CHAPTER-I

INTRODUCTION

1.1 Background of the Study

When we talk of the wonderful scientific inventions, banking also comes to be as a wonder of the modern world. Generally, bank is a financial intermediary accepting deposits and granting loans. It offers the widest menu of service of any financial institution. In fact, a modern bank performs such a variety of function that is difficult to give a precise and general definition of a bank. Banks are principal source of credit for millions of individual, families and for many units of government. Banks render a wide range of services to the people in 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 person 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 develops 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 tracing in commodities than money. Then they issues 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, found in 1157A.D. Broadly speaking, a bank draws surplus idle money from 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 in different walks of life; they have become an essential part of modern society. (Khadka & Singh, 2060:4)

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 channels 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 the practice even in the ancient times. In Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Sankhader, a Surda merchant of Kantipur in 879A.D. or 880A.D. after having paid all the outstanding debts in the country. The establishment of the 'Tejarath Adda' during the year 1877A.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. (Singh, 2066:2)

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 basis function i.e. they provide a link between lenders to 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 banking industry is precise in a complex network embracing payments mechanism, borrowing and lending of funds. Though they have other important functions, but the key role played by these banks is to collect the deposit and mobilize such deposit in the productive sector of the nation. (Adhikari, 2009:4)

To the greater extent, economic growth rate is based on the banks and other financial institution. 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 on 2068/03/30

Table 1.1

List of Licensed Commercial Banks

S.No	Commercial Banks	Established Date(B.S)/(A.D.)	Operation Date(B.S)/(A.D)	Head Office
1	Nepal Bank Ltd	1994/07/30 B.S.	1994/07/30 B.S.	Kathmandu
2	Rastriya Banijya Bank	2022/10/10 B.S.	2022/10/10 B.S.	Kathmandu
3	Nabil Bank Ltd.	2041/03/29 B.S.	2041/03/29 B.S.	Kathmandu
4	Nepal Investment Bank Ltd.	2042/11/16 B.S.	2042/11/16 B.S.	Kathmandu
5	Standard Charted Bank Nepal Ltd.	2043/10/16 B.S.	2043/10/16 B.S.	Kathmandu
6	Himalayan Bank Ltd.	2049/10/05 B.S.	2049/10/05 B.S.	Kathmandu
7	Nepal Bangladesh Bank Ltd.	2050/02/23 B.S.	2050/02/23 B.S.	Kathmandu
8	Nepal SBI Bank Ltd.	2050/03/23 B.S.	2050/03/23 B.S.	Kathmandu
9	Everest Bank Ltd.	2051/07/01 B.S.	2051/07/01 B.S.	Kathmandu
10	Bank of Kathmandu Ltd.	2051/11/28 B.S.	2051/11/28 B.S.	Kathmandu
11	Nepal Credit and Commerce Bank Ltd.	2053/06/28 B.S.	2053/06/28 B.S.	Siddhartha Nagar
12	Lumbini Bank Ltd.	2055/04/01 B.S.	2055/04/01 B.S.	Narayangadh
13	Nepal Industrial and Commercial Bank Ltd.	2055/04/05 B.S.	2055/04/05 B.S.	Biratnagar
14	Kumari Bank Ltd.	2056/08/24 B.S.	2056/12/21 B.S.	Kathmandu
15	Machhapuchchhre Bank Ltd.	2057/06/01 B.S.	2057/06/01 B.S.	Pokhara
16	Laxmi Bank Ltd.	2058/06/11 B.S.	2058/12/21 B.S.	Birgunj
17	Siddhartha Bank Ltd.	2058/06/12 B.S.	2058/09/09 B.S.	Kathmandu
18	Global Bank Ltd.	2063/02/15 B.S.	2063/08/30 B.S.	Birgunj

19	Citizen Bank International Ltd.	2064/01/07 B.S.	2064/01/07 B.S.	Kathmandu
20	Prime Bank Ltd.	2064/06/07 B.S.	2064/06/07 B.S.	Kathmandu
21	Sunrise Bank Ltd.	2064/06/20 B.S.	2064/06/25 B.S.	Kathmandu
22	Bank of Asia Ltd.	2064/06/25 B.S.	2064/06/25 B.S.	Kathmandu
23	Agricultural Dev. Bank Ltd.	2024/09/18 B.S.	2024/09/18 B.S.	Kathmandu
24	Dev. Credit bank Ltd.	2057/10/10 B.S.	2057/10/10 B.S.	Kathmandu
25	NMB Bank Ltd.	2053/08/11 B.S.	2053/08/11 B.S.	Kathmandu
26	Kist Bank Ltd.	2059/10/29 B.S. As class ''C''	2066/01/24 B.S. As class "A''	Kathmandu
27	Janata Bank Ltd.	2066/12/23	2066/12/23	New Baneshor
28	Mega Bank Ltd.	2067/04/07	2067/04/07	Kantipath
29	Commerz and Trust Bank Ltd.	2067/06/04	2067/06/04	Kamaladi
30	Civil Bank Ltd.	2067/08/10	2067/08/10	Kamaladi
31	Century Commercial Bank Ltd.	2067/11/23	2067/11/23	Putalisadak

Source-NRB website and bank visit

1.1.1 Joint Venture Banks

Joint venture banks are partnering having alliance banks with more than one nation. Joint venture banks (JVBs) are financial intermediates dealing with borrowing and lending of money. The financial system of a banking industry is precise in a complex network embracing payments mechanisms, borrowing and the lending of funds. Though, they have other important functions, but the key role played by the banks is to collect the deposit and mobilize such deposit in productive sector of the nation. 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 development 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 witnesses several changes in the financial systems as a result of which several JVBs involved 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 Investment Bank limited(Franchising Nepal Indosuez Bank) in early 1986, Standard Charted Bank Nepal(Franchising Nepal Grindlays Bank) in 1987 and Himalayan Bank Limited in 1992. In recent years, several new banks, namely as Nepal Bangladesh Bank, Nepal SBI Bank and Everest Bank Limited have entered in the market and there are six foreign joint venture banks operating in Nepal.

Joint venture banks were established to invent 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 competitive 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 i.e. Corporate Banking, Retail and Private Banking, Investment Banking, Credit Cards, Technology and at the same time, they must maintain their asset quality by keeping intact the lending standards. (Adhikari, 2009:8)

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 hold 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 job through excellence service and customer satisfaction, thereby earning a stable and consistent return to their shareholders.

Nevertheless, Nepalese banking system is still in a crossroads, rapid changes to ways of working are needed in order to improve profitability via innovation, flexibility and efficiency. These banking in terms of community 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 **'SWOT Analysis of Nepalese Joint Venture Commercial Banks'** focuses at the financial intermediation of the leading joint venture banks operating in Nepal.

1.1.2 SWOT Analysis

Strength, Weakness, Opportunity and **Threat (SWOT)**

SWOT analysis is a simple framework for generating strategic alternatives from a situation analysis. It is applicable to either the corporate level or business unit level and frequently appears in marketing plans. **SWOT** stands for **Strength, Weakness, Opportunity** and **Threat.**

In **SWOT, Strength** and **Weakness** are internal factors. For example:

Strengths could be:

1 Your market leadership, Public image, organization network and alliance etc.
2 A new innovative product or service.
3 Location of your business.
4 Quality processes and procedures.
5 Any other aspect of your business that adds value to your products or service.

Weaknesses could be:

1 Lack of facilities, resources, marketing skills.
2 Undifferentiated products or services (i.e. in relation to your competitors).
3 Poor quality goods or services
4 Location of your business.
5 Lack of marketing expertise.

In **SWOT**, **Opportunities** and **Threats** are external factor. For example: An **Opportunities** could be:

1 New market, reduction in competition, technological change etc

2 Mergers, joint ventures or strategic alliances.

3 Moving into new market segment that offer improves profits.

4 A market vacated by an ineffective competitor.

5 A new international market.

Threats could be:

1 The entry of new competitor,

2 Major change in technology and government regulation.

3 A competitor has a new, innovative product or service, slow market growth rate.

4 Competitors have superior access to channels of distribution.

5 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 **SWO**T. It simply looks at the negative factors first, in order to turn them into positive factor. 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 analysis basically on the financial aspects

1.2 Focus of the Study

This study **'SWOT Analysis of Nepalese Joint Venture Commercial 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 impact on the national economy as a whole. The financial performance of any bank can be evaluated on the basis of the meeting of their objectives and fulfillment of the function. Analyzing financial performance is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a bank's and its 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. JVBs 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 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 the 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. (Adhikari, 2009:12)

This study will support in identifying weak areas and determining strategies relating to these banks. This study analyzes not only the financial information of JVBs but also analyzes the cause of their **Strengths**, **Weaknesses, Opportunities** and **Threats** which are facing by the banking sector. This study will be of great important 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 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 spot, examine and assess the financial **Strengths, Weaknesses, Opportunities and Threats** of the selected Joint Venture Banks. The following objectives have been considered as prime objectives of the study.

- To study and analyze the growth, objectives, functions and role of the Joint Venture Banks.

- To evaluate the comparative financial strengths & weaknesses of three competitive JVBs
- To provide package of suggestion and possible guidelines to improve the banking operation in order to maximize the values of their shareholders based on finding of the study.

1.5 Introduction of Sampled Organizations under Study

Standard Chartered Bank Nepal Limited (SCBNL)

Standard Chartered Bank 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 United Kingdom on August 2000. Consequently, the name of the bank was changed from 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 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 SCBNL group, the bank has spent considerable efforts to change the system platform, both software and technology infrastructure. (www.standardcharatered.com/np)

Nabil Bank Limited (NABIL)

Nepal Arab Bank limited is the first bank established in Joint investment in Nepal. This bank was established in 1984. In short form, it is called Nabil bank. 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. 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. The first Joint venture bank in Nepal is successfully running at its 25^{th} year with providing full-fledged commercial banking service to its clients.

(www.nabilbank.com)

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 more than fourteen branches in Kathmandu valley and outside the valley. The bank has a very aggressive plan of establishing more branches in different parts 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 further 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. (www.himalayanbank.com)

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 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, academician, Professional, bankers, shareholders, managers, 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 financial to the practical results derived from this study.

The analysis of the financial performance will stress the strengths and weaknesses 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 the three JVBs namely NABIL, SCBNL & HBL. NABIL, 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. (2005/6 to 2009/10)
- This 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 will be divided into five chapters. 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, 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** will concern with the application of defined research method on the collected data and information. The generated results after the application of research method on data will be analyze and interpreted in this chapter. The **fifth chapter** is the last part of the study which provides Summary, Conclusion and Recommendations for improving the future performance of the sample banks. Finally, bibliography and appendix are also presented at the end of thesis work.

CHAPTER II

REVIEW OF THE LITERATURE

In fact, review of literature begins with a search for a suitable topic and continues throughout the duration of research work. Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies, their conclusion and deficiencies may be known and further research can be conducted. It deals with the literature survey of the existing volumes of similar or related subjects. It is an integral and mandatory process in research work. Thus a literature review is the process of locating, obtaining, reading and evaluating the research literature in the area of the student's interest (Joshi, P. R. 2003:107). The primary purpose of literature review is to learn not to accumulate. It enables the researcher to know.

- What are the deficiencies of the study?
- What are the areas of agreement or disagreement?
- What are the approaches taken by the other researchers?
- What research has been done in the subject?
- What theories have been advanced?
- 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 strengths and weaknesses of the chosen JVBs and the opportunities/ threats they possess in the dynamic environment. The review of literature is arranged in the following order:

2.1 Conceptual Review

2.1.1 Financial Performance Analysis

Financial performance analysis means the first is the balance sheet, which represents a snapshot of the firm's financial position at the movement in time and next is the income statement that depicts a summary of the firm's profitability over time.

In a bank, financial statement represents a systematic summary of banking transaction stating actual cash inflow and outflow and earnings. It reflects the actual financial position of the firm.

In the words of **Myers J.C (1961)** “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 these factors as shown in series of statement.’’

Financial statements are the written details of income, expenditure, profit and loss of an organization for a given period service. It is an actual historical data about the financial transaction

Objectives of Financial Analysis:

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 the analysis also differs from one party to other. However, major objectives of the analysis in broad sense can be stated as follows.

- Assessment of past performance & current position
- 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 looking the past performance i.e. 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-

- Judges profitability, Liquidity, Solvency.
- Forecasting, budgeting and planning for the future with analysis of current data, 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, share and the amount of dividend of company. The creditors judge the potential debt paying ability of the company. The potential of the existing company are easier to predict than that of others. This means that there is less risk associated with them. The risk of the investment predicts the future profitability and liquidity. Besides that, managers of the business concern will get various information about the potential aspects 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 to reduce weakness and strengthen the performance.

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 statement is completed in three major steps.

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 from 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.

2.1.2 Techniques of Financial Analysis:

To evaluate the financial condition and performance of the 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. 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.

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

Funds flow statement summaries the resource made available to finance the activities of an enterprises and the use to which such resources have been put. Over the year, it is being treated as the integrated part of financial statement.

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 owner's equity. It is also aimed to depict the way in which the firm used its financial resources during the period.

The uses of the funds flow statement is the limited role performed by the financial statement in providing the details about the funds, the business information received from each source and the amount of funds used for each purpose throughout the year.

The utility of this technique is that, it enables shareholders, creditors and other interested persons to evaluate the use of funds. It also enables them to determine how these 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 which 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) Cash Flow Analysis

When the management is interested to know about the movement of cash and the availability of cash, the cash flow analysis provides all information. A cash flow statement is primarily important to the financial management. It is essential tools of short term as well as long- term financial analysis. It is prepared to 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 the 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. (Devkota, 2007:20)

It is more confidential than fund flow analysis for the decision related to the near future. It’s main uses are as follows;

- It helps to evaluate the current cash position.
- It helps the management in taking short- term financial decision.
- It helps in planning & provides the data for control.

The projection of cash flow for near future can be made to determine the availability of cash. This cash balance can be matched with firm's need for cash during the period and accordingly, arrangement can be made to meet the deficit or invest the surplus cash temporarily. But it is also not 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) Trend Analysis

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 for the comparison which may be in 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. Through, it is the important tool of analysis, it too is also bound by limitation. They are:

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

d) Ratio Analysis

Ratio analysis is one of the techniques of financial analysis. Business firms use ratios as yardsticks for evaluating the financial condition and performance. Analysis and interpretation of firms using various accounting ratios give a skilled and experienced analyst better understanding of the financial condition and performance of the firm than what he could have obtained only through a perusal of financial statement (Adhikari, 2009:22). Ratios are guides or shortcuts that are useful in evaluating the financial position and operation of a company when 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 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. Investor 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.

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.

2.2 Review of Related Studies

2.2.1 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 decides 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 openings of new bank produces latest banking product and technology in the banking system of Nepal.

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 also encourages the commercial banks to enhance their efficiency and competitiveness through modernization, mechanization, computerization and prompt customer services by setting them to the exposure of the joint venture banks.

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, 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.

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.

Silvanus. (2011). in his article titled as **"There is Much to Gain and Look Forward to"** published in **'New Business Age'** Magazine. He says that Asia is typically a burgeoning economy for entrepreneurs and Nepal is no exception. If you look around, you can see how entrepreneurs are converting opportunities on a daily basis. The people of Nepal are very resilient and it's time their patience got paid back in terms of good governance. The central bank needs to have a good embedded structure on which policies can be grown upon.

He further says that Nepal continuous to be very important from a South Asian perspective of Standard Chartered Bank. It is now my turf to be able to grow the relative importance of Nepal in the overall scheme of things. Having consumer banking and wholesale banking as the two basic engines of growth for us, does not mean that we will have quantum changes about the way we do our business in this part of the world.

An article written by **Timalsina. (2011).** titled as **"Bad Debts Risk Management"** published in **'Aarthik Abhiyan'** daily tresses on a proper risk management. She believes in the appropriate classification of loans under performing and non-performing category. In this context, she 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, her suggestions includes

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

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

3 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.

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

Similarly, an article written by **Pandy. (2011).** titled as **"Future of Nepali Banking"** published in **'New Business Age'** Magazine focuses on the well performance of JVBs. He also says that the banks are now operating in a more competitive environment than before. In the wake of greater financial deregulation and global financial integration, the biggest challenge is of avoiding instability in the financial system. 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 new areas by marketing their credit in important sub-sectors such as Hydro-electricity, tourism, irrigation etc.

Pandy 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 attract more financial resources from the public.

In conclusion, he says that it is increasingly evident that the economy offers opportunities but no security. Therefore, the future will belong to those who develop good internal controls, checks, balances and a sound market strategy along with investment in talent.

For our purpose, another useful article by **Poudel. (2053).** titled as **"Financial Statement Analysis"** published in **'Nepal Rastra Bank Samachar'** is reviewed.

According to **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.

A report by **Nepal Rastra Bank. (2006).** titled as **''Task Force on Foreign Bank Branches and the Health and Stability of Nepal's Financial System''** published in **'NRB Samachar'.** However this report basically focuses on Legal, Regulatory and Supervisory Provisions for Foreign Bank Branches in Nepal but it also defines that the overall performance of Joint Venture Banks are better than other local commercial banks.

Interest received on loans/advances and investment and paid on deposit liabilities are the major components of profit and 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 2.1
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

(Source-Thesis review)

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

Table 2.2

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

(Source-Thesis review)

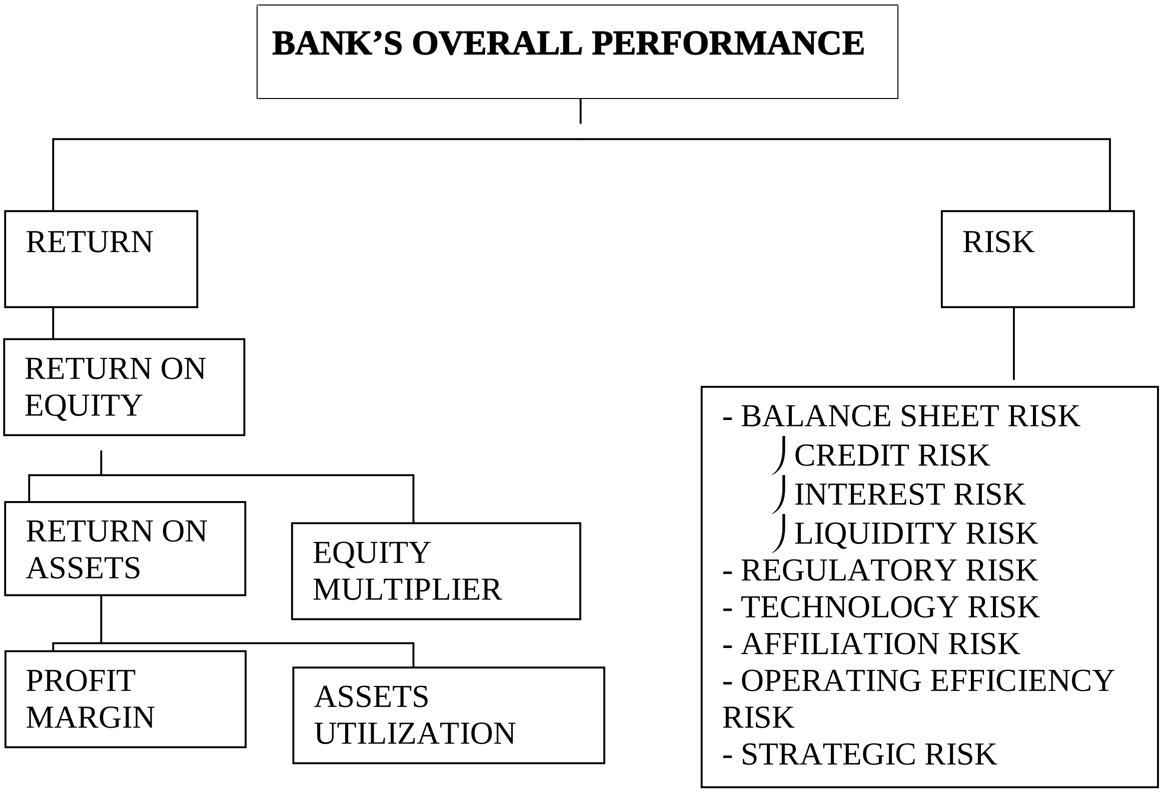
Thus, users of the financial statements of a bank need relevant, reliable and comparable information which assists them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions.

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)

Figure 2.3

Bank's Overall Performance



ROA	=PM * AU = Net Income / Average Assets
EM	= Average Assets / Average Equity
PM	= Net Income / Total Income
AU	= Total Income / Average Assets

(Source-Thesis review)

2.2.2 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 to formulate monetary policies, Nepal Rastra Bank (NRB) 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 Act and subject to Nepal Rastra Bank Act 2012, Foreign Exchange Regulation Act 2019 along with the current Nepalese law. (www.nrb.org.np)

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. **(**Nepal Rastra Bank 2008, *Unified NRB Directives for Financial Institutions: Directive 1to 20)*

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

4) 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 in Nepal at any bank.

6) The government has been actively encouraging the development of the banks. At present, there are 31 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 2053 (Amended)

Commercial Banks including JVBs in Nepal can be established only as a company with limited liability under the 2053 company Act on the recommendation of Nepal Rastra Bank. The provision mentioned in the Act strictly regulates the commercial banks in all the aspects, starting from the incorporation to the winding up of the bank. (www.nrb.org.np)

Bank & Financial Institutions Act 2053

- **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 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 provision 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 accept with the conditions thus prescribed by the NRB.

Nepal Rastra Bank Act 2058 (Amended)

As per the provision of the NRB Act, 2058, 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. (www.nrb.org.np)

2.2.3 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 thesis and it is believed that these studies have contributed significantly towards identifying the **Strength** and **Weakness** of the concerned JVBs

A case study by **Lamsal (1999)** titled as **'A comparative financial statement analysis of HBL & NGBL'** has concluded that liquidity ratios of both the banks are fluctuating and 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.

Katwal (2005) in his thesis entitled **'SWOT Analysis of Nepal Credit & Commerce Bank Ltd'** has concluded that liquidity position cannot be regard as satisfactory. Loans & Advances have been the main form of the investment. Thus, it becomes necessary for the banks to search for better investment sector and invest in it. He had come out with some valuable suggestions to the JVBs which are outlined below:

1) JVBs need to make balance between disbursing of cash dividend and issuing of bonus shares.
2) They need to increase their equity base to maintain the capital adequacy.
3) JVBs need to increase operational profit by concentrating in consistent earnings rather than fluctuating earnings.
4) They need to maintain liquidity in the form of Cash reserve Ratio (CRR) as per the regulation of NRB.

Devkota (2007) in his thesis titled as **'Comparative SWOT analysis of Nepalese Joint Venture Commercial Banks'** with reference to SCBNL, NABIL & HBL. In his major finding we can see the differentiation of the banks although they are top most banks now.

- His comparative tabular presentation of financial highlights shows that general loan loss provision to total loan is highest for HBL as compared to SCBNL & NABIL.
- Total deposit trend of NABIL explains that its deposit is decreasing to lower level with comparison of HBL & SCBNL.

A thesis written by **Adhikari (2009)** on **'A Case Study of SWOT analysis of SCBNL, NABIL, HBL'** have been also viewed for the preparation of this thesis which has become a very useful for me. According to Adhikari, the principal objectives of analyzing financial statement are

1 Financial adaptability (Liquidity);

2 Financial performance (Profitability):

3 Financial position of the bank (Solvency).

Similarly, A thesis written by **Acharya (2011)** titled as **'Development and Management of Cooperatives in Lalitpur district'** have been viewed for the preparation of this thesis.

2.3 Research Gaps

Research Gap is the difference between previous works done and the present research work. Earlier works conducted by the superior in the matching topic namely 'Future of Nepali Banking' are very useful and appreciated by personnel in various related fields, including academicians, bankers, shareholders and the general public. Those thesis in a great extent have been successful in highlighting the **Strength** and **Weakness** of the concerned JVBs. The suggestions and the recommendations given by the preceding researchers to improve and strengthen the financial performance have been really benefiting to the relevant banks.

However, all the previous works were 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 **Strength** and **Weakness** but in addition would provide insights in **Opportunity** for the relevant JVBs and **Threat** facing by 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

In the modern world research has become an indispensable in all spheres of human activity. There are a large number of students who still need to study ‘Research methodology’ either at an introductory or minimal knowledge in variety in research but seek to learn basic ideas about research and their application in a variety of practical settings. Research methodology describes the methods and process applied in the entire aspect of the study (Joshi, PR 2003:3). Research methodology refers to the various sequential steps (along with a rational of each step) to be adopted by a 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

An architect prepares a blueprint before he/she approves a construction. An army prepares a strategy before launching an attack. Such a plan of study or blueprint for study is called a research design (Joshi, PR 2003:19). Thus, a research design is a plan for the collection and analysis of data. It presents a series of guide post to enable the researcher to progress in the right direction in order to achieve the goals. Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variance. 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 website 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.

3.2 Population and Sample

The term population or universe for research means the universe of research study in which the research is based. Since, the research topic is about SWOT Analysis of

Nepalese Joint Venture Commercial Banks, all the Commercial Banks of Nepal are the member of population study. The population for the study basically comprises 31 commercial banks. Out of these, three JVBs, namely SCBNL, NABIL and HBL are selected as sample for the purpose of this study. The coherent reason for selecting these JVBs is that their significant importance and contribution for 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 website 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 thesis.
- Books, Magazines, Newspapers and Journals.
- Internet and Other sources.

3.4 Data Collection Techniques

The research consists of mainly secondary data, basically the latter one. Since, the nature of data is different, the data collection procedure also varies. To collect the secondary data, published and unpublished materials are viewed from website. Books by different writers, Master Thesis reports, journals, magazines, internet, and AGM reports of the relevant JVBs etc are reviewed. To collect these secondary data, the researcher visited Patan Multiple Campus library, Shankar Dev Campus library and Jana Bhawana Campus Library.

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 JVBs 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.

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.

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. In this thesis, the tabular presentation of profitability ratios are only showed for making easy to prepare this thesis.

a) Return on Total Assets Ratio

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

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

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 Asset. 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 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 Ratio

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

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

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 Ratio

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

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

One of the many objectives of any firm is its shareholder's 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 owner's equity.

d) Interest Earned on Total Assets Ratio

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

$$\textit{Interest earned on Total Assets} = \frac{\text{Interest Income}}{\text{Total Assets}} | 100$$

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.

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. (Adhikari, 2009:41)

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.

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

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 of 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)

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

A bank must have enough liquidity 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 manage 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 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 management of assets results in the larger utilization of the available funds. Activity ratios are employed to evaluate the efficiency with which the bank manages and utilizes the funds. (Adhikari, 2009:41)

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 show 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.

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

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.

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

Performing Assets include those assets which have been invested in loans & advances, bills purchase, 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) Investments to Total Deposits Ratio

The ratio is calculated by dividing Investments by total deposits.

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

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 and interbank lending.

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, it would prove beneficial to the banks.

3.5.1.4 Leverage Ratios

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 by increasing owner's claim, issuing common shares, retaining the earnings, increasing creditor's claims, 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 and 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 profit and minimize the cost. 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 shows 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. (Adhikari, 2009:46)

a) Total Debts to Total Assets Ratio

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

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

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 basis 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.

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

Long term debts in the form of fixed deposits cost are higher rate of interest for the banks which emphasis 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 (Shareholders` Fund) Ratio

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

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

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) Capital Adequacy Ratio

(Capital Fund to Total Deposits)

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

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

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 from 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, managers, investors and creditors can get information regarding their interest. Some other financial indicators are defined 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.

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

Banks disburse their loans and advances into various sectors and the possibility of their loans going bad cannot 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.

$$\textit{Dividend Payout Ratio} = \frac{\text{Cash Dividends per share}}{\text{Earnings per share}} \times 100$$

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.

$$\textit{Earning per share} = \frac{\text{Profit after Tax}}{\text{Total No. of Shares}} \times 100$$

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. 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, X_1, X_2, X_3……………Xn are the given n observations, then their arithmetic mean, usually denoted by $\overline{X}$ is given by:

$$Mean\ (\overline{X}) = \frac{X_1 + X_3 + X_3 + \dots + X_n}{n}$$

$$\text{Or, } \overline{X} = \text{Mean} = \frac{X}{n}$$

Where,

$\overline{X}$ = Mean

X = Sum of all the Variable X

n = Variables involved

$$\text{C.V.} = \frac{\delta}{x}$$

Where,

C.V. = Coefficient of Variance

δ = Standard Deviation

$$\overline{X} = \text{Mean} = \frac{X}{n}$$

3.5.2.2 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.

$$\sum Y = Na + b\sum X \ldots\ldots\ldots\ldots\ldots\ldots\ldots (i)$$

$$\sum XY = a\sum X + b\sum X^2 \ldots\ldots\ldots\ldots\ldots (ii)$$

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 $\sum X = 0$. In other words, the time variable is measured as a deviation from its mean. Since $\sum X = 0$ the above two normal equations would take the form-

$$\sum Y = Na \ldots\ldots\ldots\ldots\ldots\ldots\ldots (i)$$

$$\sum XY = b\sum X^2 \ldots\ldots\ldots\ldots\ldots (ii)$$

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

$$a = \frac{Y}{N}$$

$$b = \frac{XY}{X^2}$$

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 $\sum X$ would always be zero provided that there is no gap in the data given. However in case of even years also $\sum X$ will be zero if the *X* origin is placed midway between the two middle years.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

Presentation and analysis of data means to study the tabulated material in order to determine inherent facts and meaning. A plan of analysis should be prepared in advance before actual collection of the material. Data should be studied from different angles to find new and newer facts. This is the section where the filtered data are presented and analyzed (Adhikari, 2067). 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 i.e. 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 the 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 2005/6 to 2009/10) 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 which are shown in appendix 1, 2, 3 respectively.

As per appendix 1, 2 and 3, the comparative financial results for FY 2005/6 showed that the profit after tax of SCBNL was highest at NRS.658M 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 HBL was highest at NRS.977M compared to NRS.886M and NRS.952M of SCBNL and NABIL respectively. And the net worth for all three JVBs, SCBNL standing at 37.6% compared as highest to 33.8% and 25.9% of NABIL and HBL respectively. The book value per share of SCBNL was highest at NRS.468 compared to NRS.381 and NRS.228.7 of NABIL and HBL respectively. Similarly, EPS of SCBNL is also higher i.e. NRS.176 with compare to NRS.129 of NABIL and NRS.59 of HBL. CRR ratio of SCBNL is 6.86%, 3.26% of NABIL and 5.92% of HBL respectively. Meanwhile, Non-performing Loan/Total Loan Ratio of NABIL is 1.38% as compared to 2.13% of SCBNL and 6.60% of HBL.

At the end of FY 2006/7, SCBNL continued dominating the banking business by generating highest profit before tax and after tax as well. In this year, the Profit after Tax of SCBNL was highest at NRS.691M due to higher commission and exchange earnings as compared to NABIL and HBL. The profit after tax of NABIL and HBL were NRS. 673M & NRS.491M respectively and return on the net worth for three JVBs stood at 32.7 %, 32.8 % and 22.9 % for SCBNL, NABIL and HBL respectively. The Book Value per share of SCBNL continued to be highest at NRS.512 compared to NRS.418 and NRS.264.7 of NABIL and HBL respectively. EPS of SCBNL, NABIL and HBL are NRS.167.37, NRS.137 and NRS.60.66 respectively. CRR Ratio of NABIL is 6% as compare with 5.92% of HBL and 5.42% of SCBNL. Non-performing Loan/Total Loan of NABIL is low i.e. 1.12% rather than 1.83% of SCBNL and 3.61% of HBL.

At the end of FY 2007/8, SCBNL dominates the banking business by generating highest profit after tax. This year, the profit after tax of NABIL was highest at NRS.818M. The profit after tax of SCBNL and HBL were NRS.746M & NRS.635M respectively and return on the net worth for three JVBs stood at 32.9%, 30.6% and 25.1% for SCBNL, NABIL and HBL respectively. The book value per share of SCBNL continued to be highest at NRS.402 compared to NRS.354 and NRS.248 of NABIL and HBL respectively. EPS of SCBNL, NABIL and HBL are NRS.132, NRS.108 and NRS.63 respectively. Similarly, CRR of NABIL, SCBNL and HBL are 8.37%, 5.84%, 5.13%

respectively. For the period of 2007/8, Non-performing Loan/Total Loan Ratio of NABIL is 0.74% than 0.92% of SCBNL and 2.36% of HBL.

At the end of FY 2008/9, SCBNL again dominates the banking business by generating highest profit after tax. This year, the profit after tax of SCBNL was highest at NRS 1,025M. The profit after tax of NABIL and HBL were NRS.1,031M and NRS.752 M respectively and return on the net worth for JVBs stood at 33.8%, 33% and 24% for SCBNL, NABIL and HBL respectively. The book value per share of SCBNL continued to be highest at NRS.328 compared to NRS.324 and NRS.256.5 of NABIL and HBL respectively. Meanwhile, EPS of SCBNL, NABIL and HBL are NRS.110, NRS.107 and NRS.62 respectively. CRR Ratio of NABIL is 9.03% rather than 8.18% of SCBNL and 6.76% of HBL. Non-performing Loan/Total Loan Ratio of SCBNL is less i.e. 0.66% rather than 0.80% of NABIL and 2.16% of HBL

At the end of FY 2009/10, NABIL dominates again the banking sector by generating highest profit after tax. This year, the profit after tax of NABIL was highest at NRS.1,139M. The profit after tax of SCBNL and HBL were NRS.1,085M and NRS.508 M respectively and return on the net worth for three JVBs stood at 35.8%, 36.2% and 14.8% for SCBNL, NABIL and HBL respectively. The book value per share of NABIL also continued to be highest at NRS.265 compared to NRS.241 and NRS.226.8 of SCBNL and HBL respectively. Meanwhile, EPS of NABIL, SCBNL, HBL are NRS.79, NRS.78 and NRS.32 respectively. CRR Ratio of HBL, SCBNL and NABIL are 6.76%, 6.74%, 3.02% respectively. Non-performing Loan/Total Loan Ratio of SCBNL, NABIL and HBL are 0.61%, 1.47%, 3.52% respectively.

The components of Gross Profit (Profit from all activities) and Net profit after tax for the review period 2005/6 to 2009/10 are shown comparatively in the following graph.

Table 4.1

Gross Profit Table

Figure in '000'

Year	2005/6	2006/7	2007/8	2008/9	2009/10
SCBNL	1,035,723	1,117,704	1,312,710	1,613,926	1,690,003
NABIL	987,804	1,094,550	1,197,889	1,626,534	1,787,701
HBL	739,638	789,143	1,043,722	1,173,266	831,300

(Source- From Appendix)

Figure 4.1

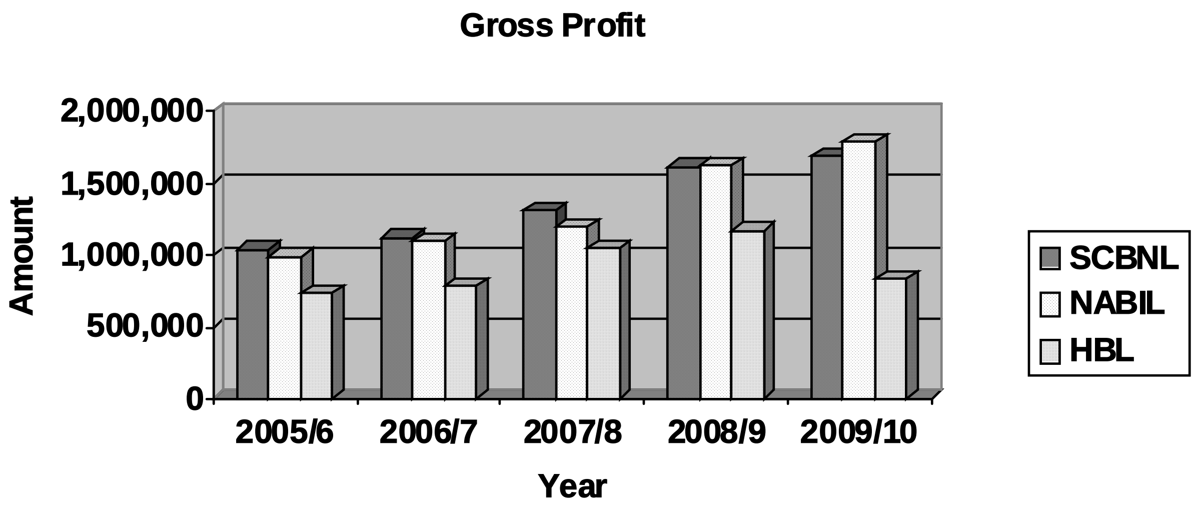


Table 4.2

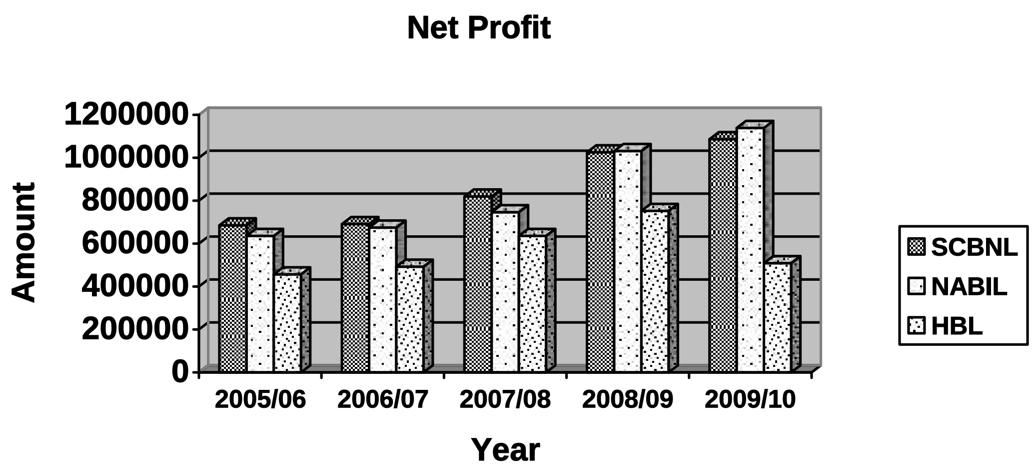
Net Profit Table

Figure in '000'

Year	2005/6	2006/7	2007/8	2008/9	2009/10
SCBNL	685,755	691,668	818,921	1,025,114	1,085,871
NABIL	635,262	673,954	746,468	1,031,053	1,139,099
HBL	457,457	491,822	635,868	752,834	508,798

(Source- From Appendix)

Figure 4.2



From Table 4.2, we found that the SCBNL has highest gross income before tax and net profit after tax in all three years but in year 2008/9, NABIL broke up that trend with making equal gross profit and net profit. Then, get highest gross income in year 2009/10 which is the strength part of NABIL. It shows that SCBNL has strong strength for four years continuously but in last year NABIL utilized their full strength and minimize its operating cost and got highest gross and net profit but HBL bank was getting lowest income, we can see that. Its total cost was highest and is in increasing trend and in year 2009/10, HBL get lowest gross income and net profit with higher operation cost with compare of SCBNL and NABIL. It shows HBL weakness.

The comparative graphical presentation of total deposits, investments, loans and advances for the review period 2005/6 to 2009/10 has been shown below:

Table 4.3

Total Deposits Table

Figure in '000'

Year	**2005/6**	**2006/7**	**2007/8**	**2008/9**	**2009/10**
SCBNL	23,061,032	24,647,020	29,743,998	35,871,721	35,182,721
NABIL	19,347,399	23,342,285	31,915,047	37,348,255	46,410,700
HBL	26,460,389	33,519,141	36,175,531	39,330,131	42,717,124

(Source- From Appendix)

Figure 4.3

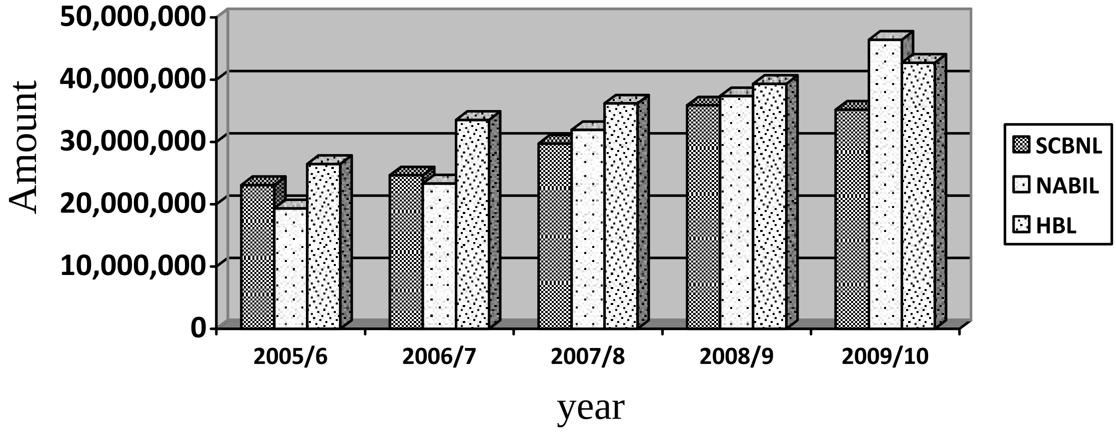


Table 4.4

Investment Table

Figure in '000'

Year	**2005/6**	**2006/7**	**2007/8**	**2008/9**	**2009/10**
SCBNL	12,835,555	13,553,233	13,902,819	20,902,819	19,847,511
NABIL	6,178,533	8,945,310	9,939,771	10,826,379	13,670,916
HBL	10,889,031	11,882,984	13,340,176	8,710,690	8,444,910

(Source- From Appendix)

Figure 4.4

Investment

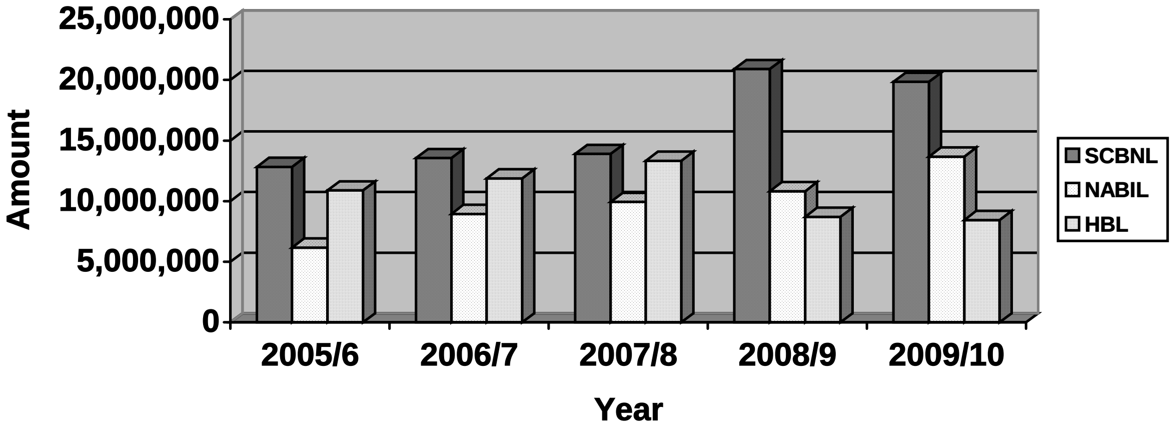


Table 4.5

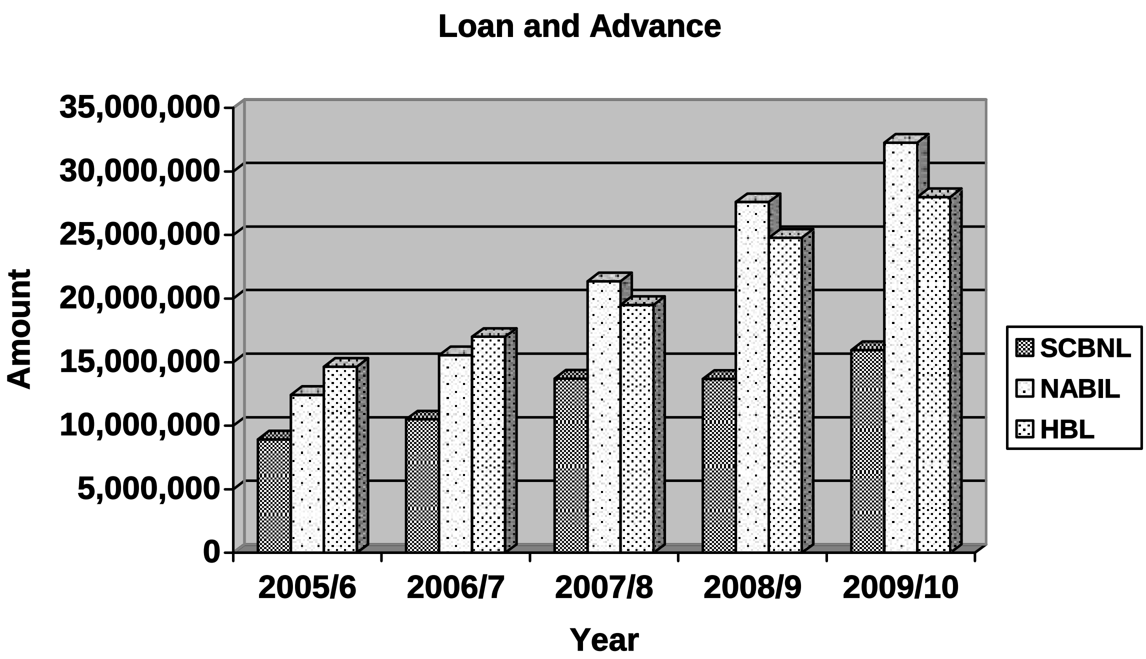
Loan and Advance Table

Figure in '000'

Year	2005/6	2006/7	2007/8	2008/9	2009/10
SCBNL	8,935,417	10,502,637	13,718,597	13,679,756	15,956,955
NABIL	12,424,520	15,545,778	21,365,053	27,589,993	32,268,873
HBL	14,642,559	16,997,996	19,497,520	24,793,155	27,980,628

(Source- From Appendix)

Figure 4.5



For the year 2005/6, HBL continued to be the JVB with the highest deposit among these three-years. Due to mobilization of highest deposit during the year 2005/6, HBL was able to further increase its loan and advances volume to NRS.14,642M. During the year 2006/7, HBL again recorded an increment of 26.7% over previous year due to its aggressive lending policy. SCBNL and NABIL had recorded increment of 6.4% and 17% in lending respectively over previous year. C/D ratio of NABIL for the review period

2005/6 stood highest at 68.63% against 55.27% and 39.92% of HBL and SCBNL respectively.

For the year 2006/7, the investment volume of NABIL increased and recorded the highest C/D ratio for the review period at 68.13% against 56.57% of HBL and 43.78% of SCBNL 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 NRS.8,945M for NABIL and NRS.11,882M for HBL and NRS.13,553M for SCBNL.

For the year 2007/8, the credit volume of NABIL was able to extend 68.18% of its deposit to its credit-worthy customers. The investment in this period was highest for SCBNL at NRS.13,902M compared to NRS.9,939M of NABIL & NRS.13,340M of HBL.

For the year 2008/9, the credit volume of NABIL also again increased and stood at first position. NABIL recorded the highest C/D ratio for the review period at 73.87% against 71.49% of HBL and 39.27% of SCBNL respectively. In other words, NABIL was able to extend 73.87% of its deposit to its credit-worthy customers. The investment in this period was highest for SCBNL at NRS.20,902M compared to NRS.10,826M of NABIL & NRS 8,710M of HBL.

For the period of 2009/10, HBL recorded the highest C/D ratio for the review period at 74.39% against 69.53% and 45.98% of NABIL and SCBNL respectively. The investment in this period was also highest for SCBNL at NRS.19,847M compared to NRS.13,670M of NABIL & NRS.8,444M of HBL. However, from above graph, we can say that deposit collection of SCBNL every year are greater but mobilization of such deposit are in minimum (C/D ratio below 50%) which shows the bank’s weakness and create threat from surroundings whereas deposit collection of NABIL, HBL are low than SCBNL but they mobilize their deposit securely (C/D ratio above 50% and Below 75%) which not only enhance their profit but also create opportunities from surroundings.

Analysis of Graph

The above analysis of gross income, net income, loans & advances, investments and deposits of three JVBs has been able to show the comparative **Strengths, Weaknesses, Opportunities** and **Threats** 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)

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

Table 4.6

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

Year	SCBNL	NABIL	HBL
2005	2.4	2.8	1.6
2006	2.4	2.5	1.5
2007	2.5	2.0	1.8
2008	2.5	2.4	1.9
2009	2.7	2.2	1.2
Total	**12.5**	**11.9**	**8**
Mean ($\overline{X}$)	**2.5**	**2.38**	**1.6**
Standard Deviation (σ)	**0.109**	**0.270**	**0.245**
C.V.	**0.044**	**0.113**	**0.153**

The comparative ratios & Mean depicted above shows that SCBNL's return on assets is highest during the span of five years. This means that SCBNL is relatively efficient in utilizing its overall resources. Its S.D was also lowest which means that its ROA was less much disperses from mean data, which means less risky. Its risk was also 4.4% for every unit of return.

Return on assets of NABIL and HBL are fluctuating. ROA of NABIL stood at 2.8 in the first year i.e. 2005 and 2.5 in 2006 and it decreased to 2.0 in the year 2007. However, it has been increased on 2008 at 2.4 and decrease in 2009 i.e. 2.2. Mean of NABIL is 2.38 which means return on total asset is greater than return on total asset of HBL i.e. 2.38 .Its SD is 0.270 which means that the NABIL's fluctuation higher than SCBNL and HBL. Its per unit risk is 11.3% which is less than per unit risk of HBL

Mean of HBL is 1.6. Its SD is 0.245 and CV is 0.153. This shows the weakness of HBL in comparison to the SCBNL and NABIL. HBL must 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)

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

Table 4.7

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

Year	SCBNL	NABIL	HBL
2005	2.9	3.2	1.7
2006	2.8	2.9	1.6
2007	2.5	2.3	2
2008	2.5	3.8	1.9
2009	2.7	4	1.2
Total	**13.4**	**16.2**	**8.4**
Mean ($\overline{X}$)	**2.68**	**3.24**	**1.68**
Standard Deviation (σ)	**0.158**	**0.616**	**0.879**
C.V.	**0.059**	**0.190**	**0.523**

The mean return of NABIL is highest than other two banks. It's been good syndrome but its S.D. was also high than SCBNL (i.e. 0.616) which show that its mean return was too risky than SCBNL. It has 19% dispersion from mean return on total deposit which was too much higher than SCBNL i.e. 5.9%.

With compare of three banks, SCBNL was on good position because its mean return was 2.68 but its dispersed rate from mean data was only 15.8% with compare of mean return, it has lower risk and its C.V. (5.9%) was also lower than other NABIL i.e. 19% & HBL 52.3%. 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 1.2 % to 1.9 % which shows it was weak in mobilizing its deposits in purpose of making profit out of it. Its means return (1.68) was also lower. Its S.D was 0.879 and C.V (52.3%) which is greater than other two banks.

Return on deposit ratio is very much affected by volume of interest free deposits employed by the banks. The higher volume 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

$$\text{Return on Net Worth} = \frac{Net\ \mathrm{Pr}\ ofit}{\text{Total Sharesholder's Fund}} | 100$$

Table 4.8

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

Year	SCBNL	NABIL	HBL
2005	37.6	33.8	25.9
2006	32.7	32.8	22.9
2007	32.9	30.6	25.1
2008	33.8	33.0	24
2009	35.8	29.7	14.8
Total	**208.6**	**159.9**	**112.7**
Mean ($\overline{X}$)	**41.72**	**31.98**	**22.54**
Standard Deviation (σ)	**7.401**	**4.736**	**6.325**
C.V.	**0.177**	**0.148**	**0.281**

Mean, C.V. & standard deviation of three JVBs have been calculated above. SCBNL's mean (41.72) over the comparison period high but its S.D was higher than NABIL and HBL. Its Risk per unit is also higher than NABIL but lower than HBL.

NABIL's return on net worth has decreased from 33.8% in 2005 to 32.8 % in 2006. It again decreased to 30.6% in 2007. Then after, it was increased to 33.0 & decreased to 29.7% in year 2009 respectively. Due to that, its mean return and standard deviation was staying on 31.98 & 4.736 respectively. This clarifies that NABIL was not able to earn the proportionate increase in its net profits to increase the shareholder's fund.

HBL was able to earn return of 25.9% in the year 2005 which later on decreased to 22.9 % & 25.1% in 2006 and 2007. Then after, it decreased to 24 % and again decreased to 14.8 %. 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

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

Table 4.9

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

Year	SCBNL	NABIL	HBL
2005	3.4	4.3	3.3
2006	3.5	3.8	3
2007	3.4	3.3	3.2
2008	3.3	3.8	3.6
2009	3.6	4	1.2
Total	**17.2**	**19.2**	**14.3**
Mean ($\overline{X}$)	**3.44**	**3.84**	**2.86**
Standard Deviation (σ)	**0.105**	**0.327**	**0.854**
C.V.	**0.031**	**0.085**	**0.299s**

SCBNL’s interest earned to total assets ratio increased from 3.4% in 2005 to 3.5% in 2006. Similarly, NABIL’s and HBL’s ratio too have decreased from 4.3% to 3.8% and 3.3% to 3% in 2005 and 2006 respectively. However, NABIL has been seen to have maintained the consistency. So that, NABIL has higher mean 3.84, higher risk i.e. 0.327 and it’s per unit risk (C.V.) was also higher than HBL (i.e. 8.5%).

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.

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, there are three basic financial indicators. they are

- Total Deposit
- Loan and Advance
- Profit before Tax

Among them, Profit before tax has been analyzed. 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 JVBs. This analysis would help to assess the better performance of bank in the coming years.

4.3.1 Trend Analysis of Profit Before Tax

a) Standard Chartered Bank Nepal Ltd.

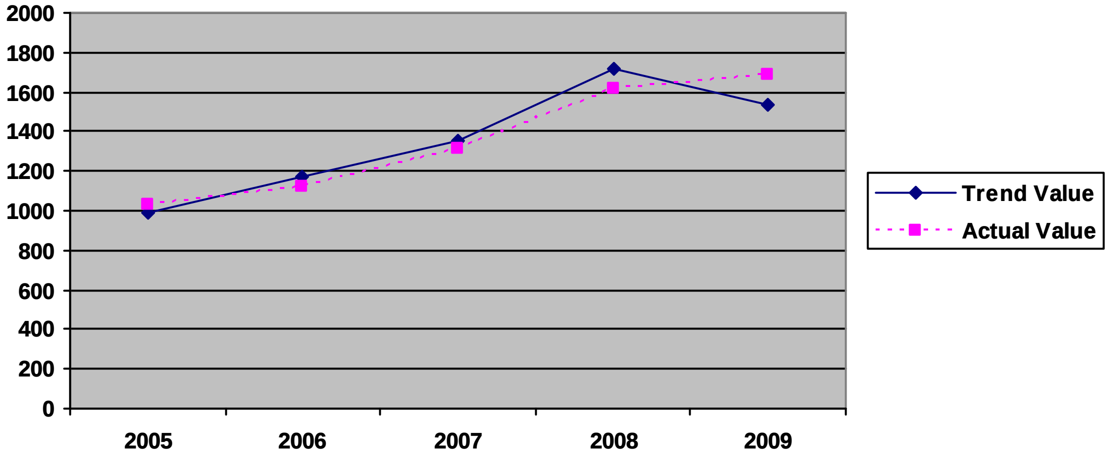
Table 5.0

Trend Analysis of Profit before tax for SCBNL

Year x	**Profit Before Tax (in Mill.) Y**	**X= x-2007**	**X^2**	**XY**	**Trend Values Yc = a + bX**
2005	1,035	-2	4	--2070	993.2
2006	1,117	-1	1	-1117	1172.8
2007	1,312	0	0	0	1353.4
2008	1,613	1	1	1613	1714.6
2009	1,690	2	4	3380	1534.0
N = 5	**∑Y=6767**	**∑X=0**	**$\sum X^2$=10**	**∑XY=1806**	
2010		**3**			1896.2
2011		**4**			2076.8
2012		**5**			2256.0

Figure 4.6

Trend Line of Profit before Tax for SCBNL



Now,

$$a = \frac{y}{N}$$

$$= \frac{6767}{5}$$

$$b = \frac{XY}{X^2}$$

$$= \frac{1806}{10}$$

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 =20010, X=3,

Thus Yc = 1353.4 + 180.6×3 = Rs.1896.2

When x =2011, X=4,

Thus Yc = 1353.4 + 180.6×4 = Rs.2076.8

When x =2012, X=5,

Thus Yc = 1353.4 +180.6 ×5 = Rs.2256

b) NABIL Bank Ltd.

Table 5.1

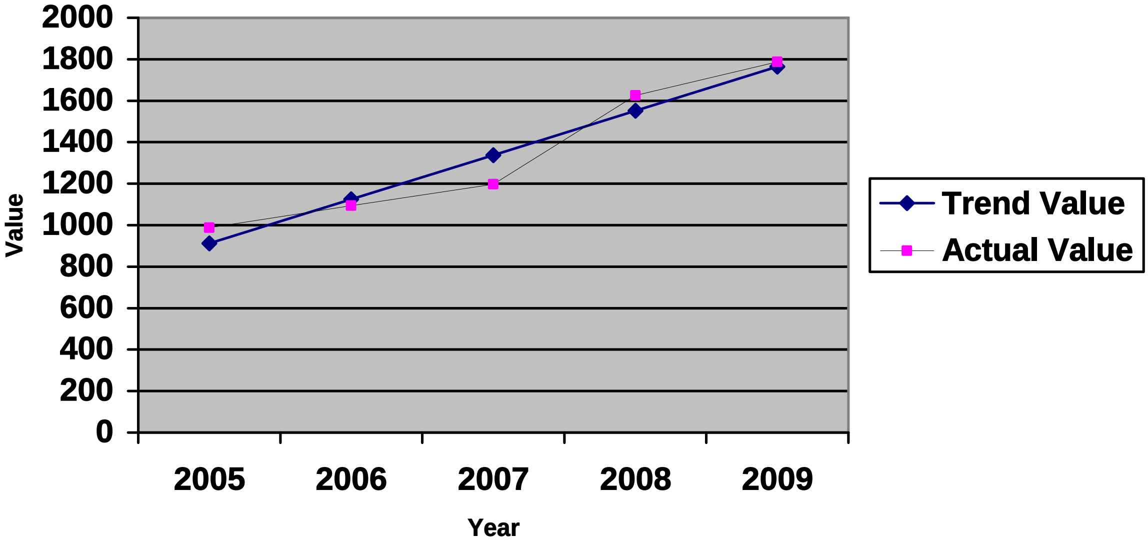
Trend Analysis of Profit before tax for NABIL

Year x	Profit Before Tax (in Mill.) Y	X= x-2004	X^2	XY	Trend Values Yc = a + bX
2005	987	-2	4	-1974	911.8
2006	1,094	-1	1	-1,094	1125.0
2007	1,197	0	0	0	1338.2
2008	1,626	1	1	1,626	1551.4
2009	1,787	2	4	3,574	1764.6

N = 5	$\sum Y=6691$	$\sum X=0$	$\sum X^2=10$	$\sum XY=2132$	
2010		3			**1977.8**
2011		4			**2191.8**
2012		5			**2405.2**

Figure 4.7

Trend Line of Profit before Tax for NABIL



Now,

$$a = \frac{Y}{N}$$

$$= \frac{6691}{5} = 1338.2$$

$$b = \frac{XY}{X^2}$$

$$= \frac{2312}{10} = 213.2$$

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 =20010, X=3,

Thus Yc = 1338.2 + 213.2×3 = Rs.1977.8

When x =2011, X=4,

Thus Yc = 1338.2 + 213.2×4 = Rs.2191.8

When x =2012, X=5,

Thus Yc = 1338.2 + 213.4×5 = Rs.2405.2

c) Himalayan Bank Ltd.

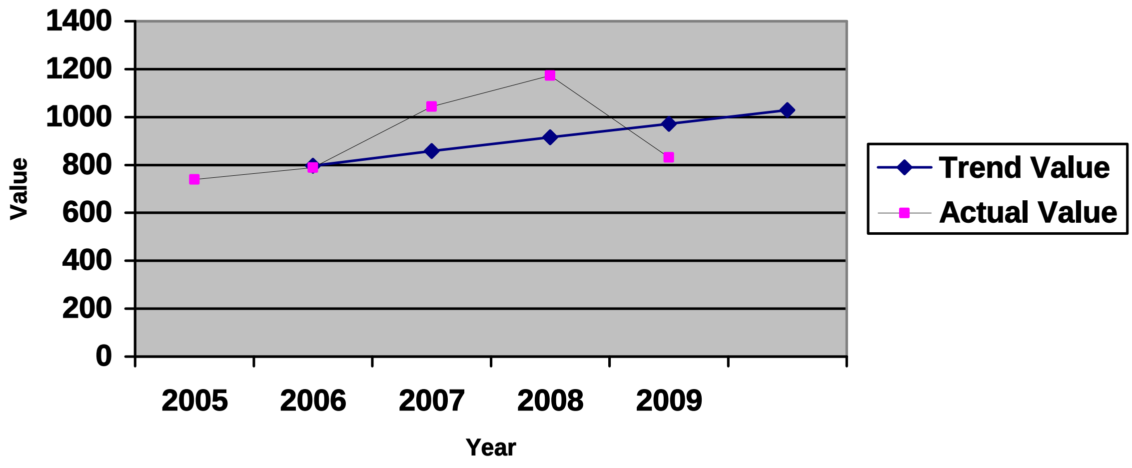
Table 5.2

Trend Analysis of Profit before tax for HBL

Year x	**Profit Before Tax (in Mill.) Y**	**X= x-2004**	**X^2**	**XY**	**Trend Values Yc = a + bX**
2005	739	-2	4	-1478	797
2006	789	-1	1	-789	858.2
2007	1,043	0	0	0	915
2008	1,173	1	1	1173	971.8
2009	831	2	4	1662	1028.6
N = 5	**∑Y=4575**	**∑X=0**	**$\sum X^2$=10**	**∑XY=568**	
2010		3			**1085.4**
2011		4			**1142.2**
2012		5			**1199.0**

Figure 4.8

Trend Line of Profit before Tax for HBL



Now,

$$a = \frac{Y}{N}$$

$$= \frac{4575}{5}$$

$$b = \frac{XY}{X^2}$$

$$= \frac{568}{10} = 56.8$$

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 =20010, X=3,

Thus Yc = 915 + 56.8×3 = Rs.1085.4

When x =2011, X=4,

Thus Yc = 915 + 56.8×5 = Rs.1142

When x =2012, X=5,

Thus Yc = 915 + 56.8×5 = Rs1199

4.4 SWOT Analysis

SWOT analysis is a systematic identification of internal strengths & weaknesses of a business & environmental opportunities & threats facing that by 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 Strengths (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, competition etc.

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

Table 5.3

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

S. No.	SCBNL	NABIL	HBL
Strengths	Global networking like V-Sat. Foreign a\c holders. Well financial condition and more liquidity. Strong reputation & image in international market. Highly paying system. Higher market value, share value & earning per share. Central located branches. With the compare on NABIL & HBL, higher level of investment with in minimal bad debts. Minimal level of loan & advances and lower interest expenses than NABIL & HBL. With the compare on NABIL & HBL, higher return on net worth & total risky assets and higher dividend payout ratio. With the compare on NABIL and HBL minimum Non performing loan/Total Loan ratio. Maximum amount of provision for loan loss write back. 50% of Ownership of bank owned by standard chartered bank of London still now which bank is worldly renowned and famous. All the INGO's and International agencies do transaction through SCBNL.	Co-ordination of the various kind of remittance agency. Aggressive promotional activities. Up growing financial data such as profit, liquidity, customer deposit etc. Handling by ex-governor as a board of director member. With the compare on SCBNL & HBL, higher return rate on total assets & total deposit. Maximum number of branches. Emphasis all level of customer (middle classes, lower & upper lower classes). Attractive interest rate and a\c opening scheme. Various banking services such as ATM, e-banking, SMS Banking etc. With compare to HBL, its Investment, provision for loan loss write bank are high and non performing loan/total loan ratio is minimum. Earning highest net profit after tax during year 2009/10. Nepalese people and business firms are having fully own.	Providing remittance services through Himal Remit. Aggressive & effective promotional activities (Milliner offer etc). Going to constructing own building on prime location kamaladi. Strong management team & handling by ex-governor. Launching first time visa credit card in Nepal. Higher number of a\c holders & maximum customer deposit than NABIL & SCBNL. Minimal operating cost with compare of SCBNL & HBL. Lunching many more attractive and interesting scheme. CRR ratio of HBL is high than SCBNL and NABIL.

Weaknesses	Least remote branch. Higher minimum balance on a\c opening. Least number of a\c holders. Minimum level of promotional activities. Unable to aggressive market coverage on local market. Least interest rate for a\c holders. Focuses banking product to highly profile people. 50 % of ownership only comes under Nepalese people and other financial institution. Increase in staff expenses due to highly paying system to staff.	Fighting against NRB rule on appeal court. Higher staff cost & other operating cost. Minimum return rate of investment on total deposit. Increase in staff expenses due to highly paying system to staff. Still center located branches. CRR ratio with compare to HBL is less.	Lack of staff motivation strategic (Staff turnover on management level) Minimum profit & weak financial condition with compare of SCBNL & NABIL. Unsecured loan & more bad debts. (Like Himalayan Distillery). Lower market value & per share value with compare of NABIL & SCBNL. Maximum interest expensive than NABIL & SCBNL. Lower earning per share with compare on SCBNL & NABIL. Lower dividend payout ratio & higher amount of bad debts. Provision for loan loss write back is minimum than SCBNL, NABIL. Non-performing loan/total loan ratio of HBL is maximum than SCBNL, NABIL.

Opportunities	Rising on international business. Globalization. New and latest technology adoption in banking sector. Strong image in international market. Rising on multinational & Joint Venture Company. Flexible government rule & strategic. Can have access to local and remote area. Can mobilize high deposit to hydro sector, cements, roads, rails, telecommunication, tourism sector, airports, irrigation, oil and gas exploration or other productive sector. Can diverse banking products through launching different banking service like M-banking, E-Corporate, Investment company, Bancassurance etc.	Strategy for hydro power investment. Large networking provides opportunity to serve various people. Flexible government rule & strategic. Technological development on banking sector. Rising in banking activities & utilities. Short term loan & merchant business available on banking business. (Like home loan, car loan etc). Can invest in hydro sector, cements, roads, rails, telecommunication, tourism sector, airports, oil and gas exploration or other productive sectors. Can diverse banking products through launching different banking service like M-banking, E-Corporate, Investment company, Bancassurance etc and for further information, NABIL has started all this banking products recently.	Short term loan & merchant business available on banking business. (Like home loan, car loan etc). Flexible government rule & strategic. Latest & updated technology available in banking sector. Up growing trend line of banking business. Increasing trend of a\c holders. With compare of last year, higher profitability ratio in banking sector. Can expand investment in hydro sector cements, roads, rails, telecommunication, tourism sector, airports, oil and gas exploration or other productive sectors Can diverse banking products through launching different banking service like M-Banking, E-Corporate, Investment company, Bancassurane etc.

Threats	Rising new and various banks on banking sector. Central banks uncertain & changing rule & regulation. Lack of strong security services for cash counter. Uncertain political & economic condition. Inflation rate. Uncertain dollar prices in international market. Lack of familiarize on local market. INGO's and International agencies may avoid doing transaction from bank in coming days. SCBNL is investing in hydro sector nowadays but the political instability of the country and the strike and protest of local people with demanding various needs may reduce their profitability ratio and their target. Various INGO's and International agencies definitely withdraw their all deposits when they return their home country or else other place. Political instability and worse business environment adversely affect the banking strategy.	Rising new and various banks on banking sector. Uncertain political & economic condition. Higher Inflation rate. Copying each other promotional activities. Central banks uncertain & changing rule & regulation. Increasing the number of financial company & co-operative institution. Security problem in banking sector. (Due to that 13 banks are stolen in short period). Political instability and worse business environment adversely affect the banking strategy and their's investment which are invested in industry, hotels hydro-sector and other productive sector of the nation.	Rising new and various banks on banking sector. Increasing the number of financial company & co-operative institution. Uncertain political & economic condition. Higher Inflation rate. Unfair competition on banking sector. (Like staff competition, promotional competition etc). Central banks uncertain & changing rule & regulation. Lack of strong security services for cash counter. Political instability and worse business environment adversely affect the banking strategy and their's investment which are invested in industry, hotels, hydro-sector and other productive sector of the nation.

(Sources: Thesis review)

4.5 Major Findings of the Study

The major findings of this study has been summarized below-

1) Comparative tabular presentation of Financial Highlights at the end of almost each year shows that Non performing loan/Total Loan Ratio of SCBNL is comparative less than NABIL and HBL where as general loan loss provision write back is highest for SCBNL as compared to NABIL and HBL. This might due to be the higher mobilization of deposits in Loans & Advances.

2) Various activity utilization ratios such as Credit deposit ratio, Return to Total assets ratio, Return on Total deposit ratio and Return on Net worth ratio were analyzed separately for the selected JVBs. Credit Deposit ratio of NABIL highest for the first four year than HBL, SCBNL respectively and for the year 2009/10, C/D ratio of HBL was highest than other banks i.e. 74.39% as compared to 69.33% and 45.98% of NABIL and HBL

3) The Total deposit trend of HBL explains that its deposit is increasing by each year with compare of NABIL 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 each year widely. Its CRR Ratio is also highest for the year 2009/10 i.e. 6.76% rather than 6.74% of SCBNL and 3.02% of NABIL during the same period.

4) SCBNL dominate all year the other banks in the field of investment. The Loans & Advances of NABIL has always been greater as compared to SCBNL & HBL during the year 2009/10 under analysis. Its loan and advance for the period was NRS. 32,268M.

5) The analysis reveals that Net worth Ratio at adequate level of SCBNL was excellent for all year. Banks being the non-manufacturing enterprises which have the minimal investment of owner's equity in the fixed assets in order to maximize the return on shareholder's fund.

6) The net profit of SCBNL was highest for first three years but later NABIL widely increase its C/D Ratio, as a result NABIL make the highest profit for the year 2008/9 and 2009/10.

7) 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.

8) Among the leverage ratios analyzed, net income to total assets ratio, net income to total debts ratio, interest earned to total asset ratio for each of the selected banks. NABIL was doing better performance than SCBNL and HBL for the whole period under study, which signifies that return on above ratio of HBL is comparatively less than return from NABIL and SCBNL.

9) The reserve and surplus of SCBNL was highest for the first four years. For the period of 2009/10, NABIL win SCBNL in reserve and surplus i.e. NRS.1,805M of NABIL, NRS.1,761M of SCBNL and NRS.1,439M of HBL. Hence, we can say that HBL's has a less reserve and surplus than SCBNL and NABIL. HBL may lose opportunity from the market.

10) The objective of SCBNL seems that of becoming a leading bank of the country by gaining substantial business growth through provision of premium products and service to the customer, thus ensuring attractive and substantial return to all the shareholders.

11) The objective of NABIL seems that to trigger national development by speeding up industrialization and trade promotion.

12) Similarly, the objective of HBL seems that of introducing innovative products and service in the banking sector with strict adherence to prevailing rules and regulations.

13) From various Financial statements analysis, Financial tools analysis, Key Indicator analysis, Tabular and Graphical representation, Interpretation and Trend analysis, it seems that SCBNL stood as First position in overall performance, NABIL and HBL stood Second and Third position respectively from the study.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is the important for the research because this chapter is the extract of all the previously discussed chapters. This chapter consists of mainly three parts i.e. 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 autonomous association of person united voluntarily. 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, there were only 30 commercial banks operating in Nepal. With the advent of other new commercial banks namely Century Commercial Bank, the number has reached to 31. Besides, some other development banks are in the process of their conversion into commercial banks and few other commercial banks are merging 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 utilize deposit for the development of infrastructure of nation.
- 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.
- 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 “***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 that, review of some articles and journals has also been conducted in the same part. Review of various previous thesis 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 and 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:

1) 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. The net profit of SCBNL all year stood highest but in year 2008/9, 2009/10 NABIL break the record and score highest profit.

2) Interest incomes form 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.

3) During the study period, NABIL is found to be the highest Deposit holding bank. In other words, Total deposits of NABIL exceeded than other two banks under study in all of the years. In the trend analysis section, it is noticeable that the Total Deposits

for HBL is in the lowest increasing trend. The Total deposits trend of NABIL explains that its deposit is increasing by each year.

4) NABIL has been seen to adopting 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 NABIL has always been greater as compared to SCBNL & NABIL during this whole period under analysis.

5) 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 owner's equity in the fixed assets in order to maximize the return on shareholder's fund.

6) 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.

7) 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.

8) The comparative strengths 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 two year where NABIL took off. However, the profit before tax of all three banks is in the increasing trend.

9) The loan loss provision of SCBNL has always been least (during the whole period under analysis) among others selected Joint Venture Banks which signifies 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.

10) 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 present in the external environment. It is very probable that the bank with higher strength can grape excellent opportunities and avoid redundant threats present in the economy.

11) From the above study, it is clear that the overall performance of Joint Venture Banks is better than other local commercial banks. No any JVBs are getting loss but other local banks, development banks and financial institution are having poor performance nowadays in the market.

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:

1) NABIL & HBL are with excessive loan loss provisions as compared to SCBNL. Therefore, they are suggested to evaluate the financials 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.

2) Higher costs to income ratio in case of HBL and NABIL are the primary cause for the lower PBT (Profit before Tax). Analyzing above data of three JVBs, From 2005/6 to 2009/10, SCBNL has higher PBT than HBL and NABIL. 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.

3) 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.

4) 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.

5) 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. Since, this situation reduces their profit prospects in the short run, it will enhance the economic condition of the country in the long run.

6) It is found that CRR ratio of NABIL is minimum. So, it is suggested to increase the CRR ratio according to NRB directive.

7) HBL has maximum bad debts. So, it is suggested to invest in secured and productive sector. It is also suggested to increase the provision for loan loss write back amount.

8) It is noticed that SCBNL's banking service is centralized and dedicated to the high class profile people. So, it is suggested to expand its service to rural areas and to provide modern banking service to low class people too.

9) These JVBs should try to increase their gross spread so that they can afford to reduce the interest spread and 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.

10) It is suggested to all JVBs to invest in hydro-sector, cements, roads, rails, telecommunication, airports, oil and gas exploration, irrigation, tourism sector and other secured productive sector.

11) 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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Appendix1

Financial Highlights of SCBNL from 2005/6 to 2009/10

Comparative Financial Results of SCBNL					
As of Year 2005/6 to 2009/10					
in NRs. ' 000'					
Balance Sheet					
Capital and liability	**2005/6**	**2006/7**	**2007/8**	**2008/9**	**2009/10**
Share Capital	374,640	413,254	620,784	913,966	1,608,256
Reserve and Surplus	1,379,498	1,703,098	1,871,763	2,120,503	1,761,453
Debenture and Bond	NA	NA	NA	NA	NA
Borrowing	NA	400,000	NA	300,000	NA
Deposit	23,061,032	24,647,020	29,743,998	35,871,721	35,182,721
Bills payable	55,750	36,168	87,397	72,941	89,219
Proposed and Unclaimed Dividend	499,979	341,744	506,366	476,296	769,165
Income Tax liabilities	NA	5,598	2,051	4,262	NA
Other Liabilities	396,450	1,049,804	503,426	809,776	802,503
Total	**25,767,352**	**28,596,689**	**33,335,788**	**40,587,468**	**40,213,319**
Asset	**2005/6**	**2006/7**	**2007/8**	**2008/9**	**2009/10**
Cash Balance	279,511	378,422	414,875	463,345	509,031
Balance with Nepal Rastra Bank	749,740	1,613,757	1,266,273	1,851,132	819,508
Balance with Banks/Financial Institution	246,989	28,840	369,094	822,684	600,766
Money at Call & Short Notice	1,977,271	1,761,151	2,197,537	2,055,549	1,669,460
Investment	12,838,**555**	13,553,233	13,902,819	20,236,121	19,847,511

Loans advance & Bills purchased	8,935,417	10,502,637	13,718,597	13,679,756	15,956,955
Fixed Assets	101,301	125,590	117,272	137,292	118,540
Non Banking Assets	NA	NA	NA	NA	NA
Other Assets	638,564	633,055	1,349,319	1,341,585	691,547
Total	**25,767,352**	**28,569,689**	**33,335,788**	**40,587,468**	**40,213,319**
Profit and Loss Account	**2005/6**	**2006/7**	**2007/8**	**2008/9**	**2009/10**
Interest Income	1,189,602	1,411,981	1,591,195	1,887,221	2,042,109
Interest Expense	303,198	413,055	471,729	543,786	575,740
Net Interest Income	886,404	998,926	1,119,465	1,343,434	1,466,368
Commission and Discount	222,928	221,207	276,432	235,468	338,298
Other Operating Income	25,442	28,784	32,594	33,191	34,479
Exchange Income	283,471	309,086	345,653	480,030	458,564
Total Operating Income	1,418,247	1,558,005	1,774,145	2,092,125	2,297,710
Staff Expenses	168,230	199,778	225,256	253,055	312,964
Other Operating Expenses	221,086	228,450	230,571	276,326	295,304
Exchange Loss	NA	NA	NA	NA	NA
Operating Profit Before Provision For Possible Losses	1,028,930	1,129,776	1,318,317	1,562,743	1,689,442
Provision For Possible Loss	47,729	36,808	639,885	56,634	76,974
Operating Profit	981,200	1,092,967	1,248,432	1,506,108	1,612,467
Non Operating Income/Expense	1,432	9,492	1,682	22,098	36,268
Provision For Possible Losses-	53,090	20,159	90,634	101,075	58,292
-Write Back					
Profit From Regular Activities	1,035,723	1,122,619	1,340,749	1,629,282	1,707,028
Income/Expense From Extra-Ordinary Activities	(2,411)	(4,914)	(28,039)	(15,356)	(17,024)

Profit From All Activities	1,033,311	1,117,704	1,312,710	1,613,926	1,690,003
Provision For Staff Bonus	93,937	101,609	119,337	146,720	153,635
Provision For Income Tax	280,618	324,427	374,451	442,091	450,495
Current Tax	274,504	315,427	381,493	443,119	465,685
Prior Period Tax	6,113	9,000	NA	NA	22
Deferred Tax	NA	NA	(7,041)	(1,027)	(15,212)
Net Profit/Loss	**658,755**	**691,668**	**818,921**	**1,025,114**	**1,085,871**

Key Indicator	**2005/6**	**2006/7**	**2007/8**	**2008/9**	**2009/10**
Return on Total Assets(%)	2.4	2.4	2.5	3.8	2.9
Return on Total Deposits(%)	2.9	2.8	2.5	2.5	2.7
Interest Earned to Total Assets (%)	3.4	3.5	3.4	3.3	3.6
Market Price per Share(Rs)	3,775	5,900	6,830	6,010	3,279
Book Value per Share(Rs)	468	512	402	328	241
Return on Networth(%)	37.6	32.7	32.9	33.8	35.8
C/D Ratio(%)	39.92	43.78	46.95	39.27	45.98
EPS(Rs)	175.84	167.37	131.92	109.99	77.65
CRR Ratio(%)	6.86	5.46	5.84	8.18	6.74
Non Performing Loan/Total Loan(%)	2.13	1.83	0.92	0.66	0.61

Appendix2

Financial Highlights of NABIL from 2005/6 to 2009/10

Comparative Financial Results of NABIL					
As of Year 2005/6 to 2009/10					
in NRs. ' 000'					
Balance Sheet					
Capital and liability	**2005/6**	**2006/7**	**2007/8**	**2008/9**	**2009/10**
Share Capital	491,654	491,654	689,216	1,448,620	2,028,773
Reserve and Surplus	1,383,340	1,565,395	1,747,982	1,681,620	1,805,980
Debenture and Bond	NA	NA	240,000	300,000	300,000
Borrowing	173,201	882,572	1,360,000	1,681,305	74,900
Deposit	19,347,399	23,342,285	31,915,047	37,348,255	46,410,700
Bills payable	92,536	83,514	238,421	463,138	425,443
Proposed and Unclaimed Dividend	435,084	509,417	437,373	338,011	434,737
Income Tax liabilities	34,604	NA	38,776	80,232	24,904
Other Liabilities	372,149	378,552	465,940	526,213	644,796
Total	**22,329,971**	**27,253,393**	**37,132,759**	**43,867,397**	**52,150,237**
Asset	**2005/6**	**2006/7**	**2007/8**	**2008/9**	**2009/10**
Cash Balance	237,818	270,406	511,426	674,395	635,986
Balance with Nepal Rastra Bank	318,358	1,113,415	1,829,470	2,648,596	549,954
Balance with Banks/Financial Institution	74,061	16,003	330,243	49,520	214,656
Money at Call & Short Notice	1,734,901	563,532	1,952,360	552,888	3,118,144
Investment	6,178,533	8,945,310	9,939,771	10,826,379	13,670,916
Loans advance & Bills purchased	12,922,543	15,545,778	21,365,053	27,589,993	32,268,873

Fixed Assets	319,086	286,895	598,038	660,988	779,539
Non Banking Assets	NA	NA	NA	NA	NA
Other Assets	544,668	512,050	606,393	864,695	912,665
Total	**22,329,971**	**27,253,393**	**37,132,759**	**43,867,397**	**52,150,237**
Profit and Loss Account	**2005/6**	**2006/7**	**2007/8**	**2008/9**	**2009/10**
Interest Income	1,309,998	158,775	1,978,696	2,798,486	4,047,725
Interest Expense	357,161	555,710	758,436	1,153,280	1,960,107
Net Interest Income	952,837	1,032,048	1,220,260	1,645,206	2,087,617
Commission and Discount	138,293	150,608	159,319	179,693	215,481
Other Operating Income	82,897	87,574	94,359	144,164	169,548
Exchange Income	185,483	209,926	196,487	251,919	291,440
Total Operating Income	1,359,512	1,480,157	1,670,427	2,220,983	2,764,088
Staff Expenses	219,780	240,161	262,907	339,879	366,940
Other Operating Expenses	182,696	188,183	220,750	265,158	334,188
Exchange Loss	NA	NA	NA	NA	NA
Operating Profit Before Provision For Possible Losses	957,035	1,051,813	1,186,769	1,615,927	2,620,961
Provision For Possible Loss	3,769	14,206	64,055	45,722	355,839
Operating Profit	953,265	1,037,606	1,122,718	1,570,204	1,706,437
Non Operating Income/Expense	735	5,280	24,083	2,190	6,454
Provision For Possible Losses Write Back	7,729	10,926	11,100	10,617	39,791
Profit From Regular Activities	961,730	1,053,813	1,157,898	1,583,012	1,753,674
Income/Expense From Extra-Ordinary Activities	26,073	40,736	39,990	43,521	34,321
Profit From All Activities	987,804	1,094,550	1,197,889	1,626,534	1,787,701

Provision For Staff Bonus	89,800	99,504	108,899	147,866	162,518
Provision For Income Tax	262,741	321,086	342,521	447,614	486,083
Current Tax	262,562	314,526	340,625	470,701	472,823
Prior Period Tax	178	6,559	52	918	831
Deferred Tax	NA	NA	1.8	(24,006)	12,428
Net Profit/Loss	**635,262**	**673,954**	**746,468**	**1,031,053**	**1,139,099**

Key Indicator	**2005/6**	**2006/7**	**2007/8**	**2008/9**	**2009/10**
Return on Total Assets(%)	2.8	2.5	2.0	2.4	2.2
Return on Total Deposits(%)	3.2	2.9	2.3	2.8	2.5
Interest Earned to Total Assets(%)	4.3	3.8	3.3	3.8	4
Market Value Per Share	2,240	5,050	5,275	4,899	2,384
Book Value Per Share	381	418	354	324	265
Return on Net worth(%)	33.8	32.8	30.6	33.0	29.7
C/D Ratio(%)	68.63	68.13	68.18	73.87	69.53
EPS(Rs)	129.21	137.02	108.31	106.76	78.61
CRR Ratio(%)	3.26	6	8.37	9.03	3.02
Non Performing Loan/Total Loan(%)	1.38	1.12	0.74	0.80	1.47

Appendix3

Financial Highlights of HBL from 2005/6 to 2009/10

Comparative Financial Results of HBL					
As of Year 2005/6 to 2009/10					
in NRs. ' 000'					
Balance Sheet					
Capital and Liability	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Share Capital	772,200	810,810	1,031,512	1,600,000	2,000,000
Reserve and Surplus	993,975	1,335,689	1,499,479	1,519,880	1,439,205
Debenture and Bond	360,300	360,000	860,000	500,000	500,000
Borrowing	144,624	235,967	83,177	NA	NA
Deposit	26,490,851	30,048,417	31,842,789	34,682,306	37,611,202
Bills payable	73,577	91,303	102,669	31,847	216,158
Proposed and Unclaimed Dividend	238,409	130,937	263,076	162,096	189,473
Income Tax liabilities	NA	11,917	191,131	10,163	NA
Other Liabilities	386,750	494,099	491,695	823,836	761,084,
Total	**29,460,389**	**33,519,141**	**36,175,531**	**39,330,131**	**42,717,124**
Asset	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Cash Balance	305,428	177,242	278,183	473,759	514,223
Balance with Nepal Rastra Bank	1,096,253	1,272,543	935,841	2,328,405	2,604,790
Balance with Banks/Financial Institution	315,671	307,555	234,117	246,361	747,476
Money at Call & Short Notice	1,005,280	1,710,123	518,529	1,170,793	308,840
Investment	10,889,031	11,822,984	13,340,176	8,710,690	8,444,910
Loans advance & Bills purchased	14,642,559	16,997,997	19,497,520	24,793,155	27,980,628

Fixed Assets	540,824	574,060	795,309	952,196	1,061,870
Non Banking Assets	21,732	12,766	10,306	22,694	NA
Other Assets	643,609	643,967	585,545	632,074	1,054,384
Total	**29,460,389**	**33,519,141**	**36,175,531**	**39,330,131**	**42,717,124**
Profit and Loss Account	**2005/6**	**2006/7**	**2007/8**	**2008/9**	**2009/10**
Interest Income	1,626,473	1,775,582	1,963,647	2,342,198	3,148,605
Interest Expense	648,841	767,411	823,744	934,778	1,553,530
Net Interest Income	977,632	1008,171	1,139,902	1,407,420	1,595,074
Commission and Discount	165,447	193,224	187,819	284,302	270,258
Other Operating Income	52,324	40,328	62,103	46,342	112,346
Exchange Income	198,130	151,637	207,669	249,982	180,278
Total Operating Income	1,393,534	1,393,361	1,597,495	1,988,047	2,157,958
Staff Expenses	234,588	290,921	292,213	360,980	414,983
Other Operating Expenses	329,699	322,865	344,320	398,316	471,102
Exchange Loss	NA	NA	NA	NA	NA
Operating Profit Before Provision For Possible Losses	829,246	779,575	960,961	1,228,750	1,271,871
Provision For Possible Loss	145,154	90,688	6,007	199,214	692,640
Operating Profit	684,092	688,886	954,953	1,029,535	579,231
Non Operating Income/Expense	1,887	3,493	9,700	3,810	12,382
Provision For Possible Losses Write Back	56,561	412,654	131,682	149,894	265,542
Profit From Regular Activities	742,541	1,105,034	1,096,336	1,183,239	857,155
sIncome/Expense From Extra-Ordinary Activities	(2,902)	(315,890)	(52,614)	(9,973)	(25,855)
Profit From All Activities	739,638	789,143	1,043,722	1,173,266	831,300

Provision For Staff Bonus	67,239	71,740	94,883	106,660	**75,572**
Provision For Income Tax	672,398	717,403	312,970	313,771	246,070
Current Tax	NA	225,580	309,154	340	246,070
Prior Period Tax	214,941	NA	NA	568	1,454
Deferred Tax	NA	NA	3,815	(27)	(595)
Net Profit/Loss	**457,457**	**491,822**	**6,35,868**	**752,834**	**508,798**

Key Indicator	**2005/6**	**2006/7**	**2007/8**	**2008/9**	**2009/20**
Return on Total Assets(%)	1.6	1.5	1.8	1.9	1.2
Return on Total Deposits(%)	1.7	1.6	2.0	1.9	1.2
Interest Earned To Total Asset(%)	3.3	3	3.2	3.6	1.2
Market Value Per Share	1100	1,740	1,980	1,760	816
Book Value Per Share	228.7	264.7	248	256.5	226.8
Return on Networth(%)	25.9	22.9	25.1	24	14.8
C/D Ratio(%)	55.27	56.57	61.23	71.49	74.39
EPS(Rs)	59.24	60.66	62.74	61.90	31.80
CRR Ratio(%)	5.92	5.92	5.13	6.76	6.76
Non Performing Loan/Total Loan(%)	6.60	3.61	2.36	2.16	3.52