CHAPTER - I

INTRODUCTION

1.1 Background of Study

Nepal is an underdeveloped country per capita income of US $ 240 and most of the people are under poverty line. Many features are there for slow pace of the development such as land locked position, lack of vagaries and misuse of resources, poor economy policy and institutional weakness.

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

The basis for the financial planning, analysis and decision-making is the financial information. Financial information is needed to predict, compare and evaluate the firm's earning ability. It is required to aid in economic decision- making. The financial information of an enterprise is contained in the financial statement or accounting reports.

"Financial statement analysis applies analytical tools and techniques to general purpose financial statements and related data to derive to estimates and interferences useful in business decisions. It is a screening tool in selecting investment or merger candidates and is a forecasting tool of future financial conditions and consequences. It is a diagnostic tool in assessing financing, investing and operating activities and is an evaluation tool for managerial and other business decision *"Bernsten, Leopard. A, wild john J. (1998; 3)*

Financial Statement analysis reduces over reliance on hunches, guesses, and intuition and in turn, it diminishes our uncertainty in decision-making. It does not lesson the need for expert judgment but rather establishes an effective and systematic basis for making business decisions.

Financial statements of a firm mainly include income statement and the balance sheet. They are important source of financial information regarding the firm's operations and its financial position. To analyze the financial performance, strength, and weakness of the firm, many types of tools and techniques are used.

Ratio analysis is one of the very popular and widely used tools of financial analysis. Ratio analysis is done with different ratios. Which are calculated from the accounting data contained in the financial statement? It is the primary tool for examining the firm's financial position and performance. Ratios are used as yardstick for evaluating the financial condition and performance of the firm.

Commercial banks play an important role in affair of the economy in various ways. The operations of commercial banks record the economic pulse of the economy. The size and composition of their transaction mirror the economic happening in the country. They are essential instruments of accelerated growth in a developing economy, by mobilizing community savings and diverting them into productive channels commercial banks expand and appreciate the value of aggregate economic activity in the economy.

The financial system in Nepal has from a narrow, repressed regime till the eighties to a dynamic expanding sector in the nineties. Indicators of the last decade shown that the sector has growth both quantitatively and qualitatively. It could be observed that, at the same time, the financial market has become more competitive, dynamic and also compels. This constitutionals network and the volume of operations of financial system have expanded and diversified with the number of increased in commercial banks.

The adoption of the market economy has given birth too many private commercial banks in the country as said earlier. So far, all these banks are doing very well in the slow down in the economy, interest rates are falling down. All the banks are with funds and looking for safe and profitable avenues to invest in it.

The researcher has attempted to analysis the comparative financial performance of NABIL, NIBL and SCBNL and their individual strength on the basis of their internal reports and published annual reports. For the purpose, different tools and techniques have been applied to judge the performance of these organizations, drawn out the strength and weakness of the firms and try to prescribe measures to improve the performance of these three banks.

Brief profiles of these three banks are given below:

NABIL Bank Limited:

NABIL Bank Ltd. is the first joint venture commercial bank in Nepal which has in corporate in Ashadh 29, 2041(1984 A.D.) Dubai Bank Ltd. was the initial foreign joint venture partner with 50% equity investment. The share owned Dubai Bank Ltd, were transferred to Emanates Bank International Ltd. (EBIL) Dubai by north of its annexation with the later on EBIL Dubai sold its entire 50% equity to national Bank Ltd.

Share subscription and capital structure:

Subscription	% Holding
NB (International) Limited	50%
Nepal Industrial Development Corporation	10%
Rastriya Beema Sansthan	9.67%
Nepal Stock Exchange	0.33%
General Public	30%

Authorized capital: Rs. 500,000,000

Issued capital: Rs 491,654,400

Paid up capital: Rs. 491, 654, 400

Earning per share and Dividend per share of this bank are Rs. 140 and Rs. 137 at the end of financial year 2008 respectively.

Nepal Investment Bank

Nepal Investment Bank Ltd (NIBL), previous, Nepal Indosuez Bank Ltd. Was established as a joint venture between Nepalese and French partner in Falgun 16 (1985 A.D.) the French partner (hold capital of NIBL) was credit Agriwale Indosuez and subsidiary of one of the Largest banking in the world.

With the decision of credit Agriwale Indosuez to diverst, a group of company's bankers, professional's industrialists and businesspersons, has acquired on April shareholding of credit Agriwle Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been change in to Nepal Investment Bank Ltd. In 12thJune, 2002 A.D. provide Loan and advance to agriculture, industries, commerce and to provide modern Banking services to the people.

Share Subscription and capital structure:

Subscription	% Holding
Organized Institutions	50%
Rastriya Banijya Bank	15%
Rastriya Beema Sansthan	15%
General Public	20%

Authorized Capital: Rs 1000,000,000

Issued capital: Rs. 801, 352, 600

Paid up capital: Rs. 801, 352, 600

Earning per share and dividend per share of this bank are Rs. 62.57 and Rs. 18.77 at the end of the financial year 2008 respectively.

Standard chartered Bank Nepal Limited:

Nepal Standard Chartered Bank Limited was published in Magh 16, 2043 (1985 A.D.) was Nepal Grindlays Bank under the company act 1964, The bank associates company of Australia and New Zealand Group Limited. Nepal Grindlays Bank has been changed into Standard Chartered Bank Nepal Limited on 16thJuly, 2001. Now it is the joint venture with Standard Chartered Bank, UK and standard chartered Grindlays Ltd. Austria.

The main objectives of the bank are to collect deposits and provide loans to agriculture, commerce, Industries and to provide Modern Banking system to people. Standard chartered Bank Nepal Limited with the advantage of its largest International networks has been able to earn a favorable operating profit as compared to other joint venture banks. Standard chartered Bank is the first bank having highest number of shares holding by foreign investors.

Shares subscription and capital structure:

Subscription	% Holding
Standard chartered Grindlays Ltd, Australia	50%
Standard Chartered Bank, UK	25%
Nepalese promoters and public	25%

Authorized capital: Rs. 1000,000,000

Issued capital: Rs. 500,000,000

Paid up capital: Rs, 413,254, 800

Earning per share and dividend per share Rs. 167.37 and Rs. 133.90 at the end of the financial year 2008 respectively.

1.1.1 Concept of Banking

Bank is a financial institution, which plays a significant role, in the development of a country. "Banking institutions are inevitable for the resources mobilization and all round development of the country. It is resources for economic development; it maintains economic confidence of various segments and extends credit to people" *(Grywinshki, Ronald, 1993; 87)*

"The banking sector is largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending in different sectors of economy. The banking sector has now reached to most remote areas of the country and has experienced a good deal in the growth of the economy. By lending their resources in small scale industries under intensive banking program has enabled the banks to share in the economic growth of the economy" *(Shrestha, 1993; 32)*

Banks are institutions whose debits-usually referred to as "bank deposits" are commonly accepted in final settlement of other people's debt. Bank is also defined as an institution, which accepts deposits from the public and in turn advances loan by creating credit. It is different from other financial institutions in the sense that they cannot create credit through they may be accepting deposits and making advances. Banking institution is in dispensable in a modern society. It plays a pivotal role in the economic development of a country and forms the core of the money market in the advanced country.

Various types of banking institutions are performing different functions. There is for instance the central bank, which controls the entire currency and credit of the country. It is the organ of government that under takes the major financial operations and by other means influences the behavior of financial institutions so as to support the economic policy of the government. Similarly, commercial banks also perform different functions by accepting the deposits and advancing loans etc. but in modern times, commercial banks are concentrated in their activities of fulfilling the financial needs of their customers. The commercial banks have become the heart of financial system as they hold the deposit of the people, government and business units and investing activities to individuals, business firm and government.

1.1.2 Historical developmet of Banking System in Nepal

"Banking concept existed even in the ancient period when the rich people used to issue the common people against the provides of safe keeping of their valuable items on the presentation of the receipt: the depositors would get bank their gold and valuables of the paying a small amount of safe keeping and saving" *(Paul. A. Samuelson 1973; 27)*

The history of banking in Nepal can be described as a component of gradual and economic sphere of the Nepalese life. Even the financial system in still in evolutionary phase. Though establishment of banking industry was very recent, some crude bank operation was in practice even in ancient times. In Nepalese chorine, it was recorded that “Shankhadhar” a merchant introduced the new era known as “Nepalese Sambat” from Kantipur in 880 A.D. after having paid all the outstanding debt of the country. This shows basic of money lending practice in ancient Nepal. In 11th century during Malla Regime there was an evidence of professional moneylenders and bankers. It is further believed of professional moneylenders and bankers. It is further believed that money- lending business; particularly for financing the foreign trade with Tibet became quite popular during regime of Mallas. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have changed exorbitant rate of interest and other extra dues on loans advanced.

The establishment of the "Tejarath Adda" by primer ministers "Ranoddip Singh" during the year 1877 AD was fully subscribed by government of Kathmandu valley, which played vital role in the banking system, was regarded as the father of the modern banking institution. The prime task of "Tejarath Adda" was granting of loans and safeguarding of total national deposits. At that time, Indian currency was commonly used in most part of Terai. The primary task of the Tejarath Adda" was to attract the deposits in government exchequer at the beginning but later on public was also allowed to take the loan at the same rate of interest with gold and silver ornaments as securities and collateral. Although the institution did not accept any deposits, it had played an important role n development process of banking system in Nepal.

The main defects of this institution showed that there was no further financial institution set-up and there was no effort to expand the services. Above all of the defects, this institution did not accept any deposit from the public. In the absence of saving mobilization, the "Adda" faced financial problems making it impossible to charter to the country. Udyog Parished (Industrial Development Board) was constituted in 1936 A.D. One year after its establishment, it formulated the "Company act" and "Nepal Bank Act" In 1937 A.D.

In the year 1994 B.S. the establishment of Nepal Bank Limited, with the Imperial Bank of India came into existence under "Nepal Bank Act 1993 B.S." as the first commercial bank of Nepal. At that time Nepalese economy was characterized by the existence of dual currency system (Indian and Nepalese), which was effecting economic stability and development of nation. Thus, the need of establishment of the central bank required great urgency. As result, Nepal Rastra Bank was established as central bank of country on 13th Kartik 2013 under NRB Act 2012 with the authorized capital of Rs. 10 million fully subscribed by government.

Integrated and speedy development of the country is possible only when the competitive banking services research nooks and corners of the country. To cope this situation government setup Rastriya Banijya bank in 2022 B.S. as a fully government owned commercial bank. With the come up of RBB, banking services spread to both urban as well as rural area. Agriculture Development Bank was established for the promotion of agriculture sector in country. When the government adopted liberal and market oriented economic policy in the mid 80's Nepal allowed the entry of foreign banks of joint venture basis with foreign capital, technology and experience. Nepal Arab Bank Ltd. was the first joint venture bank established on 2041 B.S. under the commercial bank act 2031. With the opening of NABIL the door of opening joint venture banks was opened to the private sector.

1.1.3 Concept of Commercial Banks

Financial intermediaries play significant role to the development of national economy. They influence savings and surpluses considerably, which results investments. Financial intermediaries collect financial resources and supply them to the productive sectors that boosts the trade and industry and at last development of the country's economy.

Commercial banks are also financial intermediaries they mediate people who save money and who want to secure the use of money by accepting the deposits, burrowing funds and advancing loans. In addition to these primary functions, commercial banks, collect checks and bills, open later of the credit, guarantee on behalf of customers, undertake capital and other many activities, exchange foreign currencies etc.

"A commercial bank is one which exchanges money, deposits money, accepts, grants loan and performs commercial banking functions and which is not a bank meant for co-operative agriculture industries or for such specific purpose*"(Nepal Commercial Bank, Act, 2031 ; 1)*

Commercial Banks are heart of financial system they hold the deposits of many person, government establishment business unit. They make fund available through their lending and investing activities to borrowers, individuals, business firms and services for the producers to customers and the financial activities of the government. They provide the large portion of the medium of exchange and they are media through which monetary policy is affected. These facts show that the commercial banking system of nation is important to the functioning of the economy. *(Read, Cotler, Will, Smith, 1976; 39)*

In content of Nepal, commercial banks are operated under "Commercial Bank Act 2031 B. S.", In addition to Commercial Bank Act, Nepal Rastra Bank also lays down other many directives.

1.1.3.1Function of Commercial Banks

Regarding the function of commercial banks, a commercial bank act state that a commercial bank is one that exchanges money, accept deposits, grants loans, and performs commercial banking functions. The functions and services of modern commercial banks are classified under the following headings.

(I) Accepting Deposits

A commercial bank accepts deposits from customers in the forms of current, saving and fixed deposits. These deposits are repayable on demand. The depositors other than current A/c are paid interest.

(ii) Granting Loans and Deposits

The second main function of the commercial bank is to grant loans and advances to businessman, the industrialist, the individuals, the different organizations etc. in the forms of term loans, cash credit, overdraft, trust receipts, hire purchase loans etc. Banks charges interest on such loan and advances, which is the largest source of total income.

(iii) Agency Service

A modern commercial banks act as an agent of individual's customers, business institutions and different organization. The agency services of banks may involve collection of interest and dividends on debt and share capital. A bank buys and sells securities on behalf of the customers. Bank also collects cheques, draft promissory notes etc and receives their payments. Sometimes, it makes payments of insurance premium, bills of electricity, telephone etc. It takes commission for the services rendered.

(iv) Guarantee on Behalf of Customers

The need of bank guarantee arises in business. Generally, business customers enjoy this service. Sometimes, personal customers may also need a bank guarantee. A guarantee is a definite and irrevocable under taking by a bank on behalf of its customers to make payments up to a specified sum of money to the beneficiary on demand incase of default by its customers.

(v) Issuance of Traveler's Cheque

The people traveling outside the country want to reduce the fear of getting money stolen during the travel. Bank sells the traveler's cheque. The unique feature of the traveler's cheque is that unless the purchaser of traveler's cheque signs for encashment it cannot be encashed.

(vi) Opening Letter of Credit

Today letter of credit has become very popular in foreign business. The letter of credit is established /opened by the bank on the request of the customers.

(vii) Remittance Function

Sending and receiving fund to from various places is the necessity of today. The remittance service of bank has benefited both business and personal customers. Funds transfers are made through various modes like demand drafts, telegraphic payment order, swift, fax and mail payment orders.

(viii) Other Services

Modern commercial banks are equally important in undertaking safe custody of important valuable and documents. Banks also offer some of the bank services at the door of highly valued customers. Few large banks conduct research and survey in the economic conditions and they supply trade statistics and information. In addition to these, banks also inform their customers about the credit standing of other particles.

1.1.4 Concept of Join venture Bank

A Joint Venture Bank is joining of forces between two or more enterprises for the purchase of carrying out a specific operation i.e. industrial and commercial investment production or trade." *(Gupta, 1984; 15)*

The joint venture is common variant for expansion. "A joint venture business involves in equity arrangement between two or more independent enterprises which results in the creation of new organization" *(Jauch and Glueck, 1988; 232)* this thought identified the joint venture as a mutual understanding among two or more firms then bringing a new enterprise in existence. Basically, they are constant about the ownership of new firms. In what proportion they are, going to contribute ownership is also decided mutually.

Firms within a country as well as operating in different countries may participate in a venture that happens to be more common firm's indifferent countries. The foreign joint venture banks with full-fledged banking functions in Nepal are formed under Company Act 2021 B. s. and operated under the Banijaya Bank Act 2031 B. S. Joint Venture Bank have been established for trading to achieve mutual exchanges of goods and services, for sharing comparative advantages by performing joint investment schemes between Nepalese investors, financial and non-financial institutions as well as private investors and their parents banks. The parent banks that have experience in highly mechanized and efficient modern banking services in the many part of the world have come to Nepal with superior technology, advanced management skills and international network of banking.

"The existence of foreign joint venture bank has presented an environment of healthy competition among the existing commercial banks. The increased competition had led to improve their quality and has caused an extension of services by simplifying procedures and training". (Chopras, 1990; 231)

The concept of joint venture banks is an innovation in finance and it is at a growing stage, mostly in developing countries.

"HMG's deliberate policy of allowing foreign JVB's to operate in Nepal is basically targeted to encourage local traditionally run commercial banks to enhance their balanceable capacity through competition efficiency, modernization via computerization and prompt customer service". *(Shrestha, 2041; 44)*

Joint venture banks in Nepal are expected to be the medium of economic development and uplift the community under the guidance, operate under supervision, controlling and direction of Nepal Rastra Bank. Nepal Arab Bank Limited was the first joint venture bank of Nepal, established in 29th Ashar 2041 B. S. until now there are nine joint venture banks operating in different parts of Kingdom of Nepal.

The following are the JVBs that have been established in Nepal.

S. N.	**Joint Venture Banks**	**Established Date**	**Head Office**
1	Nepal Arab Bank Limited	2041/3/29 B.S.	Kathmandu
2	Nepal Investment Bank Limited (Formerly Nepal Indo-suez Bank)	2042/11/16 B. S.	Kathmandu
3	Standard Chartered Bank Limited (Formerly Nepal Grindlays Bank)	2043/10/16 B. S.	Kathmandu
4	Himalayan Bank Limited	2049/10/05 B. S.	Kathmandu
5	Nepal SBI Bank Limited	2050/03/23 B. S.	Kathmandu
6	Nepal Bangladesh Bank Limited	2051/02/23 B. S.	Kathmandu
7	Everest Bank Limited	2051/07/01 B. S.	Kathmandu
8	Bank of Kathmandu Limited	2051/11/28 B. S.	Kathmandu
9	Nepal Bank of Cylon Limited	2053/06/28 B. S.	Siddharthanagar

1.1.4.1Role and function of Joint Venture Banks

With the entry of foreign joint venture banks with foreign collaboration advanced managerial skills, international network personalized manpower, and modern computerized technology have created serious challenges to the existence of the traditionally running inefficient domestic state owned banks. JVBs are able to provide quality-banking service at the cheaper costs. At same time, JVBs create the opportunity and environment to the domestic bank to improve their style of doing business by modernizing themselves and sharpening the internal strength.

The JVBs have already been providing a dynamic and vital role for the development of the efficient financial market as well as for successful mobilizing and utilizing financial resource sin the country, which can be illustrated in the following headings.

(I) Providing Advanced Banking Services

The joint venture banks are expert and efficient for practicing new methods of doing banking business like computerization, providing tele-banking facility, automatic teller machine (ATM), 24 hours banking services, any branch banking facility, premium saving account (PSA), free life insurance of account holders, and other many attractive facilities.

(II) International Management Network

The top level-management of the JVB is either from foreign country or supported by foreign parent institutions for expertise and professional services. And the management is able to formulate policy and strategy according to Nepalese economic climate with the participation of native promoters. Such management system can be a model example to the domestic banks that are operating traditionally.

(III) Creation of Healthy Competition in the Banking Industry

In the post liberalization period the introduction of the JVBs has ended the monopoly of the two domestic banks namely NBL and RBB and brought satisfactory fair competition in the banking business, which results the competitive advantages to customers. Efficiency of the financial market is the backbone of the economy. The advent of the JVBs has contributed much to the direction of domestic saving as well as to the efficiency of funds flow into the economy, which surely would not have been possible through the government's conservative and restricting free competition policy.

(IV) Advantage of Foreign Investment

The JVBs play a remarkable role in making available foreign financial resource for the investment. They act as mediators between foreign investors and native investors and promoters. That will help for the promotion of the trade and commerce in the country.

Recently, the JVBs are being criticized, as they only want to operate in urban and suburban areas rather than to rural ones driven by profit motive. However the JVBs have been contributing much in the direction of the development and modernization of the efficient banking system, financial system, domestic saving, and creation of the employment opportunities.

1.2 Statement of the Problem

In modern days, especially in Nepal, Banks are being considered not as dealers of money transaction but also dealers of investment in the country. Banks are the active players of money market and capital market as well.

In fact, economic liberalization and privatization policy adopted by the government has open up the opportunity and threat as to the banking sectors. As a result, we see a rapid growth in the numbers of commercial banks in the country and of course, the rapid increment in numbers of commercial banks in small kingdom like Nepal has created tough and bottle neck competition among bankers. This study will try to seek the answers of the following statements relating to commercial banks of Nepal.

1. How these banks have been managing their position relating to the liquidity?

2. How these banks are being able to utilize the fund?
3. In which way do these banks are managing to increase the value for sustainability or otherwise?
4. What are the operational results to their profitability?
5. What is the relationship between total deposit and total investment over the year?
6. To what extent the operating profit is related to interest earned?
7. To what extent these banks have been successful in minimizing the non-performing assets?

1.3 Objectives of the Study

The Primary objectives of this study is to make comparative analysis of the financial performance of three joint venture banks namely NABIL Bank Limited, Nepal Investment Bank Ltd. and standard chartered Bank Nepal Limited and to recommended suggestion for the improvement of state of affairs. Some of other objectives are:

- To evaluate the liquidity position to measure the strength of financial performance of selected banks.
- To evaluate the activity and operation with reference to mobilization of the collected funds.
- To analyze price earning, Market value to book value per share and dividend payout.
- To evaluate the earning and profitability position of selected banks.
- To identify the relationship between total deposit and total investment.
- To identify the relationship between interest earned and operating profit.

1.4 Significance of the Study

Analysis of financial performance of any company is very important. Actually, on the basis of the financial analysis we can say that the concerned company is strong or not.

The financials published by the banks gives the meaningful picture to the public regarding the financial position of the banks. Thus, the analysis of these statements is necessary in order to give the full and clear-cut position and performance of the banks. This study is mainly compare the financial performance of NABIL, NIBL and SCBNL which compare the position of selected bank under the study, which encourage to improve the different position and performance of the selected banks. From data presentation and analysis researcher finds different and weakness of the selective banks which is recommended to the banks for their further improvement.

Banking Institutions definitely contribute and play an important role for domestic resource mobilization, economic development and maintains economic confidence of various segments and extends credit to people.

a) This study has multidimensional significance in particular area of concerned banks which have been undertaken that justifies for finding out important points and facts to researcher, shareholders, brokers, traders, financial institution, and public knowledge.

b) This study helps and justify for finding out the financial performance of concerned selected commercial banks and Government of Nepal to make plans and policies.

c) This study certainly input the policymakers of concerned selected banks for making plans and policies of the effective banking system.

1.5 Limitation of the Study

Every works have its own restriction and limitation due to the lack of time resources and knowledge. Despite the enough efforts of researcher, this thesis is not free from limitation. The study is presented just for the partial fulfillment of M.B.S. (Master's of Business Studied) degree. The researcher has come across many problems while presenting the thesis. Following are the major limitations of this thesis.

a. This thesis is based on secondary data collected from concerned banks. Thus, the result of the analysis depends on the information provided by them.

b. This thesis covers three commercial banks only viz. NABIL Bank Ltd, Nepal Investment Bank Ltd. and Standard Chartered Bank Ltd. only.

c. The thesis is limited to analyze five years period i.e. from FY (2003/2004 - 2007/2008) B.S.

d. Standard normal performance level is not available especially in Nepalese context. So, interpretations of data are depended upon common sense. In thesis context, concerned experts are also consulted.

e. The source of data i.e. published annual report and internet web site is assumed to be correct.

1.6 Organization of the Study

The study on the comparative financial analysis of NABIL, NIBL, and SCBNL has been divided into five chapters viz. Introduction, Review of Literature, Research Methodology, Presentation and Analysis of Data and Summary, Conclusion and Recommendation.

Chapter 1: Introduction

The introduction chapter briefly explains about the meaning and historical background of commercial bank in Nepal and also the joint venture banks. IT describes the introduction of research study, which explains the focus of the study, statement of problem, objective of the study, significance of the study and limitation of the study.

Chapter 2: Review of Literature

In this second chapter, the brief explanation of Ratio Analysis has been presented. The relevant and pertinent literature and various studies have also reviewed.

Chapter 3: Research Methodology

The third chapter briefly explains about the research methodology that has been used to evaluate the financial performance of the banks under consideration. This chapter consists of research design, sample and population, source of data and financial tools and techniques to measure the financial performance NABIL, NIBL and SCBNL.

Chapter 4: Presentation and Analysis of Data

In this fourth chapter, the data required for the study has been presented analyzed and interpreted by using various tools and techniques of financial management, accounts and statistics to present the result relating to the study in a very lucid manner.

Chapter 5: Summary, Conclusion and Recommendation

The fifth chapter is the final chapter of the study, which consists of the summary of the four earlier chapters. This chapter tries to fetch out a conclusion of the study and attempts to offer various suggestion and recommendations for the improvement of the future performances of the three banks under review.

Finally, bibliography and appendix are represented at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

Review of the literature is focused and directed towards specific purposes. It is a selective subject. A researcher has to select the kind of literature to be reviewed and determine the purpose. It starts with the selections of a problem for research, continues through the various stages of the research process and end with report writing.

Reviewing different available literature from various sources are the major objective of this chapter. The prime focus for collecting external literacy information through various textbooks, research journals and research thesis. Various articles relating to different aspects of commercial bank will help to conduct the study smoothly. Review of literature is divided into two categories.

2.1 Conceptual Frame Work/Theoretical Review

Financial decisions are very sensitive and important and cannot be taken blindly or in a vacuum. Financial decisions must be based on proper financial analysis by using, financial tools-such as financial ratios are used to measure the financial performance of the company. "Financial analysis is to analyze the achieved statement to see if the result meet the objectives of the firm, to identify problems, if any, in the past or present and /or likely to be in the future, and to provide recommendation to solve the problems" *(Pradhan, 2000; 120).*

"Financial analysis is process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet, which represents analysis snapshots of the firm's financial position analysis at analysis moment in time and next, income statement, that deposits analysis summary of the firm's profitability overtime" *(Vanhorn & Watchowlcz, 1997; 120).*

Similarly, Hampton has stated that "It is the process of determining the significant operating and financial statements. The goal of such analysis is to determining the efficiency and performance of the firm's management, as reflected in the financial records and reports*" (Hampton, 1998; 98).*

In financial analysis, certain guideline or criteria are included:

a. Historical evidence of performance as a base of financial performance analysis.
b. Economic consideration such as trend and averages of price level, business profit interest rates, dividend policy, security price movements.

Financial statement gives insight knowledge on the firm's financial position at a point of time and on its operations over some past companies regarding what they have performed financially. Financial report is reporting about what the company has done in terms of assets, liability, income and expenses. On the other hand financial statement also highlights other aspects of company such as liquidity, activity, capital structure and market.

"Financial statement analysis involves a comparison of analysis firm's performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify the current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strength and correct its weakness" *(Westorn, Besley & Brigham, 1996; 78).*

The following are the some important financial ratios to analysis the financial performance of selected banks:

(i) Liquidity Ratio

A liquidity ratio measures the ability of the firm to meet its current obligations. In fact, analysis of liquidity need the preparation of cash budgets and cash and funds flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity a firm should ensure that it doesn't suffer from lack of liquidity, and also that it doesn't have excess liquidity. The failure of company to meet its obligation due to lack of sufficient liquidity, will result in poor creditworthiness, loss of creditors' confidence, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad; idle assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

(ii) Leverage Ratio

The short-term creditors, like bankers and suppliers of raw materials, are more concern with the firm's debt-paying ability. On the other hand, long-term creditors, like debenture holders, financial institutions etc., are more concerned with the firm's long-term financial strength. In fact, a firm should have a strong short as well as long-term financial position. To judge the long-term financial position of the firm, financial leverage, or capital structure ratios are calculated. These ratios indicate mix of debt and owners' equity in financing the firm's assets. The process of magnifying the shareholders' return through the use of debt is called financial leverage or financial gearing or trading on equity.

(iii) Activity Ratio

Activity ratios are concerned with the measuring of efficiency in assets management. This ratios are employed to evaluate the efficiency with the bank manages and utilizes funds. These ratios are also called turnover ratios because they indicate the speed with which the assets are being converted or turned over into sales.

(iv) Profitability Ratio

A company should earn profits to survive and grow over a long period of time. Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate output of the company, and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of the profits. The profitability ratios are calculated to measure the operating efficiency of company. Besides management of the company, creditors and owners are also interested in the probability of the firm. Creditors want to get interest and repayment of principal regularly only when the company earns enough profits.

(v) Credit Ratio

Credit ratios are calculated in order to measure the credit position of the banks. It shows what portion of collected deposits are used to make credit and remain cash and bank balances to make immediate payments.

Financial statement published by the listed company in the stock exchange are collected and analyzed by Nepal Stock Exchange for the calculation of the financial performance of the concerned company. In fact, financial statement comprises of:

Balance sheet: It is very important means of analysis of financial performance of any company. It companies assets, liabilities and shareholder's equity.

Statement of profit and loss account: It also very important means of financial performance of any company. It comprises of income and expensed over the period of time.

Statement of Retained Earning: This statement explains about the Company's position of earnings to be paid as dividend and the portion of profit to be retained for future uses. It also explains how profit, dividend and other transaction affect the retained earnings and share-holders' equity.

Financial analysis is done on the basis of financial statement of the concerned company. The objective of financial analysis can be described as:

- To get the entire information that can be used at the time of decision making.
- To judge overall performance and management effectiveness.
- To identify the deficiencies and weaknesses.
- To take corrective action in time to check such deficiencies and improve the performance.
- To evaluate the possible implications of alternative course of actions.
- To get in dept information of possibilities of brining changes worthwhile.

2.2 Review of Books, Journals and Dissertations

Under this, various books, articles and dissertations have been reviewed for the purpose of clarification of financial statement and performance of the company under consideration.

2.2.1 Review of Related Books

Western & Copeland *(1991; 843-851)* in the 20th chapter ***"Short Term Financial Management"***, the author has highlighted the types of short-term financing and its related issues. Following are the objectives of this chapter.

a. Discuss the nature and type of short-term financing.
b. Evaluate the significance of working capital management of the firm.
c. Explain the relationship between sales growth and the need to finance in current assets.

Short-term financing is defined as debt scheduled for repayment within one year. A large number of short-term credits are available and the financial manager must know the advantages and disadvantages of each. The main types of short-term financing are:

A. Trade Credit

Trade credit is a customary part of doing business in most industries. It is convenient and informal. Whether trade credit costs more or less than other forms of financing is a moot question. Because in such cases the buyer has no option but to buy the goods from the creditors. The trade credit is not applicable to the commercial banks.

B. Loans from Commercial Banks

Loan from the commercial banks is very important source of financing. Commercial banks take into consideration of following factors while providing loan to its customer.

- Forms of loan
- Size of Customers
- Maturity
- Security
- Compensation Balance
- Repayment of Bank loan

C. Commercial Paper

In recent years, the issuance of commercial paper has become an increasingly important source of short term financing for many types of corporations, including utilities, finance companies, insurance companies, and bank holding companies and manufacturing companies. Commercial paper consists of unsecured promissory notes issued by the firms to finance short-term credit lines.

In conclusion, the author has quoted that trade credit is the largest single category of short-term financing. It is especially important for smaller firm. Bank credit occupies a pivotal position in the short-tem money market. Banks provide the marginal credit that allows the firms to expand more rapidly that in possible through retained earnings and trade credits. Commercial paper is physically similar to a bank loan. It is sold in broad and impersonal market. The highest rated firms are the main users of the commercial paper. Working capital management encompasses all aspects of administration of current assets and current liabilities. Short-term financial management is widely used in place of working capital management and it covers all decisions of an organization involving cash flows in short term.

Van Horne (*2000; 429-441)* in the 14th chapter called ***"Liquidity, Cash and Marketable Securities"***, the author has focused on the current assets and short-term financing. According to the author, Liquidity and liquid assets like cash and cashable assets are more important for the company to discharge the current liabilities. The objectives of the chapter can be explained as follows:

- Discuss the term liquidity and its role.
- Explain the various aspects of cash management and collections.
- Explain the various aspects of investment in marketable securities.
- Also to focus on the aspect of portfolio Management.

The, term liquid assets refer to money and assets that are readily convertible into cash. Cash is said to be more liquid asset in comparison to other assets. Because other assets have varying degree of liquidity depending on the way of conversion into cash. For the other assets, liquidity has two dimensions (i) the time necessary to convert the assets into money (ii) the degree of certainty, associated with conversion ratio. Since, assessment of financial performance also depends on the degree of liquidity of the company, so the company under consideration should be enough liquid to discharge it current liability in time. Other aspects of liability involve cash management and collections. Cash management refers to managing monies of the firm in order to maximize cash availability and interest income on any idle funds. The financial manager has to tackle the cash management and collection of fund seriously. Cash management and collection comprises various aspects like.

- Transferring funds.
- Concentration Banking.
- Lockbox System.
- Control of disbursements.
- Mobilizing funds and slowing disbursement.
- Payroll and dividend disbursements.
- Zero Balance Account.
- Electronic funds Transfers.

The author has also highlighted on investment in marketable securities to properly maintain the liquidity in the firm. According to author a good financial manager should always try to invest the portion of a excess liquid assets. The yields on these sorts of marketable securities may vary due to default risk, coupon rate and other factors involved. The financial manager should consider following aspects while taking decision regarding the investment in marketable securities:

- Default risk.
- Marketability.
- Maturity Period.
- Coupon Rate.
- Taxability.

Types of marketable Security

- Treasure Security.
- Repurchase Agreement -Agency Security.
- Banker's Acceptance.

- Commercial Paper.
- Negotiable Certificates of Deposits.
- Euro Donors.
- Short-Term Municipal Bonds.

Regarding the portfolio management, the author has emphasized that the financial manager should the investment portfolio in accordance with the need of fund. The term 'portfolio' means collection of investments in different securities. In portfolio analysis, financial manager should analyze future risk and return of securities. The objective of portfolio management is to help developing a portfolio that has the maximum return at chosen level of risk efficient portfolio provides the highest possible return for any specified rate of return. In portfolio analysis, the financial manage should estimate the expected return and the risk of holding securities in a portfolio. In portfolio management, expected return and portfolio risk calculated as follows.

Portfolio Returns

The portfolio returns is calculated by using following formula

$r_p=W_1r_1+ +\ldots\ldots\ldots\ldots\ldots+W_nr_n$

Where,

r_p Expected portfolio return

r_1 Expected return for stock 1

r_2 Expected return for stock 2

W_1 Weight for stock 1

W_2 Weight for stock 2

Portfolio Risk

Portfolio risk is measured by the variance or standard deviation of the return of the portfolio. The variance of returns from a portfolio made up of two assets is defined by following equation:

$\sigma^2 p = w_1^2 \sigma^2_1 + w_2 \sigma^2_2 + w_1 w_2 cov(r_1 r_2)$

Where,

$\sigma^2 p$ = variance of the portfolio's rates of return

W_1=weight for asset 1

σ^2_1 = variance for assets 1

W^2 = weight for asset 2

σ^2_2 = variance for asset 2

Cov $(r_1 r_2)$ = Covariance of returns between asset 1 and asset 2

Instead of Variance, standard deviation (σ_p) can be used to measure the risk of the portfolio. Standard deviation is equally valid as the variance but is easier to interpret. The following equation is used for the calculation of standard deviation of a two asset portfolio.

In conclusion, for the cash management the company should attempt to accelerate cash collections and handle disbursement so that maximum liquidity is maintained in the company. On the other hand, the financial manager should try to use the excess cash in a number of securities. The financial manager should select the best possible portfolio considering the cash flow pattern and other things of the company.

***Pandey**, (2001; 30-53),* for the financial analysis of any company there needs the financial information. The base of financial planning, analysis and decision-making is the financial information. Financial information is need to predict, compare to evaluate the firm's earning and expanding ability. It is also needed to help in economic decision making like investment and financing decision-making**.**

In this book, the author has pointed out of the following objectives in 2nd chapter "Statement of Financial Information".

a. Discuss the nature, content, form and utility of two financial statements, viz. Balance sheet and profit and loss account.
b. Show relationship between Balance sheet and profit and loss statements.
c. Distinguish between accounting profit and economic profit.

Any firm communicates financial information to the users through financial statements and reports. Thus, financial statements contain summarized information of the firm's financial affairs. These statements are the means to present the firm's financial situations to the users. Preparation of these statements is the responsibility of top management. As the investors, and financial analysis to examine the firm's performance in order to make investment decision use this statement, they should be prepared very carefully and contain as much information as possible. There are two basic financial statements prepared for the analysis of financial performance of any Company, (i) Balance sheet or statement of final position and profit and loss account or Income statement.

Balance Sheet:

Balance sheet is the most significant financial statement. It indicates the financial condition or the state of affairs of a business at a particular moment of time. Balance sheet is the base for the analysis of financial performance of any company. Balance sheet contains information about resources and obligations of a firm entity and about its owners' equity. Balance sheet provides a snapshot of the financial position of the firm at the closed of fiscal year.

As we know, Balance sheet is very important tools for the analysis of financial performance. The functions severed by Balance sheet can be pointed out as follows:

- It gives concise summary of the firm's resource obligations.

- It is a measure of the firm's liquidity.
- It is a measure of the firm's solvency.

Profit and Loss Account

Balance sheet plays very significant role for the banker and other creditors because it indicates the firm's financial Solvency and liquidity, where as profit and loss account reflect the earning capacity and potentiality of the firm. The profit and loss account is a scoreboard of the firm's performance during a period. Since the profit and loss account reflects the results of operations for a period, it is a flow statement. In contrast, balance sheet is a stock or status statement as it shows assets, liability and owners' equity at a point of time.

Profit and Loss account presents the summary of revenues and expenses and net income of a firm. It servers as a measure of the firm's profitability. The functions of profit and loss account can be described as follows:

a. It gives a concise summary of the firm's revenue and expenses during a period.

b. It measures the firm's profitability.

c. It communicates information regarding the results of the firm's activities to owners and other.

In conclusion, financial information is required for a financial planning, analysis and decision-making. The user of financial information includes owner's managers, employees, customers, suppliers and society.

The financial statements like Balance Sheet and P/L account are the basic instruments for the analysis of financial performance.

Sharma *(2058; 226-237),* in the 6th chapter called ***"Financial Structure"***, the author has explained about the financial structure of firm. According to the author, the term financial structure is wider than the capital structure. It refers to the structure of total finance of the company. It consists of both short-term financing and long-term financing. The objectives of this chapter can be explained as follows:

- Discuss and explain the term financial structure
- Explain about various financial leverages.
- Also explain about financial leverage and risk associated.
- Explain the various factors affecting financial structure.

The financial decision of the firm is one of the important decisions for the achievement of the maximization of the shareholder' wealth. For this, a financial manager should select a sound financial mix (financial structure), which help to achieve the objective of the firm. The term financial structure refers to the proportion of each type of capital, such as debt, preferred stock, and common equity issued by the firm.

The financial leverage is concerned with the relationship between the firm's earnings before interest taxes and the earning available for common stock holder. Financial leverage measures financial risk, and financial performance of the firm. It shows how much debt the firm employees in its capital structure.

Financial Leverage and Degree of Financial Leverage can be measured by using following equations:

$$FL \text{ X } \frac{EBIT}{EBT}$$

Here,

FL= Financial leverage

EBIT =Earning before interest and tax

EBT = Earning before tax

The effect of financial leverage is such that an increase in the firm's EBIT results in a more than proportional increase in the fir's earning per share. Where as a decrease in the firm's EBIT results in a more than proportional decrease in EPS.

Measuring the Degree of Financial Leverage (DFL)

The degree of the financial leverage (DFL) is the numerical measure of the firm's financial leverage. The following equation is used to, calculate DFL.

$$DFL \ \mathrm{X} \frac{\%\, change\, in\, EPS}{\%\, change\, in\, EBIT} \ \Psi 1$$

Here,

DFL = Degree of financial leverage

EPS = Earning per share

EBIT = Earning before interest and tax

The degree of financial leverage is defined as the percentage change in EPS due to a given percentage change in EBIT.

In this chapter, the author has pointed out following factors that affects the financial structure of the company. Following are the main factors that affect the financial structure:

a. Growth rate of sales
b. Sales stability
c. Assets structure
d. Management attitude.
e. Lender attitude
f. Competitive structure

A company's financial-structure is affected by above factors. Therefore, in choosing an appropriate capital structure, the financial manager should consider above mentioned factors.

2.2.2 Review of Related Articles

Bhatta (47th anniversary), In this article *"Financial policies to Prevent Financial Crisis"*, Nepal Rastra Bank Samachar, the author has suggested that the financial markets have become an exciting, challenging and ever changing sector in the recent years. The emergence of global financial institutions as a result of increased economic liberalization has raised a host of questions for financial planners and policy makers. The growth of financial markets has caused complexities in the management and if they are not managed and addressed properly with appropriate policies, then the result is the financial crisis. The financial crisis, which took place in Chile in 1992, Mexico in 1994, South Asian countries 1997, Russian Federation in 1998, Ecuador and Brazil in 1999 and Argentina in the late 2001 were the result of an abrupt growth in the size of financial markets posing serious challenges to their management.

According to the author of the article, the financial crisis in most of the markets, particularly in emerging market, undergo several stages. The, initial stage is deterioration' in financial and non-balance sheets and which promotes the second stage that is currency crisis. The third stage is a further determination of financial and non- financial balance sheets as a result of the currency crisis. This stage is the one that caused the economy to full- fledged financial crisis with its devastating consequences.

Policies to prevent Financial Crisis

The author has suggested following policies to be adopted for preventing financial crisis:

1. Prudential Supervision:

Banking sector problems promote most of the financial crisis. The experience of crisis hit countries show that the deterioration in banks balance sheet increase financial crisis. Further, foreign exchange crisis also lead to a full- blown financial crisis. The supervisory system must give special emphasis on following to prevent financial crisis:

i) Stop undesirable activities of financial institutions.
ii) Adequate resources and statuary authority for prudential supervisors.
iii) Accountability of supervisors.
iv) Restrictions on connected lending.
v) Limiting too-big to fail (too-bit- to fail is a policy in which all depositors at a big bank are fully protected if the bank fails)

2. Accounting standards and disclosure requirements:

It is true that both markets and supervisors need enough information so as to effectively monitor financial institutions to stop excessive risk taking. There is a practice of making bad loan good by providing additional loan to the troubled borrowers. As a result, it become harder for the markets or supervisors to decide when the banks are insolvent and need to be closed down. In this respect, implementation of proper accounting standards and disclosure requirements helps to established healthy financial institutions.

3. Legal and Judiciary system:

The efficient functioning of the financial system requires an efficient legal and Judiciary framework in many developing countries, the legal system may not well be defined about the use of certain assets as collateral or makes attaching collateral a costly and time consuming process. Thus, an effective legal and judiciary system is required to secure the investment of the lender and other similar cases by decreasing information problem.

4. Monetary policy and price stability: Monetary policy and price stability can also help to prevent financial crisis. When the countries have in past high inflation, foreign debt contracts make the financial system more fragile and thus trigger a financial crisis. Achieving price stability is a necessary condition for having sound currency and with sound currency it is easy to banks and non-financial firms and system government to raise debt in local currency.

5. Exchange rate regimes and foreign exchange reserves:

Exchange rate regime and foreign exchange reserves can also create financial instability. The experiences of crisis - hit countries have also shown that economies with low amount of foreign currency reserve seemed to be more vulnerable to crisis though, pegged/ fixed exchange rate regime is an efficient mechanism for inflation control, but the same can create server problem if the economy is dominated by substantial amount of foreign debt. Thus, some researchers have advocated that increased holding of foreign currency reserves is required to insulate countries from financial crisis.

6. Encouraging market based discipline:

Market based discipline is very much essential for a sound financial system. This can be maintained by:

- Disclosure requirement, which provides information to the markets that, assist them to' monitor financial institutions and keep them away from taking oil too much risk.
- Having credit ratings to financial institutions. Requiring them to issues subordinated debt.

7. Entry of Foreign Bank:

A liberalized economy with sound supervisory/ regulatory infrastructure can permit foreign banks to enter in financial system. The adverse shocks in economy will not affect the functioning of these banks since their risk is adversities and their enter can encourage the adaptation of best practices in the banking industry. It is believed that these banks come with better risk management techniques and more efficient banking system.

8. Limitation of too- big to fails hi the corporate sector:

When some corporate houses considered to be too- big -to fail (or politically influential) by the government, these corporations enjoy in excessive risk taking. If such is the case, lenders do not hesitate to supply additional fund to the troubled corporations and which violates the market discipline. Therefore, too- big to fails as ' in the banking sector should be eliminated.

In conclusion, the author has remarked that there is no doubt is no doubt that the key to preventing future financial crisis is to implement sound domestic economic policies and build robust financial institutions. The experiences of the crisis hit countries, especially during the decade of nineties, has proved that a country opening to liberalized economic policy should adopt sequencing policies constraining the pace of participation in the global market place until a sound domestic infrastructure can be put into place.

Shrestha (54^{th} Aniversary*)*, In this article *"Supervisory Challenges in the Nepalese Banking Sector"*, Nepal Rastra Bank Samachar, the author has suggested that the Current global crises is among the greatest challenges to the world economy. Unlike past financial crises, which were confined to particular regions, the current financial continent is quickly spreading across continents. Many countries around the world have experienced impact of global financial crises. The global financial crisis has led policy makers to focus increased attention on the crucial role of banking supervision. Ongoing changes in the structure and nature of banking as well as banking crises, across the globe have focused the attention of policy makers on the appropriate structure, scope and degree of independence of banking supervision. Independence for banks and financial institutions (BFI) supervisory authorities enhances their ability to enforce actions. The issue regarding the independence of supervisory authorities is the degree to which BFI supervisors should be subject to political and economic policy pressure and influence. How these issues are addressed is important because policies that fail to provide for an appropriate BFI supervisory framework may undermine BFI performance and even lead to full-scale BFI crises.

What Nepal Rastra Bank (NRB) is doing?

BFI supervision is concentrated mainly on lowering the probability of a situation where a BFI becomes insolvent, whereby it pursues the objective of preventing a disruption to the stability of the financial system as a whole. The NRB is responsible foe two other important assignments besides monetary policy. The first is to ensure that those who are placing their resources in BFIs are protected. The NRB is required to ensure that BFIs are completely managed completely transparent. The second responsibility of the NRB is to ensure that BFIs act as efficient financial intermediaries utilizing the domestic savings effectively to create jobs and improve national welfare.

The NRB has worked vigorously to enhance enforcement of the Banking and Financial Institution Act, 2063 (BAFIA) and the various regulations that govern implementation of this statute. The NRB had also revised prudential regulations based on global experience. During the past few years, the NRB supervision has identified several infringements to the banking laws and regulations. One major problem area was the categorization of loans (Housing, Margin Lending, Personal Loan etc.) Where several BFI has failed to conform to prudential regulations by categorizing loans to have been of better quality than was warranted following a close examination of the collateral offered. Failure to categorize loans properly led to under provisioning making some BFIs appear healthier by declaring higher dividends than were actually justified. Recategorization required by the NRB supervision process led to the need foe additional provisioning to meet statutory requirements and increased transparency and accountability for the benefit of both the customer and the financial sector.

The NRB supervisors have thoroughly scrutinized the margin lending activities of the BFIs and provided proper regulations on this matter. The NRB has implemented BASEL II framework for the commercial banks for better capitalizations of the banks.

However, the effective implementation of BASEL II is demanding and requires on the part of banks and supervisors considerable efforts and significant resources.

The NRB has also continuously analyzing the connected lending activities of the BFIs for the better implementations of the corporate governance practices. The NRB's efforts on having more transparency on the BFIs activities also bought good results in the performance of banking and financial sector. However, lot many things have to be done further for the development of effective supervision to ensure resilient banking and financial system in Nepal.

Why has the performance of BFIs been Disappointing?

The financial services industry continues to become more global in its reach. This demands the development of innovative supervisory and cooperative arrangements. Supervision and regulation of BFIs contributes to ensuring stability in the financial sector. Although the manner of NRB supervision over the banking sector depends on the political, economic and cultural conditions, the trend appear to be being built consolidated supervision is a reflection of developments in financial markets through the influence of market integration, financial innovations and technological progress.

The banking sector data analysis revealed that the performance of large government owned banks is very much disappointing as their presence are associated with slower financial and economic development. However, the performance of some private sector BFI is also disappointing and need more corrective actions immediately. They have weak incentives for sound lending and recovery, credit misallocation etc. The borrowers of these BFIs also have culture of non-payment of loan. Generally, Nepalese BFIs are facing the problem of poor governance and bad management, which is frequently evidenced by political intervention, poor lending practices, bad concentrations of credit, connected lending, poor internal control, less transparency, insider abuse and fraudulent activities.

Challenges in the NRB Supervision

The three main pillars constitute the vision for banking sector in Nepal. First is the achievement of sound legal framework for the banking sector. Second is the achievement of an efficient and stable financial sector. Third is increased access to financial service. However, the shortcomings in legal framework should be reviewed for addressing the gaps, inconsistencies and deficiencies in the prevailing legislation. With regard to efficiency, the NRB aim to achieve a more competitive financial sector.

The NRB supervision resolve to eradicate instances of noncompliance brought to light a number of challenges. These problems of an inadequate legal framework for enforcing remedial action and gaps in supervisory capacity to perform critical transaction and to form an independent opinion on the value of securities that collateralize non-performing loans. The second challenges was to comprehensively review the unified directives issued in 2062 and to align them to international best practice. The unified guidelines focused in improving asset quality and ensuring higher standards of corporate governance should be improved further according to global best practice.

An important challenge faced by the BFIs has been the disposal of collateral used to secure non-performing loans. This problem should be addressed immediately by the NRB for gradual elimination of over-reliance on collateral based lending and implementation of a prompt write-off policy for non-performing assets. These changes have the benefit of improving credit allocation in favor of creditworthy borrowers, maintaining financial discipline among borrowers and early recognition of bad debts. In order to deal with problems associated with non-performing loans, the NRB supervisory approach should be changed by placing a greater emphasis on the specific risks that individual BFIs face. In this regard, the adoption of pro-active risk based supervisory methods is highly suggested. The traditional approach is largely reactive and often attempted to address weakness that had occurred.

A risk based supervision approach demands fundamental changes in the manner which BFIs approach their business. All business decisions must henceforth be subjected to a rigorous risk based assessment and all potential risks associated with these decisions will be identified, measured, monitored and controlled. The main challenge to risk based supervision approach is the need to enhance the supervisory skills of the NRB staffs so as to ensure that the BFIs risk management frameworks are properly monitored and evaluated for adequacy. The risk management guidelines should be elaborated further, in order to assist BFIs in overcoming this challenge, which spell out minimum requirements for risk management systems and frameworks.

The publication of interest rates bank charges and fees should be in favor of bank customers to make informed choices on which BFIs they bank with. The NRB believes that continued publication of charges and fees would enhance competition in the provision of products and services.

The level of quality of banking supervision depends on its institutional structure, which influences, to a large extent, the stability and efficiency of the banking sector and thereby the whole economy. Thus, strengthening of regulation and supervision capacity of NRB to the best international practices is very much urgent. The prime focus should be given on prevailing regulations on loan loss provisioning, credit exposure, connected lending, corporate governance, transparency and prompt corrective action.

Another issue, which is most, discussed in the banking arena that the undercapitalized BFIs should or should not be allowed to operate? This issue is particularly important for private BFIs without a reputation to protect. Last but not the least, the prevailing licensing policies for BFIs should be revised according to the actual banking need of the country and the process of ‘fit and proper test’ should be conducted in such a way that ensures presence of good governance and transparency from the very beginning.

Keeping views on ever increasing number of BFIs, the NRB supervision jobs is being very challenging in the sense of coverage, problem identification, resolutions and prompt corrective actions.

Concluding Remarks

The global financial crises have revealed that weak financial systems and their supervision are the most important factors contributing to macro instability. Financial markets are different form product markets and therefore, greater liberalization goes along with deeper supervision and higher degree of regulation. Any destabilization in financial markets affects even those who are not in financial markets. On the other hand, financial markets can drive the real economy. Therefore, transparency disclosures, prudential norms and capitalization are the main fundamentals in the banking and financial sector. This is essential because depositors have no other security except that BFIs are well regulated. For the depositors' protection and ease the supervision job, the NRB should revisit the present licensing policy to ensure well-diversified ownership and control, 'fit and proper' status of important shareholders, Directors and CEO, minimum capital/net worth for optimal operations and systemic stability and transparency and fairness of policy and process of the BFIs. As the financial system is changing, its supervision must change as well. Last but not the least, to drive the change and meet the challenges we need bankers with not only requisite leadership and technical skills but also ethical standards of the highest order.

2.2.3 Review of Related Thesis

Mr. Milan Sadula *(2007),* in his thesis entitled ***"Financial performance of commercial banks and returns to investors: With special reference to BOK, EBL, SCBNL, NIBL, NABIL"*** has pointed out following objectives:

i) To evaluate Liquidity position of these Banks.

ii) To analyze comparative financial performance of these banks.

iii) To study comparative position of selected banks.

iv) To offer a package of suggestion to improve the financial performance.

Major Findings of this study are as follows:

i) Commercial Bank except SCBNL and NABIL are not maintaining constant DP Ratio, It is recommended to maintain a constant DP Ratio so as to have the confidence of general shareholders.

ii) Net income of SCBNL is the highest and that of BOK is lowest during the study period. SCBNL has highest EPS and that of BOK is the lowest. SCBNL and NABIL are continuously paying the dividend maintaining higher DP Ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.

Mr. Pramod Upreti *(2007),* in his thesis entitled ***"A comparative study of financial performance of NIBL, HBL, SCBNL and EBL"***, has pointed out following objectives.

i) To study the present of the four joint venture banks

ii) To do the comparative study about the financial performance of these banks with regard to-their profitable liquidity, efficiency and capital structure.

iii) To provide recommendation and suggestion on the findings to improve financial performance of these banks.

Major Findings of the study are as follows:

i) Among all the sample banks, HBL has the lowest ratio and EBL has not mobilized its assets into profit generating projects.

ii) SCBNL has been successful in earning more net profit by the proper use of its available assets.

iii) EBL with the highest ratio has been successful in generating more interest by the proper use of its available assets.

iv) EBL and HBL seem to have held more cash and bank balance rather than other commercial banks.

Mr. Babu Kaji Karki** (2005),* in his thesis entitled ***"A comparative analysis of financial performance of NABIL and SCBNL", has pointed out following objectives.

i) To evaluate liquidity position of both banks.

ii) To analyze comparative financial performance of both banks.

iii) To study the comparative position of both banks.

iv) To offer a package of suggestion to improve the financial performance

v) To identity the relationship between interests earned and operating profit.

Major Finding of this study are as follows:

i) SCBNL has efficiently operated its long-term fund, deposit and assets to generate more profits.

ii) Liquidity position of NABIL bank is favorable in many cases it seems excessive. The proposed recommendation for these banks are to reduce its excessive non-performing assets (Cash and bank balance) and invest on the income generating current assets (Treasury bills), while SCBNL must strength the liquidity position.

iii) Comparatively SCBNL's profit ability position is better than that of NABIL.

Mr. Prabhu Narayan Pradhan** (2004),* in his thesis entitled ***"A comparative study on financial performance of HBL and SCBNL" has pointed out following objectives.

i) To analyze comparative financial performance of both banks.

ii) To evaluate liquidity position of both banks.

iii) To identity the relationship between interests earned and operating profit.

iv) To offer a package of suggestion to improve the financial performance.

Major findings of this study are as follows:

i) Current ratio of both the banks are below the standard, this might effect the liquidity position of these banks.

ii) SCBNL's loan and advances to total deposits ratio are significantly lower than that of HBL.

iii) SCBNL is strongly recommended to follow liberal lending policy and invest more and more percentage amount of total deposits in loan and advances.

iv) HBL is strongly recommended to increases it's earning per share and dividend per share to keep investors within the bank.

Subi Joshi** (2003),* in her thesis entitled ***"Financial performance of Nepal Investment Bank Limited", has tried to summarize the financial performance of NIBL. And she has pointed out the following objectives:

i) To evaluate liquidity position of NIBL.

ii) To analyze the financial performance of this bank.

iii) To offer a package of suggestion to improve the financial performance

iv) To identity the relationship between interests earned and operating profit.

Major Findings of the study are as follows:

i) The result of the analysis indicates that the bank had the high debt equity ratio which again exhibits that the creditors have invested more in the bank than the owners.

ii) The result of the analysis indicates that the bank has better mobilization of saving deposits in loans and advances for income generating purpose.

2.3 Research Gap

Large numbers of research are available bearing the same topic, "A comparative analysis of financial performance of commercial Banks". I will draw insights from them. However, the researcher will sustain gap by covering the relevant data and information from the year 2003/04 to 2007/08. Moreover, the researcher has selected three commercial banks of Nepal as sample banks i.e. NABIL Bank Ltd., Nepal Investment Bank Ltd and Standard Chartered Bank Nepal Ltd. That itself demonstrates the gap of this research from the previous one because the researcher has not found any research done in these banks in collective form. Under this topics many researcher have been done but none of the researcher undertaken regarding the case study of financial performance between the NABIL Bank Ltd, Nepal Investment Bank Ltd and Standard Chartered Bank Nepal Ltd. These banks are leading commercial banks as compared to other commercial banks by which we can find for the perfect comparison between highly growing commercial bank rather than rapidly growing new commercial banks. Financial analysis is the major function of every commercial bank for evaluating the financial performance. Therefore it is the major concern of stakeholders to know the financial situation of the bank.

NABIL, NIBL and SCBNL are the leading commercial banks of the country having the huge market share and its investment activities and these banks has significant impact on developing the economy of the country. Every year the financial performances are changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about the in depth analysis of the financial performance which is the major concern of the shareholders and stakeholders. This research work will help to acquire knowledge regarding tools and technique used and extra knowledge for the further researchers who are going to study in the topics related to the financial performance of commercial bank.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that we generally adopted by a researcher, studying his research problem among with the logic behind them.

“Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigation, backed by collection, presentation and interpretation or relevant details or data.” *(Michael, 1985; 57).* In other words, research methodology is a systematize way to solve the research problem.

The prime objective of this study is to compare, evaluate and assess the financial performance of selected joint venture banks, i.e. NABIL Bank Limited, Nepal Investment Bank Limited and Standard Chartered Bank Nepal Limited. This chapter contains these methods that make convenience for comparison of the performance made, so far by these banks by analyzing the strength and weakness of the financial performance of these three joint venture banks.

“Research Methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view.” *Kothari, (1994; 19).* A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

3.2 Research Design

Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances. In other words research design is the frame work for a study that helps the analysis of data related to study topic. "A research design is the arrangement of conditions, for collecting and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure." *Chaire, Selliz and others, (1967; 261).*

Research design is very important for scientific investigation. Research design gives the investigator a systematic direction to research work. Actually, research design in a plan for data collection and analysis. It presents a series of guideposts to enables the researcher to process in the right direction in order to achieve the goal.

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework of the project that stipulates what information to be collected from which sources by what procedures. There are various approaches of research design. For our convenience, in this thesis, a comparative analysis of financial performance of three joint venture banks based on descriptive and analytical research design.

3.3 Sources of Data

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

3.4 Populations and Sample

At present there are 25 commercial banks operating in Nepal under the guidance of Nepal Rastra Bank. For the purpose of convenience only, three commercial banks viz.

NABIL Bank Limited, Nepal Investment Bank Limited and Standard Chartered Bank Nepal Limited have been taken as sample of this study and rest of the commercial banks are considered as population. Five years data are taken to conduct the study from FY i.e. 2003/04 to 2007/08. Following commercial banks have been selected for the study. They are :

1. NABIL Bank Limited
2. Nepal Investment Bank Limited
3. Standard Chartered Bank Nepal Limited

4.5 Data Collecting Procedure

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

4.6 Method of Data Analysis

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

4.6.1 Financial Tools

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

4.6.1.1 Ratio

Financial analysis is the process of identifying the financial strength and weakness of firm establishing relationship between times of balance sheet and profit and loss account *(Van Horne, 1979; 231)*. Ratio analysis is one of the most frequently used tools to evaluate the financial health, operating results and growth *(Poudel, 2053; 67).*

4.6.1.1.1 Liquidity Ratio

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

a. Current Ratio

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

$$\text{Current Ratio X} \frac{CurrentAssets}{CurrentLiabilities}$$

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

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

b) Cash and Bank Balance to Current Deposits Ratio

This ratio is used to measure the bank's ability to meet the current obligation to its current depositors. It ratio examines the commercial bank liquidity capacity on the basis of its most liquid assets i.e. cash and bank balance. This ratio reveals the ability of the banks to make the quick payment of its customer deposits. This ratio is computed by dividing cash and bank balance by current assets. It is calculated by the following formula:

$$\text{Cash and Bank Balance to Current Deposits Ratio X} \frac{\textit{Cash and Bank Balance}}{\textit{Current Deposits}} \mid 100$$

A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposits and vice-versa. Both higher and lower ratios are not desirable. The reason is that if a finance company maintains higher ratio of cash, it has to pay interest on deposits and some earning may be lost. In contrast, if bank maintains low ratio of cash, it may fail to make the payment for presented cheques by its customer. So, sufficient and appropriate cash reserve should be maintained properly.

c) Cash and Bank Balance to Total Deposits

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

$$\text{Cash and Bank Balance to Total Deposits X} \frac{\textit{Cash and Bank Balance}}{\textit{Total Deposit}}$$

Here, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks.

The total deposit encompasses current deposits, saving deposits, fixed deposits, money at call and short deposit and other deposits. A high ratio indicates the greater ability to meet their deposits and vice-versa. Moreover, too high ratio is unfit as capital will be tied-up and opportunity cost will be higher.

3.6.1.1.2 Leverage Ratio

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

a) Debt-Equity Ratio

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

$$\text{Debt-Equity Ratio}\,\mathrm{X}\frac{Total\ Debts}{Net\,Worth}x100$$

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

b) Debt-Assets Ratio

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

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

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

c) Net Worth to Total Assets Ratio

This ratio is concerned with the sufficiency of shareholders fund against the total assets. It is very essential for every financial institution to have a balance of required percentage of total assets at shareholders fund i.e. capital fund. This ratio is derived by dividing shareholders fund by total assets. This can be stated as,

$$\text{Net Worth to Total Assets Ratio X} \frac{Net\,Worth}{Total\ Asset} x100$$

Generally, this ratio measures the relative claims of owners of the commercial banks over the bank's assets. A high ratio indicates that out of total assets, shareholders have more controlled owner command and vice-versa.

3.6.1.1.3 Activity Ratio

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

a) Loan and Advance to Total Deposits Ratio

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

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

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

b) Loan and Advances to total working fund ratio

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

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

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

c) Total Investment to Total Deposits Ratio:

This ratio is calculated to see how efficiently the banks have mobilized the deposits on investment. This ratio is calculated by using the following formula:

$$\text{Total Investment to Total Deposits Ratio} = \frac{Total\ Investment}{Total\ Deposits} x100$$

The numerator consists of investment of government securities, investment on debenture and bonds, shares in subsidiary commercial bank share in other companies and other investment. A high ratio indicates that the commercial bank’s efficiency is more investing on its deposits and low ratio indicates in ability to put its deposit for the lending activities.

3.6.1.1.4 Profitability Ratio

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

a. Net Profit to Total Assets Ratio

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

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

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

b. Total Interest Expenses to Total Interest Income Ratio

This ratio measures the percentage of total interest expenses against total interest income. It is calculated by the following formula :

$$\text{Total Interest Expenses to Total Interest Income Ratio} = \frac{Total\ Interest\ Expenses}{Total\ Interest\ Income} \times 100$$

The numerator consists of total interest expenses on total deposit, loan and advance, borrowing and other deposits. A high ratio indicates high interest expensed on total interest income.

c. Net Profit to total deposits (Return on Total Deposits)

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

$$\text{Net Profit to total deposits} = \frac{Net\ Profit}{Total\ Deposits} \times 100$$

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

d. Staff Expenses to Total Income Ratio

This ratio measures the percentage of staff expenses against total income of the banks. It is calculated by using the following formula:

$$\text{Staff Expenses to Total Income Ratio} = \frac{Staff\ Expenses}{Total\ Income} \times 100$$

The nominator consists of staff expensed on total income and other deposits. A high ratio indicates high staff expensed on total income.

e. Return on Net Worth Ratio

This ratio shows the capacity of the banks to utilize its owner’s fund. It helps to judge whether the company has earned satisfactory return for its shareholders or not. Higher ratio represents the sound management and efficient mobilization of owner's equity. It is calculated by the following formula :

$$\text{Return on Net Worth Ratio} = \frac{Net\ Profit}{Net\ Worth} \times 100$$

Here, net worth focuses not only the pain up capital but also include general reserve, capital reserve, ordinary share, preference share, premium on share and other reserve which may distribute to shareholders as dividend.

f. Interest Earned to Total Asset Ratio

This ratio is used to measure the percentage of interest earned in relation to total assets of the banks. It signifies the mobilization of the banks assets in interest generating purpose. Higher ratio signifies better efficiency in utilizing the resources in interest generating sectors. It is calculated by using following formula :

$$\text{Interest Earned to Total Asset Ratio} = \frac{Total\ Interest\ Income}{Total\ Assets} \times 100$$

The numerator comprises total interest income from loans, advances, cash credit and overdrafts, government securities, inter commercial bank and other investment. A high ratio is an indicator of high earning power, and better performance of the JVBs on its total working fund and vice-versa.

g. Return on Investment Ratio

This ratio measures the percentage of return on total investment. It is calculated by using following formula :

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

The numerator consists of investment of government securities, investment on debenture and bond, share in subsidiary companies and other investment. A high ratio indicates commercial bank efficiency is more beneficial on its investment.

3.6.1.1.5 Credit Ratio

Credit ratios are calculated in order to measure the credit position of the banks. It shows what portion of collected deposits are used to make credit and remain cash and bank balances to make immediate payments. The following ratios are used under the credit ratio :

a. Investment on Govt. Securities to Total Working Fund Ratio

This ratio shows that commercial bank investment on government securities in comparison to the total working fund. It is very significant to know the capacity of commercial bank to mobilize their working fund of different types of government securities to maximize the income. All the deposits of the commercial bank should not invest in loan and advances and other credit from security and liquidity point of view. Therefore, up to some extent, commercial banks seem to be invested to utilize their deposits by purchasing government securities. This ratio is calculated by dividing investment on government securities by total working fund. This is presented as,

Investment on Govt. Securities to Total Working Fund Ratio

$$= \frac{Investment\ on\ Government\ Securities}{Total\ Working\ Fund} \times 100$$

This ratio shows that out of total working fund, how much percentage of it has been occupied by the investment on government securities.

b. Total Investment to Total Deposits Ratio

This ratio shows the proportion of total deposits mobilization in the different investing areas. It is calculated by using the following formula :

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

This ratio shows that out of total deposits, how much percentage of it has been occupied by the investing in different areas.

3.6.2 Statistical Tools

The statistical tools selected for the comparative study of three banks (NABIL Bank Ltd., Nepal Investment Bank Ltd., and Standard Chartered Bank Nepal Ltd.) are as follows.

3.6.2.1 Arithmetic Mean

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

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

Where,

$\bar{X} = \text{Arithmetic Mean}$

$x_1 + x_2 + \dots x_n = \text{Values of Variable}$

$\sum x = \text{Sum of the values of variables } x$

$n = \text{Number of observation.}$

3.6.2.2 The Coefficient of Variation

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

Mathematically,

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

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

Where,

S.D. = Standard Deviation

$\overline{X}$ = Mean

C.V. = Coefficient of variation

3.6.2.3 Coefficient of Correlation

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

Where,

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

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

3.6.2.4 Probable Error

The probable error of the coefficient of correlation helps in interpreting the value and measuring the reliability of the coefficient of correlation. Probable error of correlation coefficient usually denoted by P.E. (r) is an old measure of testing the reliability of an observed value of correlation coefficient in so far as it depends upon the conditions of random sampling. It is worked out as:

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

Where,

r= Correlation Coefficient

n= No. of pairs of observation

r > PE (r) x 6 (correlation coefficient more than six times of probable error ….r is significant)

r < PE (r) (Correlation coefficient less than six times of probable error … r is insignificant)

3.6.2.5 Coefficient of Determination

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

Where,

R = r^2

r = Coefficient of correlation

R = Coefficient of determination

3.6.2.6 Trend analysis

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

3.6.2.7 Least Square Linear Trend

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

Mathematically,

The straight line trend is given by the following formula:

Y = a+bx

Where,

Y	=	Value of dependent variable
a	=	Y intercept
b	=	Slope of the trend line
x	=	Values of independent variable

3.6.3 Earning Per Share (EPS)

Earning per share calculations made over years indicates whether or not the company's earning power on per share basis has change over that period. EPS shows the profitability of the company of a per share basis. It is calculated by the following formula:

$$\text{Earning Per Share (EPS)} = \frac{\text{Net Profit after tax}}{\text{No. of commonshares}}$$

3.6.4 Dividend Pay out Ratio (D/P Ratio)

This ratio reflects at what percentage of net profit is distributed term of dividend and what percentage is retained in the bank. It is calculated by the following formula:

$$\text{Dividend Pay out Ratio (D/P Ratio} = \frac{\textit{Divident perShare}}{\textit{EarningPerShare}} \times 100$$

3.6.5 Price Earning Ratio (P/E ratio)

This ratio shows the price currently paid by the market for each rupee of currently reported earning per share. It is calculated by the following formula:

$$\text{Price Earning Ratio (P/E ratio)} = \frac{\textit{Market Value perShare}}{\textit{Earning per Share}} \times 100$$

3.6.6 Market Value Per Share to Book Value Per Share

This ratio shows the ratio of market value per share to the book value per share. The market value per share is divided by the book value per share. This ratio shows the price being paid by outsider for each rupee reported in balance sheet. It is calculated by the following formula:

$$\text{Market Value Per Share to Book Value Per Share} = \frac{Market\ Value\ pershare}{Book\ value\ per\ share} x100$$

3.6.7 Income and Expenditure analysis

Besides the various ratios, income and expenditure analysis be made for evaluation financial performance of the banks. The profit and loss accounts of the banks are used for this analysis.

3.7 Analytical Procedure

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

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

Statistical tools have been used to analysis the study for finding which bank have more homogenous or uniform than the other, according to the co-efficient of variation. Likewise, Karl person co-efficient of correlation should be used to measure the degree of relation between the two related variable. Probable error also should be used to analysis the reliability of the coefficient of correlation.

At last, trend analysis should be done according to the past and present financial statement of three selected banks.

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter, data collected from secondary sources are presented and analyzed by using financial and statistical tools. The available data are tabulated, analyzed and interpreted so that financial forecast of banks can be done easily. To evaluate the financial performance of selected joint venture banks, ratio analysis, correlation analysis and trend analysis are used in this study.

4.1 Financial tools

In this study, financial tools have been grouped into liquidity ratio, profitability ratio, activity ratio and leverage ratio etc.

4.1.1 Liquidity Ratio

For analyzing the financial performance of the banks, liquidity ratio is one of the powerful tools. Whether the company is able to meet its current obligation is judged by liquidity ratio.

A. Current Ratio

The current ratio is measure of the firm's short-term solvency. It indicates the availability of current assets in rupees for each one rupee of current liabilities. A ratio of greater than one means that the firm has more current assets than current liabilities. Current ratio measures the relationship between current assets and current liabilities.

Table 4.1

Analysis of Current Ratio

(In times)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	1.05	1.07	1.08	1.08	1.07	1.07	0.01095	1.023
NIBL	1.05	1.02	1.06	1.05	1.04	1.04	0.01414	1.059
SCBNL	1.04	1.06	1.07	1.07	1.00	1.05	0.02646	2.52

(Source: See Annex 1)

In the above table, current ratio has been calculated dividing current assets by current liabilities. The above table shows that the current ratio of all the banks is below the normal standard of 2:1. On an average basis, current ratio is Nabil bank is 1.07, which is the highest ratio among sample banks; where as SCBNL & NIBL has 1.05 & 1.04 respectively. However, considering the average ratio, Nabil Bank is found slightly better liquid than other.

From S.D point of view, SCBNL has the highest S.D of 0.02646. Next to it there is NIBL with S.D of 0.01414. Nabil Bank has the lowest S.D. of 0.01095. It implies that SCBNL has high fluctuation (less homogeneity) with respect to current assets to current liabilities. Similarly, Nabil has low fluctuation (more homogeneity) with respect to current assets to current liabilities.

B. Cash and Bank Balance to Total Deposit Ratio

This ratio indicates the ability of banks immediately funds to cover their current margin calls, saving, fixed, call deposit and other deposits and vice versa. This ratio is calculated by dividing cash and bank balance by total deposits. The following table shows the comparative cash and bank balance to deposits ratio.

Table 4.2

Cash and Bank Balance to Total Deposit ratio

(In percentage)

Name of Banks	Fiscal Year					Average	|∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	8.51	6.87	3.83	3.26	6.00	5.69	1.94	34.09
NIBL	11.69	10.65	9.40	12.34	9.97	10.81	1.08	9.99
SCBNL	8.06	9.56	5.75	5.53	8.20	7.42	1.55	20.89

(Source: See Annex 2)

In above table, cash & bank balance to total deposit ratio has been calculated by dividing total cash and bank balance amount by total deposit amount. The above ratio reveals that the ability of banks to cover its short-term deposits. On an average basis, NIBL is more in better position with an average 10.81% than all other sample banks. There is SCBNL next to it with an average of 7.42%, which is also in comfortable position is discharging its short-tem liabilities.

From S.D point of view, Nabil Bank has the highest S.D. of 1.94. Next to it there is SCBNL with S.D. of 1.55. NIBL has the lowest S.D of 1.08. It indicates that there is high fluctuation (Less homogeneity) in cash and bank balance to total deposit ratio of Nabil Bank and SCBNL over the study period. NIBL with lowest S.D. of 1.08 indicates that there is low fluctuation (more homogeneity) in cash and bank balance to total deposit ratio.

From C.V. viewpoint, Nabil bank has highest C.V. i.e. 34.09% and next to it SCBNL with C.V. is 20.89%. NIBL has the lowest C.V. is 9.99%. This implies that Nabil bank and SCBNL are more inconsistent in cash and bank balance to total deposit ratio over the study period. However, NIBL with lowest C.V. i.e. 9.99% indicates that it is consistent in cash and bank balance to total deposit ratio over the entire study period.

C. Cash and Bank Balance to Current Asset Ratio

Cash and bank balance is the most liquid form of current assets. This ratio reflects the position of cash and bank balance to current assets of the bank.

Table 4.3

Cash and Bank Balance to current Asset Ratio

(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	7.02	5.91	3.35	2.86	5.19	4.87	1.55	31.83
NIBL	10.33	9.28	8.34	10.92	9.53	9.68	0.89	9.19
SCBNL	7.30	8.61	5.12	4.97	7.10	6.62	1.39	21.00

(Source: See Annex 3)

The above ratio has been derived dividing cash and bank balance by current assets. The above table shows that the selected JVB_S have held less cash and bank balance and utilized the available fund into current assets by issuing short-term loans and advances. Over the study period, on an average NIBL has highest ratio of 9.68%. Likewise, SCBNL and NABIL have 6.62% and 4.87% respectively.

Therefore, on an average, NIBL has the highest ratio and NABIL has the lowest ratio of cash and bank balance to current assets. It implies that at some time NIBL has held more cash and bank balance than other sampled JVBS and NABIL has been successful in utilizing the depositor’s money in short term loans.

From S.D viewpoint, NABIL has the highest S.D i.e. 1.55. Next to it, there is SCBNL with 1.39. NIBL has lowest S.D. of 0.89. It implies that NABIL and SCBNL have thigh fluctuation (less homogeneity) with respect to cash and bank balance to current assets over the study period. Similarly, NIBL with lowest S.D. of 0.89 has low fluctuation (more homogeneity) with respect to cash and bank balance to current assets.

From C.V. point of view, NABIL has the highest C.V. of 31.83% and NIBL has the lowest C.V. of 9.19%. It indicates that NABIL has high degree of variability or is inconsistent in holding cash and bank balance to current assets over the study period. NIBL has low degree of variability or is consistent in holding cash and bank balance to current assets over the study period.

4.1.2 Profitability Ratio

Profit is the difference between revenues and expenses over a period of time. This ratio measures the proportion of each components of operating income to total operating income. The main components of operating income are interest earned, commission and discounts, exchange income and other income, bank receives interest from loans and advances, cash credit, overdraft, investment in government securities and bonds, money at call and short notice, debenture, inter-bank loan and others. Bank receives commission by discounting bills of exchange, remittance, foreign currency fluctuation etc. Under this, following ratios are used.

A Net Profit to Total Assets Ratio

Net profit refers to profit after interest and taxes. Total assets comprise of those assets that appear on the assets side of the balance sheet. A higher degree of ratio shows that total assets of the banks have been utilized in profit earnings. The following table shows the ratio of net profit to total assets.

Table 4.4

Net Profit to Total Assets Ratio

(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	2.43	2.73	3.06	3.23	2.72	2.83	0.317	11.20
NIBL	1.27	1.13	1.42	1.61	1.79	1.44	0.235	16.32
SCBNL	2.42	2.27	2.46	2.56	2.42	2.43	0.093	3.83

(Source: See Annex 4)

In the above table, net profit to total assets ratio has been derived by dividing net profit by total assets. This ratio shows the relationship between net profit and total assets. On an average, I see that Nabil bank has the highest percentage of net profit 2.83% on total assets. Next to it, there is SCBNL with 2.43%. NIBL has the lowest profit i.e. 1.44% on total assets. It indicates that NABIL bank has been successful to generate more profit than other banks by using its total assets.

From S.D. point of view, Nabil bank has the highest S.D. of 0.317 point and SCBNL has the lowest S.D. of 0.093 point. It implies that Nabil bank has high fluctuation (less homogeneity) in generating profit than other sampled JVB_s over the study period, where as SCBNL has lowest S.D. of 0.093 point has low fluctuation (more homogeneity) in generating more profit.

From C.V. point of view, NIBL has the highest C.V. of 16.32%. Next to it, there is Nabil bank with C.V. of 11.20%, where as SCBNL has the lowest C.V. of 3.83%. It implies that NIBL and Nabil bank have higher degree of variability or is inconsistent in generating net profit and SCNBL with lowest C.V has lower degree of variability or is consistent in generating more net profit by using total assets in a systematic way.

B. Net Profit to Total Deposit Ratio

This ratio of selected banks measure of NPAT earned by using total deposits. This ratio shows how efficiently the management has utilized its deposits in profit generating activities. This ratio is a mirror for bank's overall financial performance as well as its success in profit generation. Because of the deposit made by its customer's is the major source of earning of the commercial banks. The higher ratio shows the higher degree of utilization of deposits in generating profit. This ratio is presented by following table.

Table No. 4.5

Net Profit to Total Deposit Ratio

(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	3.10	3.22	3.56	3.28	2.86	3.21	0.22	6.85
NIBL	1.47	1.32	1.63	1.85	2.05	1.66	0.261	15.72
SCBNL	2.70	2.54	2.79	2.86	2.81	2.74	0.1126	4.11

(Source: See Annex 5)

In the above table, net profit to total deposit ratio has been derived by dividing net profit by total deposit. This ratio shows the relationship of net profit and total deposits.

On an average point of view, Nabil bank has the highest ratio of 3.21%. There is SCBNL next to it with 2.74% and NIBL has the lowest ratio of 1.66% over the study period. It implies that Nabil bank and SCBNL have been successful in utilizing the depositor's fund more efficiently ingenerating more profit. NIBL has not managed the deposit efficiently and thus it has failed to generate more profit over the study period.

From S.D. point of view, NIBL has the highest S.D. of 0.261 point. Next to it; there is Nabil bank with S.D. of 0.22 point. Moreover, SCBNL has the lowest S.D. of 0.1126 point. It implies that NIBL and Nabil bank have high fluctuation (less homogeneity) in generating profit by using deposit where as SCBNL with lowest S.D. of 0.1126 indicates it has low fluctuation (more homogeneity) in generating profit by managing the deposit efficiently.

From C.V. point of view, NIBL has the highest C.V. of 15.72%. SCBNL has the lowest C.V. of 4.11$ over the study period. It implies that NIBNL has high degree of variability or is inconsistent in generating profit and SCBNL has lower degree of variability or is more consistent ingenerating profit by employing the deposit efficiently.

C. Return on Shareholder's Equity or Net worth Ratio

This ratio revels how profitably the banks have utilized the owner's funds. For the commercial banks, the objective is to earn maximum profit so as to provide reasonable return to the owners. Higher this ratio indicates sound and efficient management. It also indicates towards the favorable condition of wealth maximizations of the bank.

Table 4.6

Return on Shareholder's Equity or Net worth Ratio

(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	43.52	30.73	31.29	33.88	32.72	34.43	4.68	13.59
NIBL	18.29	20.94	19.67	24.77	26.70	22.07	3.16	14.32
SCBNL	47.62	35.96	34.07	37.55	32.68	37.58	5.29	14.08

(Source: See Annex 6)

In the above table, return on shareholder's equity or net worth ratio has been derived by dividing net profit by net worth or shareholder's equity. Over the study period, on an average of SCBNL has the highest ratio of 37.58%. Next to it; there is Nabil bank with 34.43%. NIBL has the lowest ratio of 22.07% over the study period. It indicates that SCBNL was providing highest return to it's shareholder than other banks.

From S.D. point of view, SCBNL has the highest S.D. 5.29 point. There is Nabil bank next to it with S.D. of 4.68 point and NIBL has the lowest S.D of 3.16 point. It implies that, over the study period, SCBNL and Nabil bank have high fluctuation (less homogeneity) in giving the return to shareholders where as in case of NIBL; there is low fluctuation (more homogeneity) in providing more rate of return to its shareholders over the study period.

From C.V. point of view, NIBL has the highest C.V. of 14.32%. Next to it; there is SCBNL with C.V. of 14.32%. Nabil bank has the lowest C.V. of 13.59%. It implies that NIBL and SCBNL have higher degree of variability or is inconsistent in providing return to their shareholders. In the same period, Nabil bank with lowest C.V. of 13.59%, has lower degree of variability or is consistent in providing return to its shareholder.

D. Net Interest Earned to Total Assets Ratio

This ratio measures how much interest has been earned in different years by mobilizing the overall assets of the bank. Interest income is main source of income of the banks. Generally, banks generate interest income through the loan and advances, investment, overdrafts, hire purchase finance and loan given to priority and deprived sector as well. A higher ratio represents the better efficiency in mobilizing its resources for the purpose of generating interest income. This ratio has been presented by following table.

Table 4.7

Net Interest Earned to Total Assets Ratio

(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	4.23	4.20	4.70	4.27	3.79	4.24	0.289	6.81
NIBL	2.95	3.00	3.25	3.14	3.20	3.11	0.1152	3.70
SCBNL	3.55	3.20	3.63	3.44	3.50	3.46	0.1460	4.22

(Source: See Annex 7)

In the above table, net interest earned to total assets ratio has been derived by dividing net interest earned by total assets. On an average, from the above table, I found that, Nabil bank has the highest ratio of 4.24%. Nest to it' there is SCBNL with 3.46%. It implies that Nabil bank has been managing the assets efficiently and earning more interest out of it. NIBL has the lowest ratio of 3.11%. It implies that NIBL has not been able to utilize the assets efficiently and earning low interest.

From S.D. point of view, Nabil bank has the highest S.D. with 0.289 point. Next to it' there is SCBNL with S.D. of 0.1460 point. It implies that there is high fluctuation (less homogeneity) in interest earning capacity of Nabil bank and SCBNL over the study period. Whereas, NIBL with lowest S.D. of 0.1152 indicates that it has low fluctuation (more homogeneity) in interest earning capacity over the entire study period among sampled banks.

From C.V. point of view, Nabil bank has the highest C.V. of 6.81%. Next to it; there is SCBNL with C.V. of 4.22%. NIBL has the lowest C.V. of 3.70%. It implies that Nabil bank and SCBNL have high degree of variability or is inconsistent in earning interest by using of its assets over the study period. Whereas, with the lowest C.V. of

3.70%, NIBL is more consistent or has lower degree of variability in earning interest by the proper use of its total assets over the study period.

4.1.3 Activity Ratio

This ratio refers how efficiently the organization is managing its resources. Thus, this ratio measures the degree of effectiveness in use of resources or funds by a firm. It is also known as turnover or efficiently ratio or assets management ratio. Turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets. The common activity ratios that are determined under this are as follows.

A. Loan and advances to total deposit ratio

Commercial banks utilize the outsider's fund for profit generation purposes. Loan and advances to deposit ratio shows whether the banks are successful in utilizing the outsider funds (i.e. total deposit) for the profit generation purposes (i.e. loan and advances).

Table 4.8

Loan and Advances to Total Deposit Ratio

(In percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	57.68	60.55	75.05	66.79	66.60	65.33	5.99	9.17
NIBL	74.74	63.68	73.73	69.63	72.56	70.87	3.98	5.62
SCBNL	30.36	31.63	43.55	38.75	42.61	37.38	5.47	14.63

(Source: see annex 8)

In the above table loan and advances to total deposit ratio has been derived by dividing loan and advances amounts by total deposit amount. This ratio helps to analyze whether the banks have utilized the outsider's fund properly or not. The above table shows that, over the study period on an average basis, NIBL has the highest ratio of 70.87% and SCBNL has the lowest ratio of 37.38%. On an average basis, NIBL has the highest ratio of 70.87%. There is Nabil bank, next to it with 65.33%. It implies that NIBL and Nabil bank have been successful in using the depositor's fund properly in loan and advances than SCBNL over the study period.

From S.D. point of view, Nabil Bank has the highest S.D of 5.99 point where as NIBL has the lowest S.D. of 3.98 point. It implies that Nabil Bank has high fluctuation (lowest homogeneity) in utilizing the depositor's fund in loan and advances where as NIBL with lowest S.D. of 3.98 point indicates in has low fluctuation (more homogeneity) in using outsider fund in loan and advances over the study period.

From C.V. point of view, SCBNL has the highest C.V. of 14.63% where as NIBL has the lowest C.V. of 5.62%. It implies that SCBNL is inconsistent or has not been able to utilize the outsider's (depositor's) fund properly in loan and advances, where as NIBL with lowest C.V. of 5.62% is consistent or has been successful in using outsider's fund properly in loan and advances.

B. Loan and Advances to Total assets Ratio

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

Table 4.9
Loan and Advances to Total Assets Ratio

(In percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	46.83	49.98	62.39	57.87	57.04	54.82	5.64	10.29
NIBL	64.62	54.51	63.78	60.64	63.29	61.37	3.68	6
SCBNL	27.12	27.98	37.98	34.67	36.73	32.90	4.50	13.68

(Source: See Annex 9)

In the above table, loan and advances to total assets ratio has been derived by dividing loan and advances amount by total assets amount. This ratio helps to analyze whether the banks have utilized the total working fund properly or not. The above table shows that, over the study period on an average basis, NIBL has the highest ratio of 61.37%. Next to it, Nabil bank has 54.82% and SCBNL has the lowest ratio of 32.90%. It implies that NIBL has been successful in mobilizing loan and advance on total working fund over the study period.

From S.D point of view, Nabil bank has highest S.D of 5.64 point. Where as NIBL has the lowest S.D. of 3.68 point. It implies that Nabil bank has high fluctuation (lowest homogeneity) in utility the total working fund in loan and advances where as NIBL with lowest S.D. of 3.68 point indicates it has low fluctuation (more homogeneity) in using the total working fund properly in loan and advances over the study period.

From C.V. point of view, SCBNL has the highest C.V. of 13.68% where as NIBL has the lowest C.V. of 6%. It implies that SCBNL is inconsistent or has not been able to utilize the total working fund properly in loan and advances; where as NIBL lowest C.V. of 6 % is consistent or has been successful to mobilizing the total working fund properly in loan and advances.

C. Total Investment to Total Deposits Ratio

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

Table 4.10

Total Investment to Total Deposits Ratio

(In percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	49.83	47.84	35.21	40.90	40.74	42.90	5.30	12.35
NIBL	22.03	36.20	28.58	29.97	28.05	28.97	4.53	15.64
SCBNL	64.06	64.17	61.87	64.29	62.13	63.30	1.07	1.69

(Sources: See Annex 10)

In the above table shows that on an average basis over the study period, SCBNL has the highest percentage of investment in non- risky project i.e. 63.30%, where as NIBL has the lowest percentage of investing in non-risky project i.e. 28.97%. It implies that SCBNL prefers in investing its depositors fund in non-risky project like government bonds, treasury bills, government securities, debentures of other organization etc rather than choosing the risky portfolio like loan and advances to its credit customers.

From S.D. point or view, Nabil bank has the highest S.D. of 5.30 point. Next to it, there is NIBL with S.D. 4.53 point where as SCBNL has the lowest S.D. of 1.07 point. It implies that Nabil bank and NIBL have high fluctuation (less homogeneity) in using the depositors fund in non- risky port folio and SCBNL has low fluctuation (more homogeneity) in using depositor fund in non- risky port folio.

From C.V. point of view, NIBL has the highest C.V. of 15.64% Next to it there is Nabil bank with C.V. of 12.35 % where as SCBNL has lowest C.V. of 1.69%. It implies that NIBL and Nabil bank are inconsistent in investing in non- risky portfolio and SCBNL with lowest C.V is consistent in using its deposit in non- risky portfolio.

4.1.4 Leverage Ratio

Financial leverage or capital structure ratio are calculated to judged the long – term financial position of the firm. These ratios indicate mix of funds provided by owners and lenders. Generally, there should be an appropriate mix of debt and owners equity in financing the firm's assets. Administration of capital can smoothly by carried with the help of such ratios.

A. Total Debts (Liabilities) to Net worth Ratio

Debt–equity ratio examines the relative claims of creditors and owners against the bank's assets. Alternatively, total debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment. This ratio is presented as following table:

Table 4.11

Total Debts (Liabilities) to Net worth Ratio

(In times)

Name of banks	Fiscal year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	16.32	10.54	9.59	11.18	11.58	11.84	2.34	5.22
NIBL	13.35	17.47	12.89	14.40	13.94	14.40	1.61	11.18
SCBNL	18.73	15	13.01	13.69	12.51	14.59	2.23	15.28

(Source: See Annex 11)

The above ratio has been derived dividing total debts by net worth. The above table shows that commercial banks have highly leveraged based on equity capital. On an average, SCBNL has the highest ratio of 14.59 times. Next to it there is NIBL with an average of 14.40 times. Nabil bank has the lowest ratio of 11.84 times. It indicates that SCBNL has highly leveraged 14.59 times means; debt capital financing is more than 14.59 times of its shareholder's equity.

From S.D point of view, Nabil bank has highest S.D. of 2.34 point. Next to it, there is SCBNL with 2.23 point. NIBL has lowest S.D. of 1.61 point. It implies that Nabil bank and SCBNL have high fluctuation (less homogeneity) with respect to total debt to net worth. Similarly, NIBL with lowest S.D of 1.61 has low fluctuation (more homogeneity) with respect to total debt to net worth over the study period.

From C.V. point of view, SCBNL has the highest C.V. of 15.28%; next to there is NIBL with C.V. of 11.18%. Nabil bank has lowest C.V of 5.22%. It means, SCBNL and NIBL have high degree of variability or is inconsistent in maintaining total debt to total equity over the study period.

B. Total Debts to Total Assets Ratio

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

Table 4.12

Total Debt (Liabilities) to Total Assets Ratio

(In Percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	94.22	91.34	90.55	91.60	92.45	92.03	1.25	1.36
NIBL	93.03	94.58	92.80	93.49	93.31	93.44	0.62	0.66
SCBNL	94.93	93.75	92.86	93.19	92.60	93.47	0.82	0.88

(Source: See Annex 12)

In the above table shows that on an average basis over the study period, SCBNL and NIBL has highly debt financing. It means these two banks borrowed outsider's funds by 93.47% and 93.44% respectively.

From S.D. and C.V. point of view, Nabil bank has highest S.D. of 1.25 point and NIBL has lowest S.D. of 0.62 point. It indicates Nabil bank has high fluctuation and NIBL has low fluctuation. Nabil bank has highest C.V. of 1.36% and NIBL has lowest C.V. of 0.66%. It means, Nabil bank has high degree of variability is inconsistent to utilizing debt to assets ratio where as NIBL has consistent debt financing.

4.1.5 Earning Per Share

Earning per share is one of the most widely quoted statistics when there is a discussion of company's performance or share value, it is profit after tax (NPAT) figure that is divided by the number of common share to calculate the value of earning per share. This figure tells what profit the common shareholder for every share hold has earned. A company can decide whether to increase or reduce the number of share on issue. This decision will automatically after carrying per share.

Table 4.13

Earning Per Share

(In Rs.)

Name of banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	84.66	92.61	105.49	129.21	137.08	109.81	20.33	18.51
NIBL	39.56	51.70	39.50	59.35	62.57	50.54	9.66	19.11
SCBNL	149.30	143.55	143.14	175.84	167.37	155.84	13.33	8.55

(Source: See Annex 13)

From the above table we can see that on an average, SCBNL has the highest amount of EPS Rs. 155.84. Next to it, there is Nabil bank with EPS of Rs 109.81, among three selected JVBs. NIBL has the lowest amount of EPs i.e. Rs. 50.54 over the study period. It means that SCBNL and Nabil bank have been able to provide maximum profit to equity holder on a per share basis.

From the S.D. point of view, Nabil bank has highest S.D. of 20.33 point. Next to it, there is SCBNL with 13.33 point. NIBL has the lowest S.D. of 9.66 point. It implies that Nabil bank and SCBNL have high fluctuate (less homogeneity) in EPS over the study period. Where as NIBL with lowest S.D. of 9.66 point, indicates that low fluctuation (more homogeneity) in EPS over the study period.

From C.V. point of view, NIBL has the highest C.V. of 19.11% next to it, there is Nabil bank with C.V. of 18.51% and SCBNL with C.V. of 8.55%. It implies that NIBL and Nabil bank have high degree of variability or is inconsistent in EPS amount over the study period. SCBNL has lowest C.V. of 8.55%, which indicates it has low degree of variability, or is consistent in providing EPS amount to the equity holders on a per share basis over the study period.

4.1.6 Dividend Payout Ratio

Dividend payout ratio measures what percentage/portion of the net profit after tax and preference dividend is paid out to the equity shareholders as dividend and how much it is retained in the firm for the purpose of expansion and growth in the future. This ratio has been presented by following table.

Table 4.14
Dividend Payout Ratio

(In percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	50	65	70	85	100	75	17.15	23.18
NIBL	20	15	12.50	20	5	14.5	5.57	38.41
SCBNL	110	110	120	140	130	122	11.66	9.56

(Source: See Annex 14)

From the above table we can see that on an average basis SCBNL has the highest percentage of payment ratio with 122%. Next to it, there is Nabil bank with 74% likewise; NIBL has the lowest ratio with 14.5%.

From S.D. point of view, Nabil bank has the highest S.D. of 17.15 point and next to it; there is SCBNL with S.D. of 11.66 point. At last, NIBL has the lowest S.D. of 5.57 point. It implies that Nabil bank and SCBNL have high fluctuation in providing dividend through out the study period. NIBL with lowest S.D indicates low fluctuation in providing dividend to its shareholders throughout the study period.

From the C.V. point of view, NIBL has the highest C.V. of 38.41%. Next to it; there is Nabil bank with C.V. of 23.18%. SCBNL has the lowest C.V. of 9.56%. It indicates that NIBL and Nabil bank have high degree of variability and SCBNL has low degree of variability is consistent in providing a regular amount as dividend.

4.1.7 Price Earning Ratio

This ratio shows the price currently paid by the market for each rupees of currently reported earning per share. This ratio has been presented by following table.

Table 4.15

Price Earning Ratio

(In Times)

Name of banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	8.74	10.80	14.27	17.34	36.84	17.60	10.06	57.16
NIBL	20.10	18.18	20.25	21.23	27.63	21.48	3.23	15.03
SCBNL	10.98	12.16	16.38	21.47	35.25	19.25	8.81	45.77

(Source: See Annex 15)

From the above table shows that, on an average basis NIBL has the highest P/E ratio with 21.48 times. Next to it there is SCBNL with 19.25 times. Likewise Nabil bank has the lowest P/E ratio with 17.60 times.

From S.D. point of view, Nabil bank has the highest S.D. of 10.06 point and next to it; there is SCBNL with S.D. of 8.81 point. NIBL has the lowest S.D. of 3.23 point. It implies that Nabil bank and SCBNL have high fluctuation in market price per share than NIBL. From C.V. point of view, Nabil bank and SCBNL bank have high P/E ratio of 57.16% and 45.77% respectively. NIBL has lowest C.V. with 15.03%, indicates that low degree of variability is consistent in market price per share as earning per share.

4.1.8 Income Analysis

The cost have been occurred in increasing revenue are called income. This analysis shows the proportionate income under different heading. Under this analysis, net interest income, exchange gain and commission income should be taken.

A. Net Interest Income to Total Income

This ratio has been derived dividing net interest income by total income. It indicates that, how much percentage of net interest income obtained from total income.

The following table shows that the net interest income to total income of selected joint venture banks.

Table 4.16

Net Interest Income to Total Income

(In percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	63.10	62.85	62.12	68.73	69.73	65.91	2.84	4.31
NIBL	69.53	68.97	67.28	70.25	68.44	68.89	1.01	1.47
SCBNL	59.77	58.58	60.85	62.44	64.12	61.15	1.74	2.85

(Source: See annex 16)

From the above table on an average basis, NIBL has the highest percentage of net interest income on total income i.e. 68.89%. Next to it, there is Nabil bank with average of 65.91%. SCBNL has the lowest ratio of 61.15%. It indicates that, NIBL has successful to earn net interest income over the study period.

From S.D. point of view, Nabil Bank has the highest S.D. of 2.84 point and NIBL has the lowest C.V. of 1.01 point. It indicates that Nabil Bank has high fluctuation in net interest income and NIBL has low fluctuation in net interest income over the study period.

From C.V. point of view, Nabil Bank has the highest C.V. of 4.31% and NIBL has the lowest C.V. of 1.47%.It implies that, Nabil Bank has high degree of variability or is inconsistent to earn net interest income over the study period. NIBL has low degree of variability or is consistent to earn net interest income than other sampled bank.

B. Exchange Income to Total Income

Income from foreign exchange includes income through the sale and buys exchange currency and revaluation again. Exchange income to total income ratio is presented as following table.

Table No. 4.17

Exchange Income to Total Income

(In percentage)

Name of banks	Fiscal year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	12.98	13.78	14.59	13.38	14.18	13.78	0.57	4.14
NIBL	13.08	14.98	12.96	12.96	10.30	12.86	1.49	11.59
SCBNL	18.62	20.87	20.18	19.97	19.90	19.90	0.73	3.67

(Source: See Annex 17)

From the above table on an average basis, SCBNL has the highest ratio of 19.90%. Next to it, there is Nabil Bank with 13.78%. NIBL has the lowest ratio of 12.86%. It implies that SCBNL has highest exchange income out of total incomes.

From the S.D. point of view, NIBL has the highest S.D. of 1.49 point and Nabil bank has the lowest S.D. with 0.57 point. It implies that, NIBL has high fluctuation (less homogeneity) in generating foreign exchange income over the study period and Nabil Bank has lowest fluctuation in generating foreign exchange income over the study period. From C.V. point of view, NIBL has highest C.V. of 11.59% and SCBNL has lowest C.V. of 3.67%. It indicates that, SCBNL is consistent in generating its exchange income out total income over the study period.

C. Commission and Discount Received to Total Income

Commission and discount include income received as commission and discount from letter of credit, drafts, bank transfers, guarantee, selling share, remittance charges other charges and commission are other prominent items of commission and discount.

The following table shows that the relationship between commission and discount received to total income.

Table No 4.18

Commission and Discount Received to Total income

(In percentage)

Name of banks	Fiscal year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	12.98	13.78	14.59	13.38	14.18	13.78	0.57	4.14
NIBL	13.08	14.98	12.96	12.96	10.30	12.86	1.49	11.59
SCBNL	18.62	20.87	20.18	19.97	19.90	19.90	0.73	3.67

(Source: See Annex 18)

From the above table on an overage basis, SCBNL has the highest ratio of 15.27%. Next to it; there is NIBL with 11.25%. Nabil Bank has lowest ratio of 11.04% it implies that SCBNL has highest commission and discount income out of total income over the study period.

From the S.D. point of view, Nabil Bank has the highest S.D. of 1.20 point and NIBL has the lowest S.D. with 1.09 point. It means, Nabil Bank has high fluctuation/ less homogeneity in receiving commission and discount income over the study period, NIBL has lowest fluctuation (more homogeneity) in receiving commission and discount income over the study period. From C.V. point of view, Nabil Bank has highest C.V. of 10.87% and SCBNL has lowest C.V. of 7.67%. It implies that, SCBNL is consistent to generate its commission and discount income over the study period.

4.1.9 Expenditure Analysis

The cost have been occurred in reducing revenue are called expanses. This analysis shows the proportionate expenses under the different headings.

A. Interest Expenses

Interest expenses of all the selected banks are presented as following table:

Table No. 4.19

Interest Expenses (Rs. in million)

Name of banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	317.35	282.95	243.55	357.16	555.71	351.34	108.85	30.98
NIBL	189.21	326.20	354.55	490.95	685.53	409.29	168.11	41.07
SCBNL	255.15	275.81	254.13	303.20	413.06	300.27	59.17	19.71

(Source: See Annex 19)

In this study, interest expenses denote the interest paid on deposits borrowing fees, loan and advances and commission.

From the above table, interest expenses are all in the fluctuating trend. On an average basis, NIBL has the highest amount of Rs. 409.29 million. Next to it; there is Nabil bank with Rs. 351.39 million. SCBNL has the lowest interest expenses with Rs.300.27 million.

From the S.D. and C.V. point of view, NIBL has highest S.D. i.e. 168.11 point and C.V. i.e. 41.07%. It means, NIBL has paid or expenses higher amount of interest than other selected banks. SCBNL has lowest S.D. i.e. 59.17 point and C.V. i.e. 19.71% which implies that the bank has paid lower amount of interest over the study period.

B. Staff Expenses

Staff expenses refer salary and allowance provided and gratuity fund, staff training expenses and other expenses related with staff.

Staff expenses are presented as following table:

Table 4.20

Staff Expenses

(Rs. In million)

Name of banks	Fiscal Year					Average	∃	C.V.
	2003/04	2004/05	2005/06	2006/07	2007/08			
Nabil Bank	210.58	180.84	199.52	240.16	219.78	210.18	19.83	9.43
NIBL	61.29	89.75	97.00	120.66	145.37	102.81	28.49	27.71
SCBNL	128.33	134.69	148.59	168.23	199.78	155.92	25.85	16.58

(Source: See Annex 20)

From the above table, staff expenses are all in the fluctuating trend. On an average basis, Nabil Bank has the highest amount of Rs. 210.18 million. Next to it, there is SCBNL with Rs. 155.92 million. NIBL has the lowest amount of staff expenses with Rs. 102.81 million. From S.D. and C.V. point of view, NIBL has the highest S.D. and C.V. i.e. 28.49 point 27.71% respectively. It indicates that NIBL has the highest flotation and inconsistent to its. Staff expenses over the study period.

4.2 Statistical Tools

In this study, statistical tools have been grouped into coefficient of correlation, probable error and coefficient of determination.

4.2.1 Karl Person's coefficient of correlation

It is most widely used statistical tools, which measures the significance of the relationship between two variables during the study period. Correlation coefficient is calculates to measure the relationship between Net profit and total deposit of selected joint venture banks. The value of coefficient of correlation shall always be between ± 1. Where, r = 1 means perfect positive correlation between variables. Where r = -1, it means perfect negative correlation between variables. Where r = 0, there is no relationship between two variables.

The formula for computing Karl person's coefficient of correlation is as follows.

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

Here,

N= No. of pairs where x and y absorbed.

X= Value of net profit (after tax)

Y= Value of total deposits

r=Karl Pearson's Coefficient of Correlation

XY= Sum of product of variable x and y

Table 4.21

Coefficient of Correlation between Net Profit (Dependent) and Total Deposit (Independent) of Nabil Bank Ltd.

(Rs. In Million)

Fiscal Year	X	Y	X^2	Y^2	XY
2003/04	416.24	13447.66	173255.74	180839559.5	5597454
2004/05	455.31	14119.03	207307.20	199347008.1	6438535.55
2005/06	518.64	14586.61	268987.45	212769191.3	7565199.41
2006/07	635.26	19347.40	403555.27	374321886.8	12290629.32
2007/08	673.96	23342.29	454222.08	544862502.4	15731769.77
Total	2699.41	84842.99	1507327.74	1512140148.1	47613588.05

N=5 years $\quad$ $x^{2} =$ 1507327.74

x=2699.41 $\quad$ Y^2= 151240148.1

Y= 84842.99 $\quad$ XY= 47613588.05

We have

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

$$= \frac{5 \times 47613588.05 - 2699.41 \times 84842.99}{\sqrt{(5x1507327.74 - 2699.41^2)(5 \times 151240148.1 - 84842.99^2)}}$$

$$= \frac{9041924.61}{-(499.82 \times 80262.90)}$$

…r = -0.225

Above calculation of coefficient of correlation between net profit and total deposit of Nabil Bank Ltd. is -0.225. This analysis indicates that there is a negative correlation between net profit and total deposit. Therefore, net profit is not affected by total deposit and no relation.

Table 4.22

Coefficient of Correlation between Net profit (Dependent) and Total Deposit (Independent) of NIBL.

Fiscal Year	X	Y	X^2	Y^2	XY
2003/04	116.82	7922.77	13646.91	62770284.47	925537.99
2004/05	152.67	11524.68	23308.13	132818249.1	1759472.90
2005/06	232.15	14254.57	53893.62	203192765.9	3309198.43
2006/07	350.54	18927.31	122878.29	358243063.8	6634779.25
2007/08	501.40	24488.86	251401.96	599704264.1	12278714.40
Total	1353.58	77118.19	465128.91	1356728627.37	24907702.97

N=5 years

x=1353.58

Y= 77118.19

$x^2 = 465128.91$

$Y^2 = 1356728627.37$

XY= 24907702.97

We have

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

$$= \frac{5\text{x } 24907702.97 - 1353.58 \text{ x } 77118.19}{\sqrt{(5 \times 24907702.97 - 1353.58^2)(5 \times 1356728627.37 - 77118.19^2)}}$$

$$= \frac{20152875.23}{(702.47 \times 28921.06)}$$

…r = 0.99

Above calculation of coefficient of correlation between net profit and total deposit of NIBL is 0.99. This analysis indicates that, there is a positive correlation between net profit and total deposit. Therefore, net profit (dependent variable) is affected by total deposit (independent variable).

Table 4.23

Coefficient of Correlation between Net Profit (Dependent) and Total Deposit (Independent) of SCBNL.

Fiscal Year	X	Y	X^2	Y^2	XY
2003/04	506.93	18755.64	256978.02	351774031.8	9507796.59
2004/05	537.80	21161.44	289228.84	447806542.9	11380622.43
2005/06	539.20	19335.10	290736.64	373846092.0	10425485.92
2006/07	658.76	23067.03	433964.74	531811104.7	15191684.12
2007/08	691.67	24647.02	478407.39	607475594.9	17047604.32
Total	2934.36	10690.23	1749315.63	2312713366.3	63553193.38

N=5 years $\quad$ $x^2 =$ 1749315.63

x=2934.36 $\quad$ Y^2= 2312713366.3

Y= 106960.28 $\quad$ XY= 63553193.38

We have,

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

$$= \frac{5\text{x } 63553193.38 - 2934.36 \text{ x } 106960.28}{\sqrt{(5 \times 1749315.63 - 2934.36^2)(5 \times 2312713366.3 - 106960.28^2)}}$$

$$= \frac{3905999.68}{(368.93 \times 11093.48)}$$

$\therefore r = 0.95$

Above calculation of coefficient of correlation between net profit and total deposit of SCBNL is 0.95. This analysis indicates that, there is a positive correlation between net profit and total deposit. Therefore, net profit is affected by total deposit (independent variable).

4.2.2 Computation of Probable Error

If the value of ‘r’ is less than sex times of probable error, there is no evidence of correlation i.e. value of r is not significant. Thus, if the value of ‘r’ is more than sex times of probable error, the coefficient of correlation is practically, i.e. the value of 'r' is significant.

Formula:

$$P.E_r = 0.6745 \frac{1-r^2}{\sqrt{N}}$$

Probable Error of Nabil Bank Ltd.

Here, r = - 0.225 N = 5 years

We have,

$$P.E_r = 0.6754 \frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745 \frac{1-(-0.225)^2}{\sqrt{5}}$$

$$= \frac{0.6404}{2.24} = 0.29$$

Since, the value of 'r' is less than sex times of probable error (i.e. $6 x 0.29 \Psi -0.225$). The value of 'r' is insignificant. It revels that developing more worth in the capital structure seems not to be benefited in term of probability of Nabil Bank Ltd.

Probable Error of NIBL

Here, r = 0.99 N = 5 years

We have,

$$P.E_r = 0.6745 \frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745 \frac{1-(0.99)^2}{\sqrt{5}}$$

$$= \frac{0.0134}{2.24} = 0.006$$

Since, the value of 'r' is more than six times of probable error (i.e. 6 x 0.0006 < 0.99). The value of 'r' is significant. It implies that management should prepare a promoting planning of increasing the net worth to increase the return.

Probable Error of SCBNL

Here, r = 0.95 N = 5 years

We have,

$$P.E_r = 0.6745 \frac{1Zr^2}{\sqrt{N}}$$

$$= 0.6745 \frac{1Z(0.95)^2}{\sqrt{5}}$$

$$= \frac{0.0658}{2.24} = 0.029$$

Since, the value of 'r' is more than six times of probable error (i.e. 6 x 0.0029 < 0.95). The value of 'r' is significant. It indicates that the benefit ability of SCBNL.

4.2.3 Correlation between Net Profit and Total Deposit

Net profit refers to profit after deducting interest and taxes: The total deposit of the bank comprises of fixed deposit, saving deposit, current deposit and margin deposit etc. In this study, correlation analysis between two variables, net profit and total deposit are calculated to measure the closeness of relationship between them to what extent dependent variable i.e. net profit will be changed when there is a change in independent variable i.e. total deposit. The summary of various values are presented in following table.

Table 4.24

Correlation between Net Profit and Total Deposit

Evaluation criteria	Nabil Bank	NIBL	SCBNL
Coefficient of correlation (r)	(0.225)	0.99	0.95
Coefficient of determination (r^2)	0.051	0.98	0.903
Probable error ($P.E_r$)	0.29	0.006	0.029
6 $P.E_r$	1.74	0.036	0.174

From the above table we see that the correlation coefficient between net profit and total deposit of Nabil bank, NIBL and SCBNL are (0.225), 0.99 and 0.95 respectively.

Which shows the higher positive relationship between net profit and total deposit of NIBL and SCBNL except correlation of Nabil bank which has negative (0.225) value of r. it means there is negative relationship between net profit and total

deposit in the case of Nabil bank. In order to measure the degree of change on dependent variable net profit due to the change in independent variable total deposit, value of coefficient of determination (r^2) is calculated. On the basis of coefficient of determination, it can be concluded that when there is change in total deposit it bring 5.1% change in net profit of Nabil bank, 98% of NIBL and 90.3% of SCBNL over the study period.

Considering the probable error (P.E.), the value of ‘r’ (0.99 > 0.036 and 0.95 > 0.174) of NIBL and SCBNL is grater than sex times of the P.E. (6 P.Er). Therefore, we can say that the value of ‘r’ is significant i.e. there is significant relationship between net profit and total deposit of NIBL and SCBNL. However, in case of Nabil bank the value of ‘r’ (-0.225<1.74) is less than six times of P.E. (6 P.Er). It means that the value of ‘r’ is not significant i.e. there is not significant relationship between net profit and total deposit of Nabil bank.

4.3 Trend Analysis Least Square Method

Trend analysis is a statistical tool, which will highlight the previous trend of the financial performance and helps in forecasting the future financial results of elected joint venture banks. Trend analysis shows the trend of loan and advances of selected banks for eight years. Loan and advance shows a bank’s efficiency in performance of efficient utilization of the same indicates its success and profitability.

The trend analysis on loan and advances for coming year is following.

The value of Y (Loan and advance). When financial year is 6^{th} year (2008/09), 7^{th} year (2009/10) and 8^{th} year (2010/11).

Calculation of Straight Line Trend Analysis of Loan and Advance of Nabil Bank Ltd. (See Annex 21)

Now, Regression equation Y = a +bX

Loan and advances on 6th year (2008/09)

Y = 5157.88 + 1995.35 x 6

= 5157.88 + 11972.10

= 17129.98 million

Loan and advances on 7th year (2009/ 10)

Y = 5157.88 + 1995.35 x 7

= 5157.88 + 13967.45

= 19125.33 Million

Loan and advances on 8th year 2010/11)

Y = 5157.88 + 1995.35 x 8

= 5157.88 + 15962.80

= 21120.68 million

Table 4.25

Nabil Bank Ltd

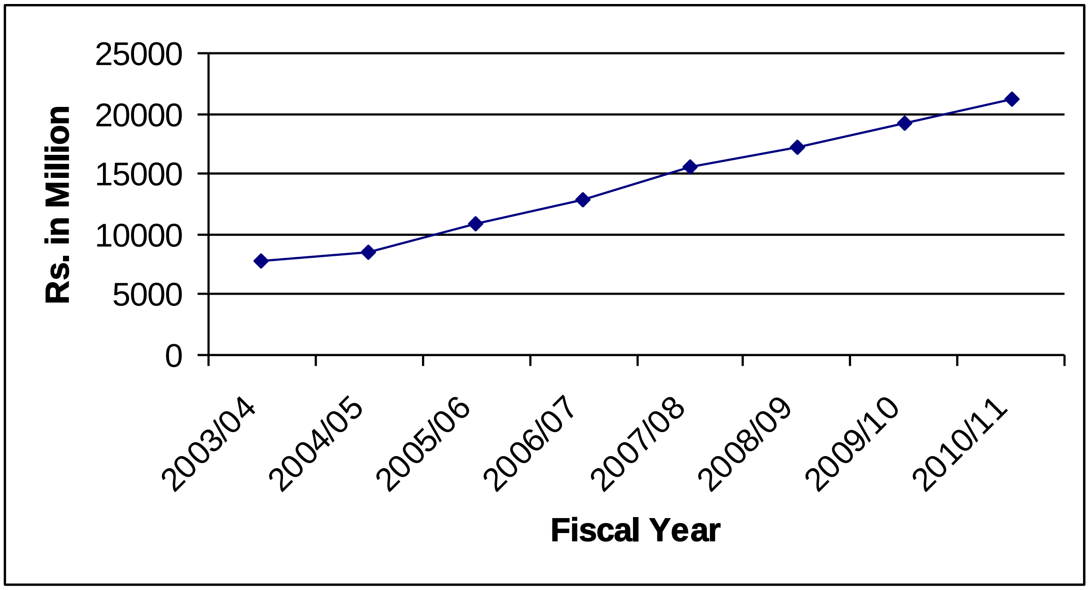
(Rs. In Million)

Fiscal year	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Loan & Advances	7755.95	8548.66	10946.74	12922.54	15545.78	17129.98	19125.33	21120.68

Based on analysis presented table that concludes loan and advance has been increasing by 1584.20 million and 1995.35 million on financial years 2008/09, 2009/10 and 2010/11. The expected loan and advances is 17129.98 million on 2008/09, 19125.33 million on 2009/10 and 21120.68 million on 2010/11. It refers that success for aggressive lending policies in terms of loan and advances.

Figure 4.1

Loan and Advance Trend Line of Nabil Bank Ltd.



On above figure, future trend line has increased for next three year 2008/09, 2009/10 and 2010/11 increased loan and advances by Rs. 17129.98 million, Rs. 19125.33 million and Rs. 21120.68 million respectively

Calculation of Straight Line Trend Analysis of Loan and Advance of NIBL (See Annex 22)

Now, regression equation Y= a +bx

Loan and advances of 6th year (2008/09)

Y = 3848.43 + 2361.24 x 6

= 3884.43 + 14167.44

= 18015.87 million

Loan and advances of 7th year (2009/10)

Y = 3848.43 + 2361.24 x 7

= 3848.43 + 16528.68

= 20377.11 million

Loan and advances of 8th year (2010/11)

$$Y = 3848.43 + 2361.24 \times 8$$
$$= 3848.43 + 18889.92$$
$$= 22738.35 \text{ million}$$

Table 4.26

Nepal Investment Bank Ltd.

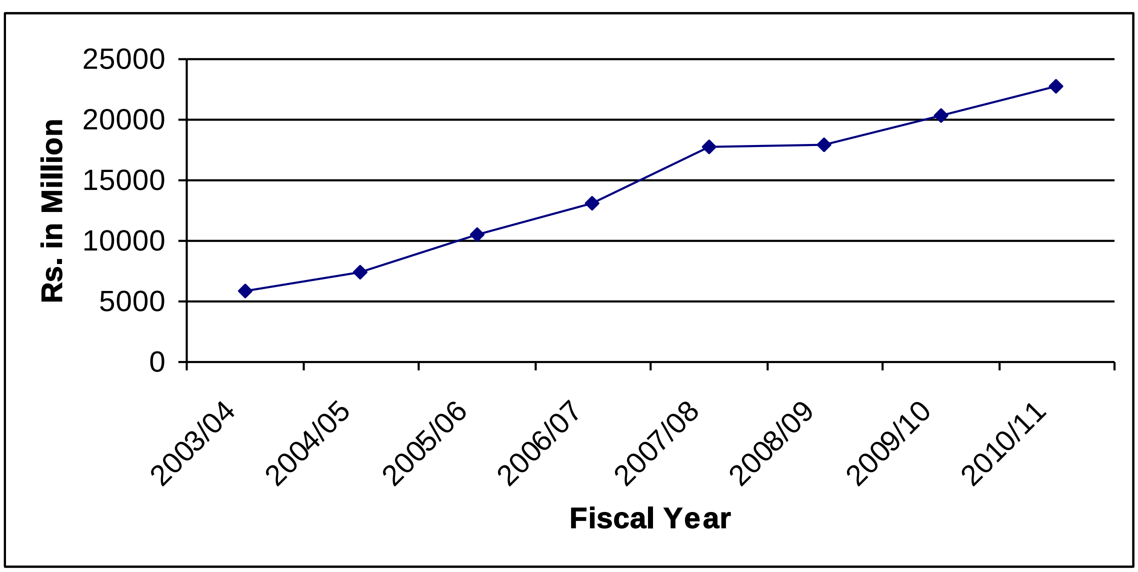
(Rs. In million)

Fiscal year	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Loan & advances	5921.79	7338.57	10453.16	13178.15	17769.10	18015.87	20377.11	22738.35

The above table concludes that loan and advance has been increasing 246.77 million on 2008/09, and 2361.24 million on 2009/10 and 2010/11 respectively. It refers that success for aggressive lending policies in terms of loan and advances. It is successful increased for the next coming year form above table.

Figure 4.2

Loan and Advance Trend Line of NIBL



Above figure shows, future trend line of loan and advances has been increased 18015.87 million, 20377.11 million and 22738.35 million respectively on coming fiscal years 2008/09, 2009/10 and 2010/11.

Calculation of Straight Line Trend Analysis of Loan and Advance of SCBNL (See Annex 23)

Now, Regression equation Y = a + bx

Loan and advances on 6th year (2008/09)

Y= 4493.16 + 1185.52 x 6

= 4493.16 + 7113.12

= 11606.28 million

Loan and advances on 7th year (2009/10)

Y = 4493.16 + 1185.52 x 7

= 4493.16 + 8298.64

= 12791.80 million

Loan and advances on 8th year (2010/11)

Y = 4493.16 + 1185.52 x 8

= 4493.16 + 9484.16

= 13977.32 million

Table 4.27

Standard Chartered Bank Nepal Ltd.

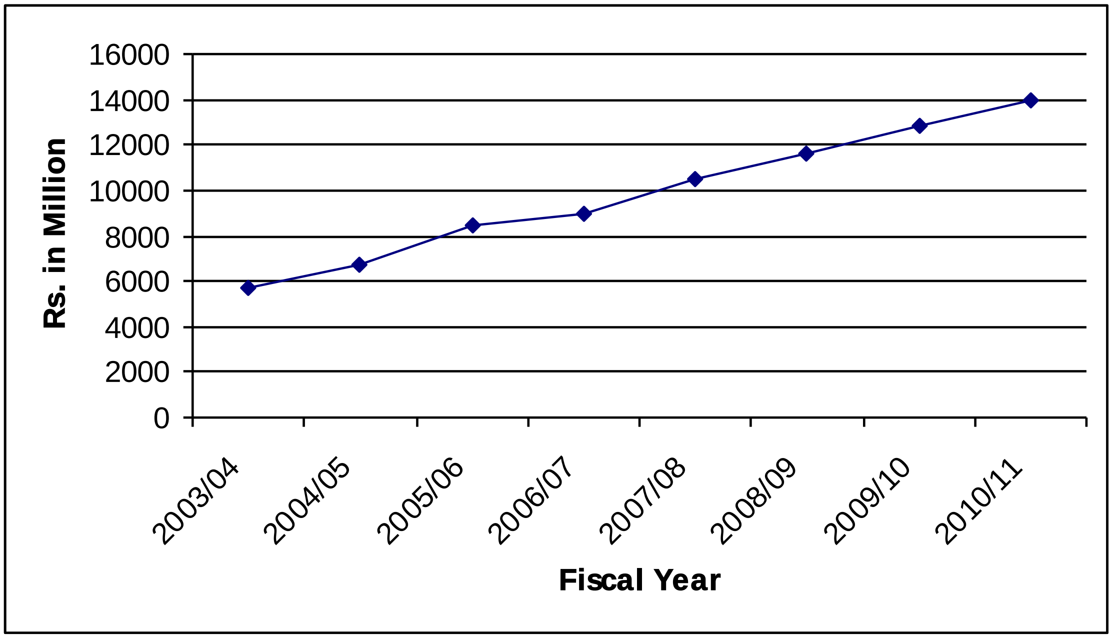
(Rs. In million)

Fiscal year	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Loan & advances	5695.82	6693.86	8420.87	8935.42	10502.64	11606.28	12791.80	13977.32

The above table concludes that loan and advances has been increasing 1103.64 million on 2008/09, 1185.55 million on 2009/10 and 2010/11 respectively. It refers that success for aggressive lending policies in terms of loan and advances.

Figure 4.3

Loan and Advances Trend Line of SCBNL



Above figure shows that the future trend line of loan and advances has been increased by the rate of 11606.28 million, 12791.80 million and 13977.32 million respectively for coming year 2007/08, 2008/09 and 2009/10.

Table 4.28

Summary of Trend Analysis Result

(In Million)

Name of Banks	Loan and Advances		
	2008/09	2009/10	2010/11
Nabil Bank Ltd	17129.28	19125.33	21120.68
NIBL	18015.87	20377.11	22738.35
SCBNL	11606.28	12791.80	13977.32

According to the above table, loan and advances of each bank have increased trend at the end of fiscal year 2008/09, 2009/10 and 2010/11. On the other hand, average growth rate of Nabil bank is higher (i.e. 15545.78m to 17129.28m) than other selected joint venture banks. Nabil Bank in regards to loan and advances on view of outsider must be able to attract, so that it can increase the deposit volume.

4.4 Major Findings of the Study

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

4.4.1 Liquidity Ratio

The liquidity position of selected JVBs reveals that:

- The average current ratio of all sample banks i.e. Nabil bank, NIBL and SCBNL is 1.07, 1.04 and 1.05 respectively. It shows that the current ratio of all the sample banks is below the standard ratio 2:1. It is clear that Nabil bank has slightly more liquid than other banks. But it can't be concluded that all the banks are in poor condition with low current ratio.
- The average ratio of cash and bank balance to total deposit of all the sampled banks is 5.69%, 10.81% and 7.42% respectively. It reveals that on an average basis NIBL has more liquid to serve its depositors in time with enough case in hand. Other remaining banks are found to be holding less cash in hand that its deposits.
- The average ratio of cash and bank balance to current assets of Nabil bank, NIBL and SCBNL is 4.87%, 9.68% and 6.62% respectively. It indicates that the ratio of NIBL has the highest ratio among the sample banks. There is SCBNL next to it with the ratio of 6.62%. Nabil bank has the lowest ratio with 4.87% than other sampled banks. It implies that all the sample banks do not have enough cast balance with respect to current assets. However, NIBL seems to be in better position than other sample banks.

4.4.2 Profitability Ratio

The profitability ratio of three JVBs reveals that:

- The average ratio of net profit to total assets of Nabil bank, NIBL and SCBNL is 2.83%, 1.44% and 2.43% respectively. It implies that, on an average basis, Nabil bank has earned highest percentage (i.e. 2.83%) of net profit by utilizing its total assets among the sampled banks. Similarly, on an average basis, NIBL has earned 1.44% of net profit against the use of total assets over the entire study period. Like wise, SCBN has earned 2.43% of net profit against the use of total assets over the entire study period. Like wise, SCBNL has earned 2.43% of net profit against the use of total assets over the study period. The above ratio shows how efficiently the sample banks have utilized their available assets over the study period. Among all the samples banks, NIBL has the lowest ratio i.e. 1.44%. It means that NIBL has not mobilized its assets into profit generating projects than other sampled banks.
- The average ratio of net profit to total deposit of Nabil bank, NIBL and SCBNL is 3.21%, 1.66% and 2.74% respectively. It implies that, on an average basis, Nabil bank has earned the highest percentage (i.e. 3.21%) of net profit by utilizing its total deposit than other sampled banks. Like wise, NIBL has earned the lowest percentage (i.e. 1.66%) of net profit by utilizing its total deposit over the entire study period. The above ratio shows low efficiently the sample banks have utilized their available deposit into profit generating project. On the other hand, Nabil bank with highest ratio has been successful in the earning more net profit by the proper use of its available deposits than others.
- The average ratio of return on shareholders equity (net worth) of Nabil Bank, NIBL and SCBNL is 34.43%, 22.07% and 37.58% respectively. It implies that, on an average basis, SCBNL has provided the highest percentage (i.e. 37.58%) of return to its shareholder by utilizing the shareholders fund among the sample banks. The above ratio shows how much profitability the sample banks have

utilized the available fund of shareholders into profit generation over the study period. Among the samples bank NIBL has the lowest ratio. It means that NIBL has not mobilized the fund of shareholder effectively into profit generating project.

- The average ratio of net interest earned to total assets of Nabil Bank, NIBL and SCBNL is 4.24%, 3.11% and 3.46% respectively. It implies that, on an average basis Nabil Bank has earned the highest percentage (i.e. 4.24%) of net interest by utilizing its total assets into interest generating projects. Among all the sample banks, NIBL has the lowest ratio. It means that NIBL has not mobilized its assets into interest generating projects.

4.4.3 Activity Ratio

The activity ratio of selected JVBs reveals that:

- The average ratio of loan and advances to total deposit of Nabil Bank, NIBL and SCBNL is 65.33%, 70.87% and 37.38% respectively. It implies that NIBL has used highest percentage (i.e. 70.87%) of total deposit into loan and advances than other sampled banks over the study period. Similarly, SCBNL has used lowest percentage (i.e. 37.38%) of total deposit into loan and advances over the study period.
- The average ratio of loan and advances to total assets of Nabil Bank, NIBL and SCBNL is 54.82%, 61.37% and 32.90% respectively. It indicates that NIBL has used highest percentage (i.e. 61.37%) of total assets in loan and advances than other sampled banks over the study period. Likewise, SCBNL has used lowest percentage (i.e. 32.90%) of total assets into loan and advances.
- The average ratio of total investment to total deposit of Nabil Bank, NIBL and SCBNL is 42.90, 28.97 and 63.30 respectively. It implies that on an average Nabil bank has used 42.90% of total deposit into investment in other projects than regular loans. Similarly, on an average NIBL has used 28.97% of total deposit into investment. In term of investment against total deposit, SCBNL has used highest percentage (i.e. 63.30%) of its total deposit into non-risky ventures and is ahead of all the sample banks.

4.4.4 Leverage Ratio

The leverage ratio of sampled JVBs reveals that:

- The average ratio of total debt to net worth of Nabil bank, NIBL and SCBNL is 11.84, 14.40 and 14.59 times respectively. It implies that SCBNL has highly leverage 14.59 times means, debt capital financing is more than 14.59 times of its shareholder equity over the study period where as Nabil bank has lowest ration (i.e. 11.34 times) of total debts of net worth.
- The among ratio of total debt to total assets of Nabil bank, NIBL and SCB NL is 92.03% and 93.47% respectively. It indicates that SCBNL has highest ratio (i.e. 93.47%) of total debt into total assets. over the study period, on an average basis NIBL and SCBNL have highly debt financing means, these two banks, borrowed outsider's funds by 93.44% and 9.47% respectively.

4.4.5 Earning Per Share

The average earning per share of Nabil bank, NIBL and SCBNL is Rs. 109.81, Rs. 50.54 and Rs. 155.84 respectively. On an average basis, SCBNL has the highest earning per share (i.e. Rs. 155.84) than other selected joint venture banks over the study period. Similarly, Nabil bank and NIBL have comparatively lower EPS.

4.4.6 Dividend Payout Ratio

The average dividend payout ratio of Nabil bank, NIBL and SCBNL is 74%, 14.5% and 122% respectively. SCBNL has highest dividend payout ratio
(122%) with provides maximum amount of dividend to its shareholder over the entire study period.

4.4.7 Price Earning Ratio

The average price-earning ratio of Nabil bank, NIBL and SCBNL is 17.60, 21.48 and 14.25 times respectively. It implies that NIBL has highest price earning ratio (i.e. 17.60 times) than other sampled banks. It also means that NIBL's market price per share is 17.60 times greater than its earning per share.

4.4.8 Income Analysis

The income analysis is selected JVBs reveal that:

- The average net interest income to total income of Nabil bank, NIBL and SCBNL is 65.91%, 68.89% and 61.15% respectively. Over the study period, NIBL has highest and SCBNL has lowest net interest income on total income.
- The mean exchange income to total income of Nabil bank, NIBL and SCBNL is 13.78%, 12.86% and 19.90% respectively. It indicates that SCBNL is success to generating exchange income than other samples JVBs over the study period
- The average ratio of commission and discount received to total income of Nabil bank, NIBL and SCBNL is 11.04%, 11.25% and 15.27% respectively. It indicates that SCBNL has highest commission and discount income out of total income than other banks over the study period.

4.4.9 Expenditure Analysis

From the analysis of expenditure of concerned banks, reveal that:

- Higher mean of interest expenses is on NIBL. Similarly, SCBNL has lower mean. It shows that NIBL has been growing interest expenses against two JVBs.
- The average staff expenses of Nabil bank have highest than other samples banks. It means that Nabil bank has been paying highest amount of staff expenses (i.e. salary, allowance and gratuity funds etc.) than other bank over the entire study period.

4.4.10 Correlation and Regression Analysis

NIBL and SCBNL have positive coefficient of correlation i.e. 0.99 and 0.95 respectively. It refers that these two banks net profit (dependent variable) is affected by total deposit (independent variable).Whereas Nabil bank has negative coefficient of correlation indicates that net profit is not affected by total deposit and no relation.

NIBL and SCBNL have positive correlation i.e. 0.99 and 0.95. These correlations are more than six times than that of probable error. Thus, these banks have significant value of coefficient of correlation.

4.4.11 Trend Analysis

Loan and advances of each bank have increased trend at the end of fiscal year 2008/09, 2009/10 and 2010/11. On the other hand, average growth of Nabil Bank is higher than other selected joint venture banks.

CHAPTER - V

SUMMARY, CONCLUSIONS 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: summary, conclusions and recommendations. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation is made for improving the presence situation to the concerned partied as well as further research.

5.1 Summary

The economic development of a country cannot be imagined without the development of commerce and industry. The role of commercial banks in the economic growth of nation can be estimated to be prominent. The very challenging job of commercial banks is to collect the scattered idle resources from the small savers. Actually, commercial banks pool the fund in the sizable volume in order to feed the fund requirement of productive sector promote trade and industrialization in the country there by raising the employment opportunity and earned to the labors and materials suppliers to such industries and traders.

Commercials banks of course contribute a lot to the development of the economy of the country. Thus, to remain in the front line of the great contributor of the economy, the banks have sustainable existence and growth themselves. For the sustainable existence and growth of a bank, it must reasonable profitability.

Under this study, the researcher has tried to cover the various aspects of selected joint venture banks covering the period of five years from 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08. In the first introductory chapter, the study report has tried to give history and introduction of banking and its relation to the economy, brief profile of the concerned banks, general concepts of financial statement and the statement of problem, objectives of the study and its limitation. During the research work, extensive review of various literature books, past thesis, journals have been studied and consulted. And as per requirement, internet materials from relevant websites are also visited. These works are complied in the second chapter titled “Review of Literature” of this report.

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

Data relating to activities of the banks have been collected and presented in figures and tabular as far as possible are tried to be interpreted in the study report in logical ways. Data are them analyzed applying various financial and statistical tools and findings of the study have been listed in a systematic manner. All these works are complied in the fourth chapter titled “Data Presentation and Analysis” of the study.

Finally, the summary, conclusion and the recommendation made by the research are presented in the current chapter titled “Summary, Conclusion and recommendations.”

5.2 Conclusions

This study reveals that the current ratio of all samples banks i.e. Nabil Bank NIBL and SCBNL is greater than 1 but Nabil bank has the highest current ratio. It means Nabil bank’s solvency position is better than NIBL and SCBNL. The cash and bank balance of NIBL with respect to total deposit is more liquidity than other sample banks. It indicates that NIBL is able to make immediate payments to its depositor.

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

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

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

5.3 Recommendation

Based on the analysis, interpretation & conclusions, some of the major recommendations are mentioned as below:

Based on liquidity ratio analysis it is found that selected joint venture banks so not have the standard current ratio (2:1). However, from aggressive working capital point of view it is not considered so bad. NIBL and SCBNL seem to have held more cash and bank balance rather than Nabil bank. To maintain liquidity in perfect, all commercial banks have to follow the mid way i.e. they should invest the idle deposit in productive sector and on the other hand they have enough cash balance to meet current requirement.

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

Based on activity ratio analysis it is found that all the selected joint venture banks except SCBNL have emphasized in issuing loan and advances. However, as we know that the increasing bottleneck competition and worsening economic condition has attributing this area to be very sensitive and risky. Therefore, it is suggested them to investments non-risky assets to increase the level of profit.

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

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

Shareholders are the real owners of the organization. But they do not seem to be happy with the rate of return on equity provided by the banks. To some extent, SCBNL has been successful in providing a better return on equity than others. Thus, it is recommended that the management team should put emphasis on the maximizing the wealth of the shareholders. Low market price of share and less earning per share of commercial banks indicated the poor performance in the market. Similarly low dividend payout ratio also discourages the shareholders. Reviewing the study, Nabil bank and SCBNL have higher MPS, EPS and dividend payout ratio than NIBL. Therefore, it is suggested to the management team of NIBL to improve their performance.

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ANNEX – 1

Calculation Mean, S. D. and C. V. of Current Ratio (X)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$
2003/04	1.05	0.0004	1.05	0.0001	1.04	0.0001
2004/05	1.07	0.0000	1.02	0.0004	1.06	0.0001
2005/06	1.08	0.0001	1.06	0.0004	1.07	0.0004
2006/07	1.08	0.0001	1.05	0.0001	1.07	0.0004
2007/08	1.07	0.0000	1.04	0.0000	1.00	0.0025
Total	5.35	0.0006	5.22	0.0010	5.24	0.0035

Where,

N = 5 years

$\bar{X} = \frac{X}{n}$ $\sigma = \sqrt{\frac{1}{n}(X-\bar{X})^2}$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $= \frac{5.35}{5} = 1.07$ $= \sqrt{\frac{1}{5} \times 0.0006} = 0.01095$ $= \frac{0.01095}{1.07} \times 100 = 1.023\%$

NIBL $= \frac{5.22}{5} = 1.04$ $= \sqrt{\frac{1}{5} \times 0.0010} = 0.01414$ $= \frac{0.01414}{1.04} \times 100 = 1.359\%$

SCBNL $= \frac{5.24}{5} = 1.05$ $= \sqrt{\frac{1}{5} \times 0.0035} = 0.02646$ $= \frac{0.02646}{1.05} \times 100 = 2.52\%$

ANNEX – 2

Cash & Bank Balance to Total Deposits Ratio (X)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	X	$(X-\bar{X})^2$	X	$(X-\bar{X})^2$
2003/04	8.51	7.95	11.69	0.77	8.06	0.41
2004/05	6.87	1.39	10.65	0.03	9.56	4.58
2005/06	3.83	3.46	9.40	1.99	5.75	2.79
2006/07	3.26	5.90	12.34	2.34	5.53	3.57
2007/08	6.00	0.07	9.97	0.71	8.20	0.61
Total	28.47	18.77	54.05	5.84	37.10	11.96

Where,

N = 5 Years

$$\bar{X} = \frac{\sum X}{n} \qquad \sigma = \sqrt{\frac{1}{n}\sum (X-\bar{X})^2} \qquad C.V. = \frac{\sigma}{\bar{X}} \times 100$$

Nabil Bank $= \frac{28.47}{5}$ $= \sqrt{\frac{1}{5} \times 18.77}$ $= \frac{1.94}{5.69} \times 100$

$= 5.69$ $= 1.94$ $= 34.09\%$

NIBL $= \frac{54.05}{5}$ $= \sqrt{\frac{1}{5} \times 5.84}$ $= \frac{1.08}{10.81} \times 100$

$= 10.81$ $= 1.08$ $= 9.99\%$

SCBNL $= \frac{37.10}{5}$ $= \sqrt{\frac{1}{5} \times 11.96}$ $= \frac{1.55}{7.42} \times 100$

$= 7.42$ $= 1.55$ $= 20.89\%$

ANNEX – 3

Cash & Bank Balance to Current Asset Ratio (X)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$
2003/04	7.02	4.62	10.33	0.42	7.30	0.46
2004/05	5.91	1.08	9.28	0.16	8.61	3.96
2005/06	3.35	2.31	8.34	1.80	5.12	2.25
2006/07	2.86	4.04	10.92	1.54	4.97	2.72
2007/08	5.19	0.10	9.53	0.02	7.10	0.23
Total	24.33	12.15	48.40	3.94	33.10	9.62

Where,

N = 5 years

$\bar{X} = \frac{X}{n}$ $\sigma = \sqrt{\frac{1}{n}(X-\bar{X})^2}$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $= \frac{24.33}{5} = 4.87$ $= \sqrt{\frac{1}{5} \times 12.15} = 1.55$ $= \frac{1.55}{4.87} \times 100 = 31.83\%$

NIBL $= \frac{48.40}{5} = 9.68$ $= \sqrt{\frac{1}{5} \times 3.94} = 0.89$ $= \frac{0.89}{9.68} \times 100 = 9.19\%$

SCBNL $= \frac{33.10}{5} = 6.62$ $= \sqrt{\frac{1}{5} \times 9.62} = 1.39$ $= \frac{1.39}{6.62} \times 100 = 21.00\%$

ANNEX – 4

Net Profit to Total Assets Ratio (X)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$
2003/04	2.43	0.1600	1.27	0.0289	2.42	0.0001
2004/05	2.73	0.0100	1.13	0.0961	2.27	0.0256
2005/06	3.06	0.0529	1.42	0.0004	2.46	0.0009
2006/07	3.23	0.1600	1.61	0.0289	2.56	0.0169
2007/08	2.72	0.121	1.79	0.1225	2.42	0.0001
Total	14.17	0.5039	7.22	0.2768	12.13	0.0436

Where,

N = 5 years

$\bar{X} = \frac{\sum X}{n}$ $\qquad \sigma = \sqrt{\frac{1}{n}\sum (X-\bar{X})^2}$ $\qquad$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $\quad = \frac{14.17}{5} = 2.83 \qquad = \sqrt{\frac{1}{5} \times 0.5039} = 0.317 \qquad = \frac{0.317}{2.83} \times 100 = 11.20\%$

NIBL $\quad = \frac{7.22}{5} = 1.44 \qquad = \sqrt{\frac{1}{5} \times 0.2768} = 0.235 \qquad = \frac{0.235}{1.44} \times 100 = 16.32\%$

SCBNL $\quad = \frac{12.13}{5} = 2.43 \qquad = \sqrt{\frac{1}{5} \times 0.0436} = 0.093 \qquad = \frac{0.093}{2.43} \times 100 = 3.83\%$

ANNEX – 5

Net Profit to Total Deposit Ratio (X)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$
2003/04	3.10	0.0121	1.47	0.0361	2.70	0.0016
2004/05	3.22	0.0001	1.32	0.1156	2.54	0.0400
2005/06	3.56	0.1225	1.63	0.0009	2.79	0.0025
2006/07	3.28	0.0049	1.85	0.0361	2.86	0.0144
2007/08	2.89	0.1024	2.05	0.1521	2.81	0.0049
Total	16.05	0.2420	8.32	0.3408	13.70	0.0634

Where,

N = 5 years

$\bar{X} = \frac{\sum X}{n}$ $\quad\sigma = \sqrt{\frac{1}{n}\sum(X-\bar{X})^2}$ $\quad$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $\quad = \frac{16.05}{5} = 3.21 \quad = \sqrt{\frac{1}{5} \times 0.2420} = 0.22 \quad = \frac{0.22}{3.21} \times 100 = 6.85\%$

NIBL $\quad = \frac{8.32}{5} = 1.66 \quad = \sqrt{\frac{1}{5} \times 0.3408} = 0.261 \quad = \frac{0.261}{1.66} \times 100 = 15.72\%$

SCBNL $\quad = \frac{13.70}{5} = 2.74 \quad = \sqrt{\frac{1}{5} \times 0.0634} = 0.1126 \quad = \frac{0.1126}{2.74} \times 100 = 4.11\%$

ANNEX - 6

Return on Shareholder's Equity or Net Worth Ratio (x)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$
2003/04	43.52	82.63	18.29	14.29	47.62	100.80
2004/05	30.73	13.69	20.94	1.28	35.96	2.62
2005/06	31.29	9.86	19.67	5.76	34.07	12.32
2006/07	33.88	0.30	24.77	7.29	37.55	0.001
2007/08	32.72	2.92	26.70	21.44	32.68	24.01
Total	172.14	109.40	110.37	50.06	187.88	139.75

Where,

N = 5 years

$\bar{X} = \frac{X}{n}$ $\sigma = \sqrt{\frac{1}{n}(X-\bar{X})^2}$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $= \frac{172.14}{5} = 34.43$ $= \sqrt{\frac{1}{5} \times 109.40} = 4.68$ $= \frac{4.68}{34.43} \times 100 = 13.59\%$

NIBL $= \frac{110.37}{5} = 22.07$ $= \sqrt{\frac{1}{5} \times 50.06} = 3.16$ $= \frac{3.16}{22.07} \times 100 = 14.32\%$

SCBNL $= \frac{187.88}{5} = 37.58$ $= \sqrt{\frac{1}{5} \times 139.75} = 5.29$ $= \frac{5.29}{37.58} \times 100 = 14.08\%$

ANNEX -7

Net Interest Earned to Total Assets Ratio (x)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$
2003/04	4.23	0.0001	2.95	0.0256	3.55	0.0081
2004/05	4.20	0.0016	3.00	0.0121	3.20	0.0676
2005/06	4.70	0.2116	3.25	0.0196	3.63	0.0289
2006/07	4.27	0.0009	3.14	0.0009	3.44	0.0004
2007/08	3.79	0.2025	3.20	0.0081	3.50	0.0016
Total	21.19	0.4167	15.54	0.0663	17.32	0.1066

Where,

N = 5 years

$\bar{X} = \frac{\sum X}{n}$ $\sigma = \sqrt{\frac{1}{n}\sum(X-\bar{X})^2}$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $= \frac{21.19}{5}$ $= \sqrt{\frac{1}{5} \times 0.4167}$ $= \frac{0.289}{4.24} \times 100$

$= 4.24$ $= 0.289$ $= 6.81\%$

NIBL $= \frac{15.54}{5}$ $= \sqrt{\frac{1}{5} \times 0.0663}$ $= \frac{0.1152}{3.11} \times 100$

$= 3.11$ $= 0.1152$ $= 3.70\%$

SCBNL $= \frac{17.32}{5}$ $= \sqrt{\frac{1}{5} \times 0.1066}$ $= \frac{0.1460}{3.46} \times 100$

$= 3.46$ $= 0.1460$ $= 4.22\%$

ANNEX – 8

Loan and Advances to Total Deposit Ratio (X)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$
2003/04	57.68	58.52	74.74	14.98	30.36	49.28
2004/05	60.55	22.85	63.68	51.70	31.63	33.06
2005/06	75.05	94.48	73.73	8.18	43.55	38.07
2006/07	66.79	2.13	69.63	1.54	38.75	1.88
2007/08	66.60	1.61	72.56	2.86	42.61	27.35
Total	326.67	179.59	354.34	79.26	186.90	149.64

Where,

N = 5 years

$\bar{X} = \frac{\sum X}{n}$ $\quad\sigma = \sqrt{\frac{1}{n}\sum(X-\bar{X})^2}$ $\quad$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $\quad = \frac{326.67}{5} = 65.33 \quad = \sqrt{\frac{1}{5} \times 179.59} = 5.99 \quad = \frac{5.99}{65.33} \times 100 = 9.17\%$

NIBL $\quad = \frac{354.34}{5} = 70.87 \quad = \sqrt{\frac{1}{5} \times 79.26} = 3.98 \quad = \frac{3.98}{70.87} \times 100 = 5.62\%$

SCBNL $\quad = \frac{186.90}{5} = 37.38 \quad = \sqrt{\frac{1}{5} \times 149.64} = 5.47 \quad = \frac{5.47}{37.38} \times 100 = 14.63\%$

ANNEX - 9

Loan and Advances to Total Assets Ratio (x)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$
2003/04	46.83	63.84	64.62	10.56	27.12	33.41
2004/05	49.98	23.43	54.51	47.06	27.98	24.21
2005/06	62.39	57.30	63.78	5.81	37.98	25.81
2006/07	57.87	9.30	60.64	0.58	34.67	3.13
2007/08	57.04	4.93	63.29	3.69	36.73	14.67
Total	274.11	158.80	306.84	67.70	164.48	101.23

Where,

N = 5 years

$\bar{X} = \frac{X}{n}$ $\sigma = \sqrt{\frac{1}{n}(X-\bar{X})^2}$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $= \frac{274.11}{5} = 54.82$ $= \sqrt{\frac{1}{5} \times 158.80} = 5.64$ $= \frac{5.64}{54.82} \times 100 = 10.29\%$

NIBL $= \frac{306.84}{5} = 61.37$ $= \sqrt{\frac{1}{5} \times 67.70} = 3.68$ $= \frac{3.68}{61.37} \times 100 = 6\%$

SCBNL $= \frac{164.48}{5} = 32.90$ $= \sqrt{\frac{1}{5} \times 101.23} = 4.50$ $= \frac{4.50}{32.90} \times 100 = 13.68\%$

ANNEX – 10

Total Investment to Total Deposit Ratio (x)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	X	$(X-\bar{X})^2$	X	$(X-\bar{X})^2$
2003/04	49.83	48.02	22.03	48.16	64.06	0.58
2004/05	47.84	24.40	36.20	52.27	64.17	0.76
2005/06	35.21	59.14	28.58	0.15	61.87	2.04
2006/07	40.90	4.00	29.97	1.00	64.29	0.98
2007/08	40.74	4.67	28.05	0.85	62.13	1.37
Total	214.52	140.23	144.83	102.43	316.52	5.73

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{N} \qquad \sigma = \sqrt{\frac{1}{N}\sum (X-\bar{X})^2} \qquad \text{C.V.} = \frac{\sigma}{\bar{X}} x100$$

Nabil Bank $= \frac{214.52}{5}$ $= \sqrt{\frac{1}{5}x140.23}$ $= \frac{5.30}{42.90}x100$

= 42.90 = 5.30 = 12.35 %

NIBL $= \frac{144.83}{5}$ $= \sqrt{\frac{1}{5}x102.43}$ $= \frac{4.53}{28.97}x100$

= 28.97 = 4.53 = 15.64%

SCBNL $= \frac{316.52}{5}$ $= \sqrt{\frac{1}{5}x5.73}$ $= \frac{1.07}{63.30}x100$

= 63.30 = 1.07 = 1.69 %

ANNEX – 11

Total Debts (Liabilities) to Net Worth Ratio (x)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	X	$(X-\bar{X})^2$	X	$(X-\bar{X})^2$
2003/04	16.32	20.07	13.35	1.10	18.73	17.14
2004/05	10.54	1.69	17.47	9.42	15.00	0.17
2005/06	9.59	5.06	12.89	2.28	13.01	2.50
2006/07	11.18	0.44	14.40	0.00	13.69	0.81
2007/08	11.58	0.07	13.94	0.21	12.51	4.33
Total	59.21	27.33	72.00	13.01	72.94	24.95

Where,

N = 5 years

$\bar{X} = \frac{\sum X}{n}$ $\sigma = \sqrt{\frac{1}{n}\sum(X-\bar{X})^2}$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $= \frac{59.21}{5} = 11.84$ $= \sqrt{\frac{1}{5} \times 27.33} = 2.34$ $= \frac{2.34}{11.84} \times 100 = 5.22\%$

NIBL $= \frac{72.00}{5} = 14.40$ $= \sqrt{\frac{1}{5} \times 13.01} = 1.61$ $= \frac{1.61}{14.40} \times 100 = 11.81\%$

SCBNL $= \frac{72.94}{5} = 14.59$ $= \sqrt{\frac{1}{5} \times 24.95} = 2.23$ $= \frac{2.23}{14.59} \times 100 = 15.28\%$

ANNEX -12

Total Debts (Liabilities) to total Assets Ration(x)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	X	$(X-\bar{X})^2$	X	$(X-\bar{X})^2$
2003/04	94.22	4.80	93.03	0.17	94.93	2.13
2004/05	91.34	0.48	94.58	1.30	93.75	0.08
2005/06	90.55	2.19	92.80	0.41	92.86	0.37
2006/07	91.60	0.18	93.49	0.01	93.19	0.08
2007/08	92.45	0.18	93.31	0.02	92.60	0.76
Total	460.16	7.83	467.21	1.91	467.33	3.42

Where,

N = 5 years

$\bar{X} = \frac{X}{n}$ $\quad\quad \sigma = \sqrt{\frac{1}{n}(X-\bar{X})^2}$ $\quad\quad$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $\quad = \frac{460.16}{5} = 92.03 \quad\quad = \sqrt{\frac{1}{5} \times 7.83} = 1.25 \quad\quad = \frac{1.25}{92.03} \times 100 = 1.36\%$

NIBL $\quad = \frac{467.21}{5} = 93.44 \quad\quad = \sqrt{\frac{1}{5} \times 1.91} = 0.62 \quad\quad = \frac{0.62}{93.44} \times 100 = 0.66\%$

SCBNL $\quad = \frac{467.33}{5} = 93.47 \quad\quad = \sqrt{\frac{1}{5} \times 3.42} = 0.82 \quad\quad = \frac{0.82}{93.47} \times 100 = 0.88\%$

ANNEX -13

Earning Per Share (x)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$
2003/04	84.66	632.52	39.56	120.56	149.30	42.77
2004/05	92.61	295.84	51.70	1.35	143.55	151.04
2005/06	105.49	18.66	39.50	221.88	143.14	161.29
2006/07	129.21	376.36	59.35	77.62	175.84	400.00
2007/08	137.08	743.65	62.57	144.72	167.37	132.94
Total	549.05	2067.03	252.68	466.13	779.20	888.04

Where,

N = 5 years

$\bar{X} = \frac{X}{n}$ $\quad\quad$ $\sigma = \sqrt{\frac{1}{n}(X-\bar{X})^2}$ $\quad\quad$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $\quad \bar{X} = \frac{549.05}{5} = 109.81$ $\quad\quad \sigma = \sqrt{\frac{1}{5} \times 2067.03} = 20.33$ $\quad\quad$ C.V. $= \frac{20.33}{109.81} \times 100 = 18.51\%$

NIBL $\quad \bar{X} = \frac{252.68}{5} = 50.54$ $\quad\quad \sigma = \sqrt{\frac{1}{5} \times 466.13} = 9.66$ $\quad\quad$ C.V. $= \frac{9.66}{50.54} \times 100 = 19.11\%$

SCBNL $\quad \bar{X} = \frac{779.20}{5} = 155.84$ $\quad\quad \sigma = \sqrt{\frac{1}{5} \times 888.04} = 13.33$ $\quad\quad$ C.V. $= \frac{13.33}{155.84} \times 100 = 8.55\%$

ANNEX -14

Dividend Payout Ratio (x)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(x-\bar{x})^2$	**X**	$(x-\bar{x})^2$	**X**	$(x-\bar{x})^2$
2003/04	50	576	20	30.25	110	144
2004/05	65	81	15	0.25	110	144
2005/06	70	16	12.50	4.00	120	4
2006/07	85	121	20	30.25	140	324
2007/08	100	676	5	90.25	130	64
Total	370	1470	72.5	155	610	680

Where,

N= 5 years

$\bar{X} = \frac{\sum X}{n}$ $\quad \sigma = \sqrt{\frac{1}{n}\sum(X-\bar{X})^2}$ $\quad$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $= \frac{370}{5} = 74$ $\quad = \sqrt{\frac{1}{5} \times 1470} = 17.15$ $\quad = \frac{17.15}{74} \times 100 = 23.18\%$

NIBL $= \frac{72.5}{5} = 14.5$ $\quad = \sqrt{\frac{1}{5} \times 155} = 5.57$ $\quad = \frac{5.57}{14.5} \times 100 = 38.41\%$

SCBNL $= \frac{610}{5} = 122$ $\quad = \sqrt{\frac{1}{5} \times 680} = 11.66$ $\quad = \frac{11.66}{122} \times 100 = 9.56\%$

ANNEX – 15

Price Earning Ratio

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	X	$(X-\bar{X})^2$	X	$(X-\bar{X})^2$
2003/04	8.74	78.50	20.10	1.90	10.98	68.39
2004/05	10.80	46.24	18.18	10.89	12.16	50.27
2005/06	14.27	11.09	20.25	1.51	16.38	8.24
2006/07	17.34	0.07	21.23	0.07	21.47	4.93
2007/08	36.84	370.18	27.63	37.82	35.25	256
Total	87.99	506.08	107.39	52.19	96.24	387.83

Where,

N = 5 years

$\bar{X} = \frac{X}{n}$ $\quad\quad$ $\sigma = \sqrt{\frac{1}{n}(X-\bar{X})^2}$ $\quad\quad$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $\quad = \frac{87.99}{5} = 17.60$ $\quad\quad$ $= \sqrt{\frac{1}{5} \times 506.08} = 10.06$ $\quad\quad$ $= \frac{10.06}{17.60} \times 100 = 57.16\%$

NIBL $\quad = \frac{107.39}{5} = 21.48$ $\quad\quad$ $= \sqrt{\frac{1}{5} \times 52.19} = 3.23$ $\quad\quad$ $= \frac{3.23}{21.48} \times 100 = 15.03\%$

SCBNL $\quad = \frac{96.24}{5} = 19.25$ $\quad\quad$ $= \sqrt{\frac{1}{5} \times 387.83} = 8.81$ $\quad\quad$ $= \frac{8.81}{19.25} \times 100 = 45.77\%$

ANNEX – 16

Net Interest Income to Total Income (x)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$
2003/04	63.10	7.90	69.53	0.41	59.77	1.90
2004/05	62.85	9.36	68.97	0.01	58.58	6.60
2005/06	65.12	0.62	67.28	2.59	60.85	0.09
2006/07	68.73	7.95	70.25	1.85	62.44	1.66
2007/08	69.73	14.59	68.44	0.20	64.12	4.97
Total	329.53	40.42	344.47	5.06	305.76	15.22

Where,

N = 5 years

$\bar{X} = \frac{\sum X}{n}$ $\sigma = \sqrt{\frac{1}{n}\sum(X-\bar{X})^2}$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $= \frac{329.53}{5} = 65.91$ $= \sqrt{\frac{1}{5} \times 40.42} = 2.84$ $= \frac{2.84}{65.91} \times 100 = 4.31\%$

NIBL $= \frac{344.47}{5} = 68.89$ $= \sqrt{\frac{1}{5} \times 5.06} = 1.01$ $= \frac{1.01}{68.89} \times 100 = 1.47\%$

SCBNL $= \frac{305.76}{5} = 61.15$ $= \sqrt{\frac{1}{5} \times 15.22} = 1.74$ $= \frac{1.74}{61.15} \times 100 = 2.85\%$

ANNEX – 17

Exchange Income to Total Income (X)

Fiscal Year	**Nabil Bank**		**NIBL**		**SCBNL**	
	X	$(x-\bar{x})^2$	**X**	$(x-\bar{x})^2$	**X**	$(x-\bar{x})^2$
2003/04	12.98	0.64	13.08	0.05	18.62	1.64
2004/05	13.78	0.00	14.98	4.49	20.87	0.94
2005/06	14.59	0.66	12.96	0.01	20.18	0.08
2006/07	13.38	0.16	12.96	0.01	19.97	0.01
2007/08	14.18	0.16	10.30	6.55	19.90	0.00
Total	68.89	1.62	64.28	11.11	99.48	2.67

Where,

N = 5 years.

$\bar{X} = \frac{\sum X}{n}$ $\sigma = \sqrt{\frac{1}{n}\sum(X-\bar{X})^2}$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $= \frac{68.89}{5} = 13.78$ $= \sqrt{\frac{1}{5} \times 1.62} = 0.57$ $= \frac{0.57}{13.78} \times 100 = 4.14\%$

NIBL $= \frac{64.28}{5} = 12.86$ $= \sqrt{\frac{1}{5} \times 11.11} = 1.49$ $= \frac{1.49}{12.86} \times 100 = 11.59\%$

SCBNL $= \frac{99.48}{5} = 19.90$ $= \sqrt{\frac{1}{5} \times 2.67} = 0.73$ $= \frac{0.73}{19.90} \times 100 = 3.67\%$

ANNEX – 18

Commission and Discount Received to Total Income (X)

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	X	$(X-\bar{X})^2$	X	$(X-\bar{X})^2$
2003/04	13.00	3.84	10.50	0.56	17.24	3.88
2004/05	11.89	0.72	9.49	3.10	15.21	0.01
2005/06	10.17	0.76	11.83	0.34	13.98	1.66
2006/07	9.98	1.12	11.95	0.49	15.70	0.18
2007/08	10.18	0.74	12.47	1.49	14.20	1.14
Total	55.22	7.18	56.24	5.98	76.33	6.87

Where,

N = 5 years.

$\bar{X} = \dfrac{\sum X}{n}$ $\quad \sigma = \sqrt{\dfrac{1}{n}\sum (X-\bar{X})^2}$ $\quad$ C.V. $= \dfrac{\sigma}{\bar{X}} \times 100$

Nabil Bank $\quad \bar{X} = \dfrac{55.22}{5} = 11.04 \quad \sigma = \sqrt{\dfrac{1}{5} \times 7.18} = 1.20 \quad$ C.V. $= \dfrac{1.20}{11.04} \times 100 = 10.87\%$

NIBL $\quad \bar{X} = \dfrac{56.24}{5} = 11.25 \quad \sigma = \sqrt{\dfrac{1}{5} \times 5.98} = 1.09 \quad$ C.V. $= \dfrac{1.09}{11.25} \times 100 = 9.69\%$

SCBNL $\quad \bar{X} = \dfrac{76.33}{5} = 15.27 \quad \sigma = \sqrt{\dfrac{1}{5} \times 6.87} = 1.17 \quad$ C.V. $= \dfrac{1.17}{15.27} \times 100 = 7.67\%$

ANNEX – 19

Interest Expenses

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$
2003/04	317.35	1155.32	189.21	48435.21	255.15	2035.81
2004/05	282.95	4677.19	326.20	6903.95	275.81	598.29
2005/06	243.55	11618.68	354.55	2996.47	254.13	2140.91
2006/07	357.16	33.87	490.95	6668.36	303.20	8.58
2007/08	555.71	41767.10	685.53	76308.54	413.06	12721.58
Total	1756.72	59252.16	2046.44	141312.53	1501.35	17505.17

Where,

N = 5 years.

$\bar{X} = \frac{\sum X}{n}$ $\qquad \sigma = \sqrt{\frac{1}{n}\sum(X-\bar{X})^2}$ $\qquad$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $\quad = \frac{1756.72}{5} = 351.34 \qquad = \sqrt{\frac{1}{5} \times 59252.16} = 108.85 \qquad = \frac{108.85}{351.34} \times 100 = 30.98\%$

NIBL $\quad = \frac{2046.44}{5} = 409.29 \qquad = \sqrt{\frac{1}{5} \times 141312.53} = 168.11 \qquad = \frac{168.11}{409.29} \times 100 = 41.07\%$

SCBNL $\quad = \frac{1501.35}{5} = 300.27 \qquad = \sqrt{\frac{1}{5} \times 17505.17} = 59.17 \qquad = \frac{59.17}{300.27} \times 100 = 19.71\%$

ANNEX – 20

Staff Expenses

Fiscal Year	Nabil Bank		NIBL		SCBNL	
	X	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$	**X**	$(X-\bar{X})^2$
2003/04	210.58	0.16	61.29	1723.91	128.33	761.21
2004/05	180.84	860.84	89.75	170.56	134.69	450.71
2005/06	199.52	113.64	97.00	33.76	148.59	53.73
2006/07	240.16	898.80	120.66	318.62	168.23	151.54
2007/08	219.78	92.16	145.37	1811.35	199.78	1923.70
Total	1050.88	1965.60	514.07	4058.20	779.62	3340.89

Where,

N = 5 years.

$\bar{X} = \frac{\sum X}{n}$ $\sigma = \sqrt{\frac{1}{n}\sum(X-\bar{X})^2}$ C.V. $= \frac{\sigma}{\bar{X}} \times 100$

Nabil Bank $= \frac{1050.88}{5} = 210.18$ $= \sqrt{\frac{1}{5} \times 1965.60} = 19.83$ $= \frac{19.83}{210.18} \times 100 = 9.43\%$

NIBL $= \frac{514.07}{5} = 102.81$ $= \sqrt{\frac{1}{5} \times 4058.20} = 28.49$ $= \frac{28.49}{102.81} \times 100 = 27.71\%$

SCBNL $= \frac{779.62}{5} = 155.92$ $= \sqrt{\frac{1}{5} \times 3340.89} = 25.85$ $= \frac{25.85}{155.92} \times 100 = 16.58\%$

ANNEX – 21

Calculation of Loan and Advance Trend Line of Nabil Bank Ltd.

(In million)

X	Y	X^2	Y^2	XY
1	7755.95	1	60154760.40	7755.95
2	8548.66	4	73079587.80	17097.32
3	10946.74	9	119831116.60	32840.22
4	12922.54	16	166992040.1	51690.16
5	15545.78	25	241671275.80	77728.90
15	55719.67	55	661728780.70	187112.55

Where,

N = 5 years. X^2 = 55

X = 15 Y^2 = 661728780.70

Y = 55719.67 XY = 187112.55

Here,

$$b = \frac{N\sum xy - \sum x \sum y}{N\sum x^2 - (\sum x)^2} = \frac{5 \times 187112.55 - 15 \times 55719.67}{5 \times 55 - 15^2}$$

$$= \frac{935562.75 - 835795.05}{275 - 225} = \frac{99767.70}{50}$$

$$\therefore \quad b = 1995.35$$

$$\text{Here, } a = \frac{\sum y - b\sum x}{N} = \frac{55719.67 - 1995.35 \times 15}{5}$$

$$= \frac{25789.42}{5} \quad \therefore \quad a = 5157.88$$

ANNEX – 22

Calculation of Loan and Advance Trend Line of NIBL

(In million)

X	**Y**	**X^2**	**Y^2**	**XY**
1	5921.79	1	35067596.80	5921.79
2	7338.57	4	53854609.64	14677.14
3	10453.16	9	109268554.0	31359.48
4	13178.15	16	173663637.4	52712.60
5	17769.10	25	315740914.8	88845.50
15	54660.77	55	687595312.6	187594.72

Where,

N = 5 years. X^2 = 55

x = 15 y2 = 687595312.6

y = 54660.77 XY = 187594.72

Here,

$$b = \frac{N\sum xy - \sum x \sum y}{N\sum x^2 - (\sum x)^2} = \frac{5 \times 187594.72 - 15 \times 54660.77}{5 \times 55 - 15^2}$$

$$= \frac{937973.60 - 819911.55}{275 - 225} = \frac{118062.05}{50}$$

$$\therefore \quad b = 2361.24$$

$$\text{Here, } a = \frac{\sum y - b\sum x}{N} = \frac{54660.77 - 2361.24 \times 15}{5}$$

$$= \frac{19242.17}{5} \quad \therefore \quad a = 3848.43$$

ANNEX – 23

Calculation of Loan and Advance Trend Line of SCBNL

X	**Y**	**X^2**	**Y^2**	**XY**
1	5695.82	1	32442365.47	5695.82
2	6693.86	4	44807761.70	13387.72
3	8420.87	9	70911051.56	2526261
4	8935.42	16	79841730.58	35741.68
5	10502.64	25	110305447.0	52513.20
15	40248.61	55	338308356.31	132601.03

Where,

N = 5 years. X^2 = 55

x = 15 y2 = 338308356.31

y = 40248.61 xy = 132601.03

Here,

$$b = \frac{N\sum xy - \sum x \sum y}{N\sum x^2 - (\sum x)^2} = \frac{5 \times 132601.03 - 15 \times 40248.61}{5 \times 55 - 15^2}$$

$$= \frac{663005.15 - 603729.15}{275 - 225} = \frac{59276}{50}$$

$$\therefore b = 1185.52$$

$$\text{Here, } a = \frac{\sum y - b\sum x}{N} = \frac{40248.61 - 1185.52 \times 15}{5}$$

$$= \frac{22465.81}{5} \quad \therefore a = 4493.16$$

ANNEX - 24

NEPAL ARAB BANK LIMITED

Five years Financial Summary

(Balance Sheet)

NPR in Thousand

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Cash and Bank Balance	1144767	970486	559381	630239	1399826
Money at call	670204	918733	868428	1734902	563532
Investment	6031176	5835949	4267233	6178533	8945310
Loan, advance and Bill Purchase	7755952	8189992	10586170	12922543	15545778
Fixed Assets	251915	338126	361235	319086	286895
Other Assets	708611	492199	413340	544668	512050
Total Assets	**16,562,625**	**16,745,485**	**17,055,787**	**22,329,971**	**27,253,391**
Share Capital	491654	491654	491654	491654	491654
Reserve and Surplus	435007	990027	1165983	1383340	1565395
Borrowings	961461	229660	17062	173202	882572
Deposit	13447661	14119032	14586608	19347399	23342285
Bills Payable	387526	119753	77128	92538	83517
Proposed and undistributed Dividends	-	-	361221	435084	50941
Income Tax Liabilities	-	-	15345	34605	-
Other liabilities	839316	795359	340786	372149	378551
Total Capital and Liabilities	**16,562,625**	**16,745,485**	**17,055,787**	**22,329,971**	**27,253,394**

ANNEX - 25

NEPAL ARAB BANK LIMITED

Five years Financial Summary

(Profit & Loss Account)

NPR in Thousand

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Interest Income	1017872	1002872	1068747	1309998	1587758
Interest Expenses	(317348)	(282948)	(243545)	(357161)	(555710)
Net Interest Income	**700,524**	**718,669**	**825,202**	**952,837**	**1,032,048**
Exchange Earnings	144075	157324	184879	185484	209926
Commission Earnings	144406	135958	128883	138294	150609
Other Operating Income	86946	38755	55934	82898	87574
Other Non Operating Income	34154	92781	72241	26808	56942
Gross Income	**1,110,102**	**1,143,487**	**1,267,139**	**1,386,321**	**1,537,099**
Staff Costs	(210583)	(180840)	(199516)	(219781)	(240161)
Provision for Staff Bonus	(66364)	(71941)	(84198)	(89800)	(99504)
Premises Costs	(166200)	(19259)	(22237)	(23381)	-
Other Operating Costs	-	(131500)	(168062)	(159315)	(188183)
Other Non Operating Costs		(51574)	-	-	-
Total Costs	**(494,721)**	**(403,540)**	**(474,013)**	**(492,277)**	**(568,584)**
Profit Before Tax	615381	739947	793126	894044	1009251
Income Tax	199146	201763	239149	262741	321086
Book write off Bad Loans	-	(82873)	(31133)	7729	10926
Provision for Loan Loss	-	-	(4207)	(3770)	(14206)
Net Profit After Tax	**416,235**	**455,311**	**518,637**	**635,262**	**673,959**

ANNEX - 26

NEPAL INVESTMENT BANK LIMITED

Five years Financial Summary

(Balance Sheet)

NPR in Thousand

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Cash & Bank Balance	926535	1226923	1340481	2335521	2441514
Money at Call & Investment	1745240	4172483	4074189	5672869	6868650
Loans & Advances	5921788	7338566	10453164	13178152	17769100
Net Fixed Assets	191116	249788	320592	343450	759456
Other Assets	379216	476177	202226	201090	234797
Total Assets	**9,163,895**	**13,463,937**	**16,390,652**	**21,732,081**	**28,073,517**
Paid-Up Capital	295293	295293	587739	590586	801353
Profit Capitalization	-	-	-	-	-
Reserve Fund	314845	419092	567511	778904	955417
Profit & Loss Account	28404	14663	24924	45950	121354
Total Shareholder's Fund	**638,542**	**729,048**	**1,180,173**	**1,415,440**	**1,878,124**
Borrowings	6829	361500	350000	550000	800000
Customer's Deposit	7922766	11524680	14254574	18927306	24488856
Other Liabilities	446111	640269	278796	437392	423866
Provision For Loan Loss	149647	208441	327108	401944	482673
Total Liabilities	**8,525,359**	**12,734,889**	**15,210,479**	**20,316,642**	**26,195,394**
Total Liabilities & Shareholders' Fund	**9,163,895**	**13,463,937**	**16,390,652**	**21,732,081**	**28,073,517**

ANNEX - 27

NEPAL INVESTMENT BANK LIMITED

Five years Financial Summary

(Profit & Loss Account)

NPR in Thousand

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Loans, Advances & Overdrafts	421847	663016	769195	964689	1302122
Others	37662	68387	117605	208053	282865
Interest Expenses	(189214)	(326202)	(354549)	(490947)	(685530)
Net Interest Income	**270,295**	**405,201**	**532,251**	**681,795**	**899,457**
Exchange Gain	50834	87980	102518	125747	135355
Commission Income	40811	55747	93551	115942	163899
Other Operating Income	26288	36816	56567	46607	114096
Other Non-Operating Income	487	1768	6192	391	1426
Total Income	**388,715**	**587,512**	**791,079**	**970,482**	**1,314,233**
Staff Expenses	61288	89749	97004	120664	145371
Operating Expenses	108038	149479	182915	190605	243431
Non-Operating Expenses	-	-	-	-	-
Staff Bonus	18905	25719	37075	50491	72338
Total Expenses	**188,231**	**264,947**	**316,994**	**361,760**	**461,139**
Profit Before Tax	**200,484**	**322,565**	**474,085**	**608,722**	**853,094**
Loan Loss Provision	30335	91092	140409	103808	129719
Income Tax	53332	78801	101529	154378	221977
Net Profit/(Loss) After Tax	**116,817**	**152,671**	**232,147**	**350,536**	**501,399**

ANNEX - 28

STANDARD CHARTERED BANK NEPAL LIMITED

Five years Financial Summary

(Balance Sheet)

NPR in Thousand

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Cash & Bank Balance	1512304	2023162	1111116	1276241	2021019
Money at Call and Short Notice	1657909	2218599	2259691	1977271	1761151
Investments	10216199	11360328	9702553	12838555	13553233
Loan, Advances & Bill Purchased	5695823	6410242	8143207	8935417	10502637
Fixed Assets	191710	136234	71412	101302	125590
Other Assets	1637022	1493492	605596	638564	633055
Total Assets	**20,910,970**	**23,642,059**	**21,893,578**	**25,767,352**	**28,596,689**
Share Capital	339548	374640	374640	374640	413254
Reserve & Surplus	1029357	1121098	1207775	1379498	1703098
Loans & Borrowings	79163	78282	55926	-	400000
Deposit Liabilities	18755634	21161441	19335094	23061032	24647020
Bills Payable	54841	59024	56297	55750	36168
Proposed & Unpaid Dividend	-	-	-	499979	341744
Income Tax Liabilities	-	-	-	-	5598
Other Liabilities	652423	847571	863843	396450	1049804
Total Liabilities & Equity	**20,910,970**	**23,642,059**	**21,893,578**	**25,767,352**	**28,596,689**

ANNEX - 29

STANDARD CHARTERED BANK NEPAL LIMITED

Five years Financial Summary

(Profit & Loss Account)

NPR in Thousand

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Loan & Advances	563506	558006	581664	596622	1411981
Others	437854	484170	477014	592981	-
Interest Expenses	(255154)	(275809)	(254127)	(303198)	(413055)
Net Interest Income	**746,206**	**766,367**	**804,551**	**886,405**	**998,926**
Exchange Earnings	232522	273050	266865	283472	309086
Commission Earnings	215201	198948	184830	222929	221208
Other Operating Income	50131	69835	62945	25442	28784
Other Non-Operating Income	4389	-	2957	1433	9492
Gross Income	**1,248,449**	**1,308,200**	**1,322,148**	**1,419,681**	**1,567,495**
Staff Costs	(128327)	(134685)	(148586)	(168231)	(199778)
Provision for Staff Bonus	(76084)	(85955)	(88683)	(93937)	(101609)
Premises Costs	(311013)	(23151)	(26105)	(28944)	-
Other Operating Costs	(15530)	(256543)	(230544)	(192143)	(228450)
Other Non-Operating Costs	-	(10756)	-	(2411)	(4915)
Total Costs	**(530,954)**	**(511,090)**	**(493,918)**	**(485,666)**	**(534,752)**
Profit Before Tax	717495	797110	828230	934015	1032743
Income Tax	(208222)	(235793)	(258944)	(280619)	(324427)
Provision For Non-Banking Assets	(2340)	-	-	-	-
Book write off Bad Loan	-	(23517)	-	53090	20159
Provision for Loan Loss	-	-	(30082)	(47730)	(36808)
Net Profit (Loss) After Tax	**506,933**	**537,800**	**539,204**	**658,756**	**691,668**