 2011$, X=5,

Thus Yc = $23589 + 2247.71*5 = Rs.\ 34827.50$
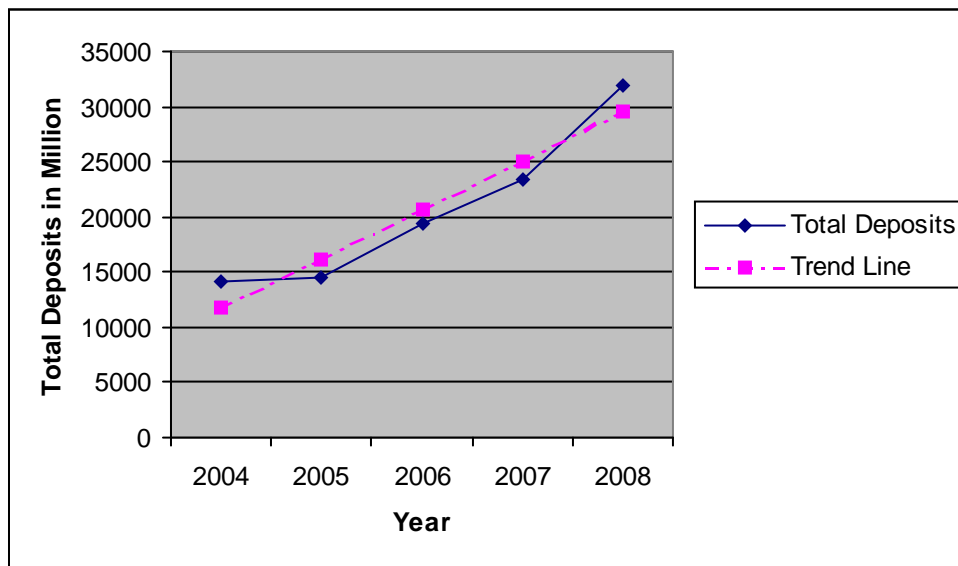
## b) NABIL Bank Ltd.

**Table No. 29**

**Trend Analysis of Total Deposits for NABIL**

| Year x | Total Deposits (in Mill.) Y | X= x-2006 | $X^2$ | XY | Trend Values Yc = a + bX |
|---|---|---|---|---|---|
| 2004 | 14119.03 | -2 | 4 | -28238.06 | 11792.53 |
| 2005 | 14586.61 | -1 | 1 | -14586.61 | 16227.30 |
| 2006 | 19347.40 | 0 | 0 | 0 | 20662.07 |
| 2007 | 23342.29 | 1 | 1 | 23342.29 | 25096.85 |
| 2008 | 31915.05 | 2 | 4 | 63830.10 | 29531.62 |
| N = 5 | Y=103310.38 | X=0 | $X^2$=10 | XY=44347.72 | |
| | | | | | |
| 2009 | | 3 | | | 33966.392 |
| 2010 | | 4 | | | 38401.18 |
| 2011 | | 5 | | | 42835.94 |

## Figure No. 14

### Trend Line of Total Deposits for NABIL



Now,

$$a = \ Y / N$$

$$= 103310.38 / 5 = 20662.08$$

$$b = \ XY / \ X^2$$

$=44347.72 / 10 = 4434.77$

On the basis of the above calculations, we can predict the future Total Deposits of NABIL.

The trend equation is $Yc = a + bX$

When $x = 2009$, X=3,

Thus Yc = $20662.08 + 4434.77*3 = Rs.33966.39$.

When $x = 2010$, X=4,

Thus Yc = $20662.08 + 4434.77*4 = Rs. 38401.18$.

When $x = 2011$, X=5,

Thus Yc = $20662.08 + 4434.77*5 = Rs. 42835.94$.


c) **Himalayan Bank Ltd.**


**Table No. 30**

**Trend Analysis of Total Deposits for HBL**

| Year x | Total Deposits (in Mill.) Y | X= x-2006 | $X^2$ | XY | Trend Values Yc = a + bX |
|--------|------------------------------|-----------|-------|-----|--------------------------|
| 2004 | 22010.33 | -2 | 4 | -44020.66 | 22061.41 |
| 2005 | 24814.01 | -1 | 1 | -24814.01 | 24551.35 |
| 2006 | 26490.85 | 0 | 0 | 0 | 27041.29 |
| 2007 | 30048.42 | 1 | 1 | 300484.42 | 29531.23 |
| 2008 | 31842.80 | 2 | 4 | 63685.6 | 32021.17 |
| N = 5 | Y=135206.41 | X=0 | $X^2$=10 | XY=24899.35 | |
| | | | | | |
| 2009 | | 3 | | | 34511.11 |
| 2010 | | 4 | | | 37001.05 |
| 2011 | | 5 | | | 39490.99 |


# Figure No. 15

**Trend Line of Total Deposits for HBL**
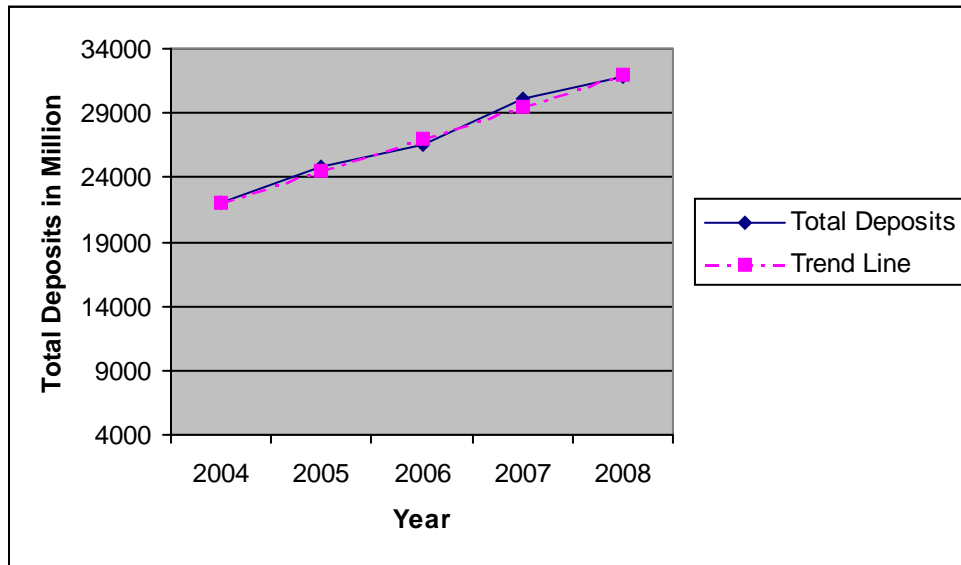
Now,

$$a = \ \Sigma Y \, / \, N$$
$$= 135206.41 / \, 5 = 27041.28$$
$$b = \ \Sigma XY \, / \ \Sigma X^2$$
$$= 24899.35 \, / \, 10 = 2489.94$$

On the basis of the above calculations, we can predict the future Total Deposits of HBL.

The trend equation is $Yc = a + bX$

When $x$ =2009, X=3,

Thus Yc = $27041.29 + 2489.94*3 = Rs. \ 34511.11.$

When $x$ =2010, X=4,

Thus Yc = $27041.29 + 2489.94*4 = Rs. \ 37001.05.$

When $x$ =2011, X=5,

Thus Yc = $27041.29 + 2489.94*5 = Rs. \ 39490.99.$

The above trend analysis of *Profit before Tax, Loans & Advances and Total Deposits* is certainly helpful to find out the comparative ***Strengths*** & ***Weaknesses*** of the concerned JVBs. Further, this analysis would also help the Bankers and the concerned Banks in making strategies to improve their financial performance.

## 4.4    SWOT Analysis

SWOT analysis is a systematic identification of internal strengths & weaknesses of a business & environmental opportunities & threats facing that business, which help to formulate the strategies that reflect the best match between them. It is based on the logic that an effective strategy maximizes a business strengths & opportunities but at the same time minimizes its weaknesses & threats. The objectives of SWOT analysis is to provide a framework to reflect organizational capabilities to avail opportunities or to overcome threats presented by the environment.

### 4.4.1  Strength (S)

Strength is the basic capabilities of the organization in which it can be used to gain competitive advantage. Some of the examples of the strengths are, well developed strategy, strong financial liquidity, human resources competencies, strong reputation & image, strong promotional activities, broad market coverage etc.

### 4.4.2 Weaknesses (W)

It is the basic limitation or constraint of the organization which creates competitive disadvantages. It is the deficiency in resources, skills, capabilities & knowledge which negatively affect the performance of an organization. Some of the examples of the weaknesses are weak marketing plan, no clear strategic direction, insufficient liquidity, inadequate human resources, weak reputation & image, obsolete technology etc.

### 4.4.3 Opportunities (O)

It is the favorable conditions in the organizations external environment, which enables its strength in its position. Some of the examples of the opportunities are new market areas, alliance or joint venture; exploit new technologies, serving additional customer groups, acquisition of rivals etc.

### 4.4.4 Threats (T)

It is an unfavorable condition of the organizations external environment, which cause risk for or damage to the organizations position. Some of the examples of the opportunities are increase in banks rivalry, change in economic trade cycle, central bank policy and rules, keen competition etc.

In Nepal, due to uncertain economic condition, banks are facing so many environmental threats. But raising too many new banks also proved that here are so many opportunities in that environmental threat. The strength, weaknesses, opportunity & threats of SCBNL, NABIL & HBL are shown in table below:

**Table No. 31**

**Comparative SWOT Analysis of SCBNL, NABIL and HBL**

|  | SCBNL | NABIL | HBL |
|---|---|---|---|
|  |  |  |  |

| Strength | | | |
|---|---|---|---|
| | ⇒ Global networking like V- Sat.<br>⇒ Foreign a/c holders.<br>⇒ Well financial condition and more liquidity. Strong reputation & image in international market.<br>⇒ Highly paying system. Higher market value, share value & earning per share.<br>⇒ Central located branches.<br>⇒ With the compare to NABIL & HBL, higher level of investment with in minimum bad debts.<br>⇒ Minimum level of loan & advances and lower interest expenses than NABIL & HBL.<br>⇒ With the compare to NABIL & HBL, higher return on net worth & total risky assets. Higher dividend payout ratio. | ⇒ Co-ordination the various kind of remittance agency.<br>⇒ Aggressive promotional activities.<br>⇒ Up growing financial data such as profit, liquidity, customer deposit etc.<br>⇒ Handling by ex-governor as a board of director member.<br>⇒ With compare to SCBNL & HBL, higher return rate on total assets & total deposit.<br>⇒ Maximum number of branches.<br>⇒ Emphasis all level of customer (middle classes, lower & upper classes).<br>⇒ Attractive interest rate and a/c opening scheme.<br>⇒ Various banking services such as ATM, e-banking, sms Banking etc. | ⇒ Providing remittance services through Himal Remit.<br>⇒ Aggressive & effective promotional activities (Millioner offer etc).<br>⇒ Going to construct own building on prime location kamaladi.<br>⇒ Strong management team & handling by ex-governor.<br>⇒ Launching first time visa credit card in Nepal.<br>⇒ Higher number of a/c holders & maximum customer deposit than NABIL & SCBNL.<br>⇒ Minimum operating cost with compare to SCBNL & NABIL.<br>⇒ Launching many more attractive and interesting scheme. |

| Weaknesses | ⇒ Least remote branch.<br>⇒ Higher minimum balance on a/c opening.<br>⇒ Least number of a/c holders.<br>⇒ Minimum level of promotional activities.<br>⇒ Unable to aggressive market coverage on local market.<br>⇒ Least interest rate for a/c holders.<br>⇒ Inflationary pressure in the economy increasing the cost of operations.<br>⇒ Enhancing the staff engagement level in highly competitive market. | ⇒ Fighting against NRB rule on appeal court.<br>⇒ Higher staff cost & other operating cost.<br>⇒ Minimum return rate of investment on total deposit.<br>⇒ Lower ratio on total deposit to total assets & total debt to net worth. | ⇒ Lack of staff motivation strategic.(Staff turnover on management level i.e. Kishor Maharjan, Asa Adhakari & JD Panta sifted on Sunrise Bank, Suman Neupane sifted on Global Bank).<br>⇒ Minimum profit & weak financial condition with compare to SCBNL & NABIL.<br>⇒ Unsecured loan & more bad debts. (Like Himalayan Distillery).<br>⇒ Lower market value & per share value with compare to NABIL & SCBNL.<br>⇒ Maximum interest expensive than NABIL & SCBNL.<br>⇒ Lower earning per share with compare to SCBNL & NABIL.<br>⇒ Lower dividend payout ratio & higher amount of bad debts. |
|---|---|---|---|

| | | | |
|---|---|---|---|
| **Opportunities** | ▪ Rising on international business.<br>▪ Globalization.<br>▪ New and latest technology adoption in banking sector.<br>▪ Strong image in international market.<br>▪ Rising on multinational & Joint Venture Company.<br>▪ Flexible government rule & strategic. | o Strategy for hydro power investment.<br>o Large networking provides opportunity to serve various people.<br>o Flexible government rule & strategy.<br>o Technological development on banking sector.<br>o Rising in banking activities & utilities.<br>o Short-term loan & merchant business available on banking business. (Like home loan, car loan etc). | o Short term loan & merchant business available on banking business. (Like home loan, car loan etc).<br>o Flexible government rule & strategy.<br>o Latest & updated technology available in banking sector.<br>o Upgrowing trend line of banking business.<br>o Increasing trend of a/c holders.<br>o With compare to last year, higher profitability ratio in banking sector. |
| **Threats** | o Rising new and various banks on banking sector.<br>o Central banks uncertain & changing rule & regulation.<br>o Lack of strong security services for cash counter.<br>o Uncertain political & economic condition.<br>o Inflation rate.<br>o Uncertain dollar prices in international market.<br>o Lack of familiarize on local market.<br>o Deteriorating risk environment. | o Rising new and various banks on banking sector.<br>o Uncertain political & economic condition.<br>o Higher Inflation rate.<br>o Copying each other promotional activities.<br>o Central banks uncertain & changing rule & regulation.<br>o Increasing the number of financial company & co-operative institution.<br>o Security problem in banking sector. (Due to that 13 banks are stolen in short period). | o Rising new and various banks on banking sector.<br>o Increasing the number of financial company & co-operative institution.<br>o Uncertain political & economic condition.<br>o Higher Inflation rate.<br>o Unfair competition on banking sector. (Like staff competition, promotional competition etc).<br>o Central banks uncertain & changing rule & regulation.<br>o Lack of strong security services for cash counter. |

*(Source: Thesis review & Questionnaire)*

## 4.5 General Banking Environment

Banking environment refers to the factors which influence performance and outcomes of bank. Banking market in any country is determined by a number of factors political, economic and social. However the level of economic development, real economic growth, banking awareness, growth and habit of population, international activity of the bank in the country, services provided by the bank, level of urbanization, income distribution pattern etc. are key indicators. Banking market tends to develop in a country where higher level of economic development and free market is followed than in a country having lower level of economic and state controlled economy.

Hence, bank should continuously monitor its environment. It should anticipate and predict the changing forces in the environment. It should adapt to the changing environmental forces. Nepalese banks are also affected by the environmental forces.

Banking environment can be affected by both micro and macro economic factors. They are described as follows:

### 4.5.1 Micro Economic factors

They are the internal factors which can be controlled by the organization. They provide strength and weakness to banking. Strength is an inherent (internal) capacity which can use to gain advantage.

**Strength in Nepalese bank:**
➢ Various banking services such as ATM, e-banking, SMS-banking.
➢ Coordination of various kinds of remittance agencies.
➢ Effective promotional activities.
➢ Emphasis on all level of customers (middle, lower & upper classes)
➢ Training and development of employees for better performance.
➢ Introducing new products and services for better serving the market.

➢ Providing better quality services to the customers.

**Weakness in Nepalese Bank:**
➢ Credit risk / poor asset quality.
➢ Market risk.
➢ Overall interest risk.
➢ Country and transfer risk.
➢ Fraudulent activities.
➢ Weak management and internal controls.
➢ Liquidity risk.

## 4.5.2 Macro Economic factors:

They are the external factors which cannot be controlled by the organization. They provide opportunity and threat to the banking.

**Opportunities for Nepalese Bank:**
➢ Adoption of open and liberal economic and financial sector policy by government.
➢ Complete deregulation of interest rate of banking and financial institution by NRB.
➢ Many potential areas for lending.
➢ Higher demand for loan to small hydro power generation and other big project.
➢ Higher demand of consumer loans specially hire purchase, housing, educational and foreign employment.
➢ Excess liquidity in financial markets due to inflow of remittance.

**Threats in Nepalese Bank:**
➢ Highly competitive market.
➢ Frequently changes in laws and regulation like licensing tax, labour etc.
➢ Changes and variations in industrial and trade policies of the government. Similarly, changes in trade and transit treaty with India and other country.

➢ Some restrictions made in NRB regulation to control excessive lending like, single obligor limit, sectral limit etc.

➢ Absence of deposit insurance scheme.

➢ Weak legal infrastructure for recovery.

## 4.6 Environmental Scanning & Analysis

Scanning is acquiring information. Environmental scanning involves acquiring information from the environment to detect emerging trends and create scenarios. It monitors and interprets changes already underway and forecasts future developments that have potential impact on organization. It is done to identify opportunities and threats for the organization to formulate strategy.

Environmental scanning should be done objectively. While doing environmental scanning we should identify the forces in the banking environment that may be external environmental forces or internal. We should be able to determine the various sources for observation like newspaper, journal, report, book, meeting etc. It can be done by selecting different scanning methods and SWOT analysis should be done at the last step.

Environmental Analysis involves breaking whole into parts to find its nature function and relationship. Environmental analysis is managerial decision making process of assessing and interpreting the information gathered through scanning. The information is evaluated for accuracy, to resolve inconsistencies, and to assign significance. The current environmental changes are defined and future changes are predicted. Opportunities and threats are determined. Marketing strategies are developed.

Analyzing the banking environment we found that with compare to other commercial banks the three JVBs SCBNL, NABIL and HBL are the banks having strong power in the banking market. They are well known banks and are competing in the market and are able to adapt with the changing banking environment. They have provided better quality

services to the customers and have established more branches in remote areas. They come from internal banking environment and provide strategic advantage. Besides strength they have some weakness also. These banks are facing credit risk, market risk, fraudulent activities and liquidity risk. They also come from internal banking environment which provide strategic disadvantage.

In the same way they have got various opportunities like adoption of open and liberal economic and financial sector policy by government, many potential areas for lending, new and latest technology adoption in banking sector and high demand of consumer loans specially hire purchase, housing, educational and foreign employment. They come from external banking environment. They are favourable condition in the banking environment. Besides opportunities these banks are facing certain threats like highly competitive market, rising new and various banks in banking sector, frequent changes in laws & regulation, uncertain political & economic condition and security problem in banking sector. They also come from external banking environment which are unfavourable condition in the banking environment.

Among these three banks SCBNL is at the top level. There have been changes in the Bank's reserve position, income and liquidity. Reserve have increased through retention of profits, income stream maintained its momentum and the liquidity position remained comfortable. The bank has been following a prudent and conservative approach in its business plans and will continue to do so in order to fully protect all the stake holders' interests and ensure growth. There were no incidents which have had impact on reserve, profit or cash flow position of the Bank during the quarter under review. Though SCBNL seems to be the top bank but NABIL is also doing best performance. It is also one of the leading banks of Nepal but HBL's performance is satisfactory. It is trying its best for better performance. With compare to SCBNL & NABIL it's in the third position.

## 4.7  Major findings of the Study

The major findings of this study have been summarized below:

a) Comparative tabular presentation of Financial Highlights at the end of almost each year shows that general loan loss provision to total loan is highest for HBL as compared to SCBNL & NABIL. This might be due to the higher mobilization of deposits in Loans & Advances.

b) Various activity of utilization ratios, such as Credit deposit ratio, Performing assets to Total assets ratio, Performing assets to Total debt ratio and Investments to Total deposit ratio were analyzed separately for the selected JVBs. Credit Deposit ratio of NABIL stood highest at 68% as compared to 47% and 63% of SCBNL and HBL respectively at the end of FY 2007-2008.

c) The total deposit trend of NABIL explains that its deposit is increasing by NRs 4434.77 million each year with compare of HBL and SCBNL. The total deposits trend of HBL shows that the trend line almost fits with the actual total deposits, which have been increasing by NRs. 2489.94 million each year.

d) In the trend analysis section, it is seen that HBL has been mobilizing a large portion of its Total deposits on Loans & Advances. The Loans & advances of HBL are increasing by NRs. 1886.19 million every year as compared to NRs. 1690.95 million & NRs. 3137.79 million of SCBNL & NABIL respectively. The Loans & Advances of HBL has always been greater as compared to SCBNL & NABIL during the whole period under analysis.

e) The analysis reveals that all the JVBs have limited their Net Fixed Assets to Net worth Ratio at adequate level. Banks being the non-manufacturing enterprises have the minimal investment of owners' equity in the fixed assets in order to maximize the return on shareholders' fund.

f) The investments of all these JVBs are found to be more or less volatile. In some years, they are in the increasing trend whereas in other years, they are in the decreasing trend. The investment of SCBNL has decreased from NRs. 11,360.33 million in FY 2003-04 to NRs. 9,702.55 million in FY 2004-05, then again increased from NRs. 9702.55 million to NRs. 12,847.54 million in FY 2005-06. It again increased to NRs. 13,553.23 & NRs 13,902.81 in the year 2006-07 and 2007-08 respectively. Likewise, the investment of NABIL bank has been NRs. 5835.50 million, NRs. 4267.23 million NRs. 6178.53 million, NRs 8945.31 & NRs 9939.77 during the year end 15/07/2004, 15/07/2005, 16/07/2006, 16/07/2007 and 16/07/2008 respectively.

g) Other financial indicators like Earning per share (EPS), Dividend per share (DPS) and Book Value per share of SCBNL is found in the better position as compared to that of NABIL & HBL. The DPS of SCBNL & NABIL is in the increasing trend but the DPS of HBL is in decreasing trend.

h) Among the leverage ratios analyzed, total debts to total assets ratios for each of the selected banks were above 88% for the whole period under study, which signifies the excessive use of debts or outsider's funds to finance the total assets. This shows that the selected JVBs are extremely levered. More specifically, the outsider's claim exceed far more than that of the owners over the bank's assets.

# CHAPTER V
# SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter is important for the research because this chapter is the extract of all the previously discussed chapters. This chapter consists of mainly three parts: Summary, conclusion and recommendation. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation part, suggestion and recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as for further research.

## 5.1    Summary

A Bank is an institution, which deals with money by accepting various types of deposits, disbursing loans and rendering other financial services. To the greater extent, economic growth rate is based on the Banks and other financial institutions' performance in an economy. Many researches have revealed that Banks and economic condition are two wheels of the same chariot. Now-a-days, Banking activities are spreading all over the world. In the beginning of this thesis, there were only 25 commercial banks operating in Nepal. With the advent of other new commercial banks namely, Kist Bank the number has reached to 26. Besides, some other development banks are in the process of their conversion into commercial banks and few other commercial banks are emerging too. This has led to the intense competition in the banking business. Only those banks providing better services and having a greater profit margin would survive in the long run. Joint venture Banks in Nepal were established with some specific objectives. Some of them are:

→ To welcome foreign investment in the country in the form of JVB's capital.

→ To mobilize the idle resources for income generating purpose in a most effective way.

$\rightarrow$ To develop the Nepalese banking sector in order to make it proficient by sharing technical Foreign Service agreement with the help of expertise of the Nepalese personnel.

The primary objective of this study *'Comparative SWOT Analysis of Nepalese Joint Venture Commercial Banks'* is to highlight the hidden implications of the financial figures portrayed in the balance sheet and other financial data of the JVBs by interpreting their cause-effect relationships with regard to their financial performance and to identify their contribution in the National Economy. This analysis also helps to provide package of suggestions and possible guidelines to improve the banking operation in order to maximize the values of their shareholders based on the findings of the study.

In second chapter, theoretical review as well as review of previous research has been made. Different views about Banks, theories about them, factors affecting the performance of the banks and so on are reviewed in that chapter. Review of different books related to finance, commercial banks and others has been done in the theoretical review section. Besides, review of some articles and journals has also been conducted in the same part. Review of various previous dissertations and some of the policy documents governing the Commercial Banks has been presented in the section of review of related studies.

Research design used is mainly analytical. Out of the total financial system, three Joint Venture commercial banks are chosen for sample purpose; mainly secondary data are used for the analysis. These are all done in the third chapter. Lastly, in the fourth chapter, collected data are presented in tabular and graphic form and analyzed using various financial and statistical tools.

## 5.2    Conclusion

On the basis of the various studies and analysis conducted above, the following conclusions are reached out:

i) Banks are primarily profit making organizations that provide a range of financial services to their customers. On the basis of the profitability, the selected JVBs are among the top five commercial Banks operating in the country, Standard Chartered Bank Nepal Ltd., being the top one. The profitability position of SCBNL & NABIL is better than that of HBL in terms of Return on total assets and total deposits but during the year 2006 NABIL bank broke up the trend and earned highest profit with compare of SCBNL & HBL.

j) Interest is the major portion of the total income in all these selected JVBs during this study period. Likewise, interest expenses cover the major portion of total expenses in these banks.

k) During the study period, HBL is found to be the highest Deposit holding bank. In other words, Total deposits of HBL exceeded the other two banks under study, SCBNL & NABIL, in all of the years taken for this analysis. *In the trend analysis section*, it is noticeable that the Total Deposits for NABIL is in the lowest increasing trend. The Total deposits trend of NABIL explains that its deposit is increasing by NRs. 4434.77 million each year which is least than other two JVs banks. The Total deposits trend of HBL shows that the trend line almost fits with the actual Total deposits which have been increasing by NRs. 2489.94 million each year.

l) HBL has been seen to adopt the aggressive lending policy during the period of this analysis. It has been mobilizing a large portion of its Total deposits on Loans & Advances. The Loans & Advances of HBL has always been greater as compared to SCBNL & NABIL during this whole period under analysis.

m)  In case of all three JVBs, debt financing has always almost exceeded 90 % of the Total Assets over the review period, which indicates the excessively geared capital structure of these banks, which signifies the excessive use of debt to finance Total Assets. The high 'Total Outsiders' Fund to Total Assets' ratio implies bank's success

in exploiting debts to the more profitable assets. Since all the JVBs had been extensively using debt financing to the total assets, it can be concluded that these banks are highly levered.

n) The analysis reveals that all the JVBs have limited their Net Fixed Assets to Net worth Ratio at adequate level. Banks being the non-manufacturing enterprises have the minimal investment of owners' equity in the fixed assets in order to maximize the return on shareholders' fund.

o) The investments of all these JVBs are found to be more or less volatile. In some years, they are in the increasing trend whereas in other years, they are in the decreasing trend. This might be due to the instability in the political & economic situation of the country, which created an environment of chaos in the overall economy including the banking industry.

p) Other financial indicators like Earning per share (EPS), Dividend per share (DPS) and Book Value per share of SCBNL is found in the better position as compared to that of NABIL & HBL. The DPS of SCBNL & NABIL is in the increasing trend but the DPS of HBL is in decreasing trend.

q) The comparative *strength* of SCBNL is better as compared to NABIL & HBL as per data and as per the analysis done in the various sections. One of the primary objectives of the commercial bank is to maximize the profit. The SCBNL has dominated in this regard during almost the whole period of study except for one or two cases where NABIL took off. However, the profit before tax of all three banks is in the increasing trend.

r) The loan loss provision of SCBNL has always been least (during the whole period under analysis) among these three selected Joint Venture Banks signifying that it has less amount of bad loans, which is obviously good for any bank. This also proves the greater *strength* of SCBNL in mobilizing its deposits in the more beneficial manner.

s) Since all the three Banks selected for study are among the top banks operating in Nepal, their relative financial strength is better in the economy as compared to the other banks. But while comparing these selected banks alone, SCBNL, NABIL & HBL can be ranked chronologically as banks with higher strengths and lower weaknesses. Opportunities & Threats are present in the external environment. It is very probable that the bank with higher strength can grasp excellent opportunities and avoid redundant threats present in the economy.

## 5.3   Recommendations

Based on the analysis, interpretation & conclusions, some recommendations are made here so that the concerned authorities, future researchers, academicians, bankers can get some insights on the present conditions on above topics. It is assumed that this research will be profitable to improve the current situation as well as for the grounding of further researches. The major recommendations after this study are:

a. NABIL & HBL are with excessive loan loss provisions as compared to SCBNL. Therefore, they are suggested to evaluate the deposit of their borrowers in a more proficient way thereby identifying possibilities of risks prior granting the loans. This will help to decrease the volume of downgraded loans and finally the provisions will go down.

b. Higher costs to income ratio in case of HBL and NABIL are the primary cause for the lower PBT (Profit before Tax). Analyzing the data of three JVBs, from year 2003/04 to 2007/08, SCBNL has higher PBT than HBL and NABIL, but in the year 2006 NABIL bank was able to maximize its PBT with compare to SCBNL and HBL. So, in order to achieve operational efficiency these banks should reduce operating costs. Since by decreasing costs, profit of any bank can grow considerably, they must search

for loopholes in their operations where unnecessary costs are being incurred and should eliminate them.

c. As Loans & Advances of HBL & NABIL are in the higher volume as compared to SCBNL, SCBNL should try to increase its credit portfolio by exploring the productive sectors. This will not only increase the weight of interest income from risk assets but will also facilitate in promoting the industries to develop the overall economic situation of the nation.

d. In case of all three JVBs, debt financing has always almost exceeded 90 % of the Total Assets over the review period, which indicates the excessively geared capital structure of these banks. This shows the excessive use of debt to finance Total Assets. Nevertheless, extensive use of debts coupled with the failure in advancing good loans can jeopardize the solvency position of these banks. Therefore, it is suggested to the JVBs to assess the risk assets portfolio cautiously before accepting higher volumes of deposits.

e. Financial figures should show a consistency in their respective growths. The financial records observed in all these chosen JVBs are rather erratic. Therefore all these banks are suggested to predict a more accurate data in order to remain in the same position and to advance ahead.

f. In order to generate more capital for the development of the economy, more deposit needs to be collected by the financial institutions. For this the selected JVBs are suggested to quote higher deposit interest rate as far as possible. Though this situation reduces their profit prospects in the short run, it will enhance the economic condition of the country in the long run.

g. These JVBs should try to increase their gross spread so that they can afford to reduce the interest spread and the help the economy to achieve upper trends from the present recessionary situation. Gross spread can be increased mainly by:

- Decreasing the volumes of non performing assets;

- Decreasing the volumes of down-graded loans, which results in lower volumes of loan loss provisions; and

- Increasing the non-interest bearing external sources to compensate the interest bearing deposits, such as- current and margin deposits.

h. Sample JVBs are also suggested to include their interest rate structure in their annual report. Further they are requested for the co-operation and sincere support to the research students.

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# Table # 1

**Calculation of Return on Total Assets (Net Profit to Total Assets) :-**

*(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Net Profit After Tax | 537.80 | 539.20 | 614.78 | 670.48 | 743.80 |
| Total Assets | 23,925.68 | 22,171.24 | 26,207.89 | 28,884.19 | 33,581.17 |
| **Return on Total Assets** | **2.25%** | **2.43%** | **2.35%** | **2.32%** | **2.21%** |
| **NABIL** | | | | | |
| Net Profit After Tax | 455.31 | 518.64 | 628.38 | 630.44 | 700.78 |
| Total Assets | 17,104.15 | 17,546.89 | 22,795.58 | 27,620.64 | 37,527.16 |
| **Return on Total Assets** | **2.66%** | **2.96%** | **2.76%** | **2.28%** | **1.87%** |
| **HBL** | | | | | |
| Net Profit After Tax | 263.05 | 308.28 | 381.75 | 70.95 | 410.82 |
| Total Assets | 25,785.13 | 28,871.34 | 31,067.76 | 34,314.87 | 36,857.62 |
| **Return on Total Assets** | **1.02%** | **1.07%** | **1.23%** | **0.21** | **1.11%** |


# Table # 2

**Calculation of Return on Total Deposit (Net Profit to Total Deposits) :-**

*(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Net Profit After Tax | 537.80 | 539.20 | 614.78 | 670.49 | 743.80 |
| Total Deposits | 21,161.44 | 19,335.09 | 23,061.03 | 24,647.02 | 29,744 |
| **Return on Total Deposits** | **2.54%** | **2.79%** | **2.67%** | **2.72%** | **2.5%** |
| **NABIL** | | | | | |
| Net Profit After Tax | 455.31 | 518.64 | 628.38 | 630.44 | 700.78 |
| Total Deposits | 14,119.03 | 14,586.61 | 19,347.40 | 23,342.29 | 31915.05 |
| **Return on Total Deposits** | **3.22%** | **3.56%** | **3.25%** | **2.7%** | **2.20%** |
| **HBL** | | | | | |
| Net Profit After Tax | 263.05 | 308.28 | 381.75 | 70.95 | 410.82 |
| Total Deposits | 22,010.33 | 24,814.01 | 26,490.85 | 30,048.42 | 31,842.80 |
| **Return on Total Deposits** | **1.20%** | **1.24%** | **1.44%** | **0.24%** | **1.29%** |

## Table # 3

**Calculation of Return on Net worth (Net Profit to Total Share Holders' Fund) :-**

*(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Net Profit After Tax | 537.80 | 539.20 | 614.78 | 670.49 | 743.80 |
| Total Shareholders' Fund | 1,495.74 | 1,582.41 | 1,754.14 | 2,116.35 | 2,492.55 |
| **Return on Net Worth** | **35.96%** | **34.07%** | **35.05%** | **31.68%** | **29.84** |
| **NABIL** | | | | | |
| Net Profit After Tax | 455.31 | 518.64 | 628.38 | 630.44 | 700.78 |
| Total Shareholders' Fund | 1,481.68 | 1,657.64 | 1,874.99 | 2,057.04 | 2,437.19 |
| **Return on Net Worth** | **30.73%** | **31.29%** | **33.51%** | **30.65%** | **28.75** |
| **HBL** | | | | | |
| Net Profit After Tax | 263.05 | 308.28 | 381.75 | 70.95 | 410.82 |
| Total Shareholders' Fund | 1,324.17 | 1,541.75 | 1,766.18 | 2,397.83 | 2,512.99 |
| **Return on Net Worth** | **19.87%** | **20.00%** | **21.61%** | **2.96** | **16.35%** |

## Table # 4

**Calculation of Interest Earned on Total Assets:-**      *(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Total Interest Earning | 1,042.17 | 1,058.67 | 1,189.60 | 1,411.99 | 1,591.19 |
| Total Investments | 18,054.19 | 18,123.42 | 22,053.82 | 24,343.38 | 27,866.80 |
| **Interest Earned to Total Asset** | **5.77%** | **5.84%** | **5.39%** | **5.80** | **5.71%** |
| **NABIL** | | | | | |
| Total Interest Earning | 1,001.62 | 1,068.75 | 1,310.00 | 1587.76 | 1978.70 |
| Total Investments | 14,384.61 | 15,213.97 | 19,457.31 | 24,848.34 | 31,699.23 |
| **Interest Earned to Total Asset** | **6.96%** | **7.02%** | **6.73%** | **6.39%** | **6.24%** |
| **HBL** | | | | | |
| Total Interest Earning | 1,245.89 | 1,446.46 | 1,626.48 | 1,775.58 | 1,963.65 |
| Total Investments | 22,211.73 | 25,143.51 | 26,651.01 | 29,616.71 | 33,519.79 |
| **Interest Earned to Total Asset** | **5.61%** | **5.75%** | **6.10%** | **6.00%** | **5.86%** |

# Table # 5

**Calculation of Return on Risk Assets (Net Profit to Loans / Advances) :-**

*(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Net Profit After Tax | 537.80 | 539.20 | 614.78 | 670.48 | 743.80 |
| Total Credits | 6,693.86 | 8,420.87 | 9,206.28 | 10,790.15 | 13,963.98 |
| **Return on Risk Assets** | **8.03%** | **6.40%** | **6.68%** | **6.21%** | **5.33%** |
| **NABIL** | | | | | |
| Net Profit After Tax | 455.31 | 518.64 | 628.38 | 630.44 | 700.78 |
| Total Credits | 8,548.66 | 10,946.74 | 13,278.78 | 15,903.03 | 21,759.460 |
| **Return on Risk Assets** | **5.33%** | **4.74%** | **4.73%** | **3.96%** | **3.22%** |
| **HBL** | | | | | |
| Net Profit After Tax | 263.05 | 308.28 | 381.75 | 70.95 | 410.82 |
| Total Credits | 12,919.63 | 13,451.17 | 15,761.98 | 17,793.72 | 20,179.31 |
| **Return on Risk Assets** | **2.04%** | **2.29%** | **2.42%** | **0.40%** | **2.03%** |

# Table # 6

**Calculation of Cash & Bank Balance to Deposits Ratio :-**    *(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Cash & Bank Balance | 2,023.16 | 1,111.12 | 1,276.24 | 2,021.02 | 2,050.24 |
| Total Deposit | 21,161.44 | 19,335.09 | 23,061.03 | 24,647.02 | 2,9744 |
| **Cash & Bank Balance to Total Deposit Ratio** | **9.56%** | **5.75%** | **5.53%** | **8.20%** | **6.89%** |
| **NABIL** | | | | | |
| Cash & Bank Balance | 970.48 | 559.38 | 630.24 | 1,399.83 | 2,671.14 |
| Total Deposit | 14,119.03 | 14,586.61 | 19,347.40 | 23,342.29 | 31,915.05 |
| **Cash & Bank Balance to Total Deposit Ratio** | **6.87%** | **3.83%** | **3.26%** | **6.00%** | **8.37%** |
| **HBL** | | | | | |
| Cash & Bank Balance | 2,001.19 | 2,014.47 | 1,717.35 | 1,757.34 | 1,448.14 |
| Total Deposit | 22,010.33 | 24,814.01 | 26,490.85 | 30,048.42 | 31,842.80 |
| **Cash & Bank Balance to Total Deposit Ratio** | **9.09%** | **8.12%** | **6.48%** | **5.85%** | **4.55%** |

# Table # 7

**Calculation of Loans & Advances to Total Deposit (C/D) Ratio :-**

*(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Total Credit | 6,693.86 | 8,420.87 | 9,206.28 | 10,790.15 | 13,963.98 |
| Total Deposit | 21,161.44 | 19,335.09 | 23,061.03 | 24,647.02 | 29744 |
| **Credit Deposit Ratio** | **31.63%** | **43.55%** | **39.92%** | **43.78%** | **46.95%** |
| **NABIL** | | | | | |
| Total Credit | 8,548.66 | 10,946.74 | 13,278.78 | 15,903.03 | 21,759.46 |
| Total Deposit | 14,119.03 | 14,586.61 | 19,347.40 | 23,342.29 | 31,915.05 |
| **Credit Deposit Ratio** | **60.55%** | **75.05%** | **68.63%** | **68.13%** | **68.18%** |
| **HBL** | | | | | |
| Total Credit | 12,919.63 | 13,451.17 | 15,761.98 | 17,793.72 | 20,179.31 |
| Total Deposit | 22,010.33 | 24,814.01 | 26,490.85 | 30,048.42 | 31,842.80 |
| **Credit Deposit Ratio** | **58.70%** | **54.21%** | **59.50%** | **59.21%** | **63.37%** |

# Table # 8

**Calculation of Performing Assets to Total Assets Ratio :-**

*(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Performing Assets | 20,272.79 | 20,383.11 | 24,031.09 | 26,104.53 | 30,064.34 |
| Total Assets | 23,925.68 | 22,171.24 | 26,207.89 | 28,884.19 | 33,581.17 |
| **Performing Assets to Total Assets** | **84.73%** | **91.93%** | **91.69%** | **90.38%** | **89.53%** |
| **NABIL** | | | | | |
| Performing Assets | 15,303.34 | 16,082.40 | 21,192.21 | 25,411.87 | 33,651.59 |
| Total Assets | 17,104.15 | 17,546.89 | 22,795.58 | 27,610.64 | 37,527.16 |
| **Performing Assets to Total Assets** | **89.47%** | **91.65%** | **92.97%** | **92.04** | **89.67%** |
| **HBL** | | | | | |
| Performing Assets | 22,580.63 | 25,584.59 | 27,656.29 | 31,326.73 | 34,038.32 |
| Total Assets | 25,785.13 | 28,871.34 | 31,067.76 | 34,314.87 | 36857.62 |
| **Performing Assets to Total Assets** | **87.57%** | **88.62%** | **89.02%** | **91.29%** | **92.35%** |

# Table # 9

**Calculation of Performing Assets to Total Debt Ratio :-**

*(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Performing Assets | 20,272.79 | 20,383.11 | 24,031.09 | 26,104.53 | 30,064.34 |
| Total Debts | 22,146.32 | 20,311.16 | 24,211.26 | 26,527.40 | 30,858.08 |
| **Performing Assets to Total Debt** | **91.54%** | **100.35%** | **99.26%** | **98.41%** | **97.43%** |
| **NABIL** | | | | | |
| Performing Assets | 15,303.34 | 16,082.40 | 21,192.21 | 25,411.87 | 33,651.59 |
| Total Debts | 15,263.81 | 15,528.69 | 20,564.65 | 25,191.46 | 34,724.54 |
| **Performing Assets to Total Debt** | **100.26%** | **103.57%** | **103.05%** | **100.87%** | **96.91%** |
| **HBL** | | | | | |
| Performing Assets | 22,580.63 | 25,584.59 | 27,656.29 | 31,326.73 | 34,038.32 |
| Total Debts | 24,384.00 | 26,302.94 | 28,182.17 | 31,121.30 | 33,662.15 |
| **Performing Assets to Total Debt** | **92.60%** | **97.27%** | **98.13%** | **100.66%** | **101.12%** |

# Table # 10

**Calculation of Investments to Total Deposits Ratio :-**

*(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Investments | 11,360.33 | 9,702.55 | 12,847.54 | 13,553.23 | 13,902.82 |
| Total Deposit | 21,161.44 | 19,335.09 | 23,061.03 | 24,647.02 | 29,744.00 |
| **Investments to Total Deposit Ratio** | **53.68%** | **50.18%** | **55.71%** | **54.99%** | **46.74%** |
| **NABIL** | | | | | |
| Investments | 5,835.95 | 4,267.23 | 6,178.53 | 8,945.31 | 9,939.77 |
| Total Deposit | 14,119.03 | 14,586.61 | 19,347.40 | 23,342.29 | 31,915.05 |
| **Investments to Total Deposit Ratio** | **41.33%** | **29.25%** | **31.93%** | **38.32%** | **31.14%** |
| **HBL** | | | | | |
| Investments | 9,292.10 | 11,692.34 | 10,889.03 | 11,822.99 | 13,340.18 |
| Total Deposit | 22,010.33 | 24,814.01 | 26,490.85 | 30,048.42 | 31,842.79 |
| **Investments to Total Deposit Ratio** | **42.22%** | **47.12%** | **41.10%** | **39.35%** | **41.90%** |

# Table # 11

**Calculation of Total Debts to Total Assets Ratio :-**

*(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Total Debt | 22,146.32 | 20,311.16 | 24,211.26 | 26,527.40 | 30,858.08 |
| Total Assets | 23,925.68 | 22,171.24 | 26,207.89 | 28,884.19 | 33,581.17 |
| **Total Debt to Total Assets Ratio** | **92.56%** | **91.61%** | **92.38%** | **91.84%** | **91.89%** |
| **NABIL** | | | | | |
| Total Debt | 15,263.81 | 15,528.69 | 20,564.65 | 25,191.46 | 34,724.54 |
| Total Assets | 17,104.15 | 17,546.89 | 22,795.58 | 27,610.64 | 37,527.16 |
| **Total Debt to Total Assets Ratio** | **89.24%** | **88.50%** | **90.21%** | **91.24%** | **92.53%** |
| **HBL** | | | | | |
| Total Debt | 24,384.00 | 26,302.94 | 28,182.17 | 31,121.30 | 33,662.15 |
| Total Assets | 25,785.13 | 28,871.34 | 31,067.76 | 34,314.87 | 36,857.62 |
| **Total Debt to Total Assets Ratio** | **94.57%** | **91.10%** | **90.71%** | **90.69%** | **91.33%** |

# Table # 12

**Calculation of Long Term Debts to Total Assets Ratio :-**

*(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Total Fixed Deposits | 1,428.50 | 1,416.38 | 2,136.31 | 3,196.49 | 3,301.014 |
| Total Assets | 23,925.68 | 22,171.24 | 26,207.89 | 28,884.19 | 33,581.17 |
| **Total Long Term Debts to Total Assets Ratio** | **5.97%** | **6.39%** | **8.15%** | **11.07%** | **9.83%** |
| **NABIL** | | | | | |
| Total Fixed Deposits | 2,310.57 | 2,078.54 | 3,449.09 | 5,435.19 | 8,464.086 |
| Total Assets | 17,104.15 | 17,546.89 | 22,795.58 | 27,610.64 | 37,527.16 |
| **Total Long Term Debts to Total Assets Ratio** | **13.51%** | **11.85%** | **15.13%** | **19.69%** | **22.55%** |
| **HBL** | | | | | |
| Total Fixed Deposits | 4,710.17 | 6,107.43 | 6,350.20 | 8,201.13 | 6,423.87 |
| Total Assets | 25,785.13 | 28,871.34 | 31,067.76 | 34,314.87 | 36,857.62 |
| **Total Long Term Debts to Total Assets Ratio** | **18.27%** | **21.15%** | **20.44%** | **23.90%** | **17.43%** |

# Table # 13

**Calculation of Total Debts to Net Worth (Shareholder's Fund) Ratio :-**

*(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Total Debt | 22,146.32 | 20,311.16 | 24,211.26 | 26,527.40 | 30,858.08 |
| Total Shareholders' Fund | 1,495.74 | 1,582.41 | 1,754.14 | 2,116.35 | 2,492.55 |
| **Total Debt to Net Worth Ratio** | **14.81** | **12.84** | **13.80** | **12.53** | **12.38** |
| **NABIL** | | | | | |
| Total Debt | 15,263.81 | 15,528.69 | 20,564.65 | 25,191.46 | 34,724.54 |
| Total Shareholders' Fund | 1,481.68 | 1,657.64 | 1,874.99 | 2,057.05 | 2437.20 |
| **Total Debt to Net Worth Ratio** | **10.30** | **9.37** | **10.97** | **12.25** | **14.25** |
| **HBL** | | | | | |
| Total Debt | 24,384.00 | 26,302.94 | 28,182.17 | 31,121.30 | 33,662.15 |
| Total Shareholders' Fund | 1,324.17 | 1,541.75 | 1,766.18 | 2,397.83 | 2,512.99 |
| **Total Debt to Net Worth Ratio** | **18.41** | **17.06** | **15.96** | **12.98** | **13.40** |

# Table # 14

**Calculation of Long Term Debts to Net Worth (Shareholder's Fund) Ratio :-**

*(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Total Fixed Deposits | 1,428.50 | 1,416.38 | 2,136.31 | 3,196.49 | 3,301.01 |
| Total Shareholder's Fund | 1,495.74 | 1,582.41 | 1,754.14 | 2,116.35 | 2,492.55 |
| **Total Long Term Debt to Net Worth Ratio** | **0.96** | **0.90** | **1.22** | **1.51** | **1.32** |
| **NABIL** | | | | | |
| Total Fixed Deposits | 2,310.57 | 2,078.54 | 3,449.09 | 5,435.19 | 8,464.08 |
| Total Shareholder's Fund | 1,481.68 | 1,657.64 | 1,874.99 | 2,057.05 | 2,437.20 |
| **Total Long Term Debt to Net Worth Ratio** | **1.56** | **1.25** | **1.84** | **2.64** | **3.47** |
| **HBL** | | | | | |
| Total Fixed Deposits | 4,710.17 | 6,107.43 | 6,350.20 | 8,201.13 | 6,423.87 |
| Total Shareholder's Fund | 1,324.17 | 1,541.75 | 1,766.18 | 2,397.83 | 2,512.99 |
| **Total Long Term Debt to Net Worth Ratio** | **3.56** | **3.96** | **3.60** | **3.42** | **2.56** |

# Table # 15

**Calculation of Net Fixed Assets to Net Worth (Shareholder's Fund) Ratio :-**

*(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Net Fixed Assets | 136.23 | 71.41 | 101.30 | 125.59 | 117.27 |
| Net Worth | 1,495.74 | 1,582.41 | 1,754.14 | 2,116.35 | 2,492.55 |
| **Net Fixed Assets to Net Worth Ratio** | **9.11%** | **4.51%** | **5.77%** | **5.93%** | **4.70%** |
| **NABIL** | | | | | |
| Net Fixed Assets | 338.13 | 361.24 | 319.09 | 286.89 | 598.038 |
| Net Worth | 1,481.68 | 1,657.64 | 1,874.99 | 2,057.05 | 2437.20 |
| **Net Fixed Assets to Net Worth Ratio** | **22.82%** | **21.79%** | **17.02%** | **13.95%** | **24.54%** |
| **HBL** | | | | | |
| Net Fixed Assets | 299.64 | 295.82 | 540.82 | 574.06 | 726.06 |
| Net Worth | 1,324.17 | 1,541.75 | 1,766.18 | 2,397.83 | 2,512.99 |
| **Net Fixed Assets to Net Worth Ratio** | **22.63%** | **19.19%** | **30.62%** | **23.94%** | **28.90%** |

# Table # 16

**Calculation of Capital Adequacy Ratio (Capital Fund to Total Deposits) :-**

*(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Total Shareholders' Fund | 1,495.74 | 1,582.41 | 1,754.14 | 2,116.35 | 2,492.55 |
| Total Deposit | 21,161.44 | 19,335.09 | 23,061.03 | 24,647.02 | 29,744.00 |
| **Total Shareholders' Fund to Total Deposit** | **7.07%** | **8.18%** | **7.61%** | **8.59%** | **8.38%** |
| **NABIL** | | | | | |
| Total Shareholders' Fund | 1,481.68 | 1,657.64 | 1,874.99 | 2,057.05 | 12,437.20 |
| Total Deposit | 14,119.03 | 14,586.61 | 19,347.40 | 23,342.29 | 31,915.05 |
| **Total Shareholders' Fund to Total Deposit** | **10.49%** | **11.36%** | **9.69%** | **8.81%** | **7.64%** |
| **HBL** | | | | | |
| Total Shareholders' Fund | 1,324.17 | 1,541.75 | 1,766.18 | 2,397.83 | 2,512.99 |
| Total Deposit | 22,010.33 | 24,814.01 | 26,490.85 | 30,048.42 | 31,842.79 |
| **Total Shareholders' Fund to Total Deposit** | **6.02%** | **6.21%** | **6.67%** | **7.98%** | **7.89%** |

# Table # 17

**Calculation of Loan Loss Coverage Ratio (Loan Loss Provision to Total Risk Assets) :-**

*(Rs. In Million)*

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Loan Loss Provision | 283.62 | 277.66 | 242.49 | 240.45 | 230.55 |
| Total Risk Assets | 6,693.86 | 8,420.87 | 9,206.28 | 10,790 | 13,963.98 |
| **Loan Coverage Ratio** | **4.24%** | **3.30%** | **2.63%** | **2.23%** | **1.65%** |
| **NABIL** | | | | | |
| Loan Loss Provision | 358.66 | 360.56 | 355.94 | 362.13 | 365.43 |
| Total Risk Assets | 8,548.66 | 10,946.74 | 13,278.78 | 15,903.03 | 21,759.46 |
| **Loan Coverage Ratio** | **4.20%** | **3.29%** | **2.68%** | **2.28%** | **1.68%** |
| **HBL** | | | | | |
| Loan Loss Provision | 967.76 | 1,026.65 | 1,119.42 | 795.73 | 682.47 |
| Total Risk Assets | 12,919.63 | 13,451.17 | 15,761.98 | 17,793.72 | 20,179.31 |
| **Loan Coverage Ratio** | **7.49%** | **7.63%** | **7.10%** | **4.47%** | **3.38%** |

# Table # 18

**Calculation of EPS, DPS & D/P Ratio :-**

| Year End | 15/07/2004 | 15/07/2005 | 16/07/2006 | 16/07/2007 | 16/07/2008 |
|---|---|---|---|---|---|
| **SCBNL** | | | | | |
| Earning Per Share | 143.55 | 143.93 | 164.01 | 162.25 | 119.82 |
| Dividend Per Share | 110.00 | 120.00 | 130.00 | 80 | 80 |
| Dividend Payout Ratio | 76.63% | 83.37% | 79.26% | 49.31 | 66.67 |
| Book Value Per Share | 399.25 | 422.38 | 468.22 | 512.11 | 401.51 |
| **NABIL** | | | | | |
| Earning Per Share | 92.61 | 105.49 | 127.81 | 128.23 | 101.68 |
| Dividend Per Share | 65.00 | 70.00 | 85.00 | 100 | 60 |
| Dividend Payout Ratio | 70.19% | 66.36% | 66.50% | 77.98 | 59.00 |
| Book Value Per Share | 301.00 | 337.00 | 381.36 | 418.39 | 353.62 |
| **HBL** | | | | | |
| Earning Per Share | 49.05 | 47.91 | 49.44 | 8.75 | 40.53 |
| Dividend Per Share | - | 11.58 | 30.00 | - | 25 |
| Dividend Payout Ratio | 0.00% | 24.17% | 60.68% | 0.00% | 61.68% |
| Book Value Per Share | 246.93 | 239.59 | 228.72 | 295.73 | 247.95 |