CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

The banking sector is considered to be an important source of financing for most businesses. The common assumption, which underpins much of the financial performance research and discussion, is that increasing financial performance will lead to improved functions and activities of the organizations. The subject of financial performance and research into its measurement is well advanced within finance and management fields. It can be argued that there are three principal factors to improve financial performance for financial institutions; the institution size, its asset management, and the operational efficiency. To date, there have been little published studies to explore the impact of these factors on the financial performance, especially the commercial banks. *(Google.com)*

Financial performance management is a series of processes used to monitor long-term and short-term financial results. This term is most commonly applied to investment management but also can be applicable to business operations. The primary purpose of financial performance management is to compare actual results to budgets or forecasts and make adjustments to reach specific financial goals. (Pandey, 1992).

In the investment industry, financial performance management refers specifically to the rate of return for a financial portfolio. A portfolio is comprised of multiple financial instruments, with a variety of risks and rates of return. Although it is impossible to predict the future, statistics are used to provide a forecast of financial performance of these instruments over a specific period of time. (Pandey, 1995).

Specific performance benchmarks are set based on the forecast, and the actual performance is measured against these values. Based on the results, changes are made to the portfolio to increase the rate of return to meet these requirements. There is a constant process of adjustment, which is a necessary response to changing market conditions and circumstances.

In a traditional business setting, financial performance management relates to company profitability. A regular review of revenue and expenses provides valuable insight into business operations, risks and issues. Typical financial statements are not ideal for this purpose, because these reports are a summary of overall activity. Instead, many companies create customized reports of sales, costs, cash flow and fixed expenses.

There are courses in financial performance management available from most business colleges or local universities. Reference books and online resources are another way to learn more about the different techniques used in financial performance management. Reading case studies is a great way to learn from the experiences of others.

Financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable condition of a business concern, there fore, financial analysis reflects the financial position of a firm which is the process of determining the operational and financial characteristics of a firm.

"Financial statements analysis is largely a study of relationship among the various financial factors in a business as disclosed by the statement and a study of the trend of there factors as shown in a series of statement" (Moyer, 1961).

The economic development of any country largely depends on the development of financial sector of the country. For the rapid development of the country, competitive financial services should reach in nooks and corners of the country. The financial sector of any country comprises of banks, cooperative societies, insurance companies, finance companies, stock markets, foreign exchange markets, mutual funds, provident funds etc. Among them commercial banks occupy a prominent place in the financial market because it provides capital for the development of industry, trade and business by investing the savings collected as deposits. Beside that these banks render a numerous services to their customer with a view of facilitating them in their economic and social life. The basic function of commercial bank is to collect scattered savings from all over the country and mobilize or channelize these savings by making investment in different enterprises of national economy. Commercial bank is defined as, “A privately owned bank that provides a wide range of financial services both to the general public and to firms. The Principal activities are operating cheque current accounts, receiving deposits, taking in and paying out notes and coin, and making loans. Additional services include trustee and executor facilities, the supply of foreign currency, the purchase and sale of securities, insurance, a credit card system, and personal pensions. They also compete with the finance houses and merchant banks by providing venture capital and with building societies by providing mortgages". (Oxford Dictionary of Finance and Banking, 2005). "Till mid – January, 2011 the total deposits of the commercial banks comprise of NPR 627091.80 million and the total loan and advances comprise of NPR 505183.70 million.” (Banking and Financial Statistics, Mid- January, 2011)

1.2 Statement of the Problem

The countries which are underdeveloped or in the stage of developing such as Nepal, having plenty of natural resources but are remaining unused due to the lack of financing. This inadequacy of financing can be removed by participation of foreign investors in the commercial banks to some extent. With this view welcomed the joint venture banks in Nepal. Although various joint venture foreign commercial banks are operating in Nepal after the NG adopted the open liberal and market oriented economic policy the financial sectors in

Nepal has not been enough to meet the growing need of the economy. Thus it is remarkable to question why so is and what are the problems?

To find the answers of such questions an analysis of their financial performance is necessary. A well performance resembles the well combination of all factors. So the effectiveness of policy, managerial skill, Mobilization of funds and assets will be reflected by the achievement.

Thus, efficient financial performance is mirror showing the strength and weakness of the bank. What should be taken into consideration is not only the establishment of the commercial bank but how effectively they are doing their performance thus the study for this purpose only takes into consideration the comparative financial performance of the "Standard Chartered Bank Limited and Nepal Bangladesh Bank Ltd.". Thus this study attempts to answer the following research questions with the sample banks.

- What is the liquidity position of the bank?
- What is the firm's efficiency in utilizing assets?
- What is the profitability position of the selected banks?
- What is the relation between debt and equity of the bank?

1.3 Objectives of the Study

The main objectives of the study are to examine the financial position of the banks and analyze them to see the financial soundness of the banks & specific objectives are-

- To analyze the liquidity position of the sample banks
- To evaluate the bank's efficiency in utilizing assets
- To assess the profitability position of the selected banks.
- To observe the relation between debt and equity

1.4 Limitations of the Study

Limitations of the study are as follows:

- The study is base on secondary data such as annual report of the concerned bank, other related journals, magazines and books etc. So the accuracy depends upon the data collected and provided by the organization.
- It is covering the period of 5 years from 2006 to 2010 of SCBNL and NBBL.
- Among the various commercial banks this study is only concentrated to evaluate and analyze financial performance of SCBNL and NBBL because SCBNL has better performance than NBBL.
- Among the various financial tools only Ratio analysis and some statistical tools has been taken to measure the strength and weakness of the SCBNL and NBBL.

1.5 Significance of the Study

Different approaches are used to analysis the conditions and situation of a firm. Investors are interest to know the expected future earnings and its stability in the future. To make rational decision financial statement analysis is important for a manager.

The present study is considered significant in the field of banking sectors. It is equally important to stake-holders, management of the bank, shareholders, financial institutions, general public prospective customers, investors and policy makers who are concerned with banking sectors.

1.6 Organization of the Study

This study has been organized in five chapters as below:

The first chapter deals with introduction. This includes background, statement of problem, objectives of the study, significance of the study, limitation of the study, research methodology and organization of the study.

The second chapter consists of conceptual review and review of related studies. The third chapter includes research design, population and sample, sources and types of data, data gathering procedure and analytical tools such as financial and statistical.

The forth chapter deals with data collected from different sources. Based on the data analysis of analysis of investors’ preferences will be made using statistical and non-statistical tools. This chapter also includes major findings.
And the last chapter includes summary, conclusion and offers suggestions for further improvement.

CHAPTER -II
REVIEW OF LITERATURE

The present study aims to analyze the Financial Performance of Standard Chartered Bank Nepal Limited and Nepal Bangladesh Bank Limited. For this purpose it needs to review related literatures in this concerned area which will help to get clear idea and opinion and other concepts. This chapter emphasizes about the literatures which were concerned in this connection. Therefore, in this chapter conceptual frameworks given by different authors and intellectuals of this area, books, journals, research works, and previous thesis related to financial performance are reviewed. Moreover, rules regarding to financial performance are reviews and an attempt has been made to present them properly.

2.1 Conceptual Framework

As this research is related to financial performance analysis of Standard Chartered Bank Nepal Limited & Nepal Bangladesh Bank Limited., following aspects of analysis are reviewed in sequential manner.

- Concept of financial analysis
- Importance of financial performance analysis
- Objectives of financial analysis
- Limitation of financial analysis
- Source for judging financial performance
- Methods of analyzing and evaluation financial performance

2.1.1 Concept of Financial Analysis

Financial Analysis is one of the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the components of balance sheet and profit and loss account and other operating data (Pandey, 1992).

Moreover, financial analysis is both analytical and judgmental process that helps answer the questions that have been proposed posed. Therefore it is a means to an end. One can stress enough that financial analysis is an aid that follows those who are responsible for results to sound decision (Erich, 1997).

On the review of Thapa, analyzing financial statement is a process of evaluating relationship among component parts of financial statements to obtain a better understanding of a firm's position and performance, (Thapa, 2002) It is a largely study of a single set of statements and study of these factors as shown in a series of statement, (Lawrence & William, 1980). It means analysis of financial statements may be useful for different purpose such as: knowing the positions and performance of the firm. In course of analysis different tools and techniques are used.

This analysis evaluated involves the use of various financial statements the first is the balance sheet, which represents a snapshot of the firm's financial position at the moment and next is the income statement, that depicts a summary of the firm's profitability over the time, (Van Horne & James, 1997)

In other hand, profit is one of the indicators of sound financial performance. It is usually the result of sound business management, cost control, credit-risk management and general efficiency of operation (American Institute of Banking, 1972).

In this way, overall financial information can be obtained by analyzing balance sheet and income statement. However, there are three major steps for analyzing the financial statements. (Dangol, 2000).

- The first step involves the re-organization of rearrangement of entire financial data as constrained in the financial statements.

- The next step is the establishment of significant relationship between the individual components of balance sheet and profit and loss A/C.
- Finally, significant of results obtained by means financial tools is evaluated.

2.1.2 Importance of Financial Performance Analysis

The analysis and interpretation of financial statement is an important accounting activity. There are different parties interested in it. There aims and objectives of analysis of are also differing significantly. The following are the uses of financial statement analysis to different parties.

- Financial executives
- Top management
- Creditors
- Investors and Other

a) Financial Executives

The first party interested in the financial statement analysis is the finance department. Such analysis provides a deep insight into the financial condition of the enterprises, and a view of the past performance, which helps in future decision making to the financial manager. The means, analysis is not only gives vital information concerning the position of the enterprises but also reflects the results of the operations.

b) Top Management

The top management is also interested in the analysis of statement because it helps them in reaching conclusions regarding.

- Performance appraisal of overall business activities
- Inquiry about the current financial position
- Questions concerning the relationship of earning to trend in sales etc and
- Questions concerning the relationship of earnings to investment

c) Creditors

The financial analysis is also very useful to creditors. They are interested to know over all financial positions of the firm before giving loan. The financial performance indicates the financial position and it helps to judge the soundness and credit worthiness of the firms. Moreover, they get all information from the analysis of balance sheet and income statement of the company.

d) Investors and Others

Investors are also interested in the measurement of earning capacity of the securities. They have been concerned with cash generations capacity of an enterprise. For this purpose, cash flow analysis and funds flow analysis have provide to be very useful.

Besides, the above mentioned parties, the information provided by the analysis and interpretation of various financial statements are important and useful to these groups who are interested in the working of the business due to one and the other motive. They are employees of the business and their unions, government, consumers and general public.

2.1.3 Objectives of Financial Analysis

Basically there are three major objectives of financial analysis:

a. To select the pieces of financial information that is relevant to a particular problem.
b. To fit these into a coherent picture of the problem in relation to the firms aims and final resources.
c. To suggest alternative solution to the problem.

Besides, these, there are other objectives of financial analysis, which can be started as under:

- To estimate the earning capacity of the firm
- To examine the financial position and financial performance of the firm
- To determine the long term liquidity of funds as well as solvency
- To determine the debt capacity of the firm.
- To decide about the future prospects of the firm.

As a matter of facts the objectives of analysis depend the analyst as quality of the data available.

2.1.4 Limitations of Financial Analysis

Although financial performance analysis is highly significant for financial executives, top management, creditors, investors and others, there are certain limitation.

a. The analysis of financial statement is only a means to reach up to conclusions and is not conclusion itself. So it cannot work as a substitute for sound judgment. The judgment will depend upon the intelligence and skills of the analyst.
b. In case the figure of a year is taken for analysis, it will not provide true financial picture of the firm/organization.
c. The basic nature of financial statement is historic. Past can never reflect hundred percent impacts in the future.
d. The result of financial analysis cannot be as an indication of good or bad management because the ratios and other figure explain only probable state of events.
e. Financial statements fail to provide current information or exact value of assets because it records actual cost figures and do not records prices level changes.
f. The figure of current period may have fully comparable with that of other because there is difference in nature, accounting procedure and financing pattern, etc. But analyst generally ignores these facts and makes an objective comparison of two business firms and result may occur misleading.
g. The figures of one firm may not have fully comparable with that of other because there is difference in the nature, accounting procedure and financing pattern, etc. But, analyst generally ignores these facts and makes an objective comparison of two business firms and result may occur misleading.
h. There results may be meaningless if suitable tools will not be used for the analysis. These results may push the future of business toward the hell.

2.1.5 Sources of Judging Financial Performance

The firm communicates financial indication to users through financial statements and reports. They are the means to present financial situation or position to owners, creditors and the general public (Pandey, 1992). As these statements are used by investors and financial analysis to examine the firms' performance resource allocation decision. Moreover, the analysis and interpretation of financial statements depend on the nature and type of information available therein.

Basically, there are two financial statements prepared for the purpose of external reporting to owners, investors and creditors, which are main source for judging financial position. They are:

a. Balance Sheet
b. Income Statement

a) Balance Sheet

The balance sheet is a document that reports the financial position of a company as of specific point of time. It is one of the most significant financial statements for analysis of financial performance.

More specifically, the balance sheet contains information about the resources and obligations of a business entity and about its owners' interest in the business at the particular point of time (Francis, 1998). Thus, it is used to prepare in the end of financial year and reveals the firm's financial position on specific data.

In the language of accounting, the balance sheet communications information about assets, liabilities and owner's equity for a business firm as on a specific date. It provides a snapshot of financial position of the firm at the close of the firm's accounting period (Rana, 2000)

"The balance sheet provides information about the financial position of a firm at a particular point of time, say, as on Dec 31st. It can be visualized as a snapshot of the financial status of company. (Khan & Jain, 1993).

Likewise, balance sheet is a screen picture of financial position of a going business at certain moment. It is also known a statement of financial condition, position statement or statement of resources and liabilities or statement of worth etc.

In this way, it can be said that balance sheet is a summary statement and comparative record of the progress as downfall of the business. It shows the clear picture of the financial position of business as well as the assets liabilities of business, the relative proportion of borrowed and ownership capital, etc which are necessary to analyzed and evaluated their financial position of particular period. Hence, this is one of the important resources to examine financial weakness or strengths using different tools of any business firm especially the banks.

b) Income Statement

The second major statement for sources of financial information is income statement. It is also known as profit and loss account. It may be defined as any systematic array of revenues, expenses and other deductions, and net income of a business for a stated period. Furthermore, income statement is an abstract portrayal of the life of the business presenting a longitudinal picture of the gains and losses of the business, its fortunes and misfortunes. (Sharma & Kumar, 1998)

In the words of Khan & Jain (1993) "Income statement is of great importance and interest to end-users of financial statements because it enables them to ascertain whether the business operations have been profitable or not during the specific accounting period.

In addition, it shows whether enterprises have earned profit or losses within the particular period, so it is a statement of the profit earned or loss incurred. This statement is extremely useful to analyzer to evaluate financial position as well as profitability of the business operation.

Hence, an income statement is classified record of the grain and loss to the business for a period of time. It is prepared from the various balance of subsidiary nominal account given in the shape of trial balance. (Sharma, 1998)

In conclusion, these two financial statements, i.e. balance sheet and income statement or profit and loss account of business firm contain useful information, so they are very helpful to know the financial strengths and weaknesses by analyzing those statements comparatively. They are not separate and independent statements, but are related to each other. Thus, both have vital role in the field of financial performance analysis.

2.1.6 Methods of Analyzing and Evaluating Financial Performance

The analysis of financial statements is a process of evaluating relationship between component parts of financial statements to obtain better understanding of the firm's position and performance (Pandey, 1995). In brief, financial analysis is the process of selection, relation and evaluation.

In the process of analysis, various methods are used by the financial analyst. Most of the tools depend on the nature and characteristics of related statements and available data and information. Generally, there are financial and statistical methods to evaluate and to analyze, which are started together.

- Funds-flow analysis
- Cash-flow analysis
- Trend analysis
- Ratio analysis

a) Funds-Flow Analysis

Traditionally, a statement of source and application of funds in a technical device design to analyze the change in the financial condition of a business enterprise between two dates balance sheet is known as funds flow statement. In addition, a statement of changes in financial position is often presented with the balance sheet and profit and loss account as an integral part of financial statement which is defined as funds - flow statement so, it describes the sources from which additional funds were derived and used. (Sharma & Kumar, 1998)

Thus, a funds flow statement is a valuable aid to financial manager or a creditor or other interested persons in evaluating uses of funds. In the nutshell, funds flow statement is very useful in long term financing and it is also important tool of working capital analysis.

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

Fund plays a vital role in the funds flow statement. The term fund has several meanings. So, there are three approaches: cash approach, working capital approach. Traditionally, funds mean cash only so; the statement under cash approach is called cash flow statement. Such statement only shows the cash transaction. According to working capital approach, changes in the amount of net working capital (i.e., current assets and current liabilities) are useful for decision-making by shareholders, creditors, lenders and management. It is superior to the cash approach. Finally, financial resources approach is the best approach to disclose the change in the financial position of a firm. This approach presents the total assets and resources as fund. (Pandey, 1992).

In other side, fund flow statement is one of the flow valuable techniques to evaluate financial pattern. Mostly, this statement is prepared to achieve following objectives:

- To provide information on all financing and investing activities of a business.
- To show the use or application of financial resources.
- To show the uses financial resources provided from operation and other sources, and
- To disclose the amount and cause of all other changes in financial position.

b) Cash Flow Analysis

The cash plays an important role in the business firm's economy. In any business there may be constant inflow and outflow of cash. What blood is to human body, cash is to business enterprises especially to the Banks? So a major responsibility of financial management of firm is to mention an adequate balance of cash.

Hence, cash flow statement is an important tool of cash planning and control. At the same time it serves as a valuable tool of financial analysis too.

Statement showing the resources and uses of cash prepared from historical data, i.e. income statement and position statement is called cash flow statement. (Rana, 2000). It implies reveals the inflow and outflow of cash during the previous period. Such a statement can be prepared for a year, half year, a month and a week or for any other duration its main function is to explain the cause of changes in cash balance of the firm for two different dates.

Besides, cash flow statement is prepared to know clearly the various item of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the sense, the analysis relates to the moment of cash rather than the inflow and outflow of working capital. More clearly, according to Korn and Boyd cash flow deals with the cash transaction only while funds flow is considered will all items constituting funds for the financing of assets acquisitions program, (Sharma & Kumar, 1998).

Therefore, the main objective of cash flow analysis is to shows the cause of change in cash balances. It provides information about cash and availability of cash to management when it is interested to know. Cash flow analysis is not only concerned with the good or bad management of cash, it is deeply concerned with the liquidity position of the firm. Since cash flow statement is made to show the impact of financial policies and financial procedures on the cash position of the firm. In short, cash flow analysis is importance in short ranges planning and it always helps the management in short term financial decisions relating to liquidity.

c) Trend Analysis

It is an important and useful technique to analyze and interpret the financial statement. Under this technique of financial analysis, the ratios of different items for various periods are calculated and then a comparison is made. This method is basically helpful in making comparative study of financial management. Generally a period of five years is considered satisfactory. This method of analysis involves the computation of percentage relationship that each statements item bears same to the same items in the base of year.

Trend analysis shows the direction progress upward or downward. It is an important form of horizontal analysis of financial statements often called as 'Pyramid Method' of ratio analysis. Moreover, in this method, a statement used to analyze with the base of another reference statement. Other method of analyze is the calculations of trend ratio and showing trend value on graph paper. On the other hand, trend analysis is not out of limitations, it may effect by price level changes and the selection of bases year may an obstacle. It can show only the trend in operating result financial position of a concern cannot be discussed.

Besides these, it is great important for financial performance because of their utilities in business as well as in the banks. They are:

- It is a simple technique. It does not involve tedious calculations and requires trained experts.
- It is a brief method to indicate the future trends.
- It reduces the changes of errors as it provides the opportunity to compare the percentages with absolute figure.
- A financial analyst is able to judge the present position of the company and to compare it with the overall trend in industry.

d) Ratio Analysis

Ratio analysis is a widely used tool for financial analysis it is defined as the systematic use of ratio to interpret the financial statements so that the strengths and weakness of a firm as well as its historical performance and current financial conditions can be determined. The term ratio refers to the numerical or quantitative relationship between two items or variables (Khan & Jain, 1993).

Similarly, it is a powerful tool of financial analysis. A ratio is defined as "the relationship between two more things" (Kothari, 1978) so, in financial analysis, ratio is used as yardstick for evaluating the financial position and performance of company.

Therefore, ratio analysis is used for judgment financial performance of business concern over the period of time. It helps to find out the financial positions of the firm and also supports to provide necessary suggestion package for the betterment. Thus, economic financial position/ performance of a firm can be fully x-rayed through ratio analysis.

On the other hand, the uses of ratio analysis is not useful only to internal parties but to the creditors, suppliers, Banks, lending institution also. It is very helpful financing, forecasting, measuring the performance and cost control. Financial ratios are also useful to diagnosis of financial health of a firm.

In this way, the ratio analysis is widely used techniques to evaluate the financial position and performance of a business. But there are certain problems in using ratios. The analyst should be aware from those problems.

The limitations of ratio analysis basically are:

- Ratios do not indicate immediately the point where the mistakes or errors lie.
- The price level changes make the interpretation of ratios invalid.
- The ratios are means not needs of financial analysis. They can be affected with the personal ability of analysis.
- Conclusions drawn with the help of ratios should be verified with other techniques otherwise result may not perfect.
- It generally calculated from past financial statements and thus is no indicators of future.
- The number of various ratios is so large that it is very difficult task to select same appropriate ratios for the various business units.

2.2 Review of Related Studies

Finance is a broad field and there are various books written in this subject. The book of Khan & Jain is considered to be a useful book in the financial management. The modern approach of Khan & Jain views the term financial management in broad sense and provides a conceptual and analytical framework for financial decision making. According to them, “The finance function covers both acquisitions of funds as well as their allocation; hence apart from the issues of acquiring external funds, the main concern of financial management is the efficient and wise allocation of funds to various uses.” The three major financial decisions according to Khan & Jain are the investment decision, the financial decision and the dividend policy. – (Khan & Jain, 1999).

The book on 'Managerial Finance' written by Weston & Bringhman stresses on Risk- Return trade off as one of the major financial functions. They believe that the maximization of the value of the firm can be achieved through maximization of returns in one hand and minimization of risk in the other. The relationship between the expected future state of the economy and the performance of individual firms enables a relationship to be set forth between the state of the economy and the returns from investment in firms, (Weston & Bringham, 1980).

Describing about the new areas of finance, James C. Van Horne in his book 'Financial Management and Policy' stresses on two broad functions, viz:

- Investment in assets and new products.
- Determining the best mix of financing and dividends in relation to a company's overall valuation.

According to him "Investment of funds in assets determines the size of the firm, its profits from the operations, its business risk and its liquidity. Obtaining the best mix of financing and dividends determines the firm's financial charges and its financial risk; it also impacts its valuation," (Van Horne, 1997). He further incorporated other core financial areas such as; creation of value, investment decision, financing decision, dividend decision and financial management.

The objective of the company must be to create values for its shareholders. Market price of company's stock represents its value and this can be maximized by firm's optimum investment, Financing and dividend decisions. The capital investment decision is the allocation of the capital to investment proposals whose benefits are to be realized in the future. As the future benefits are not known with certainty, investment proposals necessarily involve risk. Consequently they should be evaluated in relation to their expected return and risk.

In the financing decision, the financial manager is concerned with determining the best financing mix or an optimum ‘capital structure’. If a company can change its total valuation by varying its capital structure, an optimal financing would exist, in which market price per share could be maximized. Another important decision of the firm, according to Van Horne is its Dividend policy. The dividend decision includes the percentage of earnings paid to stockholders in cash dividends. The dividend payout ratio determines the amount of earnings retained in the firm and must be evaluated in the light of the objective of maximizing shareholder’s wealth.

The Financial management involves the solution of the three major decisions. Together, they determine the value of a company to its shareholders. Van Horne believes that the objectives of any firm are to maximize its value, and therefore, the firm should strive for an optimal combination of the three inter-related decisions, solved jointly. The main thing is that the financial managers relate each decision to its effect on the valuation of the valuation of the firm.

The book on financial management written by Pandey defines financial management as “The managerial activity which is concerned with the planning and controlling of the firm’s financial resources. (Pandey, 1992)

Pandey (1992) believes that among the most crucial decision of the firm are those, which relate to finance, and an understanding of the theory of financial management provides the conceptual and analytical insights to make the decisions skillfully.

Pandey (1992) further identifies two kinds of finance functions; Routine and Managerial Finance functions.

The routine finance function do not require a great managerial ability to carry them out and they are chiefly clerical in nature. Managerial finance functions on the other hand are so called because they require skillful planning, control and execution of financial activities. There are according to Pandey four important managerial finance functions:

- Investment or long term asset mix decision.
- Financing or capital-mix decision.
- Dividend or profit allocation decision
- Liquidity or short- term asset-mix decision.

Erich (1997) in his book has described financial analysis, as "Financial analysis is both an analytic and judgmental process that helps to answer the questions that have been properly posed to and therefore, it is a mean to an end. We can stress enough that financial analysis is an aid that allows those responsible for results to make sound decisions."

A summary of what I have reviewed in various books finance has been highlighted below.

Finance is defined as the acquisition and investment of fund for the purpose of enhancing the value and wealth of an organization. The various finance areas include investments, public finance, corporate finance and financial institutions. The basic function of finance is to manage the firm's balance sheet inmost efficient way. The balance sheet reflects how a firm acquired financing through debt and equity resources, and it reflects the disposition of acquired financing among the various asset accounts (Thapa, 2002).

The major financial function required for managing the banks balance sheet is summarized below.

a. Analysis and planning
b. Financial structure management and
c. Asset management.

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

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

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

All the above financial decisions or functions as mentioned by different writers are instrumental toward effective handling of financial management, which includes activities beginning from raising of funds to efficient and effective use of funds; no matter either it is a banking or non banking institution. After receiving the books, certain useful journals on domestic market, banking, financial statement analysis and monetary credit situation of Nepal are studied.

Mahat (2004) has written an article about "Should NRB encourage establishment of more banks: which was published in the Kathmandu Post on 22 July 2004. This article gives short glimpse of the banking performance in Nepal.

Nepal Rastra Bank as a central bank of Nepal has the ultimate authority of granting approval for the establishment of a bank or financial institution. NRB has, therefore the power of increasing or limiting the number of players in the banking and financial service industry through licensing. NRB also has a role in creating a conductive atmosphere for efficient functioning of the banking and financial institutions. Allowing the entry of sufficient number of players in the banking and financial services industry creates the environment of healthy competition ad promotes efficiency in the banking system.

Mahat thinks that, establishment of new banks not only introduced advanced technology in banking industry but also offered a host of innovative products and superior services to the customers at affordable cost. Therefore, NRB should encourage more new private sector banks which will make modern banking available to a larger section of the economy. But on the other hand, he is afraid that Nepal could be over banked on the basis of the number of players in the industry but it is still under-serviced in reality.

Establishment of new banks will increase the intensity of competition in the banking industry. This will force the poorly managed and poorly capitalized banks to upgrade their efficiency. Otherwise, customers will shift their business with the better capitalized and more professionally managed banks. The principle of ‘survival of the fittest’ will hold well under such scenario. Therefore there is still a room for more banks so far as it paves the way towards sound and strong banking system (Mahat, 2004).

An article written by Paudel (1999) on ‘Banking Challenges ahead’ focuses in the potential areas where banks should invest to fight the prevailing economic recession. Currently growth in the profitability of JVBs has been mainly due to external factors such as the foreign exchange rate but not to the growth in the real sector of the economy. Therefore, to sustain the current financial position in the long run, banks should enter new areas by marketing their credit in important sub sectors such as hydro electricity, tourism, irrigation etc.

Poudel further analyze that. “Saving collection is another factor which is necessary for banks to balance their operations and generate sufficient surplus in their cash- flows. In recent years growth rate of bank deposits has declined to about 16 percent compared against 23 percent of the past. Mobilization of internal resources in the country demands that banks attract more financial resources from the public.” Another useful contribution made by Poudel (1997) in his article called ‘Financial statement analysis’ published in Nepal Rastra Bank Samachar on 1997 is reviewed (Poudel, 1997).

According to Poudel (1997) Balance sheet, profit and Loss a/c and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank’s balance sheet and profit and loss a/c. The banks balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account forms a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans and advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and services charges.

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

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

- Financial adaptability (Liquidity)
- Financial Performance (Profitability) and
- Financial Position of Bank (Solvency)

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

- The structure of Balance sheet and profit and loss account.
- Operating efficiency and internal management system.
  a) Managerial decisions taken by top management regarding interest rate, exchange rate, lending policies etc.
  b) Environment changes (technology Government, competition, economy.)

According to Poudel, the other factors, to be considered in analyzing the financial statements of bank is to assess the capital adequacy ratio and liquidity position. In the line of the norms set by banks for international settlement (BIS), capital adequacy of a bank is assessed on the basis of risk-weighted assets. It indicates a bank's financial strength and solvency. Presently the capital fund of a bank should not be less than 8% (at least 4% should be in the form of tier-1 capital or core capital) of its risk-weighted assets as capital fund. Banks facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base.

Liquidity is measures by the speed with which a bank's assets can be converted into cash to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of a bank.

Shrestha (1991) in his work 'Commercial Bank's Comparative Performance Evaluation' stresses on a proper risk management. He believes in the appropriate classification of loans under performing and non-performing category. In this context he writes, "Adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six month need to treated as unearned income."

Regarding the risk management of the bank Dr. Shrestha's other suggestions include:

- Any customer having overdue loan of two years or more in his account should not be given other loan facilities.
- Strong provisioning or reservations are required in restructuring portfolio relating to overdue loans.
- All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorized as good, substandard or doubtful loans.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

In another empirical study Edward (1968) employed financial ratio to predict corporate bankruptcy through multiple discriminate analysis. Out of the twenty-two financial ratios examined, Altam selected the five that did the best combine job in predicting bankruptcy. There ratios were working capital to assets, retained earning to total assets, earning before interest and taxes to total assets, market value of equity to total assets, market value of equity to book value of total debt and sale to total assets. Using these ratios, Altman found the discriminate model to be an accurate predicator of bankruptcy. (Altman, 1968)

Pradhan (1991) in his article “Nepalma Banijya banking Ko Upalabdhi Tahta Chunnauti”, the writer has pointed out some major issues in our local commercial banks against foreign joint venture banks. The study has grouped NBL RBB under local banks and Nepal Arab Bank Limited, Nepal Grindlays Bank Limited and Nepal Indoseuz Bank Limited under foreign joint venture banks.

The study focused the complete commercial banking system in Nepal in respect of their performance and profitability. His major findings are the deposit collection rate of local banks is very poor as compared to foreign joint venture banks. The pattern of deposit is also different between these two types of commercial banks. The foreign joint banks are in better position than local banks in profit making. In average, no foreign bank has suffered till now, but local banks have earned negative profits.

The above journals focus in the various aspects of the bank’s economic environment. NRB press communiqué shows the current domestic market scenario, article by Radha Krishna Poudel concentrates in the challenges of the banking sector; Narayan Prasad Poudel’s work stresses in effective way of evaluating the financial performance and Dr. Shrestha’s suggestions are focused towards proper risk management. Whatsoever, aspects of the bank the above journals target, they all have to be combinable assessed and kept in strict consideration for effective and efficient financial performance of the banks in the Nepalese economy.

2.3 Review of Unpublished Thesis

Various thesis works have been done in different aspects of commercial banks such as lending policy, interest rate structure investment policy, resource mobilization, and Capital structure etc. The conclusion drawn on the different aspects of commercial banks will be relevant to justify to my study. Thus some previews thesis, which are relevant in this section.

Adhikari (1993) has conducted a study of “A Evaluating the financial performance of Nepal bank Limited”. The main focus of his study was evaluating the financial performance of Nepal Bank Limited.

The other objective of his study is to examine the trend of deposit mobilization along with the cost of deposits and also to access the investment portfolio of the banks.

Further his objective is to measure liquidity, profitability and operating efficiency of the bank as well as to evaluate the earning power and dividend paying ability of the banks.

He had concluded that investment portfolio of the bank had not been managed so efficiently to maximize the returns there from the bank was suffered from series of operational losses over the entire period.

Regmi (2001) has conducted a study of “A comparative study of the financial performance of Himalayan Bank Limited and Nepal Bangladesh Bank Limited”

His study shows that NBBL is not maintaining adequate liquidity position in comparison to HBL. Therefore he suggests NBBL to increase its current assets. As capital structures of both the bank are highly levered both the banks are recommended to maintain and improve mix at debt and owner’s equality by increasing equity share. He further suggests HBL to improve the efficiency in utilizing the deposits in loans and advances for generating profit. NBBL should try to maintain present position on this regards. Profitability position of HBL is comparatively beer than the same of NBBL. So, NBBL is recommended to utilize its resources more efficiently for generating more profit margins. If resources held idle bank faces high cost and causes a low profit margin. An ideal dividend payout ratio is based upon shareholders expectations and he growth requirements of he banks. NBBL is suggested to increase its dividend payout ratio.

The two banks should extend their resources to rural areas and promote the development of poor and disadvantage group. In order to do so banks should open their branches in the remote area with objectives of providing cheaper banking services especially. HBL should initiate this regard because it has few branches in comparison to NBBL. Because of the competition between banking sectors both the banks are suggested to formulate and implement some sound and effective financial and non financial strategies to minimize adopting modern banking technologies to enhance their better and wide market.

Bista (2002) has conducted on study of " A study on financial performance of Nabil Bank Ltd" as a Master's thesis in April 2002.He have conducted the study on financial performance of Nabil Bank Ltd. His study is focused on financial analysis and other portfolio of the NABIL. The study has also focused on Income and Expenditure analysis and Bankruptcy Score analysis.

This study is conducted with the use of secondary data. The source of secondary data are the bank's annual reports, financial statement of the bank and related publication of commercial banks and central bank as well as other useful publications from the financial institution and consultants. Likewise newspaper, journals, periodicals magazine, reports and unpublished thesis have been used as other source of data during the study. The tabulated data were analyzed with the help of various fundamental financial and statistical tools. The basic objective of the study is to analyze the liquidity. Leverage, activity, profitability, and ownership ratios of the bank, to a study the income and expenditure statement of the bank, to analyze the bankruptcy score of the bank for the five years.

Mr. Bista has drawn various conclusion of his study, which are discussed briefly. He has given conclusion from the analysis of Financial Ratios. It states the liquidity position of the NABIL is in normal standard, the cash and bank balance proportion with respect to the current assets is moderate, the loans and advances disbursement with respect to the current assets is high. In general, the liquidity position of the bank is good enough to meet the short- term obligations. The activity ratios of NABIL indicate that the bank has utilized its resources in the best possible way to maximize its wealth. The bank has the high debt equity ratio and debt to total assets ratio, which indicates the creditors have invested more in the bank than the owners. The interest earned by the bank is inadequate in comparison to the assets, the net profit earned in comparison to the total deposit is relatively low, the net profit earned in comparison to the total assets is fluctuating, the profit earning in relation with the shareholders' equity of NBL is better. In general the profitability ratios of the bank indicate that the overall performance of the bank is effective in maximizing its wealth. The EPS of NABIL is quite good, the dividend per share of NABIL is low and the shareholder' are being compensated very slowly, the dividend payout ratio o f the bank is irregular and low. Overall, the ownership ratio of the bank is not encouraging, but is in increasing trend.

The draws conclusion from the income and expenditure statement analysis. It states as income aspects shows, the interest earning is the main sources of income of the bank, the second main sources of income is foreign exchange earnings and thirdly commission earnings is other source of income. Overall, the bank is generating maximum profit from interest earnings and the sale of foreign exchange as well as from commission. The expenditure aspects shows, interest expense, personnel expense and other operating and non-operating expenses are the major expenditure heads. Overall, the result of the expenditure of NABIL indicates that bank is making increasing the profit by reducing its operating expenses and managing better human resources in order to maximize the shareholder's equity.

He again draws conclusion from the bankruptcy score analysis, which stated the bankruptcy score of the bank was found to be inconsistence over the past five years. The result of the score has put the researcher in different position to predict the existence of the bank. From the point of statistical analysis, the solvency position of the bank is better. So, it can be predicted that the chance of failure of NABIL is very remote.

Mr. Bista, he had made some valuable recommendations. He have suggested the bank to focus more in credit cards, wealth management, global market, etc in order to get high returns, to venture mew grounds in the financial sector such as investment banking and e-banking, to invest more in loan and advances as well as less in government securities, to formulate new strategies if serving clients in a satisfactory way and strengthen and activate its marketing function, as it is an effective tool of reaching at and retaining customers, to take care of inconsistency and irregularity in dividend payment, to adopt suitable margin rates which are influenced by interest rate, nature of goods, trade cycle etc., to publish and distribute booklets with all banking information as well as with general information of an economy and to invest in the deprived sectors of the nation.

Gupta (2004) has conducted a study of “Financial Performance Analysis of Everest Bank Limited” as a Master’s thesis in January 2004.Mr. Gupta concluded this study with the basic objective of examining the financial statement of the bank and analyzed them to see the financial soundness of the bank. Other objectives are:

- To observe the return over the equity.
- To highlight the relationship between different variables.
- To provide suggestions from findings.

Based on this analysis his major findings are as below:

Liquidity Ratio: It is found that the bank is able to maintain liquidity position to meet the daily cash requirement. It has made enough investment on government securities but less in the risky assets, i.e., L & A overall. It has indicated the liquidity position as the data shown lower consistency.

Activity Ratio: The study shows the strong position of the bank regarding the mobilization of the total deposit on loans and advances but decreasing trend regarding the mobilization of the total deposit as investment. The bank has average position towards the utilization of working fund on loans and advances.

Profitability Ratio:

Here Mr. Gupta has concluded that

- The ratio of total interest paid to working fund is satisfactory as it is decreasing of interest earned every year.
- The return on equity is not satisfactory because it has not been able to utilize the equity capital effectively.
- The ratio of total interest paid to working fund is satisfactory. It shows that it is successful to collect its working fund from less expensive source.
- The bank is successful to mobilize its interest bearing assets such as loans, advances and investment.
- The return on loan and advances ratio shows that the bank is not able to earn satisfactory income on loans and advances.
- The return on Total working fund ration shows that the profitability with respect to financial resources, the investment of the bank assets is unsatisfactory as well as unstable.
- EPS shows that the bank has very good increasing trend regarding EPS, even though the first two years shows the static figure.

Joshi (2004) has conducted a study of “Financial performance of joint venture banks in Nepal with special reference to Nepal Bangladesh bank Ltd” as a Master’s thesis in September 2004.The main focus of her study is financial analysis and other portfolio of NBBL. The main sources of data for this study are secondary data. According to the requirement, published balance sheets, profit and loss A/c and other related statements of accounts as well as annual report of the respective bank have also been the major source of data. Various related books, booklets, magazines, journals, newspapers and thesis are referred for the study of the topic. For the purpose of the study, the data collected and arranged in proper form have been analyzed and interpreted through financial and statistical tools. Basically, four types of ratios are used to analyze data, which are liquidity ratio, capital structure ratio, activity ratio, profitability ratio and ownership ratio. The specific objectives of the study are to evaluate various financial ratios (liquidity, profitability, capital structure, turnover, ownership position of NBBL, to analyze bank's deposits, mobilization and investment, to forecast future trends of deposit mobilization and loan and advances of NBBL, to make necessary suggestions and recommendation for effective financial performance in future on the basis of performance evaluation.

The major findings of her study are discussed briefly. She had concluded that the liquidity ratio of bank is considered satisfactory as the bank is trying to meet its short-term obligations. The result of analysis of activity ratio shows that the banks are efficient utilizing its outsider's fund (i.e. total collection deposits) by extending loans and advances to generate profit. Overall, the activity ratio of NBBL indicates that the banks has utilized its resources in a best way to maximize the wealth and thus making an increment of profit for the organization, analyzing the capital structure ratio of the bank, it is concluded that incase of NBBL the shareholders stake in the banks is very low as the creditors have dominated in the bank financial mix. She also concludes that Profitability ratio indicates the degree of success in achieving desired profit level. The result indicates that the banks has been able to generate profit by utilizing deposits but the generated profit is low, so additional efficiency is required to increase earnings. The analysis indicates that profit earning in relation to shareholders equality of NBBL in better position, which exhibits better utilization of shareholders equality. Overall, it is concluded that NBBL is able to earn a positive profit but not to a satisfactory level. Again, after analyzing the ownership ratio, it is concluded that in case of NBBL, the shareholders are being compensated with good returns either in the form of cash dividend or bonus shares.

Ms Joshi has given some valuable suggestions, which are discussed briefly. She recommends the banks should try to come forward to increase the number of clients, develop the entrepreneurship, diversity their business with large number of clients, develop investors and come forward to meet the national objective of privatization by mobilization of more entrepreneurs. Most of the JVBs are found to be centralized in urban areas. So, it is suggested that the banks should extend there banking facilities even in rural and sub rural areas as well as mid western region of the country. At present due to increase in transactions of security and capital market, higher taxes laid on heavy deposits and increase in number of joint venture banks as well as finance companies and insurance companies, these all have been creating pressures on deposit collection of NBBL. So, bank is recommended to quicken the reliable depositing process by provide attractive schemes for the depositors. Since NBBL is not maintaining adequate liquidity position, the bank is suggested to increase its current assets. As the capital structure ratio of bank is highly leveraged, NBBL required maintaining and improving an optimum mix of debts and equity by increasing equity base in order to avoid financial risk. Lending continuous to be a very important part of business but, is not a sole driver behind a corporate relationship. So, the bank should increase emphasis on cross selling and lending with higher value products in order to increase the overall value of relationship. NBBL should attract more low interest bearing saving and current deposits to minimize its cost of fund and increase profit margin by investing the same as loan and advances.

Karki (2005), in his thesis entitled “A comparative analysis of financial performance of NABIL and SCBNL”, has pointed out following objectives.

a) To evaluate liquidity position of both banks.
b) To analyze comparative financial performance of both banks.
c) To study the comparative position of both banks.
d) To offer a package of suggestion to improve the financial performance.

e) To identify the relationship between interests earned and operating profit.

Major findings of this study are as follows:

a) SCBNL has efficiently operated its long – term fund, deposit and assets to generate more profits.
b) Liquidity position of NABIL bank is favorable in many cases it seems excessive. The proposed recommendation for these banks are to reduce its excessive non – performing assets (Cash and bank balance) and invest on the income generating current assets (Treasury bills), while SCBNL must strength the liquidity position.
c) Comparatively SCBNL's profit ability position is better than of NABIL.

Thapa (2005) had conducted a research on topic of "A Comparative Financial Statement Analysis of Himalaya Bank Limited and Standard Chartered Bank Nepal Limited" with the main objectives of:

To Study the liquidity, profitability, activity, capital structure and invest ability position of both SCBNL and HBL, to examine the trend of deposit and loan and advances and to suggest and recommend some measures by evaluating and finding financial performance of both banks. The major findings he had presented were as follows:

The current ratios of both the banks are always below the normal standard 2:1 which is the indication of unsatisfactory liquidity position, though SCBNL is found slightly better as compared to HBL in this regard. HBL has been found utilizing their total deposits successfully in the form of extending loan and advances for profit generating purpose as compared to SCBNL. Return on investment of SCBNL has always found higher in all fiscal years of study as compared to HBL (i.e. 4.3%>2.11%. EPS of both the banks were found in fluctuating trend through divided pre share of HBL has found always lower in all fiscal years. Both the banks were suggested to reduce the operating expenses to maximize the profit.

Pali (2006), in his thesis paper entitled, “Financial Evaluation and Analysis of Nepal Investment Bank Ltd and Standard Chartered Bank Nepal Ltd.” , has made an attempt to highlight the strengths and weaknesses f above two mentioned banks. He concluded that they should search the new areas of lending and move to rural areas in search of new lending areas as well.

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

a) To evaluate liquidity position of these banks.

b) To analyze comparative financial performance of these banks.

c) To study comparative position of selected banks.

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

Major findings of this study are as follows:

a) Commercial Bank except SCBNL and NABIL are not maintaining constant DP ratio so as to have the confidence of general shareholders.

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

Atreya (2009), in her thesis entitled “Analysis of Financial Performance of Himalayan Bank Ltd. and Standard Chartered Bank Nepal Ltd.” has concluded that personal expenses and office operating expenses have increased in SCBNL in comparison to HBL, whereas total income and operating income have been increased similarly. SCBNL seems much better in terms of offering dividend to its shareholders in compared to HBL. In terms of return on capital employed SCBNL has better position than HBL. SCBNL has utilized capital fund efficiently. HBL has been successfully utilized their total deposits in the form of extending loan and advances for profit generating purpose as compared to SCBNL. Short term solvency positions of both the banks are found below the normal standard. Both the banks have been efficient in utilizing most part of their total assets in profit generating purpose but in comparison HBL has better performance than SCBNL for utilizing assets.

Pandey (2010), in his thesis entitled, “A Comparative Financial Performance Analysis of Commercial Banks (with special reference to Nabil Bank Ltd., Nepal Investment Bank Ltd. and Standard Chartered Bank Nepal Ltd.)”, had concluded that the current ratio o f NABIL, NIBL and SCBNL is greater than 1 out of which NABIL bank has the highest current ratio. It means Nabil Bank’s solvency position is better than NIBL and SCBNL, SCBNL has mobilized highest percentage of its total deposit into total investment. From income analysis, NIBL has highest net interest income than other banks. Similarly exchange income of SCBNL is greater than other sampled banks. From correlation & regression analysis NIBL & SCBNL have positive coefficient of correlation between net profit & total deposit but Nabil bank has negative coefficient of correlation.

2.4 Research Gap

Commercial Bank invests its deposit in different profitable sector according to the directives and circulars of the Nepal Rastra Bank and guidelines and policy of their own bank. Financial analysis statement has to prepare according to direction of NRB. Nepal Rastra Bank’s policy and guidelines are changing according time. So, the up to dated study over the change of time frame is major concern for the researcher and concerned organization as well as industry as a whole. This study covers the more recent financial Data and analysis is done within the latest guidelines and curriculum of Nepal Rastra Bank.

No researcher had undertaken regarding the comparative study and analysis of financial performance between the Standard Chartered Bank Nepal Ltd. & Nepal Bangladesh Bank Ltd. Some researcher has done the comparative studies of other joint venture bank. But within these banks, studies are not found. Financial analysis is the major function of every commercial bank for evaluating the financial performance. Therefore it is the major concern of stakeholders to know the financial situation of the bank.

Other researcher had researched about only the leading joint venture banks but this study covers the comparison between leading (SCBNL) and non leading (NBBL) joint venture banks in Nepal. Every year the financial performance of commercial banks are changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about the in depth analysis of the Financial performance which is the major concern of the shareholders and stakeholders.

CHAPTER -III
RESEARCH METHODOLOGY

Research is common parlance refers to a search for knowledge. "Research Methodology refers to various sequential steps to adopt by a researcher in studying a problem with certain objectives in view". In other words Research Methodology describes the methods and process applied in the entire aspect of the study. Evaluating the financial performance of the selected banks in a micro level and to highlight the effort of the financial decisions of these banks in the economy at the macro level forms the basic objectives of this research. Thus it highlights the research methodology used in the study for analysis of financial performance of SCBNL and NBBL to draw some potential conclusion from this. For this purpose of achieving the objective the following methodology has been proposed to follows:

3.1 Research Design

Descriptive research design is used to describe and analyze the data. Both financial and statistical tools are used for simplicity financial tools are used to measure the relationship between in terms of percentage and times but to have more complex analysis. Statistical tools have been employed to have better empirical analysis of relationship to see their trends. It follows descriptive cum exploratory research design.

3.2 Population Sample of the Study

Thirty one Commercial banks are operating in Nepal. All the commercial banks that are operating in Nepal are considered as the population. It is not possible to study all the data related with all JVBs because of the limited period and showed also taken into consideration of the partial fulfillment of the Master's Degree. SCBNL and NBBL have been emerging as one of the reputed banks in Nepal. It has been expanding its branches in the various part of the country. It has been successfully launching various facilities and service to the people. Thus, SCBNL and NBBL financial performance are the challenging and interesting subject to study. Thus, two of the joint venture banks i.e. SCBNL and NBBL have been selected as sample for the present study.

3.3 Nature and Source of Data

This study is based on secondary data provided by SCBNL and NBBL. It constitutes mostly the prospects of the company and audited annual reports that contain balance sheet and profit and loss a/c. Other supplementary data and information have been obtained from various sources such as Nepal Rastra Bank, Nepal Stock Exchange limited, Library of SDU, TU central library, previous dissertations, other publications and web-sites.

3.4 Methods of Data Analysis

Data collected from different sources are in raw from and in the initial stage as judging independently does not help much. This data are converted by the help of various financial and statistical tools to achieve the objectives.

3.4.1 Financial Tools

The considerable assistance of Financial Ratios and Income and Expenditure analysis has been taken to measure the strength and weakness of the SCBNL and NBBL.

3.4.1.1Ratio Analysis

Ratio analysis is one of the most commonly used techniques in the analysis of the financial statement and evaluation of the managerial performance. “Ratio is relationships expressed in of mathematical terms between figures which have a cause effect relationship or which are connected with each other in some other manners”. Ratio analysis points out the problems in any operational areas and provides a basis to recommend corrective actions. The purpose of ratio analysis is also to satisfy the interest of shareholders to make them clear about the picture of the bank. Ratio analysis satisfies the interests, creditors, government institutions and other to form their opinion or enable them to have guideline towards effective decision making.

"Financial statements are examined using various ratios to make sure that the business operation is carried out properly and results are within the expected range". There is variety in ratio calculation. Data contained in financial statement as the requirement of the types of ratios are as follows:

- **Liquidity Ratios**

Liquidity ratios reflect the short-term obligation of the firm. This ratio shows that if firm need cash amount in short period without any notice, can firm fulfill its need or how it manage the need. Without liquidity, no firm can operate. Liquidity is compulsory for survival of the firm." Liquidity ratio measures the ability of firm to meet its current obligation. In fact, Liquidity needs the preparation of cash budgets and Funds Flow statement, but Liquidity ratios, by establishing a relationship between cash and other current assets to current obligation provide a quick measure of liquidity."

Commercial banks need liquidity to meet loan demand and deposit withdrawals. Liquidity is also needed for the purpose of meeting Cash Reserve Ratio (CRR) and Statutory Liquidity ratio (SLR) requirements prescribed by the central Bank. The following ratios are calculated under the liquidity ratios.

- Current Ratios
- Cash and Bank Balance to current Assets Ratio
- Investment on government securities to current assets
- Cash and Bank Balance to total deposit ratio

- **Activity Ratio**

Activity ratio is a function of the efficiency with which the various assets components are measured. It measures the degree of effectiveness in use of resources or funds by an enterprise. These ratios are also called turnover ratio as they indicate the speed with which assets are being converted or turned over into income. Large amount of income is the result of better management of the assets. Low volume of assets decreases income opportunity while high volume of assets increases the interest expenses depressing their profits. This ratio also measures the banks ability to utilize their available resource so is also called utilization ratios. The ratio calculated here as follows:

a. Loan and Advances to total Deposit ratio
b. Total investment to total deposit ratio
c. Loan and advances to Total Assets ratio

- **Profitability Ratio**

This ratio measures the capacity of generating revenue and search for the incomes of the firm. The operating efficiency of the bank and its ability to ensure adequate return to its shareholders depends ultimately on the profit earned by the bank. It measures the success of the firm in terms of profit margin, return on equity, return on total investment and reflect the overall efficiency and effectiveness of the management. To measure the efficiency of the banks the following major profitability ratios are calculated:

- Return on Equity
- Interest Earned to Total Assets Ratio
- Interest Paid to Total Assets Ratio
- Interest Earned to Operating Income Ratio
- Return on Total Assets Ratio
- Return on Loan and advances ratio
- Earning Per Share

- **Leverage / Capital Structure Ratio**

Leverage ratio shows the proportion of debt capital and equity capital. It shows the long-term solvency of the firm. It judges the long-term financial position of the firm. In financial terms, a large amount of debt capital related to equity is called high capital gearing, whereas a large amount of equity related to debt is called low capital gearing. Shareholder stands to gain with capital gearing during times of good profit as the debt capital is paid fixed interest and all balance of profit is available to equity holders. But in times of low profits, the payments of fixed interest on high debt capital may absurd all the profits leaving nothing for the shareholders. That’s why at the time of high profit leverage is favorable and unfavorable when profits are too low.

Hence, the leverage ratios are calculated to measure the financial risk and the firm’s ability if using debt for the benefit of shareholders.

- Total debt to net worth ratio
- Total debt to equity ratio
- Net worth to total liabilities ratio

3.4.2 Statistical Tools

Various Statistical tools may be used for the evaluation of financial performance of the banks such as Correlation Analysis, Measure of Central Tendency, Theory of Dispersion, Estimation whatever is required. “Statistical analysis is one particular language which describes the data and makes possible to talk about the relations and the difference of the variables. Without the adequate understanding of statistics, the investigator in social science may frequently be liked a blind man groping in a dark closet for a black cat that is not there.

The method of statistics is useful in an ever-widening range of human activities in any field of thought in which numerical data may be had. Under this heading, statistical tools such as coefficient of correlation between variables and trend analysis of important variables have been used.

Correlation Analysis

The term correlation analysis is the analysis, which reflects that the variables of the two different data are related or we can say that correlation is the analysis of relation between more than one variable. In this analysis we examine that the data are mutually dependent or not. “When the relation is of quantitative nature, the appropriate statistical tools for discovering and measuring the relationship and expressing it in a belief formula is known as Correlation.” The relation between the data may be either positive or negative. It can be determined by different ways such as graphical representation, Formula Method etc. When both variables are moving upward or downwards in the same proportion, it is said to be the condition of positive correlation and if the condition is vice versa that the condition is said to be negative correlation. The main purpose of this study is to find out the correlation between selected ratios with each other over study period.

CHAPTER -IV

DATA PRESENTATION AND ANALYSIS

The main objective of this chapter is presenting and analyzing data according to research methodology to attain the objective of this study. The focus of this chapter will be the ratio analysis, which is powerful financial tool to measure the financial performance of the banks. In this chapter analysis and interpretations are categorized in two heading, which are as follows:

- Analysis of financial ratios
- Statistical tools

4.1 Analysis of Liquidity Position

A liquidity ratio measures the ability of the firm to meet the current obligations. These ratios focus on current assets and liabilities and are used to ascertain the short- term solvency position of a firm. Liquidity ratios are used to judge a firm's ability to meet short- term obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community liquidity provided honor strength health and prosperity to an organization.

The following ratios are evaluated and interpreted under liquidity.

4.1.1 Current Ratio

Current ratio is one of the most widely used measures of liquidity. It measures the degree to which current assets cover current liabilities. The ratio is the yardstick to judge the soundness of the short-term financial position of the business unit or industry. A higher ratio greater indicates greater assurance of ability to pay current liabilities. A current ratio of 2:1 is generally considered to be an acceptable standard.

Symbolically,

$$\textbf{\textit{Current Ratio}} = \frac{\textbf{\textit{Current Assets}}}{\textbf{\textit{Current Liabilities}}}$$

Where,

Current Assets = cash and bank balances, money at call short Notice, loans, cash credit, overdrafts, bill discounted and purchases, investment on government securities and foreign banks, interest receivables, sundry debtors, staff loan & advance, advance tax.

Current Liabilities = Deposits loan and advances bills payable, Income tax payable, staff bonus payable, dividend payable, Interest Payable and sundry creditors.

In the following table 4.1 we can see the data relating to current ratio SCBNL and NBBL.

Table No. 4.1

Current Assets & Current Liabilities (In times)

(Figures in Thousand)

Year	Standard Chartered Bank Nepal Ltd.			Nepal Bangladesh Bank Ltd.		
	Current Assets (Rs)	**Current Liabilities**	**Ratio**	**Current Assets**	**Current Liabilities**	**Ratio**
2006/07	3782173	1833315	2.06	1724714	255376	6.75
2007/08	2050243	1099242	1.87	1214053	491463	2.47
2008/09	5192713	1663277	3.12	1923848	697521	2.76
2009/10	3598767	1660889	2.17	2572417	853215	3.01
2010/11	7256683	2133500	3.40	2058299	345287	5.96
	Yearly Average		2.52	Yearly Average		4.19

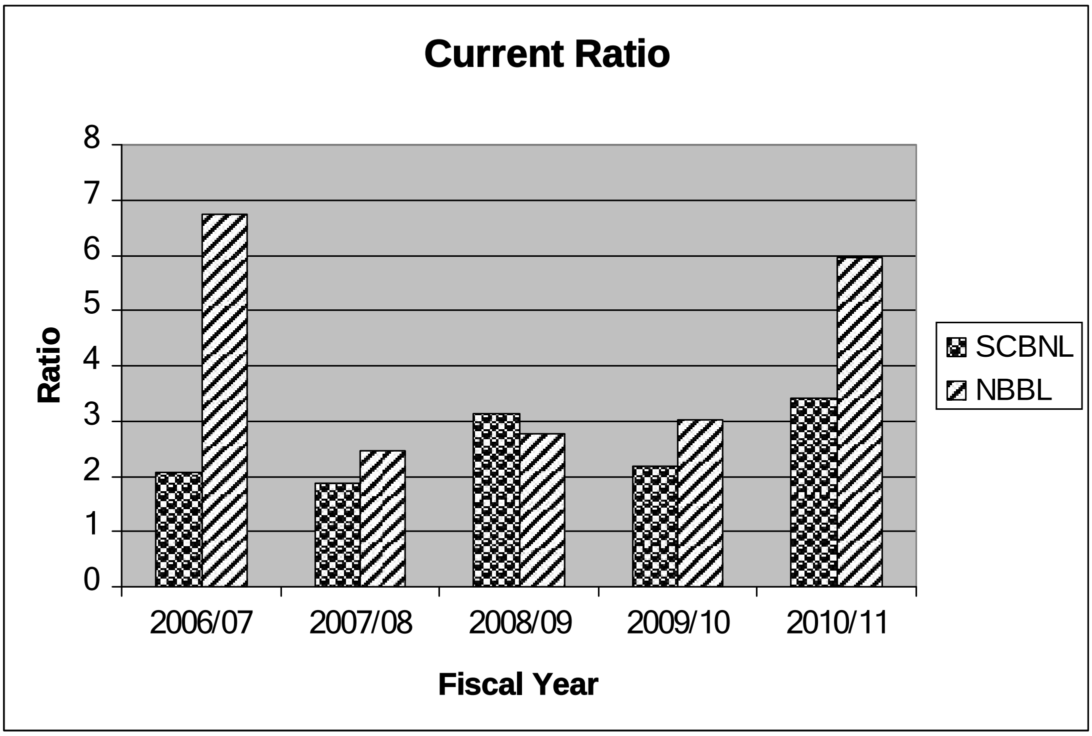
(Source: Financial statements of the banks)

The above table 4.1 clearly shows the liquidity position of the Banks namely SCBNL & NBBL in terms of current assets to current liabilities ratio. The table indicates that the ratios of both banks are always grater than normal standard 2:1 except in the FY 2007/08 of SCBNL.

In general CR is better when it is in 2:1 here both the banks fulfill those norms. The higher ratio of SCBNL is 3.40 and lower ratio is 1.87 an average is 2.52 times. However the higher ratio of NBBL is 6.75 and lower ratio is 2.47 an average is 4.19 which is the grater than SCBNL.

We have found form the above analysis that the yearly average Current Ratio of SCBNL is 2.52 times and NBBL is 4.19. It shows that SCBNL is better maintains its Current Ratio in normal standard than NBBL.

Figure 4.1



4.1.2 Cash and Bank Balance to Current Assets Ratio.

Cash and bank balance to current assets ratio reveals the position of cash and bank balance into total of current assets.

We have,

$$= \frac{\textbf{\textit{\underline{Total cash and bank balance}}}}{\textbf{\textit{Total current assets}}}$$

In the present study cash and bank balances includes cash on hand including foreign cheques other cash item and balance with domestic banks and aboard. Cash and bank balances are highly liquid assets than other current assets. So these ratios can measure higher liquidity position than current ratio.

Table 4.2 shows the data relating to cash and bank balance to current assets.

Table No. 4.2

Calculation of Cash & Bank Balance to Current Assets Ratio

(Figures in Thousand)

Year	Standard Chartered Bank Nepal Ltd.			Nepal Bangladesh Bank Ltd.		
	Cash & Bank Balance	Current Assets	%	Cash & Bank Balance	Current Assets	%
2006/07	2,021,021	3782173	0.53	1694685	1724714	0.98
2007/08	2,050,243	2050243	1.00	1164053	1214053	0.96
2008/09	3,137,164	5192713	0.60	1922848	1923848	0.99
2009/10	1,929,307	3598767	0.54	2571417	2572417	0.99
2010/11	2,975,795	7256683	0.414	2058299	2058299	1.00
	Yearly Average		0.617	Yearly Average		0.98

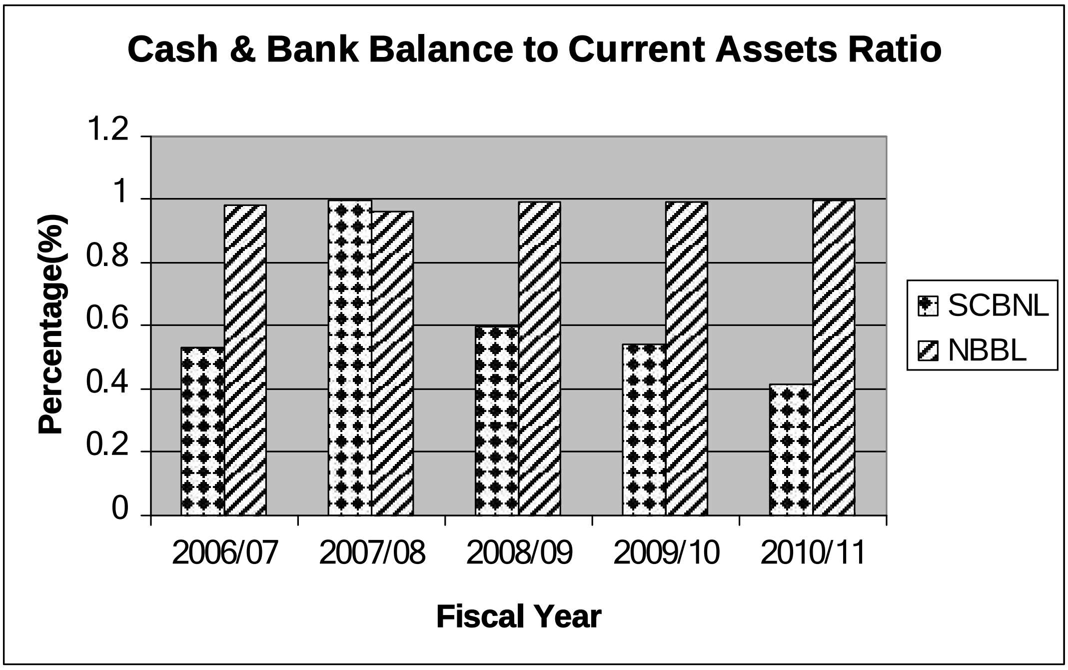
(Source: Financial statement of the banks)

The above table 4.2 shows that the cash and bank balance to current assets ratio of SCBNL and NBBL. SCBNL has ranged between 0.53 to 1, on an average 0.617. In the FY 2007/08 the ratio is higher and in the FY 2010/11 the ratio is lower. The ratio is in zigzag order during the study period.

In the case of NBBL the ratio has ranged between 0.96 to 1. It has almost constant ratio in every year and on an average 0.98.

Cash and bank balance to current assets ratio of NBBL is higher than that of SCBNL in each year except in the FY 2007/08 of SCBNL and on an average. So its liquidity position may better, but less percentage of SCBNL shows it has utilized its fund more efficiently.

Figure 4.2



4.1.3 Investment in Government Securities to Current Assets Ratio

Government security is slightly liquid assets as well as confidential investment until the state is living. So it is also very important and very near cash item of current asset. Investment on government security to current asset ratio visualizes the proportion of investment on government security to current assets.

We have,

$$= \frac{\textit{Investment on Government Securities}}{\textit{Current Assets}}$$

The following table 4.3 shows the figure of this ratio.

Table No. 4.3

Calculation of Investment on Government Securities to Current Assets Ratio

(Figures in Thousand)

Year	Standard Chartered Bank Nepal Ltd.			Nepal Bangladesh Bank Ltd		
	Inv. Govt.	CA	Ratio	Inv. Govt.	CA	Ratio
2006/07	13,553,233	3782173	3.58	2661834	1724714	1.54
2007/08	13,902,819	2050243	6.78	1034560	1214053	0.85
2008/09	20,236,121	5192713	3.90	1389902	1923848	0.72
2009/10	19,847,511	3598767	5.52	2,222,432	2572417	0.86
2010/11	17,258,682	7256683	2.38	2,112,751	2058299	1.03

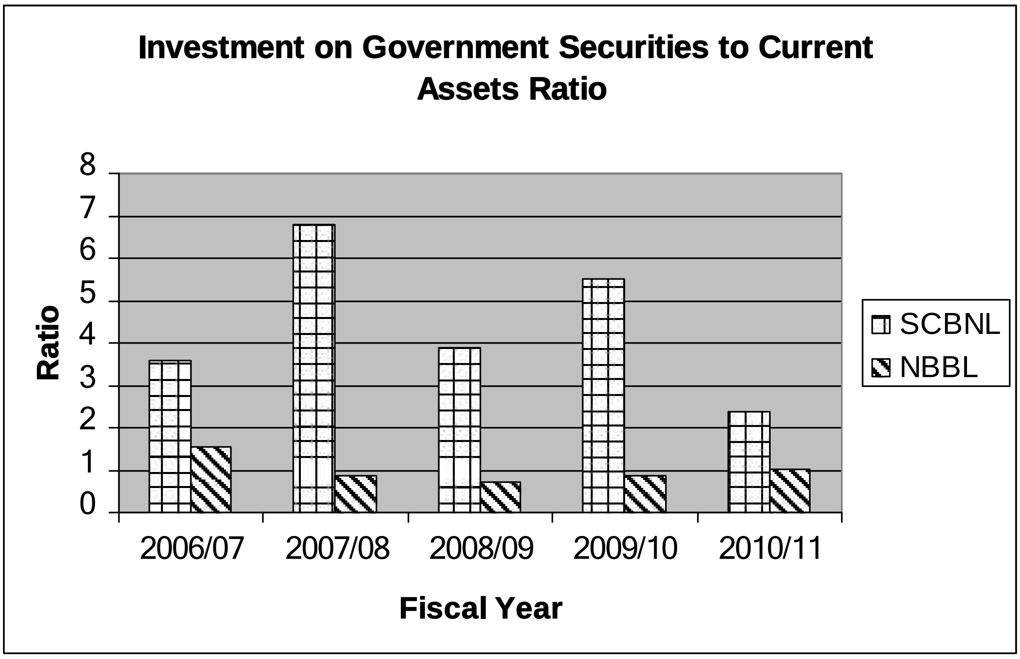
(Source: Financial statements of the banks)

Above table 4.3 shows the ratio of Investment on government securities to Current Assets. Investment of SCBNL to the government securities is increased up to the FY 2008/09 and then decreased in the preceding year. However the Ratio of SCBNL is fluctuating in every year.

Investment of NBBL to the government Securities is almost in zigzag order during the study period. NBBL has 1.54 times investment of government securities to current assets in the fiscal year 2006/07 and reached 1.03 in the fiscal year 2010/11. It has lowest ratio in the fiscal year 2008/09and the ratio is 0.72.

Investment on government securities is the more safe investment than current assets. In addition it can earn additional interest income by investing instead of keeping idle cash. In conclusion, the ratio of investment on government securities to current assets ratio of SCBNL is higher than NBBL. So SCBNL has invested its remarkable portion of current asset to government securities.

Figure 4.3



4.1.4 Loan and Advance to Current Assets Ratio

Loans and advances to current assets ratio reflects the capability of bank discounting and purchasing the bills, loans and overdraft facilities to the customer to make a high profit mobilizing its fund in the best way a commercial bank should not keep its all collected funds as cash and bank balances but they should be invested as loan and advances to the customers.

We have,

$$= \frac{\textit{Loan and Advances}}{\textit{Current Assets}}$$

The table 4.4 shows the ratio of loan and advance to current asset ratio.

Table No. 4.4

Calculation of Loan and Advances to Current Assets Ratio

(Figures in Thousand)

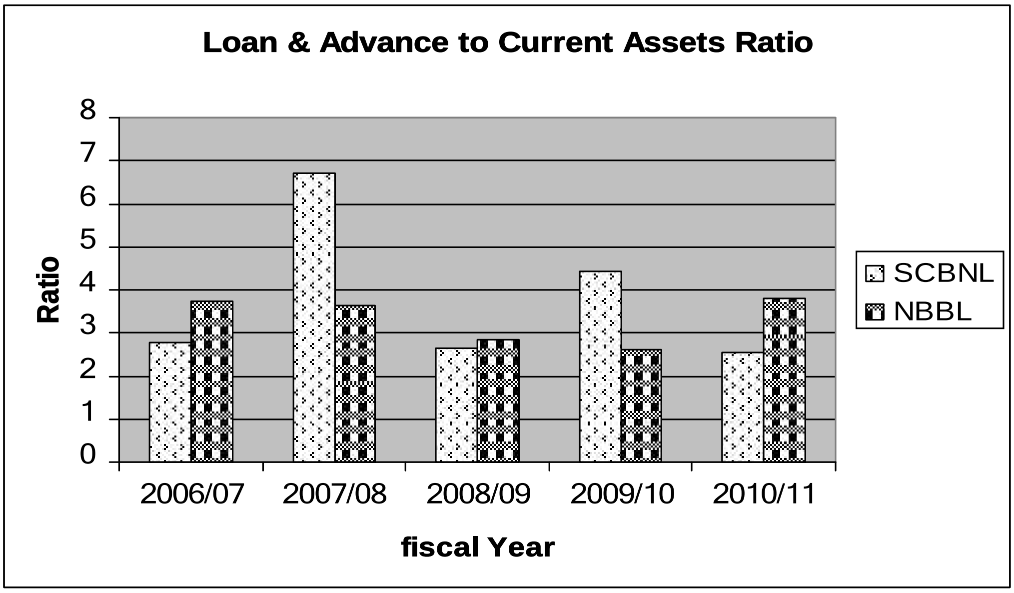
Year	Standard Chartered Bank Nepal Ltd.			Nepal Bangladesh Bank Ltd		
	Loan & Advance	Current Assets	Ratio	Loan & Advance	Current Assets	Ratio
2006/07	10,502,637	3782173	2.78	6460246	1724714	3.75
2007/08	13,718,597	2050243	6.70	4409013	1214053	3.64
2008/09	13,679,757	5192713	2.630	5457809	1923848	2.84
2009/10	15,956,955	3598767	4.430	6,704,943	2572417	2.60
2010/11	18,427,270	7256683	2.54	7,809,544	2058299	3.79

(Source: Financial statement of the banks)

The above table 4.4 shows the ratio between loan and advances to current assets. SCBNL has ranged loan and advances to current ratio from 6.70 to 2.54 during the study period. The highest ratio of SCBNL is 6.70 in the fiscal year 2007/08 and lowest ratio is in the fiscal year 2010/11. The ratio of SCBNL has however fluctuating in the study period.

NBBL has nearly consistency during the study period. It ranges from 3.79 to 2.60 over the five year study period. The above discussion helps to conclude that the both bank is successful to mobilize its Current Assets on Loan and Advances than that of NBBL.

Figure 4.4



4.1.5 Cash and Bank balance to total deposit Ratio

Cash and Bank balance is said to be the first defense of every banks. The ratio between the cash and bank balance and total deposit measures the ability of bank to meet the unanticipated cash and all types of deposit.

A higher ratio indicates the greater ability to meet their all type's deposits. Too high ratio of cash and harmful because it affects their profitability position. Too low ratio is unfavorable as capital will be tied up and opportunity cost will be higher.

We have,

$$= \frac{\textit{Cash and bank balance}}{\textit{Total deposit}}$$

The following table 4.5 shows the ratio measurement years

Table No. 4.5

Calculation of Cash and Bank Balance to Total Deposit Ratio

(Figures in Thousand)

Year	Standard Chartered Bank Nepal Ltd.			Nepal Bangladesh Bank Ltd.		
	Cash & Bank Balance	Total Deposit	Ratio (%)	Cash & Bank Balance	Total Deposit	Ratio (%)
2006/07	2,021,021	24,647,021	0.082	1694685	13015136	0.130
2007/08	2,050,243	29,743,999	0.069	1164053	9385950	0.124
2008/09	3,137,164	35,350,824	0.089	1922848	10883653	0.177
2009/10	1,929,307	35,182,721	0.055	2571417	9997697	0.257
2010/11	2,975,795	37,999,242	0.078	2058299	10052182	0.205

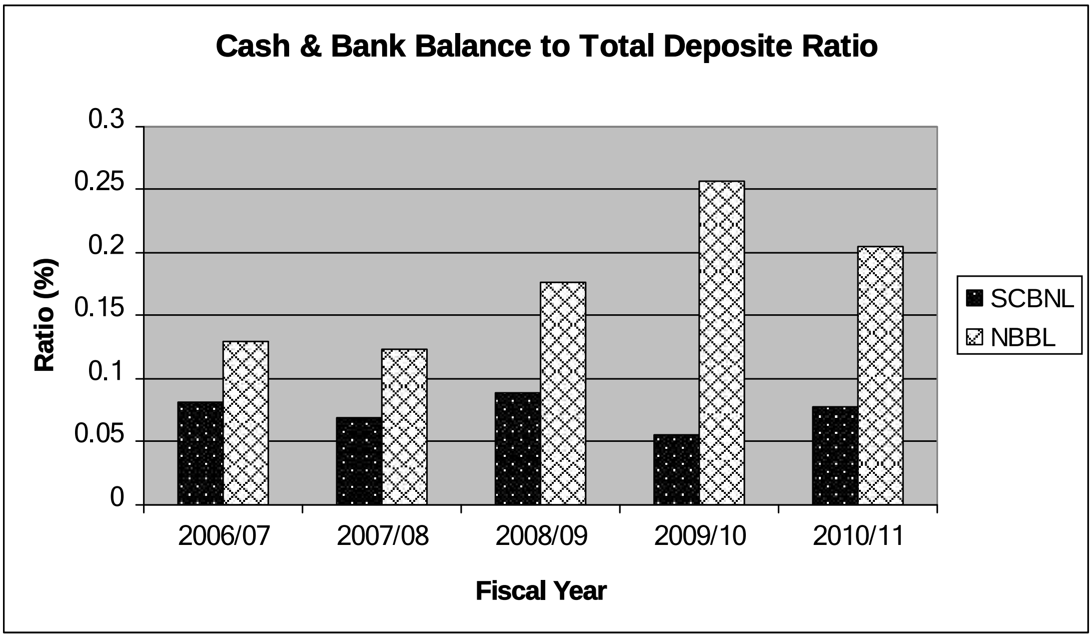
(Source: Financial statement of the banks)

The above table 4.5 shows fluctuating trend on cash and bank balance to total deposit ratio during the study period of SCBNL. The highest ratio is 8.9% at the FY 2008/09 and the lowest ratio is 5.5% at the FY 2009/10 of SCBNL.

NBBL has more fluctuating in comparison with SCBNL. Its ratio has been ranged from 12.4% to 25.7% during the study period. The highest ratio of NBBL is 25.7% in the FY 2009/10 and lowest ratio is 12.4% in the FY 2007/08. Thus, the trend shows zigzag trend during the study period of both banks.

Cash and Bank Balance to total deposit ratio of SCBNL and NBBL is zigzag during the study period. However, SCBNL has less fluctuation in comparison to NBBL which indicates that SCBNL is effective in liquidity management.

Figure 4.5



4.2 Evaluation of the bank's efficiency in utilizing assets

Funds of creditors and owners are invested in various assets to generate sales and profits. The better the management of assets, the larger the amount of sales. Activity ratios are employed to evaluate the efficiency with which the firm manage and utilizes its assets. Activity ratios, thus, involve a relationship between sales and assets. A proper balance between sales and assets are generally reflects that assets are managed well. Following ratios are used under activity ratio.

4.2.1 Loan and Advances to Total Deposit Ratio

Loans and advances to total deposit ratio is calculated by dividing total loan and advances by total deposit. The core banking function is to mobilize the funds from the depositors to the borrowers. Banks make profit by lending or utilizing the deposited funds by charging a higher rate of interest to the borrowers than they pay to the depositors. Hence they are known to be efficient in utilizing the funds if they can advance a greater proportion of the deposited fund into risk assets. Loans and advances to total deposit ratio measures the extent to which the banks are successful to mobilize the outsider's fund, i.e., total deposit in loans and advances for the purpose of profit generation.

We have,

$$= \frac{\textbf{\textit{Loan and Advances}}}{\textbf{\textit{Total deposit}}}$$

Table No. 4.6

Calculation of Loan and Advances to Total Deposit Ratio

(Figures in Thousand)

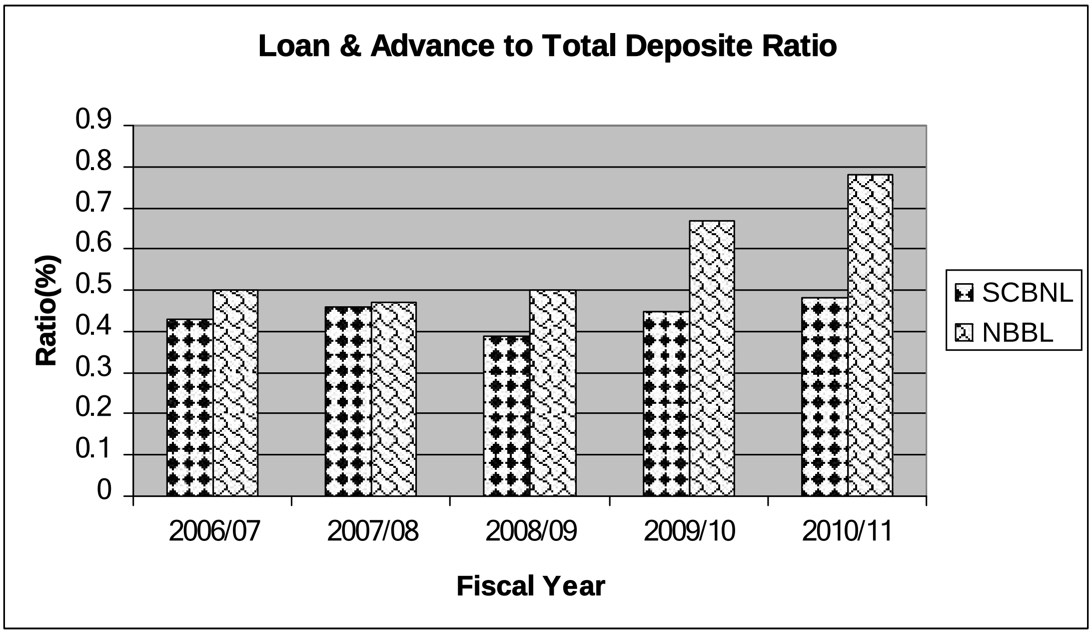
Year	SCBNL			NBBL		
	Loan & Advance	Total Deposits	Ratio	Loan & Advance	Total Deposits	Ratio
2006/07	10,502,637	24,647,021	0.43	6460246	13015136	0.50
2007/08	13,718,597	29,743,999	0.46	4409013	9385950	0.47
2008/09	13,679,757	35,350,824	0.39	5457809	10883653	0.50
2009/10	15,956,955	35,182,721	0.45	6704943	9997697	0.67
2010/11	18,427,270	37,999,242	0.48	7,809,544,	10052182	0.78

(Source: Financial statement of the bank)

Above table 4.6 shows the ratio between loan and advances to total deposit. The trend shows nearly consistent trend in case of SCBNL and is in increasing order except in the FY 2007/08 in case of NBBL. SCBNL has higher ratio during the FY 2010/11 i.e. 0.48 and lowest ratio during the FY 2008/09 i.e. 0.39. NBBL ratio ranges from 0.47 to 0.78 during the study period. The highest ratio of NBBL is 0.78 in the year 2010/11 and lowest ratio is 0.47 in the year 2007/08.

In conclusion banks have strong position regarding the mobilization of total deposit on loan and advances and acquiring higher profit. But higher ratio is not better from the point of view of liquidity as the loan and advances is not as liquid as cash and bank balance. The ratio of Loan and Advance to Total Deposit of SCBNL is lower than the NBBL. So SCBNL is efficient in utilizing the funds than that of NBBL.

Figure 4.6



4.2.2 Total Investment to Total Deposit Ratio

This ratio calculated by dividing total investment by total deposit. Investment function or funds management is gaining widespread importance in the banking sector. Treasury of the bank is involved in investing the surplus fund with the bank in the income generating investments. In order to fill this gap between borrowing, lending, bank rather go for investments such as treasury bills, government securities, development bonds, overseas placement and inter banking lending.

We have,

$$= \frac{\textit{Total Investment}}{\textit{Total Deposit}}$$

The following table 4.7 exhibits the ratio of total investments to total deposit.

Table No. 4.7

Calculation of Total Investment to Total Deposit Ratio

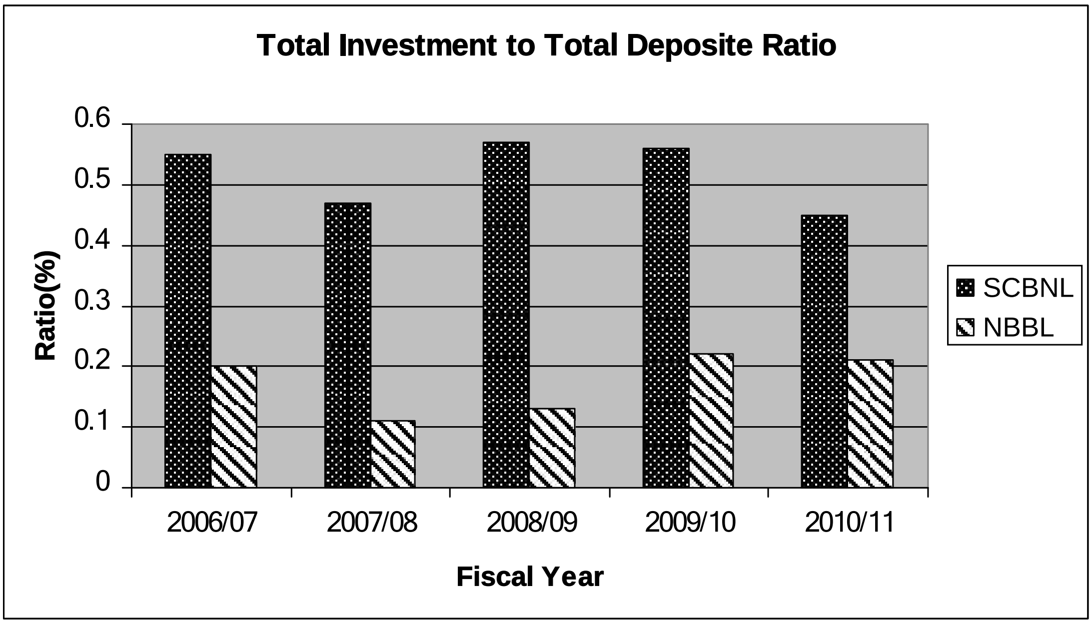
(Figures in Thousand)

Year	Standard Chartered Bank Nepal Limited			Nepal Bangladesh Bank Limited		
	Total Investment	Total Deposits	Ratio	Total Investment	Total Deposits	Ratio
2006/07	13,553,233	24,647,021	0.55	2661834	13015136	0.20
2007/08	13,902,819	29,743,999	0.47	1034560	9385950	0.11
2008/09	20,236,121	35,350,824	0.57	1389902	10883653	0.13
2009/10	19,847,511	35,182,721	0.56	2,222,432	9997697	0.22
2010/11	17,258,682	37,999,242	0.45	2,112,751	10052182	0.21

(Source: Financial statement of the bank)

The above table 4.7 shows fluctuating trend of both banks of total investment to total deposit ratio during the study period. Both banks have increment their investment out of deposit which is very good mobilization of deposit. SCBNL has highest ratio 0.57 in the FY 2008/09 and lowest ratio 0.45 in the FY 2010/11. NBBL has highest ratio of 0.22 in the FY 2009/10 and lowest ratio of 0.11 in the FY 2007/08.

Figure 4.7



4.2.3 Loans and Advances to Total Assets ratio.

This ratio reflects the extent to which the commercial banks are success in mobilizing their assets as loan and advances for the purpose of income generation. A high ratio indicates better in mobilization of funds as loan and advances and vice versa.

We have,

$$= \frac{\textit{Loan and advances}}{\textit{Total assets}}$$

Total assets are the assets which consist of current assets, fixed assets, miscellaneous assets, investment, loans for development banks etc. The following table 4.8 exhibits the ratio of loan and advance to total working fund.

Table No. 4.8

Calculation of Loan and Advances to Total Assets Ratio

(Figures in Thousand)

Year	SCBNL			NBBL		
	Loan & Advance	Total Assets	Ratio	Loan & Advance	Total Assets	Ratio
2006/07	10,502,637	28,596,689	0.37	6460246	11709281	0.55
2007/08	13,718,597	33,335,788	0.41	4409013	7254548	0.61
2008/09	13,679,757	40,066,570	0.34	5457809	9391027	0.58
2009/10	15,956,955	40,213,320	0.40	6704943	11964553	0.56
2010/11	18,427,270	43,810,520	0.42	7,809,544	12531043	0.62

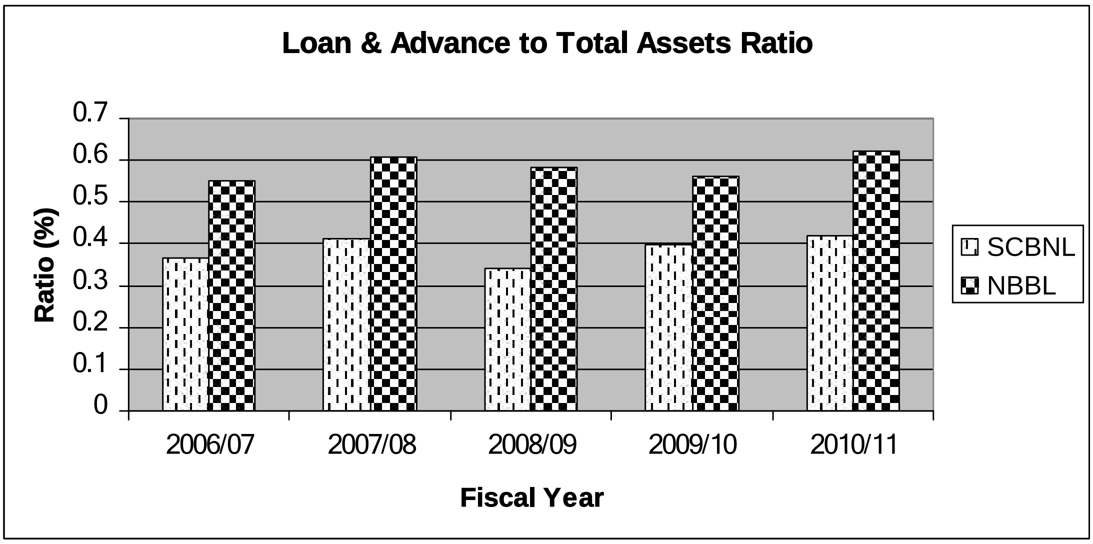
(Source: Financial statement of the bank)

The above table 4.8 shows the loan and advance to total assets ratio of SCBNL and NBBL over the five year period. SCBNL has 0.37 in the year 2006/07 and reached 0.42 in the year 2010/11. The ratio of SCBNL is in the increasing order except in the FY 2008/09.

NBBL has slightly fluctuating trend during the five year period. NBBL has lowest ratio of 0.55 in the fiscal year 2006/07 and highest ratio of 0.62 in the fiscal year 2010/11. The ratio shows the increasing mobilization of assets in the loan and advances and covers respective proportion to total assets.

In conclusion, the Loan and Advance to Total Assets ratio of NBBL is comparatively higher than the ratio of SCBNL. So NBBL is more success in mobilization of funds.

Figure 4.8



4.3 Access the profitability position of the selected banks

A company should earn profits to survive and grow over long period of time. Profits are essential, but it would be wrong to assume that every action initiated by management of a company should be aimed at maximizing profits, irrespective of social consequences. It is unfortunate that the word 'profit' is looked upon as a term of abuse since some firms always want to maximize profits at the cost of employees, customers and society. Except such infrequent cases, it is a fact that sufficient profits must be earned to sustain the operations of the business to be able to obtain funds from investors for expansion and growth and to contribute towards the social overheads for the welfare of the society.

Profit is the difference between revenues and expenses over a period of time (usually one year). Profit is the ultimate 'output' of a company, and it will have No. future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of profits. Profitability ratios indicate degree of success in achieving desired profit level. Profitability, ratios, which measures management overall effectiveness, are shown by the returns generated on sales and investment. A bank should be able to earn profit to survive and grow over long period of time profit is the indicator of efficient operation of a bank. The banks acquire profit by providing different services to its customers or by making investment of different kinds. Profitability ratios measure the efficiency of bank. Higher profit ratio shows the higher the efficiency of the bank. The following profitability ratios are related to study in this heading.

4.3.1 Return on Equity

If bank can mobilize its equity capital properly, they can earn high profit. The return on equity capital measures the extent to which a bank successful to mobilize its equity. We have,

$$= \frac{\textit{Net Profit}}{\textit{Total Equity Capital}}$$

Equity capital includes paid up equity, profit and loss account, various reserve, general loan, loss provision etc. The table below shows the ROE in different years during the study period.

Table No. 4.9

Calculation of Net Profit to Total Equity Ratio

(Figures in Thousand)

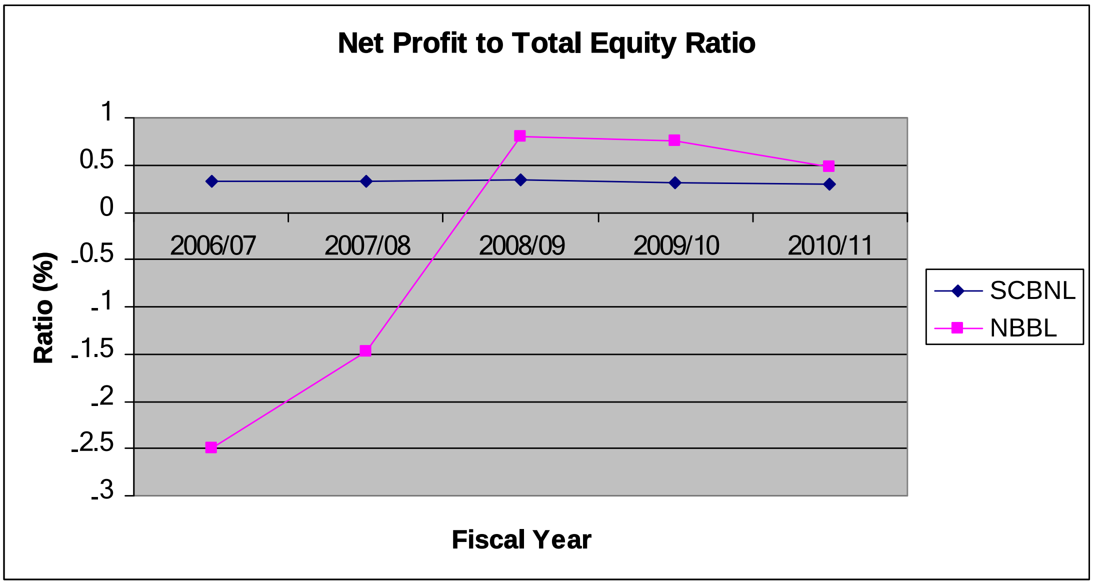
Year	Standard Chartered Bank Nepal Ltd.			Nepal Bangladesh Bank Ltd.		
	Net Profit	Total Equity	%	Net Profit	Total Equity	%
2006/07	691,668	2,116,353	0.33	(1797159)	720853	(2.49)
2007/08	818,921	2,492,548	0.33	(1061579)	719852	(1.47)
2008/09	1,025,115	3,052,470	0.34	596487	744126	0.8
2009/10	1,085,872	3,369,709	0.32	2158104	2860315	0.75
2010/11	1,119,171	3,677,777	0.30	1,021,380	2133573	0.48

(Source: Financial statement of the banks)

The above table 4.9 shows the net profit to total equity ratio of SCBNL and NBBL. The trend ratio of SCBNL shows consistent during the study period while the NBBL has net loss in the fiscal year 2006/07 and 2007/08 and then the ratio is increased in the FY 2008/09 and has decrement order. SCBNL ratio has been ranged from 0.30 to 0.34 and NBBL ratio ranged from (2.49) to 0.80. The trend shows the NBBL have not been utilizing its equity capital. It shows the diminishing performance in utilizing the equity capital, though it have shown remarkable pick up in the preceding year of study period while SCBNL has utilized its equity capital consistently during the study period.

In conclusion, the net profit to total equity ratio of SCNBL is higher and consistent where as the ratio is very poor in case of NBBL during the study period. This shows that NBBL has very poor profitability position.

Figure 4.9



4.3.2 Interest Earned to Total Assets Ratio

This ratio reflects the extent to which the banks are successful in mobilizing their total assets to generate high income as interest. A high ratio is indicator of high earning power of the bank on its total working fund and vice versa.

We have,

$$= \frac{\underline{\textbf{\textit{Interest Earned}}}}{\textbf{\textit{Total Assets}}}$$

Table No. 4.10

Calculation of Interest Earned to Total Assets Ratio

(Figures in Thousand)

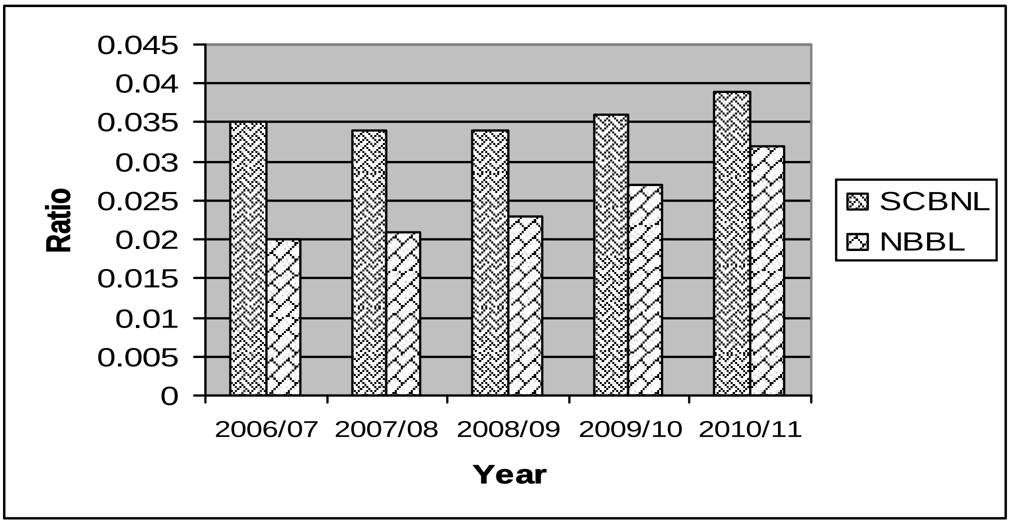
Year	Standard Chartered Bank Nepal Ltd.			Nepal Bangladesh Bank Ltd.		
	Interest Earned	Total Assets	Ratio	Interest Earned	Total Assets	Ratio
2006/07	998,927	28,596,689	0.035	2,40,038	1,17,09,281	0.020
2007/08	1,119,466	33,335,788	0.034	2,54,997	1,17,25,454	0.021
2008/09	1,343,435	40,066,570	0.034	2,70,279	1,19,39,102	0.023
2009/10	1,466,369	40,213,320	0.036	3,27,336	1,19,64,553	0.027
2010/11	1,715,599	43,810,520	0.039	4,00,840	1,25,31,043	0.032

(Source: Financial statement of the bank)

Above table 4.10 shows the analysis of the ratio between interests earned to total assets of SCBNL and NBBL during the five year period. The trend of interest earned of SCBNL shows almost consistent during the study period. It has highest ratio of 3.9% in FY 2010/11 and the lowest of 3.4% in the FY 2007/08. NBBL has increasing trend on interest earned to total assets ratio. It has highest ratio of 3.2% in the fiscal year2010/11 and lowest ratio of 2%in the FY 2006/07. From the above table it can be concluded that the ratio of total interest earned to total assets of both banks is not much satisfactory. But among them the ratio of SCBNL is higher then the ratio of NBBL. So SCBNL is comparatively successful to earn profit.

Figure 4.10

Interest Earned to Total Assets Ratio



4.3.3 Interest paid to Total Assets Ratio

This ratio measures the percentage of total interest paid against the total working fund. A high ratio indicated the higher interest expenses on total working fund and vice versa.

We have,

$$= \frac{\textit{Interest Paid}}{\textit{Total Assets}}$$

Table No. 4.11

Calculation of Interest Paid to Total Assets Ratio

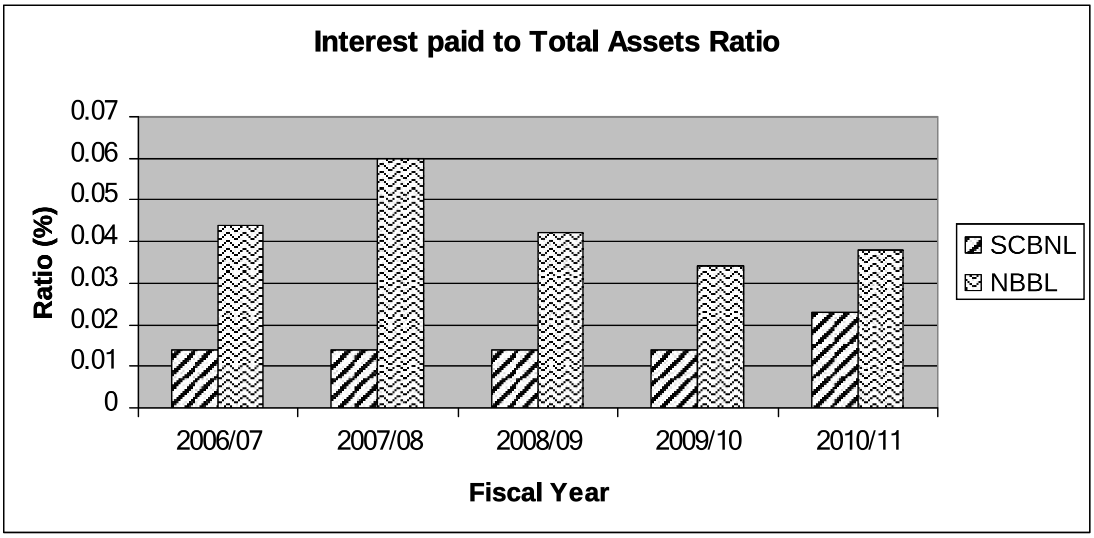
(Figures in Thousand)

Year	Standard Chartered Bank Nepal Ltd.			Nepal Bangladesh Bank Ltd.		
	Interest Paid	Total Assets	%	Interest Paid	Total Assets	%
2006/07	413,055	28,596,689	0.014	518094	11709281	0.044
2007/08	471,730	33,335,788	0.014	432219	7254548	0.060
2008/09	543,787	40,066,570	0.014	397997	9391027	0.042
2009/10	575,741	40,213,320	0.014	409,776	11964553	0.034
2010/11	1,003,100	43,810,520	0.023	476,788	12531043	0.038

(Source: Financial statement of the bank)

The above table 4.11 shows the ratio between interest expenses to total assets. The table shows the consistent trend ratio of SCBNL except in the final year. It has the maximum of 2.3 % of ratio in the FY 2010/11 and minimum of 1.4% in the FY 2006/10. The analysis shows SCBNL has increasing trend of interest paid during the study period. NBBL has fluctuating trend during the study period. NBBL has ranged 3.40% to 6.00%.

Figure 4.11



4.3.4 Interest Earned to Operating Income Ratio

This ratio reflects the extent to which the bank has successfully mobilized its fund in interest bearing assets. It measures the magnitude of interest income in total income.

We have,

$$= \frac{\textit{Total Interest Earned}}{\textit{Total Operating Income}}$$

Total operating income includes the interest income, commission and discount, income from dividend, foreign exchange income and others. The following table 4.12 shows the figure of this ratio

Table No. 4.12

Calculation of Interest Earned to Operating Income Ratio

(Figures in Thousand)

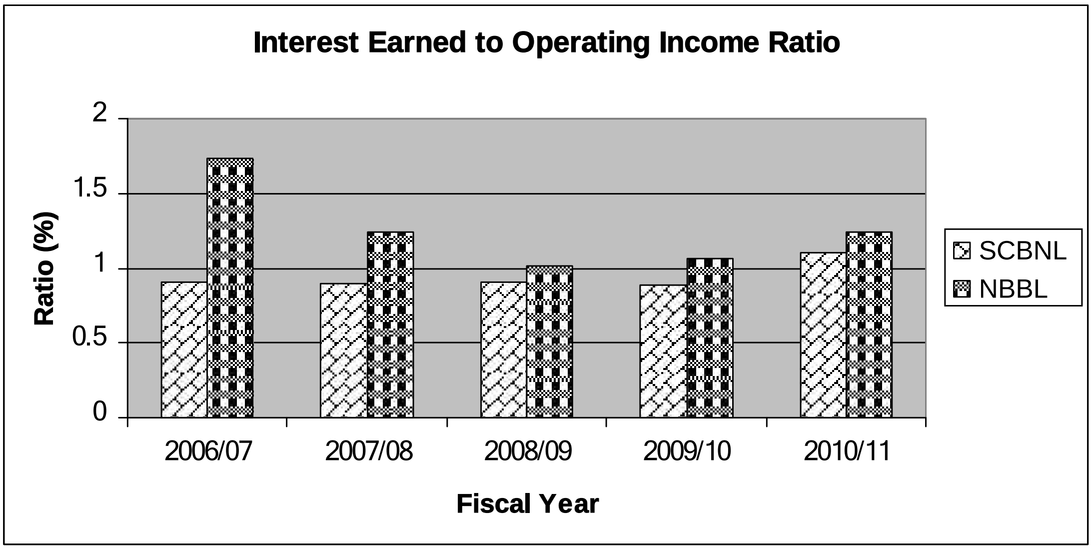
Year	Standard Chartered Bank Nepal Ltd.			Nepal Bangladesh Bank Ltd.		
	Interest Earned	Operating Income	Ratio	Interest Earned	Operating Income	Ratio
2006/07	1,411,982	1,558,006	0.906	758132	437139	1.734
2007/08	1,591,196	1,774,145	0.897	982197	793813	1.237
2008/09	1,887,221	2,092,125	0.902	828276	816459	1.014
2009/10	2,042,109	2,297,710	0.889	1337112	1,255,352	1.065
2010/11	2,718,699	2,461,257	1.105	1167628	936,973	1.246

(Source: Financial statement of the banks)

The above table 4.12 shows the ratio between total interests earned to total operating income. SCBNL has maximum ratio of 1.105 in the Fiscal Year 2010/11 and consistent in the other four year of study period.

NBBL has fluctuating trend of ratio during the study period. NBBL has highest ratio 1.734 in the year 2006/07 and lowest ratio 1.014 in the year 2008/09. The trend show interest earning of the bank covers larger portion in total operating income. It can be concluded that the bank has the satisfactory position regarding the mobilization of interest bearing assets such as loan and advances and investment.

Figure 4.12



4.3.5 Return on Total Assets Ratio

It measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the banks total assets are well managed and efficiency utilized.

We have,

$$= \frac{\textit{Net Profit}}{\textit{Total Assets}}$$

Net profit includes the profit that is left to the internal equities after all costs, charge and expense.

Following table 4.13 shows the figure of this ratio.

Table No. 4.13

Calculation of Net Profit to Total Assets Ratio

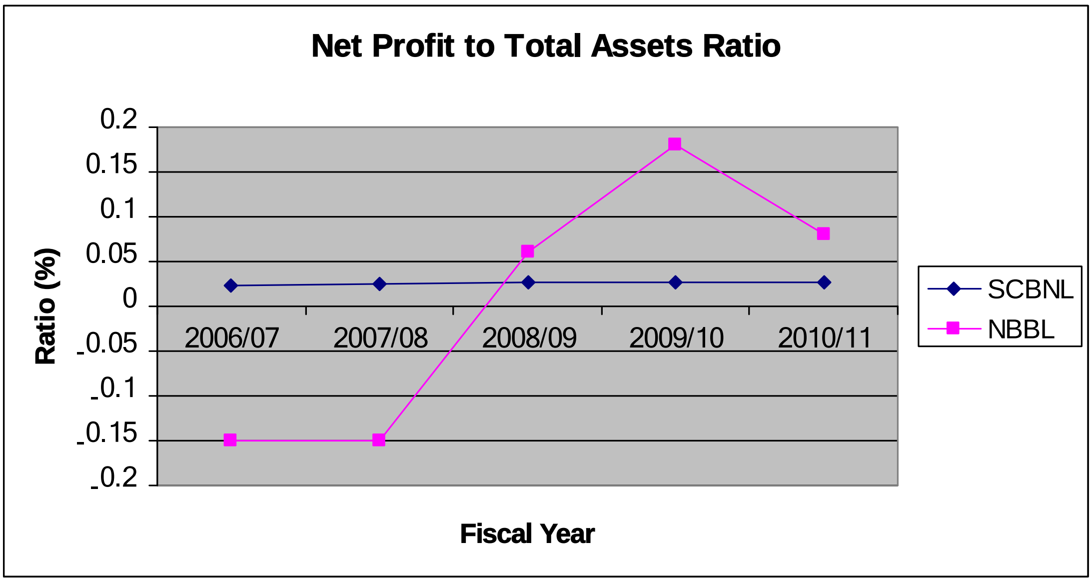
(Figures in Thousand)

Year	Standard Chartered Bank Nepal Ltd.			Nepal Bangladesh Bank Ltd.		
	Net Profit	Total Assets	Ratio	Net Profit	Total Assets	Ratio
2006/07	691,668	28,596,689	0.024	(1797159)	11709281	(0.15)
2007/08	818,921	33,335,788	0.025	(1061579)	7254548	(0.15)
2008/09	1,025,115	40,066,570	0.026	596487	9391027	0.06
2009/10	1,085,872	40,213,320	0.027	2158104	11964553	0.18
2010/11	1,119,171	43,810,520	0.026	1,021,380	12531043	0.08

(Source: Financial statement of the banks)

The above table 4.13 shows the ratio between net profit and total assets. The trend analysis of SCBNL shows consistent during the study period. The highest ratio of SCBNL is 2.70 % in the FY 2009/10 and lowest ratio of 2.40% in the FY 2006/07. NBBL has negative ratio in the initial study period (i.e. in the FY 2006/07 and 2007/08) and has increased up to 18% in the FY 2009/10. From the above analysis, it can be concluded that the profitability with respect to financial resources investment of the SCBNL asset is satisfactory.

Figure 4.13



4.3.6 Return on Loans and Advances Ratio

It measures the earnings capacity of commercial banks on its deposits mobilized on loan and advances. We have,

$$= \frac{\textit{Net Profit}}{\textit{Loan and Advances}}$$

The following table 4.14 shows the figure of this ratio

Table No. 4.14

Calculation of net profit to loan and advances ratio

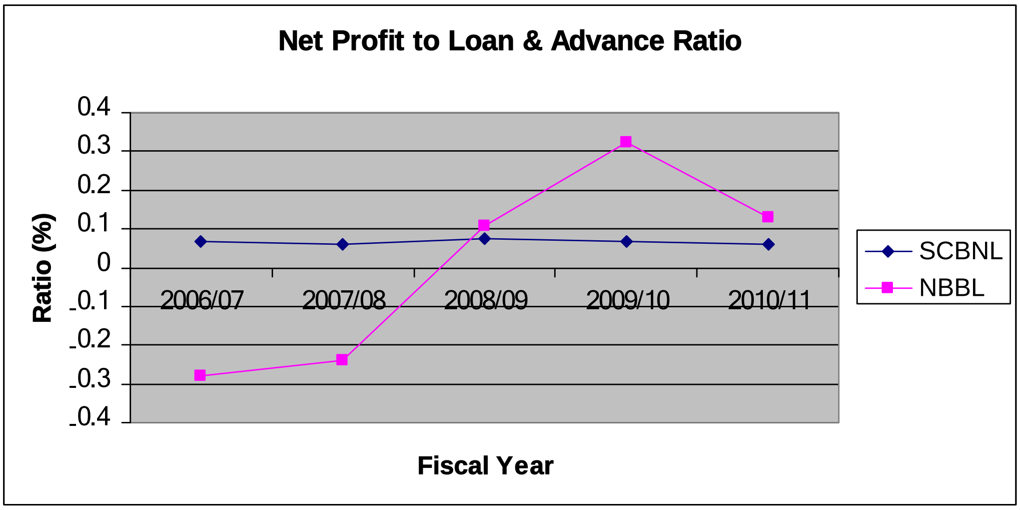
(Figures in Thousand)

Year	Standard Chartered Bank Nepal Ltd.			Nepal Bangladesh Bank Ltd.		
	Net Profit	Loan & Advances	Ratio	Net Profit	Loan & Advances	Ratio
2006/07	691,668	10,502,637	0.066	(1797159)	6460246	-0.278
2007/08	818,921	13,718,597	0.060	(1061579)	4409013	-0.241
2008/09	1,025,115	13,679,757	0.075	596487	5457809	0.109
2009/10	1,085,872	15,956,955	0.068	2158104	6704943	0.322
2010/11	1,119,171	18,427,270	0.061	1,021,380	7,809,544	0.131

(Source: Financial statement of the banks)

Above table 4.14 shows the ratio between net profits to loan and advances. SCBNL has highest ratio of 7.5% in the FY, 2008/09 and lowest ratio of 6.00% in the FY 2007/08. The trend analysis shows consistent during the study period. NBBL has negative ratio in the initial study period of two year. It has highest ratio 32.20% in the FY 2009/10 and lowest ratio (27.80%) in the FY 2006/07. NBBL have negative ratio of net profit to loan and advances generated so the bank has not been to maintain respective and stable net profit to loan and advances during the study period.

Figure 2.14



4.3.7 Earning Per Share (EPS)

EPS measures the profitability of common shareholder. The earning may be on a per share basis. We have,

$$= \frac{\textit{Net income available to common stock holders}}{\textit{Total No. of common stock outstanding}}$$

The following table shows the EPS of respective banks taken for the study.

Table No. 4.15

Calculation of EPS

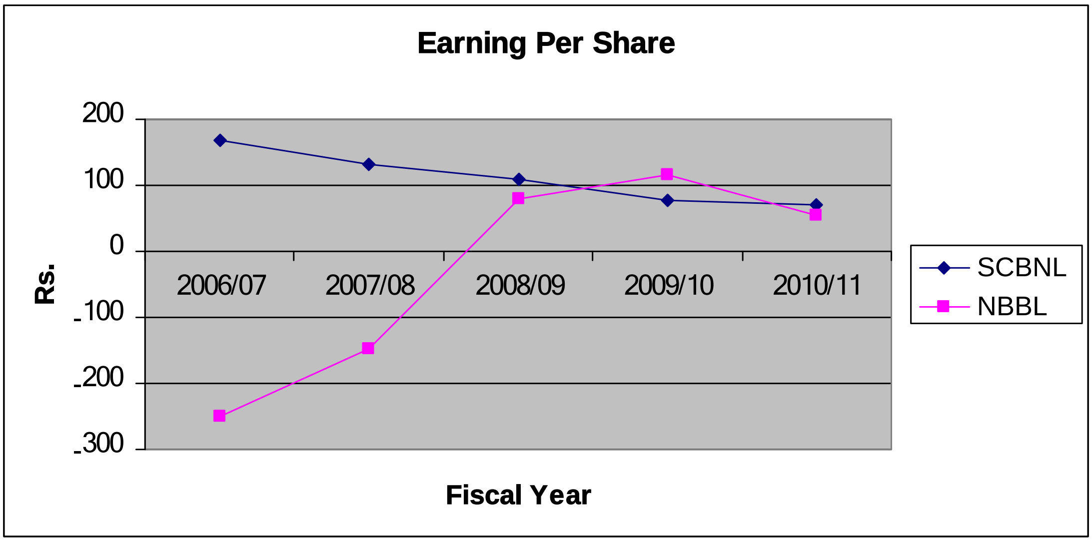
(Figures in Thousand)

Year	Standard Chartered Bank Nepal Ltd.			Nepal Bangladesh Bank Ltd.		
	Net Profit	No. of Share	EPS (Rs.)	Net Profit	No. of Share	EPS
2006/07	691,668	4,133	167.35	(1797159)	7200	-249.61
2007/08	818,921	6,208	131.91	(1061579)	7200	-147.44
2008/09	1,025,115	9,320	109.99	596487	7441	80.16
2009/10	1,085,872	13,985	77.65	2158104	18603	116.01
2010/11	1,119,171	16,102	69.51	1,021,380	18603	54.90

(Source: Financial statement of the banks)

The above table shows the trend of EPS of SCBNL and NBBL. SCBNL has been continuously decreasing EPS during the study period. The EPS have decreased to Rs. 69.51 during the FY 2010/11 from Rs. 167.35 during the FY 2006/07. NBBL has fluctuating trend of EPS during the study period. The trend analysis shows that NBBL does not contain profit in the initial two year, so earning per share is less then Rs. Zero. It ranges from Rs. 54.90 to Rs. 116.01 over the five year period. Although the EPS of SCBNL is in decreasing order but in comparison with NBBL the EPS of SCBNL is satisfactory. It is good trace of operation performance of bank.

Figure 4.15



4.4 Observe the Relation Between Debt and Equity

Leverage ratio shows the proportion of debt capital and equity capital. It shows the long-term solvency of the firm. It judges the long-term financial position of the firm. Shareholder stands to gain with capital gearing during times of good profit as the debt capital is paid fixed interest and all balance of profit is available to equity holders. But in times of low profits, the payments of fixed interest on high debt capital may absurd all the profits leaving nothing for the shareholders. That's why at the time of high profit leverage is favorable and unfavorable when profits are too low.

Hence, the leverage ratios are calculated to measure the financial risk and the firm's ability if using debt for the benefit of shareholders.

- Total debt to net worth ratio
- Total debt to equity ratio
- Net worth to total liabilities ratio

4.4.1 Total Debt to Net worth Ratio

Total debt to net worth ratio measures the relative claim of outsiders and owner over the banks assets. Indicating the extent of debt financing in the bank compared to net worth financing. A very low debt or net worth ratio is disadvantageous from the owner's point of view, especially in the situation where the bank is earning a higher return on capital employed. Since with the increase in debt, bank can enhance its return on total fund, trading on equity policy is very much favored in this kind of situation.

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

We have

$$= \frac{\textit{Total Debt}}{\textit{Net Worth}}$$

Table No. 4.16

Calculation of Total Debt to Net Worth Ratio

(Figures in Thousand)

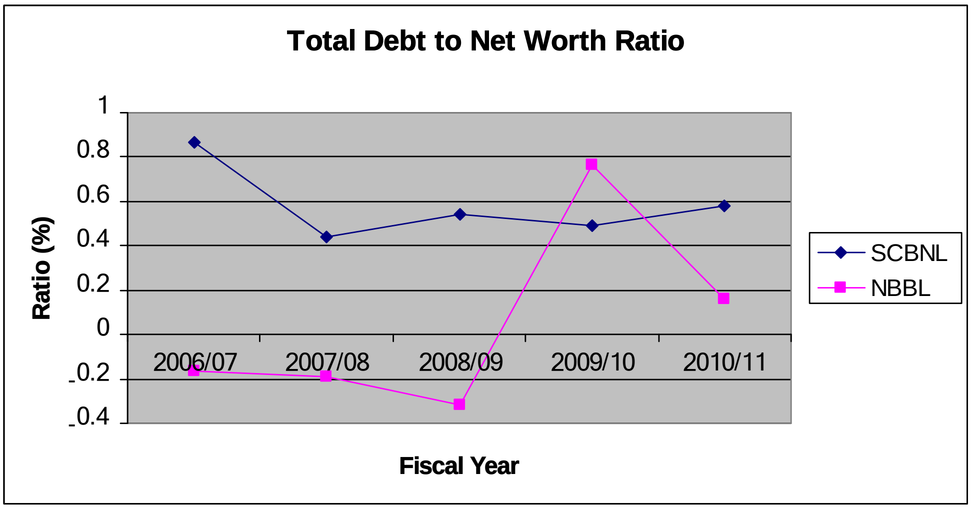
Year	Standard Chartered Bank Nepal Ltd.			Nepal Bangladesh Bank Ltd.		
	Total Debt	Net Worth	Ratio	Total Debt	Net Worth	Ratio
2006/07	1833315	2,116,353	0.866	255376	(1562400)	-0.163
2007/08	1099242	2,492,548	0.441	491463	(2620800)	-0.188
2008/09	1663277	3,052,470	0.545	697521	(2195095)	-0.318
2009/10	1660889	3,369,709	0.493	853215	1116180	0.764
2010/11	2133500	3,677,777	0.580	345287	2139345	0.161

(Source: Financial statement of the bank)

Above table 4.16 shows the analysis of total debt to net worth ratio of SCBNL and NBBL. Total debt to net worth of SCBNL is in fluctuation trend during the study period. The highest ratio of SCBNL is 0.866 which is at the FY 2006/07 and lowest ratio is 0.441 in the FY 2007/08. NBBL has negative trend of ratio in the initial three year of the study period. It has lowest ratio of (0.318) in the

FY 2008/09 and reached 0.764 in the FY 2009/10. So the Total debt to Net worth ratio of SCBNL is more satisfactory than the NBBL.

Figure No. 4.16



4.4.2 Debt to Equity Ratio

Debt equity ratio is used to measure the creditors' claim against the owners' claims. The total debt obligation is measured as ratio of the total shareholder's equity. It is computed by dividing total debt by shareholder's equity. It also indicates the composition of debt to equity in the capital structure.

We have,

$$= \frac{\textit{Total Debt}}{\textit{Total Equity}}$$

Table No. 4.17

Calculation of total debt to equity ratio

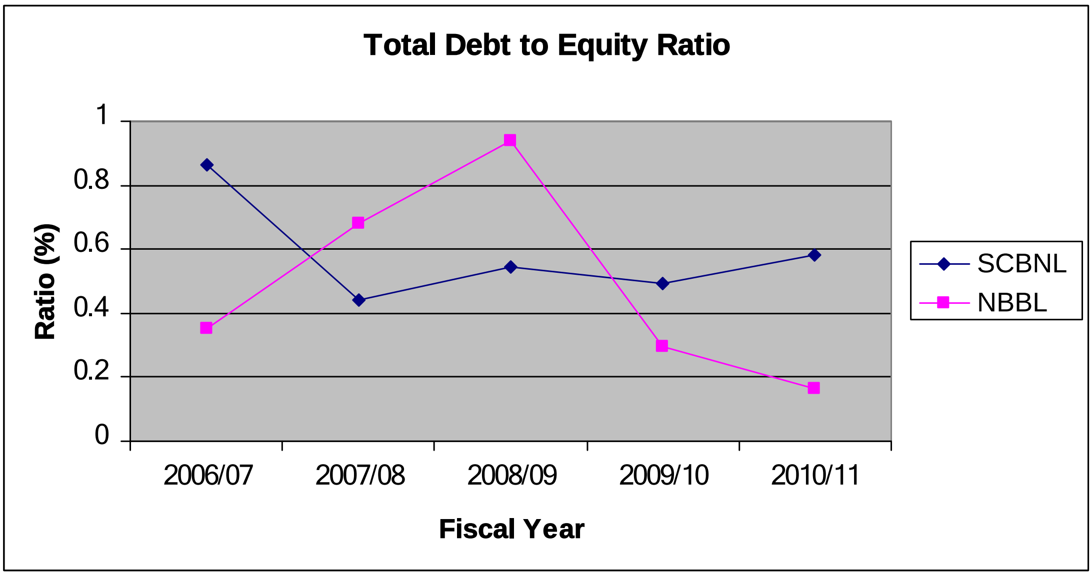
(Figures in Thousand)

Year	Standard Chartered Bank Nepal Ltd.			Nepal Bangladesh Bank Ltd.		
	Total Debt	Total Equity	Ratio	Total Debt	Total Equity	Ratio
2006/07	1833315	2,116,353	0.866	255376	720853	0.354
2007/08	1099242	2,492,548	0.441	491463	719852	0.683
2008/09	1663277	3,052,470	0.545	697521	744126	0.937
2009/10	1660889	3,369,709	0.493	853215	2860315	0.298
2010/11	2133500	3,677,777	0.580	345287	2133573	0.162

(Source: Financial statement of the banks)

The above 4.17 table shows the debt to equity ratio of SCBNL and NBBL. It shows the composition of debt and equity in the capital structure. SCBNL has highest ratio of 0.866 in the FY 2006/07 and lowest ratio of 0.441 in FY 2007/08. NBBL has highest ratio of 0.937 in the fiscal year 2008/09 and lowest ratio of 0.162 in the fiscal year 2010/11. There is substantial difference in highest and lowest point of the ratio during the five year study period.

Figure 4.17



4.4.3 Net worth to total liabilities Ratio

This ratio is sometime preferred in addition to debt equity ratio to judge the overall risk of the company. The real strength of the net worth of a company should be judged in relation to its total liabilities. This ratio outweighs the deficiency of debt equity and helps to assess the relative position of net worth as compared to all liabilities of the business.

We have,

$$= \frac{\textbf{\textit{Net worth}}}{\textbf{\textit{Total liabilities}}}$$

Table No. 4.18

Calculation of Net Worth to Total Liabilities Ratio

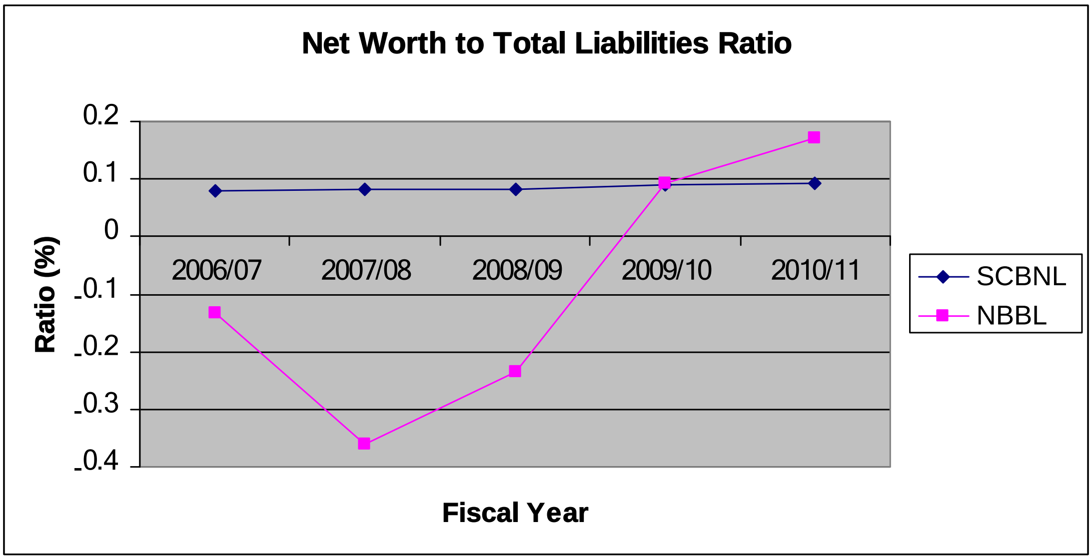
(Figures in Thousand)

Year	Standard Charted Bank Nepal Limited			Nepal Bangladesh Bank Limited		
	Net Worth	Total Liabilities	Ratio	Net Worth	Total Liabilities	Ratio
2006/07	2,116,353	26,480,336	0.080	(1562400)	11709281	-0.133
2007/08	2,492,548	30,843,241	0.081	(2620800)	7254548	-0.361
2008/09	3,052,470	37,014,101	0.082	(2195095)	9391027	-0.234
2009/10	3,369,709	36,843,610	0.091	1116180	11964553	0.093
2010/11	3,677,777	40,132,743	0.092	2139345	12531043	0.171

(Source: Financial statement of the banks)

The above table shows the ratio between net worth to total liabilities ratio of SCBNL and NBBL. SCBNL has consistent to some extent compared with NBBL. SCBNL has highest ratio of 0.092 in the fiscal year 2010/11 and lowest ratio of 0.080 in the fiscal year 2006/07. NBBL has negative ratio in the initial three year of the study period. It has highest ratio of 0.171 in the fiscal year 2010/11 and lowest ratio of (0.361) in the fiscal year 2008/09. So the Net Worth to Total Liabilities Ratio of SCBNL is less risky.

Figure 4.18



4.5 Statistical Tools

Under this heading some statistical tools are used to achieve the objective of the study. The statistical tools used in this analysis are coefficient of correlation analysis between different variables, trend analysis of deposit, loan and advances, net profit and EPS.

4.5.1 Coefficient of correlation Analysis

Under this chapter Karl Pearson's coefficient is used to find out the relationship between deposit and loan and advances, deposit and total investment and outside and net profit.

4.5.2 Coefficient of correlation between deposit and loan and advances

Deposits have played a very important role in performance of a commercial bank and similarly loan advances are important to mobile the collected deposits. Coefficient of correlation between deposit and loan and advances measures the degree of relationship between two variables. In this analysis, deposit is independent variable (X) and Loan and advances is dependent variables (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used on loan and advances in a proper way or not. The following table shows the value of **r**, **r^2**, Probable error (P. ER) and 6(P.Er) between deposit and loan and advances for the study period 2006/07 to 2010/11.

Table No. 4.19

Correlation between Deposit and Loan & Advances

	r	**r^2**	P.Er	**6P. Er**
SCBNL	0.898	0.806	0.059	0.351
NBBL	0.194	0.0376	0.290	1.742

Source: Appendix- I

The above table shows that coefficient of correlation between deposit and loan and advances of SCBNL is 0.898, which shows higher positive correlation between these two variables. Similarly the value of coefficient of determination (r^2) is to be found 0.806, which shows that 80.6% in the dependent variable has been explained by independent variable. More of P.Er i.e. 0.059, which means the relation deposit and loans and advances is significant. In other words SCBNL is successful to mobilize its fund in proper way in loan and advances. Similarly considering the value of (r) i.e. 0.898 and comparing it with 6P.Er i.e. 0.351, we can say that the value of r is more than 6 P.Er, which reveals that there is significant relationship between deposit and loan and advances.

The above table shows that coefficient of correlation between deposit and loan and advances of NBBL is 0.194, which shows positive correlation between these two variables. Similarly the value of coefficient of determination (r^2) is to be found 0.0376, which shows that 3.76% in the dependent variable has been explained by independent variable. More of P.Er i.e. 0.290, which means the relation deposit and loans and advances is insignificant. In other words NBBL is not successful to mobilize its fund in proper way in loan and advances. Similarly considering the value of (r) i.e. 0.194 and comparing it with 6P.Er i.e.

1.742, we can say that the value of r is less than 6 P.Er, which reveals that there is no significant relationship between deposit and loan and advances.

4.5.3 Coefficient of correlation between deposit and total investment.

Coefficient of correlation between deposit and total investment measure the degree of relation between these two variables. Here deposit is independent variable (x) and total investment is dependent variable (y). The purpose of computing co-efficient of correlations between deposit and total investments to find whether deposit is significantly used as investment or not. The following table shows the variable of r, (r^2), P.Er and 6(P. Er) between deposit and total investment for the study period 2006/07 to 2010/11.

Table No. 4.20

Correlation between deposit and total investment

	r	**r^2**	**P. Er**	**6 P Er**
SCBNL	0.794	0.631	0.111	0.668
NBBL	0.653	0.426	0.173	1.039

Sources: Appendix - II

From the above table, we find that coefficient of correlation between deposit (independent) and total investment of SCBNL r is 0.794. It shows positive relationship between two variables however by application of coefficient of determination the value of (r^2) is 0.631, which indicates that the 63.1% of the valuation of the dependent variable (total investment) has been explained by the independent variable (deposits) moreover by considering the probable error since the value of r is i.e. 0.794 is more than six times of P.Er i.e. 0.668. So we can say that there is significant relationship between total deposit and total investments. Lastly, it can be said that the bank has followed the policy of maximizing the investment of their deposits.

From the above table, we find that coefficient of correlation between deposit (independent) and total investment of NBBL r is 0.653. It shows positive relationship between two variables however by application of coefficient of determination the value of (r^2) is 0.426, which indicates that the 42.6% of the valuation of the dependent variable (total investment) has been explained by the independent variable (deposits) moreover by considering the probable error since the value of r is i.e. 0.653 is less than six times of P.Er i.e. 1.039. So we can say that there is no significant relationship between total deposit and total investments. Lastly, it can be said that the bank has not followed the policy of maximizing the investment of their deposits.

4.5.4 Coefficient of correlation Between Deposit and net profit

Coefficient of correlation "r" between deposit and net profit measures the degree of relationship between these two variables. Here deposit is independent variable (x) and net profit is dependent variable (y). The purpose of computing coefficient of correlation between deposit and net profit is to find out whether the net profit is significantly correlated with respective deposit or not.

Table No. 4.21

Coefficient of Correlation Between total deposit and Net profit

	r	**r^2**	P.Er	**6.P.Er**
SCBNL	0.985	0.969	0.009	0.056
NBBL	-0.529	0.281	0.217	1.301

Source: Appendix -III

From the above table it has been found that the coefficient of correlation between total deposit (independent) and net profit (dependent) of SCBNL is 0.985, which indicates positive correlation between these two variables. Considering the value of coefficient of determination is r^2 i.e. 0.969 indicates 96.9% of the variation in the dependent variables (net profit) has been explained by the independent variable (total deposit) moreover by considering the probable error we can further say that there is significant relationship between total assets and net profit because the value of r i.e. 0.985 is greater than six times P.Er i.e. 0.056.It indicates that SCBNL is capable of earning net profit by mobilizing its total deposits.

From the above table it has been found that the coefficient of correlation between total deposit (independent) and net profit (dependent) of NBBL is -0.529, which indicates negative correlation between these two variables. Considering the value of coefficient of determination is r^2 i.e. 0.281 indicates 28.1% of the variation in the dependent variables (net profit) has been explained by the independent variable (total deposit) moreover by considering the probable error we can further say that there is significant relationship between total assets and net profit because the value of r i.e. -0.529 is less than six times P.Er i.e. 1.301. It indicates that NBBL is not capable of earning net profit by mobilizing its total deposits.

4.6 Major Finding of the Study

- The study reveals that the current ratio of SCBNL is 2.52 and NBBL is 4.19 in average.
- It reveals that the current ratio of both the banks are greater than normal standard 2:1 it is the indication of satisfactory liquidity positions. Comparatively SCBNL better maintains its current ratio in normal standard than NBBL on an average.
- It can be concluded that short-term solvency position of both the banks are found greater than normal standard through out the study period.
- Liquidity position in terms of cash and bank balance position with respect to Current Assets Ratio of NBBL is found higher i.e. 0.98 than that of SCBNL i.e. 0.617 on an average, which depicts that the liquidity position of NBBL is may better, but less percentage of SCBNL shows it has utilized its fund more efficiently.
- In terms of Investment in Government Securities to Current Assets Ratio of SCBNL is higher than the NBBL. So SCBNL has invested its remarkable portion of Current Assets to government securities.

- The loan and advance to current assets ratio of SCBNL is higher than NBBL. So, SCBNL is successful to mobilize its current assets on loan and advance.
- Cash and bank balance to total deposit ratio of SCBNL and NBBL is zigzag during the study period. But NBBL has more fluctuating in comparison with SCBNL. So, SCBNL is preferable.
- It is concluded that SCBNL seems relatively better than that of NBBL although the SCBNL liquidity position is satisfactory.
- The study reveals from the analysis of utilization ratio of these two banks in terms of loans and advances to total deposit ratio. The ratio of SCBNL i.e. 0.48 is found lower as compared with NBBL i.e. 0.78. The ratio of loan and advance to total deposit of SCBNL is lower than the NBBL. So SCBNL is efficient in utilizing the funds.
- The ratio of total investment to total deposit of SCBNL is higher than the NBBL. So it can be concluded that the SCBNL has more efficiently utilized its funds.
- The loan and advance to total assets ratio of NBBL is comparatively higher than the ratio of SCBNL. NBBL is more success in mobilization of funds.
- In conclusion both banks have been efficient in utilizing most part of their total assets in profit generating purpose but comparing both banks, SCBNL has better performance than NBBL for utilizing assts.
- In the case of Return on Equity ratio of SCBNL is consistent during the study period while the NBBL has net loss in the fiscal year 2006/07 and 2007/08. So, SCBNL can earn high profit.
- The ratio of total interest earned to total assets of SCBNL is more satisfactory than that of NBBL. So, SCBNL is comparatively successful to earned profit.
- The ratio between interest expenses to total assets of SCBNL is 2.3 % and minimum of 1.47 %. So, SCBNL has increasing trend of interest paid during the study period. NBBL has fluctuating trend during the

study period. NBBL has ranged 3.40% to 6.00%. Hence, profitability position of SCBNL is better than NBBL.

- The total interest earned to total operating income of SCBNL has 1.105 and consistent in the other four year and NBBL has highest ratio 1.734 and lowest ratio is 1.014. So, NBBL has satisfactory position regarding the mobilization of interest bearing assets such as loan and advances and investment.
- The ratio between the net profit and total assets of SCBNL is 2.70% and 2.40%. But NBBL has negative ration in the initial study period. So it can be concluded that the profitability of the SCBNL assets is satisfactory.
- The ratio between net profit to loan and advances of SCBNL has consistent during the study period. But NBBL has negative ratio in the initial study period of two year. So it can be concluded that SCBNL is maintained respective and stable net profit to loan and advances during the study period.
- The EPS of SCBNL has decreased to Rs. 69.51 from Rs. 167.25 and NBBL does not contain profit in the initial two periods, so EPS is less than Rs. 0. Comparing EPS of SCBNL is satisfactory.
- In case of total debt to net worth, ratio of SCBNL is 0.44 to 0.866 and that of NBBL is (0.318) to 0.764, so the debt to net worth ratio of SCBNL is more satisfactory than the ratio of NBBL.
- The total debt to equity ratio of SCBNL is 0.44 to 0.87 and the ratio of NBBL is 0.16 to 0.94. So, the creditors claim against the owners claim is high in NBBL than SCBNL.
- The ratio between net worth to total liabilities of SCBNL is 0.080 to 0.092 and the NBBL has negative ratio i.e. (0.361) to 0.171. So the net worth to total liabilities ratio of SCBNL is satisfactory.
- When calculating Karl Pearson's correlation coefficient between deposit and loan and advances of SCBNL have found positively correlated. In other words SCBNL is successful to mobilize its fund in proper way in

loan and advances. But NBBL is not successful to mobilize its fund in proper way in loan and advances because the value of 'r' is less than six times of P.Er.

- Coefficient of correlation between deposit and total investment of SCBNL is positively correlated so that it can be concluded; the bank has followed the policy of maximizing the investment of their deposits. But NBBL has not followed the policy of maximizing the investment of their deposits because the value of 'r' is less than six times of P.Er.
- Coefficient of correlation between deposit and net profit of SCBNL is positively correlated so that SCBNL is capable of earning net profit by mobilizing its total deposits. But NBBL is not capable of earning net profit by mobilizing its total deposits because the value of 'r' is less than six times of P.Er.

CHAPTER -V

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The first chapter of this study covers the profile, ownership capitalization and the basic objectives that have been analyzed between the commercial banks. The objective deals with examination and evaluation of overall financial performance and effectiveness of Standard Chartered Bank Nepal Ltd. and Nepal Bangladesh Bank Ltd. The basic objectives are to analyze liquidity position of the bank, to evaluate the bank's efficiency in utilizing assets, to assess the profitability position of the selected banks, to observe the relation between debt and equity.

The present study aims to analyze the financial performance of SCBNL and NBBL, for this purpose it needs to review related literature in this concerned era which will help to get clear idea and opinion and other concepts. Second chapter of this study emphasizes about the literatures which were concerned in this connection. Therefore, conceptual frameworks given by different authors and intellectual of this area, books, and previous thesis related to financial performance are reviewed. Moreover, rules regarding to financial performance are reviewed and an attempts has been made to present them properly.

To evaluate the financial performance of the selected banks in a micro level and to achieve the objective of this study various research methodologies are used which are described under chapter three of this study. The various methodologies used to achieve the basic objectives are: financial tools which include various ratio analysis and the statistical tools which include coefficient of correlation and trend analysis.

Depending upon the research methodology, the fourth chapter of this study includes ratio analysis and correlation analysis which done by representing the data in tabular form from the source of selected banks over the five fiscal year for the performance analysis of and comparative study of SCBNL and NBBL also the graph between the various ratio analysis of selected banks individually represents the current position in the competitive market to perform better.

5.2 Conclusions

During the study period the liquidity and profitability position of SCBNL is seen much better than that of NBBL, but somehow NBBL also shows a bit satisfactory result. The NBBL has losses in the initial study period which seems very poor position in the competitive market of commercial banks. Also the performance of SCBNL is better than NBBL for utilizing assets in profit generating purpose.

The ratio between loan and advances to total deposit. The trend shows nearly consistent trend in case of SCBNL and is in increasing order except in the FY 2007/08 in case of NBBL. SCBNL has higher ratio during the FY 2010/11 i.e. 0.48 and lowest ratio during the FY 2008/09 i.e. 0.39. NBBL ratio ranges from 0.47 to 0.78 during the study period. The highest ratio of NBBL is 0.78 in the year 2010/11 and lowest ratio is 0.47 in the year 2007/08. So, SCBNL is efficient in utilizing the funds than that of NBBL.

The ratio between interest expenses to total assets of SCBNL is 2.3 percent and minimum of 1.47 percent. So, SCBNL has increasing trend of interest paid during the study period. NBBL has fluctuating trend during the study period. NBBL has ranged 3.40 percent to 6.00 percent. Hence, profitability position of SCBNL is better than NBBL. The total interest earned to total operating income of SCBNL has 1.105 and consistent in the other four year and NBBL has highest ratio 1.734 and lowest ratio is 1.014. So, NBBL has satisfactory position regarding the mobilization of interest bearing assets such as loan and advances and investment.

Coefficient of correlation between deposit and total investment of SCBNL is positively correlated so that it can be concluded; the bank has followed the policy of maximizing the investment of their deposits. But NBBL has not followed the policy of maximizing the investment of their deposits because the value of 'r' is less than six times of P.Er. Coefficient of correlation between deposit and net profit of SCBNL is positively correlated so that SCBNL is capable of earning net profit by mobilizing its total deposits. But NBBL is not capable of earning net profit by mobilizing its total deposits because the value of 'r' is less than six times of P.Er.

The research of leading and non leading commercial banks leads to compare the position of bank's and banks efficiency in the development of economic growth of a country by investing the savings collected as deposits.

5.3 Recommendations

A clear financial picture of SCBNL and NBBL can be viewed from all above presentation. Now some valuable and timely suggestions and recommendation can be advances to overcome weakness, inefficiency and to improve present financial position of the bank. On the basis of findings mentioned above some of recommendation have been drawn which are as follows:

- The study of financial performance of bank indicates that there is lack in proper mobilization of deposit. This is also lack of proper management planning in deposit mobilization. Thus, proper mobilization of the deposit fund in various investment sectors is necessary with proper management planning.
- The liquidity positions of both the banks are always greater than normal standard 2:1. So, both banks are suggested to maintain their standard in as it is position to achieve competitive advantages.
- The study indicates that both the banks have their unable and inconsistent investment of the fund. However SCBNL has invested its remarkable portion of current assets to government securities, so to earn additional income the NBBL should invest instead of keeping idle cash.

- In regard, investment and government securities, it has been revealed that SCBNL has given more priority to invest its fund in government securities than NBBL. The securities issued by government are considered to be free risk of default, but such securities yield the lower interest rate of a particular maturity due to low risk feature. So; NBBL is recommended to give more priority to invest its remarkable portion of current assets to government securities.
- Proper capital structure planning and risk management debt-equity ratio of SCBNL is higher than the ration of NBBL so it is suggested that NBBL needs to increase its debt equity ratio.
- Both the banks have existing branches that are not sufficient to cover the banking business. Coverage of limited areas by the banks will not boost up its campaign of deposit mobilization and credit disbursement as desired. NRB and Government of Nepal have also encouraged the joint venture banks to expand the banking service in rural areas and communities without making unfavorable impact in their profits. Therefore, the bank is recommended to open new branches at certain places every year after studying the feasibility. Before making choice of particular place for opening a branch, saving and business potentiality of that area should be studied well, which will be very helpful to the bank in tapping the resources of different places.
- Looking at the current trend of banking business, a bank must be very careful while formulation marketing strategies to serve customers. The marketing strategies should be innovative so that it would attract and retain the customers. It is recommended that the bank should develop innovative approach to banks marketing for its well-being and sustainability in the market upgrade the banking facilities business.
- It is recommended to boost up foreign investment, as NBBL does not seem to be successful in these aspects. To be successful in the investment sector, it should initiate strong step for the recovery part.