# Major Research Project on

# "SIGNIFICANCE OF NON INTEREST INCOME ON FINANCIAL PERFORMANCE OF JOINT VENTURE BANKS IN NEPAL"

**Submitted By**

**Rajan Kumar Jaysawal**
**2K21/DMBA/01**

**Under the Guidance of**

**Mr. Mohit Beniwal**
**Assistant Professor**
**DTU, Delhi**



# DELHI SCHOOL OF MANAGEMENT

## Delhi Technological University

**Bawana Road Delhi 110042**

# CERTIFICATE

This is to certify that Mr. Rajan Kumar Jaysawal bearing USN 2K21/DMBA/01 have completed the project titled "**Significance of Non Interest Income on Financial Performance of Joint Venture Banks in Nepal"** under the guidance of Mr. Mohit Beniwal, Assistant Professor, DTU, Delhi as a part of Master of Business Administration (MBA) curriculum of Delhi School of Management, New Delhi. This is an original piece of work and has not been submitted elsewhere.

HEAD OF DEPARTMENT                                    MENTOR

(DR. ARCHANA SINGH)                        (MR. MOHIT BENIWAL)

Delhi School of Management                   Delhi School of Management

Delhi Technological University               Delhi Technological University

# DECLARATION

I hereby declare that the Project report entitled "**Significance of Non Interest Income on Financial Performance of Joint Venture Banks in Nepal**" carried out by me and submitted in the partial fulfillment for the award of the degree of Master of Business Administration of the Delhi School of Management, Delhi Technological University during the year 2022-2023. The matter embodied in this report has not been submitted to any other university or institute for the award of any other degree or diploma.

Rajan Kumar Jaysawal
(2K21/DMBA/01)

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The satisfaction that I have completed my project successfully gives me immense pleasure and happiness. This project would have incomplete without mentioning the names of the people who have rightly guided. I consider it my privilege to express my gratitude and to all who have helped me in the success of the project.

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**Rajan Kumar Jaysawal**

# EXECUTIVE SUMMARY

All other income a bank receives from its on- and off-balance sheet operations is referred to as non-interest income. This category, which is significant, includes the income from fiduciary activities like service fees on deposit accounts, other gains and fees from trading assets and liabilities, other non-interest income, and income from one-time transactions like sales of real estate owned loans, properties, and fixed assets.

The banks have different financial performance in different scenarios that obtained from the analysis of financial and statistical indicators of all the sample institutions. The study shows that both the financial performance indicators net profit and NII are satisfactory and is growing over the years. The study also shows that there is a significant portion of NII in the total profit of the banks and banks are continually increasing their position of NII over the years. This shows that the overall position of their exposure to risk has been decreased and this has also contributed for the overall increment in the net profit. The important note of this project is to utilize the concept of the structure of banks profit.

The major contributing sources for a bank's NII and their proportion has been closely analyzed and diagnosed. Additionally, it draws the attention of the bank examiners, who pay close attention to both the fee service incomes and credit when doing so. The range of services provided by the bank and their goodwill also plays a vital role for the NII. Banks which are in the market for relatively longer period of time are found to be higher non-interest earners in the country. The findings appear to be in line with those of DeYoung and Rice et al. (2003), who found that relationship banking tends to produce NII, large banks tend to generate relatively more of it, and some technological advancements are linked to higher noninterest income at banks while others are linked to lower noninterest income at banks. Regarding the latter, our findings imply that across the period, marginal gains in noninterest income have been correlated with greater, more variable profits.

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| | |
|---|---|
| NII | Net Interest Income |
| ROA | Return on Assets |
| ROI | Return on Investment |
| ABBS | Anywhere Branch Banking System |
| ATM | Automated Teller Machine |
| CV | Coefficient of Variation |
| EBL | Everest Bank Limited |
| EPS | Earnings per Share |
| HBL | Himalayan Bank Limited |
| ICICI | Industrial Credit and Investment Corporation of India |
| NABIL | Nepal Arab Bank Limited |
| NBBL | Nepal Bangladesh Bank |
| NII | Non-Interest Income |
| NMB | NMB Bank Limited |
| NPA | Non-Performing Assets |
| NRB | Nepal Rastra Bank |
| NSBI | Nepal State Bank of India |
| ROA | Return on Assets |
| SDEV | Standard Deviation |
| SCBNL | Standard Chartered Bank Nepal Limited |
| SCB | Standard Chartered Bank |

# CHAPTER I
# INTRODUCTION

## 1.1 Background of the Study

Non-interest income is all other income that a bank receives from its on- and off-balance sheet operations. A bank may receive income in addition to interest through service fees, penalty fees, and, to a much lesser extent, from the sales of assets and real estate. A benefit of Non-Interest Income (NII) over interest income is that it is frequently unaffected by legal or regulatory limitations and is not influenced by changes in the economy or financial markets. Fees are often how banks and creditors make money.

Joint venture describe as a type of business partnership where two or more parties come together and combine their resources in order to achieve a particular objective, which could be starting a new project or engaging in any other business activity. In this kind of arrangement, all parties involved are accountable for the profits, losses, and expenses associated with the venture. In Europe, the legal definition of a joint venture is not well-defined and is better explained under company law regulations. In Germany, the concept of a joint venture is more accurately described as a "combination of companies".

Accenture's research indicates that between 2004 and 2012, there were 158 joint ventures established globally within the banking industry. The data shows that there is a growing trend in the involvement of both public utilities and private entities in these joint ventures. In Nepal, joint ventures have been successful, and this is attributed to the public's increased trust in these institutions and the strong financial backing provided by partnering organizations.

## 1.2 Profile of Joint Venture  Banks

In total there are seven joint venture banks are in operation in Nepal. Short introductory details of those banks are as below:

### 1.2.1 Everest Bank Limited (EBL)

The one of the largest public sector bank in India and Everest Bank Ltd. have a joint venture. The bank opened for business in 1994. It created a nationwide network of 61 branches. The public sector is provided with numerous advantages by Everest Bank. The bank operates the Any Where Branch Banking System (ABBS), 365-day banking services, expanded banking facilities, and ATM facilities in order to offer more services, and it has been quickly and easily disbursing need-based loans.

### 1.2.2 Himalayan Bank Ltd (HBL)

In 1992, Himalayan Bank Ltd. was established as a joint venture bank with Pakistan's Habib Bank under the provisions of the Company Act of 1994. It is noteworthy for being the first joint venture bank in Nepal run by a chief executive from the country. The bank started operating in February 1993 and was the first Nepalese commercial bank with a majority private sector ownership. Himalayan Bank offers industrial and merchant banking services in addition to commercial banking services.

### 1.2.3 Nepal SBI Bank Limited

State Bank of India (SBI), Agricultural Development Bank of Nepal and Employees Provident Fund are three institutional sponsors of Nepal SBI Bank Ltd. (NSBL), a joint venture between the financial sectors of India and Nepal. The bank began operations with a single full-service office in Durbar Marg, Kathmandu, with 18 staff after receiving a licence from Nepal Rastra Bank on 6 July 1993. Currently, the bank employs 538 Nepalese staff members and operates 56 branches, 3 regional offices, 6 extension counters and a corporate office.

### 1.2.4 Nabil Bank Limited

The first joint venture of Nepal, Nabil Bank Ltd. (NABIL), was established in 1984 and commenced operations on July 7, 1984. Nabil was established with the goal of offering various society modern financial services of the higher grade through its 51 locations of representation nationwide and more than 170 correspondent banks around the world, it offers a variety of commercial banking services. Before, it was known as Nepal Arab Bank Limited. Compared to other private commercial banks in Nepal, the bank employs the most people.

### 1.2.5 Nepal Bangladesh Bank Ltd

As a joint venture with Bangladesh's IFIC Bank Ltd and Bank Asia Ltd, Nepal Bangladesh Bank Ltd was established in June 1994. The bank had a paid-up capital of 60 million rupees and an authorised capital of 240 million rupees. It has 19 branches across the country and aims to provide excellent customer service. Nepal Bangladesh Bank offers extensive services to valued customers and has a network of 16 ATMs and holiday banking for customer convenience.

### 1.2.6 NMB Bank Limited

The Reserve Bank of Zimbabwe, the nation's national regulator and central bank, has granted NMB Bank Limited, formerly known as the National Merchant Bank of Zimbabwe Limited, a licence to operate as a commercial bank. The bank started providing commercial banking services in July 2000 after receiving a licence for commercial banking in December 1999.

### 1.2.7 Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Ltd is a financial institution in Nepal that offers banking and financial services. Founded on January 30, 1987, it is a fully owned subsidiary of Standard Chartered, U.K. Standard Chartered, which holds 75% of the company's shares, controls the majority of the bank; Nepalese citizens own the other 25%. The bank, which employs over 450 locals, operates 23 ATMs across the nation. A broad range of banking products and services are provided by Standard Chartered Bank Nepal to a wide range of consumers. The bank has a rare opportunity to offer Nepali customers genuine international banking services thanks to the Standard Chartered Group's extensive global network.

### 1.3 Focus of the Study

This study's primary objective is to determine how Nepal's joint venture banks' financial performance is impacted by NII. Based on a company's financial statements and accounting data, financial analysis is used to pinpoint essential operating and financial aspects. Financial ratio analysis, a widely used tool in financial analysis, is used to assess a company's management's effectiveness and performance as shown by its financial records and reports.

The objective of this study is to determine the joint venture banks' revenue sources in order to assess their profitability, assess the contribution of different sectors to their income, and evaluate the stability of such income sources.

### 1.4 Statement of the Problem

The need to analyze substitute income with minimal risk has increased due to the growing susceptibility of banks to default risks. Analyzing the contribution of NII to overall bank profitability can help determine the trade-off between return and risk. To address these issues, two main questions need to be answered:

1. What is the proportion of NII to total profitability of the bank and what is the risk-return trade-off?
2. Are joint venture banks financially stable and sound? Therefore, an analysis of the current balance sheets of joint venture banks in Nepal is necessary. This analysis can serve as a valuable lesson for both new and existing joint venture banks.

### 1.5 Objectives of the Study

The primary goal of this study is to examine the current condition of NII and its effect on the financial performance of joint venture banks. The specific objectives are:

1. To research how non-interest incomes affect Nepali joint venture banks' financial results.
2. To determine the non-interest and interest income positions of joint venture banks.

3. To examine the relationship between the various income sources and the financial joint venture bank's financial performance.

## 1.6 Significance of the Study

Banks and financial institutions play a critical role in the economic development of a country. However, their failure could have catastrophic consequences for the entire economy. Since banks use people's money to operate, it is important to minimize risk as much as possible. The increasing default rates and fluctuations in interest rates have made banks more susceptible to the risk of bankruptcy. Therefore, it is crucial to assess the financial stability and vulnerability of banks. This study aims to help banks identify alternative sources of income and understand their impact on overall profitability and risk management.

This study aims to throw light on crucial financial aspects that the bank's shareholders are very interested in, such as the debt equity ratio, return on shareholder equity, and earnings per share. By comparing these factors among joint venture banks, shareholders, creditors, and other stakeholders can gain an understanding of the bank's financial stability and capital management in comparison to other banks, which can inform investment decisions. Additionally, this study can indirectly inform banks of their effectiveness in providing services and collecting charges from their customers. It is important for banks to understand their position in managing risk factors to satisfy their shareholders and ensure the bank's survival in the long run.

This study is expected to contribute to the academic literature by providing additional evidence on the factors affecting the performance of financial institutions. It is also believed to be useful in documenting the performance of banks that use a certain level of income diversification compared to those that do not. Future researchers interested in income diversification and its impact on firm performance could use this study as a starting point for their own research. Additionally, the results of this study could inform not only the decisions of the banks themselves to remain competitive but also regulators on the appropriate level of income diversification.

Moreover, the findings of this study are expected to be helpful to the government in understanding the concerns of joint venture banks and responding appropriately. The results provide insight into the financial performance and vulnerability of these banks to risk, which can be useful for policymakers in shaping the economy of the country.

## 1.7 Limitation of the Study

A research project is not simple to complete and calls for extensive investigation into relevant problems in order to address them and look into potential solutions. To make the process of writing this report easier, certain restrictions and presumptions have been made. Because to the time constraints, this study's coverage of joint 4-venture banks cannot be complete. The following are this study's main limitations:

1. Only 7 joint venture bank is considered as the part of study out of 28 commercial banks due to time constraints.
2. This study only covers the financial aspects.
3. The research is based upon the available data from the bank.
4. The data used in this study are in round figure to avoid the errors which gives an approximate estimate.
5. Merger and Acquisition of commercial banks in Nepal

# CHAPTER II
# LITERATURE REVIEW

The major goal of reading these articles and journals is to have a sense of the research projects that have already been done in the topic of study that has been chosen, as well as what needs to be done. This serves as a foundation for the creation of thorough theoretical frameworks and testable hypotheses. We've evaluated some insightful material on NII.

Theories make contradictory predictions regarding how more activity diversity will affect financial intermediaries' performance. Diversification and increasing returns to scale are related, according to modern theories of financial intermediation. During the loan-making process, banks gather client data that can help with the effective delivery of other financial services, like the underwriting of securities. Similar to underwriting for securities and insurance, mutual fund services, brokerage, and other operations might result in information that helps with loan decisions. As a result, banks that participate in a range of operations may benefit from economies of scale that improve performance. A full grasp and insight into earlier research works that are relevant to the current topic can be developed by a critical evaluation of the literature. Without a comprehensive understanding of the subject, the study might not be carried out within its sphere of influence (Josh et al., 2002).

## 2.1 Conceptual Framework:
## 2.1.1 Concept of Bank

An organisation that deals with money and credit is a bank. It indicates that the bank accepts deposits from the general people and then lends money to support the growth of trade and commerce. In the nation's economic development, banks are crucial. The banks are intertwined with all business and industrial activity. The banking industry used to be limited to lending money and accepting deposits, but today bankers do a wide range of tasks to help their clients. In other words, the bank offers its own credit to consumers while also purchasing credit from them ( Rawal et al., 2010).

In its broadest definition, banking includes money exchange, creditworthiness assurance, money lending or loan facilitation, and money storage and transport. Commercial banks, savings banks, trust firms, financial institutions, merchant banks, and other institutions involved in investment banking are among the organisations that offer these services (Bhandari et al., 2005).

## 2.1.2 Concept of Commercial Bank

Commercial banks are intended to accept deposits and extend credit to businesses, as their name suggests. Their activities are mostly commercial in nature, and they deal with short-term funds, but recent changes have occurred as a result of them also dealing with medium- and long-term funding. These days, commercial banks engage in a wide range of financial

endeavours and offer a wide range of financial services. Here are a few tasks that commercial banks perform:

- Deposits are accepted from a variety of people and organisations by commercial banks. Current, Savings, and Fixed Deposit Accounts are the three types of accounts that banks permit customers to open.
- Commercial banks offer a variety of loans to individuals, groups, and companies. The amount of the loan supplied to these individuals, groups, and companies relies on the security offered.
- Commercial banks offer guarantee and letter of credit services, which promote global trade.
- Customers can store important papers and priceless objects in lockers provided by commercial banks.
- To reduce the risk associated with carrying cash, commercial banks offer a variety of card services, including debit cards, credit cards, and ATM cards.
- Commercial banks provide their clients simple check and draught payment and withdrawal options. It also increases the availability of bank money. These funds are presented as checks, draughts, etc.

### 2.1.3 Joint Venture Bank

A joint venture is an agreement to combine resources in order to achieve a particular objective. In a joint venture, each participant is responsible for the business's profits, losses, and costs. The definition of "joint venture" in European law is hazy and would be better fit under the guidelines of corporate law. In Germany, a "combination of firms" is a preferable way to describe a joint venture. Accenture's investigation found that between 2004 and 2012, there were 158 international joint ventures in the banking sector. An increase in the utilisation of public utilities and private parties engaged in such joint ventures is a trend that has been seen. The enhanced public trust in such institutions and the capital base they have with such organisations are the key reasons joint ventures in Nepal are observed to be running successfully.

### 2.1.4 Non Interest Incomes

Banks and creditors frequently receive NII via fees such as deposit and transaction fees, NSF costs, annual fees, cheque and deposit slip fees, etc. Institutions levy fees that result in NII to create income and ensure liquidity in the event of increased default rates. Additionally, credit card companies impose penalty costs, such as overdraft and late fees.

### 2.1.5 Operational Definition of NII
Some of the NII is explained in next page.

## 1. Net Servicing Fees

They are the earnings that come from sources like credit card debt, mortgages on real estate, and other financial assets. They receive the majority of this income and are frequently made mandatory for all types of institution consumers.

## 2. Venture Capital Revenue

This line item comprises gains and losses on venture capital investments, interest, dividends, and market value adjustments (loans and securities). The proportionate share of income or loss from unconsolidated subsidiaries and affiliated entities that belongs to the bank holding company is also included.

## 2.2 Theoretical Framework

The conceptual framework (Fig. 2.1) used in this study was created in accordance with the ideas presented in the 2003 publication by DeYoung and Rice titled "NII and Financial Performance at U.S. Commercial Banks."



*Figure 2.1 Conceptual Framework*
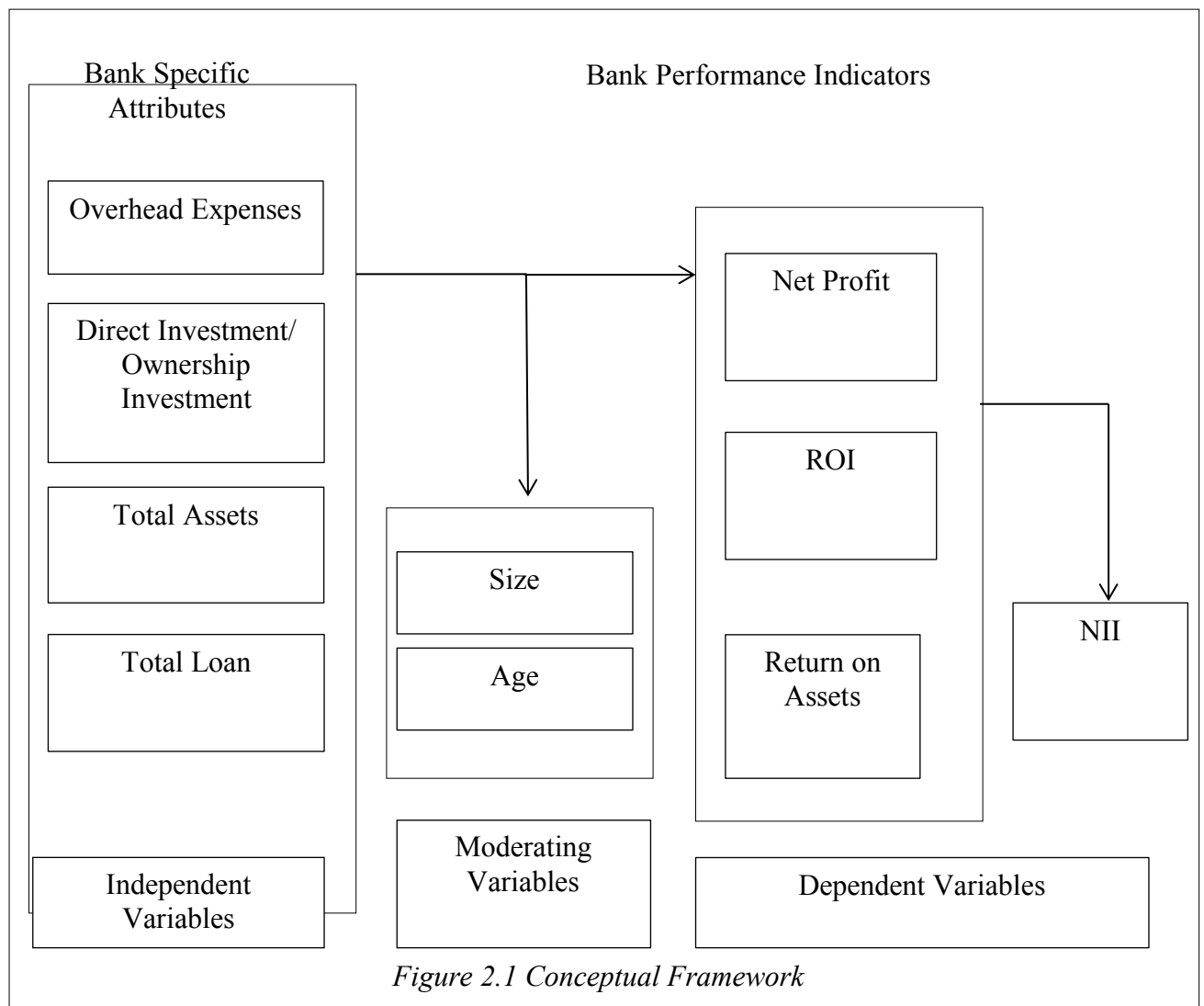
## 2.3 Specification of Variables

The following variables were used in the study:

### 2.3.1 Independent Variable

**Total Assets (TA):**
The total assets of a bank are its material and financial "property," or what it is in possession of.

Although tangible assets like furniture, land, buildings, and equipment are frequently owned by banks, the majority of a bank's assets are financial in origin and represent legal claims on the wealth or assets of other individuals. The two most significant asset kinds that safeguard deposits are loans (which produce interest revenue) and reserves.

**Total Debt (TD):**
Long-term debt and short-term debt together make up total debt. Short-term commitments are debts having a one-year repayment period. Things like credit lines and short-term bonds fall under this category of debt. Every obligation that must be repaid in more than a year is typically considered to be long-term debt. Large senior obligations, such as mortgages and loans used to buy equipment or develop structures, often fall under this category.

**Interest Expenses (IE):**
Interest expenses are the fees a bank must pay to borrow money. This statistic represents the total amount of interest payable on all outstanding debt, including bonds, convertible debt, loans, and credit lines. In essence, it is calculated by multiplying the principle balance of the debt by the interest rate.

### 2.3.2 Dependent Variable
**Return on Direct Investment or Ownership Investment (ROI):**
The total return on the financial institution's direct investments is measured by direct investment. By revealing how much profit a bank makes with the money from the direct investments it has made over time, return on direct investment assesses a bank's profitability.

ROI  = Net Income/ Total Direct Investment Amount

**Net Profit (NI):**
It is challenging to talk about the normal net earnings of banks. In layman's terms, net profit is the difference between a firm's total income and expenses, which demonstrates how much a company has made during a specific time period. It is also known as net earnings or net income.

Net Profit = Total Revenue – Total Expenses

**NII (NII):**
The bank's revenue from service and penalty fees, as well as to a much lesser amount from asset sales and real estate leasing, makes up its NII. Unlike interest income, which is frequently governed by laws and regulations, The economic and financial market cycles have large impact on this income.

### 2.3.3 Moderating Variable

Size of the bank (S): It refers to both the physical space and scale of the company it has occupied. It primarily addresses the market's size and the company's exposure there. In addition, it discusses the company's workforce size and market share.

Age (A): The age of a bank relates to the period of time that it was founded and the proper progression of its operations over time. Age also displays the total amount of net profit made over the years. The popularity of the bank among its clients increases with age.

### 2.4 Review of Related Studies

This section focuses on reviewing master's dissertations as well as international and nepali publications. Through the internet, one can access international journals. Nepalese publications and Masters' projects can also be accessed via the main library's T.U. and Shankar Dev Campus, Nepal Commerce Campus, Nepal Rastra Bank, and New Business Age.

### 2.4.1 Review of Articles /Journals

By carefully examining intermediation factors, Thaguna and Poudel et al. (2013) attempted to create a performance model for evaluating the relative effectiveness and possible improvement capabilities of Nepali banks. In addition, there were no apparent variations in the efficiency levels of banks according to their asset sizes, according to this study's findings on the subject.

The current research aims to assess and evaluate the efficiency levels of Nepalese banks from 2017 to 2021. This study is an application of research. As a result, the deductive method is used in this work to achieve its goals. Additionally, this study uses regression analysis to explain the causal relationship between many variables, including equity size and ownership status, and banking efficiency. It has been found that a bank's efficiency is unaffected by the size of its assets or the ownership structure.

This demonstrates that having foreign banks does not always imply greater efficiency; further investigation is needed to determine whether a change in the policy regarding foreign participation in the banking industry would produce different outcomes. Additionally, the lack of a correlation between asset size and efficiency shows that there is room in the

banking industry for both larger and smaller investments, increasing competitiveness that can be attained by opening up the banking industry.

It was found the Nepali banking industry mostly concentrates on standard banking products including loans, deposits, letter of credits, guarantees, remittances, etc. The trade finance industries' funded-risk participation and private labelling, the global market and treasury domains' options and other derivative products, and remittance securitization in Nepal's most lucrative remittance sector are examples of value-added items. If our South Asian rivals like Bangladesh, Pakistan, Sri Lanka, and India are utilising them actively, there is no reason we cannot imitate them in Nepal.

For the real-time realisation of checks and draughts, Nepal lacks an electronic clearance mechanism. Despite the fact that not many banks have provided internet banking services, there is still a long way to go. According to the report's conclusion, the high percentage of non-performing loans that our banking sector is currently dealing with is the primary cause of the crisis.

A bank needs to go above and beyond what its clients require. It must gather all the necessary data that the borrower needs in order to set up a business and be adamant about lending money rather than using the borrower's own funds as a security. The documentation is only a court order to take legal action against a borrowing unit when he is unable to pay the loan from the source investigated. But when everything is gone, what becomes clear. The interest of the bank is not satisfied by imprisonment and punishment. Therefore, he believes that when making loan decisions, the bank should constantly remember the Know Your Customers (KYC) principle.

A borrower's security may be sufficient to cover the exposure. However, the borrower from another business source might not be able to make enough money to pay off the obligation. The authority to sell the property at auction in order to pay off the loan, this invariably results in less money being made than the assets are worth. This will hurt both the borrower and the bank and fulfil neither party's interests.

Mndeme et al. (2015) looked into how NII affected the performance of banks in the Tanzanian banking sector from 2002 to 2012. Out of 49 banks that were open from 2002 to 2012, 25 were chosen for the study's sample, yielding a total of 275 observations. More than 90% of the market share of Tanzania's whole banking sector is included in the sample.

In this study, the effect of NII on Tanzanian banks' performance was studied. Risk-adjusted return on assets and risk-adjusted return on equity were employed as proxies to assess performance. The analysis took into account that there are several bank types operating in the market, including small, large, domestic, international, public, and private banks. Similar findings provide credence to the idea that diversification improves a bank's profitability more than concentrating on sources of NII. Small banks, domestic banks, and public banks

are, nonetheless, significantly impacted, particularly in terms of risk-adjusted return on equity.

Louzis et al. (2015) looked at the variables that determine interest and non-interest revenue in the Greek banking system to understand the critical aspects that affect the overall profitability of Greek banks. We discover that the banks' operating expenses, market dominance, and strategic choice to increase NII all have a significant impact on net interest income.

The data set is an unbalanced panel made up of 19 Greek banks, and it covers the years 2004 through 2011 on a yearly basis. With the exception of the NPL ratio, which comes from the Bank of Greece's supervisory database, the bulk of the variables are taken from bank balance sheets.

The more effective banks with a strong deposit base have greater leverage to increase their NII, which was proven to be more consistent than net interest income. Additionally, it is discovered that interest- and non-interest revenue are substitutes rather than complements, with efficient banks using NII as an indirect rivalry weapon rather than directly competing with their rivals through prices for loans and deposits.

Damankah et al. (2014) performed the study with the goal of identifying the established characteristics that are common to banks with higher engagement in non-interest earning activities than banks with less engagement in such activities. In comparison to their larger counterparts, smaller banks that participate in non-interest earning activities are identified and discussed in the article.

The Ghana Association of Bankers' comparative analysis of the balance sheet and income statement of Ghanaian banks from 2002 to 2011 provided the panel data that was utilised to create the estimate. Bank size, interest revenue, client deposits, risk exposure, bank liquidity, capital adequacy, origin, inflation, and prime rate are the explanatory factors.

The study examined and established some factors common to banks with a greater engagement in non-interest earning activities, and it is concluded that banking operations are now a topic of interest to the management of banking companies, regulators, customers, and other stakeholders. When bank size was taken into account, it was discovered that risk exposure from interest revenue and liquidity were the primary motivators for banks in Ghana to engage in non-interest earning operations.

The primary goal of this study by Karakaya et al. (2012) is to investigate factors that influence bank profitability and the connection between non-interest revenue and bank performance for a developing market in Turkey, an Islamic nation. This study examines the effects of capital sufficiency, bank size, credit provision rate, and general expenses on the bank and performance metrics.

The study used a six-year data set between 2005 and 2010 that included 30 banks, 180 observations were made, and the data were freely accessible due to the existence of non-interest banks in Turkey. An increase in NII will boost the banks' total profitability.

The investigation came to the conclusion that factors including capital adequacy, bank size, credit rate, credit provision rate, and general expenses had an impact on the financial performance of banks. The outcome demonstrates that adequate capital, size, and credits improve a bank's performance while decreasing general expenses. It was also noted that ono-interest income boosts equity capital adequacy.

Brunnermeier et al. (2012) conducted research on the idea that banks with larger NII contribute more to systemic risk than traditional banking does. Trading income and investment banking and venture capital revenue, which together make up the total NII, were found to be about equally correlated with systemic risk. Additionally, it is discovered that banks that had larger trading income a year prior to the recession had poorer returns during that time.

The sample spans the years 1986 to 2008 and includes 538 different banks in an unbalanced panel. These four banks have no NII at all. This implies that operations (such deposit taking and lending) not often associated with banks are linked to a higher systemic risk.

According to research, banks with larger asset sizes, more leverage, and higher market-to-book ratios contributed more to systemic risk.

Despite the ongoing difficulties that banks, particularly those in the west, are facing, an intriguing IMF assessment from June 2011 asserts that the commercial banking system in Ghana is still profitable and stable despite the ongoing financial crisis. Regression analysis has been used in this situation to estimate and research the factors that have affected the profitability of commercial banks during the years of the global financial crisis.

Williams et al. (2012) examined the relationship between bank income mix and bank risk in Australia using data from Australian bank private regulatory returns. It is found that banks are less dangerous when their revenue is more concentrated and their NII is lower, which is consistent with previous research from throughout the world.

This study relies heavily on the APRA, which receives confidential quarterly regulatory data from all Australian banks. This data is more frequently available than the data from yearly reports that was previously used for analysis. This information covers the period from the second quarter of 2002 to the fourth quarter of 2008 and covers the period leading up to, including, and immediately following the 2008 financial crisis.

NII is discovered to increase risk, but it is suggested that when bank specialisation effects are taken into account, some sorts of non-interest revenue may actually reduce risk. It is concluded that care must be given to represent differences in income composition when

choosing the suitable peers for benchmarking. It has been investigated the effects of revenue diversification on the performance of Islamic banks in United Arab Emirates, Bahrain, Malaysia, Saudi Arabia, Kuwait, and Qatar, where they coexist with traditional banks in a dual banking system. The major goal was to investigate whether a bank's increased reliance on non-financing income had an impact on the quality of its earnings and, if so, how this would differ between Islamic and conventional banks. Non-financing income includes, but is not limited to, commission and fee revenue, trading income, and other non-financing income. Islamic banking forbids the payment and receiving of interest, hence conventional banks refer to this as non-financing income rather than non-interest revenue.

From 1997 to 2009, accounting information was taken from 42 Islamic banks and 68 conventional banks. By itself, increased income diversity raises income volatility, which has a detrimental effect on a bank's risk-adjusted performance. This analysis shows that Islamic banks appear to be less susceptible to profit fluctuations given their less varied income sources.

The study looked at the variables influencing non-interest income in the commercial banks of Uganda. The study's specific goals were to examine the impact of deregulation and technological advancements, the financial performance of commercial banks, the significance of market factors like globalisation, and bank sector penetration, as well as the impact of these factors on non-interest income in commercial banks in Uganda. The study used secondary data from returns sent to the Bank of Uganda by the licenced commercial banks operating during the financial years 2000 and 2007. It was an empirical time series analysis. Risk-adjusted performance, productivity, sector concentration, globalisation, deregulation, and technology improvements were all taken into account while measuring the variables.

Globalisation and financial success have a substantial impact on overall Net NII. Further findings indicated that neither sector concentration nor technical advancements had a substantial impact on NII. The cost of increasing total NII is significant even though the increase of NII in Uganda's banking sector was heading upwards, according to the net non-interest margin analysis.

According to a study by Windowati et al. (2021) on the elements shaped by structural forces of change, traditional banking activities have recently declined in emerging nations, forcing banks to diversify into new business models. This study investigates whether the observed transition away from interest-based behaviours enhances financial performance.

We find that the cost of increased exposure to NII, notably the volatility of trading revenue, more than offsets the benefits of diversification using a sample of 714 banks from 14 East Asian and Latin American nations during the shifting structure of the post-crisis period. However, it has been discovered that the effect of this diversification performance is not linear with risk and is noticeably not consistent among banks.

In the European banking industry, Ommeren et al. (2011) investigated factors that affect banks' profitability. According to the descriptive analysis, the banking industry is distinct from other business sectors because it is so extensively regulated and because commercial, mutual, co-operative, and government-owned banks all coexist there. As a result, the empirical portion of this study specifically considers ownership and regulatory issues. The investigation focuses on the European banking industry and looks at other factors that affect banks' profitability.

Along with looking at the factors that affect banks' profitability, potential effects of the financial crisis are taken into account. This experiment demonstrates that profit persistence still exists in the banking industry between 2000 and 2009 using an imbalanced panel of 354 banks. The equity-to-asset ratio is also found to be positively correlated with banks' profitability, confirming the signalling or cost of bankruptcy argument. The funding- and liquidity structure does not appear to be a significant predictor of profitability, according to the findings. Additionally, the agency theory is supported by scant evidence.

The impact of non-interest income on the risk profile and financial performance of German banks between 1995 and 2007 was explored by Busch et al. (2009). We offer empirical proof that increased fee earning activities are advantageous for all German universal banks' risk-adjusted returns on equity and total assets. Furthermore, we show that a commercial bank's considerable involvement in businesses that generate fees is linked to higher risk. We also look at how the development of banks into fee-based services has affected their interest margin in order to investigate any cross-subsidization impacts between the interest and fee sectors. We discover that when credit risk is managed, institutions with a strong focus on fee business charge savings and commercial banks smaller interest margins.

The results of this analysis reveal that banks with a higher share of fee income have a superior risk-return profile, as demonstrated by higher risk-adjusted returns on equity (ROE) and total assets (ROA). Additionally, we discover that commercial banks' robust fee business activity is linked to higher ROE/ROA volatility and, hence, greater risk. Lastly, we find that institutions with a substantial emphasis on fee business charge lower risk-adjusted interest margins in the case of savings and commercial banks.

It was investigated by Baele et al. (2007) whether or not investors value diversification. The authors of this study analyse 255 European banks between 1989 and 2004 to determine the impact of noninterest revenue on risk and bank value. According to the findings, the value of banks increases as the proportion of noninterest revenue rises. The stock market expects banks' numerous revenue streams to have some positive net benefits. As banks employ more noninterest revenue, firm betas rise on the risk side, indicating that as banks diversify, they become more dependent on shocks to the overall economy. For the bulk of the sample, total risk is adversely correlated with non-interest activities. The conclusions from Europe may not apply to other economies, the authors point out, because deregulation started much earlier there.

In 1989, the Second Banking Coordination Directive was passed with the goal of promoting competition among European banks. The Directive set the stage for functional diversification by permitting banks to form conglomerates that combine commercial banking, securities, insurance, and other financial services, in addition to introducing regulatory and supervisory norms. Later, in order to harmonise the functionally diverse areas, the regulations were changed. As a result, these banks participate in significantly more nonbank operations than their American counterparts, which not only gives them superior tools and expertise with functional diversification.

By examining the role that non-interest revenue has played in the commercial banking sector of Barbados, Craigwell et al. (2006) aimed to fill a gap in the economic research on the region. This study examines the potential effects of non-interest revenue on bank financial performance in addition to discussing the empirical model, data, methodological difficulties, and estimation procedure outcomes.

Therefore, the study analyses the drivers of non-interest revenue in the Barbadian banking system and its impact on the financial performance of commercial banks before addressing trends in NII at Barbados' commercial banks. The main determinants of the pattern of non-interest revenue in Barbados' banking sector appear to be bank characteristics and ATM technology. Additionally, increases in non-interest revenue are associated with both increased bank profitability and profits volatility.

**2.4.2 Review of Project**

Various project works have been done in related topic of Nepalese commercial banks. The most appropriate resources and aids for this research are a review of various prior studies that are related to the Nepalese banking industry.

Nepal et al. (2015) entitled impact of NII on Commercial Bank's profitability in Nepal, with the following goals:

- To examine the historical significance of commercial banks;
- To demonstrate the link between NII and bank profitability;
- To pinpoint the main NII streams for commercial banks.

Paudel et al. (2011) entitled Non interest income effects on total income of commercial banks in Nepal having following objectives been studied.

- To analyze the contribution of NII in total income of commercial banks of Nepal
- To find out the position of NII and interest income of joint venture banks.
- To show the relationship between NII and profitability of commercial banks

**2.5 Research Gap**

Many research have been done thus far to determine the connection between the bank's overall results. However, only a few research have been conducted to ascertain the connection between non-interest revenue and its impact on financial performance. To ascertain the position of commercial banks' NII in Nepal, a relatively small number of research have been conducted in the interim. There haven't been any studies done yet on the nature and status of NII.

It is believed that the study's scientific findings have made a little contribution to closing the NII literature gap. Yet, this study was able to examine the make-up of NII and its risk exposure. The association with other variables is also thought to have been confirmed by this research.

# CHAPTER III
# RESEARCH METHODOLOGY

## 3.1 Research Design

The proposed research is an application of existing ideas and concepts to achieve the research's goals. In order to draw a conclusion on the impact of non-interest on the financial performance of the joint venture banks in the nation, this study methodically and impartially gathers, assesses, verifies, and synthesises prior evidence. Himalayan Bank Limited, Nepal SBI Bank Limited, Everest Bank Limited, NMB Bank Limited, NABIL Bank Limited, Standard Chartered Bank Nepal Ltd, and Nepal SBI Bank Limited are all joint venture banks that have been researched and compared. From the fiscal years 2016–17 to 2020–21, the information is gathered from secondary sources such as balance sheets and profit and loss statements (i.e. five years). With the aid of the proper statistical or financial instruments, the researcher employed analytical and descriptive study methodologies.

## 3.2 Population and Sample

The joint venture banks in the banking industry are the only ones included in the study. There are now 7 joint venture banks operating in Nepal, with their branches spread around the nation. Each and every one of the seven joint venture banks, which account for 23% of all Nepalese commercial banks, are chosen as samples from the population. The following banks were chosen to be researched for this research:

1. Nepal SBI Bank Ltd
2. Standard Chartered Bank Ltd
3. NMB Bank Ltd
4. Himalayan Bank Ltd
5. Nepal Bangladesh Bank Ltd.
6. Everest Bank Ltd
7. NABIL Bank Ltd

These banks are taken into account because they are partnerships between several other banks from throughout the world. These banks include those in Europe, South Asia, and Africa.

## 3.3 Sources of Data & Data Collection Procedure

The secondary source is used to get the information required to carry out the study. The relevant financial statements for this study, including the balance sheet, profit & loss account, etc., were obtained from the joint venture banks' published annual reports and accounts. In other words, the source of the data is secondary because all the information

required is gathered through their publications, yearly reports, economic journals, and NRB reports.

## 3.4 Instrumentation of Data

To make straightforward analysis and comparison possible, the data gathered from multiple secondary sources is refined and kept in the same unit for the instrumentation of the secondary data utilised in this study. In order to use the acquired data in SPSS for data analysis, MS Word and MS Excel are used to organise and manage the data. Using different ratios, trend analysis approaches, and correlation analysis, the data in MS Excel is presented as percentages or ratios and is subjected to examination.

## 3.5 Reliability and Validity

The information required to carry out this study primarily consists of data that has previously been refined and released by the relevant banks included in the study. The degree of precision of the data maintained by the banks in their respective yearly reports or accounts determines the data's reliability and validity used for this study. Nonetheless, cross-checking ensures the veracity and dependability of the data.

## 3.6 Data Analysis Tools & Methods

It takes a variety of financial and statistical methods to analyse the role of the joint venture banks' financial performance, and these tools allow the researcher come to a conclusion by analysing financial documents like the balance sheet, profit & loss accounts, etc.

Ratio analysis, EBIT-EPS analysis, cash flow analysis, etc., are some of the crucial financial techniques used. On the other hand, statistical tools include trend analysis, testing of hypotheses, standard deviation, coefficient of variation, and correlation and regression analysis. For the analysis, MS-Excel and SPSS 20.0 were used.

### 3.6.1 Financial Tools

By correctly establishing relationships between the items on the balance sheet and the profit and loss account, financial instruments primarily help in identifying the firm's financial strengths and weaknesses.

**Financial Ratio Analysis**

One of the most widely utilised tools for financial analysis is ratio analysis. Ratio analysis shows every organization's relative strengths and weaknesses and also reveals its operational and financial development. It summarises the financial data and renders a quantitative assessment of the financial conditions and performances. The mathematical link between two accounting statistics is known as a financial ratio (Pandey et al., 2000) We can use a

variety of ratios to conduct analysis. However, only ratios that are pertinent to the topic have been calculated.

**ROA Ratio**

The return on assets ratio, sometimes referred to as the return on total assets, measures the profitability of an organisation by comparing net income to the average total assets to ascertain the net income produced by total assets during a specific time period.

This ratio calculates the asset profitability of a company.

Formula:.

$$\text{Return on Assets Ratio} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

The product of the profit margin and the total asset turnover can also be used to represent this ratio.

**ROI Ratio**

An indicator of performance that is used to assess the performance of an investment or to compare the performance of numerous distinct assets. An investment's rate of return (ROI) is computed in relation to the cost of the investment. ROI is computed by dividing the return on an investment by the cost of the investment, and the resulting figure is then stated as a percentage or ratio.

Formula:

$$\text{Return on Investment (ROI)} = \frac{(\text{Gain from Investment- Cost in Investment})}{\text{Cost of Investment}}$$

The money made from selling the interest investment is referred to as "Gain from Investment" in the computation above. Since ROI is expressed as a percentage, it is easy to compare it to the returns on other investments. This enables comparisons between different investment types.

**3.6.2  Statistical Tools**

To determine the link between two or more variables, a statistical tool is necessary. It is a mathematical method for simplifying the analysis and evaluation of organisational performance. Comparing an organization's performance, strengths, and weaknesses is beneficial. The following statistical tools are utilised in this study to exhibit the data, demonstrate the relationship and deviation or differences of organisational variable.

## Arithmetic Mean

The sum of all observations divided by the total number of observations is what is referred to as the "Mean" in mathematics (Bajaracharya, 1996:177). That is the most accurate value for the entire group. The mathematical average of a variable is its mean. A series' arithmetic mean is determined by:

Mean = SUM OF X/N

## Standard Deviation

The disadvantages associated with other measurements of dispersion are eliminated from the standard deviation's absolute measures of dispersion. Given that it meets the majority of the requirements for a good measure of dispersion, it is regarded as the best measure of dispersion. The positive square root of the mean divided by the square of the variation from the arithmetic mean is known as the standard deviation. The ranges and magnitude of the deviation from the median or mean are shown. The absolute dispersion is measured. The variability will increase as the standard deviation does, and vice versa.

The fluctuation of the data from the centre value is measured by dispersion. In other words, it aids in the analysis of the variability of data quality. It can be:

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (X - \overline{X})^2}{N-1}}$$

## Coefficient of Variation

A precise indicator of dispersion is the standard deviation. The coefficient of standard deviation is a relative indicator of dispersion based on the standard deviation. It is not a part of the unit. As a result, by comparing two distributions' coefficients of variation, it is possible to directly compare them. Greater uniformity, consistency, etc. will result from lower C.V, whereas less uniformity, consistency, etc. will result from higher C.V. It is determined as follows:

$$\text{Coefficient of Variation (CV)} = \frac{\sigma}{\overline{X}} \times 100$$

## Correlation Coefficient (r)

The relationship between the dependant variable and independent variable is known as the correlation coefficient. It is a technique for figuring out how these two variables relate to one another. When two variables are closely associated and a change in one causes a change in the other, this relationship is referred to as having a correlation coefficient.

Correlation Coefficient Correlation

$$(r) = \frac{\sum XY}{\sqrt{\sum X^2}\sqrt{\sum Y^2}}$$

KARLIN PEARSON The range of the CV is always from -1 to +1. The correlation

coefficient's value of -1 denotes a negative correlation, whereas +1 denotes a positive correlation. For interpreting the value of r, the broad guidelines listed below are stated.

Positive perfect correlation exists between the two variables when r = 1.

A perfect negative correlation exists between the two variables when r = -1. The variables are uncorrelated when r = 0.
The association between two variables will be stronger when it is close to the value of r to +1, and weaker when it is close to the value of r to 0.

## 3.7 Econometric Model

In order to investigate the hypothesised relationship between NII, net profit, and other factors affecting the profitability of the banks, linear programming regression has been utilised as an econometric model. The data comprises a number of independent variables that affect the profitability of businesses.

Where,

1. Net Profit = Interest Income + NII
2. NII = f (total assets, total loan, age of the bank, size of the bank, investment)
3. Net Profit = f (interest income, total assets, total loan, age of the bank)

# CHAPTER IV
# DATA PRESENTATION AND ANALYSIS

In this chapter, relevant data and information from Nepal's joint venture banks are presented, analysed, and interpreted. The information and statistics gathered from the published financial statements of these sample joint venture banks are analysed and interpreted in this chapter. In order to arrive at the conclusions in this chapter, a variety of financial factors have been given in numerical form, examined, and interpreted. The main tools for this ratio study to investigate the capital structure management position of joint venture banks are standard deviation, co-efficient of correlation, hypothesis testing, regression analysis, etc.

## 4.1 Descriptive Statistics
### 4.1.1 Analysis on the Net Profit of the Joint Venture Banks

The figure below shows the amount of net profit generated by the joint venture banks in the country. The figure also shows the trend of net profit generated over the period of 5 years.

*Table 4.1: Net Profit of Joint Venture Bank*

| Year | SCBNL | NABIL | HBL | NBBL | NMB | EBL | NSBI |
|------|-------|-------|-----|------|-----|-----|------|
| 2016/17 | 15,49,986.00 | 3,70,282.00 | 21,78,234.00 | 12,00,381.00 | 14,67,347.00 | 20,06,247.00 | 15,64,688.00 |
| 2017/18 | 21,89,898.00 | 39,81,892.00 | 18,75,610.00 | 11,44,035.00 | 18,53,792.00 | 25,81,681.00 | 20,23,511.00 |
| 2018/19 | 24,34,664.00 | 42,38,853.00 | 27,63,848.00 | 15,87,960.00 | 22,57,276.00 | 30,54,122.00 | 22,92,524.00 |
| 2019/20 | 19,87,390.00 | 34,63,240.00 | 25,86,722.00 | 12,44,846.00 | 17,12,776.00 | 25,16,243.00 | 15,43,348.00 |
| 2020/21 | 13,98,835.00 | 45,27,522.00 | 29,98,623.00 | 21,85,942.00 | 27,11,703.00 | 17,70,939.00 | 9,63,479.00 |
| Mean | 19,12,155.00 | 33,16,358.00 | 24,80,607.00 | 14,72,633.00 | 15,12,459.00 | 23,85,846.40 | 16,77,510.00 |
| S.D. | 4,33,151.50 | 16,92,763.00 | 4,52,016.90 | 4,34,768.50 | 7,50,730.90 | 5,06,002.36 | 5,09,540.80 |
| C.V. | 22.65 | 51.04 | 18.22 | 29.52 | 49.64 | 21.21 | 30.37 |

Source: Annual Report of Joint Venture bank from FY 2016/17 to 2020/21
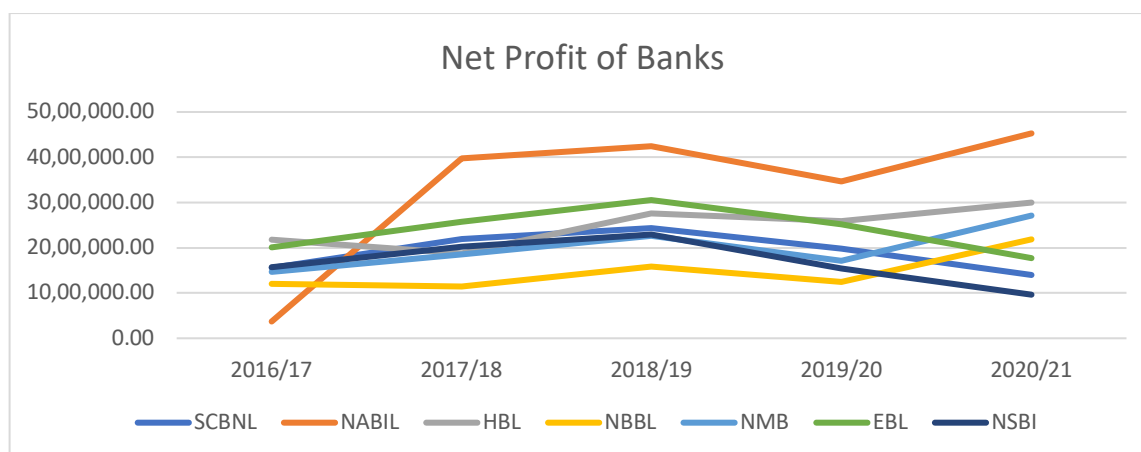
*Figure 4.1 Line Chart for Net Profit of Banks*

The above figure 4.1 & Table 4.1 explains on the profit position of the joint venture banks and their comparison with each other. The highest profit making joint venture banks among is Nabil Bank whereas the least profit making bank is Nepal Bangladesh Bank. The profit position of Nabil is most volatile because there is more deviation in the income of the bank. The most stable profit earning bank is Himalayan Bank.

**4.1.2 Analysis of Return on Assets Ratio of Joint Venture Banks**

Return on assets is a statistic used to evaluate how productively a company uses its assets. To determine it, divide the total assets by the net profit after taxes. Both current and fixed assets are included in total assets.

*Table 4.2: Returns on Assets of Banks*

| Returns on Assets of Banks | | | | | | | |
|---|---|---|---|---|---|---|---|
| Year | SCBNL | NABIL | HBL | NBBL | NMB | EBL | NSBI |
| 2016/17 | 1.84 | 2.69 | 2.19 | 2.11 | 1.82 | 1.83 | 1.57 |
| 2017/18 | 2.61 | 2.61 | 1.67 | 1.86 | 1.8 | 1.97 | 1.97 |
| 2018/19 | 2.61 | 2.11 | 2.21 | 2.08 | 1.83 | 1.94 | 1.94 |
| 2019/20 | 1.71 | 1.58 | 1.79 | 1.39 | 1.09 | 1.42 | 1.17 |
| 2020/21 | 1.22 | 1.71 | 1.68 | 1.96 | 1.32 | 0.89 | 0.7 |
| Mean | 2.00 | 2.14 | 1.91 | 1.88 | 1.57 | 1.61 | 1.47 |
| S.D. | 0.60 | 0.51 | 0.27 | 0.29 | 0.34 | 0.46 | 0.54 |
| C.V. | 30.26 | 23.63 | 14.19 | 15.50 | 21.94 | 28.49 | 36.69 |

Source: Annual Report of Joint Venture bank from FY 2016/17 to 2020/21

The return on assets of the joint venture banks in Nepal is explained in table 4.2 above. The table above demonstrates the rising trend in the return on assets for the nation's joint venture banks. Himalayan Ban has a consistent return on assets.

While analyzing the period of 5 years it is found that the bank has consistent return on assets. NABIL Bank however has highest return on assets in the year 2016/17.
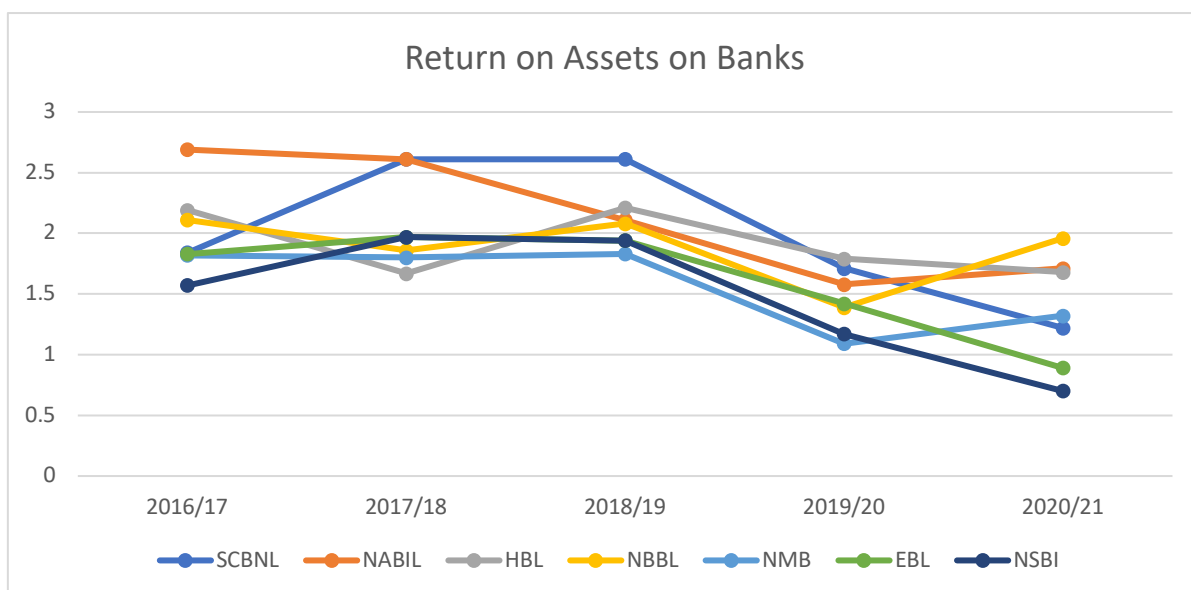


*Figure 4.2: Line Chart for Return on Assets of Joint Venture Banks*

Himalayan Bank however, has a consistent return on assets. It has lowest return on assets of 1.67 percentages in the year 2017/18 whereas has the highest rate of return of 2.19 percentage in the year 2016/17. Nepal SBI bank has the highest rate of return in the year 2017/18 with 1.97 percentages and has lowest rate of return in the year 2020/21 with 0.7 percentages.

### 4.1.3 Analysis of ROI Ratio of Joint Venture Banks

The percentage of ROI, which is computed by dividing net profit by the total investment made by banks nationwide, is shown in the table below.

*Table 4.3: ROI Ratios*

| Return on Investment (Percentage) | | | | | | |
|---|---|---|---|---|---|---|
| Banks | SCB | Nabil | Himalayan | Nepal Bangladesh | NMB | Everest | Nepal SBI |
| 2016/17 | 9.92 | 1.13 | 12.15 | 15.01 | 13.92 | 16.77 | 7.47 |
| 2017/18 | 46.98 | 21.48 | 16.09 | 24.00 | 19.62 | 16.88 | 21.83 |
| 2018/19 | 21.11 | 16.59 | 16.78 | 26.81 | 14.84 | 14.25 | 26.25 |
| 2019/20 | 15.22 | 10.30 | 14.18 | 17.77 | 11.42 | 8.73 | 12.50 |
| 2020/21 | 10.91 | 11.35 | 14.67 | 11.03 | 15.54 | 5.63 | 4.53 |
| Mean | 20.83 | 12.17 | 14.78 | 18.92 | 15.07 | 12.45 | 14.52 |
| S.D. | 15.27 | 7.62 | 1.81 | 6.46 | 2.98 | 5.05 | 9.28 |
| C.V. | 73.33 | 62.62 | 12.22 | 34.13 | 19.80 | 40.53 | 63.92 |

Source: Annual Report of Joint Venture bank from FY 2016/17 to 2020/21
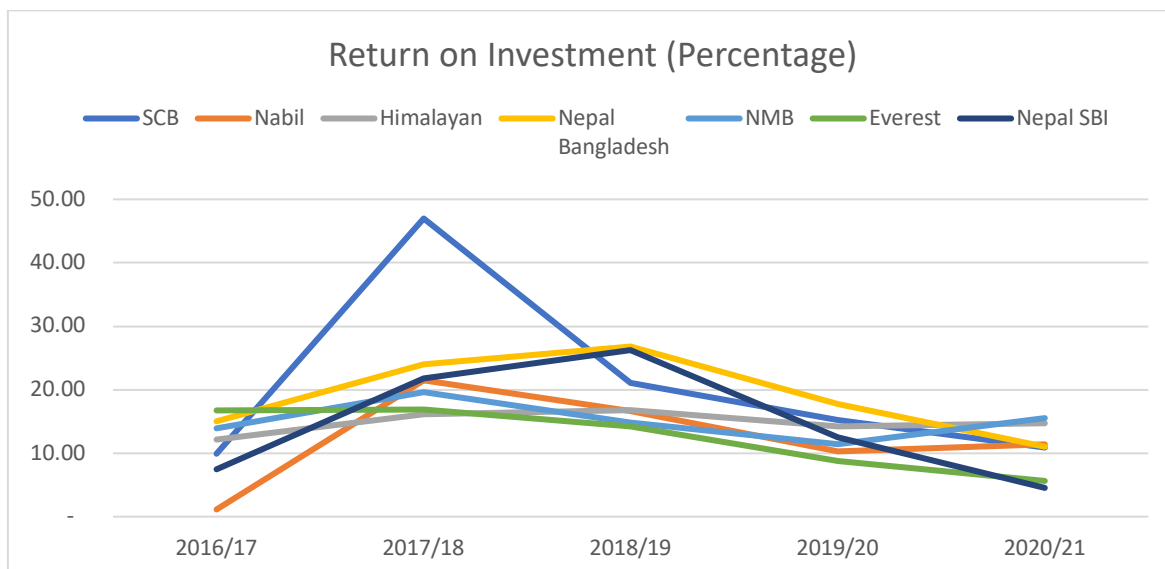
*Figure 4.3: Line Chart for ROI of Joint Venture Banks*

The above table 4.3 & Figure 4.3 show the position of ROI of all the joint venture banks available in the country. ROI of all the joint venture banks in Nepal have increased over the years but from the year 2018/19 it started decreasing. In addition to this, it also shows the trend of increasing all over the years. Particularly, the trend of Standard Chartered Bank shows that the ROI is continually declining after year 2017/18. In 2016/17 ROI of Nabil bank is at its lowest 1.13% among joint Venture bank where as Standard Chartered bank has the highest ROI of 46.98% in 2017/18.

## 4.2 Analysis of NII position of Joint Venture Banks

The table below shows the amount of NII generated by the joint venture banks over the years. The table below shows the position of NII generated by all the joint venture banks in the country.

*Table 4.4: NII of Banks*

| NII ('000') | | | | | | |
|---|---|---|---|---|---|---|
| Year | SCBNL | NABIL | HBL | NBBL | NMB | EBL | NSBI |
| 2016/17 | 10,23,023.00 | 17,16,175 | 14,41,133 | 11,53,431 | 11,10,364 | 9,32,537 | 11,62,027 |
| 2017/18 | 10,43,249.00 | 20,18,061 | 18,41,079 | 11,50,760 | 15,45,782 | 10,22,154 | 12,34,743 |
| 2018/19 | 13,86,553.00 | 22,25,773 | 16,98,843 | 13,66,860 | 19,29,071 | 12,38,591 | 13,38,450 |
| 2019/20 | 16,89,748.00 | 22,08,170 | 19,95,183 | 14,23,060 | 12,67,760 | 14,31,461 | 12,13,433 |
| 2020/21 | 15,16,808.00 | 36,96,294 | 36,09,258 | 19,22,330 | 20,23,822 | 15,30,430 | 9,30,214 |
| Mean | 13,31,876.20 | 23,72,894.60 | 21,17,099.20 | 14,03,288.20 | 15,75,359.80 | 12,31,034.60 | 11,75,773.40 |
| S.D | 293239.45 | 767683.60 | 858699.18 | 315167.19 | 399356.84 | 256221.28 | 151531.94 |
| C.V | 22.02 | 32.35 | 40.56 | 22.46 | 25.35 | 20.81 | 12.89 |

Source: Annual Report of Joint Venture bank from FY 2016/17 to 2020/21

The above table 4.4 shows the position of NII of the joint venture banks of Nepal. It shows that the NII of NABIL and Himalayan Bank are comparatively higher than that of other joint venture banks in the country. NSBI Bank has the least NII in comparison to other joint venture banks. Banks have been able to increase the volume of NII over the years whereby NII of every bank has been recorded highest from the year 2018/19. This shows that the banks have been able to increase their NII over the years.

### 4.2.1 Sources of NII of Nabil Bank Ltd.

The figure below shows the position of NII over the years. It also shows the trend of NII over the period of 5 years. The figure below shows the sources and trend of NII of Nabil Bank Ltd.

*Table 4.5: Sources of NII of Nabil*

| Sources of non-interest income of Nabil Bank Ltd (In thousands) | | | | | |
|---|---|---|---|---|---|
| Year | Commission &Discount | Other income | Exchange Income | Non-Op Income | Total |
| 2016/17 | 5,79,802.00 | 3,82,107.00 | 6,47,266.00 | 1,07,000.00 | 17,16,175.00 |
| 2017/18 | 10,57,425.00 | 5,58,796.00 | 3,90,652.00 | 11,188.00 | 20,18,061.00 |
| 2018/19 | 12,96,021.00 | 4,64,177.00 | 4,48,566.00 | 17,009.00 | 22,25,773.00 |
| 2019/20 | 13,05,227.00 | 4,30,411.00 | 4,68,086.00 | 4,446.00 | 22,08,170.00 |
| 2020/21 | 15,65,795.00 | 14,51,435.00 | 6,43,760.00 | 35,304.00 | 36,96,294.00 |

Source: Annual Report of Joint Venture bank from FY 2016/17 to 2020/21
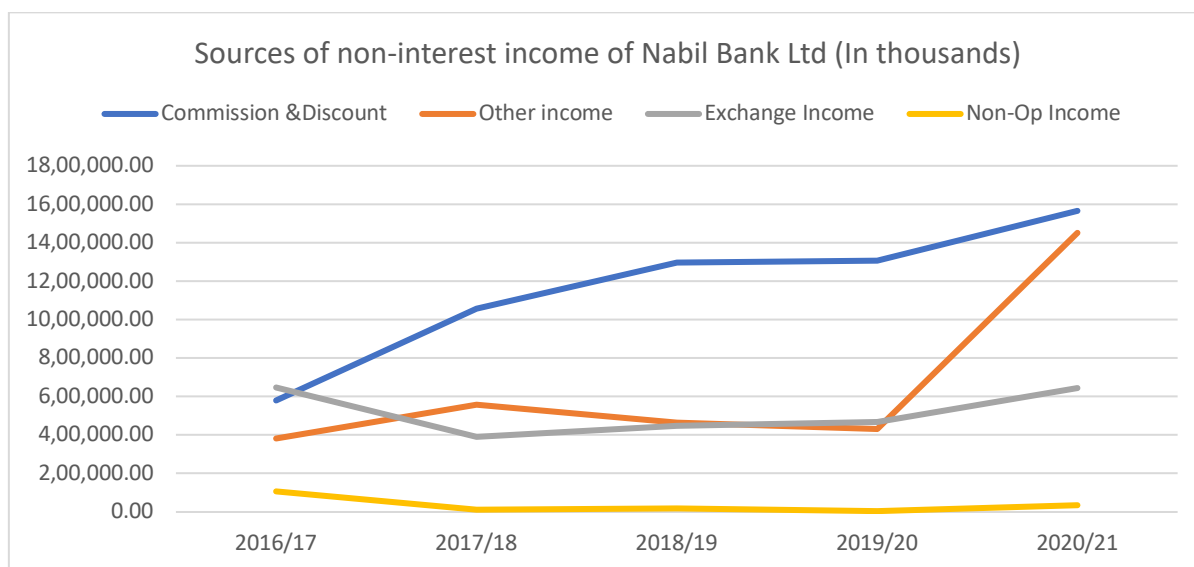


*Figure 4.4: Sources of NII of NABIL Bank*

The above figure 4.4 & table 4.5 shows the position of NII and their various sources. As per the analysis of Nabil Bank, it has been able to generate more income from the commission and discount than other sources. Commission and Discount has been another major source of income as NII for the bank. Bank generates least amount of NII as non-operating income. Bank also has been able to increase the volume of NII every year.

**4.2.2 Sources of NII of Standard Chartered Bank**

The trend on the different non-income sources of Standard Chartered Bank is shown in the figure & table below:

*Table 4.6: Sources of NII of Standard Chartered Bank*

| Sources of non-interest income of Standard Chartered Bank Ltd (In thousands) | | | | | |
|---|---|---|---|---|---|
| Year | Commission &Discount | Other income | Exchange Income | Non-Op Income | Total |
| 2016/17 | 3,62,964.00 | 38,010.00 | 6,13,936.00 | 8,113.00 | 10,23,023.00 |
| 2017/18 | 3,57,519.00 | 48,095.00 | 6,29,555.00 | 8,080.00 | 10,43,249.00 |
| 2018/19 | 6,63,755.00 | 1,24,503.00 | 5,94,265.00 | 4,030.00 | 13,86,553.00 |
| 2019/20 | 8,28,748.00 | 1,31,950.00 | 7,29,050.00 | - | 16,89,748.00 |
| 2020/21 | 7,56,777.00 | 1,79,228.00 | 5,80,803.00 | - | 15,16,808.00 |

Source: Annual Report from FY 2016/17 to 2020/21
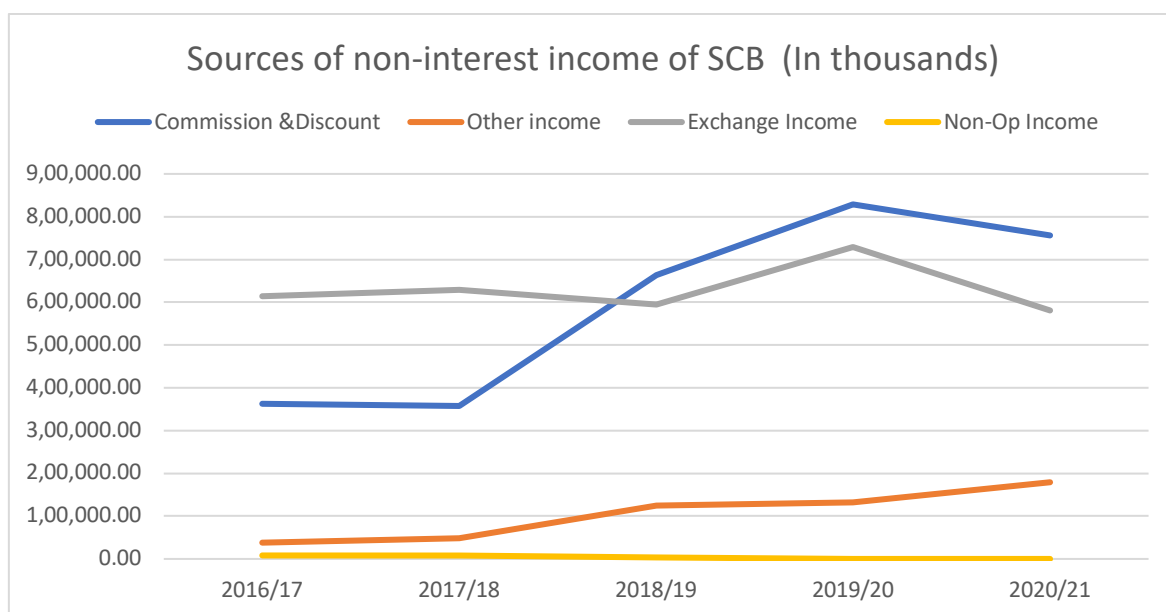


*Figure 4.5: Sources of NII of Standard Chartered Bank*

Above figure 4.5 & table 4.6 shows the amount that Standard Chartered Bank has been able to generate as income apart from their interest income. The position of their non-operating income is found to be low over years. Bank has been able to generate higher amount of income from exchange income which has been increasing over the years. However, the exchange income for the year 2018/19 has decreased in comparison to that of the year 2017/18. Its highest source of NII has been Exchange income followed by Commission and Discount.

### 4.2.3 Sources of NII of Himalayan Bank Limited

The figure below shows the trend of NII of Himalayan Bank Limited over the period of 5 years. The figure below also explains the relationship between the different sources of the NII of the bank.

*Table 4.7: Sources of NII of Himalayan Bank Limited*

| Sources of non-interest income of Himalayan Bank Ltd (In thousands) | | | | | |
|---|---|---|---|---|---|
| Year | Commission &Discount | Other income | Exchange Income | Non-Op Income | Total |
| 2016/17 | 7,32,197.00 | 86,396.00 | 6,07,849.00 | 14,691.00 | 14,41,133.00 |
| 2017/18 | 7,07,801.00 | 1,04,848.00 | 7,18,905.00 | 3,09,525.00 | 18,41,079.00 |
| 2018/19 | 7,56,241.00 | 1,75,117.00 | 7,18,158.00 | 49,327.00 | 16,98,843.00 |
| 2019/20 | 6,86,741.00 | 1,45,395.00 | 7,64,971.00 | 3,98,076.00 | 19,95,183.00 |
| 2020/21 | 6,98,181.00 | 22,27,728.00 | 6,65,009.00 | 18,340.00 | 36,09,258.00 |

Source: Annual Report from FY 2016/17 to 2020/21
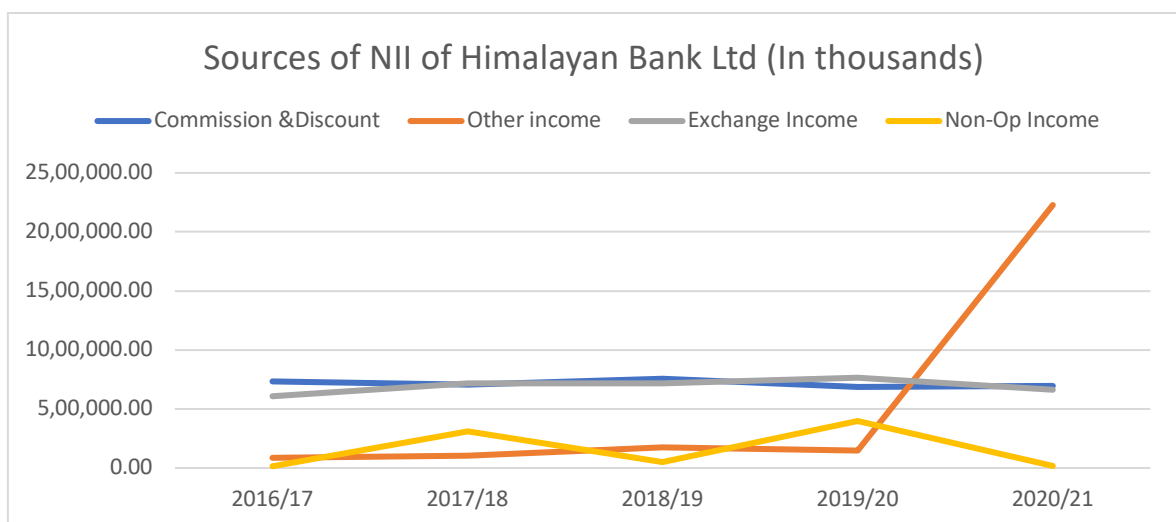


*Figure 4.6: Sources of NII of Himalayan Bank*

The above table 4.7 & figure 4.6 shows the sources of NII of Himalayan Bank over the years. Himalayan Bank Ltd is one of the highest NII earning joint venture banks among all other joint venture banks in the country. Among the sources, it has been able to generate higher income from the commission and discount than other sources of income followed by exchange income. From 2016/17 commission & discount and exchange incomes are almost same volume wise. The bank also has been able to increase its volume of NII over the years.

### 4.2.4 Source of NII of Nepal SBI Bank Ltd

The figure below shows the trend and amount of NII generated by Nepal SBI Bank Limited over the period of 5 years. This figure not only explains the position of the NII of the bank but also the trend of the different sources earned by the bank as NII.

*Table 4.8: Sources of NII of Nepal SBI Bank*

| Sources of non-interest income of Nepal SBI Bank Ltd (In thousands) | | | | | |
|---|---|---|---|---|---|
| Year | Commission &Discount | Other income | Exchange Income | Non-Op Income | Total |
| 2016/17 | 4,87,594.00 | 4,47,888.00 | 2,20,922.00 | 5,623.00 | 11,62,027.00 |
| 2017/18 | 9,12,860.00 | 8,519.00 | 2,70,480.00 | 42,884.00 | 12,34,743.00 |
| 2018/19 | 9,93,600.00 | 19,288.00 | 3,06,274.00 | 19,288.00 | 13,38,450.00 |
| 2019/20 | 8,84,594.00 | 31,552.00 | 2,69,771.00 | 27,516.00 | 12,13,433.00 |
| 2020/21 | 10,78,284.00 | 20,241.00 | 3,43,699.00 | 9,780.00 | 14,52,004.00 |

Source: Annual Report from FY 2016/17 to 2020/21
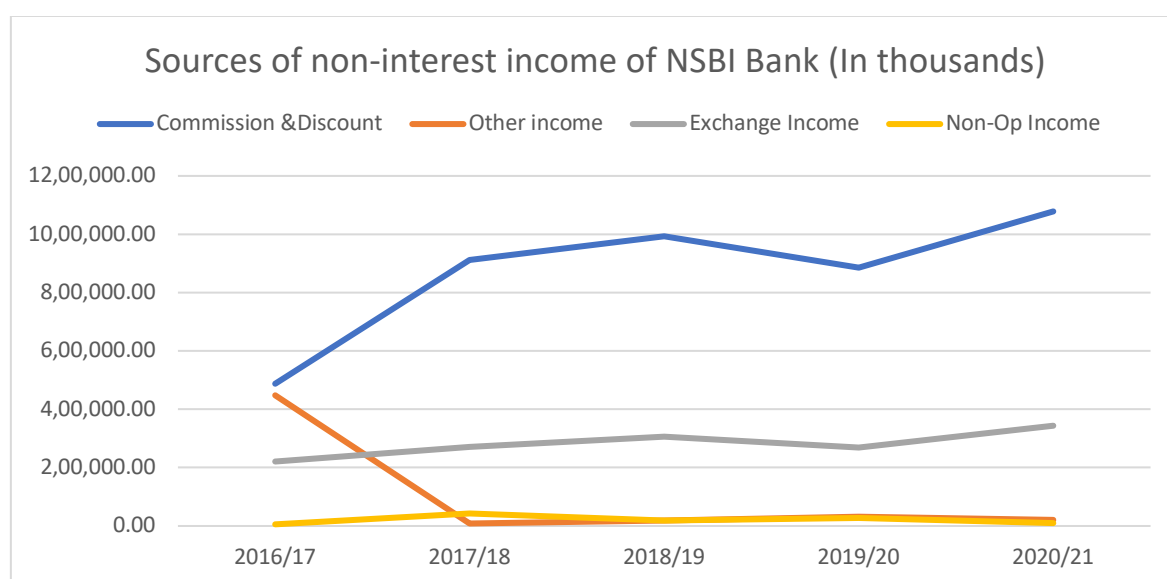


*Figure 4.7: Sources of NII of Nepal SBI Bank*

The above table 4.8 & figure 4.7 shows the various sources of NII of Nepal State Bank of India. From the above table we can find that the bank has been able to collect higher amount of NII from commission and discount and this amount has been increasing yearly. However, the amount it has generated from non-operating income has not been that satisfactory.

**4.2.5 Source of NII of Nepal Bangladesh Bank Ltd**

The figure below shows the trend of NII of Himalayan Bank Limited over the period of 5 years. The figure below also explains the relationship between the different sources of the NII of the bank

*Table 4.9: Source of NII of Nepal Bangladesh Bank Ltd*

| Sources of non-interest income of Nepal Bangladesh Bank Ltd (In thousands) | | | | | |
|---|---|---|---|---|---|
| Year | Commission &Discount | Other income | Exchange Income | Non-Op Income | Total |
| 2016/17 | 7,78,732.00 | 2,10,604.00 | 1,50,128.00 | 13,967.00 | 11,53,431.00 |
| 2017/18 | 9,35,860.00 | 40,250.00 | 1,57,890.00 | 16,760.00 | 11,50,760.00 |
| 2018/19 | 10,24,490.00 | 87,380.00 | 2,29,460.00 | 25,530.00 | 13,66,860.00 |
| 2019/20 | 11,39,050.00 | 50,710.00 | 2,29,050.00 | 4,250.00 | 14,23,060.00 |
| 2020/21 | 12,55,320.00 | 1,55,750.00 | 4,56,840.00 | 54,420.00 | 19,22,330.00 |

Source: Annual Report of Joint Venture bank from FY 2016/17 to 2020/21
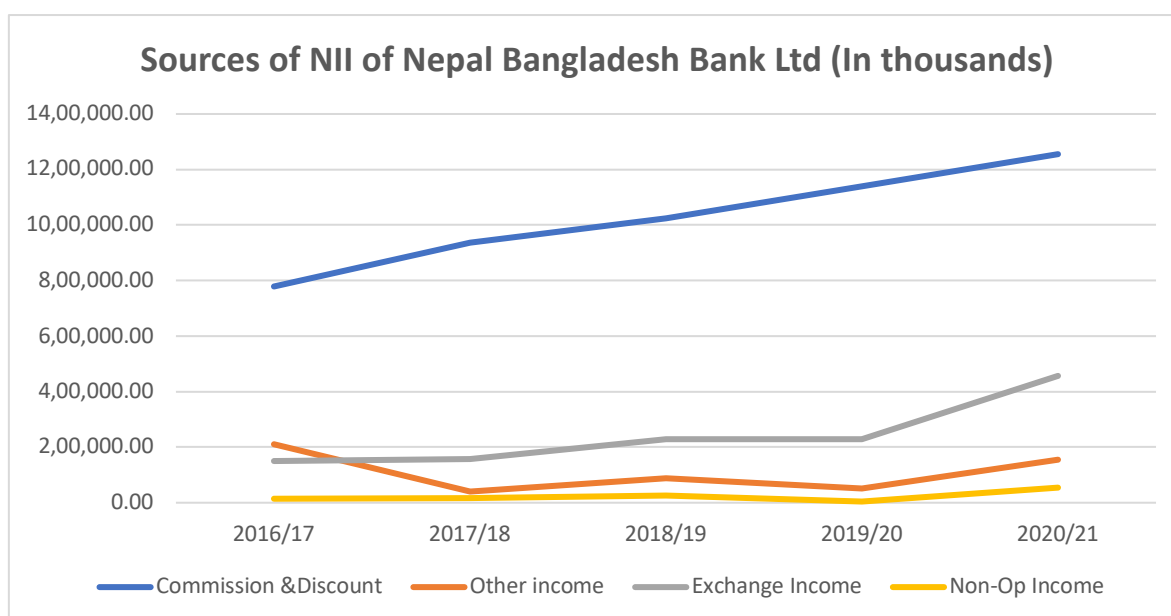


*Figure 4.8: Sources of NII of Nepal Bangladesh Bank*

The above figure 4.8 & table 4.9 shows the sources of NII of Nepal Bangladesh Bank. Bangladesh Bank Ltd has also been able to generate highest NII from its sources as commissions and discount. In comparison to other banks its exchange income is not that satisfactory. Whereas, bank has experience a less non-operating income in the year 2019/20 but from 2020/21 it gradually starts increasing non-operating income.

### 4.2.6 Sources of NII of Everest Bank Ltd.

The figure below shows the trend and amount of NII generated by Everest Bank Limited over the period of 5 years. This figure also explains the position of the NII of the bank and the trend of the different sources earned by the bank as NII.

*Table 4.10: Sources of NII of Everest Bank*

| Non-Interest Income of EBL (In thousands) | | | | | |
|---|---|---|---|---|---|
| Year | Commission &Discount | Other income | Exchange Income | Non-Op Income | Total |
| 2016/17 | 2,85,939.00 | 5,17,417.00 | 1,05,003.00 | 24,178.00 | 9,32,537.00 |
| 2017/18 | 3,46,169.00 | 5,65,449.00 | 94,025.00 | 16,511.00 | 10,22,154.00 |
| 2018/19 | 9,45,375.00 | 92,641.00 | 1,95,902.00 | 4,673.00 | 12,38,591.00 |
| 2019/20 | 10,25,000.00 | 99,537.00 | 3,06,924.00 | - | 14,31,461.00 |
| 2020/21 | 11,44,657.00 | 1,22,207.00 | 2,63,566.00 | - | 15,30,430.00 |

Source: Annual Report from FY 2016/17 to 2020/21
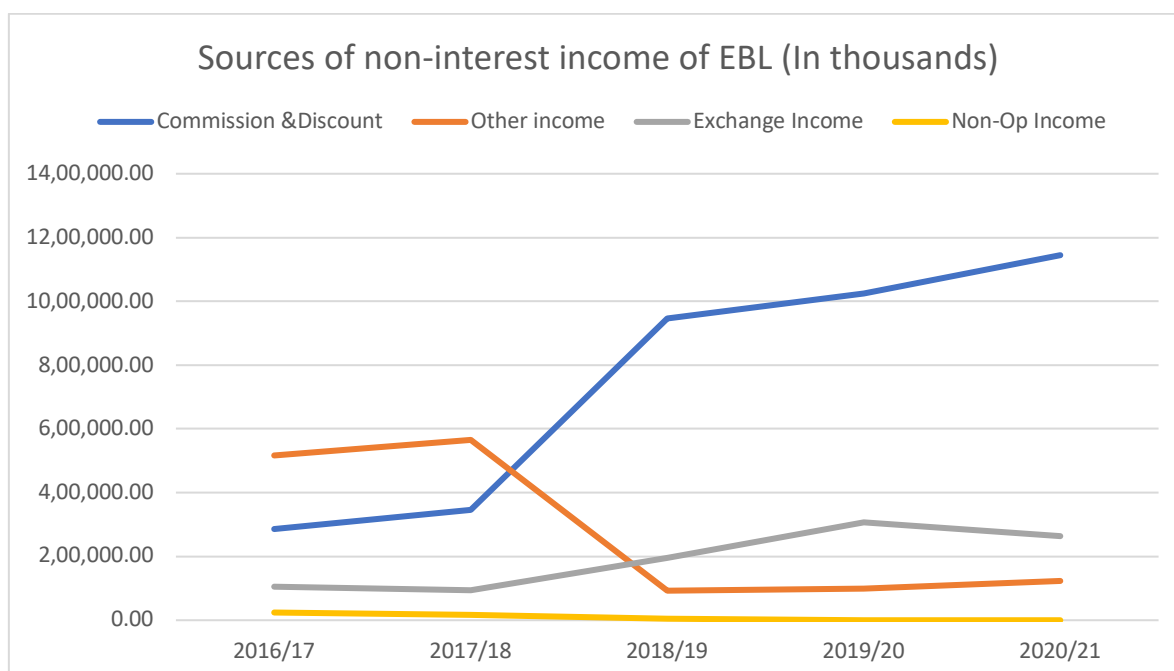


*Figure 4.9: Sources of NII of Everest Bank*

The above figure 4.9 & table 4.10 shows that the bank has been able to collect higher amount from the source of commissions and discount.

However, the position of non- operating income is also not that satisfactory, in fact they have not been able to generate higher amount of non-operating income in comparison to other joint venture banks in the country.

### 4.2.7 Sources of NII of NMB Bank Ltd.

The figure below shows the trend of NII generated over the years by NMB Bank Limited. This figure not only explains the amount of NII generated by the banks but also shows the trend over the years.

*Table 4.11: Sources of NII of NMB Bank Ltd.*

| Sources of non-interest income of NMB Bank Ltd (In thousands) | | | | |
|---|---|---|---|---|
| Year | Commission &Discount, Other income | Exchange Income | Non-Op Income | Total |
| 2016/17 | 7,65,501.00 | 2,08,514.00 | 1,36,349.00 | 11,10,364.00 |
| 2017/18 | 11,96,110.00 | 3,06,532.00 | 43,140.00 | 15,45,782.00 |
| 2018/19 | 14,71,919.00 | 4,40,062.00 | 17,090.00 | 19,29,071.00 |
| 2019/20 | 11,29,735.00 | 1,19,513.00 | 18,512.00 | 12,67,760.00 |
| 2020/21 | 15,29,616.00 | 4,55,135.00 | 39,071.00 | 20,23,822.00 |

Source: Annual Report from FY 2016/17 to 2020/21
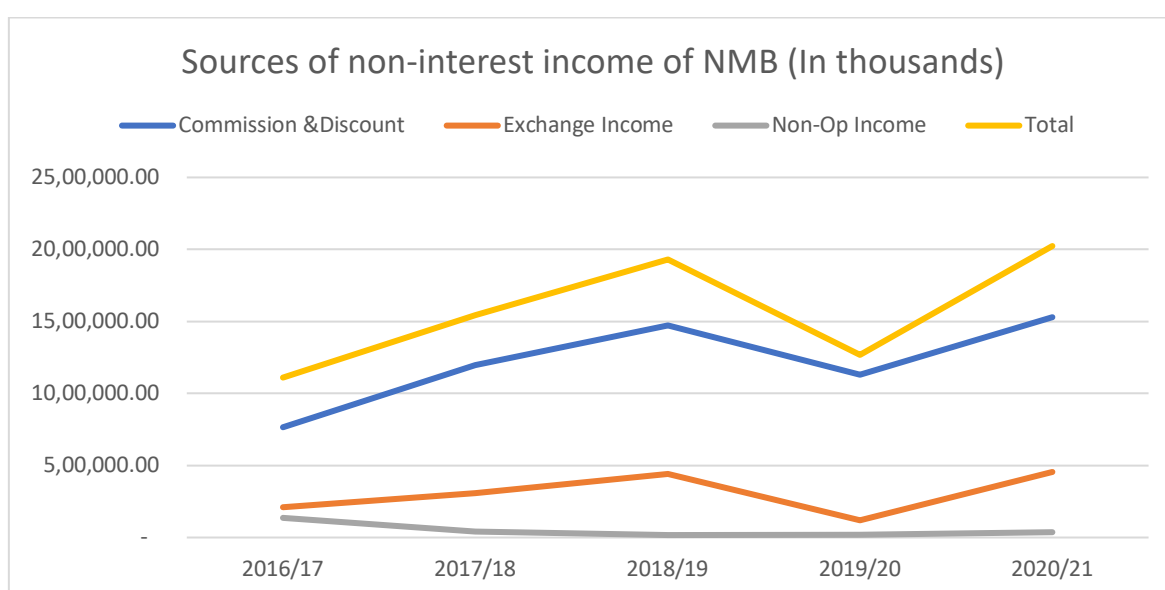


*Figure 4.10: Sources of NII of NMB Bank*

The above figure 4.10 & table 4.9 shows that NMB bank has been able to generate income from the various sources of NII. The position of NII in comparison to other banks is less however the amount of NII is growing significantly. The above table shows that bank has been able to increase its position of commissions and discount along with exchange income over the years.

## 4.3 Proportion of NII on other indicators

The percentage of NII over the other variables like net profit, total investment, and total assets are presented and explained below:

### 4.3.1 Proportion of NII on net profit of joint venture banks

Net Profit of a bank also has some portion of NII in it. After NII is added to the operating income then only net profit is obtained. Banks have certain percentage of NII over the net profit. The table below shows the percentage of NII on the total amount of net profit obtained by the banks. This percentage explains the proportion of NII over the net profit.

*Table 4.12: Proportion of NII on Net Profit*

| Proportion of NII on Net Profit (Percentage) | | | | | | |
|---|---|---|---|---|---|---|
| **Banks** | **SCB** | **Nabil** | **Himalayan** | **Nepal Bangladesh** | **NMB** | **Everest** | **Nepal SBI** |
| **2016/17** | 66.0 | 126.3 | 76.8 | 154.4 | 59.9 | 46.5 | 74.3 |
| **2017/18** | 47.6 | 50.7 | 66.6 | 197.3 | 68.5 | 36.1 | 61.0 |
| **2018/19** | 57.0 | 52.5 | 65.7 | 107.9 | 112.6 | 30.5 | 58.4 |
| **2019/20** | 85.0 | 63.8 | 66.5 | 217.8 | 46.8 | 37.1 | 78.6 |
| **2020/21** | 108.4 | 81.6 | 145.5 | 69.2 | 133.8 | 52.7 | 150.7 |

Source: Annual Report of Joint Venture bank from FY 2016/17 to 2020/21

The above table 4.12 shows that the proportion of NII to that of the total income generated by the bank. It shows that the portion of NII on total income of Nepal Bangladesh Bank is the highest in comparison to other joint venture banks. Banks are consistent to the extent towards maintaining the portion of NII to that of the total income of the banks. However, Himalayan bank and Standard Chartered Bank are increasing their volume of NII in comparison to that of other banks.

The figure below shows the trend of NII of the joint venture banks.
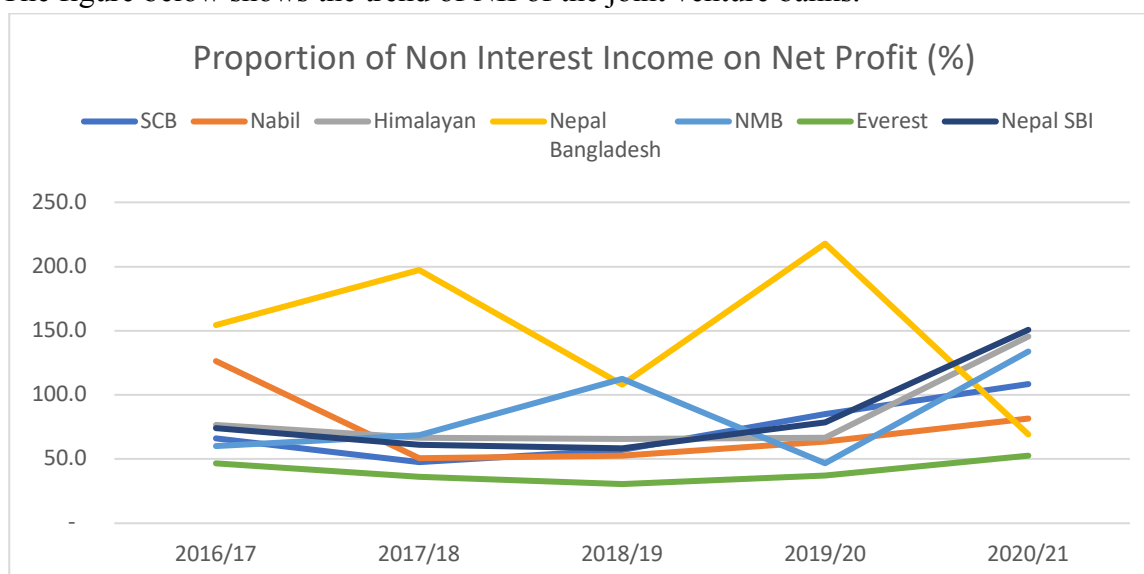


*Figure 4.11: Proportion of NII on Net Profit*

The above figure 4.11 shows the proportion of NII on the net profit whereby explains the trend of the percentage increase or decrease over the years.

### 4.3.2 Proportion of NII on total investment

The percentage of NII over the investment is calculated by dividing NII by the total investment made by the joint venture banks. The percentage of NII over the investment explains the proportion of NII out of the total amount invested by the banks. The table below shows the proportion of NII over the investment.

*Table 4.13: Proportion of NII on Total Investment*

| Proportion of NII on Total Investment | | | | | | |
|---|---|---|---|---|---|---|
| Banks | SCB | Nabil | Himalayan | Nepal Bangladesh | NMB | Everest | Nepal SBI |
| 2016/17 | 6.54 | 5.24 | 8.04 | 14.43 | 10.54 | 7.79 | 5.55 |
| 2017/18 | 22.38 | 10.89 | 15.80 | 24.14 | 16.36 | 6.68 | 13.32 |
| 2018/19 | 12.02 | 8.71 | 10.32 | 23.07 | 12.68 | 5.78 | 15.32 |
| 2019/20 | 12.94 | 6.57 | 10.94 | 20.31 | 8.45 | 4.97 | 9.83 |
| 2020/21 | 11.83 | 9.27 | 17.66 | 9.70 | 11.60 | 4.86 | 4.38 |

Source: Annual Report of Joint Venture bank from FY 2016/17 to 2020/21

The above table 4.13 shows the portion of NII to that of the total investment is shown by the above table. Out of their total investment made in different sectors, Nepal Everest Bank has the least percentage of NII in comparison to their total investment made in different sectors while Nepal Bangladesh Bank has highest percentage of NII to that of their total investment.

The figure below shows the percentage of NII over the years. This shows that by how much banks have been able to generate NII out of the total investment employed.
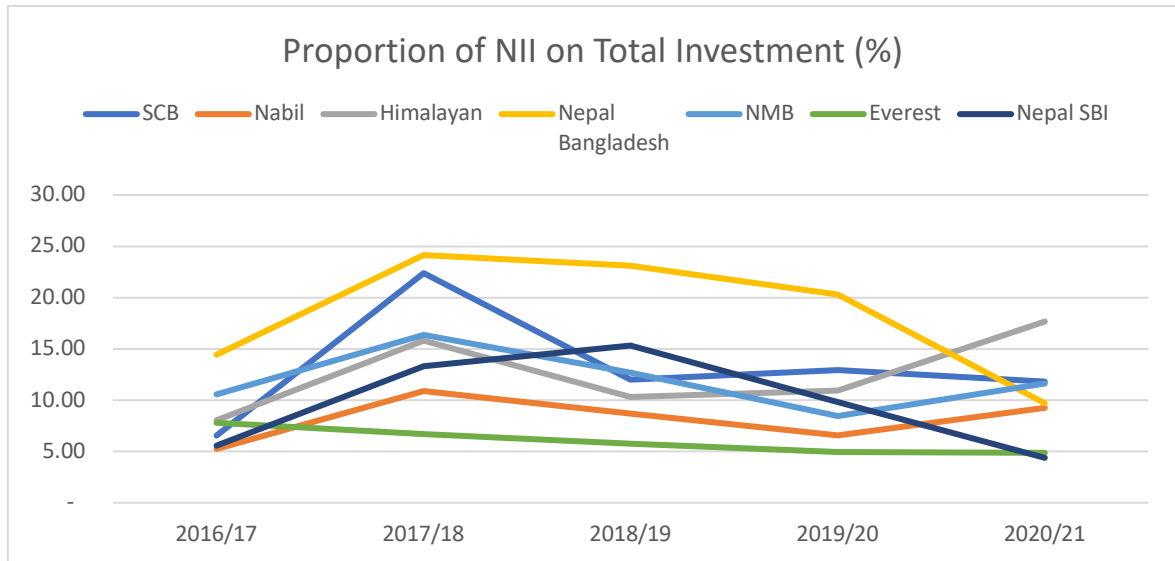


*Figure 4.12: Proportion of NII on Investment*

The line chart 4.12 shows that the percentage of NII to that of total investment is increasing over the years. This kind of remarkable increment of such cannot be seen in other banks.

**4.4 Volatility on income of joint venture banks**

The standard deviation on the net profit and NII are presented and explained below:

**4.4.1 Volatility on the net profit position of joint venture banks**

The table below shows the variation that the bank has over its average profit over the years. This also shows the consistency in performance over the period in net profit. The analysis is done so as to find out the true picture of net profit deviation of the joint venture banks in the country.

*Table 4.14: Standard Deviation on Net Profit*

| Standard Deviation on Net Profit | | | | | | |
|---|---|---|---|---|---|---|
| Year | SCBNL | NABIL | HBL | NBBL | NMB | EBL | NSBI |
| S.D. | 4,33,152 | 16,92,763 | 4,52,017 | 4,34,769 | 7,50,731 | 5,06,002 | 5,09,541 |

The table 4.14 shows the standard deviation on the net profit of the joint venture banks in Nepal. Standard Deviation mentioned here also explains on how volatile the net profit of joint venture banks over the years. While comparing the volatility of banks in terms of income generation over the years, it is found that the income of Standard Chartered Bank is less volatile over the years. However, the income of NABIL Bank is the most volatile and

is not that consistent. The figure mentioned below shows the standard deviations of the joint venture banks
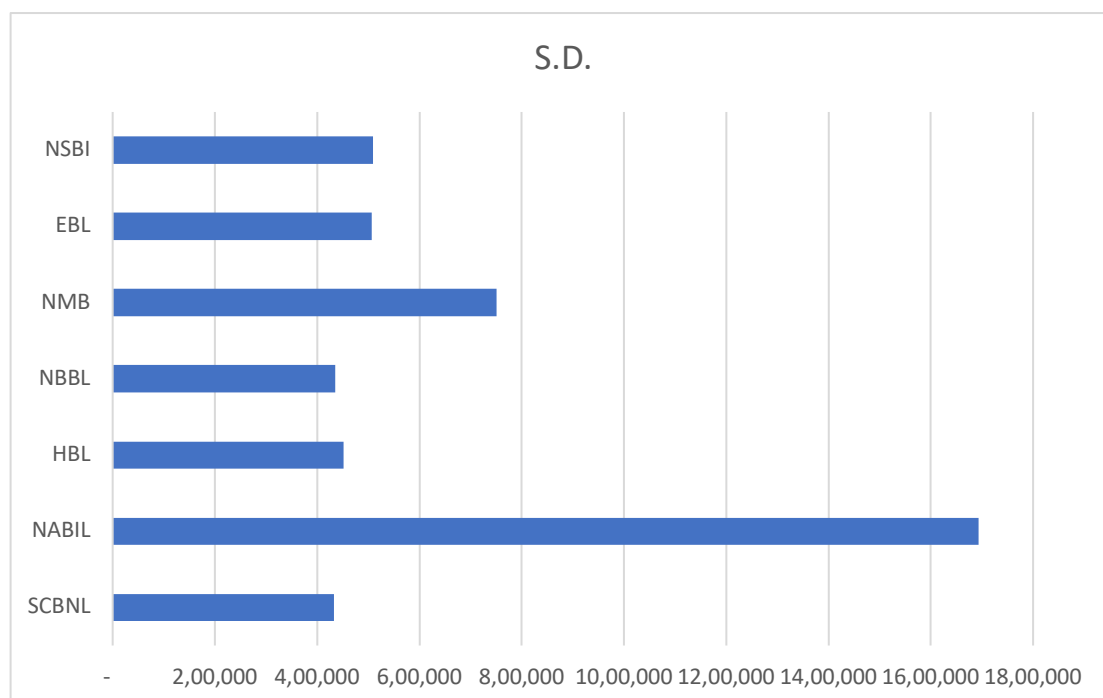


*Figure 4.13: Standard Deviation on Net Profit*

The figure 4.13 shows and compares on the risk position of different joint venture banks in terms of the standard deviation on their income.

## 4.4.2 Volatility of the NII position and its sources

The table mentioned below explains on the standard deviation on the NII generated by the joint venture banks over the period of 5 years. Standard Deviation is calculated on the basis of variation they have on their average NII generated over the period of 5 years.

*Table 4.15: Standard Deviation on NII*

| Standard Deviation on Non Interest Income | | | | | | |
|---|---|---|---|---|---|---|
| Year | SCBNL | NABIL | HBL | NBBL | NMB | EBL | NSBI |
| S.D. | 2,93,239 | 7,67,684 | 8,58,699 | 3,15,167 | 3,99,357 | 2,56,221 | 1,51,532 |

The table 4.15 shows the standard deviation on the NII of the joint venture banks in Nepal. The higher the value the higher the variation in the income therefore, from the above figure it is found that the least varied NII is of Nepal SBI Bank where the most varied NII is that of Himalayan Bank.

### 4.4.3 Volatility of the exchange income as a source of NII

The table below shows the variation on the exchange income generated by the banks over the years.

*Table 4.16: Standard Deviation on Exchange Income*

| Standard Deviation on Exchange Income | | | | | | |
|---|---|---|---|---|---|---|
| Year | SCBNL | NABIL | HBL | NBBL | NMB | EBL | NSBI |
| S.D. | 58,663 | 1,18,365 | 60,205 | 1,24,459 | 1,45,340 | 94,215 | 45,849 |

The table 4.16  here shows the size of variability on one of the sources of NII which is known as exchange income. The above table shows that under this source of NII the less varied exchange income is that of Nepal SBI Bank whereas the higher variation can be found that of NMB Bank.

### 4.4.4 Volatility of the Commission and Discount as a source of NII

The table mentioned below shows the variation on the commission and discount that the banks have generated over the 5 years period of time.

*Table 4.17: Standard Deviation on Commission and Discount*

| Standard Deviation on Commission and Discount | | | | | | |
|---|---|---|---|---|---|---|
| Year | SCBNL | NABIL | HBL | NBBL | NMB | EBL | NSBI |
| S.D. | 2,32,830 | 3,71,285 | 27,939 | 1,83,463 | 3,06,024 | 4,02,486 | 2,27,450 |

The table 4.17 shows the size of volatility on another source of NII which is known as Commission and Discount. The above table shows that under this source of NII less varied commission and discount income is that of Himalayan Bank Ltd and higher variation can be found with Everest Bank Ltd.

### 4.4.5 Volatility of the Other Income as a source of NII

The table mentioned below explains about the variation that the banks have on their other income which is a source of NII.

*Table 4.18: Standard Deviation on Other Income*

| Standard Deviation on other Income | | | | | | |
|---|---|---|---|---|---|---|
| Year | SCBNL | NABIL | HBL | NBBL | NMB | EBL | NSBI |
| S.D. | 59,875 | 4,48,570 | 9,39,692 | 72,630 | 1,45,340 | 2,40,008 | 1,91,576 |

The above table 4.18 shows the size of volatility on another source of NII which is known as Other Income. The above table shows that under this source of NII less varied other income is that of Standard Chartered Bank and higher variation can be found with Himalayan Bank Ltd.

### 4.4.6 Volatility of the Non-Operating Income as a source of NII

The table mentioned below explains on the variation of non-operating income of the banks. It explains by how much their mean NII has var6tiated over the years.

*Table 4.19: Standard Deviation on Non-Operating Income*

| Standard Deviation on other Income | | | | | | | |
|------|-------|-------|---------|-------|-------|-------|-------|
| Year | SCBNL | NABIL | HBL | NBBL | NMB | EBL | NSBI |
| S.D. | 2,348 | 41,858 | 1,81,967 | 19,142 | 49,228 | 9,827 | 14,888 |

The above table 4.19 shows the size of volatility on another source of NII which is known as Other Income. The above table shows that under this source of NII less varied non-operating income is that of Standard Chartered Bank and higher variation can be found with Himalayan Bank.

### 4.5 Variation of NII and net profit

The table below not only explains on the variation of the two sources of income but also compares the variation of such income sources over the years.

*Table 4.20: Comparison on Variation of NII and Net Profit*

| Comparison on Variation of NII and Net Profit | | | | | | | |
|-----------|----------|-----------|----------|----------|----------|----------|----------|
| Year | SCBNL | NABIL | HBL | NBBL | NMB | EBL | NSBI |
| S.D.NII | 2,93,239 | 7,67,684 | 8,58,699 | 3,15,167 | 3,99,357 | 2,56,221 | 1,51,532 |
| S.D. Profit | 4,33,152 | 16,92,763 | 4,52,017 | 4,34,769 | 4,89,976 | 5,06,002 | 5,09,541 |

The table 4.20 shows the comparison between the NII and net profit obtained by the banks. It shows that the banks are quite consistent in generating the NII rather than the net profit.

The figure below explains on the trend of NII and net profit of the joint venture banks over the period of 5 years.
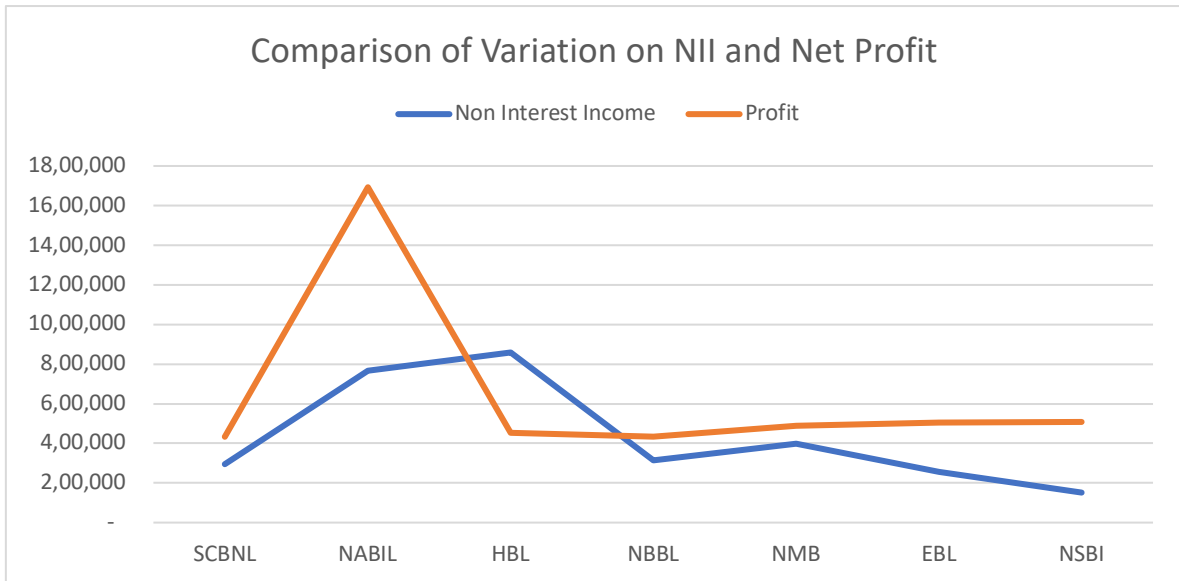


*Figure 4.14: Comparison of Variation on NII and Net Profit*

The above figure 4.14 shows the variation that the banks have towards their NII and net profit. It shows that the NII is more consistent than that of their net profit. On one hand, where banks have been experiencing greater variation in their net profit while on the other hand they are more consistent towards the generation of NII.

## 4.6 Empirical Analysis

There are several factors affecting the variables that are responsible for the profitability of the banks. This study has considered all joint venture banks based on the similarities in size and life of the banks. The relationships of the variables are tested by using statistical calculations like regression model and correlation models. The analysis is presented below:

### 4.6.1 Relationship between NII and Net Profit of banks

The relationship between NII and Net Profit of the banks based on correlation coefficients and sig-values is presented.

*Table 4.21: Relationship between NII and Net Profit of banks*

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 214815.825 | 460856.81 | | .466 | .661 |
| | NII | 1.00060542 | 0.1941001 | .917 | 5.155 | .004 |

Correlation co-efficient = 0.917

Co-efficient of determination = 0.840

40

A correlation co-efficient of 0.917 indicates a positive relationship between net profit and NII since it is near to 1 the relationship is perfect. The co-efficient of determination is 0.840 which indicates that 84 % of variation in net profit is explained by NII.

In table 4.21 relationship between NII and Net profit is measured and the significance value is 0.004 which is less than 0.05(0.004<0.05). This indicates that there is a significant relationship between NII and Net profit as null hypothesis $H0_1$ is not accepted.

## 4.6.2 Relationship between NII and ROI of banks

The relationship between NII and ROI of the banks based on correlation coefficients and t-values is presented.

*Table 4.22: Relationship between NII and ROI of banks*

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 5.518 | 3.196 | | 1.726 | .145 |
| | NII | 2.329E-6 | .000 | .612 | 1.730 | .144 |

Correlation co-efficient = 0.612

Co-efficient of determination = 0.374

A correlation co-efficient of 0.612 indicates a positive relationship between NII and ROI of the banks since it is around 0.5 therefore, the relationship is moderate. The co-efficient of determination is 0.374 which indicates that 37.4 % of variation in ROI is explained by NII.

In table 4.22 relationship between NII and total assets is measured and the significance value is 0.144 which is greater than 0.05(0.144>0.05). This indicates that there is not a significant relationship between NII and ROI of the banks as null hypothesis $H0_2$ is accepted.

## 4.6.3 Relationship between total assets and NII of banks

The relationship between total assets and NII of banks based on correlation coefficients and t-values is presented.

*Table 4.23: Relationship between* total assets and NII of banks

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | α | Std. Error | Alpha | | |
| 1 | (Constant) | -32241.442 | 1209270.177 | | -.027 | .980 |
| | Total Assets | .013 | .007 | .644 | 1.882 | .119 |

Correlation co-efficient = 0.644

Co-efficient of determination = 0.415

A correlation co-efficient of 0.644 indicates a positive relationship between total assets and NII of banks as it is near to 0.6 therefore, the relationship is moderate. The co-efficient of determination is 0.415 which indicates that 41.5 % of variation in NII is explained by total assets.

In table 4.23 relationship between total assets and NII is measured and the significance value is 0.119 which is more than 0.119 (0.119>0.05). This indicates that there is not a significant relationship between total assets and NII of banks as null hypothesis $H0_3$ is accepted.

### 4.6.4 Relationship between Net profit and total assets of banks

The relationship between Net profit and total assets of banks based on correlation coefficients and t-values is presented.

*Table 4.24: Relationship between Net profit and total assets of banks*

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | β | Std. Error | Beta | | |
| 1 | (Constant) | -560914.599 | 1052456.719 | | -.533 | .617 |
| | Total Assets | .017 | .006 | .792 | 2.901 | .034 |

Correlation co-efficient = 0.792
Co-efficient of determination = 0.627

A correlation co-efficient of 0.792 indicates a positive relationship between Net profit and total assets of banks since it is greater than 0.7 therefore, the relationship is strong. The co-efficient of determination is 0.627 which indicates that 62.7 % of variation in Net profit is explained by total assets of bank.

In table 4.24 relationship between age of the bank and NII is measured and the significance value is 0.034 which is less than 0.034 (0.034<0.05). This indicates that there is a significant relationship between net profit and total assets of banks as null hypothesis $H0_4$ is not accepted.

### 4.6.5 Relationship between Age of the bank and Investment of banks

The relationship between Age of the bank and Investment of banks based on correlation coefficients and t-values is presented.

*Table 4.25: Relationship between age of the bank and investment of banks*

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | α | Std. Error | Alpha | | |
| 1 | (Constant) | 12129408.059 | 14249928.580 | | .851 | .434 |
| | Age | 399054.353 | 492507.558 | .341 | .810 | .455 |

A correlation co-efficient of 0.341 indicates a positive relationship between age of the bank and investment of banks since it is less than 0.5 therefore, the relationship is weak. Coefficient of determination is 0.116 which indicates that 11.6 % of variation in investment is explained by age of the bank.

In table 4.25 relationship between age of the bank and net profit is measured and the significance value is 0.455 which is greater than 0.05(0.455>0.05). This indicates that there is no a significant relationship between age of the bank and investment of banks as null hypothesis $H0_5$ is accepted.

### 4.6.6 Relationship between total assets and Investment of banks

The relationship between total assets and Investment of banks based on correlation coefficients and t-values is presented.

*Table 4.26: Relationship between total assets and Investment of banks*

| Model | | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|---|
| | | α | Std. Error | Alpha | t | Sig. |
| 1 | (Constant) | 732565.615 | 8243151.051 | | .089 | .933 |
| | Total Assets | .130 | .046 | .787 | 2.857 | .036 |

Correlation co-efficient = 0.787
Co-efficient of determination = 0.619

A correlation co-efficient of 0.787 indicates a negative relationship between total assets and Investment of banks since it is greater than 0.7 therefore, the relationship is strong. Coefficient of determination is 0.619 which indicates that 61.9 % of variation in Investment is explained by the total assets of the bank.

In table 4.26 relationship between total assets and Investment is measured and the significance value is .036 which is less than 0.05(0.036<0.05). This indicates that there is a significant relationship between total assets and Investment of banks as null hypothesis $H0_6$ is not accepted.

### 4.6.7 Relationship between age and ROI of banks

The relationship between age and ROI of banks based on correlation coefficients and t-values is presented.

*Table 4.27: Relationship between age and ROI of banks*

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | $\alpha$ | Std. Error | Alpha | t | Sig. |
| 1 | (Constant) | 15.058 | 6.488 | | 2.321 | .068 |
| | Age | -.162 | .224 | -.307 | -.722 | .503 |

Correlation co-efficient = -0.307
Co-efficient of determination = 0.09

A correlation co-efficient of -0.307 indicates a negative relationship between age and ROI of banks since it is less than 0.5 therefore, the relationship is weak. Coefficient of determination is 0.09 which indicates that 9 % of variation in ROI is explained by the age of the bank.

In table 4.27 relationship between age and ROI is measured and the significance value is .503 which is greater than 0.05 (0.503>0.05). This indicates that there is no significant relationship between age and ROI of banks as null hypothesis $H0_6$ is accepted.

## 4.7 Major Findings of the Study

As per the analysis of data, following major finding have been obtained.

1. Evaluating the profitability among the Joint Venture Banks, the highest profit making bank is Nabil Bank Ltd and the lowest profit making bank is Nepal Bangladesh Bank among the joint venture banks over the period of 5 years. The most fluctuating profit over the year is that of Nabil Bank. The reason behind it was that the bank had more extraordinary expenses in comparison to its operating profit. Among all, the most stable profit earning bank is SCB, throughout the period over the years. Regardless of all, Nabil Bank has the highest growth in profit among all other banks over the period of 5 years. However, HBL and NBBL have experienced the stable ROA over the years. Nepal SBI Bank has least return on assets ROA over the years. Apart of all, every bank has maintained a consistent level of ROA over the years. Nabil and Himalayan Bank have the highest NII among all, whereas Nepal SBI Bank and Everest Bank have the lowest NII among all. Banks have been able to increase the volume of NII over the years whereby NII has been recorded highest for the year 2020/21. The trend also shows that the banks have been able to increase their position of NII over the years. Among the sources of NII, exchange income has been the highest source for Himalayan Bank whereas for other banks commission and discount is the highest source of NII. In addition to this, non-operating income has been the least contributing source of NII for all the banks. The highest variation in NII is that of Himalayan Bank Ltd, whereas Nepal SBI Bank has the least variation in NII over the years which are explained by the standard deviation that has been calculated and presented in the paper.

2. For every banks, the banks are quite consistent in generating the NII rather than the net profit. Banks are consistent with their position of NII rather than that of their position with net profit. In comparing standard deviation of NII among banks, Himalayan bank has the highest standard deviation among all whereas Nepal SBI Bank has least standard deviation explaining that the net profit is less volatile for Nabil Bank. It also explains that on one hand where banks have greater variation in their net profit while on the other hand, they are more consistent towards the generation of NII.

3. Form the statistical analysis, it is found that Net profit and NII has a strong significant relationship and has got the significant relationship between net profit and NII of the banks. There is moderate relationship between NII and ROI of the banks since coefficient of correlation is around 0.5. There indicates a positive relationship between total assets and NII of banks as coefficient of correlation is near to 0.6 therefore, the relationship is moderate. There is significant relation and positive relationship between Net profit and total assets of banks since the relationship is strong. The relationship between age of the bank and investment of banks is weak.

**4.8 Mergers and Acquisitions of Banking Sector in Nepal**

Merger of above banks:

1. *Nabil Bank Limited*
2. *Nepal Bangladesh Bank Limited*

*Bank Name after merged: Nabil Bank Limited*

*Final Approval Date: 29/06/2022*
*Joint Transaction Date: 11/07/2022*

The acquisition of Nepal Bangladesh Bank by Nabil Bank is now complete; all capital, financial obligations, assets, and liabilities have been transferred to Nabil Bank. The swap ratio of 100:42 was agreed upon by the 'A' grade institutions. With Nepal Rastra Bank's approval, the acquisition was made.

**Merger and acquisition leads to:**

The Nepalese banking industry was compelled to engage in merger and acquisition activity in the current scenario for a number of reasons. Following is an explanation of them:

*-Competitive advantage*
As a result of merging, competitors in the banking sector are eliminated, which reduces competitiveness in this process. Banks can significantly increase their operations and significantly reduce their costs with the aid of mergers and acquisitions in the banking sector.

*-Capital requirement*

The minimum paid-up capital requirement for the Nepalese bank to rise from the current Rs 2 billion to Rs 8 billion. For large banks, meeting the government's requirements may not be a problem, but for middle- and small-sized institutions, it may be extremely difficult, if sometimes impossible. Therefore, mergers and acquisitions may be a way to meet this need.

*-Open Financial Market*

The financial market in Nepal became more open for foreign investment as a result of the government's liberalisation agenda. There are already numerous foreign banks operating. The ability of local banks to compete with their foreign counterparts is a worry. As a result, mergers and acquisitions will cut costs, boost economies of scale, and boost an institution's capability, enabling it to compete on a global scale.

*- Increase capabilities*

Capability may come through acquiring a special technology rather than only from a specific department. The cost of capital for banks and other financial organisations is rising as a result of the expensive and advancing financial technologies. The adoption of cutting-edge financial technologies and the provision of contemporary banking services to the public, especially in remote areas, would be made possible in this context by merger and acquisition in the Nepalese banking sector.

# CHAPTER -V
# CONCLUSIONS AND RECOMMENDATION

## 5.1 Conclusions

Bank's NII is positively related with the other dependent variables such as net profit, total assets, investment is positively correlated with NII of the joint venture banks. They also have a significant relationship with the variables. Similarly age and ROI has a negative relationship and they do not have a significant relationship with each other.

The study concludes that the most stable profit earning bank is SCB whereas highest profit earning bank is NABIL Bank. The least volatile both NII and net profit is that of Nepal SBI Bank. However, every bank has maintained a consistent level of ROA over the years. NII has been highest in the year 2020/21. The trend also shows that the banks have been able to increase their position of NII over the years. Banks have been able to gain more income from two of the NII sources; exchange income and commissions and discount. However, the contribution of NII is the least affecting source to the overall profit position of the banks. From the analysis of Bank, the study also suggests that higher and stable the NII the least volatile the net profit of the bank.

## 5.2 Recommendation

The findings of the study shows the relationship between dependent variable that is NII, return on assets, ROI and net profit with the independent variables such as total assets and total investment and the relations of it with the moderating variables such as bank size and age of their establishment. However the results for these joint venture banks are different. The reason of these differences can be investigated in the further studies by the future researchers.

The study is conducted by taking the data of joint venture banks out of the seven joint venture banks established in Nepal. These joint venture banks have been selected based on their nature. However, there can be many other bases on which banks for analysis can be selected. Thus, the results of this study cannot be generalized for all commercial banks. Therefore, future studies should consider this fact and evaluate other bases for selecting the banks for study so that more accurate and reliable results can be expected and the results can be generalized.

In this study, only correlation and regression techniques along with descriptive statistics have been used to analyze the data. Many other techniques are available that can be used to analyze the capital structure of these joint venture banks such as factor analysis. The research has not included the impact of off balance sheet item. Therefore, further research can be conducted considering the impact of off balance sheet items. There is analysis of variables are analysed but still other variables can be included in further studies.

This study has been conducted solely on the basis of secondary data obtained from the quarterly financial statements of banks, annual reports, published journals etc. Primary data can also be taken to know about the opinions and the preferences the financial officers of the banks have in relation to the NII practices taking place in the Nepalese joint venture banks.

Though the findings of the research cannot be generalized because it is based on the study of joint venture banks taken as the sample, it does provide some insight into some critical factors to be considered by potential investors or customers of the bank. Size, growth, profitability and liquidity of the banks are some critical factors that the investors or even customers should consider before choosing a particular bank for investment. Investors also should consider the position of NII of the bank while making an investment on such banks.

Regulators should allow banks to take fees for the services provided by the banks. It is not a very wise decision of the regulators not to encourage banks to charge on the services provided by such banks. NII poses less risk for the banks so that it also will ensure on the financial stability of the banks.

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## APPENDICES

| Year | SCBNL | NABIL | HBL | NBBL | NMB | EBL | NSBI |
|------|-------|-------|-----|------|-----|-----|------|
| 2016/17 | 15,49,986.00 | 3,70,282.00 | 21,78,234.00 | 12,00,381.00 | 14,67,347.00 | 20,06,247.00 | 15,64,688.00 |
| 2017/18 | 21,89,898.00 | 39,81,892.00 | 18,75,610.00 | 11,44,035.00 | 18,53,792.00 | 25,81,681.00 | 20,23,511.00 |
| 2018/19 | 24,34,664.00 | 42,38,853.00 | 27,63,848.00 | 15,87,960.00 | 22,57,276.00 | 30,54,122.00 | 22,92,524.00 |
| 2019/20 | 19,87,390.00 | 34,63,240.00 | 25,86,722.00 | 12,44,846.00 | 17,12,776.00 | 25,16,243.00 | 15,43,348.00 |
| 2020/21 | 13,98,835.00 | 45,27,522.00 | 29,98,623.00 | 21,85,942.00 | 27,11,703.00 | 17,70,939.00 | 9,63,479.00 |
| Mean | 19,12,155.00 | 33,16,358.00 | 24,80,607.00 | 14,72,633.00 | 15,12,459.00 | 23,85,846.40 | 16,77,510.00 |
| S.D. | 4,33,151.50 | 16,92,763.00 | 4,52,016.90 | 4,34,768.50 | 7,50,730.90 | 5,06,002.36 | 5,09,540.80 |
| C.V. | 22.65 | 51.04 | 18.22 | 29.52 | 49.64 | 21.21 | 30.37 |

| Returns on Assets of Banks | | | | | | | |
|------|-------|-------|-----|------|-----|-----|------|
| Year | SCBNL | NABIL | HBL | NBBL | NMB | EBL | NSBI |
| 2016/17 | 1.84 | 2.69 | 2.19 | 2.11 | 1.82 | 1.83 | 1.57 |
| 2017/18 | 2.61 | 2.61 | 1.67 | 1.86 | 1.8 | 1.97 | 1.97 |
| 2018/19 | 2.61 | 2.11 | 2.21 | 2.08 | 1.83 | 1.94 | 1.94 |
| 2019/20 | 1.71 | 1.58 | 1.79 | 1.39 | 1.09 | 1.42 | 1.17 |
| 2020/21 | 1.22 | 1.71 | 1.68 | 1.96 | 1.32 | 0.89 | 0.7 |
| Mean | 2.00 | 2.14 | 1.91 | 1.88 | 1.57 | 1.61 | 1.47 |
| S.D. | 0.60 | 0.51 | 0.27 | 0.29 | 0.34 | 0.46 | 0.54 |
| C.V. | 30.26 | 23.63 | 14.19 | 15.50 | 21.94 | 28.49 | 36.69 |

| Return on Investment (Percentage) | | | | | | | |
|------|-----|-------|-----------|--------------------|-----|---------|-----------|
| Banks | SCB | Nabil | Himalayan | Nepal Bangladesh | NMB | Everest | Nepal SBI |
| 2016/17 | 9.92 | 1.13 | 12.15 | 15.01 | 13.92 | 16.77 | 7.47 |
| 2017/18 | 46.98 | 21.48 | 16.09 | 24.00 | 19.62 | 16.88 | 21.83 |
| 2018/19 | 21.11 | 16.59 | 16.78 | 26.81 | 14.84 | 14.25 | 26.25 |
| 2019/20 | 15.22 | 10.30 | 14.18 | 17.77 | 11.42 | 8.73 | 12.50 |
| 2020/21 | 10.91 | 11.35 | 14.67 | 11.03 | 15.54 | 5.63 | 4.53 |
| Mean | 20.83 | 12.17 | 14.78 | 18.92 | 15.07 | 12.45 | 14.52 |
| S.D. | 15.27 | 7.62 | 1.81 | 6.46 | 2.98 | 5.05 | 9.28 |
| C.V. | 73.33 | 62.62 | 12.22 | 34.13 | 19.80 | 40.53 | 63.92 |

| Non-Interest Income ('000') | | | | | | | |
|---|---|---|---|---|---|---|---|
| Year | SCBNL | NABIL | HBL | NBBL | NMB | EBL | NSBI |
| 2016/17 | 10,23,023.00 | 17,16,175 | 14,41,133 | 11,53,431 | 11,10,364 | 9,32,537 | 11,62,027 |
| 2017/18 | 10,43,249.00 | 20,18,061 | 18,41,079 | 11,50,760 | 15,45,782 | 10,22,154 | 12,34,743 |
| 2018/19 | 13,86,553.00 | 22,25,773 | 16,98,843 | 13,66,860 | 19,29,071 | 12,38,591 | 13,38,450 |
| 2019/20 | 16,89,748.00 | 22,08,170 | 19,95,183 | 14,23,060 | 12,67,760 | 14,31,461 | 12,13,433 |
| 2020/21 | 15,16,808.00 | 36,96,294 | 36,09,258 | 19,22,330 | 20,23,822 | 15,30,430 | 9,30,214 |
| Mean | 13,31,876.20 | 23,72,894.60 | 21,17,099.20 | 14,03,288.20 | 15,75,359.80 | 12,31,034.60 | 11,75,773.40 |
| S.D | 293239.45 | 767683.60 | 858699.18 | 315167.19 | 399356.84 | 256221.28 | 151531.94 |
| C.V | 22.02 | 32.35 | 40.56 | 22.46 | 25.35 | 20.81 | 12.89 |

| Proportion of Non-Interest Income on Total Investment | | | | | | | |
|---|---|---|---|---|---|---|---|
| Banks | SCB | Nabil | Himalayan | Nepal Bangladesh | NMB | Everest | Nepal SBI |
| 2016/17 | 6.54 | 5.24 | 8.04 | 14.43 | 10.54 | 7.79 | 5.55 |
| 2017/18 | 22.38 | 10.89 | 15.80 | 24.14 | 16.36 | 6.68 | 13.32 |
| 2018/19 | 12.02 | 8.71 | 10.32 | 23.07 | 12.68 | 5.78 | 15.32 |
| 2019/20 | 12.94 | 6.57 | 10.94 | 20.31 | 8.45 | 4.97 | 9.83 |
| 2020/21 | 11.83 | 9.27 | 17.66 | 9.70 | 11.60 | 4.86 | 4.38 |

| Proportion of Non-Interest Income on Net Profit (Percentage) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Banks | SCB | Nabil | Himalayan | Nepal Bangladesh | NMB | Everest | Nepal SBI |
| 2016/17 | 66.0 | 126.3 | 76.8 | 154.4 | 59.9 | 46.5 | 74.3 |
| 2017/18 | 47.6 | 50.7 | 66.6 | 197.3 | 68.5 | 36.1 | 61.0 |
| 2018/19 | 57.0 | 52.5 | 65.7 | 107.9 | 112.6 | 30.5 | 58.4 |
| 2019/20 | 85.0 | 63.8 | 66.5 | 217.8 | 46.8 | 37.1 | 78.6 |
| 2020/21 | 108.4 | 81.6 | 145.5 | 69.2 | 133.8 | 52.7 | 150.7 |

| Proportion of NII on Net Profit (Percentage) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Banks | SCB | Nabil | Himalayan | Nepal Bangladesh | NMB | Everest | Nepal SBI |
| 2016/17 | 66.0 | 126.3 | 76.8 | 154.4 | 59.9 | 46.5 | 74.3 |
| 2017/18 | 47.6 | 50.7 | 66.6 | 197.3 | 68.5 | 36.1 | 61.0 |
| 2018/19 | 57.0 | 52.5 | 65.7 | 107.9 | 112.6 | 30.5 | 58.4 |
| 2019/20 | 85.0 | 63.8 | 66.5 | 217.8 | 46.8 | 37.1 | 78.6 |
| 2020/21 | 108.4 | 81.6 | 145.5 | 69.2 | 133.8 | 52.7 | 150.7 |

## Non-Interest Income ('000')

| Year | SCBNL | NABIL | HBL | NBBL | NMB | EBL | NSBI |
|---|---|---|---|---|---|---|---|
| 2016/17 | 10,23,023.00 | 17,16,175 | 14,41,133 | 11,53,431 | 11,10,364 | 9,32,537 | 11,62,027 |
| 2017/18 | 10,43,249.00 | 20,18,061 | 18,41,079 | 11,50,760 | 15,45,782 | 10,22,154 | 12,34,743 |
| 2018/19 | 13,86,553.00 | 22,25,773 | 16,98,843 | 13,66,860 | 19,29,071 | 12,38,591 | 13,38,450 |
| 2019/20 | 16,89,748.00 | 22,08,170 | 19,95,183 | 14,23,060 | 12,67,760 | 14,31,461 | 12,13,433 |
| 2020/21 | 15,16,808.00 | 36,96,294 | 36,09,258 | 19,22,330 | 20,23,822 | 15,30,430 | 9,30,214 |
| Mean | 13,31,876.20 | 23,72,894.60 | 21,17,099.20 | 14,03,288.20 | 15,75,359.80 | 12,31,034.60 | 11,75,773.40 |
| S.D | 2,93,239 | 7,67,684 | 8,58,699 | 3,15,167 | 3,99,357 | 2,56,221 | 1,51,532 |
| C.V | 22.02 | 32.35 | 40.56 | 22.46 | 25.35 | 20.81 | 12.89 |

## Proportion of Non-Interest Income on Total Investment

| Banks | SCB | Nabil | Himalayan | Nepal Bangladesh | NMB | Everest | Nepal SBI |
|---|---|---|---|---|---|---|---|
| 2016/17 | 6.54 | 5.24 | 8.04 | 14.43 | 10.54 | 7.79 | 5.55 |
| 2017/18 | 22.38 | 10.89 | 15.80 | 24.14 | 16.36 | 6.68 | 13.32 |
| 2018/19 | 12.02 | 8.71 | 10.32 | 23.07 | 12.68 | 5.78 | 15.32 |
| 2019/20 | 12.94 | 6.57 | 10.94 | 20.31 | 8.45 | 4.97 | 9.83 |
| 2020/21 | 11.83 | 9.27 | 17.66 | 9.70 | 11.60 | 4.86 | 4.38 |

| Banks | NII | Net Profit | Investment | Age | ROI | Total Assets |
|---|---|---|---|---|---|---|
| SCB | 13,31,876.20 | 13,98,835.00 | 1,28,16,340.00 | 36.00 | 10.91 | 11,46,58,606.56 |
| Nabil | 36,96,294.00 | 45,27,522.00 | 3,98,89,092.98 | 37.00 | 11.35 | 26,47,67,368.42 |
| Himalayan | 36,09,258.00 | 29,98,623.00 | 2,04,33,633.39 | 28.00 | 14.67 | 17,84,89,464.29 |
| NMB | 20,23,822.00 | 27,11,703.00 | 1,74,53,562.93 | 13.00 | 15.54 | 20,54,32,045.45 |
| Everest | 15,30,430.00 | 17,70,939.00 | 3,14,60,033.44 | 27.00 | 5.63 | 19,89,81,910.11 |
| Nepal SBI | 9,30,214.00 | 9,63,479.00 | 2,12,46,986.87 | 28.00 | 4.53 | 13,76,39,857.14 |
| Nepal Bangladesh | 19,22,330.00 | 21,85,942.00 | 1,98,20,860.00 | 27.00 | 11.03 | 11,15,27,653.06 |

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