

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Business organization or institution can be operated regularly through the profit. Profit earning is the objectives of every business organization. They prefer it according to their capita and capacity. It is the backbone of the business organization. The amount received after deducting all the expenses in positive form is called Profit .The failure of the organization is measured from the profit in some extent. In the other hand, the investor also invests in the profit business only that's why the business organization is not able to fully discard the concept of profit. The ambivalence learner's oxford dictionary defines, "Profit as money that you make in business or by selling things, especially after paying the cost involved."

Profit is the reward of the every entrepreneur. It is not contractual or predetermined like rent, wages and interest. Whether there is gain or loss in the business, land, labour and capital must be paid the contracted amount of remunerations. Profit is not contractual in this sense. It is a residual income. After the rent of land, interest on capital and wages of laborers are paid, if the entrepreneur enjoys some surplus, this residual surplus constitutes profit. The total revenue minus the cost of production of the commodity constitutes the profit of the entrepreneur. Rent, wages and interest are predetermined and therefore they are never negative or they never fall to zero. But profit cannot be prefixed and hence, they can be negative and may fall to zero.

According to oxford dictionary, “Profit means (a) financial gain (b) amount of money gained in business especially spent. Advantage or benefits gained from something.”

According to Hawley, “Profit is the reward for risk taking in business. If the entrepreneur did not receive the reward, he will not be prepared to undertake the risks involved in the business. This profit of the entrepreneur exceeds the ordinary return on capital. Entrepreneur would not be ready to undertake the risks.”

According to Schumpeter, “Profit is the reward for innovations. The objective of innovation is to reduce cost of production and cause gap between existing price of the commodity and its new cost. The innovation may come in many forms, such as introduction of new production technique, or a new machine, or plan, a change in internal organizational structure of the firm.”

Profit is as important to a firm as water to the fish. Profits are the excess of income over cost of production and services. Profit is the amount available for ownership or equity after payments are made to all other factors used by the firm.

Profits around which all enterprises activities directly or indirectly revolve play the significant role for judging the managerial efficiency. In absence of profit nobody can think about the long-term survivability of the enterprises. Profit is the dominant goal of business and profit making should be the main objectives in terms of which the general effectiveness of organization is measured. In other words, profit is obtained by subtracting the cost from revenue.

A profit plan has an immense value in management. It helps in planning and coordinating if used appropriately, but not a replacement for management. Profit planning is a comprehensive and coordinated plan expressed in financial terms for the operations and resources of an enterprise for some specific period in the future. Profit planning is a comprehensive statement of intentions expressed in financial terms for the operation of both short and long period. It is a plan of the firm's expectation and is used as tools for measuring actual performance of managers and their units.

“Profitability is predetermined detailed plan of action developed and distributed as a guide to current operations and as partial basis for the subsequent evaluation of performance. Thus it can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance” (Gupta, 1997: 141)

Every company or institution is established based on the definite goals and objectives. According to the objectives, the company performance is tasks. Mainly two types of institutions such as profit oriented and service oriented instructions are established, but most of them are profit oriented because profit is the lifeblood of the business which not only keeps it alive but also assures the future and makes it sound. Profit planning is an important tool of the firm to achieve the objectives. A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or prospect of time it is established against which actual accomplishment is regularly compared.

Profit maximization is the basis objectives of a firm and to make it gives reliable service to its customers. Profit is a device to measure efficiency of a firm.

The term comprehensive profit planning and control defined as a systematic and formalized approach for performing significant phase of the management planning and control function. Especially it involves:

- The development and application of broad and long range objectives for the enterprises.
- The specification of enterprises goals.
- The development of strategic long range profit plan in broad terms.
- The specification of tactical short range profit plan detailed by assigned responsibility (division, products, projects).
- The establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures.

Profitability refers to the profit conditions of the business firm. It gives the positive impact of the firm to the public. The goodwill and reputation of the profit of the firm impact to the public. The goodwill and reputation of profit of the firm will able to expand its business when there is higher profitability in the firm. The advance profitability i.e. less causes of the negative impact of the organization among public and lead the business firm always seeks to earn more and more profit and state them as the leading organization in the business model.

### **Financial Sector Reform in Nepal**

Financial sector liberalization in Nepal started in mid 80s especially to ease the pressure on state owned financial institutions. As there were only two commercial banks: NBL and RBB under government ownership, the banking sector was first opened up to the private sector. Some other liberalization measures initiated at that time were the deregulation of interest rates, provision

of current account convertibility, use of indirect instruments of monetary policy through open market operations etc. In order to improve the performance of Nepalese banking system, a study named "commercial banking problem analysis and strategy study" commonly known as Commercial Banking Problem Analysis and Strategy Study was undertaken in 1990 and the report of 1992 identified a number of operational and structural bottlenecks in Nepal's banking sector including the extent of non-performing assets and additional capital injection requirements for NBL and RBB. A programme of recovery was initiated and government also injected capital to these banks. But the system could not achieve the desired goals mainly because the reforms were undertaken in piecemeal basis and that additional capital injection was done much before the adequate reform in the banks. The basic cause of the weakness of the financial sector reform design was: (i) lack of commitment by the Government to change its basic mindset towards the state-owned banks, including a much stronger emphasis on commercial orientation and on preparation for eventual privatization; (ii) absence of an Action Programme to introduce drastic changes in the managerial culture to ensure that managers were professionals with autonomy and accountability; and (iii) lack of specific fundamental reforms needed to achieve a major improvement in financial and operational performance of the banks (Organization for Economic Development Performance Audit Report, 1995). The financial health of these banks began to continuously deteriorate and the necessity of a comprehensive programme was felt by the government.

In November 2000 the government issued Financial Sector Strategy Statement (FSSS) outlining the financial sector reform programme. The main elements of the FSSS are:

1. Reduce the role of the Government in the financial sector as a direct owner of financial institutions while strengthening its role as a supervisor and regulator of banks and financial institutions;
2. Require strong corporate governance by ensuring that banks (in particular the two largest commercial banks) are owned and managed by "fit and proper" private investors;
3. Strengthen the role of Nepal Rastra Bank (NRB) in the overall financial system by drafting a new Act to provide sufficient autonomy in the conduct of monetary policy, banking system regulation and supervision, and the licensing of banks and non-banks;
4. Improve existing banking and financial legislation and judicial processes for enforcing financial contracts; Improve auditing and accountancy standards within the banking sector; and
5. Promote financial discipline through adequate disclosure and competition. Accordingly the NRB, the central bank was placed as an implementing authority for the reform programme and was also required to undertake the following activities under FSSS:
  1. Reform the financial sector legislation.
  2. Strengthen the bank supervision and inspection.
  3. Restructure and enable privatization of NBL and RBB.
  4. Enhance competitions in the banking sector.
  5. Reform the auditing and accounting capabilities.
  6. Enable broad-based banking.
  7. Streamline the ownership structure of the banks.

8. Revamp the Bankers' Training Institute.
9. Restructure the Credit Information Bureau.
10. Establish Assets Reconstruction Company.
11. Revamp research and financial monitoring capabilities of the NRB.
12. Broaden and deepen the financial system in the country.
13. Meet sectoral financing requirements.
14. Take measures for ADB/N and NIDC.
15. Establish Development Banks at Regional Level.
16. Strengthen the Rural Development Banks, and
17. Establish Credit Rating Agency. (Adhikary, Pant, and Dhungana, October, 2007)

### **Importance and Challenges of Financial Sector**

It is argued that the financial sector is a lifeline of all economic activities and the sector in itself is just one economic pursuit which thrives on financing to other economic activities. Just like every economic activity it has to use resource efficiently on the one hand and market its products/services on the other across the range of customers outreach and affordability. Financial business is crossing the national boundaries and has encompassing the global spectrum these days. Globalization of the financial sector has instilled further threats and opportunities to improve the level of services offered by these institutions. Therefore, competitive strength has been of vital importance in the financial institutions. In this regard the situation is not alike everywhere, "while some countries have been successful in eliminating underlying distortions and restructuring their financial sectors in the beginning of the new millennium, in some cases financial sectors remains underdeveloped". The financial sector reforms, especially a comprehensive one, would be a turnaround approach to

cope up with the threats of global competitiveness in carrying out the financial services. ( Adhikary, Pant, and Dhungana, October, 2007)

### **Meaning and Definition of Bank**

Generally, an institution established by law, which deals with money and credit is called bank. It is obvious that in a common sense, an institution involved in monetary transaction is called bank. A bank simply carries out the work of exchanging money, providing loan, accepting deposit and transferring the money. Section 2(a) of the Nepal Rastra bank Act 2058 (2002) defines bank as follows:

“Bank” means the Nepal Rastra Bank established under section 3 of this act. Like-wise, according to section 2(b) of the commercial Bank Act 2031 (1974), Bank means “A commercial bank established under this act.” Though the banks established by both of these acts are called bank, we do not find clear definition of it. In addition to this, Section 2(a) of the Negotiable Instrument Act 2034 (1977) defines that a bank, which is established under the existing law shall be called bank. (Bhandari, 2003:2)

### **Origin of Bank**

In Thomson’s Dictionary of banking, it is stated that the word bank is said to be derived from the Italian word “Banco”, a bench, The early bankers, the Jews in Lombardy, transacted their business at benches in the market places. When a banker failed, his “Banco” was, broken up by the people, whence on word bank bankrupt. One of the earliest Italian banks, the bank of Venice, was originated for the management of a public loan, or “Monte”, as it was called.

Macleod, however, does not agree with the view and says “The Italian money changers as such were never called “BANCHIERI” in the middle ages “.It may be more correct to say that at that period the Germans were masters of a great part of Italy and the world bank is derived from the German word “Back” which means a joint stock fund and the German word “Bank” came to be used as its Italian equivalent “Monte” and was Italianized in to “BANCO” and the loans were called in differently “Monitor “Banchi”. Hence “Back in Germany languages, “Banco” in Italian, “Banke” in French and “Bank” in England were used.

In the opinion of French Writer Revil Pout, the use of bank and bank notes were started in Babylon in 600 B.C. The “Bank of Venice” of Italy was established in the age of middle. The use of it in India was started in far ancient age. Kautilyas economic also describes bank. The Manusmriti too has explained the banking system of ancient age. Banking custom and tradition begun before eight century in Nepal. Before twelfth century, the goldsmiths and other similar types of bankers used to collect the money and provide loan to the needs. (Bhandari, 2003:3-4)

### **Development of Banking System**

Certainly, no comparison can be made between ancient and modern banks, yet it is necessary to know how the present banking system gradually developed. In ancient time, gold smiths, businessmen and moneylenders used to perform the work of banking in every country. Hence, Crowther has described the following persons are the ancestors of modern banks:

- a. The Merchants
- b. The Money Lenders
- c. The Goldsmiths

### **a. The Merchants**

The oldest ancestors of the modern banks were the merchant's .The merchants used to exchange the gold, silver coins and deposit the valuable ornaments or goods made of gold, silver and ornaments The receipt (written document as a proof) given by them was considered equivalent to money. They had played vital role to develop the banking transaction.

### **b. The Money Lenders**

The moneylenders were second ancestors of the modern banks. Lending and borrowing are almost as old as money itself and the village money lenders, is found even in quite primitive communities. He is no usually regarded as a very lovely object usurer is one of the oldest terms of abuse. But the services he performs are undoubtedly useful and necessary, even though the reward he extracts in return may usually be greedy

### **c. The Goldsmiths**

The goldsmiths were the third ancestors of the modern banks. Noted economists Hartley Withers has taken the ancient goldsmiths as the father of the modern banks. The goldsmiths used to give receipts, which were known as goldsmiths note. It was made payable to bearer and on demand which transformed the said receipt into the position of a bank note. It gained circulation and currency in due course of time. These notes with the passage of time became payable to bearer on demand and enjoyed circulation. Thus we can say that the goldsmiths became the precursor of the modern bank note and the forerunners of the modern banking institutions. Hence, the banks started to carry out the works of creating

the credit, issuing the notes, depositing, lending, transacting, the bills of exchange and promissory note etc.

The history of banking development, we can't forget the bank of Casa de San Giorgio in Genoa, was established in 1148. Bank of Venice was established in 1157 and bank of Genoe was established in 1148. In 1401, the Bank of Barcelona was established in Barcelona. In fact, modern bank started to take rapid speed in forming and functioning from 17<sup>th</sup> century. During this period, Bank of Milan, Bank of Florence and Bank of St. George was established in Genoa. In 1609 the Bank of Amsterdam was established in Holland, likewise in 1610, Bank of Hamburg was established in Germany and the Bank of England was established in England. In the context of Nepal, for the first time, the Nepal Bank Limited was established in 1994 (1938) and the Central Bank of Nepal (Nepal Rastra Bank) was established in 2013 (1957).

### **Commercial Bank**

Bank is the financial or business institution which was established by law. It deals with money bank takes deposit from general people, Joint Stock Company, government, corporation etc. Similarly it takes interest and appropriate mortgage. Commercial banks are organized on a Joint Stock Company System, primarily for earning profit. Commercial banks attract deposits of all kinds' current, saving and fixed account. Bank is a moneylender which is different in the sense that the former lends the money which is principally collected from their depositors while later does so from its own resources.

According to shorter oxford English dictionary, "A bank is an establishment for the custody of money its essential duty is to pay their draft on it, its profit arises from its use of the money left unemployed by them." (2005: 107)

Banks refer to an institution, which perform the activities related with money and credit. Banks have been traditionally regarded as merely the purveyor of money. But today they are not merely purveyor of money but creator of manufacturer of money in the system.

“Theory of credit” has defined the bank is not only as an institution, that borrows and lend money but also the institution for creating credit.

The commercial bank act 2031, under which commercial banks are established and operated, has defined commercial bank as a bank which exchanged money, accepts deposit, advances loans and performs other commercial transactions and which is not specially established with the objectives of co-operative, agricultural, industrial or any other of such kind of specified purpose.

The Act has defined the commercial bank on the basis of its objectives and activities. Referring to the act, a commercial bank:

- Should be established with a specified objective of co-operative, agricultural, industrial of any of such of specific purpose.
- Should accept customer deposit
- Should advance loans and make investments.
- Perform commercial transactions.

“The same act has provided for the modalities of establishing a commercial bank, as per which a commercial bank can be established under the company act as a limited liability company only with the recommendations of Nepal Rastra Bank, the central bank of Nepal” (Commercial Bank, Act. 2031).

About various definitions of scholars we come to know that bank is a financial or business institution, which accepts deposit, payment of cheque, granting loan, remittance, bank guarantee, and miscellaneous services to people.

### **Role of Commercial Banks in Economic Development**

Every nation in the world is it developed or underdeveloped is in pursuit of attaining the goal of rapid economic development in some way or other depending upon the prevailing prospects and nature of instruments for economic growth. “The low income underdeveloped countries are not the only ones that have recently awakened to the possibility of growth and that now attach unprecedented importance to promoting it.” The highest income most highly-developed countries in the world (Bhandari, 2003)

#### **List of Banks and Non-Bank Financial Institutions**

Class A: Commercial Banks

Class B: Development Banks

Class C: Finance Companies

Class D: Micro Credit Development Banks

Savings and Credit Co-operatives (Limited Banking) (Licensed by NRB)

Non-Government Organizations (NGOs) (Licensed by NRB)

There are altogether 31 commercial banks, 87 development banks, 79 finance companies, 21 Micro Credit Development Banks, 16 saving and Credit Co-operatives (Limited Banking) and 38 Non-government Organizations as of Mid-July 2011.

**Table 1.1**  
**List of Banks and Non-Bank Financial Institutions**

Banks and Non-Bank Financial Institutions	No.
Commercial Banks	31
Development Banks	87
Finance Companies	79
Micro Credit Development Banks	21
Saving and Credit Co-operatives (Ltd Banking)	16
Non-Government Organizations	38

(Source: Nepal Rastra Bank)

**Table 1.2**  
**Class A: Commercial Banks**

S.No.	Name of Bank	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. In Million)
1	Nepal Bank Limited	1937/11/15	Kathmandu	380.4
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.30
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	10777.50
4	NABIL Bank Limited	1984/07/16	Kathmandu	1449.10
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu	2409.10
6	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu	1398.50
7	Himalayan Bank Limited	1993/01/18	Kathmandu	1600.00
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu	1653.60
9	Nepal Bangladesh Bank Limited	1994/06/05	Kathmandu	1860.30
10	Everest Bank Limited	1994/10/18	Kathmandu	1030.50
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu	1182.20
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar, Rupandehi	1399.60
13	Lumbini Bank Limited	1998/07/17	Narayangadh, Chitawan	1294.50
14	Nepal Industrial and Commercial Bank Limited	1998/07/21	Biaratnagar, Morang	1311.50
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski	1479.10
16	Kumari Bank Limited	2001/04/03	Kathmandu	1304.90
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa	1613.50
18	Siddhartha Bank Limited	2002/12/24	Kathmandu	1230.00

19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	1325.10
20	Citizens Bank International Ltd.	2007/06/21	Kathmandu	1196.00
21	Prime Commercial Bank Ltd	2007/09/24	Kathmandu	1263.70
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	1419.70
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	1105.30
24	DCBL Bank Ltd.	2008/05/25	Kamaladi, Ktm	1740.4
25	NMB Bank Ltd.	2008/06/05	Babarmahal, Ktm	1430.00
26	Kist Bank Ltd.	2009/05/07	Anamnagar, Ktm	2000.0
27	Janata Bank Nepal Ltd.	2010/04/05	New Baneshwor, Ktm	1400.0
28	Mega Bank Ltd	2010/07/23	Kantipath, Ktm	16310
29	Commerz and Trust Bank Ltd	2010/09/20	Kamaladhi, Ktm	14000
30	Civil Commercial Bank Limited	2010/11/26	Kamaladhi, Ktm	12000
31	Century Commercial Bank Limited	2011/03/10	Putalisadak, Ktm	10800

(Source: Nepal Rastra Bank)

### **1.1.1 Short Profile of the Sample Commercial Banks**

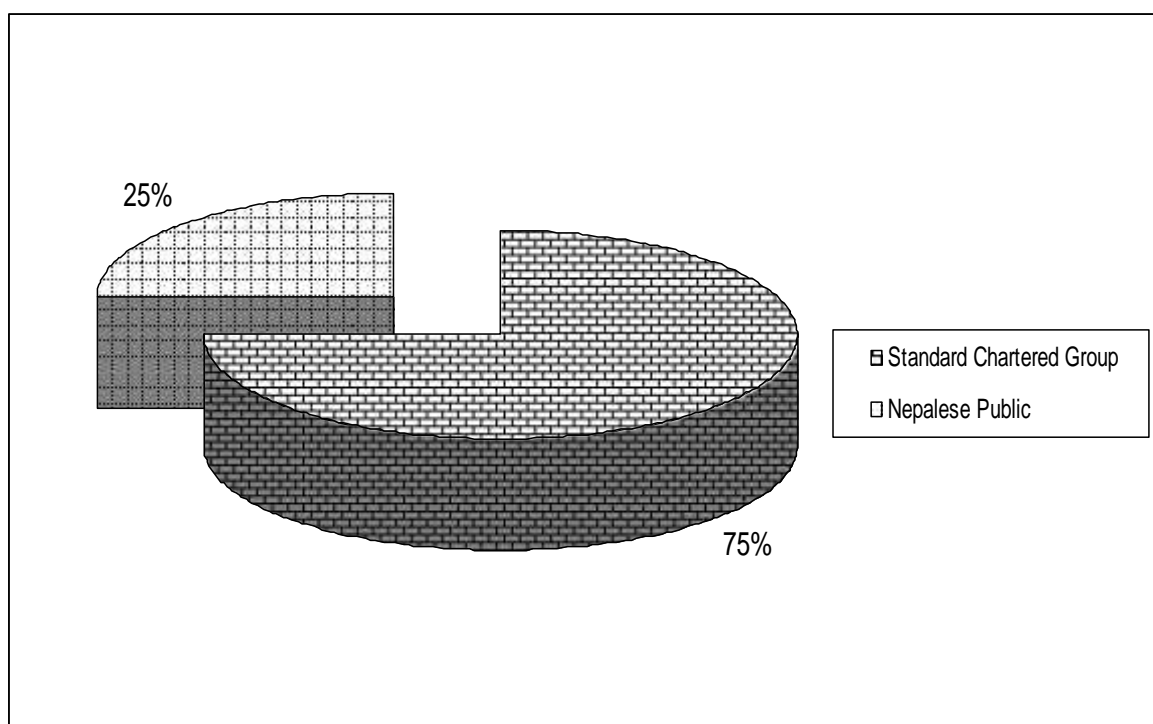
#### **a. Standard Chartered Bank**

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. At present, the Bank is an integral part of Standard Chartered Group having an ownership of 75% in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal. Standard Chartered PLC is a leading international bank, listed on the London, Hong Kong and Mumbai stock exchanges. It has operated for over 150 years in some of the world's most dynamic markets and earns more than 90 per cent of its income and profits in Asia, Africa and the Middle East. This geographic focus and commitment to developing deep relationships with clients and customers has driven the Bank's growth in recent years. With 1,700 offices in 70 markets, Standard Chartered offers exciting and challenging international career opportunities for more than 80,000 staff. It is committed to buildings

sustainable business over the long term and is trusted worldwide for upholding high standards of corporate governance, social responsibility, environmental protection and employee diversity. The Bank's heritage and values are expressed in its brand promise, 'Here for good'. With 18 points of representation, 23 ATMs across the country and with more than 400 staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal. Standard Chartered Bank Nepal Limited offers full range of banking products and services in Wholesale and Consumer banking, catering to a wide range of customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, government corporations, airlines, hotels, Me's as well as the DO segment comprising of embassies, aid agencies, NGOs and INGOs. The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first Banking Nepal that has implemented the Anti-Money Laundering policy and applied the 'Know Your Customer' procedure on all the customer accounts. Corporate Social Responsibility is an integral part of Standard Chartered's ambition to become the world's best international bank and is the mainstay of the Bank's Values. Standard Chartered throughout its long history has played an active role in supporting those communities in which its customers and staff live. It concentrates on projects that assist children, particularly in the areas of health and education. Environmental projects are also occasionally considered. It supports on-governmental organizations involving charitable community activities The Group launched two major initiatives in 2003 under its 'Believing in Life' Campaign 'Living with HIV/AIDS' and 'Seeing is Believing'. (Annual Report of SCBNL 09/10:1)

In the comparison of other bank, this bank earns a lot of popularity in banking field. Nepal Grind lays Bank Ltd had changed its name as Standard Chartered Bank Ltd (SCBNL) in July 2001. Standard chartered bank Nepal limited, a subsidiary of standard Chartered bank group in Nepal's largest international bank has compiled twenty years in operation. Its share subscription is given as;

**Figure 1.1**  
**Shares of SCG and NP**



The 266<sup>th</sup> meeting of the Board of Directors of the Bank has proposed dividend to the shareholders of the Bank for the year ended 16 July 2010 at the rate of 55 percent in cash and issue of bonus shares at the rate of 15 percent. Standard chartered is the world's leading emerging markets bank in Asia, the sub-continent, the middle east, Africa and Latin America. Standard on a pioneer in introducing many innovation product and marketing concept in the domestic banking sector presents a milestone in the banking history of as it standard an era of modern banking with customer satisfaction measured as a sole objective

while doing business. This bank is fully equipped with modern technology which is providing its banking facilities by establishing branches in different region and parts of the country, which includes both urban and rural areas. The following extra facilities have been providing by the bank.

Credit cards

Tele Banking

Any Branch Banking

Automated Teller Machine

Visa Card

24 hours banking

#### **b. Bank of Kathmandu**

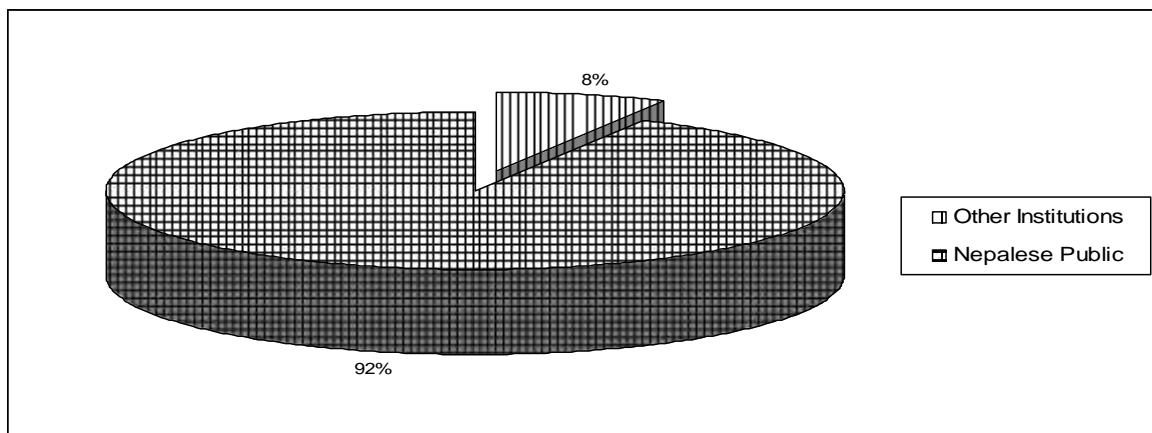
As a prominent name in the Nepalese banking fraternity today, Bank of Kathmandu (BOK) is committed to deliver quality service to customers, generate good return to shareholders, provide attractive incentives to employees and serve the community through stronger corporate social responsibility actions. The slogan of this bank is “We make your life easier”. BOK started its operation in March 1995 with the objective to stimulate the Nepalese economy and took it to newer heights. BOK also aims to facilitate the nation’s economy and to become more competitive globally. To achieve these, BOK has been focusing on its set objectives right from the beginning. To highlight its few objectives:

- To contribute to the sustainable development of the nation by mobilizing domestic savings and channeling them to productive areas.
- To use the latest banking technology to provide better, reliable and efficient services at a reasonable cost.

- To facilitate trade by making financial transactions easier, faster and more reliable through relationships with foreign banks and money transfer agencies.
- To contribute to the overall social development of Nepal. (Source: Annual report of BOK, 08/09:1)

Bank of Kathmandu Limited (BOK) has today become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public. Its authorized capital is Rs. 2000 million, Issued Capital is Rs. 1359 and paid up capital is Rs. 1359 million. The share owners are:

**Figure1.2**  
**Shares of Following Groups in BOK**



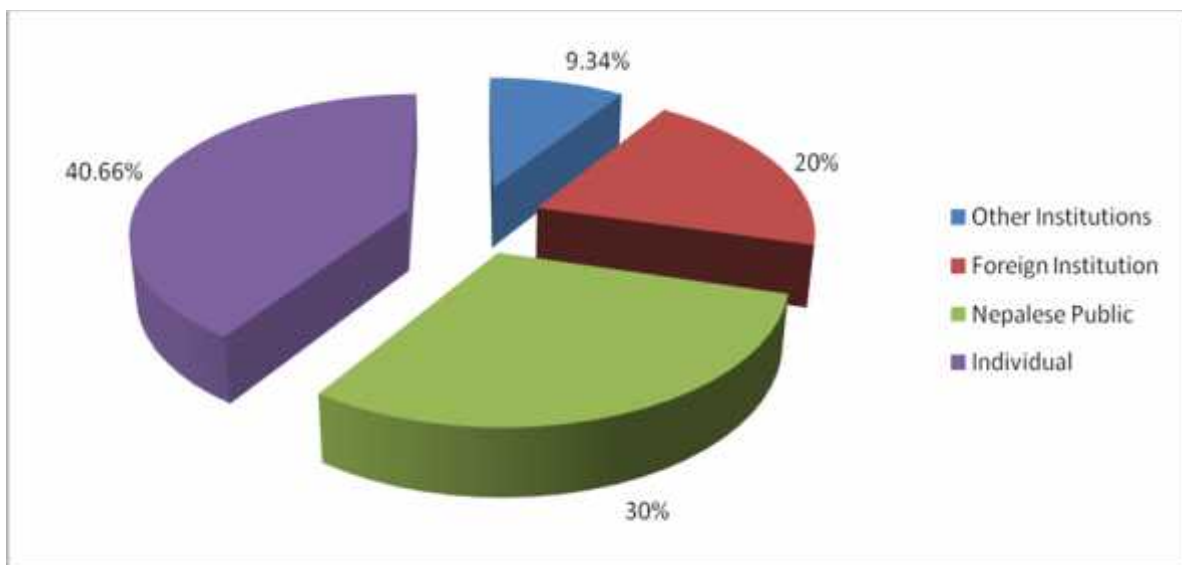
**c. Everest Bank Limited**

Everest Bank Ltd was established in 2051 B.S. It entered into joint venture with Punjab National bank of India (PNB). The bank operates with the objective of extending professionalized banking services to various section of the society of the country and thereby contributes to the economic development of the society in the country. The promoters of the bank decided to join hands

with an Indian bank and entered into joint venture agreement in January 1997 A.D. with Punjab National Bank (PNB) which is one of the leading commercial bank of India having over 100 years of successful banking experience and known for its strong system and procedure. EBL was earlier to be joint venture with United Bank of India, Calcutta but the foreign partner did not undertake the Joint Venture Agreement.

On equity holding PNB has 20% equity participation in its total shareholding and also has undertaken management responsibility under a technical service agreement and other balance is maintained by Nepali investor. Its details on share ownership are given below.

**Figure 1.3**  
**Shares of Following Groups in EBL**



Everest bank limited is one of the leading commercial bank of Nepal. EBL has got on authorized capital of NRs. 1250 million, Issued Capital is Rs.1050 millions and Paid up Capital is Rs 1030 millions. Through its 37 branches all over, its head office at Lazimpat.

The main aim of EBL is to extend professional banking services to various sectors of the society in the kingdom of Nepal and there are by contributing in

the economic development of the country. In addition to the usual facilities offered by all banks, some new banking procedures have also been introduced. Like cumulative deposit Scheme, Unfix fixed deposit, requiring deposit plan and recently also introduced facilities for the Nepalese living in gulf countries for transfer of their services to their home Nepal.

## **1.2 Statement of the Problem**

This section deals with the area of topic that should be studied rather than the problem facing by selected organization for the research study. Banking sector in the present context of Nepal which is trying to overcome from its 10 years internal war period which declined the whole economy of the country, is the only one sector which has survived up to now passing through the profit in the days of critical situation of the country also. Different researchers had already researched about this topic but it is not enough study. As being a commercial institution, a commercial bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. Commercial banks major activities include mobilization of resources which involves cost and profitable deployment of those resources which generates income the differential interest margin, can be considered as the contribution margin in the profit of the bank.

The present study has attempted to analyze and examine the profitability condition of commercial banks taking a case of Standard Chartered Bank Nepal Ltd., Bank of Kathmandu and Everest Bank Ltd.

Profit is possible only if the bank mobilized the deposit and other resources and makes proper and safe investment. So, this study attempts to seek answers of some issues such as:

1. Do profitability ratios show overall condition of Standard Chartered Bank Nepal limited, Bank of Kathmandu and Everest Bank Limited?
2. Does these banks give proper control and direction for the profit?
3. Do profitability ratios indicate any strength and weakness of a bank?
4. Can the ratio establish the relation between net profit and total assets?
5. What is the correlation between net profit and total investment?
6. Does these banks have sound mobilization of the deposit?
7. Does these banks have been able to accumulate deposit?
8. Can the ratio establish the relation between net profit and total assets?
9. Does these banks provide better facilities for the customers for their welfare?

### **1.3 Objective of the Study**

The specific objective of this study is to know the profitability condition of the Standard Chartered Bank, Bank of Kathmandu, Everest Bank Ltd,

#### **Specific Objective**

To know about the profitability condition of three commercial banks: Standard Chartered Bank, Bank of Kathmandu and Everest Bank Ltd.

#### **General Objectives**

- To examine the dividend yield provide by the banks to the shareholders.
- To know about what management policy is applied for accomplished the targeted profit.
- To know about how much deposit is collected by customers and to which sectors they prefer to invest it.
- To know about the conditions of investment of the sample banks.
- To provide recommendation based on study.

## **1.4 Limitations of the Study**

The study was conducted for the partially fulfillment of the master of business studies (MBS) program. To complete within the prescribed time others it is the following.

- It is concerned on only three sample commercial banks of Nepal due to the time bound to research.
- Difficult in availability of sufficient data and information to research.
- Sample of the banks are only taken from the fiscal year 2005/06 to 2009/10 due to no availability of adequate time to research.
- Study is based mostly on secondary data.
- Current situation of profit are not included in the study.

## **1.5 Organization of the Study**

This study used a five-chapter format to achieve the above-stated research goals.

The first chapter introduced the topics under consideration and provided a statement of the importance of the study, its importance and scope, as well as its supporting rationale.

The second chapter of the study consists of a critical review of the relevant peer reviewed, scholarly and organizational literature. It's include conceptual framework, review of the published and unpublished books, journals, articles, Annual reports of banks, previous unpublished masters' degree thesis etc .

The third chapter more fully describes the research methodology used in the study, which includes research design, sources of data, population and samples, data analysis tools etc. used to analyze the profitability of the top three banks

The fourth chapter presents the heart of the study. This chapter includes presentation and analysis of data using different financial and statistical tools analysis of the data.

Finally, Last chapter revolves with suggestion, which includes the summary of the main findings conclusion of the study and recommendations. Bibliography and appendixes have been included at the end of the study.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

#### **2.1 Introduction**

Review of the literature is supported to revise the significant literature relating to the study various books, articles, journals, bulletins, reports, news, paper and theses etc. which are the bases for preparing it. Some philosophers, writers or researchers have given the contribution on it since many years. There are two parts in the review of literature.

##### **2.1.1 Conceptual Framework**

In this chapter, the researcher aims to shed light on the relevant theoretical background of the study being under taken. It comprises the conceptual framework about the commercial banks, its activities, profit-planning concepts, and review of books, previous study. So far this study is concerned with reviewing the profit planning of these two commercial banks .in this connection, the researcher has reviewed various literature in the form of books, newspapers, journals, browsing materials from the concerned websites, previous dissertations in the relevant subject matters etc.

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account. The focus of the financial analysis is on key figures contained in the financial statements and the significant relationships that exist between them (Khan and Jain 1992:79). It is undertaken by various interest groups of a firm and the nature of analysis differs

depending on the purpose of the analyst. Management of the firm is generally interested in every aspect of the financial analysis because they have overall responsibility of maintaining efficient and effective utilization of resources and sound financial position of the firm. (Khan and Jain 1992:79). Financial analysis may of two type's viz. vertical analysis and horizontal analysis. When a financial statement like a Balance Sheet or a Profit and Loss Account, of a certain period only are analyzed, the analysis is called vertical analysis. Since it measures position of the business at a point of time, it is also known as static analysis (Saravanaved 1983:29). In horizontal analysis, a series of statements relating to a number of years are reviewed and analyzed .It is also known as a dynamic analysis because it measures the change of position or trend of the business over a number of years. This study is based on horizontal analysis. There are three steps in financial analysis (Khan and Jain).

- Selection of the information relevant to the decision under consideration from the total information.
- Arrangement of the selected information in a way to highlight significant relationships, and
- Interpretation and drawings of inferences and conclusions.

A powerful and the most widely used tool of financial analysis is ratio analysis. A financial ratio (of simply a ratio) is the relationship between two accounting figures, expressed mathematically or the term ratio refers to the numerical or quantitative relationship between two items/ variables. This type of relationship can be expressed as (i) percentage (ii) fractions and (iii) proportion of numbers. Ratios help to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance." Financial ratios help us to find the symptoms of problems. The cause of any problem may be determined only after locating the symptoms. The operational and financial

problems of a corporation can be ascertained by examine the behaviors of these ratios (Pradhan 1986:30). So, the ratios in financial institutions are regarded as the best indicators of their performance.

Financial ratios have been a topic of number of empirical studies in the past decades. Many scholars have conducted empirical studies on different subject matters about financial ratios. One group of empirical studies utilizes ratio derives from failed and non-failed firm's balance sheets and income statements to predict corporate failures. For example, Altman (1968) has identified several statistically useful financial ratios for predicting corporate failure .Another direction which emerged in research into financial ratio analysis was the classification and reduction of a large number of ratios into a small subset (Pinches et al., 1975) Chen and Shimerda, 1981). Another research direction is the behavioral aspects of decision-making using financial ratios. Slovic (1969) examined the investment worthiness of firms by means of Analysis of Variance (ANOVA) models where treatments are the firm's ratio attribute and the dependent variables are the respondents' rating score. Gibson (1983), (1985) and (1987) have examined useful financial ratios from behavioral perspectives and discussed useful attribute than others for accountants, bankers and financial analysts. Recently, Shivaswamy, Hoban and Matsumato have conducted a study to examine the behavioral aspects of financial ratio analysis to identify behaviorally useful financial ratio for retailers and manufactures; and statistically useful ratios derived from bankruptcy analysis and to investigate whether or not credit analysis find a different set of ratios useful in studying retail firms and manufacturing firms .

Ratio analysis is the systematic use of ratio to interpret the financial statements so that the strengths and weaknesses of a firm as well as its historical performance and current financial condition can be determined. (Khan and

Maintop, P: 80) A comparative study can be made between different statistics concerning varied facets of a business unit with the help of ratio analysis. Besides, just as the blood pressure, pulse and temperatures are the measures of the health of an individual, so does ratio analysis measure the economic and financial position/ performance of a firm can be fully X-rayed through ratio analysis (Kothari 1990:487).

After calculating various ratios, we need some standard for comparison to draw conclusion from the result. The standard of comparison may be of four types:-

1. Ratios calculated from the past financial statements of the same firm.
2. Ratios developed using the projected, or pro forma, financial statements of the same firm.
3. Ratios of the some selected firm, especially the most progressive and successful, at the same point in time.
4. Ratios of the industry to which the firm belongs.(Pandey :110)

### **Ratio Analysis can be classified into six fundamental types**

- 1) Liquidity ratios
- 2) Leverage ratios
- 3) Activity ratios
- 4) Portfolio ratios
- 5) Growth ratios
- 6) Valuation ratios

Among these types of ratios, the first four types are popular and widely used. Growth ratios measure the firm's ability to maintain its economic position in the growth of the economy and Valuation ratios are the most complete measure of performance because they reflect the risk ratios (the first two) and the returns ratios (the following three) (Weston and Brigham 1987:138). Viewing the nature and the limitation of this study only the first three types of ratios are used here for financial analysis.

## 2.2 Review of Previous Thesis

**Chhetri** (2002) examined profitability position of NABIL Bank Ltd comparisons with Standard Chartered Bank.

Her major objectives are:

- To evaluate the trend of deposits and loans and advances of NABIL and SCBNL.
- To evaluate the liquidity, Profitability, Capital structure, Activity and Capital adequacy positions of NABIL and SCBNL.
- To study the strengths and weaknesses of NABIL and SCBNL.
- To study the opportunity and threats in terms of financial tools.
- To suggest and recommend some measures for the improvement of financial performance of NABIL and SCBNL in the future.

The major Findings are:

- NABILs Deposits Utilization rate is higher than that of SCBNL in all the FYs during the study period which implies that NABIL is more active in creating investment opportunities and enhancing business activities than Scbnl.
- NABILs assets utilization position is better than that of SCBNL and also SCBNL is applying comparatively safer and selective investment or lending policy.
- NABILs average shareholders fund to total deposits ratio and average shareholders fund to total deposits ratio and average shareholders fund to total assets ratio are higher than those of SCBNL.
- Average return on risky assets ratio and average return on total assets ratio of SCBNL are higher than those of NABIL which implies that SCBNL is more Profitable than NABIL.

**Sapkota** (2008) in his study profitability benchmarking of Nepal Bangladesh Bank has analyzed profitability position with other Joint Venture (J.V.) banks i.e.; NABIL, SCBNL, HBL, NSBI and EBL with given objectives.

- To examine the profitability situation of the J.V. bank industry as a whole and sample banks.
- To analyze the profitability trend of Nepal Bangladesh Bank and the J.V. bank industry over the last five years.
- To ascertain the comparative position of profitability of Nepal Bangladesh Bank with respect to other J.V. Banks.

The main findings of this study are:

- It is identified from the analysis that NB Bank is performing not well under the industry standard and also has least performance among all players in the J.V Bank industry in Nepal.
- NB Banks past and present earning generating potential is assessed low in many parameters of profitability in comparisons to the industry as well as other Joint Venture Banks in the country.

**Kharel** (2008) conducted a study entitled Profit Planning of Commercial Banks with a comparative study of Everest Bank Ltd, NABIL Bank Ltd and Bank of Kathmandu Ltd. The main Objectives of this study are:

- To find out the relationship between total investment, loan and advance, deposit, net profit and outside assets.
- To identify the investment priority sectors of commercial banks.
- To assess the impact of investment on profitability.

- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks.
- To provide suggestion and possible guidelines to improve investment policy and its problems.

The main findings of the study are:

- The liquidity position of EBL is comparatively better than of NABIL and BOK.
- In spite of the current ratio is average among the other two banks EBL has maintained the cash and bank balance to meet the customers demand.
- EBL has invested in highest sector like government securities than BOK and lesser position than that of NABIL.
- BOK had mobilized lots of its funds in order to gain the high profit.
- The interest earned to total outside assets and return on total working fund ratio of EBL is lowest of NABIL and BOK Bank.
- The ratio suggests that the earning capacity of the bank's loan and advances is satisfactory.
- The return on assets of the bank is good in average, it indicator the good earning capacity of the bank's assets and good utilization of its assets.

**Ranjitkar** (2009) conducted a study profitability position of NABIL Bank. The main objectives of this study are:

- To assess the financial position of NABIL Bank.
- To ascertain the total assets and total liabilities.
- To find out the SWOT analysis of NABIL Bank.
- To provide appropriate suggestions on the bases of above analysis.

The main findings of this study are:

- Cash and Bank balance to total deposit and Current Deposit Ratio is increased and Fixed Deposit and Savings Deposit to Total Deposit Ratio is also in good condition for current year than previous.
- Profitability Ratio of NABIL is in better condition in this year than last year. ROA, ROI, ROE and RONFA all are not so better and not so bad. In the same way, EPS and DPS collection is better.
- There is high degree of positive correlation of trend analysis with time period in year and total deposit, total investment, loan and advance, total assets, total income, net profit, interest income, interest expenses, operating expenses. Co-efficient of correlation matrix exhibits all items are in positive relation between each other.
- NABILs objective is profit and service oriented. The achievement of this bank is satisfactory. However, its achievements could be raised more than this. So, bank should increase rating system and also offer high value added products and services as well as a free and unrestricted professional working atmosphere for staff.
- The major problem faced by the bank is lack of education about banking system and tough competition among banks even the bank has given excellent service without any weaknesses.

The profit planning in the context of particularly commercial bank seems to be a new subject to study for research and analysis. So for this, researchers could find two study that has been made in this topics, by **Abha Subedi** (March, 2001) **Binod Kumar Sharma** (April, 2002) for the purpose of partial fulfillment of the requirement for Master Degree in Business Administration. Both have studied the profit planning in commercial bank with a case of, Rastriya Banijya Bank and Nepal Bangladesh Bank. Abha Subedi has studied the profit planning aspect

of Rastriya Banijya Bank. The study covered five years period of time from 1993/94 to 1997/98.

The main objectives of the study were to examine the effectiveness of profit planning system in the commercial banks and other objectives are as follows.

- a. Examine the profit with trend and regression methods with expenditure.
- b. Observe the loans and advances with trend and regression methods with deposits.
- c. Highlight the total revenue and expenditure of the bank.

She has pointed out various finds and recommendations, some of them are as follows.

## **Findings**

1. The rate of expansion of branches of RBB was increases after introduction of priority sector program in 2031 but the growth could not be as desired. The branches operate is more in urban areas than in rural areas.
2. The banking cost has remained relatively very high.
3. The rate of change in interest has no effect in business growth in deposit side or in investment side.
4. RBB has not been publishing its annual reports, balance sheet and profit and loss accounts and related schedule along with the audited report.
5. Deposit mobilized is not properly utilized.
6. Most of the investments made against the security of land, gold and silver.

### **Recommendations**

1. Performance of every branch is needed to be evaluated and those having performance below satisfactory level should be closed down.
2. The interest rate on the deposit may be reduced in order to reduce the same on the credit.
3. Adequate training should be given to the personnel and make the operation computer system based to make the service prompt.
4. Bank should look for new sectors of investments as well for its growth.
5. Banking business should be free from undesirable interference from politicians and high ranking officials.

**Binod Kumar Sharma** has studied the profit planning in Commercial Bank with a case study of Nepal Bangladesh Bank. He has studied the profit planning aspect of Nepal Bangladesh Bank. His major findings are:

1. The bank is adopting a policy to keep minimum number of employees as possible. But it has unnecessary long ladder at various levels without specific job description.
2. Bank has the policy to employ academically highly qualified (first class MBA) fresh candidates at management trainee, which may be considered as good aspect for future manpower planning.
3. Major concentration of resources mobilization. In this respect they are incurring cost toward deposit mobilizations.
4. Outstanding, letter of credit liabilities of the bank are increasing every year however the growth is not constant.
5. Interest expenses amount is the highest among total expenses items of the Bank every year.
6. Interest income amount of the bank is the highest among other income items in the total revenue.

**Mr. Sanjeeb Shrestha (1998)** has conducted a research about profitability in joint venture foreign banks. He has been selected three foreign banks i.e. Nepal Arab Bank Limited, Himalayan Bank Ltd and Nepal Bangladesh Bank Ltd for the study of profitability. He has tried to show some features and problems of profitability in foreign commercial bank and their implementation in practical life. The main objectives of this research implies

1. Evaluation of assets management capital structure liquidity position.
2. Evaluation of trend of total deposit and loan and investment pattern.
3. Focuses given in efficiency of operation for which profitability will be analyzed.
4. Examine and analyze the ratios based on industry ratio of selected three banks.
5. Comparing the profitability ratio and other strong and weaknesses among three banks.

To achieve the above stated objectives Mr. Shrestha has made his research covering the time period of four years from 1994/95 to 1997/98. He has followed secondary data for data gathering procedure however he has been followed primary data for other essential information.

His research work prints out that these three foreign banks were making profit on an unrealistic premise which only promote irrational optimize and undue conversation.

Mr. Shrestha has printed out various findings and recommendations few major of them are as follows:

## **Findings**

The study has mainly focuses over many ratios out of which the significant finding based on these ratios are follows.

- a. Return on total assets ratio is satisfactory in NABIL and HBL than NBBL with companying with industry ratios.
- b. Return on total deposit ratio is high in NABIL and HBL than industry and NBBL also satisfactory.
- c. Interest income to interest expenditure ratio is below the industry ration in all three banks.
- d. Quick ratio also below with the industry.
- e. Cash and Bank to total deposit ratio is above the industry ratio on HBL and NBBL and NABIL's ratio also satisfactory.

## **Recommendations**

- a. NABIL is suggested to improve the liquidity position.
- b. HBL is required to improve the liquidity position in respect to three ratios.
- c. NBBL has to reduce its current ratio.
- d. NBBL is strictly required to raise the surplus (especially earning on total deposits).
- e. NBBL is required to decrease the operating expenses.
- f. NBBL is recommended to extend the off- balance sheet transactions.

**Miss Uma Devi Karki (1998)** has been conducted the research on comparative profit planning of commercial bank. She has conducted the research study in five years period of time 2050/2051 to 2054/2055.

The basic objective of the study is to highlight the current practices of profit planning and its effectiveness in commercial banks and other specific objectives are as follows:

- a. To analyze the major functional and financial plans formulated and implemented in both banks.
- b. To examine the outcome of those plans in terms of achievement.
- c. To sketch out the main constraints of developing and implementing profit planning system in both banks.
- d. To print out possible suggestions and recommendations to improve the performance of both bank with the means to profit planning system comparatively.

### **Findings and Issues**

- a. No proper profit planning strategy seems to be developed although HBL is operating at profit but RBB is running with heavy cumulative loss.
- b. Cost control mechanism is found not to be followed.
- c. There is no utilization of money effectively except interest rate and annual final account report.
- d. RBB is unable to control idle expenses and its profit is negative or highly fluctuation.
- e. Government seems less concise in the present situation of RBB.

### **Recommendation**

- a. Government has to be conscious about the present situation of RBB having almost market shares.

- b. It is highly recommended for these banks to keep out target rate of return every year and on the basis of which the bank should plan of profit by linking its activities with income generation programs whether fund based or non-fund based.
- c. Accounting system should be systematic so that proper strategy can be applied specially in case of RBB and auditing of accounts should be done in time.
- d. RBB should focus on constraint return because it has always negative earning on capital.
- e. Local experts should be involved more in top level of management of RBB so that they can run the bank easily future.
- f. Lastly, banks are advised to formulate better plans.

### **2.3 Review of Journals and Articles**

The banking industry in general has experienced some profound changes in recent decades, as innovations in technology and the inexorable forces driving globalization continue to create both opportunities for growth and challenges for banking managers to remain profitable in this increasingly competitive environment. Most of the studies concerning bank profitability to date, including Short (1979), Bourke (1989), Molyneux and Thornton (1992), Demirguc-Kunt and Huizinga (2000) and Goddard, Molyneux, and Wilson (2004), have employed different linear models to estimate the impact of various factors that could be significant in terms of explaining profits. According to Athanasoglou and his colleagues (2005), these studies were seminal in demonstrating the feasibility of conducting a meaningful analysis of the determinants of bank profitability, but some of the methods used by these studies failed to take into account the robust and dynamic nature of the economic environment in which they competed. Moreover, the studies to date have primarily considered

determinants of profitability at the bank and or industry level, with the choice of variables used lacking internal consistency in some instances; in addition, there has been a dearth of research concerning the potential influence of the macroeconomic environment, due in part to the small time dimension of the panels used in the estimation (Athanasoglou et. al., 2005). Other factors that have constrained the research to date include the fact that the econometric methodology used in the study was not adequately described and/or failed to Account for some features of bank profits which suggest that the estimates obtained by these studies may have been biased or inconsistent (Athanasoglou et. al., 2005). Nevertheless, studies have amply demonstrated the ability of models to better understand what fuels profitability in financial services organizations, and this represents the purpose of the study which is described further below. The general purpose of this study was to develop an appropriate econometric model whereby the primary determinants of profitability of the top five bank holding companies in the United States could be examined and understood. The specific purpose of this study was to determine the impact of the external environment in which the five leading bank holding companies in the United States (as of June 2007) as measured by real growth in GDP compared to internal aspects of the respective organizations as measured by their return on assets as an indicator of profitability. This study reviewed the peer-reviewed, scholarly and organizational literature as it applied to the banking industry in general and to the United States in particular to identify recent trends, determinants of profitability for financial services organizations, and to provide the requisite background to developing a straight-forward econometric model that could be used to analyze bank-level data for the nation's five leading bank holding companies as measured by total assets. According to Goddard and his colleagues (2004), in spite of the growing body of research into determinants of banking profitability, there remains a paucity of studies that have investigated the specific relationship between organizational size and its

impact on profitability. These authors report that, “Previous studies of the dynamics of growth on the one hand, and profit on the other, have in the main developed separately, and followed contrasting empirical methodologies. Nevertheless, there are several theoretical arguments to suggest that these two performance indicators are closely related. However, few researchers have tested for empirical relationships between growth and profit directly” (Goddard et al., 2004 P: 1069). Moreover, as Cover (1999) emphasizes, the need for identifying determinants of profitability in the banking industry has never been greater: “As banks move into the twenty-first century, they must focus more than ever before on creating streams of revenue in order to shareholder value. Crucial to this effort is the need to assess and analyze the profitability of the bank’s current customers, relationships, services, and products. It is only through such analyses that banks can determine which customers to fight for, which customer relationships to expand, and which prospective customers to pursue” (p: 78). The rationale that guided this study was that the larger the bank holding company, the more impervious it would be to downturns in the external environment as measured by real growth in GDP. Larger financial services companies enjoy a wide range of advantage by virtue of economies of scale, accumulated tacit knowledge and expertise as well as the resources needed to continue their expansions into foreign markets where barriers to entry may be prohibitive for smaller players in the market. For example, according to Goddard, Molyneux and Wilson (2004), “Previous studies of the determinants of concentration have proposed various explanations as to why some firms grow and attain large size. These include economies of scale or scope, efficiency gains attained through size, the adoption of entry-deterring strategies or the exercise of other forms of market power.” (P: 1069). Likewise, as noted above, a number of studies have demonstrated the feasibility of using bank-level data to investigate profitability determinants. In addition, the research to date also suggests that banking firms are one of the best places to test for the effects of

various profitability factors such as technological innovation. In this regard, Berger and Deyoung (2006) emphasize that, “Banks have embraced substantial advances in both physical and financial technologies during the past two decades, and the broader industry category of which banking is a part, Depository and Non depository Financial Institutions, is the most information technology-intensive industry in the United States” (Business Intelligence Journal p: 1483).

Bourke (1989), had indicated in his study, the use of value added measures of profitability when testing the validity of the risk aversion hypothesis and the expense preference hypothesis. He added that in the value added measure of profitability, net income is aggregated with expense items such as provision for losses and staff cost. Subsequently as these costs are tax deductible, it should not be applied in determining the value added measure of profitability.

In line with the above argument, the following measures of profitability considered by Bourke (1989) will also be considered as the dependent variable in this study.

BTTA Net income before Tax as a percentage of total assets.

ATTA Net income after tax as a percentage of total assets.

BTCR Net income before tax as a percentage of capital and reserves.

ATCR Net income after tax as a percentage of capital and reserves.

The table indicates the variables BTTA and ATTA represent before and after tax return on assets (ROA) measure of profitability respectively. Similarly, BTCR and ATCR represent before and after tax return on equity (ROE) measure of profitability respectively. (European Journal of Economics, 2010)

## **2.4 Profit Measurement**

Profits are normally defined as the residual left after revenues is used to pay for the factors of production. (David M Blitzer, the MC Graw Hill, New Delhi). More simply, Profits are revenues minus costs.

In normal use, there are few concepts that are commonly used to measure profits and make comparison overtime or across different firms or economic situation.

It includes,

- Financially reported profits.
- Profits reports on corporate income tax returns.
- Profit data reported in analysis of stock market.
- Earnings per share.
- National income and product income

## **2.5 Purpose of Profit Planning:**

A comprehensive profit planning is a systematic and formularized approach for stating and communicating the firm's expectation and accomplishing management in such a way to maximize the use of a profit plan and to achieve the maximum benefit from the resources available to an organization over a particular span of time. The maximum objective of profit planning is to assist in systematic planning and controlling the operations of the enterprise. The purposes for the application of profit planning are:

- a) To state the firm's expectation (goal) in formal terms clearly to avoid confusion and facilities their attainment.
- b) To communicate expectation to all concerned with the management to the firm so that they understood, supported and implemented.
- c) To provide a detailed plan of action for reducing uncertainty and for

its proper direction of individual and group efforts to achieve goals.

- d) To coordinated the activities and efforts in such a way that the use of resources in maximized.
- e) To provide a means of measuring and controlling the performance of individuals and units and to supply information based on which the corrective action can be taken.

### **2.5.1 Long Range and Short Range Profit Plan**

Two types of plans are developed; one strategic (long-range) and another tactical short range. The former profit plan takes a time horizon of 5 to 20 years and the later for short period. The long range planning is a picture of more summary data. A part of this plan is more or less informal as presented by tentative commitments made by the executive committee in the organizational planning season. The formal portion of long-rang profit plan includes the following component detailed by each year.

- a) Income statement
- b) Balance sheet
- c) Capital Expenditure plan
- d) Personal Requirements
- e) Research plan and
- f) Long Rang Market Penetration plan

Thus, the long rang profit plan covers all the area of anticipated activity; sales expenses, research and development, capital expenditure, cash, profit and return on investment.

The short-range tactical profit plan shows the primarily annual results, the detail by months, responsibility and products; in an organization these annual summaries should be prepared.

To provide a general understanding of the profit plan and to provide an overall view of the comprehensive short-range profit plan.

According to Galenn and other, it is possible for the firms to develop these two profit plans for all aspects of the operations. Assuming participatory planning and receipt of the executive instruments, the manager of each responsibility center will immediately initiate activities within his or her responsibility center to develop strategic profit plan and tactical profit plan. Certain format and normally the financial function should establish the, general format, amount of detail, and other relevant procedural and format requirements essentially for aggregation of the plan. All these activities must be coordinating among the centers in conformity with the organization structure.

The preparation of long-rang profit planning in addition to short range profit planning is also viewed as a total planning concept of business. Long range planning is essential to maintain the annual profit at improving level. The ultimate measure of the success of a business in generally based on growth in the volume of sales, increasing return on capital investment, efficient organization and these are all long-term consideration.

## **2.6 Liquidity Ratios**

Liquidity refers to the ability of a firm to meet its short term or current obligations as and when they fall due for payment. So liquidity ratios are used to measure the ability of a firm to meet its short term obligations and from them

the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined (Van Horne, p:756).

Liquidity of a firm can be measured by establishing a relationship between cash and other current assets to current obligations. There must be a proper balance between liquidity and lack of liquidity because the failure of company to meet its obligations, due to lack of sufficient liquidity, will result in bad credit image, loss of creditors' confidence, or even in law suits resulting in the closure of the same. (Pandey: 115). And also a very high degree of liquidity means resources of a firm's unnecessarily is being tied up as idle assets in current assets, which is earning nothing.

## **2.7 Utilization or (Activity) Ratio**

Utilization Ratio, concerned with measuring the efficiency in asset management, is used to judge how effectively the firm is using its resources. In this sense, these ratios are also called efficiency ratio of asset Utilization/ Management ratios. Besides, such ratios are also called turnover ratios because they indicate the speed with which assets are being converted or turned over into sales. The greater the rate of turnover or conversion, the more efficient the Utilization/ Management, other things are being equal (Khan and Jain p:110).

## **2.8 Profitability Ratio**

Profitability is a measure of operating efficiency that can be measured by Profitability Ratio. Profitability Ratio, which indicates degree of success in achieving desired profit levels, measure management's overall effectiveness as has shown by the returns generated on sales and investment. These ratios are composed of “A group of ratios showing the combined effects of liquidity, asset

management and debt management on operating results “(Weston and Brigham, p: 249). So such ratios are regarded as a central measure of the earning power and operating efficiency of a firm (Khan and Jain, 1988:30). The profitability ratios are calculated and analyzed to get answers to questions such as (Khan and Jain, p: 99).

- a) Is the profit earned by the firm adequate?
- b) What rate of return does it represents?
- c) What is the rate of profit for various divisions and segments of the firm?
- d) What are the earnings per share?
- e) What amount was paid in dividends?
- f) What is the rate of return to equity holders? And so on.

These groups of rates consist of many ratios. The ratios which are relevant and suitable for this study, are defined, calculated and analyzed in the Fourth Chapter.

## **2.9 Research Gap (Different Between Previous Research and This Research)**

Most of the past research studies about Profitability conditions and planning system of manufacturing organization or production oriented activities. Most of the researcher researches only of two organization or banks but the research could find three studies so far that have been related to Profitability conditions of a Commercial bank i.e. Standard Chartered Bank, Bank of Kathmandu and Everest bank Ltd. respectively. All the dissertations have pointed out that there is no proper condition of profitability and it's planning to accomplish and recommend for the effective implementation.

This study shall be a new one in his field as no study has been made so far in the profitability systems in particularly Standard Chartered Bank Nepal Ltd, Bank of Kathmandu and Everest Bank Ltd. This study has tried to indicate the role of budgets for effective formulation and implementation of profitability system as well as to see how far these banks are practicing. This study has also analyzed the financial position of SCBNL BOK and EBL by applying the financial and statistical tools. Finally it concludes the various findings of research and recommendations to SCBNL, BOK and EBL.

## **CHAPTER -III**

### **RESEARCH METHODOLOGY**

The research methodology adopted for the present study is mentioned in this chapter which deals with research design, population and sample, sources and types of data, data gathering procedure, method of analysis (or tools and techniques of analysis).

#### **3.1 Research Design**

A research design is purely and simply the framework or plan for a study that guides the collection and analysis of the data. This study is based on descriptive research. Since this study is conducted for the Profitability condition of sample commercial banks. According to meet the objectives of this research analytical design also followed when analyzed secondary data collected from secondary sources.

#### **3.2 Population and Sample**

There are altogether 31 commercial banks established in Nepal. Among of them, three listed commercial banks are taken as sample of the research which represents approximately 10% of the population.

- a. Standard Chartered Bank
- b. Bank of Kathmandu
- c. Everest Bank Limited

Similarly, financial statements of five years (beginning from F.Y. 2005/06, 2009/10 are selected as samples for the purpose of the study.

### **3.3 Sources and Types of Data**

This study is mainly based on secondary data. So the major sources and types of data are in published form such as:

- a) Financial Statements of Commercial Banks.
- b) NRB directory.
- c) Bulletins and Reports periodically published by various government bodies.
- d) Other published materials like newspapers, journals, magazines, textbook etc.

### **3.4 Data Gathering Instruments and Procedures**

This study is mainly based on secondary data, obtained from various sources mentioned above. Besides, a detailed review of literature has been conducted in order to collect relevant data and information. Such review materials are mainly collected from Central Library of T.U. (Kirtipur), Library of Central Department of Management (T.U. Kirtipur) and other public libraries. Apart from this, some useful website and bulletin published by Bank and NRB report.

### **3.5 Methods of Analysis (or Tools and Techniques of Analysis )**

Data are presented by using financial and statistical tools.

#### **3.5.1 Statistical Tools**

Statistical tools are the measures or the instruments to analyze the collected data from different sources. In statistics, there are numerous statistical tools to

analyze data of various natures. In this study, the researcher has used the following statistical tools to analyze the data:

### 3.5.1.1 Average/Mean

An average is a single value related from a group of values to represent them in some way, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. There are various types of averages. Arithmetic Mean (AM, Simple and Weighted), median, mode, geometric mean, harmonic mean are the major types of averages. The most popular and widely used measure representing the entire data by one value is the AM. The value of the AM is obtained by adding together all the items and by dividing this total by the number of items.

Mathematically:

Arithmetic Mean (AM) is given by,

$$\bar{X} = \frac{\sum X}{n} \dots\dots\dots(3.1)$$

Where,

$\bar{X}$  = Arithmetic mean

x = Sum of all the values of the variable X

n = Number of observations

### 3.5.1.2 Standard Deviation

The standard deviation ( $\sigma$ ) measures the absolute dispersion. The greater the standard deviation, the greater will be the magnitude of the deviations of the

values from their mean. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa.

Mathematically:

$$\dagger = \sqrt{\frac{1}{n-1} \sum (X - \bar{X})^2} \dots\dots\dots (3.2)$$

**3.5.1.3 Coefficient of Variation**

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation the standard deviation is absolute measures of dispersion; whereas the coefficient of variation (C.V.) is a relative measure. Coefficient of variation being a pure number is independent of the units of measurement and thus is suitable for comparing the variability n, homogeneity or uniformity of two or more distributions. A distribution having less C.V. is said to be less variable or more homogenous or more consistent or more uniform or more stable or more stationary or more equitable than other. A distribution having greater C.V. is said to be more variable or more heterogeneous or less consistent or less uniform or less stable .To compare the variability between two or more series, C.V. is more appropriate statistical tool.

Mathematically,

$$CV = \frac{\dagger}{\bar{X}} \dots\dots\dots .( 3 .3 )$$

**3.5.1.4 Correlation Coefficient**

When the relationship is of quantitative nature, the appropriate statistical tool for discovering and measuring the relationship and expressing it in a brief formula

is known as correlation. If the values of the variables are directly proportional then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, the correlation is said to be negative, but the correlation is said to be negative, but the correlation coefficient always remains within the limit of + 1 to – 1. By Karl Pearson, the simple correlation coefficient (between two variables, say X and Y) is given by:

$$r_{xy} = \frac{Cov(x, y)}{\sigma_x \sigma_y} \dots\dots\dots (3.4)$$

Where,

$r_{xy}$  = is the correlation coefficient between two variables x and y

‘r’ lies between +1 to -1

When  $r = +1$ , there is perfect positive correlation

When  $r = -1$ , there is perfect negative correlation

When  $r = 0$ , there is no correlation

When r lies between 0.7 to 0.999 9 (or -0.7 to -0.999), there is high degree of positive or negative correlation

When r lies between 0.5 and 0.699, there is moderate degree of correlation

When r is less than 0.5, there is low degree of correlation.

### 3.5.1.5 Trend Analysis

Trend analysis is also an important tool for the analysis of profitability condition or position of SCBNL, BOK and EBL. It reflects the dynamic pace of movements of phenomenon over a period of the time. This analysis simply finds out the increasing or decreasing trend of any particular item. It helps on forecasting so that proper strategy can be implemented to bring changes in the

trend value of succeeding. In this regard, the trend analysis covers the time period of five years from FY 2005/6 to 2009/10.

The equation of straight line trend is;

$$y_c = a + bx$$

Where,

a = Constant variable

y = Dependent variables

x = Independent variables

b = slope of trend

Then,

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

$$b = \frac{\sum xy}{\sum x^2}$$

### 3.5.1.6 Coefficient of Determination

The coefficient of determination gives the percentage variation in the dependant variable that is accounted for by the dependant variable/s. In other words, the coefficient of determination gives the ratio of expected variance to the total variance. The coefficient of determination is given by the square of the correlation coefficient, i.e.  $r^2$

$$\text{So, the coefficient of determination} = r^2 = \frac{\text{Expected variance}}{\text{Total variance}} \dots\dots\dots$$

### 3.5.2 Financial Tools

Financial tools are the measures or the instruments to analyze the collected data from different sources. In finance, there are numerous financial tools to analyze

data of various natures. In this study, the researcher has used the following financial tools to analyze the data:

### **Profitability Ratios**

Profitability ratios show the combined effects of liquidity, asset management and debt management on operating results. It measures the earnings of the company for a certain period. Under this we calculate the followings:

Return on Total Assets, Return on Assets, Return on Equity,

Return on total assets (ROA) =  $\frac{\text{Net income}}{\text{Total assets}}$

Return on Equity =  $\frac{\text{Net income}}{\text{Total equity}}$

Net profit margin on sales =  $\frac{\text{Net Income}}{\text{Sales}}$

# **CHAPTER IV**

## **PRESENTATION AND ANALYSIS OF DATA**

### **4.1 Introduction**

In this chapter, the researcher will analyses the various profit variables and profit management of respective bank. This study mainly focused on analysis of Net profit, interest income, interest expenses, total income, deposit, loan and advances, investments, assets etc by using financial and statistical tools (Such as ratio analysis, trend analysis ,correlation analysis etc are used to analyze the data.

This is analytical chapter where the researcher has analyzed and evaluated those measure financial items, which mainly effect the profitability management, investment management and fund mobilization of Standard chartered bank, Bank of Kathmandu and Everest bank respectively.

### **4.2 Profitability Analysis**

Profitability is main arc around the venture of every business institutions revolves. The efficient of management is reflected has always been essential for every business organization for their smooth operations. Banking transitions have been significantly increased but not the profitability of banks. It may be the result of top competition coming than banks profitability is affected by the internal and external forces. The banks interest rate, government debentures and bills and tax rate are not under the control of banks management, but operating expenses, efficiency of the staff, banks own policy, banking tools are under the control of management which are of course helpful to improve the profitability.

Profitability of the joint venture commercial banks are analyzed on the behalf of the long term financial healthiness. The commercial banks are venture that wants to make as many as profit as possible. Investments are made with view of making profit. Higher the earning capacity of assets, higher would be the profitability, other things remaining constant.

#### **4.2.1 Net Profit Margin on Sales**

It is the ratio of net income available to common stockholders to sales. It measures income per rupees of sales.

$$\text{Net profit margin on sales} = \text{Net income} / \text{Sales}$$

#### **4.2.2 Basic Earning Power**

The ratio of EBIT to total assets. This ratio indicates the ability of the firm's assets to generate operating income.

$$\text{Basic earning power ratio} = \text{EBIT} \backslash \text{Total assets}$$

#### **4.2.3 Return on Total Assets**

The ratio of net income to total assets. It measures the return on all the firm's assets after interest and taxes.

$$\text{Return on total assets (ROA)} = \text{Net income} \backslash \text{Total assets}$$

#### **4.2.4 Return on Common Equity**

The ratio of net income to common equity. It measures the rate of return on common stockholders' investment.

$$\text{Return on common equity (ROE)} = \text{Net income} \backslash \text{Common equity}$$

### **4.3 Profitability Test**

Profitability ratios are calculated in relation to sales and investments. This ratio is related to profit of the firm. Profit is essential for the survival of the firm, so it is regarded as the engine that drives the firm and indicates economic progress. Profitability ratios' are calculated to measure the overall efficiency of the business.

#### **4.3.1 Profitability Ratio**

Profitability ratio is measurement of efficiency and the search for it provides the degree of success in achieving designed profit. The firm should earn a satisfactory profit to survive and run over a long period in the competitive environment. The relation of the returns of the firm to either its sales or its equity, or its assets is known as Profitability. Generally profitability ratios are calculated either in relation to sales or in relation to investment. So, ratios in relation to investment can be used in non- manufacturing organization.

##### **A. Net profit to Total Assets Ratio**

This ratio measures the bank's ability to earn a rate of return on the total assets invested. It measures the return on assets. The ratio calculated by dividing the net profit by total assets. A higher ratio usually indicates efficiency of a bank.

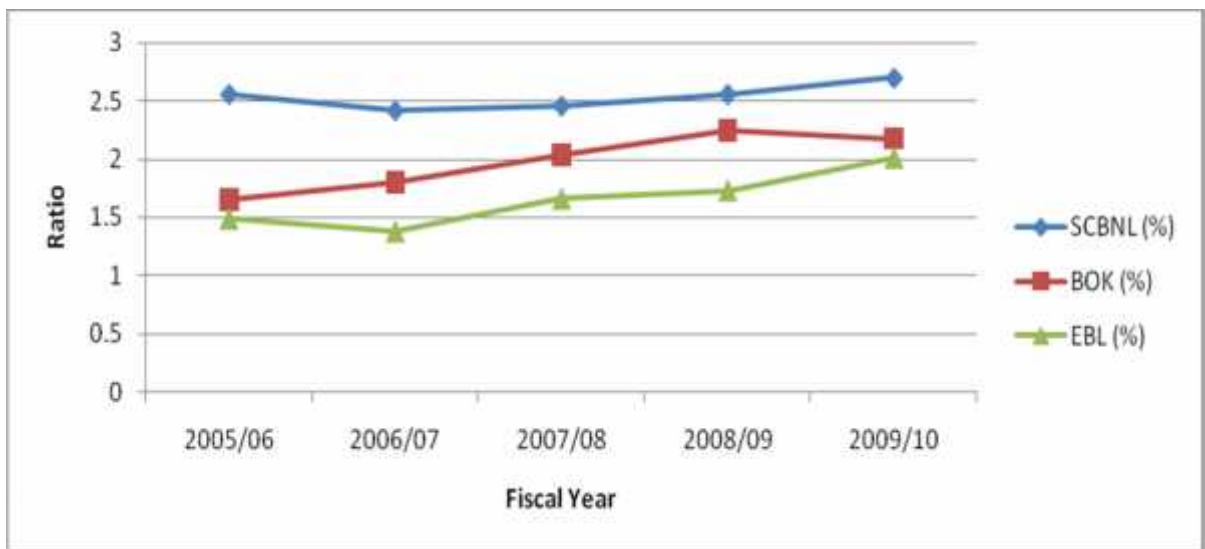
**Table 4.1**  
**Net Profit to Total Assets Ratio**

<b>Fiscal Year</b>	<b>SCBNL (%)</b>	<b>BOK (%)</b>	<b>EBL (%)</b>
2005/06	2.56	1.65	1.49
2006/07	2.42	1.80	1.38
2007/08	2.46	2.04	1.66
2008/09	2.56	2.25	1.73
2009/10	2.70	2.18	2.01
Avg.	2.54%	1.98%	1.65%

Source: Annual report of SCBNL, BOK and EBL (F.Y 05/06 to 09/10)

The above table displays that net profit on total assets of standard chartered bank is fluctuated. In the Fiscal year, 2005/06 net profit on total assets is 2.56 but there after it is in decreasing trend in the fiscal year 2006/07. But after the fiscal year 2007/08 it goes on increasing trend. This is the positive result which signifies the potential advantages and development for SCBNL. Likewise, the net profit on total assets of BOK is going on increasing trend that signifies the better outcomes. But in the last fiscal year 2009/10, it is going on declining stage which is quite meaningless for this bank. In the same way, the net profit on total assets of EBL is not satisfactory. In the FY 2005/06 its net profit on total assets is 1.49 but it could not maintain it in increasing rate. Then in the FY 2006/07 it goes on declining form but thereafter it goes on increasing trend which is quite beneficiary to this bank. On the basis of average ratio of net profit to total assets ratio ,SCBNL has appeared better position than other two banks. Comparatively, SCBNL has been able to earn more profit by utilizing their resources and profit planning tools.

**Figure 4.1**  
**Net Profit to Total Assets Ratio**



Trend line of Net profit to total assets of Standard Chartered Bank, Bank of Kathmandu and Everest Bank.

The above trend line shows that net profit on total assets of standard chartered bank is fluctuated. On the basis of average ratio, net profit to total assets ratio of SCBNL has appeared better position than other two banks. Comparatively, SCBNL has been able to earn more profit by utilizing their resources and profit planning tools.

**B. Net profit to Total Deposit Ratio**

This ratio is used for measuring the internal rate of return from deposits. This ratio reveals how efficiently banks mobilizing its deposits in generating profit. Higher ratio indicates the return from investment on loans and advances are better utilized. It is computed by dividing the net profit by total deposit.

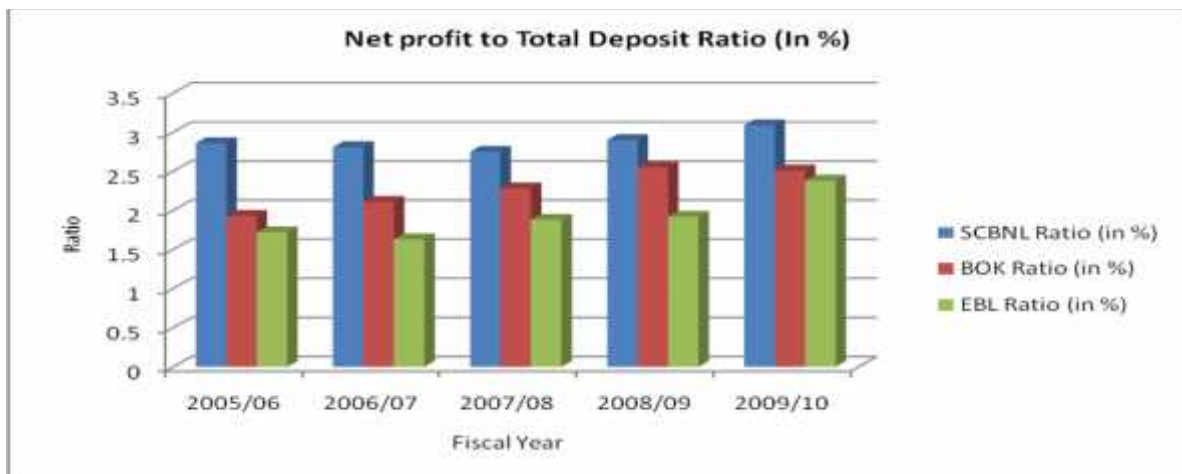
**Table 4.2**  
**Net profit to Total Deposit Ratio (In %)**  
 (Amount in millions)

Fiscal Year	SCBNL			BOK			EBL		
	Net profit	Total Deposit	Ratio (in %)	Net profit	Total Deposit	Ratio (in %)	Net Profit	Total Deposit	Ratio (in %)
2005/06	659	23061	2.86	202	10485	1.93	237	13802	1.72
2006/07	692	24647	2.81	262	12389	2.11	296	18186	1.63
2007/08	819	29744	2.75	361	15834	2.28	451	23976	1.88
2008/09	1025	35351	2.90	462	18084	2.55	639	33323	1.92
2009/10	1086	35183	3.09	509	20316	2.51	832	36932	2.38
Avg.			2.88			2.28			1.91

Source: Annual report of SCBNL BOK and EBL (F.Y 06/07 to 09/10)

The above table displays that the ratios in SCBNL are ranged between 2.75 percent to 3.09 percent. The average ratio is 2.88 percent. Similarly, in BOK, the ratios are ranged between 1.93 to 2.55 percent. The average ratio is 2.28 percent. In EBL, the ratios are ranged between 1.63 to 2.38 percent. The average ratio is 1.91 percent. The ratios are fluctuating trend in these three banks. Comparatively, the average ratio of SCBNL is higher than other two respective banks BOK and EBL. Hence, by this analysis, we conclude that SCBNL has high net profit to total deposit ratio.

**Figure 4.2**



The above diagram exhibits that the condition of ratio of net profit to total deposit from the fiscal year 2005/06 to 2009/10 of the three commercial bank SCBNL BOK and EBL. It can help to provide better understanding about the ratio between Net profit and Total deposit. The conditions of net profit to total deposit ratio of SCBNL is extremely good than BOK and EBL. The SCBNL has 2.88% average ratio. The ratio of net profit to total deposit of SCBNL is in decreasing trend up to the fiscal year 2007/08. Thereafter from the fiscal year 2008/09 to 2009/10 it becomes increases in high rate which covers the past decreasing trend. Similarly the conditions of Bok related to net profit to total deposit ratio is in increasing trend up to the fiscal year 2008/09. But at the end of fiscal year 2009/10 it becomes decreases. With this result, the average ratio is somehow decreases to 2.28%. Likewise the net profit to total deposit ratio of EBL is in highly fluctuating trend. The beginning ratio of EBL in Net profit to total deposit ratio is 1.72%. But thereafter it sometimes decreases or sometimes increases. Due to this the average ratio becomes decreases at 1.91%.

### **C. Return on Net Worth (Shareholders Equity)**

It is the most vital tool to examine whether the concern has earned a satisfactory return to its owners or not. This ratio is calculated by dividing Net profit after tax by shareholders equity.

#### **4.4 Profitability from the View of Shareholders**

The profitability from the view of shareholders can be assessed in different view i.e. from the view of preference shareholders and equity shareholders.

The assessment of the profitability from the view of shareholders has been done on the following heads.

- a. Earnings Per Share (EPS)
- b. Dividend Per Share (DPS)

**a. Earnings Per Share**

The EPS shows the position of profit to equity shareholders. Due to the absence of employment of preference shareholders, the net profit after tax has been taken for the calculation. So, EPS is calculated by dividing the NPAT by number of share outstanding. The amount of EPS measures the efficiency of a firm in relative terms. It is measuring tool of organizational overall performance, how far an organization is able to use its resources to generate profit.

EPS is determined by the amount of profit it has earned. Thus, it determines the market value of share, the attitude of outsiders and high amount of EPS increases the goodwill of the organization. Also, higher the EPS denotes the high profit margin to shareholders wealth and vice-versa.

**Table 4.3**  
**Earnings per Share**

<b>Fiscal Year</b>	<b>SCBNL(Rs)</b>	<b>BOK(Rs)</b>	<b>EBL(Rs)</b>
2005/06	175.84	43.67	62.78
2006/07	167.37	43.50	78.42
2007/08	131.92	59.94	91.82
2008/09	109.99	54.68	99.99
2009/10	77.66	43.08	100.16
Average	132.56	48.97	86.63

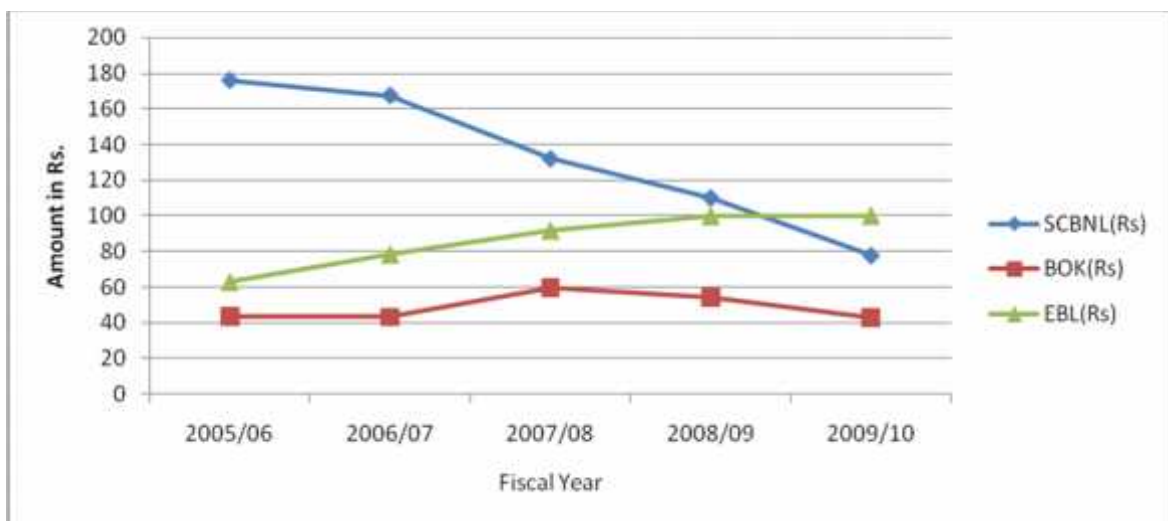
(In Rupees)

Source: Annual Report of SCBNL, BOK and EBL (F.Y. 2005 to 2010)

The above table displays earnings per share over the five years period of three commercial banks. The conditions of EPS in SCBNL are in decreasing trend. In the fiscal year 2005/06 the EPS is Rs175.84 but from the fiscal year 2006/07 to

2009/10 it becomes highly decreases. Likewise, the EPS of BOK is in Fluctuating trend. In the year 2005/06 The EPS is Rs.43.67, it decreases in 2006/07 and again increase in 2007/08 but thereafter it again decreases. Similarly the EPS of EBL is in increasing trend. In the F.Y. year 2005/06, the EPS is Rs. 62.78 but thereafter it is going on increasing trend up to the F Y 2009/10. The average EPS of these three commercial banks, SCBNL, BOK and EBL are Rs. 132.56, 48.97 and 86.63 respectively.

**Figure 4.3**  
**Earnings per Share**



As par value of EPS is Rs 100 in above trend line. EPS of SCBNL is in decreasing trend. In the F.Y. 2005/06 the EPS is 175.84 but rest of remaining fiscal years has been decreasing year by year which signifies the worst result. The profit in these years is not same trend. That's why that EPS of the bank is decreased. The fiscal year from 2005/06 to 2008/09, the EPS is greater than par value but at the F.Y 2009/10 the EPS is less than the par value.

Hence during this period, the EPS is adverse. So the firms earning was not constant over the shareholders. The EPS of BOK is in fluctuating trend. In some F.Y. it increases while in some fiscal years it decreases but not reaches to the par value. The profit couldn't get by this bank because the value of share in these

five fiscal years is less than the par value. Similarly, the EPS of EBL is going on increasing trend. In the F.Y. 2005/06 the EPS is 62.78 which is less than par value. This occurs up to the fiscal year 2008/09 which is not favorable .But in the F.Y 2009/10 the e value of EPS is more than the par value which provides the little amount of profit.

## **b. Dividend per Share**

Dividend per share refers amount of dividend paid to each shareholders. Dividends are given to shareholders when the organization earn appropriate amount of profit. Certain amounts of profit are distributed to equity shareholders as cash dividend and bonus shares. High dividend per share reveals the more portion of profit has been distributed that attracts the possible investors on bank and also cause to increase the value of the share. It is also a measure of profit earning capacity of the organization. The below table has shown the conditions of Cash dividend and Bonus shares' of three commercial banks SCBNL BOK and EBL.

**Table 4.4**  
**Cash dividend and Bonus Shares of SCBNL, BOK and EBL**

<b>F.Y.</b>	<b>SCBNL</b>		<b>BOK</b>		<b>EBL</b>	
	Cash Dividend (%)	Bonus Shares (%)	Cash Dividend (%)	Bonus Shares (%)	Cash Dividend (%)	Bonus Shares (%)
2005/06	130	140	18	48	-	20
2006/07	80	130	20	20	25	-
2007/08	80	130	2.11	42.11	10	30
2008/09	50	100	7.37	47.37	20	30
2009/10	55	70	15	30	30	30
Avg.	79	114	12.50	37.50	17	27.5

Source: Annual report of SCBNL, BOK and EBL (F.Y 05/06 to 09/10)

The above table displays that the condition of Cash dividend and Bonus shares. In the SCBNL, the cash dividend is in fluctuating trend. In sometime it increases and sometimes it decreases. In the Fiscal year 2005/06 the cash dividend and bonus shares are 130% and 140% respectively. In this year, this bank is more success to get profit so that it distributes some portion of profit to the shareholders. But thereafter, it is going on decreasing rate in the F.Y. 2006/07. Again it maintains the same position neither increase nor decrease in 07/08. In the F.Y. 08/09 it decreases in higher rate then slidely increase in cash dividend and decreases in bonus shares. The shareholders are no satisfy with this result because it decreases their earnings as well as the firms couldn't get profit and difficult to maintain the good image in between to shareholders. Likewise in BOK, the cash dividend and bonus shares are in fluctuating trend. In the F.Y. 2005/06 the cash dividend is 18% and bonus shares is 48%.It decreases by 12.50% and 37.50% in the Fiscal Year 2009/10. This result signifies that this bank couldn't provide satisfy to the shareholders in the absence of profit. Similarly the cash dividend of EBL is in fluctuating trend. In the fiscal year, 2005/06 the cash dividend is in zero percent thereafter it provides 25% cash dividend in the F Y 2006/07. But, again it decrease in 2007/08, increase in 2008/09 and 2009/10 respectively. The bonus a share is in the fiscal year 2005/06 is 20 %. But it could not provide any bonus shares to the shareholders in the F.Y. 2006/07. Then after, it provides the same percent of bonus shares to the shareholders up to the F.Y. 2009/10. The above table shows the average cash dividend and bonus shares provided by three commercial banks. In conclusion, with the comparative study of SCBNL, BOK and EBL towards cash dividend and bonus shares, SCBNL is the best performer which is successful to provide cash dividend and bonus share to the share holders according to their profit.

## 4.5 Profitability from the view of investment

### a. Return on Total assets (ROA)

All the assets employed in bank as shown in assets side of balance sheet are included in total assets. It has been computed on the basis of NPAT. This ratio shows the percentage of return on assets. It has been computed on the basis of NPAT. This ratio shows the percentage of return on assets. It measures how efficiently the assets of business are utilized to income generation. The ratio informs the management and shareholders, if their investment on total assets is beneficial or not. It reveals the earning power of bank. Higher ratio shows high efficiency on utilization of assets and vice-versa. It has been calculated dividing the NPAT by amount employed in total assets.

**Table 4.5**

#### **Return on Total assets of SCBNL**

(Amount in Millions)

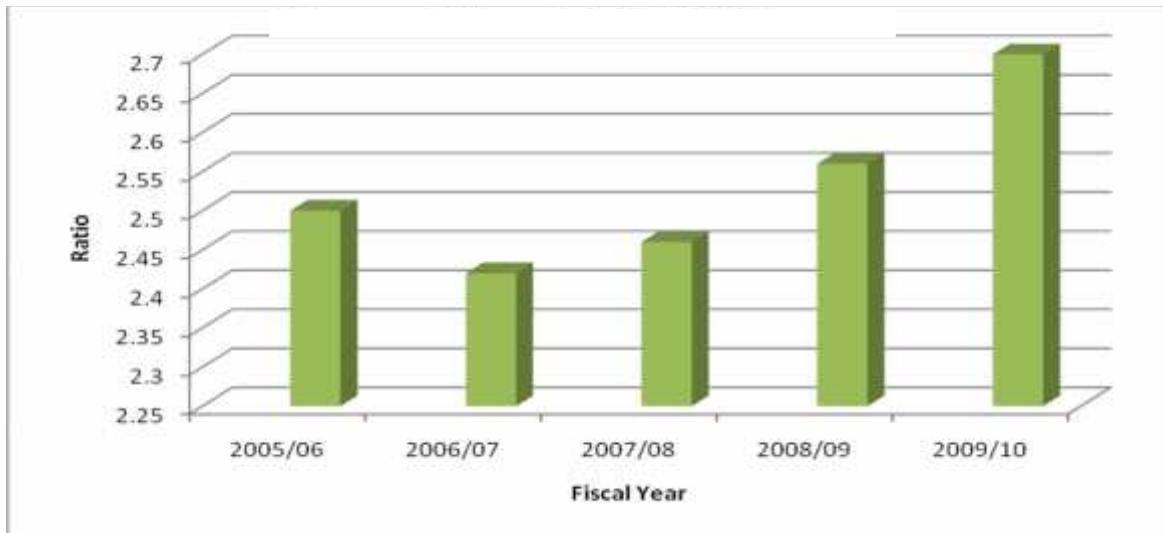
Fiscal Year	NPAT (Rs)	Total Assets (Rs)	Ratio (%)
2005/06	658.8	25767.4	2.56
2006/07	691.7	28596.7	2.42
2007/08	818.9	33335.8	2.46
2008/09	1025.1	40066.6	2.56
2009/10	1085.9	40213.3	2.70
Avg. (%)			2.54

Sources: Annual report of SCBNL (F.Y 05/06 to 09/10)

The above table observes that return on total assets of SCBNL of last five years 2005/06 to 2009/10. The SCBNL get return on total assets is in fluctuating trend. In the fiscal year 2005/06 the return on total assets is 2.56% thereafter it goes in downward rate in the fiscal year 2006/07 with 2.42%. But thereafter it is

going on increasing trend up to the F.Y 2009/10 which is quite beneficiary and Satisfactory. The average return is 2.54%.

**Figure 4.4**  
**Return on Total Assets Ratio of SCBNL**



The above diagram exhibits that Return on total assets ratio of SCBNL is in fluctuating trend .In the fiscal year 2005/06 the ratio is 2.56% thereafter it decreases in the fiscal year 2006/07. But in the fiscal year 2007/08 it increases and continues up to the fiscal year 2009/10.

**Table 4.6**  
**Return on Total assets of BOK**

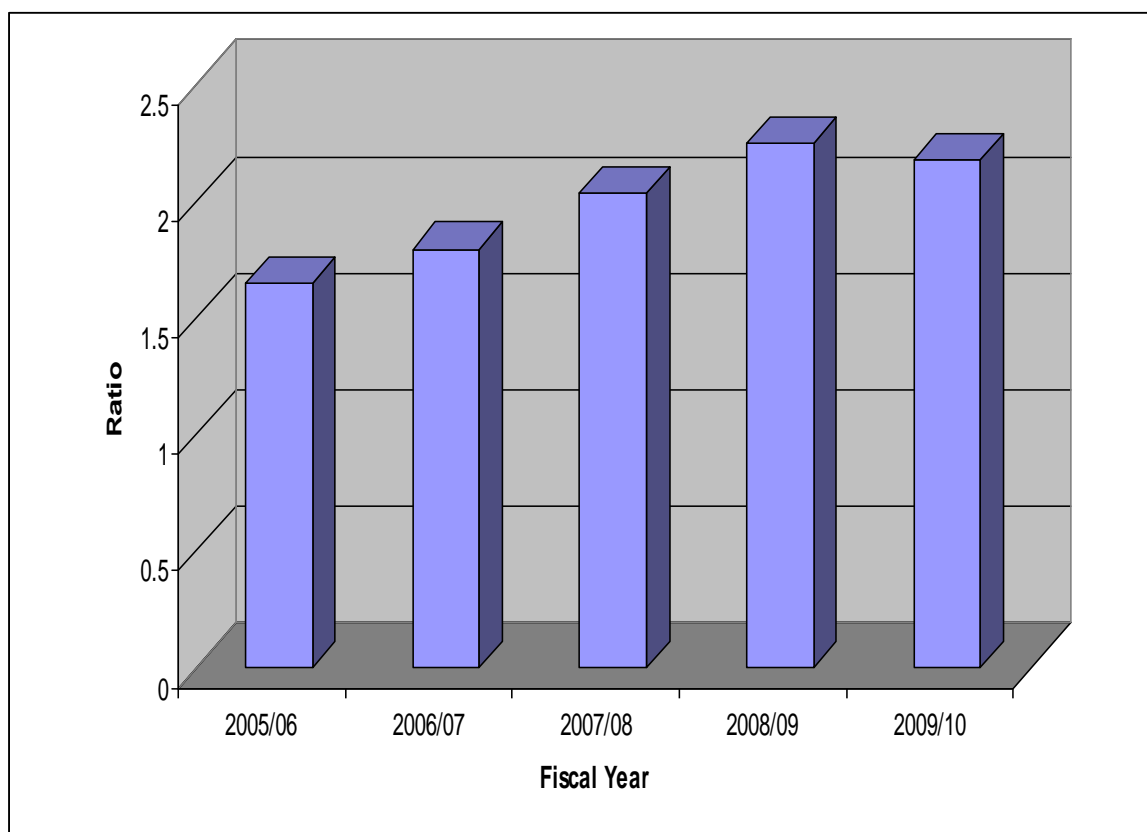
(Amount in Millions)

<b>Fiscal Year</b>	<b>NPAT (Rs)</b>	<b>Total assets (Rs)</b>	<b>Ratio (%)</b>
2005/06	202.4	12278.3	1.65
2006/07	262.4	14581.4	1.80
2007/08	361.5	17721.9	2.04
2008/09	461.7	20496.0	2.25
2009/10	509.3	23396.2	2.18
Avg. (%)			1.98

Sources: Annual report of BOK (F.Y 05/06 to 09/10)

The above table observes that return on total assets of BOK of last five years 2005/06 to 2009/10. The return on total assets of BOK is also in fluctuating trend. In the F.Y 2005/06 the return on total assets is 1.65%. Then it increases in FY06/07 by 1.80% but thereafter it occurs in the same trend, sometimes increase where as sometimes decrease. At the F.Y 2009/10, the return on total assets is 2.18 %which is decreased in comparative to the return on total assets of 2008/09.

**Figure 4.5**  
**Return on Total assets Ratio of BOK**



The above diagram exhibits that Return on total assets ratio of BOK is in fluctuating trend .In the fiscal year 2005/06 the ratio is 1.65% thereafter it increases in the fiscal year 2006/07. But in the fiscal year 2007/08 it highly decreases and then fluctuating.

**Table 4.7**  
**Return on Total assets of EBL**

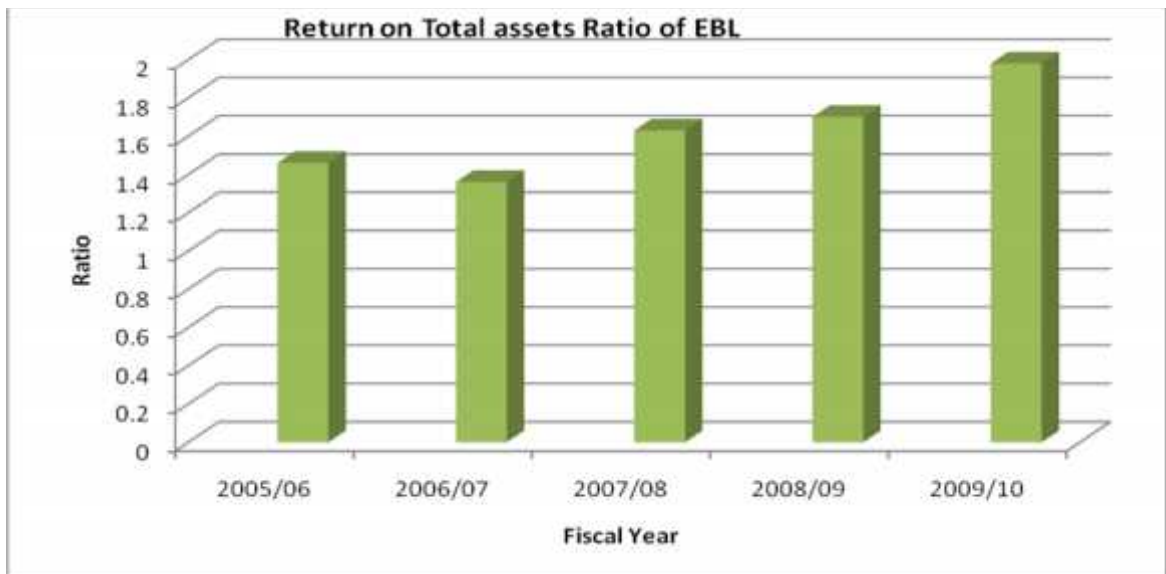
(Amount in Millions)

Fiscal Year	NPAT(Rs)	Total Assets(Rs)	Ratio (%)
2005/06	237.2	15959.3	1.49
2006/07	296.4	21432.6	1.38
2007/08	451.2	27149.3	1.66
2008/09	638.7	36916.8	1.73
2009/10	831.8	41382.8	2.01
Avg. (%)			1.65

Sources: Annual report of EBL (F.Y 05/06 to 09/10)

The above table observes that return on total assets of EBL of last five years 2005/06 to 2009/10. Similarly, the return on total assets of EBL is also in fluctuating trend. In the Fiscal year, 2005/06 the return on total assets is 1.49% but it decreases by 1.38% in the Fiscal Year 2006/07. But thereafter it becomes in increasing trend up to the FY 2009/10 which is quite beneficiary and satisfactory. The rate of average return on total assets is 1.65%.

**Figure 4.6**



The above diagram exhibits that Return on total assets ratio of EBL is in fluctuating trend. In the fiscal year 2005/06 the ratio is 1.49% thereafter it decreases in the fiscal year 2006/07. But in the fiscal year 2007/08 it becomes increases and continues up to the fiscal year 2009/10.

## b. Return on Investment (ROI)

This investment consist the whole amount of investment. The bank has invested their fund in different profitable sector to generate more profit if it cannot get expected return or unable to recover invested amount, they suffer. ROI invests their fund on treasury bills, Nepal Government development bonds and other investment too. The investment directly returns to bank, however, the coast of arranging investment like interest payment and other additional expenses like tax payment and bad debts provision reduce the gross return. Hence, the NPAT is taken to measure the return on investment. It informs the bank, its return is adequate to meet the obligations created by investment like interest payment, bad investment provision etc. It is represented in table.

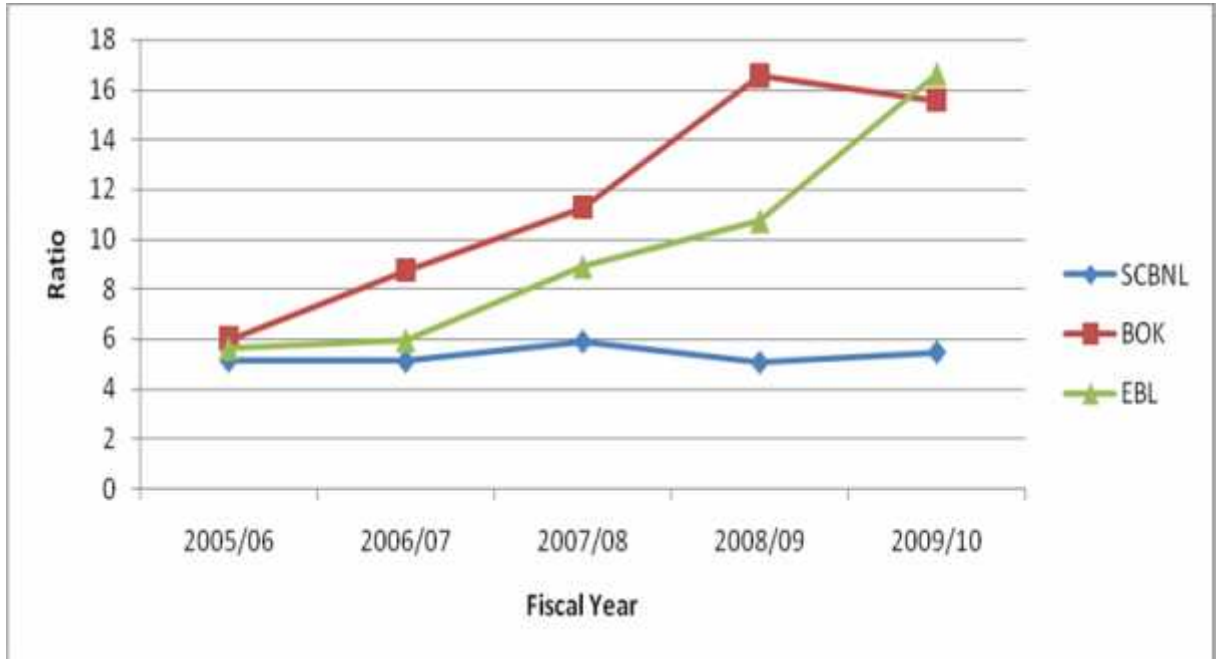
**Table 4.8**  
**Return on Investment of SCBNL, BOK and EBL**

(In millions)

Fiscal Year	SCBNL			BOK			EBL		
	NPAT	Total Investment	Ratio (%)	NPA T	Total Investment	Ratio (%)	NPAT	Total Investment	Ratio (%)
2005/06	658.8	12841.56	5.13	202.4	3378.13	5.99	237.2	4201.13	5.65
2006/07	691.7	13556.23	5.10	262.4	2995.19	8.76	296.4	4985.12	5.95
2007/08	818.9	13927.19	5.88	361.5	3206.83	11.27	451.2	5061.16	8.91
2008/09	1025.1	20260.50	5.06	461.7	2786.36	16.57	638.7	5950.08	10.73
2009/10	1085.9	19871.88	5.46	509.3	3269.20	15.58	831.8	5008.31	16.61
Avg.			5.33			11.63			9.57

Source: Annual Report o f SCBNL, BOK and EBL (F.Y. 2005/6 to 2009/10)

**Figure 4.7**  
**Return on Investment of SCBNL, BOK and EBL**



The above table and trend line has shown that the return on total investment of three commercial banks. The ratio of return on investment of SCBNL is in fluctuating trend. In the FY 2005/06 the ratio is 5.13% then it decreases by 5.10%. This Fluctuating occurs up to the FY 2009/10. The highest ratio is 5.88% and the lowest ratio is 5.06%.

The average ratio is 5.33%. Likewise the return on investment of BOK is increasing trend from the fiscal year 2005/06 to 2008/09. But in the fiscal year 2009/10 the return on investment is decreasing by 15.58%. Similarly, the return on investments of EBL is in increasing trend. In the fiscal year 2005/06 the ratio of return on investment is 5.65 and it increases up to the FY 2009/10 by 16.61%. Higher ROI refers favorable position of profitability position of the bank. If the ROI is not in better position, the firms total profitability position is disturbed. So, the bank has to improve management to gain the return. In the comparison,

the EBL has better position because its rates on return on investment is in increasing trend that signifies good benefit to this banks.

**c. Return on loan and Advance**

This ratio shows percentage of net profit on loan and advance. Net profit is generated mainly from interest income deducting expenses on it . If loan and advance are utilized properly, the interest income will be increased and net profit will also increase. High ratio indicates high efficiency of lending policy and vice- versa. It has been calculated by NPAT to loan and advance. It is shown in the following table.

**Table 4.9**  
**Return on Loans and Advances of SCBNL, BOK, and EBL**

Fiscal Year	SCBNL (in %)	BOK (in %)	EBL (in %)
2005/06	7.63	2.79	2.34
2006/07	6.75	2.79	2.10
2007/08	6.24	2.90	2.40
2008/09	7.93	3.09	2.61
2009/10	6.91	2.99	2.95
Avg.	7.09	2.91	2.48

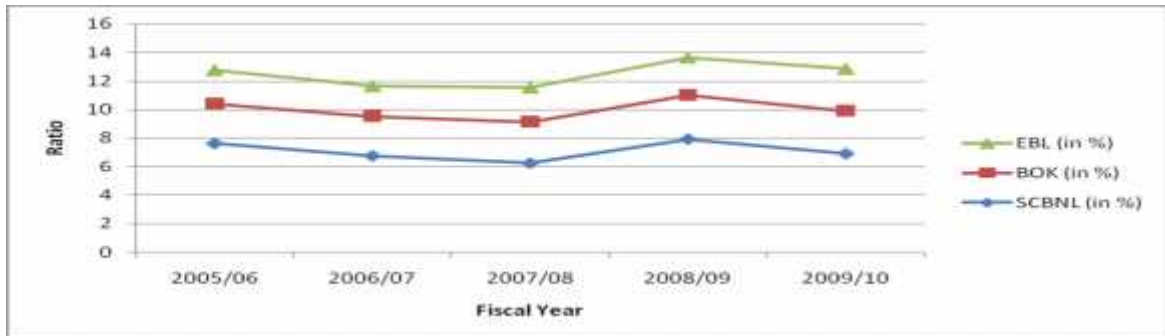
Source: Annual Report o f SCBNL, BOK and EBL (F.Y 2005/6 to 2009/10)

The above table demonstrated that the return on loans and advances of SCBNL is in fluctuating trend. In the fiscal year 2005/06 the return on loans advances is 7.63 but thereafter, it goes on decreasing trend up to the F.Y 2007/08 and then it increases in 2008/09 with the ratio 7.93 then it lastly decreases with the ratio 6.91%. The conditions of BOK in return on total assets are in increasing trend. The highest ratio is 3.09% and the lowest ratio is 2.79%. Similarly, BOK has fluctuating trend in return on loans and advances. The ratio going on decreasing rate by 2.10% in the F.Y 2006/07 but thereafter it is going on increasing trend by 2.95%. The highest ratio is 2.95% and the lowest ratio is 2.10%. The average

ratio of return on loans and advances of SCBNL, BOK and EBL is 7.09%, 2.91% and 2.48% respectively.

**Figure 4.8**

**Return on Loans and Advances of SCBNL, BOK, and EBL**



The trend line demonstrated that the return on loans and advances of SCBNL is in fluctuating trend. In the fiscal year 2005/06 the return on loans advances is 7.63 but thereafter, it goes on decreasing trend up to the F.Y 2007/08 and then it increases in 2008/09 with the ratio 7.93 then it lastly decreases with the ratio 6.91%. The conditions of BOK in return on total assets are in increasing trend. The highest ratio is 3.09% and the lowest ratio is 2.79%. Similarly, BOK has fluctuating trend in return on loans and advances. The ratio going on decreasing rate by 2.10% in the F.Y 2006/07 but thereafter it is going on increasing trend by 2.95%. The highest ratio is 2.95% and the lowest ratio is 2.10%.

**4.6 Liquidity Ratio Position of SCBNL, BOK and EBL**

**Liquidity Ratios**

In addition to the maintenance of cash reserve with the Central Bank, the commercial banks are also required to maintain a minimum level of liquid assets. While the primary reason behind the imposition of minimum liquidity ratio is to ensure that the commercial banks have, at all times, a reservoir of liquidity which can be tapped to meet unusual deposit withdrawals, the ratio can also be used as a means of influencing the monetary situation in these countries.

Furthermore, it must be noted that liquidity is the quality of an asset that makes it easily convertible into cash with little or no risk of loss. A bank is considered to be liquid when it has sufficient cash and other liquid assets, together with the ability to raise funds quickly from other sources, to enable it to meet its payment obligation and financial commitments in a timely manner. When total demand for liquidity exceeds its total supply, the commercial banks will be faced with liquidity deficit. In such a situation these institutions will be forced to raise additional liquid funds by borrowings or disposing some of their liquid assets. Usually, short-term borrowings are costly and the loss of income from the sale of liquid assets will tend to have an adverse effect on profitability. On the other hand, idle funds and the lower returns on liquid assets may also adversely affect the profitability of those institutions with surplus liquidity. Thus, liquidity management represents yet another important determinant of commercial bank profitability. Since data on loans to deposits of commercial banks are disclosed in their annual reports, the loans to deposit ratio can be easily calculated. Consequently, the loans to deposit ratio will be used in this study as a proxy for liquidity and will be denoted as follows:

The loans to deposit ratio is inversely related to liquidity and consequently the higher the loans to deposit ratio the lower the liquidity and vice versa. Subsequently liquidity is inversely related to profitability, and hence the coefficient of the loans to deposit ratio expected to be positive.

The ability of a firm to meet its obligations in the short term is known as liquidity. It reflects the short-term financial strength of the firm. Current ratio helps to measure relationship of current assets and current liabilities to evaluate liquidity position. Liquidity refers to how (quickly and without loss) an asset can be converted into cash. Security markets provide a mechanism for an investor to sell a financial security. Due to this feature, it is said that a security market offers liquidity.

**Table 4.10**

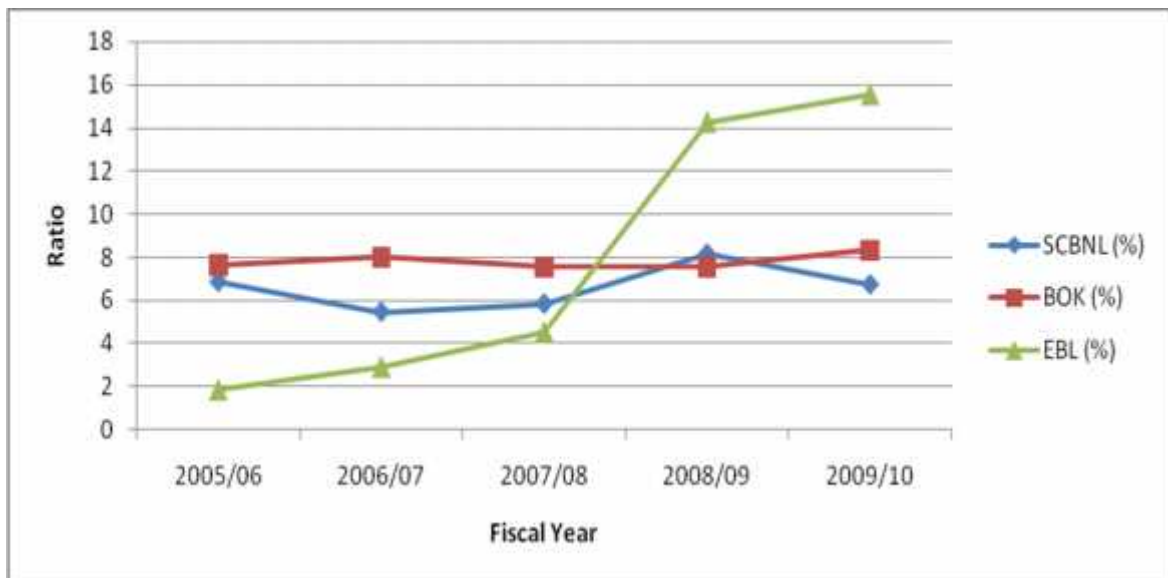
**Liquidity Ratio Position of SCBNL, BOK and EBL**

Fiscal Year	SCBNL (%)	BOK (%)	EBL (%)
2005/06	6.86	7.64	1.88
2006/07	5.46	8.02	2.94
2007/08	5.84	7.57	4.56
2008/09	8.18	7.58	14.26
2009/10	6.74	8.32	15.53
Avg.	6.616	7.826	7.834

Source: Annual Report o f SCBNL, BOK and EBL (F.Y 2005/6 to 2009/10)

**Figure 4.9**

**Liquidity Ratio Position of SCBNL, BOK and EBL**



The above table and trend line displays the liquidity (CRR) of three commercial banks. The liquidity position of SCBNL and BOK has fluctuating trend. In the fiscal year 05/06, the liquidity ratio of SCBNL, BOK and EBL are 6.86% ,7.64 and 1.88% respectively. But EBL has increasing trend in liquidity ratio. In the fiscal year 05/06 has 1.88 % liquidity ratio which is comparatively lower than the SCBNL and BOK but thereafter it is going on increasing trend. In the fiscal

year 09/10, the liquidity ratio of EBL is 15.53% which are greater than other two banks but through the analysis of liquidity ratio, the higher the liquidity ratio the higher the possible of idle cash. Through comparison between these three banks, SCBNL has lower liquidity ratio that signifies this bank has lower amount of cash but not idle which is positive result to this bank. But EBL has high liquidity ratio that determines idle amount of money which is not beneficiary. Likewise, BOK has also increasing trend on liquidity ratio but it also has more idle cash which is unused that means no output comes. With adequate liquidity ratio, the bank is going on profitable. Therefore SCBNL is best than the other two banks through the analysis of liquidity ratio.

#### **4.7 Resource Mobilization**

Here the term resources have been used for the fund required by the bank for its activities. Banks mobilizes its resources from the following sources.

- i. Deposit collection
- ii. Loans and borrowing from other banks
- iii. Capital fund

Among the above three sources, the deposit collection is the major sources of resources mobilization, which is in fact, one of the most important activities of a commercial bank. Loans and borrowings are obtained from local banks, foreign banks, central banks and other financial institution generally for a short period of time.

The capital fund is raised from shareholder's equity. This is the net worth of the Bank. Commercial Banks capital fund has been divided into two categories viz, core capital and supplementary capital.

#### **4.7.1 Deposit Collection**

Customer deposit is the most important source of resource mobilization of the banks. The deposit is collected from various sectors such as the general public, business entities, NGOs, Schools, trust and other individuals and institutions which qualify to open the an account in the banks.

Deposits are collected on customer's account, which are opened as per the Banks policy.

The deposits are:

- a) Interest free deposit accounts.
  - i. Current deposit A/C
  - ii. Margin deposit A/C
  - iii. Other deposit A/C
  
- b) Interest bearing deposit accounts.
  - i. Saving deposit A/C
  - ii. Fixed deposit A/C
  - iii. Call deposit A/C

#### **Deposit Collection of following Commercial Banks**

The following table shows the amount of deposit collection from FY the 05/06 to 09/10.

**Table 4.11**

**Status of Deposit Collection of SCBNL, EBL and BOK**

Amount in '000'

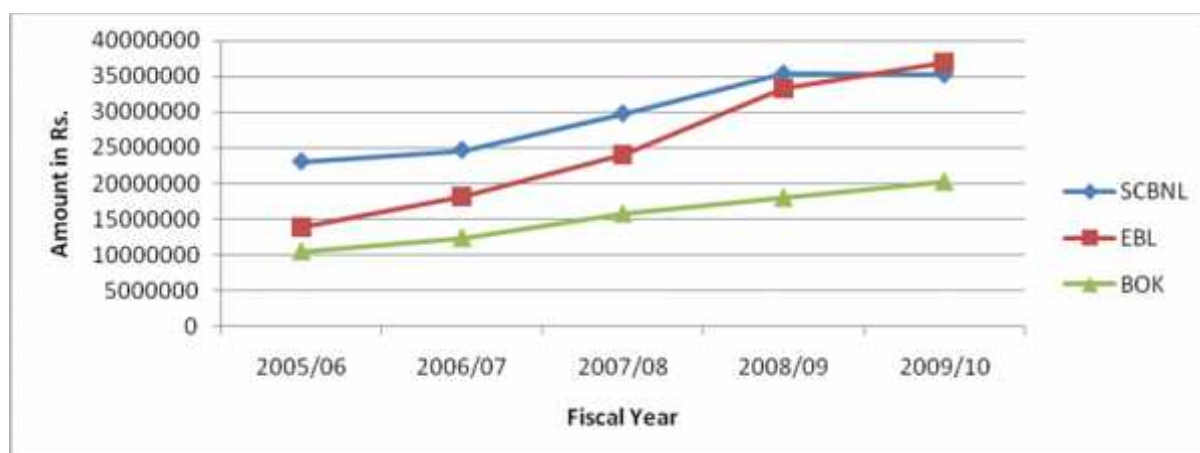
<b>Fiscal Year</b>	<b>SCBNL</b>	<b>EBL</b>	<b>BOK</b>
2005/06	23061032	13802400	10485000
2006/07	24647021	18186200	12389000
2007/08	29743999	23976300	15834000
2008/09	35350824	33322900	18084000
2009/10	35182721	36932300	20316000
Average	29597119.4	25244020	15421600

Source: Annual Report of SCBNL, BOK and EBL (F.Y 2005/6 to 2009/10)

The above table shows the deposit collection of three commercial banks. In SCBNL the deposits from Fiscal year 2005/6 to 2009/10 are in fluctuating form. The customer deposits high amount in the fiscal year 2008/9 in SCBNL. While in EB, there is increasing trend in deposit collection. In the F Y year 2009/10, there is the highest deposit collection comparative to other fiscal year. Likewise in BOK, the deposit collection is in increasing trend. In the FY 2009/10, the deposit collection is 20316000 in (000) which is the highest in comparative to other FY.

**Figure 4.10**

**Status of Deposit Collection of SCBNL, EBL and BOK**



The above trend line has shown the deposit collection of three commercial banks. In SCBNL the deposits from Fiscal year 2005/6 to 2009/10 are in fluctuating form. The customer deposits high amount in the fiscal year 2008/9 in SCBNL. While in EB, there is increasing trend in deposit collection. In the F.Y. year 2009/10, there is the highest deposit collection comparative to other fiscal year. Likewise in BOK, the deposit collection is in increasing trend.

**Table 4.12**  
**Status of Loan of SCBNL, EBL and BOK**

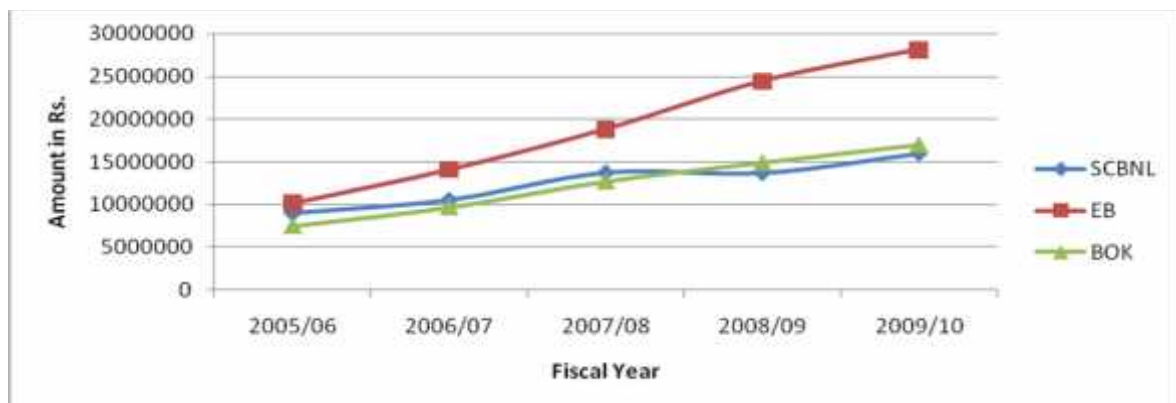
(Amount in' 000' )

<b>Fiscal Year</b>	<b>SCBNL</b>	<b>EBL</b>	<b>BOK</b>
2005/06	8935418	10136200	7489000
2006/07	10502637	14082700	9694000
2007/08	13718597	18836400	12748000
2008/09	13679757	24469600	14946000
2009/10	15956955	28156400	17044000
Average	12558672.8	19136260	12384200

Source: Annual Report (F.Y. 2005 to 2010)

The above table has shown the status of Loan in three commercial banks. The loan condition of SCBNL is in fluctuation. In the Fiscal Year 2009/10 the loan amount is highest than others. Likewise, in EBL and BOK, the loan condition is in increasing trend.

**Figure 4.11**  
**Status of Loan of SCBNL, EBL and BOK**



The above trend line shows the status of Loan in three commercial banks. The loan condition of SCBNL is in fluctuation. In the Fiscal Year 2009/10 the loan amount is highest than others. Likewise, in EBL and BOK, the loan condition is in increasing trend.

**Table 4.13**  
**Status of Net profit / Gross income of SCBNL, EBL and BOK**

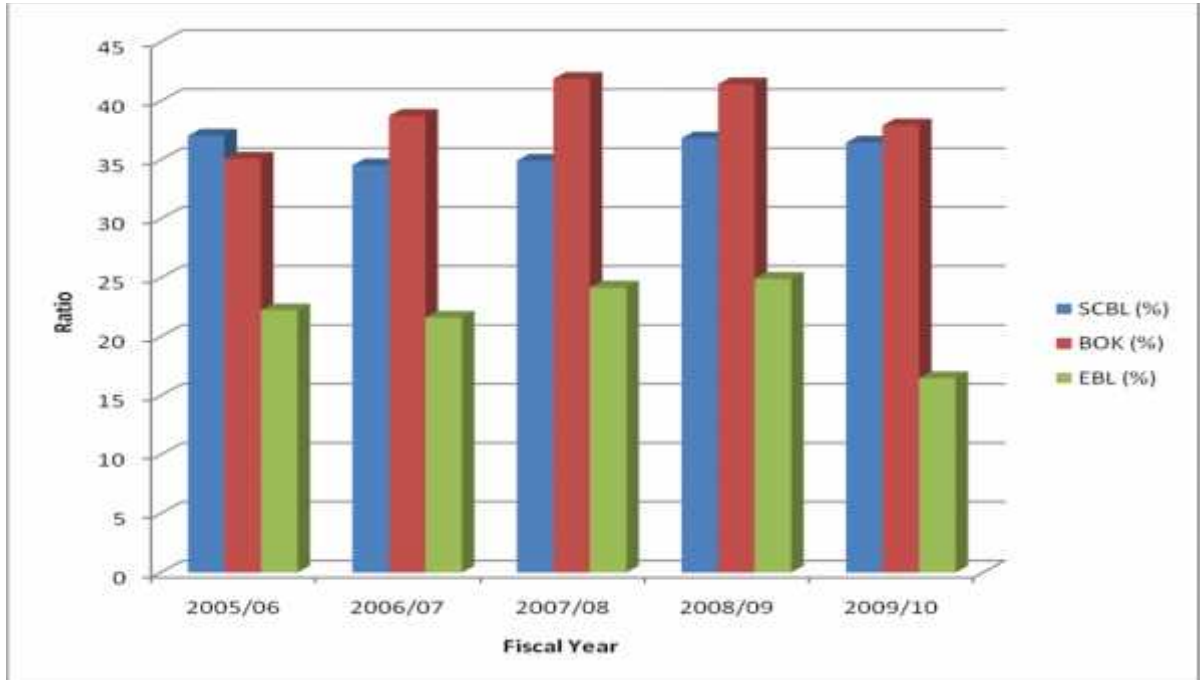
<b>Fiscal Year</b>	<b>SCBNL (%)</b>	<b>BOK (%)</b>	<b>EBL (%)</b>
2005/06	37.06	35.11	22.25
2006/07	34.55	38.75	21.62
2007/08	34.94	41.89	24.17
2008/09	36.84	41.42	24.92
2009/10	36.47	37.93	16.49
Average	35.97	39.02	21.89

Source: Annual Report (F.Y 2005 to 2010)

The above table shows the ratio of Net profit to gross income of SCBNL is in fluctuating trend and has ranged between 34.55 % to 37.06 %. Similarly, in BOK, ratios are also in fluctuating trend, and have ranged 41.89 % to 35.11%. Likewise, in EB, the ratio of net profit to gross income is also in fluctuating trend and has ranged between 16.49% to 24.92%. Average ratio of SCBNL is 35.97, BOK is 39.02 and EB is 21.89. On the basis of average ratio, net profit to gross income of BOK has appeared better position than SCBNL and EBL.

**Figure 4.12**

**Net Profit on Gross Income of SCBNL, BOK and EBL**



The above diagram has shown the ratio of Net profit to gross income of SCBNL is in fluctuating trend and has ranged between 34.55 % to 37.06 %. Similarly, in BOK, ratios are also in fluctuating trend, and have ranged 41.89 % to 35.11%. Likewise, in EBL, the ratio of net profit to gross income is also in fluctuating trend and has ranged between 16.49% to 24.92%. Average ratio of SCBNL is 35.97, BOK is 39.02 and EBL is 21.89. On the basis of average ratio, net profit to gross income of BOK has appeared better position than SCBNL and EBL.

**Table 4.14**

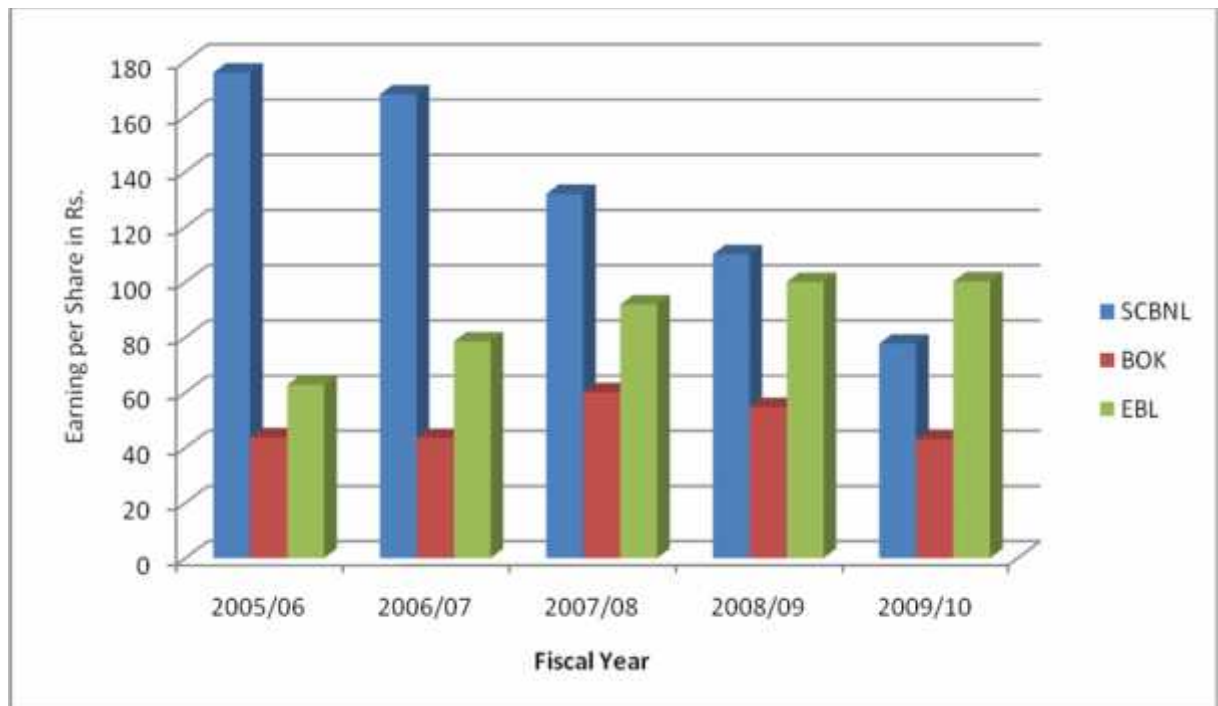
**Status of Earning per Share and Market Value per Share of SCBNL, BOK and EBL**

Fiscal Year	SCBNL		BOK		EBL	
	EPS	MVPS	EPS	MVPS	EPS	MVPS
2005/06	175.84	3775	43.67	850	62.78	1379
2006/07	167.97	5900	43.50	1375	78.42	2430
2007/08	131.92	6830	59.94	2350	91.82	3132
2008/09	109.99	6010	54.68	1825	99.99	2455
2009/10	77.65	3279	43.08	840	100.16	1630
Avg.	132.67	5158	48.97	1448	86.63	2205.2

Source: Annual Report (F.Y. 2005 to 2010)

**Figure 4.13**

**Earnings per Share of SCBNL, BOK and EBL**

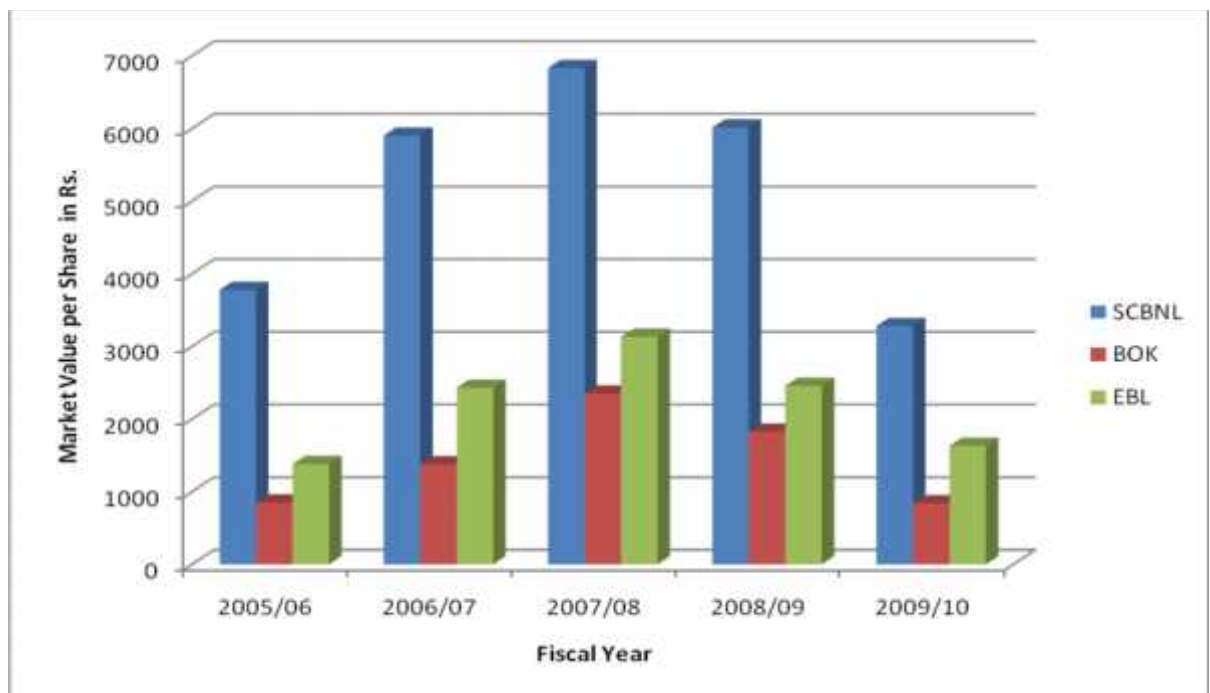


The above table and diagram displays earnings per share and Market value per share over the five years period of three commercial banks. The conditions of

EPS in SCBNL are in decreasing trend. In the fiscal year 2005/06 the EPS is Rs. 175.84 but from the fiscal year 2006/07 to 2009/10 it becomes highly decreases. Likewise, the EPS of BOK is in Fluctuating trend. In the year 2005/06 The EPS is Rs. 43.67, it decreases in 2006/07 and again increase in 2007/08 but thereafter it again decreases. Similarly the EPS of EBL is in increasing trend. In the F.Y. year 2005/06, the EPS is Rs 62.78 but thereafter it is going on increasing trend up to the F Y 2009/10. The average EPS of these three commercial banks, SCBNL, BOK and EBL are Rs 132.56, 48.97 and 86.63 respectively.

**Figure 4.14**

**Market Value per Share of SCBNL, BOK and EBL**



The above diagram has shown the market value per share of Standard Chartered Bank in 2005/06 is Rs. 3775 thereafter up to the fiscal year 2007/08 it increases then from the fiscal year 08/09 it goes on highly decreasing trend. Likewise in BOK, the MVPS in 2005/06 is Rs. 850 thereafter it increases up to the fiscal year 2007/08. From the fiscal year, 2008/09 the MVPS is going on declining trend. Similarly in EBL, there is also fluctuating trend in MVPS. In the

beginning FY 05/06, the MVPS is Rs.1379. Thereafter it increases highly upto the fiscal year 2007/08. But from the FY 2008/09 to 2009/10, it became declining up to Rs 1630. The average on EPS and MVPS of three commercial banks SCBNL, BOK and EBL are 132.67, 48.97 and 86.63 respectively and 5158,1448 and 2205.2 respectively. By the above analysis, SCBNL is the best among of other two banks BOK and EBL because its earnings per share and Market value per share is higher than them which is quite beneficiary for the banks.

#### **4.8 Statistical Tools**

Statistical tools are the measures or the instruments to analyze the collected data from different sources. In statistics, there are numerous statistical tools to analyze data of various natures. In this study, the researcher has used the following statistical tools to analyze the data:

##### **4.8.1 Calculations of Average/Mean**

An average is a single value related from a group of values to represent them in some way, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group.

##### **4.8.2 Calculations of Standard Deviation**

The standard deviation ( $\sigma$ ) measures the absolute dispersion. The greater the standard deviation, the greater will be the magnitude of the deviations of the values from their mean. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa.

### 4.8.3 Calculations of Coefficient of Variation

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation the standard deviation is absolute measures of dispersion; whereas the coefficient of variation (CV) is a relative measure. Coefficient of variation being a pure number is independent of the units of measurement and thus is suitable for comparing the variability n, homogeneity or uniformity of two or more distributions. A distribution having less C.V. is said to be less variable or more homogenous or more consistent or more uniform or more stable or more stationary or more equitable than other. A distribution having greater C.V.is said to be more variable or more heterogeneous or less consistent or less uniform or less stable .To compare the variability between two or more series, CV is more appropriate statistical tool

#### Summary of the Earning Per Share and Market Value per Share

Statistical tools	SCBNL		BOK		EBL	
	EPS	MVPS	EPS	MVPS	EPS	MVPS
Mean	132.67	5158	48.97	1448	86.63	2205.2
Standard Deviation	40.78	1542.35	7.84	649.68	16.01	704.51
Coefficient of Variation	30.74	29.90	16.01	44.87	18.48	31.95

The above table displays that the calculation of statistical tools, Mean, Standard deviation and Coefficient of Variation of three commercial banks. The study is based on Earning per share and Market value per share. Through statistical tools the standard deviations of SCBNL under EPS is higher than other two banks so it is not preferable. The lower the standard deviations, the smaller the risk, the higher the standard deviation, the higher the risk. So that in comparison, with the standard deviation point of view, BOK is more preferable than EBL and lastly SCBNL. It clears that earning per shares of SCBNL has highly risky and

unfavorable. The analysis through the Coefficient of variation under EPS in three commercial banks is same as in Standard deviations. The lower the Coefficient of variations the lower the risk and vice-versa. By the comparative study, the C.V. of BOK is lower than the SCBNL and EBL. So that EPS of BOK is more uniform or more stable than SCBNL and EBL. The analysis is also taken under MVPS. Through this study, it shows that the SCBNL has higher standard deviations that refer high risks and vice-versa. The BOK has lower standard deviations that refer low risks. The EBL has lower S.D. than SCBNL so that it has lower risks than it. The analysis from Coefficient of variations under Market value per share, SCBNL is more stable or more equitable because it has lower C.V. than other two banks EBL and BOK.

#### 4.8.4 Correlation Coefficient

##### Correlation Coefficient between NPAT and Total Deposit of SCBNL, BOK and EBL

$$\text{Coefficient of correlation } (r) = \frac{n \sum xy - (\sum x)(\sum y)}{\sqrt{n \sum x^2 - (\sum x)^2} \times \sqrt{n \sum y^2 - (\sum y)^2}}$$

$$= 0.9868$$

$$\text{Coefficient of determination } (r)^2 = (0.9868)^2 = 0.9738 = 97.38\%$$

Since value of  $r = 0.9868$ , the correlations between the two variables are highly positive which means these are moved in same direction.

Since co-efficient of determinants  $(r)^2 = 0.9738$  which seems that total deposit explain the variation of NPAT and remaining  $(100-97.38) = (2.62)$  are due to other factor. The co-efficient of correlation of SCBNL between NPAT and Total Deposit are found to be significant and positive relation. It means that increase in deposit would increase its NPAT and vice-versa.

$$\text{Coefficient of correlation } (r) = \frac{n \sum xy - (\sum x)x (\sum y)}{\sqrt{n \sum x^2 - (\sum x)^2} \times \sqrt{n \sum y^2 - (\sum y)^2}}$$

$$= 0.9965$$

$$\text{Coefficient of determination } (r)^2 = (0.9930) = 99.30\%$$

Since value of  $r = 0.9965$ , the correlations between the two variables are highly positive which means these are moved in same direction.

Since co-efficient of determinants  $(r)^2 = 0.9930$  which seems that total deposit explain the variation of NPAT and remaining  $(100-99.30) = (0.7)$  are due to other factor. The co-efficient of correlation of BOK between NPAT and Total Deposit are found to be significant and positive relation. It means that increase in deposit would increase its NPAT and vice-versa.

$$\text{Coefficient of correlation } (r) = \frac{n \sum xy - (\sum x)x (\sum y)}{\sqrt{n \sum x^2 - (\sum x)^2} \times \sqrt{n \sum y^2 - (\sum y)^2}}$$

$$= 0.9860$$

$$\text{Coefficient of determination } (r)^2 = (0.9860)^2 = 0.9722 = 97.22\%$$

Since value of  $r = 0.9860$ , the correlations between the two variables are highly positive which means these are moved in same direction.

Since co-efficient of determinants  $(r)^2 = 0.9722$  which seems that total deposit explain the variation of NPAT and remaining  $(100-97.22) = (2.78)$  are due to other factor. The co-efficient of correlation of EBL between NPAT and Total Deposit are found to be significant and positive relation. It means that increase in deposit would increase its NPAT and vice-versa.

**Summary of Correlation between NPAT and Total Deposit**

<b>Statistical Tools</b>	<b>SCBNL</b>	<b>BOK</b>	<b>EBL</b>
Coefficient of Correlation(r)	0.9868	0.9965	0.9860
Coefficient of Determination(r) <sup>2</sup>	0.9738	0.9930	0.9722

By the above table, the correlation coefficient between NPAT and Total Deposit of three Commercial banks has high degree of positive correlation.

**Correlation Coefficient between NPAT and Total Investment of SCBNL, BOK and EBL**

$$\begin{aligned} \text{Coefficient of correlation (r)} &= \frac{n \sum xy - (\sum x)x (\sum y)}{\sqrt{n \sum x^2 - (\sum x)^2} \times \sqrt{n \sum y^2 - (\sum y)^2}} \\ &= 0.3045 \end{aligned}$$

Coefficient of determination (r<sup>2</sup>) = 0.3045<sup>2</sup> = 0.0927 = 9.27%

According to the value of r=0.3045, the correlation between two variables is positive. Coefficient of determinates (r<sup>2</sup>) =0.0927 which seems total investment can explain the variation of NPAT almost by 9.27% and remaining (100- 9.27= 90.73%) are due to other factor. The coefficient of correlation between NPAT and total investment is not significant. There variables are not dependable. Since the positive correlation of r increase in total investment will increase in NPAT and vice versa.

$$\begin{aligned} \text{Coefficient of correlation (r)} &= \frac{n \sum xy - (\sum x)x (\sum y)}{\sqrt{n \sum x^2 - (\sum x)^2} \times \sqrt{n \sum y^2 - (\sum y)^2}} \\ &= - 0.3276 \end{aligned}$$

Coefficient of determination (r<sup>2</sup>) = -0.3276<sup>2</sup> = 0.1073 = 10.73%

According to the value of  $r = -0.3276$ , the correlation between two variables is negative. Coefficient of determinates ( $r^2$ ) = 0.1073 which seems total investment can explain the variation of NPAT almost by 10.73% and remaining ( $100 - 10.73 = 89.27\%$ ) are due to other factor. The coefficient of correlation between NPAT and total investment is not significant. There variables are not dependable. Since the negative correlation of  $r$  decrease in total investment will decrease in NPAT and vice versa.

$$\text{Coefficient of correlation (r)} = \frac{n \sum xy - (\sum x)(\sum y)}{\sqrt{n \sum x^2 - (\sum x)^2} \times \sqrt{n \sum y^2 - (\sum y)^2}}$$

$$= 0.5682$$

$$\text{Coefficient of determination (r)}^2 = 0.5682^2 = 0.3229 = 32.29\%$$

According to the value of  $r = 0.5682$ , the correlation between two variables is positive. Coefficient of determinates ( $r^2$ ) = 0.3229 which seems total investment can explain the variation of NPAT almost by 32.29% and remaining ( $100 - 32.29 = 67.71\%$ ) are due to other factor. The coefficient of correlation between NPAT and total investment is not significant. There variables are not dependable. Since the positive correlation of  $r$  increase in total investment will increase in NPAT and vice versa.

### Summary of Correlation between NPAT and Total Investment

Statistical Tools	SCBNL	BOK	EBL
Coefficient of Correlation (r)	0.3045	- 0.3276	0.5682
Coefficient of Determination ( $r$ ) <sup>2</sup>	0.0927	0.1073	0.3229

By the above table, the correlation coefficient between NPAT and Total Investment of SCBNL has low degree of correlation, BOK has also low degree of correlation and EBL has moderate degree of correlation.

**Table 4.15**  
**Trend Analysis and Coefficient of Correlation between Net Profit after Tax and Time of SCBNL**

(Rs in Millions)

F.Y.(X)	NPAT (Y)	x=X-a(2007)	X <sup>2</sup>	Y <sup>2</sup>	xy
2005/6	658.8	-2	4	434017.44	-1317.6
2006/7	691.7	-1	1	478448.89	-691.7
2007/8	818.9	0	0	670597.21	0
2008/9	1025.1	1	1	1050830.01	1025.1
2009/10	1085.9	2	4	1179178.81	2171.8
Total	Y=4280.4	X = 0	X <sup>2</sup> =10	y <sup>2</sup> =3813072.36	xy=1187.6

NPAT plays the vital role in every organization because it is a measuring tool, which measures the efficient utilization of all sources of inputs and effective management. It should be increased each year. Without profit any organization cannot run for a long period. This analysis helps to know the relationship profit and change in year and trend of profit.

By using the equation of straight line trend;

$$Y_c = a + bx$$

Where,

a = Constant Variable

Y = Dependent variable (NPAT)

X =Independent variable (Time in Year)

b = Slope of trend

Then,

$$a = \frac{Y}{N} = \frac{42804}{5} = 8560.8$$

$$b = \frac{\sum xy}{\sum X^2} = \frac{1187.6}{10} = 118.76$$

Then substituting the value of 'a' and 'b' in equation -  $Y = a + bx$

$$Y_c = 8560.8 + 118.76x$$

According to this analysis, Profit is increasing each year by Rs 118.76 million in average. Any change in year will change profit by Rs 118.76million profit has increase trend.

By using,

$$\text{Coefficient of correlation (r)} = \frac{n \sum xy - (\sum x)(\sum y)}{\sqrt{n \sum x^2 - (\sum x)^2} \times \sqrt{n \sum y^2 - (\sum y)^2}}$$

$$= 0.9739$$

$$\text{Coefficient of determination (r}^2\text{)} = (0.9739^2) = 0.9485 = 94.85\%$$

Coefficient of determinants ( $r^2$ ) = 0.9485 which seems time can explain the variation of NPAT almost by 94.85% and remaining (100 - 94.85 = 5.15%) are due to other factor. This means profit of the bank is completely depended on time. Only 5.15% is depended on other factors.

**Table 4.16**

**Trend Analysis and Coefficient of Correlation between Net Profit after Tax (NPAT) and Time of BOK**

(Rs in Millions)

F.Y.(X)	NPAT (Y)	$x = X - a(2007)$	$X^2$	$Y^2$	xy
2005/6	202.4	-2	4	40965.76	-404.8
2006/7	262.4	-1	1	68853.76	-262.4
2007/8	361.5	0	0	130682.25	0
2008/9	461.7	1	1	213166.89	461.7
2009/10	509.3	2	4	259386.49	1018.6
Total	Y=1797.3	X = 0	$X^2 = 10$	$y^2 = 713055.15$	xy = 813.1

NPAT plays the vital role in every organization because it is a measuring tool, which measures the efficient utilization of all sources of inputs and effective management. It should be increased each year. Without profit any organization cannot run for a long period. This analysis helps to know the relationship profit and change in year and trend of profit.

By using the equation of straight line trend;

$$Y_c = a + bx$$

Where,

a = Constant Variable

Y = Dependent variable (NPAT)

X = Independent variable (Time in Year)

b = Slope of trend

Then,

$$a = Y/N = 1797.3/5 = 359.46$$

$$b = \frac{\sum xy}{\sum X^2} = 813.1/10 = 81.31$$

Then substituting the value of “a” and “b” in equation -  $Y = a + bx$

$$Y_c = 359.46 + 81.31x$$

According to this analysis, Profit is increasing each year by Rs 81.31 million in average. Any change in year will change profit by Rs 81.31 million profit has increase trend.

By using,

$$\begin{aligned} \text{Coefficient of correlation (r)} &= \frac{n \sum xy - (\sum x)x (\sum y)}{\sqrt{n \sum x^2 - (\sum x)^2} \times \sqrt{n \sum y^2 - (\sum y)^2}} \\ &= 0.9934 \end{aligned}$$

$$\text{Coefficient of determination (r}^2\text{)} = (0.9934^2) = 0.9868 = 98.68\%$$

Coefficient of determinants ( $r^2$ ) = 0.9868 which seems time can explain the variation of NPAT almost by 98.68% and remaining (100- 98.68 = 1.32%) are

due to other factor. This means profit of the bank is completely depended on time. Only 1.32% is depended on other factors.

**Table 4.17**  
**Trend Analysis and Coefficient of Correlation between Net Profit after Tax (NPAT) and Time of EBL**

(Rs in Millions)

F.Y.(X)	NPAT (Y)	$x=X-a(2007)$	$X^2$	$Y^2$	$xy$
2005/6	237.2	-2	4	56169	-474.4
2006/7	296.4	-1	1	87852.96	-296.4
2007/8	451.2	0	0	203581.44	0
2008/9	638.7	1	1	407937.69	638.7
2009/10	831.8	2	4	691891.24	1663.6
Total	Y=2455.3	X = 0	$X^2 = 10$	$y^2=1447432.33$	$xy = 1531.5$

NPAT plays the vital role in every organization because it is a measuring tool, which measures the efficient utilization of all sources of inputs and effective management. It should be increased each year. Without profit any organization cannot run for a long period. This analysis helps to know the relationship profit and change in year and trend of profit.

By using the equation of straight line trend;

$$Y_c = a + bx$$

Where,

a = Constant Variable

Y = Dependent variable (NPAT)

X =Independent variable (Time in Year)

b = Slope of trend

Then,

$$a = Y/N = 2455.3 / 5 = 491.06$$

$$b = xy / X^2 = 1531.5 / 10 = 153.15$$

Then substituting the value of “a” and ‘b’ in equation -  $Y = a + bx$

$$Y_c = 491.06 + 153.15x$$

According to this analysis, Profit is increasing each year by Rs 153.15 million in average. Any change in year will change profit by Rs 153.15 million profit has increase trend.

By using,

$$\text{Coefficient of correlation (r)} = \frac{n \sum xy - (\sum x)(\sum y)}{\sqrt{n \sum x^2 - (\sum x)^2} \times \sqrt{n \sum y^2 - (\sum y)^2}}$$

$$= 0.9850$$

$$\text{Coefficient of determination (r}^2\text{)} = (0.9850^2) = 0.9702 = 97.02\%$$

Coefficient of determinants ( $r^2$ ) = 0.9702 which seems time can explain the variation of NPAT almost by 97.02% and remaining (100 - 97.02 = 2.98%) are due to other factor. This means profit of the bank is completely depended on time. Only 2.98% is depended on other factors.

**Table 4.18**

**Trend Analysis between Total assets and Time of SCBNL**

(Rs in Millions)

F.Y.(X)	Total assets(Y)	$x = X - a(2007)$	$X^2$	xy
2005/6	25767.4	-2	4	-51534.8
2006/7	28596.7	-1	1	-28596.7
2007/8	33335.8	0	0	0
2008/9	40066.6	1	1	40066.6
2009/10	40213.3	2	4	80426.6
Total	Y=167979.8	X = 0	$X^2 = 10$	xy =40361.7

Trend analysis of total assets shows the trend of increase or decrease in these assets with the changes in time (Year).It also shows the relationship between these total assets and year Total assets includes all types of assets.

Using least square method;

$$Y_c = a +bx$$

Where,

a = Constant Variable

Y = Dependent variable (Total assets)

X =Independent variable (Time in Year)

b = Slope of trend

Then,

$$a = Y/N = 167979.8/5 = 33595.96$$

$$b = \frac{\sum xy}{\sum X^2} = \frac{40361.7}{10} = 4036.17$$

Then substituting the value of “a” and ‘b’ in equation -  $Y= a+ bx$

$$Y_c = 33595.96+4036.17x$$

According to this analysis, total assets (Y) are increasing every year by Rs 4036.17million. Any change in time(x) will change total assets at that time.

**Table 4.19**

**Trend Analysis between Total assets and Time of BOK**

(Rs in Millions)

F.Y.(X)	Total assets(Y)	$x=X-a(2007)$	$X^2$	xy
2005/6	12278.3	-2	4	-24556.6
2006/7	14581.4	-1	1	-14581.4
2007/8	17721.9	0	0	0
2008/9	20496.0	1	1	20496.0
2009/10	23396.2	2	4	46792.4
Total	Y=88473.8	X = 0	$X^2 =10$	xy =28150.4

Trend analysis of total assets shows the trend of increase or decrease in these assets with the changes in time (Year).It also shows the relationship between these total assets and year Total assets includes all types of assets.

Using least square method;

$$Y_c = a +bx$$

Where,

a = Constant Variable

Y = Dependent variable (Total assets)

X =Independent variable (Time in Year)

b = Slope of trend

Then,

$$a = Y/N = 88473.8/5 = 17694.76$$

$$b = xy/ X^2 = 28150.4/10 = 2815.04$$

Then substituting the value of “a” and ‘b” in equation -  $Y= a+ bx$

$$Y_c = 17694.76+2815.04x$$

According to this analysis, total assets (Y) are increasing every year by Rs 2815.04 million. Any change in time(x) will change total assets at that time.

**Table 4.20**  
**Trend Analysis between Total assets and Time of EBL**  
(Rs. in Millions)

F.Y.(X)	Total assets(Y)	x=X-a(2007)	X <sup>2</sup>	xy
2005/6	16294.0	-2	4	-32588
2006/7	21851.1	-1	1	-21851.1
2007/8	27646.5	0	0	0
2008/9	37501.7	1	1	37501.7
2009/10	41982.8	2	4	83965.6
Total	Y=145276.1	X = 0	X <sup>2</sup> =10	xy =67028.2

Trend analysis of total assets shows the trend of increase or decrease in these assets with the changes in time (Year).It also shows the relationship between these total assets and year Total assets includes all types of assets.

Using least square method;

$$Y_c = a + bx$$

Where,

a = Constant Variable

Y = Dependent variable (Total assets)

X =Independent variable (Time in Year)

b = Slope of trend

Then,

$$a = Y/N = 145276.1/5 = 29055.22$$

$$b = xy/ X^2 = 67028.2/10 = 6702.82$$

Then substituting the value of “a” and ‘b” in equation -  $Y = a + bx$

$$Y_c = 29055.22 + 6702.82x$$

According to this analysis, total assets (Y) are increasing every year by Rs 6702.82million. Any change in time (X) will change total assets at that time.

## **CHAPTER V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

This chapter is concerned with the summary of the study, conclusions and recommendation after comparatively analyzing the Profitability conditions of three commercial banks named SCBNL, BOK and EBL. Logically, this chapter is divided into three sections: (i) Summary (ii) Conclusions (iii) Recommendations. Actually the history of banking in Nepal begins with the establishment of Nepal Bank Limited in 1994 B.S. There are altogether 31 commercial banks up to the mid July 2011. These banks have played vital role in the economic development of the country. They have introduced banking techniques with international networking. They have played the pivoted role in mobilization of funds. They are providing their services on commerce, trade and industry along with general public. But the intense competition and lack of sufficient investment opportunities have created threats to the banks. Therefore, the study has been conducted setting objectives to evaluate the trend and correlation of various items of the bank, to evaluate their liquidity asset utilization, capital structure and profitability position and to recommend some measure on the basis of analysis and findings for improvement in their future performance. Profitability position is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the Balance Sheet and the profit and loss account. It includes the various types of ratio of last five years from fiscal years 05/06 to 09/10. The data for the analysis is taken from various publications of SCBNL, BOK and EBL as well as publications of government and various types of magazines, bulletin. To check the chances of duplications and follow the

principles and doctrines of the research for analyzing the financial data of the sampled banks the financial tools ratio analysis and income and expenditure analysis, as well as statistical tools Mean, Correlation coefficient, Standard deviation Trend analysis and Coefficient of Variation have been used.

To remain sustainable existence and growth, the banks must ensure reasonable profitability. The banks play vital role to the growth of the nation's economy, for this the banks also have to have sustainable existence and growth of themselves. As the banks are formed as joint stock companies promoted by shareholders investment, it must give reasonable return on the fund of the shareholders. The banks may choose to increase its capital base to make it stronger and more sustainable for facing any future threat that may come up from the profit made by banks.

Profits for the commercial firms have been defined as the lifeblood for them. Commercial bank has to plan for reasonable profit earnings. This study has tried to cover various aspects of profitability conditions through profit planning and budgeting in the banks of its latest five fiscal years. This study basically focused on profitability conditions of three commercial banks. It primarily focused on how commercial banks have planned their profit in order to maximize their return. The general objective of this study is to analyze the profitability conditions of commercial banks in Nepal.

Data of the respective banks with in the last five years (2005 to 2010) are only considered. Data relating to various activities of the bank has been collected, presented in tabular and various diagrams form and are tried to be interpreted in the study report in logical way.

## 5.2 Conclusions

It can be concluded that the role of banking sector is very crucial in the total economy of the country. The proper operation of banking transactions in regular and systematic way results good to individuals and communities. In the operation of any bank, profitability position occupies important place and controls major parts of banking activities. The observations and analysis of above data shows the same. Therefore, it is very important for the policy makers to adopt the appropriate policy with calculated interest rate, so that the large capital can be mastered at very low cost. It will encourage the industrial and commercial activities, eventually, leading to better economic growth, socio-economic development, and employment opportunities.

The following conclusions can be drawn on the basis of the study on profitability conditions of three commercial banks during the study period.

- There is high degree of positive correlation of trend analysis with time period in year and Net profit after tax of SCBNL BOK and EBL. Coefficient of correlation matrix exhibits all items are in positive relation between each other.
- The liquidity position of SCBNL is better than the BOK and EBL. But the ratio of liquidity of EBL is higher than the SCBNL and BOK which is not good for it. Higher ratio of liquidity refers more disadvantages that mean the cash is idle which is unproductive. But adequate amount of liquidity refers good benefit to the bank. The money is not idle and invests in various productive sectors. The liquidity ratio of SCBNL is lower than the other two banks that is quite beneficiary. Lower as well as higher rate of liquidity refers more chances of risk to the bank.

- Profitability position of SCBNL in terms of net profit to total assets ratios is better than the BOK and EBL. In the comparison, about the same terms, EBL get more returns than BOK.
- Similarly Profitability conditions of BOK in terms of return on investment is better than the SCBNL and EBL.
- The earnings per share of SCBNL is higher than the BOK and EBL. The average earnings per share of SCBNL are Rs. 132.67, EBL has Rs.86.63 and BOK has Rs 48.97. Through this analysis, SCBNL is successful to get more earnings in shares. Similarly in MVPS, SCBNL comes in first position; it has more market value per share. In the market, the price of share of this bank is buying and selling in high amount.
- The Net profit to total deposit ratio of SCBNL is in increasing trend. The SCBNL has 2.88% average net profit to total deposit which is greater than the EBL and BOK this is due to the high deposit .The next is BOK which has high ratio in net profit to total deposits than EBL.
- The management team of these three banks is strong and better performance to introduce the bank as the best commercial bank in Nepal. But comparatively, the SCBNL has more good management team with cooperative system between the employers and managers. It means the bank has good manpower and capital.
- These banks have been utilizing the resources of the country and its people in the proper way by making all the policy properly.

- Being customer oriented, the bank has been provided various types of facilities to customers. So it is trying to expand its branches and trying to reach every corner of the country. It provides its services in rural areas too.
- SCBNL invests in Treasury bill, Government of Nepal development bonds and special bonds. EBL invests in Government Treasury bill, Saving bond, securities shares, bonds and debentures. Likewise, BOK invests in Treasury bill, Development bonds, National saving bonds, debentures and foreign securities.
- The EBL has its own staff training program and conducts various formal trainings. In addition to this, staffs are deputed to PNB training colleges for specialized courses .Due to ever increasing number of banks and financial institutions, the demand of trained manpower is also growing.

### **5.3 Recommendations**

After finishing the entire study about the profitability position of SCBNL, BOK and EBL along with the gathering of some valuable and timely suggestions and recommendation can be place forward on the basis of findings and conclusions or literally their financial pictures, to overcome weaknesses and inefficiency and to improve present financial performance of the same.

- Considering the present economic condition of the country, the bank should play vital roles for the economic development of the country .They should promote balanced regional development by financing funds in remote areas and other priority sectors. In that case, these three banks should give much priority in expanding their branches in the rural areas so that the people in the rural areas will also be able to have the facilities provided by the bank.

They should open branches in order to income their transition and to provide financial service to more customers and for expansion of economic activities. For this, they should try to extend its commercial activities in near future. So, the bank should grab more opportunities as soon as possible by adopting efficient and latest marketing strategies.

- Day by day the economic conditions going in deteriorating. There is danger in slacking of the business and industrial activities. So, the bank should not be interested only in collecting huge amount of deposit by increasing the interest rate. The bank should develop the fast services which will of course, encourage the people to deposit their money as well as they will be interested to take a loan. The bank should search out the new sectors of investments because only increase in deposits should be related to the investments. The investment of these banks is not very excellent. So, to achieve success it must mobilize their fund in various sectors such as purchasing share and debentures of other financial and non-financial company. Though cash and bank balance to total deposit and current deposit is better, the bank should maintain more cash and bank balance in time and the bank should maintain balance between the liquidity and profitability position.
- Profitability position of SCBNL in terms of net profit to total assets ratios is better than BOK and EBL. Similarly return on deposit of SCBNL is better than BOK and EBL. Here comparatively, SCBNL has better profitability position. However, both these three commercial banks are not in satisfactory level. So these three banks are required to utilize the resources more efficiently for profit generating sector.
- SWOT analysis is most important for all the banks and financial companies, other organizations to get better result .Through this analysis, the bank can

find out the strengths weakness, opportunities and threats and should try to eliminate all weakness and take the opportunities for the future growth and development of the organization. Through this analysis, the above mentioned three commercial banks can get more positive achievements. The main aspects are discipline and adopt direction of NRB. This helps to maintain harmonious relationship between other joint ventures bank as well. The bank should persuade various kinds of welfare program for its staff and the society, excellent staff should be promoted in order to inspire, society welfare programs like sponsorship, giving funds etc. Should be organized. So the staff facilities should be increased in order to motivate them. This helps to earn goodwill of the bank.

If these banks follow those recommendations, they will satisfy customers as well as staff, increase their goodwill and reputation and successful to earn more profit.

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## Appendix-I

### Computation of Standard deviation, Coefficient of Variation, Correlation

FY	SCBNL			BOK			EBL		
	EPS (X <sub>1</sub> ) in Rs	(X <sub>1</sub> -X <sub>1</sub> )	(X <sub>1</sub> -X <sub>1</sub> ) <sup>2</sup>	EPS (X <sub>2</sub> ) in Rs	(X <sub>2</sub> -X <sub>2</sub> )	(X <sub>2</sub> -X <sub>2</sub> ) <sup>2</sup>	EPS (X <sub>3</sub> ) in Rs	(X <sub>3</sub> -X <sub>3</sub> )	(X <sub>3</sub> -X <sub>3</sub> ) <sup>2</sup>
05/06	175.84	43.17	1863.65	43.67	-5.3	28.09	62.78	-23.85	568.82
06/07	167.97	35.3	1246.09	43.50	-5.47	29.92	78.42	-8.21	67.40
07/08	131.92	- 0.75	0.5625	59.94	10.97	120.34	91.82	5.19	26.94
08/09	109.99	- 22.68	514.38	54.68	5.71	32.60	99.99	13.36	178.49
09/10	77.65	- 55.02	3027.20	43.08	-5.89	34.69	100.16	13.53	183.06
Total		0.02	(X <sub>1</sub> -X <sub>1</sub> ) <sup>2</sup> =6651.88		0.02	(X <sub>2</sub> -X <sub>2</sub> ) <sup>2</sup> =245.64		0.02	(X <sub>3</sub> -X <sub>3</sub> ) <sup>2</sup> =1024.71

FY	SCBNL			BOK			EBL		
	MVPS (Y <sub>1</sub> )	(Y <sub>1</sub> -Y <sub>1</sub> )	(Y <sub>1</sub> -Y <sub>1</sub> ) <sup>2</sup>	MVPS (Y <sub>2</sub> )	(Y <sub>2</sub> -Y <sub>2</sub> )	(Y <sub>2</sub> -Y <sub>2</sub> ) <sup>2</sup>	MVPS (Y <sub>3</sub> )	(Y <sub>3</sub> -Y <sub>3</sub> )	(Y <sub>3</sub> -Y <sub>3</sub> ) <sup>2</sup>
05/06	3775	-1383	1912689	850	-598	357604	1379	-826.2	682606.44
06/07	5900	742	550564	1375	-73	5329	2430	224.8	50535.04
07/08	6830	1672	2795584	2350	902	813604	3132	926.8	858958.24
08/09	6010	852	725904	1825	377	142129	2455	249.8	62400.04
09/10	3279	1879	3530641	840	-608	369664	1630	-575.2	330855.04
Total			(Y <sub>1</sub> -Y <sub>1</sub> ) <sup>2</sup> = 9515382			(Y <sub>2</sub> -Y <sub>2</sub> ) <sup>2</sup> = 688330			(Y <sub>3</sub> -Y <sub>3</sub> ) <sup>2</sup> =1985354.8

Standard Deviation † =  $\sqrt{\frac{1}{n-1} \sum (X - \bar{X})^2}$  =40.78 in SCBNL, 7.84 in BOK and 16.01 in EBL. (EPS)

Standard Deviation † =  $\sqrt{\frac{1}{n-1} \sum (X - \bar{X})^2}$  =1542.35 in SCBNL, 649.68 in BOK and 704.51 in EBL. (MVPS)

Coefficient of Variations= 30.74 in EPS and 29.90 in MVPS of SCBNL, 16.01 in EPS and 44.87 in MVPS of BOK and 18.48 in EPS and 31.95 in MVPS of EBL

## Appendix-II

### Coefficient of Correlation between NPAT and Total Deposit of SCBNL

(Rs in Millions)

F.Y	NPAT(X)	Total Deposit(Y)	x=X-X	x <sup>2</sup>	y=Y-Y	y <sup>2</sup>	xy
05/06	658.8	23061.03	-197.3	38919.40	-6536.09	42720472.49	1289570.56
06/07	691.7	24647.02	-164.4	27020.78	-4950.1	24503490.01	813796.44
07/08	818.9	29744.00	-37.2	1382.35	146.88	21573.73	5463.94
08/09	1025.1	35350.82	169	28567.77	5753.7	33105063.69	972375.3
09/10	1085.9	35182.72	229.8	52817.23	5585.6	31198927.36	1283570.88
Total	X =42804	Y =147985.59	x=-0.1	x <sup>2</sup> =148707.53	y = -0.01	y <sup>2</sup> =131549527.3	xy = 4364777.12

Mean of 'X' =  $\sum x/n = 856.1$

Mean of 'Y' =  $\sum y/n = 29597.12$

### Appendix-III

#### Coefficient of Correlation between NPAT and Total Deposit of BOK

(Rs in Millions)

F.Y	NPAT(X)	Total Deposit(Y)	$x=X-\bar{X}$	$x^2$	$y=Y-\bar{Y}$	$y^2$	xy
05/06	202.4	10485.00	-157.06	24667.84	-4936.6	24370019.56	775342.40
06/07	262.4	12389.00	-97.06	9429.64	-3032.6	9196662.76	294344.16
07/08	361.5	15834.00	2.04	4.16	412.4	170073.76	841.296
08/09	461.7	18084.00	102.24	10453.01	2662.4	7088373.76	272203.78
09/10	509.3	20316.00	149.84	22452.03	4894.4	23955151.36	733376.90
Total	X=1797.3	Y=77108	$\sum x=0$	$\sum x^2 =67006.68$	$\sum y=-0.4$	$\sum y^2 =64780281.2$	$\sum xy =2076108.54$

Mean of 'X' =  $\bar{x} = 359.46$

Mean of 'Y' =  $\bar{y} = 15421.6$

**Appendix-IV**  
**Coefficient of correlation between NPAT and Total deposit of EBL**

(Rs in Millions)

F.Y	NPAT(X)	Total Deposit(Y)	x=X-X	x <sup>2</sup>	y=Y-Y	y <sup>2</sup>	xy
05/06	237.2	13802.40	-253.86	64444.90	-11441.62	130910668.2	2904569.65
06/07	296.4	18186.20	-194.66	37892.52	-7057.82	49812823.15	1373875.24
07/08	451.2	23976.30	-39.86	1588.82	-1267.72	1607114.00	50531.32
08/09	638.7	33322.90	147.64	21797.57	8078.88	65268302.1	1192765.84
09/10	831.8	36932.30	340.74	116103.75	11688.28	136615889.4	3982664.53
Total	X=2455.3	Y=126220.1	x=0	x <sub>2</sub> =241827.56	y =0	y <sup>2</sup> =38 4214797	xy =9504406.58

Mean of 'X' =  $\bar{x} = \frac{\sum x}{n} = 491.06$

Mean of 'Y' =  $\bar{y} = \frac{\sum y}{n} = 25244.02$

## Appendix-V

### Coefficient of Correlation between NPAT and Total Investment of EBL

(Rs in Millions)

F.Y	NPAT(X)	Total Investment(Y)	$x=X-\bar{X}$	$x^2$	$y=Y-\bar{Y}$	$y^2$	xy
05/06	237.2	4201.13	-253.86	64444.90	-840.03	705650.40	213250.02
06/07	296.4	4985.12	-194.66	37892.52	-56.04	3140.48	10908.75
07/08	451.2	5061.16	-39.86	1588.82	20	400	-797.2
08/09	638.7	5950.08	147.64	21797.57	908.92	826135.57	134192.95
09/10	831.8	5008.31	340.74	116103.75	-32.85	1079.12	-11193.31
Total	X=2455.3	Y=25205.8	$\sum x=0$	$\sum x^2=241827.56$	$\sum y=0$	$\sum y^2=1536405.57$	$\sum xy=346361.21$

Mean of 'X' =  $\bar{x} = 491.06$

Mean of 'Y' =  $\bar{y} = 5041.16$

## Appendix-VI

### Coefficient of Correlation between NPAT and Total Investments of BOK

F.Y	NPAT(X)	Total Investment(Y)	$x=X-\bar{X}$	$x^2$	$y=Y-\bar{Y}$	$y^2$	$xy$
05/06	202.4	3378.13	-157.06	24667.84	250.99	62995.98	-39420.49
06/07	262.4	2995.19	-97.06	9429.64	-131.95	17410.80	12807.07
07/08	361.5	3206.83	2.04	4.16	79.69	5881.36	162.57
08/09	461.7	2786.36	102.24	10453.01	-340.78	116131.01	-34841.35
09/10	509.3	3269.20	149.84	22452.03	142.06	20181.04	21286.27
Total	X=1797.3	Y=15635.71	$\bar{x}=0$	$\sum x^2 = 67006.68$	$\bar{y} = -0.4$	$\sum y^2 = 222600.19$	$\sum xy = -40005.93$

Mean of 'X' =  $\bar{x} = 359.46$

Mean of 'Y' =  $\bar{y} = 3127.14$