

CHAPTER I

INTRODUCTION

1.1 Background

In an economy, the importance of the financial sector in general and banking sector in particular cannot be undermined. A strong, well functioning financial sector is crucial for any economy - be it industrial, emerging market or even developing. Banks and financial institutions are the backbone of the economy. Banking sector definitely plays a pivotal role in the overall development of the economy. It plays a very important role in the development of all sectors of the economy and actually works as a lubricator by providing financial resources. The financial sector bridges between demand and supply of funds and intermediates between surplus unit and deficit units. It provides different avenues to savers to invest their savings in financial products and services as per their needs and makes funds available to borrowers/investors in the most competitive prices. The financial sector plays an intermediary functions, such as channeling funds from saver to investors, providing a payment system for transactions, and distributing risks across space and time to those best able to bear them. Sound and healthy financial sector makes proper use of available resources and ensures that the resources are geared towards the economic development of the country. Due to the importance of banking sector in the economy, it is important to analyze to what extent the position and performance of the banking sector has been strengthened and how well they are performing according to the national goals for economic development laid down to this sector.

Government of any countries highly monitors and controls the finance industry even in the liberalized market economy. Government does so due to its high gravity in the national economy, and to build up the confidence of private sector in its financial system. Nepal Rastra Bank (NRB) as an apex monetary authority of the country started to monitor and control the finance industry especially at the end of the 1990 by issuing the directives to the financial institutions (FIS). It initiated the offsite and onsite supervision of financial institutions to maintain their sound financial health

and to build up the confidence of private sector in the liberalized financial system and protect the interest of the investors.

Not only the commercial banks but also any financial institutions require regular performance check up to maintain the confidence of private sector in the financial system of the country and protect the interest of depositors, lenders, shareholders and other stakeholders. The gravity of the importance of sound financial sector has increased tremendously specially since the international financial turmoil that had happened in the second half of the decade of the nineties. International financial institutions like the World Bank and international monetary authorities such as International Monetary Fund have underpinned the need of healthy financial sector to build up the confidence of private sector in the liberalized financial system. Therefore, they have directed their member countries to reform the financial sector and conduct the regular health check up of financial institutions through onsite and offsite supervision. International financial institutions like the World Bank and Asian Development Bank (ADB) are supporting the projects run in the vein of reforming process of the financial sector of different countries. For example, the World Bank is constantly providing the technical and financial support to reengineer Nepal Rastra Bank (NRB) and restructure Nepal Bank Limited and Rastriya Banijya Bank Limited.

Health of financial sector depends on the health of individual financial institutions. In addition, individual financial institution's health counts on the myriad macro and micro factors. Among the macro factors, political stability and the real sector growth are vital. The financial health of financial institution cannot sustain without the political stability and sustainable real sector growth with sound health. However, the intensity of contagious effect of these macro variables may vary from one individual financial institution to another. Therefore, health of individual financial institution should be checked up regularly to know the intensity of such effect.

Health of an individual financial institution is a function of multiple factors such as quality of its assets, liquidity position, capital base, management quality, market sensitivity and earnings. All these factors affect the different types of risk to an individual financial institution. Different types of risks: credit risk, liquidity risk, interest rate risk, market risk, foreign exchange risk, technology, sovereign risk, insolvency risk, operational risk, affect the health of an individual financial institution adversely if they are not managed in sustainable manner (Saunders and Cornett, 2004). A number of factors such as quality of assets, financial market condition, foreign exchange market, composition of assets, financial health of its clients, profitability, capital adequacy, affect the degree of these risks. Financial performance check-up of an individual institution should be made regularly to detect the adverse effect of these risks on its health. Micro- prudential indicators such as capital adequacy, asset quality, management soundness, earning and profitability, liquidity, sensitivity to market risk, and market based indicators like market price of financial instruments, credit ratings are used as indicators of the sound health of an individual FI (Evan, 2000).

Banking sector plays a vital for the country's economic development. Bank is a resource mobilizing institution that accepts deposit from various sources and invests such accumulated resources in primary, secondary and tertiary sector. The level of overall development of a country; social, cultural, political or economical development is characterized by the level of economic growth and the crux of the economic growth lies in the development of a well managed banking system. Hence, banks can be considered as the backbone of a country's overall development. In short, banks are extremely necessary for the healthy and perennial progress of a country. By creating and mobilizing the capital and rendering various financial service banks are contributing to the establishment and development of so many small and large scale industries and domestic as well as international trade and commerce. Though bank refers to transaction of money modern banks are established with specific purposes. Depending upon the nature of bank, it serves differently to its customers though the underlying principle is same. Banks provide an effective payment and

credit system, which facilitates the channeling of funds from the surplus spending units (savers) to the deficit spending units (investors) in the economy. By accepting deposits, the banks promote the habit of savings among the people. These savings of the people later result in capital formation, which is the basis of economic progress in the country. Moreover, banks also encourage industrial innovations and business expansions through the funds provided by them to the entrepreneurs. Banks exercise considerable influence on the level of economic activity through their ability to create money in the economy. Banks perform an indispensable task of intermediating between the deficit spending individuals or institutions and the surplus spending individuals or institutions in order to raise funds and then loaning those funds to deficit spending individuals or institutions. In addition another contribution banks make is their while issue low risk securities to their depositors. The various utility functions performed by banks are of great economic significance for the economic, which can influence the course and direction of economic activity within the economy. They pool together the savings of the community and arrange for their productive use by providing short as well as long term loans in different forms necessary for the trade and commerce.

They discharge various functions on behalf of their customers and in turn they are paid for their services. Commercial banks undertake the payment of subscriptions, insurance premium, rent, etc And collection of cheques, bills, salaries, pensions, dividends, interest etc. on behalf of their customers and in turn charge a small amount of commission for these services. In addition, they purchase and discount bills of exchange, promissory notes and exchange foreign currency.

Furthermore, commercial banks also arrange to remit money from a place to another at very low prices by means of cheques, drafts, SWIFT, etc. They buy and sell shares and securities on behalf of customers, act as the custodian of the valuables such as jewelry, documents of title to goods, securities etc. belonging to the customers. In fact the economic development of a country is not possible without a sound banking system.

1.1.1 Evolution of Banking in Nepal

The evolution of Banking Industry had started a long time back. Banking made its first beginning around the middle of 12th century in Italy and the Bank of Venice founded in 1157 was the first public banking institution, followed by Bank of Barcelona and Bank of Genoa in 1401 and 1407 respectively. With the expansion of commercial activities in northern Europe of private Banking houses were sprang up, spreading it throughout the world.

The infrastructure development, especially industrial is almost impossible without the mobilization of scattered fund with the public. However Nepal has been late in recognizing the fact. So the history of formal and commercial banking finance companies is relatively short. The first commercial bank of Nepal, Nepal Bank Limited was established in 1937 under Nepal Act 1937. Prior to establish of Nepal Bank Limited, a government financial institution called Tezarath Adda operated in the country. Tezarath Adda used to extend credit to the people but it didn't accepted deposits from them. It performs Banking function partially. With the establishment of NBL, Tezarath was abolished and inconveniences caused by the absence of formal banking sector were finally removed.

Even after the establishment of NBL there was no general Banking legislation in Nepal up to 1964 and it replaced the Nepal Bank Act 1937 in April 1965. Since the private sector did not take any initiative to establish another commercial bank the government established a public sector Rastriya Banijya Bank in January 1966, under Rastriya Banijya Bank Act 1965. The general commercial Bank Act 1965 and the Rastriya Banijya Bank Act 1965 were repealed and was replaced by a new after then it has been going on to establish new commercial banks until now. So, there are 32 commercial banks in operation in Nepal.

1.1.2 Introduction of Sample Banks

The establishment of the commercial bank has given a new horizon to the financial sector of Nepal. The study focuses on the financial performance of two commercial banks i.e. Siddhartha Bank Ltd. and Machhapuchchhre Bank Ltd.

1.1.2.1 Siddhartha Bank Limited

Siddhartha bank Limited commenced operation in 2002. The bank is promoted by a group of Nepalese promoters. It has 39 branches across Nepal by providing full range of commercial banking services. The vision of the bank is future oriented. Actually in all dealings SBL believes in transparency, financial soundness, efficiency and better technology.

The mission of SBL is to be a leader among the banks of its age in Nepal by fulfilling the interest of the stakeholders and also aims to provide total customer satisfaction by way of offering innovative product and by developing and retaining highly motivated and committed staff.

1.1.2.2 Machhapuchchhre Bank Limited

Machhapuchchhre Bank Limited was registered in 1998 as the first regional commercial bank to start banking business from the western region of Nepal with its head office in Pokhara. Today, with a paid capital of above 1627 million rupees, it is one of the full fledged commercial bank operating in Nepal, and it ranks in the topmost among the private commercial banks.

Machhapuchchhre Bank Limited is striving to facilitate its customer needs by delivering the best of services in combination with the state of the art technologies and best international practices. It is the pioneer in introducing the latest technology in the banking industry in the country. It is the first bank in Nepal to introduce centralized banking software named Globus Banking System developed by Temenos NV, Switzerland.

The bank in the last few years have really opened up with branches spread all around the country. At this stage, it has its corporate office in Kathmandu and branch offices in other parts of Kathmandu, Damauli, Bhairahawa, Birgunj, Banepa, and different parts of Pokhara in addition of the head office in Naya Bazar, Pokhara.

1.2 Statement of the Problems

For each and every bank or financial institution it is very crucial to analyze the financial performance. Every banking sector can not reach their objective without a good financial performance. The financial sector has not been responsive enough form them to meet the growing resources. In this competitive market each and every bank and financial institution need to analyze their financial situation to develop strategies and to identify the strengths and weaknesses. Similarly investors are also needed to evaluate the performance of the companies for secured investment. In the Nepalese capital market financial institutions have dominated to the other sectors. Many researches have been made in the field of the performance evaluation of the commercial banks among the financial institutions. However the comparative performance analysis between Siddhartha Bank Limited and Machhapuchhre Bank Limited has not yet been made. So, it is felt to make a comparative study between the companies.

In the view of afore mentioned deposition about the performance of commercial bank and with a view to assess their performance from year based on relatives, the following questions are proposed to be address in the course of this research study:

- a) To what extents these banks are able to raise and maintain the profitability?
- b) Whether the sample banks are more effective and efficient in mobilization of funds for better financial performance?
- c) Is there any relationship of investment, loan and advances and deposit with net profit?
- d) Is there any stability in various ratio policies of the sample banks?
- e) Do financial ratios indicate any strength and weakness of the banks?

- f) Are the commercial banks in Nepal meeting the statutory minimum capital adequacy requirement as directed by the central bank of Nepal?
- g) Are the performance of commercial banks of Nepal equal under the same working environment?

1.3 Objective of the Study

The major objectives of this study are to analyze the financial performance of sample banks. As Financial aspect of the banks is the key indicator it has always been the concern of the stakeholders about the financial performance of the banks. The specific objectives of the study are:

- a) To examine the relative financial performance of SBL and MBL in terms of different kinds of ratios like financial ratios and profitability ratios.
- b) To perform trend analysis of these selected banks and make a projection of these for next five years.
- c) To provide meaningful suggestions and recommendation to these banks for improvement in their financial performances.

1.4 Scope of the Study

Financial Management is that managerial activity which is concerned with planning and controlling of the firm's financial resources. Analysis of financial performance is a study of overall position of any organization. It is closely related to the decision making. In modern context, it gives vital support for the investment decisions, financing decisions and dividend decisions. Financial performance analysis is undergone with the help of periodically made financial statements of the firm. Keeping in light the importance of the banking system in the economy, it is important to analyze to what extent the position and performance of the banking sector has been strengthened and how well they are performing according to the national goals for economic development laid down to this sector. The primary focus of the present research is to evaluate empirically the financial performance of the commercial banks of Nepal. Using the data set published by the commercial banks in their annual reports and NRB in its supervision annual reports and banking

and financial statistics, this paper examines the financial health of the sample commercial banks in the CAMEL (Capital, Assets Quality, Management Quality, Earnings, Liquidity) framework.

1.5 Importance of the Study

The study has multidimensional significance:

- a) The study enlightens the shareholders about the financial performance of their respective banks. This allows them to have a comparative retrospect whether their fund was better utilized or not.
- b) The study also compels the management of respective banks for self assessment of what they have done in the past and guides them in their future plans and programs.
- c) The financial agencies, stock exchange and stock traders are also interest in the performance of the bank as well as the customers, depositors and debtors, who can objectively identify the better bank of deal with in terms of profitability, safety and liquidity.
- d) Policy makers at the macro level that is government and Nepal Rastra Bank will also benefit regarding the formulation of further policies in regard to economic development through banking institutions.

1.5 Limitation of the Study

The Limitation of the study is given below:

- a) The study has done on the basis of the data provided by the organization, so the output of the study is entirely dependent on the data provided by the Bank.
- b) As the report only focuses on the financial aspect of the bank, it does not cover all the aspect of the bank.
- c) The study fully depends upon the secondary data provided by the bank.
- d) The time period of only five years has been taken for the study, so the conclusion drawn includes only for that period.
- e) Limited resources and time at the disposal of the researcher did not allow a much more extensive analysis of the subjective in question.

1.7 Chapter Scheme

The whole study has been divided into five chapters. Each is developed to some aspect of the study:

First Chapter:

deals with the introduction, which includes general background, simple introduction of sample commercial banks, statements of the problem, need of the study, objective of the study, scope of the study, importance of the study, limitation of the study and chapter plan.

Second Chapter:

Deals with the review of available literature. It includes review of book journals, review of legislation related to commercial banks, review of other relevant books and review of bulletins and annual reports published by banks, review of related articles and review of thesis.

Third Chapter:

explains the research methodology used in the study, which includes research design, sources of data; population samples methods of data analysis (various tools, i.e. financial and statistical tools).

Fourth Chapter:

deals with presentation and analysis of data through definite course of research methodology. The main working of this chapter is to analysis different financial ratios related to the financial performance and fund mobilization of SBL in comparison to the MBL.

Ultimately, Fifth Chapter:

Discusses summary of main findings, recommends and suggests for further improvements. Beside these, bibliography and appendices are also included. This chapter has focused to giving general introduction to the readers regarding the commercial banks growth, functions, policies and limitations. Furthermore, it provides the chapter plan of the study. Now the next step is to give fundamental base to the study through the review of relevant literature available at present, which will be discussed comprehensively in the next chapter.

CHAPTER II

REVIEW OF LITERATURE

The review of literature basically highlights the existing literature and research work related to the present study being conducted with the view of finding out what had been already explained by the authors and researchers and how the current research adds further benefits to the field of research. This review of literature has been classified into three subgroups as follow:

-) Conceptual Review
-) Review of Journal and articles
-) Review of Thesis

2.1 Conceptual Review

2.1.1 Financial Analysis

Every business organization is established with view of earning the profit. Bank is established with objectives of maximizing the profit is necessary of long term existences of business. An investor always invests in that area where profit is higher. Financial statement is the indicator of business performance that whether business is profitable or not. Therefore, financial analysis reflects the financial position of a firm which is the process of determining the operational and financial characteristics of a firm. Different types of financial statement analysis can be used on the basis of this research's objectives. Financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable situation of a business concern. Financial performance is the main indicator of success or failure of the company.

The main function of financial analysis is the pinpointing of the strengths and weakness of a business undertaking by regrouping and analysis of figures contained in financial statements by making comparison of various components and by examining their content. This can be used by financial managers as the

basis to plan future financial requirements by means of forecasting and budgeting procedures.

[Man Mohan and Goyal S. N. 1997:356]

according to the Hampton “Financial analysis is used primarily to gain insight in to operating and financial problems conforming the firms, with respect to these problems, we must be careful to distinguish between the cause of problem and symptom of it.” It is thus an attempt to direct the financial statements in to their components on the one hand as between individual components and total of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have clear undertaking of chancing profitability and financial condition of the business organization.

[Hamton J. J. Op.Cit, 99]

Financial statement analysis is largely analysis study of relationship among the various financial factors in analysis business as disclosed by the single set of statement and analysis study of the trend of these factors as shown in analysis series of statement.

[Myer J. N. 1996:4]

Financial analysis is the process of determining financial strengths and weaknesses of analyzing company by establishing strategic relationship between the components of analysis balance sheet and other operative data.

[Pandey I. M. 1994:96]

financial analysis is process of identifying the financial strength and weakness of the firm by property establishing relationship between the items of the balance sheet, which represents analysis snapshot of the firm’s financial position analysis at analysis moment in time and next, income statement, that depots analysis summary of the firm’s profitability overtime. [Vanhorn, J. C. & Watchowlez, J. M., 1997:120]

It is both analytical and judgment process that helps answers questions that have been posed. Therefore, it is means to end. Apart from the specific analytical answer, the solution to financial problems and issues depend significantly on the views of the parties involved in the related importance of the issue and on the nature and reliability of the information available.

[Helfert E. A., 1992:2]

2.1.2 Concept of Financial Performance

Financial performance can be defined as the heart of financial decision. The growth and development of an enterprise is fully affected by the financial performance and financial performance of enterprises is correct only wither true facts and data are input.

Business organizations are inspired to generate profit. The volume of profit earned is also one of the major indications of a good financial performance of a firm. “Profit earned by the firm is the main financial performance indicator of a business enterprise” (Robinson, 1951:21-22).

Profit is essential for every enterprise to survive in the long run as well as to maintain capital adequacy though retained earnings. It is also necessary to accept market for both debts and equity to provide funds for increased assistance to the productive sector. Financial performance as a part of financial management is the main indicator of success and failure of a firm. Financial conditions of a firm should be found from viewpoints of shareholders and debenture holders.

A quantitative judgment of the financial performance and financial position of the firm should be made from viewpoint of the firm’s investment. Thus financial analysis is the main qualitative judgment process of identifying the financial strengths and weakness of the firm by properly establishing the relationship between the items of balance sheet, profit and loss account. “A ratio is defined as the indicated quotient of two mathematical expressions and

the relationship between two or more figure”. “In financial analysis ratio analysis is used for evaluating the financial position and performance of the firm.” (Pandey, 1991:104).

In this study mainly focused on financial of commercial bank is examined for various reasons.

Ratio analysis is such a powerful tool of financial analysis that through this economic and financial position of a business unit can be fully X-rayed (Kothari, 1991: 48).

There are many parties concerned with the bank (i.e. short term creditors, long term creditors, shareholders, potential investors, management, government, central bank, general public).

Long term creditors and bondholders are interested in the cash flow ability and profitability of the bank. Over a time period and they analyze the ability of the bank to pay the interest in time and also the capital structure of the bank.

Similarly, shareholders want the growth of the retained earnings and the same time stability In earning. They are concerned with strong financial position of the bank so that it can pay regular dividend to its shareholder with no chances of bankruptcy. Likewise management of the bank concerned about the overall position of the bank likes liquidity profitability, solvency, growth and goodwill and so on. Thus the management should analyze all types of financial indicators, which will help in both internal and external analysis of the bank.

Government regulatory is concerned with the rate of return on the assets and also they want to see the proportion of equity and non equity in capital structure of the banks. The general public is also interested towards the concerned matters.

So financial performance analysis of a firm consists different of kinds of indicators out of which financial statement analysis, ratio analysis, sources

and uses of fund are the major indicators to measure the strength and weakness of a firm. But here the study is focused mainly on the ratio analysis and some other financial indicators to analyze the financial position and performance of the bank.

2.2 Review of Related Studies

2.2.1 Review of Articles

In this section, effort has been made to examine and review of some related articles in different economic journals, World Bank discussion paper, magazines newspaper and other related books.

Poudel, (1996) in his article "*An Overview on Financial Companies of Nepal*" he had written that at the time 1996, the ratio of capital funds to deposits has been increasing over the time but on top of this, the ratio of capital funds to deposits has been increasing over the time but on top of this is, it is substantially below than the authorized level of deposit mobilization, which is ten times of the capital base.

Never the less, some of the finance companies have even mobilized the deposits by more than ten times of their capital base by violating the regulatory norms issued by NRB. The credit/deposit ratio has remained quite high leaving the room for doubt about the quality of loan especially in the absence of repayment schedule. The loan diversification has been improved however, during a short span of time. As such, the hire purchase housing and term loans are the major sectors, which all together received more than 95% of the total loan and advances in mid July 1996. Because of the mushrooming growth of the number of finance companies, the average sources of funds for each company are natural to decline. Since the varying factor, it is too early to evaluate the performance of financial companies in Nepal but equally important factor is that the regulatory and supervisory authority should keep close Eyes to monitor their activities.

Pradhan, (2003), in his research paper “*Role of Saving, Investment and Capital Formation in Economic Development, A case of Nepal,*” has studied about the strong role and impact of saving, investment and capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving, investment, capital formation and gross domestic product has been collected for the period of 1974/75 to 2000/01. The role and impact of saving, investment and capital formation on economic development were analyzed by using various regression models. The regression equations used in this study have been estimated at current prices as well as in real terms with the entire study period divided into different sub periods.

The results presented in this paper suggest that in all cases, GDP is significantly associated with saving, investment and capital formation both at current prices and in real terms. The results of the empirical analysis led to three important conclusions: First, saving, investment and capital formation have positive impact on economic development. Second, the current values and past values of saving, investment and capital formation have positive impact on economic development but the current values have the largest impact. Third, there is a strong role played by saving and capital formation on economic development while weak role played by investment.

Pradhan, (2004) in his article, “*Transaction Analysis of Financial Companies in Nepal*” has concluded that the finance companies are centered in the city as like commercial banks. If this trend remains, the central bank is to consider novel strategy. However, financial and banking transaction does not take place in zero. It favors of financial intermediaries. The emergence of closure of financial companies in market economy, we should not turn a deaf ear to regional balance.

Shrestha, (2005) in his article “*capital Adequacy of Bank in the Nepalese Context*” has suggested that the banks deal in highly risky transactions to maintain strong capital base. He concluded that the capital base should neither be too much leading to inefficient allocation of scarce resources nor so weak degree of risk associated with them are subject to changes country wise, bank wise and time period wise.

Bajracharya (2008) in his article, “*Monetary policy and deposit mobilization in Nepal*” has conducted that mobilization of domestic saving is one of the prime objective to the monetary policy in Nepal and commercial banks and the more active financial intermediaries for general resources in the form of deposits of private sectors and providing credit to investors in different sectors of the economy.

2.2.3 Review of Thesis

Singh, (2000) had conducted a research on the topic: " *A Comparative Evaluation of Financial Performance of*" reveals that the liquidity position in *Nepal Arab Bank Ltd and Nepal Grindlays Bank Ltd* terms of current ration of both the banks is below the normal standards. The researcher’s main objective was to analysis the income and expenditure of both banks. Its objective was also to analyze how these banks use their sources. According to the analysis of turnover ratios, NABIL invests 57 percent of deposits whereas NGBL invests 41 percent on the loans and advances. In this portfolio, NABIL is performing better liquidity position. Profitability ratios of both the banks reveal positive reform during the study period, but the progress is higher in NGBL whereas NABL seems more efficient in utilizing its capital employed in generating interest income. As NABIL has acquired more funds, it has also raised more capital by issuing shares, bonus shares and retaining earnings.

Kapadi, (2002) has conducted research on "*A Comparative Study on Performance of NABIL Bank Ltd and Standard Chartered Bank Limited.*" The study of this thesis is the descriptive analytical method. The core objective of this thesis is to analyze the financial performance of NABIL bank and SCBNL. This includes the examining of liquidity capital structure and activity and profitability ratios of the ratio joint venture sample banks.

The specific objectives of his research are:

1. To examine the trend of deposits and loan and advances of NABIL bank and SCBNL.
2. To study the liquidity profitability capital structure activity and capital adequacy position of NABIL bank and SCBNL.
3. To suggest and recommended some measures by evaluating and finding financial performance of NABIL bank SCBNL on the basis of finding.

From the detail analysis the research finds the following findings of the study. He found that most of the capital structure ratios show that the capital structure of both the banks is highly leveraged.

- i) Total debt to equity ratio of both the banks reveals that the claims of the outsider exceeds more than that of the owner's over the bank asset. However NABIL bank seems to be more leveraged than SCBNL.
- ii) Total debt to total assets ratio of both the banks has always been over 88, which indicates the excessively geared capital structure. Comparatively NABIL bank has used a little more debt financial than SCBNL. Long-term debt to total assets ratio of NABIL bank is seems to be greater as per mean, which shows more use of long term debt by NABIL bank than by SCBNL.
- iii) Long term debt to net worth ratio of both the banks is following the fluctuating trend. The mean proportion of outsiders fund and owners fund employed in the total capitalization of NABIL bank is

higher than that of SCBNL. This implies that it is following an aggressive strategy of higher risk higher return policy.

- iv) The fixed asset to net worth ratio of NABIL bank is higher than that of SCBNL as per mean ratio. But the investment of owner's equity in fixed assets for both the banks are minimum as is commonly seen in various financial institutions.

Malla, (2004) has conducted a thesis on "*Financial Performance of Commercial Banks With Special Reference to Himalayan Bank and NABIL Bank*" to examine the financial performance of HBL Bank and NABIL Bank. The specific objectives of the study were;

1. To examine the financial position of the banks under study.
2. To evaluate the liquidity, efficiency of assets management and profitability position of the bank under study.
3. To provide suggestion and recommendations on the basis of findings,

The main conclusions of the study were as follows;

The overall liquidity strength of HBL can be considered the better than that of NABIL. However, the liquidity risk is most likely in NABIL, arising from its interest rate. Since the market is highly sensitive towards the interest rate and NABIL has generally been offering Property of Shanker Dev Campus Library 60 low interest rate as compared to other banks. If NABIL cannot tie up its saving deposits saving holders from its advances and personalized banking system, the failure in liquidity in NABIL is most likely than HBL in coming future.

The analysis of strength of HBL in loan and advances is the best. The ratio of loan and advances to total assets investment to loan and advances and loan and advances to shareholder's equity indicate the superior performance

of HBL in its lending activities as compared to NABIL despite low volume of non interest bearing deposit in its capital mix. However the loan and advances and investment to total deposit ratio have upgraded the performance of NABIL.

The mean ratio of investment to loan and advances of NABIL is higher than the combined mean ratio and that of HBL is lower than combined mean. This indicates that investment of NABIL is higher than that of HBL. The ratio of loan and advances and investment to deposit ratio of NABIL is higher than that of HBL. This indicates that NABIL has been able to mobilize its funds more significantly than that of HBL. Comparing the net profit and total expenses of these two banks, NABIL has the highest total net profit throughout the year and also the highest total expenses. NABIL has adopted risk avoiding concept and is headed towards investment in government securities where as HBL is heading towards increasing advances with the concept of risk taking.

The mean ratio of interest income to total income ratio has concluded that the contribution of interest income in total income mix of HBL is the highest. This means that major portion of total income of HBL is highly dependent on loan and advances. The interest expenses to total deposit ratio indicates that the total cost of funds in HBL is the highest than that of NABIL. This shows that HBL has been unable to collect low cost deposit.

Shrestha, (2004), on his thesis entitled “*Role of Rastriya Banijya Bank in Priority Sector Credit & it’s Recovery*” has tried to reveal the following objectives:

1. To identified the compliance of the target loan limit to be invested in priority sector credit as prescribed by NRB.
2. To analyze the relationship of credit (loan & advances) with total deposit & also with PSC of RBB.
3. To examine the situation of deprived sector credit (DSC) of RBB.

4. To analyze the disbursement, recovery status & NPA position under Priority Sector Credit (PSC) of RBB. (Purpose wise)

The major findings made by the researcher are as follows:

- i) Bank's total no of borrowers in PSC about 76 % to 78 % of borrowers lie under DSC & out of the total loan outstanding of RBB invested on PSC about 28 % to 29 % has been invested under DSC.
- ii) RBB is very much success in complying the NRB policy.
- iii) Bank was not able to fully utilize the collected deposits in a proper way.
- iv) The study reveals that the disbursement & recovery under DSC is in decreasing trend; however the ratio of repayment to disbursement is in increasing trend.
- v) Loan repayment under DSC was more satisfactory from industry sector than the agriculture sector & services sector.
- vi) The trend values of recovery of RBB under PSC shows that the recovery position of the bank is in downward sloping whereas its overdue loan under PSC is in increasing trend which brings no return to the bank.

Shrestha, (2005), in his thesis "*Financial Performance Analysis of Nepal Bangladesh Bank ltd*" In this study, various financial research and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

The specific objectives of his research are:

1. To analyze the functions, objectives procedure and activities of the NB bank.
2. To analyze the lending practices and resources utilizations of NB bank.

3. To determine the impact of growth in deposit on liquidity and lending practices.
4. To examine the lending efficiency and its contribution to profit.
5. To make suitable suggestions based on the findings of this study. The financial and statistical tools are used.

The researcher found that NB bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, miniaturization has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged.

The research findings of the study are summarized as:

NB bank has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as a credit and advances. The major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances. Therefore, there is highly positive correlation between total deposits and credit and advances of NB bank. Bank is providing different schemes to attract good customers. After attracting deposits from the customers, bank has issued the deposits to the needy area to make profit for the bank.

Gautam, (2006), has conduct research on "*A Comparative Study on Financial Performance of Standard Chartered Bank Limited and Nepal Bangladesh Bank Limited.*" Financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools, which is bankruptcy score.

The objectives of his research are:

1. To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability.
2. To access the debt servicing of the joint venture commercial bank.
3. To examine the correlation and the signification of their relationship between different ratios related to capital structure.
4. To provide suggestions and recommendations for the optimal capital structure of the joint venture commercial bank.
5. To obtained the objectives, some financial, statistical and accounting tools.

He has found his study were the joint venture banks are operating in Nepal as commercial merchant banks. The growth is still going on as so many new banks are coming into existence after this study. Therefore, JVB s are operating with higher technology and new efficient methods in banking sector. However, this study has been undertaking only two JVBS (i.e. SCBNL and NBBL) to examine and evaluation the financial data.

The research findings of the study are as follows:

- i) The research sample JVB's have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider s claim in total assets of the bank is owner s claim.
- ii) The on an average, NBBL bank constitutes 6.27 times of P/E ratio, which should be reduce as quickly as possible.
- iii) The financial risk of the banks NBBL average degree of finance leverage constitutes 3.73 times which indicates the higher degree of financial risks 3.73 times which indicates the higher degree of financial risks.
- iv) The average ROE of JVB s i.e. SCBL and NBBL area 37.36% and 2.75% respectively.

Now, in Nepal many banks and other financial institution are functioning to collect deposits And invest money somewhere in the investable sectors. Therefore, efficiency has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank.

2.3 Research Gap

The previous studies can not be ignored because they provide the foundation on the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Here, it can be clarified that none has done the research on exact topic; i.e. Financial Performance Analysis of Commercial Banks (With Reference to Siddhartha Bank Limited and Machhapuchchhre Bank Limited). But they have done the study on the topics like – ‘*A Comparative Evaluation of Financial performance of Nepal Bank Limited Nepal Grindlays Bank Limited*’ by Singh, (2000), ‘*A Comparative Study on Performance of NABIL Bank Limited and Standard Bank Limited*’ by Kapadi, (2002), ‘*Financial Performance of Commercial Banks With Special Reference to Himalayan Bank and NABIL Bank*’ by Malla, (2004), ‘*Financial Performance Analysis of Nepal Bangladesh Bank Limited*’ by Shrestha, (2005), ‘*A Comparative Study on Financial Performance of Standard Chartered Bank Limited and Nepal Bangladesh Bank Limited*’ by Gautam, (2006).

Therefore, to fulfill this gap, this research topic is selected. Many books, journals, articles and various published and unpublished dissertations are followed as guide line to make the research easier and smooth and complete it. In this regard, here the researcher is going to analyze the financial performance of commercial banks which are considered only on SBL and MBL.

CHAPTER– III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is composed of two words: ‘Research’ and ‘Methodology’. Research is the systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answer to problem. Thus, the entire process by which we attempt to solve problem is called research, while methodology is the research method used to test hypothesis. A sound and systematic methodology is required to carry out any study, if it is to be worthwhile.

Research refers to the search for knowledge. The Webster International Dictionary gives a very inclusive definition of research as “A careful critical inquiry or examination in seeking facts and principles; diligent investigation in order to ascertain something” (Saravanel, 1990).

Research Methodology is a way to systematically solve the research problem (Kothari, 1990). It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher, studying his/her research problem among with the logic behind them.

A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

This topic presents the short outline of the methods applied in the process of the financial performance analysis of the sample commercial banks. Research is a systematic method of finding out the solution to a problem where as research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objective in view.

3.2 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. For the analysis of fund collection and its mobilization of selected commercial banks, analytical as well as descriptive designs applied to achieve the objective of the research.

Thus, a research design is a plan for the collection and analysis of data. It presents a series of guideposts to the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the problems, conceptual clarity, and methodology, survey of literature and documentation and report writing. Generally, a common research design possesses the five basic elements:

- (i) Selection of problem
- (ii) Methodology
- (iii) Data gathering
- (iv) Data analysis and
- (v) Report writing.

The research design asks - what approach to the problem should be taken ? What methods will be used? What strategies will use? What strategies will be effective? etc. identification, selection and formulation of a research problem may be considered as planning stage of a research and the

remaining activities refer to the design, operation and completion of the research study.

A research design is the specification of methods and procedures of acquiring the Information needed. It is the overall operational pattern of framework or the project that stipulates what information is to be collected from which sources and what procedure. If it is a good design, it will ensure that the information obtained is relevant to the research questions and that it was collected objective and economical procedures (Paul & Donald, 1999).

Thus, research design is a plan, structure and strategy of investigation conceived so as to obtain answers of questions and to control variance. The analysis of this study is based on certain research design keeping in mind on the objective of the study. Generally, research design means definite procedure and technique which guides in studying profound ways for research viability. The main objective of the study is financial performance analysis commercial banks, a case study of Siddhartha Bank Limited (SBL) and Machhapuchchhre Bank Limited (MBL). It emphasizes on descriptive and analytical study of the collected data of profit and loss account and balance sheet (i.e. financial statement) over a period of time. Information of data of a five year period collected from the bank is tabulated. Analysis with different statistical and financial tools has been conducted to find out the necessary result also.

3.3 Data Collection Procedures

The researcher used only one type of data collection technique. i.e. Secondary Data.

The primary data are those which are collected a fresh and for the first time and thus happen to be original in character. The secondary data, on the other hand are those, which have already been collected by someone else and already, been passed through the statistical process (Kothari, 1990).but this study is mainly based on secondary data. So, the major sources of secondary data for this study are as follows:

- a) Annual reports of the banks.
- b) Published and unpublished bulletins, reports of the banks.
- c) Published and unpublished bulletins, reports of the Nepal Stock Exchange.
- d) Previous studies and reports.
- e) Unpublished official records.
- f) “Banking and Financial Statistics” report of Nepal Rastra Bank Magazines.
- g) Journals and other publish and unpublished related documents and reports from Central Library of T. U., Library of Shanker Dev Campus, Library of Nepal Commerce Campus and Library of Nepal Rastra Bank.
- h) Various Internet Websites.
- i) Other published materials.

3.4 Populations and Sample

There are operating 32 commercial banks in Nepal. From them, two commercial banks, Siddhartha Bank Limited (SBL) and Machhapuchchhre Bank Limited (MBL) have been selected as sample for the present study. Similarly, financial statements of these banks for five years from 2063/64 to 2067/68 have been taken as sample for the same purpose.

3.5 Methods of Data Analysis

Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used. To make the study more specific and reliable, the researcher uses two types of tool for analysis.

- a) Financial tools
- b) Statistical tools

A) Financial Tools

For the sake of analysis, various financial tools are used. The basic tools used are ratio analysis. Besides it, total investment and total income analysis have been used.

3.5.1 Ratio Analysis

Financial ratio is the mathematical relationship between two accounting figures. “Ratio analysis is a part of the whole process of analysis of financial statement of any business of individual concern especially to take output and credit decisions”. Thus, ratio analysis is used to compare a firm’s financial performance and status to that of other firms or to itself overtime. The quantitative judgment regarding financial performance of a firm can be done with the help of ratio analysis.

Even though, there are many ratios, only those ratios have been covered in this study, which are related to the performance of the bank. “Ratio analysis is one of the most frequently used tools to evaluate the financial health, operating result and growth. Financial ratios by themselves do not indicate position of the institution. A standard of norms is needed against which to judge them”. It is powerful tool of financial analysis.

‘A ratio is defined as the indicated quotient of two mathematical expressions and as relationship between two or more things’. This study contains following ratios:

3.5.1.1 (i) Liquidity Ratios:

Liquidity ratios are used to judge the ability of bank to meet its short term liabilities that are likely to mature in this short period. From them, much insight can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of adversities. It is the measurement of speed with a bank’s assets can be converted into cash to meet anticipated and contingent cash needs. Cash needs arise from deposit withdrawal and other

current obligations. “Liquidity is the ability to meet anticipated and contingent cash needs. Cash needs are met by increase in deposit and borrowing, loan repayment, investment maturity and the sale of assets”. Commercial banks need liquidity to meet loan demand and deposit withdraws. Liquidity is needed also for the purpose of meeting cash reserve ratio (CRR) and statutory liquidity ratio requirements prescribed by the central Bank.

The following ratios are calculated under the liquidity ratios:

a. Current Ratio

This ratio shows the bank s short-term solvency. It shows the ratio of current assets over the current liabilities. This ratio can be computed by dividing the total current assets by total current liabilities, which can be presented as:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Higher ratio indicates the strong short term solvency position and vice-versa.

b. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio can be computed by dividing cash and bank balance by total deposit and can be presented as:

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposits}}$$

Cash and bank balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic and foreign banks. The total deposit includes deposits made by customers though different accounts like current (demand deposit), saving, fixed deposit, call deposit and other deposit accounts.

c. Cash and Bank Balance to Current Assets Ratio

This ratio measures the proportion of most liquid assets viz. cash and bank balance among the total current assets of the bank. Higher ratio shows the bank's ability to meet its demand for cash. The ratio is computed by dividing cash and bank balance by current assets, presented as under:

$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Current Assets}}$$

ii) Assets Management Ratios

Asset management ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing functions. The following are the various ratios relating to determine the efficiency of the subjected bank in managing its assets and in portfolio management.

a. Loan and Advances to Total Deposit Ratio

This ratio is also called credit deposit ratio (C D ratio). It is calculated to find out how successfully the bank is able to utilize its total deposits on loan and advances for profit generating purpose. Greater ratio implies better utilization of total deposits. This ratio can be obtained by dividing loan and advances by total deposit as under:

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Deposits}}$$

b. Total Investment to Total Deposit Ratio

Investment is one of the major forms of credit creation to earn income. This implies the utilization of firms deposit on investment on government securities, shares and debentures of other companies and banks. This ratio can be calculated by total investment divided by total deposit as:

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

c. Loan and Advances to Total Assets Ratio

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of bank to utilize its deposits in the form of loan and advances to earn high return. The ratio is computed by dividing loan and advances by total working fund, which is stated as under:

$$\text{Loan and Advances to Working Fund Ratio} = \frac{\text{Loans and Advances}}{\text{Total Working Fund}}$$

iii) Profitability Ratios

Profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of Profit and financial performance. For better performance, profitability ratios of firm should be higher. Under this, the following profitability ratio will be computed:

a. Return on Loan and Advances Ratio

This ratio indicates how efficiently the bank utilizes its resources in the form loans and advances. This also measures the earning capacity of its loans and advances. This ratio is computed by dividing net profit (loss) by loans and advances which can be expressed as:

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net Profit (Loss)}}{\text{Loans \& Advances}}$$

b. Return on Total Asset Ratio (ROA)

This ratio measures the overall profitability of all working fund i.e. total assets. It is also known as return on assets (ROA). This ratio is calculated by dividing net profit (loss) by total working funds. This can be presented as:

$$\text{Return on Total Working Fund Ratio (ROA)} = \frac{\text{Net Profit (Loss)}}{\text{Total Working Fund}}$$

The numerator indicates the portion of income left to the internal equities after deduction all costs, charges and expenses.

c. Return on Equity (ROE)

Net worth refers to the owner s claim of a bank. The excess amount of total assets over total liabilities is known as net worth. This ratio measures how efficiently the bank has used funds of the shareholders. This ratio can be computed by dividing net profit by total equity capital (net worth). This can be calculated as:

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit (Loss)}}{\text{Total Equity Capital}}$$

d. Total Interest Earned to Total Asset Ratio

This ratio is computed to find out percentage of interest earned to total assets (working fund). Higher ratio implies better performance of the bank in terms of interest earning on its total working funds. This fund is computed by dividing total interest earned by total working fund can be presented as:

$$\text{Total Interest Earned to Total Working Fund Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

e.) Return on Total Deposit Ratio

This ratio measures the level of NPAT by using total deposits. It reveals the relationship Between NPAT and total deposit with an ability of a firm to utilize maximum of deposits to earn much profit. This ratio can be computed by dividing the NPA by total deposits.

$$\text{Return on Total Deposit Ratio} = \frac{\text{Net Profit after Tax}}{\text{Total Deposit}}$$

iv) Other Ratio

a. Earning per Share (EPS)

EPS refers to net profit divided by total numbers of share outstanding. EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. The amount of EPS measures the efficiency of a firm in relative terms. This ratio is calculated as:

$$\text{Earnings per Share (EPS)} = \frac{\text{Net Profit (Loss)}}{\text{Total Number of Shares Outstanding}}$$

b. Dividend Per Share

This is a portion of profit allowed to shareholders of a company on even share basis. Apart from dividend, the net profit belonging to the firm is retained earnings and remaining amount is paid to shareholders of a company as a dividend. The dividend to the shareholders on a per share basis is the dividend per share (DPS). It is calculated by dividing dividend by total number of ordinary shares outstanding;

$$\text{Dividend Per Share} = \frac{\text{Earning Paid to Shareholder}}{\text{No of ordinary shares issued}}$$

c. Earning Yield Ratio

Earning yield ratio is expressed in terms of the market value per share. The earning yield may be defined as the ratio of earning per share to market value per share.

$$\text{Earning Yield Ratio} = \frac{\text{Earning Share}}{\text{Market Value Per Share}}$$

d. Dividend Yield Ratio

This ratio is also calculated by dividing DPS by market value per share.

$$\text{Dividend Yield Ratio} = \frac{\text{Dividend per share}}{\text{Market value per share}}$$

e. Price Earning Ratio

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firms performance. This ratio widely used by the security analyst to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

$$\text{Price Earning Ratio} = \frac{\text{Market price of share}}{\text{Earning per share}}$$

Here, total equity capital includes shareholders reserve including profit and loss account, General loan loss provision and share capital i.e. ordinary share preference share capital.

B. Statistical Tools

For supporting the study, statistical tool such as Mean, Standard Deviation, Coefficient of Variation, Correlation, Trend Analysis and diagrammatic cum pictorial tools have been used under it.

i. Arithmetic Mean (\bar{x})

Arithmetic mean is the most popular and widely used measure of central tendency. Arithmetic mean represents the entire data by a single value. It is also known as an average. An average is the typical value around which other items of distribution congregate. It is calculated as:

$$\bar{x} = \frac{\sum x}{N}$$

Where,

$\sum X$ = sum of observations

N= Number of observations

ii. Standard Deviation ()

The standard deviation is defined positive square root of the arithmetic mean of the square of the deviations of the given observations from their arithmetic mean. The standard deviations measure the absolute dispersion or variability. It is said that higher the value of standard deviation, higher the variability and vice-versa. The formula used to calculate standard deviations is as follows:

$$\text{Standard Deviation ()} = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

Where,

N = No. of observation

$\sum x^2$ = Sum of square observation in series X

$\sum x$ = Sum of observation in series X

iii. Coefficient of Variation (C.V.)

The Coefficient of variation (C.V.) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percentage (Shrestha, 1991). It is independent of units. Hence, it is a suitable measure for comparing variability of two series with same or different units. A series with smaller c.v. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as:

$$\text{C. V.} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100$$

Where,

\bar{x} = Mean

= Standard Deviation

iv. Trend Analysis

Trend analysis is an analysis of financial ratio over time used to determine the improvement or deterioration of financial situation. Trend analysis is a very useful and commonly applied tool to forecast the future event in quantitative term on the basis of the tendencies in the dependent variable in the past period. Using the least square method, the projection for five years is done. For the estimation of linear trend line, following formula has been used.

$$Y = a + b x$$

Where,

Y = dependent variable

a = y-intercept

b = slope of the trend line

x = independent variable

$$a = \frac{\sum x}{N} \qquad b = \frac{\sum x^2}{\sum x y}$$

Where,

$\sum y$ = Sum of the observations in series y

$\sum x y$ = Sum of the observations in series x and y

$\sum x^2$ = Sum of square of the observations in series x

3.5.2 Limitation of Research Methodology

- i) Only the selected financial and statistical tools have been used in this thesis.
- ii) Researcher mainly depends on the secondary data, i.e. financial statement of the banks and data provided by the NRB.
- iii) Sample taken by the researcher is only of two banks.
- v) Only the five years data (2063/64 to 2067/68) have been collected to analyze the financial analysis of the sample banks.

CHAPTER – IV

Presentation and Analysis of Data

In this chapter, data collected from secondary sources are presented and analyzed by using financial and statistical tools and techniques. The collected data are categorized, processed and analyzed using appropriated tools, techniques and methods. Based upon the primary findings of different statistical and financial measurements, the data are categorized and arranged through suitable tables and graphs for further processing and analysis. Hence the descriptive presentation is used followed by complimenting tables and graphs wherever possible to analyze the position and performance of the commercial banks under study effectively.

4.1 Financial Analysis

Financial analysis is the act of identifying the financial strength and weakness of the organization calculating the relationship between the items of balance sheet. For the purpose of this study, financial analysis has been mainly used and with the help of it data have been analyzed.

Various financial ratios related to the investment management and fund mobilization are presented to evaluate and analyze the performance of commercial banks i.e. SBL and MBL. Some important financial ratios are only calculated in the point of view of fund mobilization and investment pattern. The ratios are designed and calculated to highlight the relationship between financial item and figures. It is a kind of mathematical relationship and procedure dividing one item by another.

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It is also inevitable for the quantitative judgment with which the financial performance of banks can be presented properly. Ratio analysis is also concerned with output and credit decision. Four main categories of ratios have

been taken in this study that is mainly related to financial performance of banks.

4.1.1 Ratio Analysis

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It is also inevitable for the quantitative judgment with which the financial performance of banks can be presented properly. Ratio analysis is also concerned with output and credit decision. Four main categories of ratios have been taken in this study that is mainly related to financial performance of banks.

4.1.1.1 Liquidity Ratio

Commercial bank must maintain its satisfactory liquidity position to satisfy the credit needs of community to meet demands for deposit-withdrawals, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to bank and consequent impact on long-run profit. Liquidity ratio is mainly used to analyze the short-term strength of commercial banks.

a) Current Ratio

This ratio measures the liquidity position of banks to meet the current liquidity. The following table shows the current ratio of SBL and MBL.

Table 4.1
Current Ratio (Rs. in million)

Banks						
Siddhartha Bank Limited			Machhapuchchhre Bank Limited			
Fiscal Year	Current Assets	Current Liabilities	Ratio (in times)	Current assets	Current Liabilities	Ratio (in times)
2063/64	6969	7055	0.99	9108	9737	0.94
2064/65	10358	10396	0.9999	10301	11213	0.92
2065/66	15361	16213	0.95	15283	15633	0.98
2066/67	19760	20717	0.95	17411	18701	0.93
2067/68	21173	21840	0.97	17247	17662	0.98
Mean			0.9720			0.9500
S.D.			0.0200			0.0253
C.V.(%)			2.1000			2.6630

Source: Annual Reports of concerned banks [Refers to Annex 1]

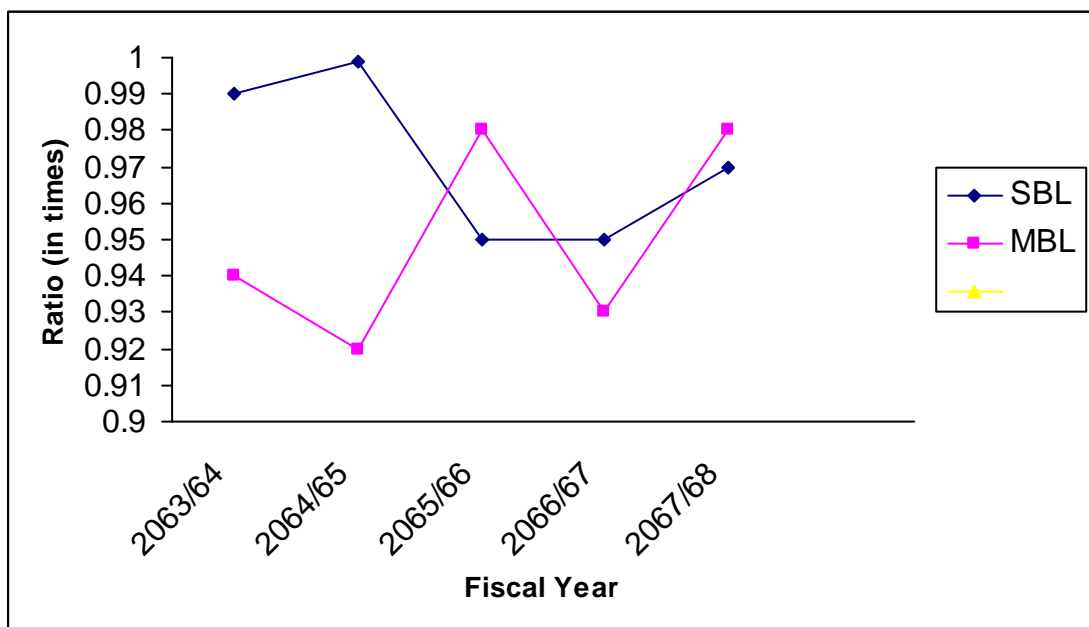
Above table shows the current ratios of the selected banks during the study period. The current ratio of SBL has increased from 0.99 to 1 from F/Y 2063/64 to F/Y 2064/65. But it has again decreased from 1 to 0.95 between F/Y 2065/66 and 2066/67 and rose to 0.97 in F/Y2067/68.

Same way the current ratio of MBL has decreased from 0.94 in F/Y 2063/64 to 0.92 in F/Y 2064/65. But it has increased to 0.98 in F/Y 2065/66 from 0.92 in F/Y 2064/65. The ratio is in fluctuating nature thereafter. Since mean ratios being less than one, both commercial banks have failed to maintain the current obligation. But the arrangement of current obligation of SBL is better than MBL with the view point of comparison. Likewise, S.D. and C.V. of SBL is less than MBL i.e. $0.02 < 0.0253$ and $2.10 < 2.663$. It can be said that C.R. of SBL is more consistent than MBL.

At last, from the above analysis, it is known that both banks have less liquidity position because the standard ratio is not 2:1. So, they are unable to meet the standard ratio.

The trend of current ratio of SBL and MBL has been presented below:

Figure 4.1
Current Ratio:



b) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio indicates the banks' ability to meet their daily requirement of depositors. Higher ratio shows customers' demands on their deposits. The following table shows the cash and bank balance to total deposit ratio of sample banks.

Table 4.2
Cash and Bank Balance to Total Deposit Ratio

(Rs. in Million)

Banks						
Siddhartha Bank Limited			Machhapuchchhre Bank Limited			
Fiscal Year	Cash and Bank Balance	Total Deposit	Ratio (in times)	Cash and Bank Balance	Total Deposit	Ratio (in times)
2063/64	517.00	6625.08	0.078	1284.083	9474.968	0.1355
2064/65	437.00	10191.00	0.0429	1717.192	9531.879	0.1802
2065/66	1547.68	15854.80	0.0976	2770.833	15596.249	0.1777
2066/67	2406.61	20197.03	0.1192	2459.717	18536.211	0.1327
2067/68	1905.69	21575.65	0.0883	2207.561	16411.426	0.1345
Mean			0.0852			0.1521
S. D.			0.0251			0.0219
C. V. (%)			29.51			14.42

Source: Annual Reports

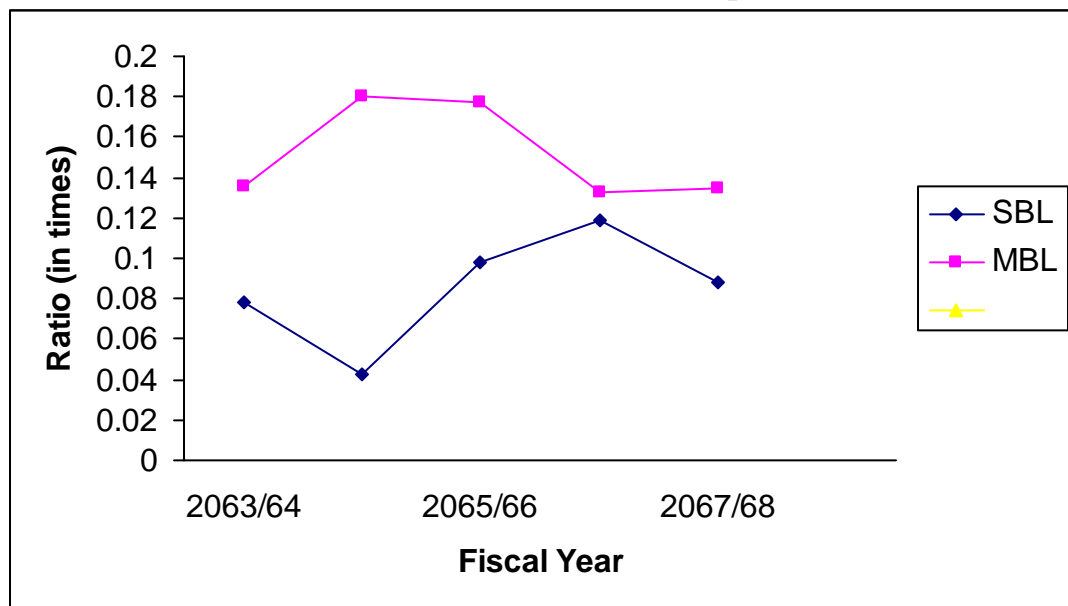
The table 4.2 reveals that the cash and bank balance to total deposit ratios of sample banks are in fluctuation trend. The lowest ratio of SBL is 0.0429 in F/Y 2064/65 and highest ratio is 0.1192 in F/Y 2066/67. Similarly, the lowest ratio of MBL is 0.1327 in F/Y 2066/67 and highest one is 0.1802 in F/Y 2064/65. The mean ratio of SBL and MBL are 0.0852 and 0.1521 respectively. MBL has higher ratio than SBL which shows it has greater ability to pay depositors' demand as they need. Similarly, the coefficient of variation of SBL is 29.51 p.c. and MBL is 14.42 p.c. the S. D. of SBL is greater than MBL.

The above analysis concludes that the cash and bank balance position of MBL is better than SBL to serve its depositors' demand. It implies the better liquidity

position of MBL. In contrast a high ratio of cash and bank balance may be undesirable which indicates the banks inability to invest its fund in income generating area. Thus MBL should invest in more productive sectors like short term marketable securities ensuring enough liquidity which will help the bank to improve its profitability.

The trend of cash and bank balance to deposit ratio of SBL and MBL has been presented below:

Figure 4.2
Cash and Bank Balance to Total Deposit Ratio



c) Cash and Bank Balance to Current Assets Ratio

Cash and bank balance are the most liquid assets. Cash and bank balance to current assets ratio represents the liquidity capacity of the firm as per cash and bank balance. Higher the ratio betters the ability of the firm to meet the daily cash requirement of their customers. But high ratio is not so preferred to the firm because it has to manage the cash and bank balance to current asset ratio in such a manner that firm won't be unable to pay interest on deposits and there does not appear liquidity crisis.

The table showing the relationship between cash and bank balance and deposit is as below:

Table 4.3
Cash and Bank Balance to Current Assets Ratio
(Rs. in million)

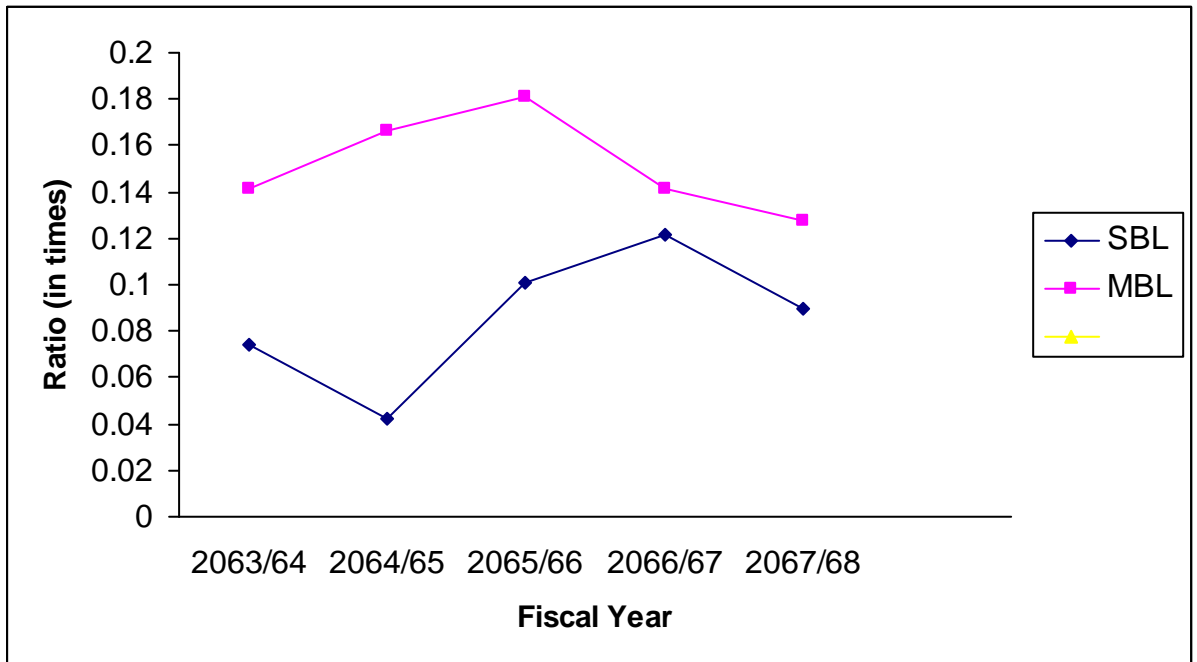
Banks						
Siddhartha Bank Limited			Machhapuchchhre Bank Limited			
Fiscal Year	Cash and Bank Balance	Current Assets	Ratio (in times)	Cash and Bank Balance	Current Assets	Ratio (in times)
2063/64	517	6969	0.0742	1284.083	9108	0.1410
2064/65	437	10358	0.0422	1717.192	10301	0.1667
2065/66	1547.68	15361	0.1008	2770.833	15283	0.1813
2066/67	2406.61	19760	0.1218	2459.717	17411	0.1413
2067/68	1905.69	21173	0.0900	2207.561	17247	0.1280
Mean			0.0858			0.1517
S. D.			0.027			0.0004
C. V. (%)			31.16			24.86

Source: Annual Reports

The above table shows that the cash and bank balance to total current assets ratio of both banks are in fluctuating trend. The mean ratios of SBL and MBL are 0.0858 and 0.1517 respectively. The higher mean ratio shows that MBL's liquidity position is better than that of SBL. But the S. D. and C. V. of MBL is less than SBL. So, there is more consistency in the ratio of MBL in comparison to SBL.

Regarding the above analysis, it can be concluded that MBL has a better ability to meet daily cash requirements of their customers but it should be noted that MBL has excess cash due to the low investment opportunity. The trend of cash and bank balance to current ratio of SBL and MBL can be presented as:

Figure 4.3
Cash and Bank Balance to Current Assets Ratios



4.1.1.2 Activity Ratio/ Assets Management Ratio

Commercial banks must be able to manage their assets very well to earn high profit to satisfy its stakeholders and for their own existence. Assets management ratio measures how efficiently the banks manage their resources. Through following ratios, assets management ability of banks can be measured.

a) Loans and advances to total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loans and advances for the purpose of profit generation. A higher ratio of loans and advances to deposit indicates better mobilization of collection deposit and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. Following table shows the loans and advances to total deposit ratio of related banks.

Table 4.4
Loans and Advances to Total Deposit Ratio

(Rs. in million)

Banks						
Siddhartha Bank Limited				Machhapuchchhre Bank Limited		
Fiscal Year	Loans and Advances	Deposit	Ratio (in times)	Loans and Advances	Deposit	Ratio (in times)
2063/64	6223	6625	0.9393	7097	9475	0.7490
2064/65	9336	10191	0.9161	7567	9532	0.7939
2065/66	13329	15855	0.8407	12467	15596	0.7994
2066/67	16654	20197	0.8246	14973	18536	0.8078
2067/68	18384	21576	0.8521	14731	16000	0.9207
Mean			0.8746			0.8141
S.D.			0.1223			0.0570
C.V. (%)			13.98			7

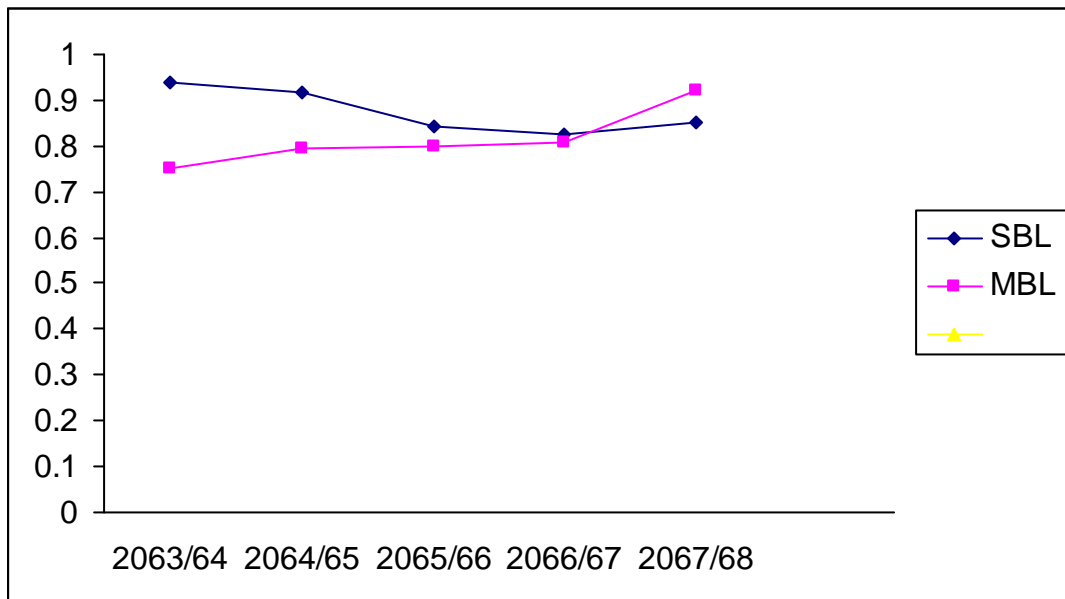
Source: Annual Reports

The above table shows that loans and advances to total deposit ratio of SBL is decreasing whereas the same ratio of MBL IS increasing continuously. It indicates that SBL is minimizing its risk. But MBL is taking the aggressive action. The mean ratio of SBL and MBL are 0.8746 and 0.8141 respectively. So, SBL has higher ratio than that of MBL. It reveals that the deposit of SBL is promptly converted into loans and advances to generate revenue. The bank will be able to mobilize well the3 deposit if there is above 70% to 90% of loans and advances to total deposit according to NRB requirement or they have utilized their deposit to provide loan. The S. D. and C.V. of SBL are 0.1223 and 13.98 p.c. respectively and 0.057 and 7 p.c. of MBL. It reveals that MBL has maintained its consistency comparing to SBL.

The trend of loans and advances to total deposit ratio of SBL and MBL is below:

Figure 4.4

Loans and Advances to Total Deposit Ratio



4.1.4.3 Leverage/Capital Structure Ratio

Like other ratios, leverage ratio is also very important tool in measuring financial performance of any institution. This ratio reveals the proportion of funds used by the institution either from the creditors' side or from owners' side. In order to maintain healthy financial position any institution need to maintain proper proportion of debt and equity. The following ratios have been used to measure the long term solvency position of SBL and MBL with the help pf financial data of past five years of sample banks.

a) Debt Equity Ratio:

The debt equity ratio implies the debt equity proportion used by the institution. High dept equity ratio indicates more used of money from creditor side and vice-versa. High debt equity ratio considered good if the institution is able to have a higher return than the cost paid on debt.

Table 4.5
Debt Equity Ratio

(Rs. in million)

Banks						
Siddhartha Bank Limited				Machhapuchchhre Bank Limited		
Fiscal Year	Total Debt	Total Equity	Ratio (in times)	Total Debt	Total Equity	Ratio (in times)
2063/64	430	794	0.5416	229	988	0.2318
2064/65	205	1068	0.1920	176	1079	0.1631
2065/66	228	1279	0.1783	4	1669	0.0024
2066/67	228	1604	0.1422	150	1828	0.0821
2067/68	228	1988	0.1147	1251	1774	0.7052
Mean			0.2337			0.0959
S. D.			0.1563			0.2839
C. V. (%)			66.88			296.08

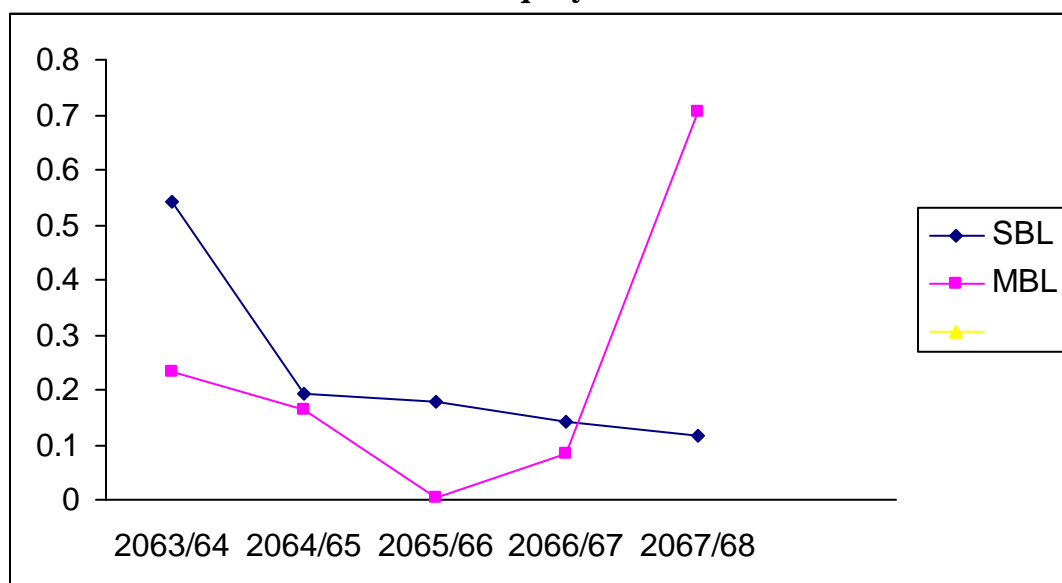
Source: annual Reports

The given table reveals that ratios of SBL are in decreasing trend from F/Y2063/64. The ratio is ranged between 0.5416(2063/64) and 0.1147 (2067/68). But the ratio of MBL IS 'U' shaped with mean ratio of 0.0959 which is lower than the mean ratio of SBL (i.e. 0.2337). It declares that MBL has less debt cost and higher investment from equity fund. In other words, SBL has used more debt investment than equity fund which brings a higher cost to the bank.

The C.V. of SBL and MBL is 66.88 p. c. and 296.08 p.c. respectively. Therefore, the C.V. of SBL is less than of MBL which defines that SBL has consistency in debt equity ratio.

The trend of debt equity ratio can be presented as below:

Figure 4.5
Debt Equity Ratio



b) Debt-Assets Ratio:

It measures proportion of the creditor's funds used by the firm to acquire the assets. The increased proportion of debt indicates the risk to the firm. The debt is considered riskier and cheaper source of financing riskier in the sense that the debt financing needs regular payment of interest in any situation of economic. So, the debt asset ratios can be presented as following:

Table-4.6

Debt-Assets Ratio (Rs. in million)

Banks						
Siddhartha bank Limited				Machhapuchchhre Bank Limited		
Fiscal Year	Total Debt	Total Assets	Ratio (in times)	Total Debt	Total Assets	Ratio (in times)
2063/64	430	7955	0.054	229	10897	0.0210
2064/65	205	11669	0.0176	176	11009	0.0160
2065/66	228	17882	0.0128	4	17448	0.0002
2066/67	228	22802	0.0100	150	21337	0.0070
2067/68	228	24406	0.0093	1251	20226	0.0619
Mean			0.0207			0.0212
S. D.			0.0003			0.2675
C.V. (%)			1.38			1261.83

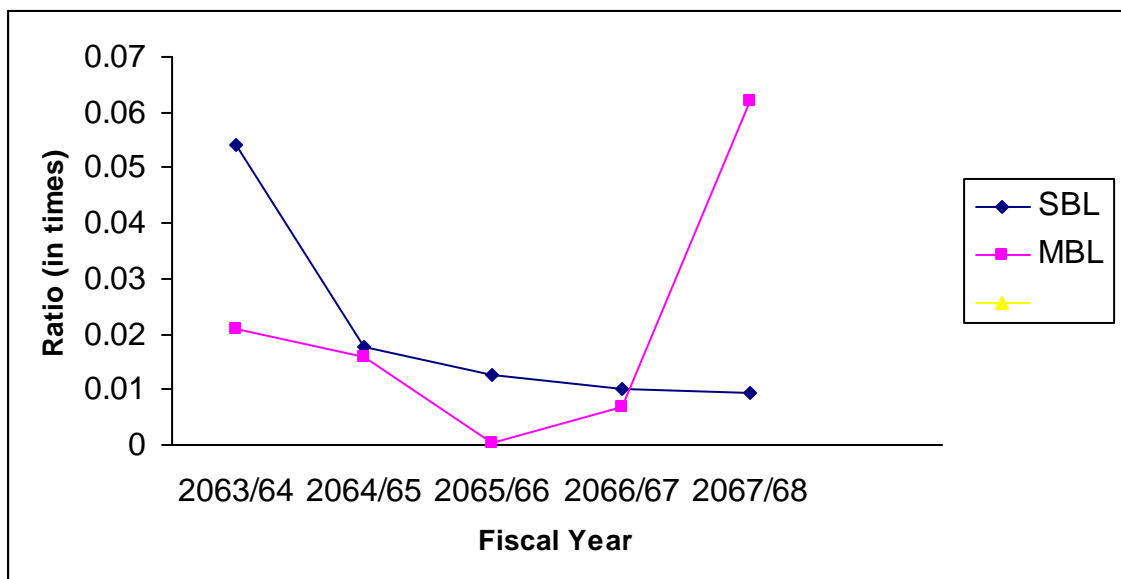
Source: Annual Reports

The given table reveals that debt financing ratio of both banks are low. The ratio of SBL is 0.0540 in F/Y 2063/64 with mean ratio of 0.0207 which is lower mean ratio than 0.0212 of MBL. The ratio of MBL ranges from 0.0210 to 0.0619 in F/Y 2063/64 to 2067/68 respectively.

This statement concludes that the debt financing of SBL is lesser and higher of MBL. Therefore, MBL is utilizing more debt than SBL. But it is also clear that MBL is missing to well management of debt financing due to greater C.V. (i.e. 1261.83 p. c.).

The trend of debt-asset ratio of SBL and MBL can be presented as below:

Figure 4.6
Debt-Asset Ratio



c) Shareholder’s Equity to Total Assets Ratio

This ratio shows the proportion of the assets which is financed from ownership capital of the firm. It can be explained as below:

Table 4.7
Shareholder's Equity to Total Assets Ratio
(Rs.in million)

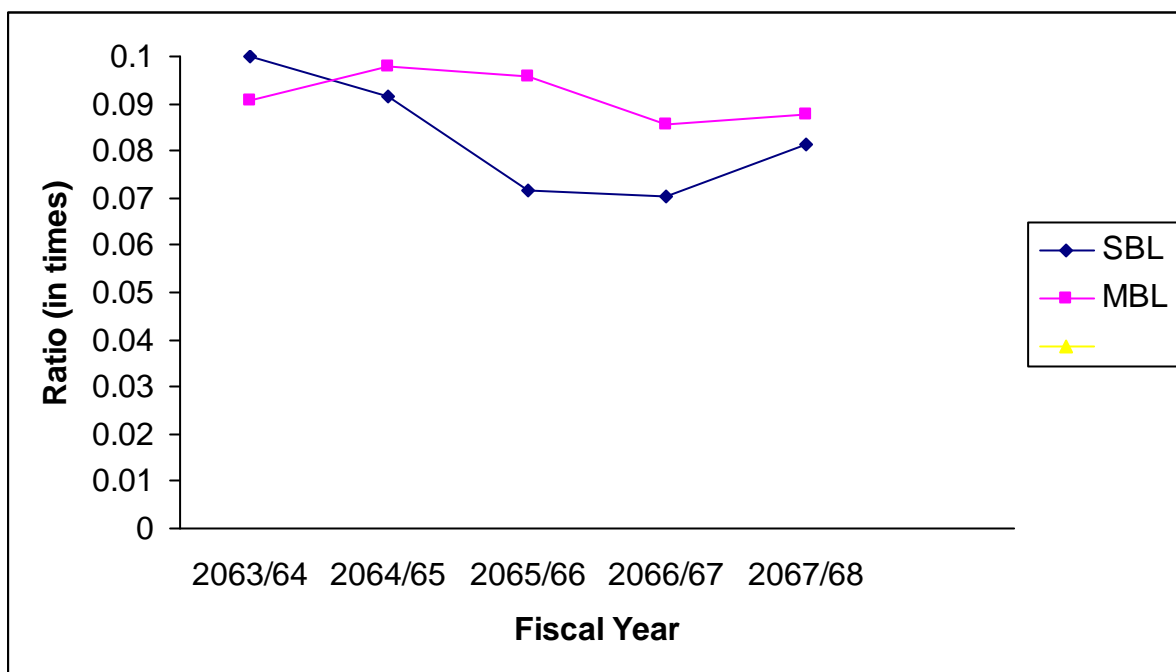
Banks						
Siddhartha Bank Limited				Machhapuchchhre Bank Limited		
Fiscal Year	Total Equity	Total Assets	Ratio (in times)	Total Equity	Total Assets	Ratio (in times)
2063/64	794	7955	0.10	988	10897	.0907
2064/65	1068	11669	.0915	1079	11009	.0980
2065/66	1279	17882	.0715	1669	17448	.0957
2066/67	1604	22802	.0704	1828	21337	.0857
2067/68	1988	24406	.0815	1774	20226	.0877
Mean			.0830			.0915
S. D.			.0114			.0047
C. V. (%)			13.79			4.98

Source: Annual Reports

Table 4.7 indicates that the control over total assets by shareholders' equity is high in MBL which is shown by higher mean ratio. The ratios of SBL has ranged between 0.10 (2063/64) to 0.0815 (2067/68) with mean ratio of 0.0830. The highest ratio is recorded in 2063/64 and lowest one in 2066/67. The ratios of both banks are in slope down trend. This means both banks' shareholders are loosing their control over firm's assets. But their may be high control over assets in coming days as the ratios has again increased in last F/Y2067/68 of both banks. Since MBL has less S. D. and C. V. (4.89 p.c.), it has more consistency in control aver assets than SBL.

The trend of shareholder's equity to total assets ratio can be presented as following figure:

Figure 4.7
Shareholder's Equity to Total Assets Ratio



4.1.1.4 Profitability Ratio

The ultimate output of a commercial bank is profit and it will have no future if it fails to make sufficient profit. So, the profit is the essential part of business activities to meet international obligation, overcome the future contingencies, make a good investment policy, expand the banking transactions etc.

Profitability ratios are the best indicators of overall efficiency. Here those ratios are presented and analyzed which are related with profit as well as fund mobilization, through the following ratios effort has been made to measure the profit earning capacity of SBL and MBL.

a) Interest Earned to Total Assets Ratio:

Interest earned to total assets ratio evaluates how successfully the selected banks are mobilizing their total assets to achieve high amount of interest. Higher the ratio indicates the higher interest income of sample banks.

The short explanation of interest earned to total assets ratio can be done as below:

Table- 4.8
Interest Earned to Total Assets Ratio

(Rs. in million)

Bank						
Siddhartha Bank Limited				Machhapuchchhre Bank Limited		
Fiscal Year	Interest Earned	Total Assets	Ratio (in times)	Interest Earned	Total Assets	Ratio (in times)
2063/64	114	7955	.0143	701	10897	.0643
2064/65	198	11669	.0170	158	11009	.0144
2065/66	306	17882	.0171	1042	17448	.0597
2066/67	482	22802	.0211	1691	21337	.0793
2067/68	730	24406	.0299	2080	20226	.1028
Mean			.0199			.0641
S D.			.006			.0291
C. V. (%)			27.44			45.31

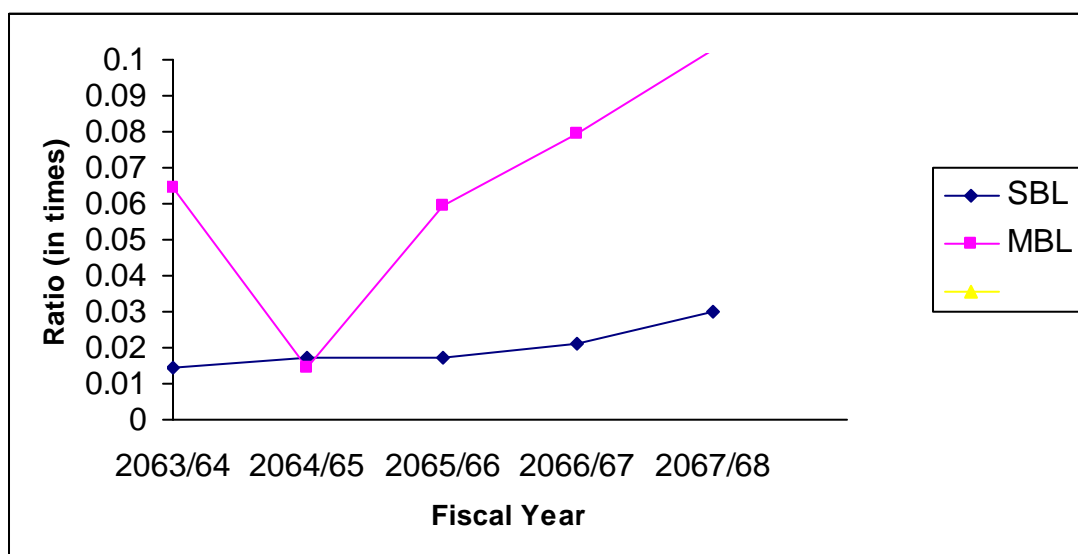
Source: Annual Reports

The given table reveals that both banks during study period. Despite the higher interest earned by MBL, it seems less conscious about managing its assets in order to earn more interest. The ratio of SBL is in increased order. But the ratio of MBL is some fluctuated trend. The average ratio of SBL and MBL is 0.0199 and 0.0641 respectively. It means the mean ratio of MBL is higher than of SBL. In comparison, MBL seems more effective in earning interest to some extent than that of SBL.

Moreover, MBL has also more inconstancy in the ratio during the study period. So, it can be concluded that MBL has successfully mobilized their fund in generating interest.

The trend of interest earned to total assets ratio of SBL and MBL is as below:

Figure 4.8
Interest Earned to Total Assets Ratio



b) Net Profit to Total Deposit Ratio

This ratio of commercial bank measures the degree of NPAT earned by using the total deposit. This ratio reveals how efficiently the management is utilizing its deposit in profit generating activities. This ratio is a mirror for bank's overall financial performance as well as its success in profit generation. The reason is that the deposits made by its customer's are the major source of earning of the commercial banks by efficiently and effectively utilization.

The following table presents the net profit to total deposit ratio of SBL and MBL.

Table- 4.9

Net Profit to Total Deposit Ratio (Rs.in million)

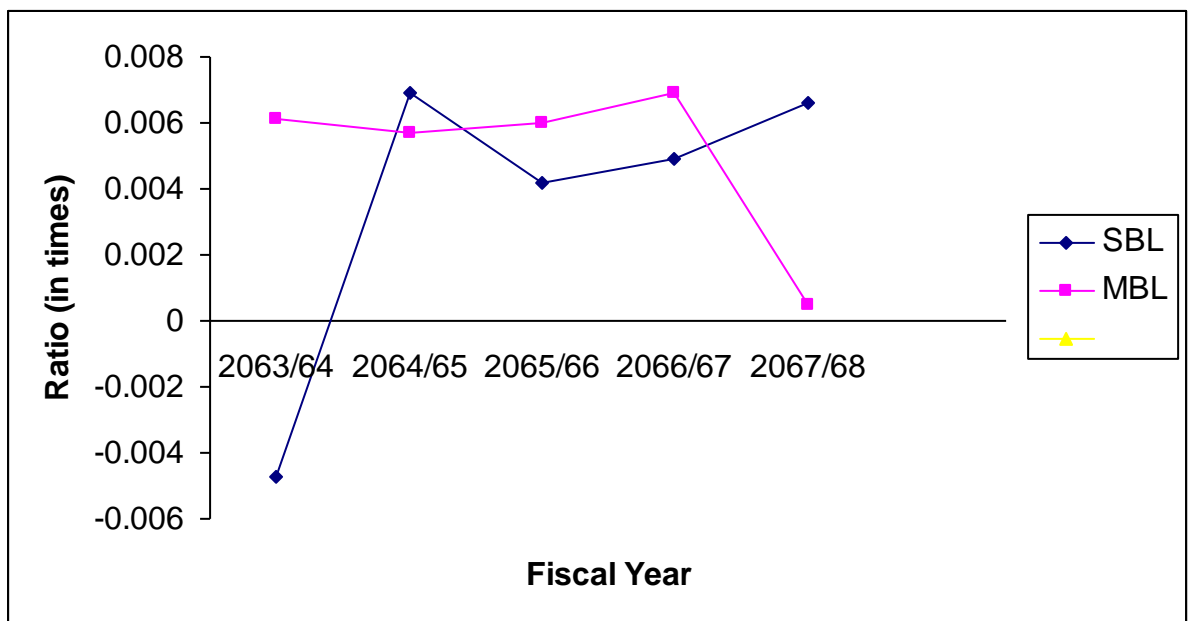
Bank						
Siddhartha Bank Limited				Machhapuchchhre Bank Limited		
Fiscal Year	Net Profit	Total Deposit	Ratio (in times)	Net Profit	Total Deposit	Ratio(in times)
2063/64	-31	6625	-0.0047	58	9475	0.0061
2064/65	70	10191	0.0069	54	9532	0.0057
2065/66	66	15855	0.0042	93	15596	0.0060
2066/67	98	20197	0.0049	128	18536	0.0069
2067/68	143	21576	0.0066	8	16000	0.0005
Means			0.0036			0.005
S. D.			0.0043			0
C.V. (%)			118.39			0

Source: Annual Reports

The given table reveals that the ratio of SBL is fluctuated type and is ranges from -0.0047 to 0.0066 with mean ratio 0.0036. Same way the ratio of MBL is also volatile as minimum ratio is 0.0005 and maximum one is 0.0069 with mean ratio 0.005. But the ratio of MBL is better than that of SBL. Since there is hundred percent consistency (i.e. 0 p. c.), however, both these banks are not at satisfactory level, due to which they are not optimally utilizing deposit and lowest interest loans extended.

The trend of net profit ratio of both commercial banks has been drawn below:

Figure 4.9
Net Profit to Total Deposit Ratio



C) Net Profit to Total Assets Ratio

Net profit to total assets ratio is a useful measurement of the profitability of all financial resources invested in the bank's assets. A firm has to earn satisfactory return on working funds for its survival. The following table shows the net profit to total assets ratio of sample bank.

Table 4.10
Net Profit to Total Assets Ratio

(Rs. in million)

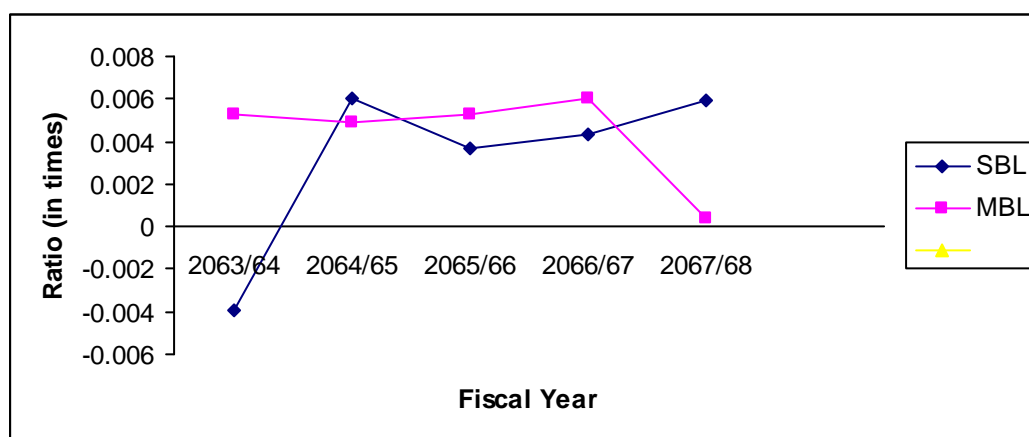
Banks						
Siddhartha Bank Limited				Machhapuchchhre Bank Limited		
Fiscal Year	Net Profit	Total Assets	Ratio (in times)	Net Profit	Total Assets	Ratio (in times)
2063/64	-31	7955	-0.0039	58	10897	0.0053
2064/65	70	11669	0.0060	54	11009	0.0049
2065/66	66	17882	0.0037	93	17448	0.0053
2066/67	98	22802	0.0043	128	21337	0.0060
2067/68	143	24406	0.0059	8	20226	0.0004
Means			0.0032			0.0044
S.D.			0.0037			0
C.V. (%)			114.39			0

Source: Annual Reports

Table 4.10 reveals that the ratios of both commercial banks are up sown nature. The ratio of SBL has ranged from -0.0039 to 0.006 during study period. Then the ratio of MBL also has ranged from 0.004 to 0.006 in same period. However, the MBL seems comparatively successful in managing and utilizing the available assets in order to generate revenue since its mean ratio is 0.0044 of total assets which is higher than that of SBL(i.e. $0.0044 > 0.0032$). Whereas S. D. And C.V. of SBL and MBL are 0.0037, 0 and 114.39, 0 respectively which tells us that MBL has fully consistency but the situation of SBL is opposite. The trend of net profit to total assets can be drawn as below:

Figure 4.10

Net Profit to Total Assets Ratio



d) Net profit to Net Worth Ratio

Equity capital of any bank is its own capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and thereby, maximizing return on its equity capital. Return on equity plays the measuring role of profitability of a bank. It reflects the extent to which the bank has been successful to mobilize its equity capital. A high ratio indicates higher successful to mobilize its owned capital and vice versa. The following table explains more about net profit to net worth ratio during the study period.

Table 4.11
Net Profit to Net Worth Ratio

(Rs. in million)

Bank						
Siddhartha Bank Limited				Machhapuchchhre Bank Limited		
Fiscal Year	Net Profit	Net Worth	Ratio(in times)	Net Profit	Net Worth	Ratio (in times)
2063/64	-31	794	-0.039	58	988	0.0587
2064/65	70	1068	0.066	54	1079	0.0501
2065/66	66	1279	0.052	93	1669	0.0557
2066/67	98	1604	0.0611	128	1828	0.0700
2067/68	143	1988	0.072	8	1774	0.0045
Mean			0.0422			0.0478
S. D.			0.04123			0.0226
C.V. (%)			97.71			47.28

Source: Annual Reports

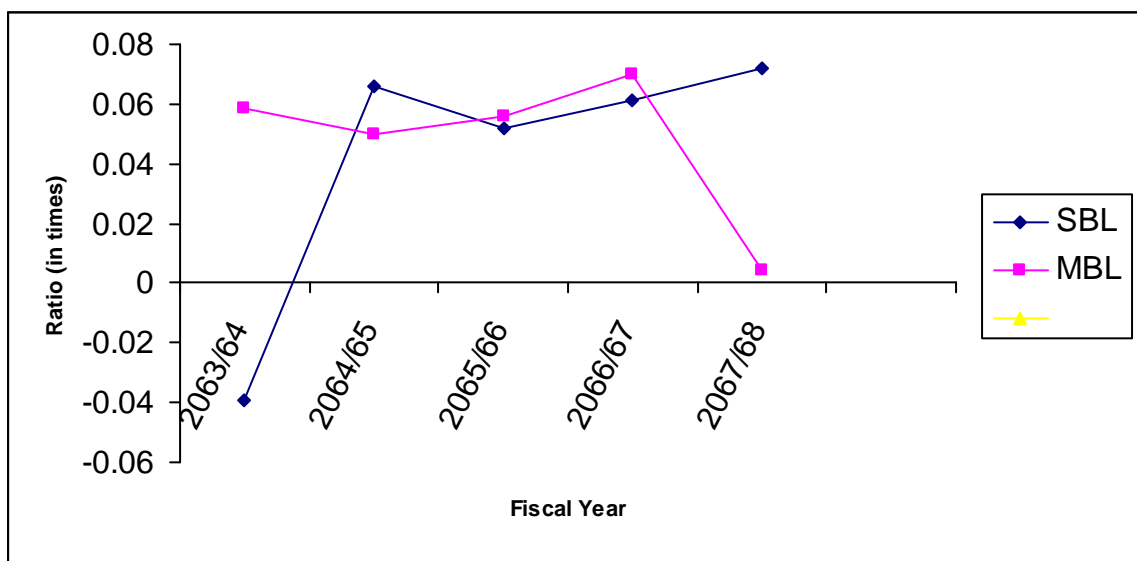
Table 4.11 indicates that the ratio of SBL has ranged from -0.039 (2063/64) to 0.072 (2067/68) with average ratio of 0.0422. But the ratio of MBL is of fluctuated nature which is highest (i.e. 0.07) in F/Y 2066/67 and lowest point is 0.0045 in F/Y 20567/68 with average ratio of 0.0478.

It means MBL is generating higher profit in comparison to SBL (i.e. $0.0478 > 0.0422$). In other words the shareholders of MBL are getting higher return than SBL. It proves to be a good strength of MBL in attracting future investment also; While SBL shows its weakness regarding efficient utilization of its owner's equity in comparison to MBL. SBL has homogeneous return in

each year except F/Y 2063/64 which is its strength point. Moreover the risk of MBL is also less than SBL. In other words, there seems more consistency if MBL comparing to SBL i.e. the S. D. and C. V. of MBL is less than SBL (0.0226<0.04123 and 47.23 %< 97.71%).

The trend line of net profit to net worth ratio can be drawn as below:

Figure 4.11
Net Profit to Net Worth Ratio



e) Net Operating Profit to Total Assets Ratio

Net operating profit is the result of any bank’s whole year activities. So, it should be positive to throw the prestigious dust of the bank. So, the bank can fulfill the required provisions or distribute bonus or dividend only in case of positive sign of this profit. In other hand the financial result of any institution is published by spelling the operating profit.

Here the net operating profit to total assets ratio has been explained as under:

Table 4.12
Net Operating Profit to Total Assets Ratio

(Rs in million)

Banks						
Siddhartha Bank Limited				Machhapuchchhre Bank Limited		
Fiscal Year	Net Operating Profit	Total Assets	Ratio (in times)	Net Operating Profit	Total Assets	Ratio (in times)
2063/64	48	7955	0.0060	90	10897	0.0083
2064/65	78	11669	0.0067	-13	11009	-0.0012
2065/66	110	17882	0.0062	147	17448	0.0084
2066/67	173	22802	0.0076	131	21337	0.0061
2067/68	287	24406	0.0118	-86	20226	-0.0043
Means			0.0076			0.0035
S. D.			0.0021			0.0052
C.V.(%)			26.97			1488.57

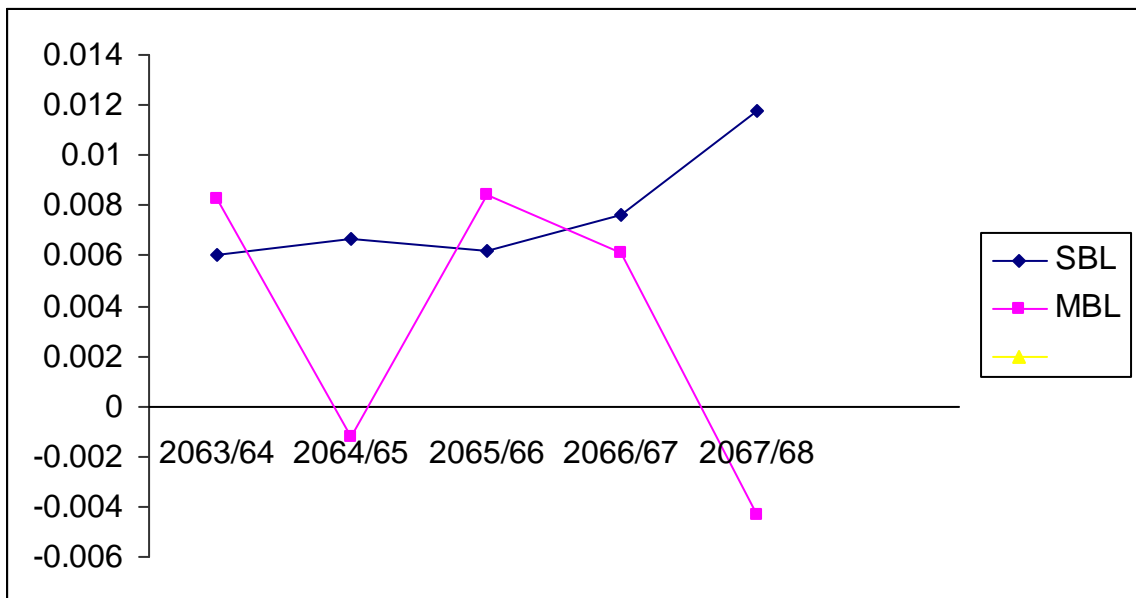
Source: Annual Reports

The table says that the ratio of both banks is in fluctuation trend. And comparatively the ratio of SBL is stable. But the ratio of MBL is very instable. Even it has gone to minus digit. The highest ratio of SBL is in F/Y 2067/68 (i.e. 0.0118) and lowest one (i.e. 0.0060) is in f/Y 2063/64. The highest ratio of MBL is in 2065/66 (0.0084) and lowest one is in 2067/68 (i.e. 0.0043).

So, the net operating profit to total assets ratio of SBL is better than MBL and the consistency of SBL is also higher than of MBL as the both S. D. and C. V. of SBL is lower than that of MBL (i.e. $0.0021 < 0.0052$ and $26.97 \text{ p. c. } < 148.57 \text{ p. c.}$).

The trend line of net operating profit to total assets ratio of both banks can be drawn as:

Figure 4.12



4.1.1.4 Other Ratios:

There are several other widely used ratios relating to the financial aspect of these two banks although various ratios have been calculated and analyzed for the sake of completeness, some other indicators have also been in this section.

a) Earning Per Share (EPS)

Earning per share measures the efficiency of a firm in a relative term. It is a widely used ratio which measures the profit available to ordinary shareholders on per share basis. EPS calculation made over years indicates whether the bank's earning power on per share basis has changed over that period or not but it does not reflect how much is paid as dividend and how much is retained in the business. The EPS of SBL and MBL has been compared as below:

Table 4.13

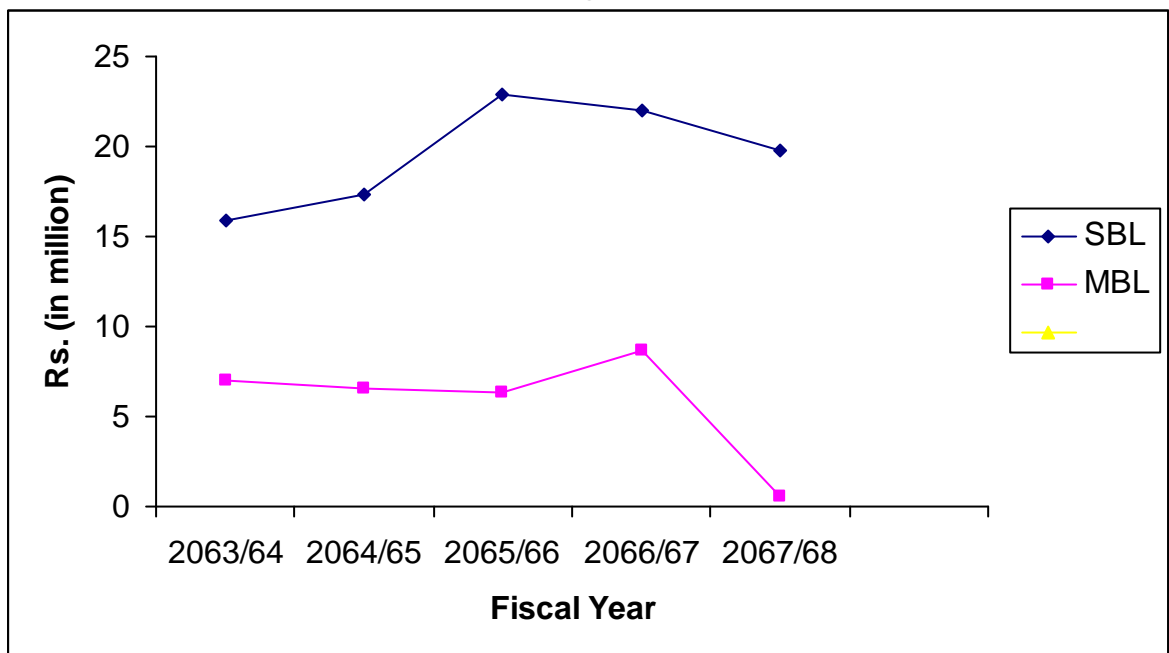
Earning Per Share						(Rs. in million)		
Banks	2063/64	2064/65	2065/66	2066/67	2067/68	Mean	S. D.	C.V. (%)
SBL	15.88	17.29	22.89	21.99	19.82	19.57	2.68	13.67
MBL	7.05	6.56	6.28	8.66	.51	5.812	2.78	47.75

Source: Annual Reports

The given table reveals that the ratio of sample banks is some fluctuated nature over the study period. The ratio of SBL has ranged from 15.88 (F/Y 2063/64) to 22.89 (F/Y 2065/66). Same way the ratio of MBL has ranged in fluctuated nature from 0.51 (F/Y 2067/68) to 8.66 (F/Y 2066/67) with average ratio 5.812. This means the mean ratio of SBL is higher than MBL i.e. $19.57 > 5.812$. Similarly SBL has more consistency with C. V. of 13.67 p. c. whereas 47.75 p.c. is of MBL. IT shows that SBL has better signal from the viewpoint of investors.

However, EPS does not reveal how much amount out of the earning is paid to the owners as dividend or how much of the earning are retained in firm. The trend of EPS of SBL and MBL can be presented below:

Figure- 4.13
Earning Per Share



b) Price Earning Ratio (P/E Ratio)

This ratio is widely used by the securities analyst value the firm’s performance as accepted by investors. It indicates investor’s judgment for firm’s performance. It also reflects the investor’s expectation about the growth in the firm’s earning here, the price earning ratio of sample bank can be explained as below:

Table 4.14

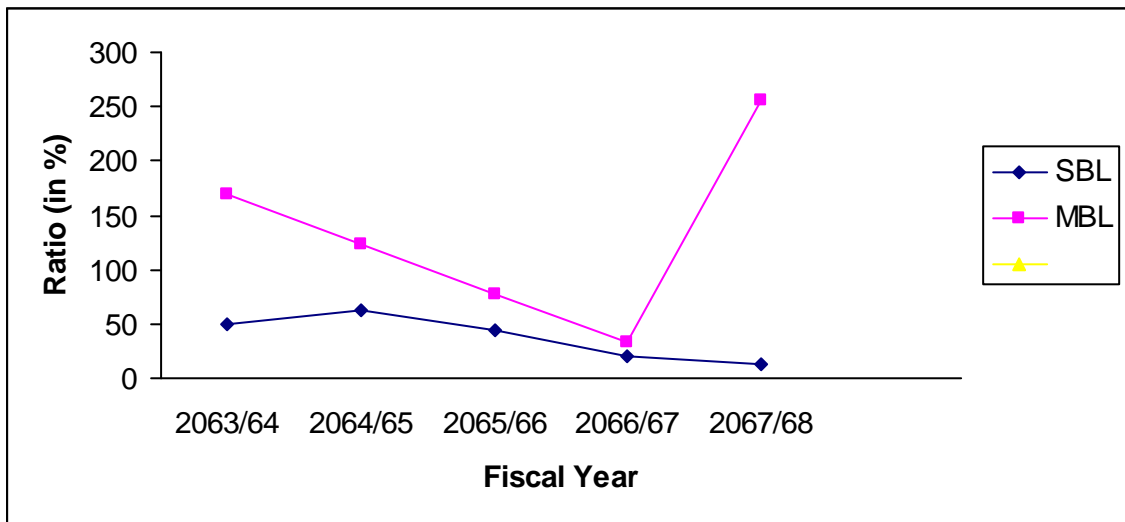
Price Earning Ratio						(Ratio in %)		
Banks	2063/64	2064/65	2065/66	2066/67	2067/68	Mean	S. D.	C.V. (%)
SBL	48.98	63.04	43.70	20.19	13.62	37.91	18.3939	48.52
MBL	170.21	124.19	77.83	32.58	256.72	132.31	77.32	58.44

Source: Annual Reports

Table 14 reveals that the ratio of SBL has ranged between 13.62 (F/Y 2064/65) with average one of 37.91. Likewise the ratio of MBL has ranged between 32.58 (F/Y 2066/67 and 256.72 (2067/68) with average one of 132.31. here the mean ratio of MBL is higher than of SBL one. But there is also high inconsistency in earning of MBL as S. D. and C. V. is 77.32 and 58.44 p.c. respectively.

The trend line of price earning ratio of SBL and MBL can be presented as below:

Figure 4.14
Price Earning Ratio



4.2 Trend Analysis and Projection for Next five Years

Trend analysis is also one of the statistical tools used for the forecasting. There are different techniques used for trend analysis. Out of which least square method is one of the popular methods used in this study.

Trend analysis informs every stakeholder. For borrowers, it assures about the financial capability of the bank to furnish their loans and advances on future provided that the present trend will continue. For depositors it provides degree of safety in the form of financial credit worthiness of the bank in future. For professional bankers, it indicates the future achievement of the bank. For shareholders, it informs about the expected future returns, which helps them to decide whether to stick in the present investment opportunities last but not the least, for academicians who relate their theoretical growth rate factor with the practical financial results of selected commercial banks in different trends.

In this section, this study analyses the trend of some basic financial indicators i.e. net profit, total deposit, net interest earned, dividend per share and loans and advances.

Since for any bank these indicators are very crucial financial variables with which we can relate the financial performance. These indicators have been chosen from the trend of previous five year period and the expected future results for the period of five years have been calculated and analyzed which will be helpful to the various parties concerned with bank. Lastly, the summery of the comparative financial trends of the two selected commercial banks have been presented in such a manner so as the readers know which of the banks is expected to perform better in coming time.

The projections are based on the following assumptions:

- The main assumption is that *ceteris paribus*.
- The banks will be running in present position.
- The economy will remain in the current stage.
- Nepal Rastra Bank will not change its guidelines to commercial banks.
- The forecast will be true only when the limitation of least square method is carried out.

a) Trend Analysis of Net Profit

Here the value of net profit of SBL and MBL has been calculated for five years (i.e. F/Y 2063/64 to 2067/68) and forecasting for the next five years will be from 2068/69 to 2072/73.

Here, $Y = a + b x$

Where,

Y = dependent variable,

a = intercept,

b = slope of the trend line (annual growth) rate)

x = independent variable

Let, trend line be,

$$Y = a + b x \quad \dots\dots\dots (I)$$

Where, $x = X$ -middle year

And $a = \frac{\sum y}{n}$, $b = \frac{\sum x y}{\sum x^2}$

SBL

$a = 69.2$

$b = 37.6$

$Y = 69.2 + 37.6 \times \text{SBL}$

MBL

$a = 68.2$

$b = 9.8$

$Y = 68.2 + 9.8 \times \text{MBL}$

Table 4.15
Trend of Net Profit of SBL and MBL

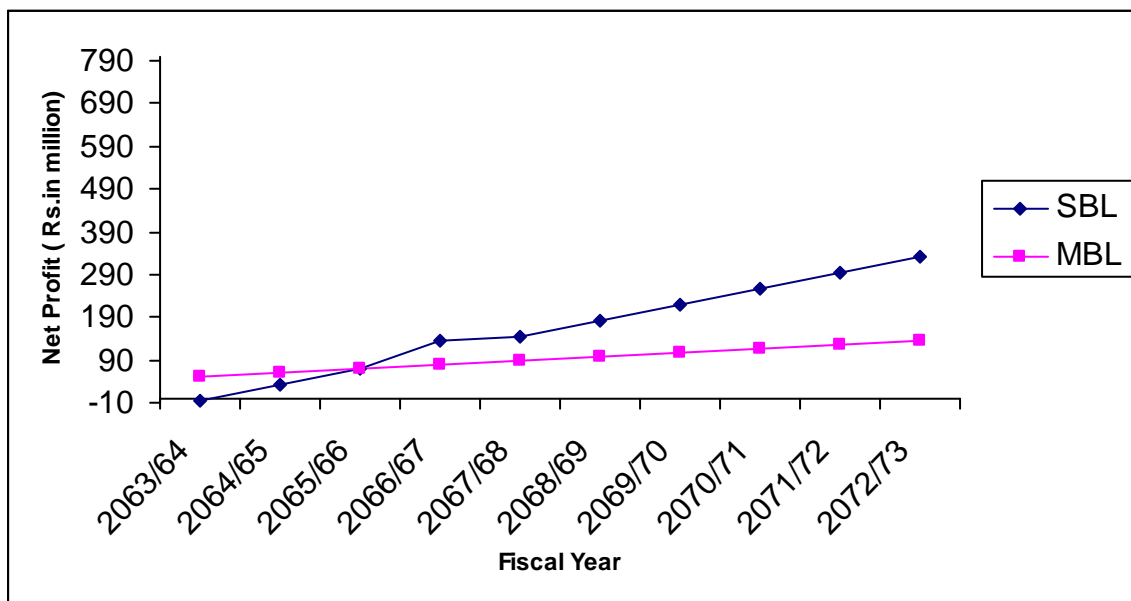
Fiscal Year	Trend of Net Profit of SBL	Trend of Net Profit of MBL
2063/64	-6.00	48.60
2064/65	31.60	58.40
2065/66	69.20	68.20
2066/67	136.8	78.00
2067/68	144.40	87.80
2068/69	182.00	97.60
2069/70	219.60	107.40
2070/71	257.20	117.20
2071/72	294.80	127.00
2072/73	332.40	136.80

Source: Appendix I

From the table mentioned above, it is clear that net profit of both commercial banks is in increasing trend. The net profit of SBL will be the highest Rs. 332.40 million (F/Y 2072/73) if other things remain constant. Likewise the highest net profit of MBL also will be (F/Y 2072/ 73) Rs. 136.80. The net profit in volume is greater of SBL than MBL due to average profit per year being greater. So, it can be concluded that, if this trend continues, the profit difference between these banks will be more and more. The success to achieve this highly competitive growth rate can be attributed to its aggressiveness in advancing credits to various sectors by diversifying its business to various parts of the country. Hence, we can draw a conclusion that MBL seems to have failed to utilize its funds to earn handsome amount of profit in comparison to SBL.

The above trend values have been fitted in the trend line as below:

Figure 4.15
Trend of Net Profit of SBL and MBL



b) Trend Analysis of Total Deposit

Here the trend values of total deposit of both commercial banks have been calculated for five years for 2063/64 to 2067/68. The forecast for next five years till 2072/73 also has been done.

$$Y = a + b x$$

Where,

- Y = dependent variable,
- A = y- intercept
- B = slope of trend line
- X = independent variable

Let, trend line be,

$$Y = a + b x \quad \dots\dots\dots (I)$$

Where, $x = X - \text{middle year}$

Here,

$$a = \frac{\sum y}{n}, \quad b = \frac{\sum xy}{\sum x^2}$$

SBL

$$a = 14888.8$$

$$b = 3990.8$$

$$Y = 14888.8 + 3990.8 \times \text{SBL}$$

MBL

$$a = 13910$$

$$b = 2287.60$$

$$y = 13910 + 2287.60 \times \text{MBL}$$

Table 4.16
Trend of Total Deposit of SBL and MBL

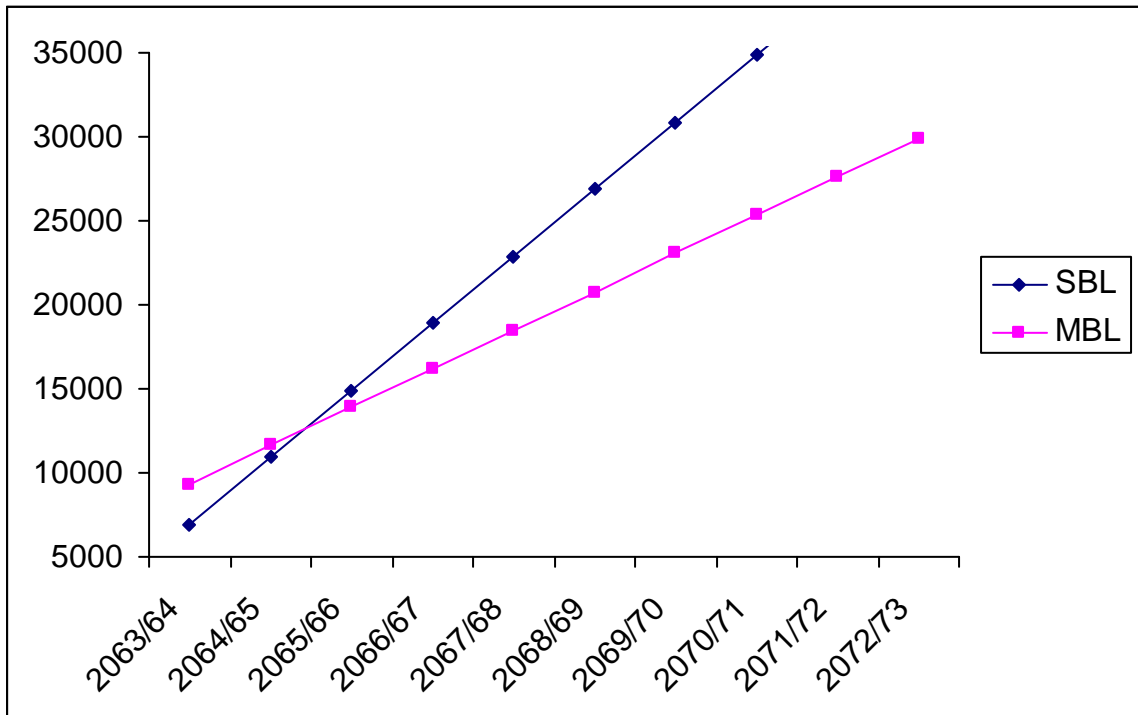
(Rs. in million)		
Fiscal Year	Trend of Total Deposit of SBL	Trend of Total Deposit of MBL
2063/64	6907.20	9334.80
2064/65	10898.00	11622.40
2065/66	14888.80	13910
2066/67	18879.60	16197.60
2067/68	22870.40	18485.20
2068/69	26861.20	20772.80
2069/70	30852.00	23060.40
2070/71	34842.80	25548.00
2071/72	38833.60	27635.60
2072/73	42824.40	29923.20

Source: Appendix II

Table 4.16 reveals that total deposits of both banks is in increasing trend. The highest one of SBL is Rs. 42824.40 in 2072/73 and Rs. 29923.20 of MBL in same year. Thus, it is clear that SBL's collection of deposit in terms of total deposit is better than of MBL during forecasting period.

The above calculated trend values of total deposit of sample banks can be fitted as below:

Figure 4.16
Trend of Total Deposit of SBL and MBL



c) Trend Analysis of Loans and Advances

Here the researcher now starts the trend analysis by analyzing the loans and advances of sample banks.

The following table shows that trend values of ten years from F/Y 2063/64 to F/Y 2072/73 of concerned banks.

Let the trend values of loans and advances of two banks from 2063/64 to 2072/73 are;

$$Y = a + b x$$

Where,

- y= dependent variable,
- a = y-intercept,
- b = slope of trend line or annual growth rate,
- x = independent variable

Let, trend line be,

$$Y = a + b x \quad \dots\dots\dots (I)$$

Where, $x = X$ -middle year

Here,

$$a = \frac{y}{n}, \quad b = \frac{\sum xy}{\sum x^2}$$

SBL

MBL

$$a = 12785.20$$

$$a = 11367$$

$$b = 3164$$

$$b = 2267.40$$

$$Y = 12785.20 + 3164 \times \text{SBL}$$

$$Y = 11367 + 2267.40 \times \text{MBL}$$

Table 4.17
Trend of Loans and Advances of SBL and MBL

(Rs. in million)		
Fiscal Year	Trend of Loans and Advances of SBL	Trend of Loans and Advances of MBL
2063/64	6457.20	6832.20
2064/65	9621.20	9099.60
2065/66	12785.20	11367.00
2066/67	15949.20	13634.40
2067/68	19113.20	15901.80
2068/69	22277.20	18169.20
2069/70	25441.20	20436.60
2070/71	28605.20	22704
2071/72	31769.20	24971.4
2072/73	34933.20	27238.80

Source: Appendix-III

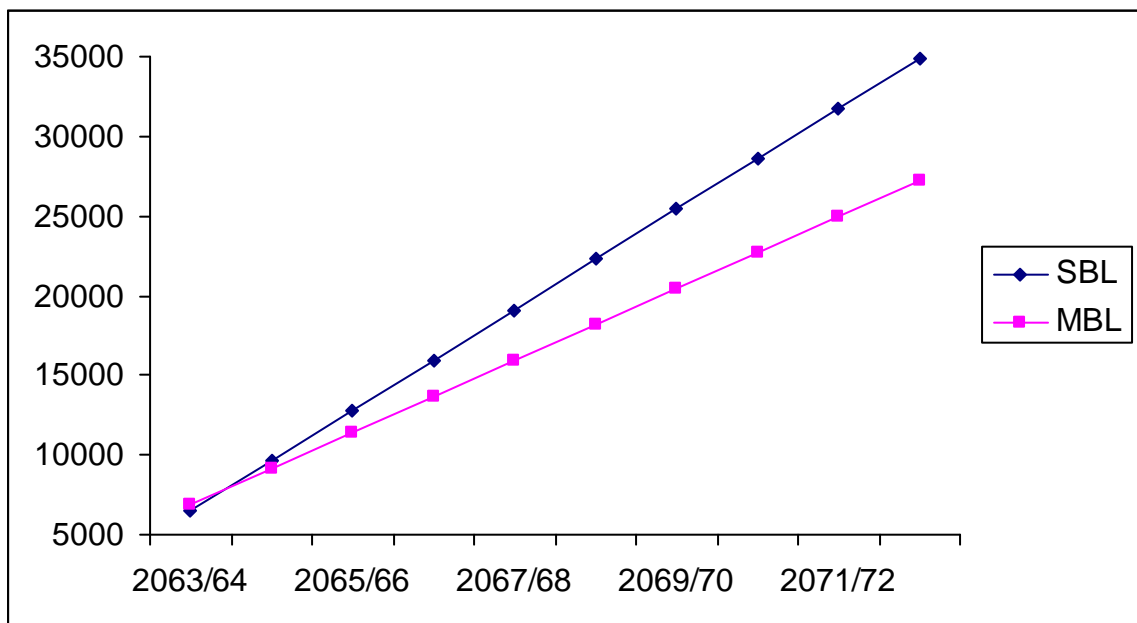
The above comparative table clarifies that the loans and advances of both sample banks SBL and MBL are in increasing trend. The highest loans and advances of SBL and MBL is Rs. 34933.20 and Rs. 27238.80 in last study period i.e. 2072/73.

From this analysis it seems clear that SBL's utilization of deposits in term of loans and advances is comparatively better than that of MBL. It proves that SBL is very aggressive in mobilizing its collected deposit to earn a huge return than MBL. But it does not guarantee the quality return on loans as the

evaluation of credit worthiness of the customers is the prime factor to make credit decision with the easily realizable collateral. There is the need of similar growth in deposit position as well to keep up with the growth rate in loans and advances.

The above given trend values also can be fitted in the trend line as below:

Figure 4.17
Trend value of loans and advances of SBL and MBL



d) Trend analysis of investment

Under this topic, an attempt has been made to analyze trend analysis of sample banks' investment for forthcoming five years.

$$Y = a + b x$$

Where,

y = dependent variable

a = y – intercept

b = slope of trend line or annual growth rate

x = deviation from some convenient time period

Let, trend line be,

$$Y = a + b x \quad \dots\dots\dots (I)$$

Where,

x = X-middle year

Here,

$$a = \frac{y}{n}, \quad b = \frac{x y}{x^2}$$

SBL

MBL

$$a = 1836.40$$

$$a = 1440.60$$

$$b = 464.90$$

$$b = 119.40$$

$$Y = 1836.40 + 464.90 \times \text{SBL}$$

$$Y = 1440.60 + 119.40 \times \text{MBL}$$

Table 4.18
Trend of Investment of SBL and MBL

(Rs. In million)

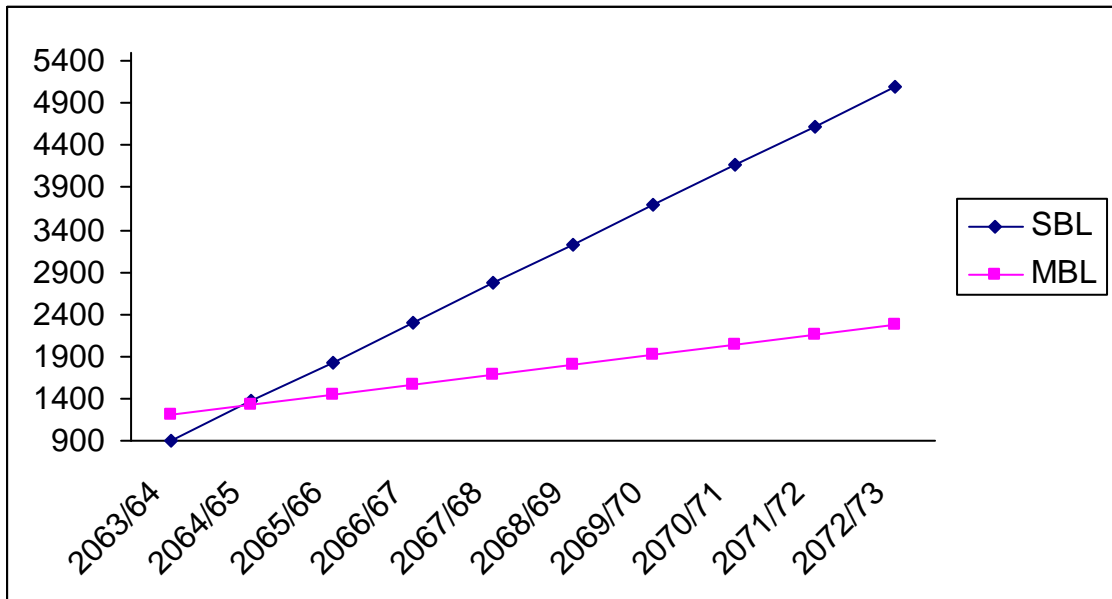
Fiscal Year	Trend of Investment of SBL	Trend of Investment of MBL
2063/64	906.60	1201.80
2064/65	1371.5	1321.20
2065/66	1836.40	1440.60
2066/67	2301.30	1560.60
2067/68	2766.20	1679.40
2068/69	3231.10	1798.80
2069/70	3696.00	1918.20
2070/71	4160.90	2037.60
2071/72	4625.80	2157.00
2072/73	5090.70	2276.40

Source: Appendix-IV

The above table reveals the trend of investment between SBL and MBL. Both banks have increasing trend in making investment. SBL has higher trend of increasing.

But MBL has moderately increasing trend of total investment. The trend of total investments projected to F/Y 2072/73. The forecasted trend projected that the SBL has greater increment rate in total investment than the increment rate of MBL. The following figure also proves that SBL has highly mobilized investment rather than MBL.

Figure 4.18
Trend of Investment of SBL and MBL



e) Trend Analysis of Non-Performances Assets:

Here, the trend value of non-performance assets of two commercial banks has been calculated for five years from 2063/64 to 2067/68. The forecast for next five years till 2072/73 also has been done.

Let the trend value of non-performance assets of two banks from 2063/64 to 2072/73 be;

Here, $Y = a + b x$

Where,

- y= dependent variable,
- a = y-intercept,
- b = slope of trend line or annual growth rate,
- x = independent variable

Let, trend line be,

$$Y = a + b x \quad \dots\dots\dots (I)$$

Where, $x = X - \text{middle year}$

Here,

$$a = \frac{\sum y}{n} \qquad b = \frac{\sum xy}{\sum x^2}$$

SBL

$a = 0.56$

$b = 0.074$

$Y = 0.56 + 0.074 \times \text{SBL}$

MBL

$a = 2.642$

$b = 0.354$

$Y = 2.642 + 0.354 \times \text{MBL}$

Table 4.19
Trend of Non-Performance Assets of SBL and MBL

(Rs. in million)

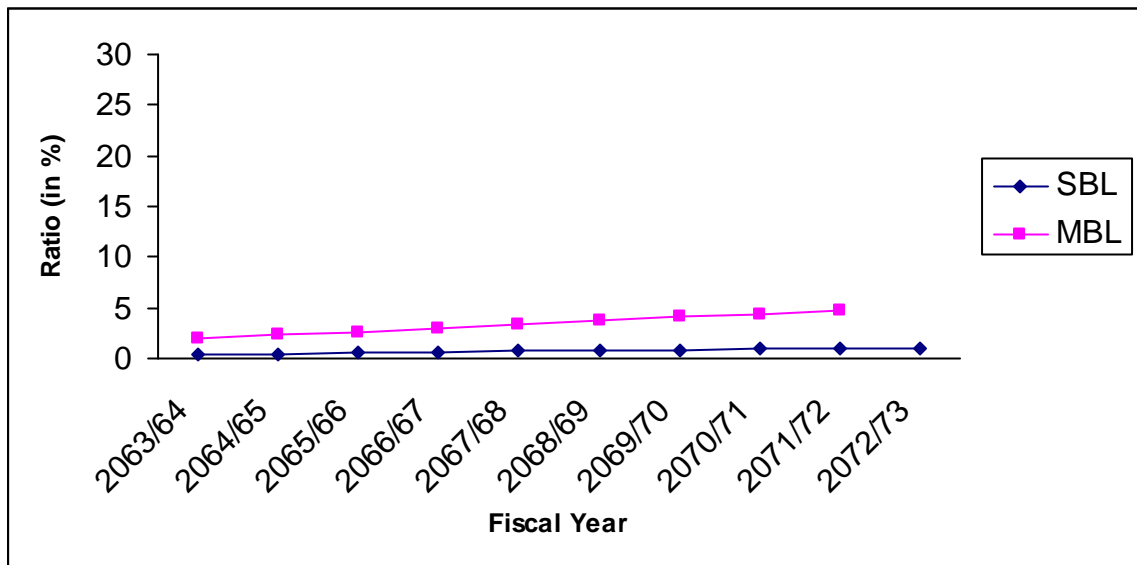
Fiscal Year	Trend of NPA of SBL	Trend of NPA of MBL
2063/64	0.412	1.934
2064/65	0.486	2.288
2065/66	0.560	2.642
2066/67	0.634	2.996
2067/68	0.708	3.350
2068/69	0.782	3.704
2069/70	0.856	4.058
2070/71	0.930	4.412
2071/72	1.004	4.766
2072/73	1.078	5.120

Source: Appendix-V

The table 4.19 reveals that SBL's non-performance assets has been in increasing trend. Other thing remaining the same, the non-performance assets of SBL in 2072/73 will be highest i.e. Rs. 1.078 million. Same way the non-performance assets of MBL is also in increasing trend and highest one is in in F/Y 2072/73 (i.e. 5.120 million) which is the highest amount during the study period.

Thus from above data, it can be concluded that there is a positive growth in NPA of both banks. The growth rate of SBL is Rs. 74 thousand and Rs. 354 thousand of MBL per annum. Both the banks should take the action to reduce their increasing trend of NPA. Otherwise both of them may have to bear the problem of bad debts.

Figure 4.19
Trend value of NPA of SBL and MBL



4.3 Major Findings of the study

4.3.1 Financial Analysis:

i) Liquidity Ratio:

The main findings of the study are carried out on the basis of the analysis of financial data of two commercial banks are as below:

- a) Generally a bank has to maintain more liquid assets but the current ratio of both banks are below the standard of 1:1. The mean current ratio of SBL is 0.972 and MBL is 0.95. The current ratio of SBL is little higher than MBL. It indicates better liquidity position of SBL.
- b) The cash and bank balance to total deposit ratio of SBL is lower than MBL i.e. $0.0852 < 0.1521$. It indicates that SBL has lower liquidity than MBL. A high ratio of cash and bank balance may be undesirable which indicates inability to invest in more productive sectors like short-term marketable securities ensuring enough liquidity which will help the bank to improve its profitability.

- c) Cash and bank balance to current assets ratio of SBL is lower than MBL i.e. $0.0858 < 0.1517$. Regarding the analysis, it can be said that SBL has worse ability to meet daily cash requirements of their customers. But it should be noted that SBL has less cash due to high investment opportunities.

ii) Assets Management Ratio

A commercial bank must be able to manage its assets very well to earn high profit, satisfy customers and for own existence. So, the assets management ratio of SBL and MBL shows the following findings:

- a) The loans and advances to total deposit ratio of SBL is higher than MBL $0.8746 > 0.8141$. It denotes the worse mobilization of deposit by SBL. So, SBL is inefficiently utilizing the outsiders' fund in extending credit for profit generating sectors than MBL.

iii) Leverage Ratio

A commercial bank's risk depends on its capital structure. Here the following finding has been drawn from the view point of long term solvency position of SBL and MBL.

- a) The debt-equity ratio of SBL is greater than MBL. But, the variability is less than MBL. So, SBL has used fair combination of debt and equity which can produce high return to its shareholders than MBL.
- b) The debt assets ratio of SBL is lower than MBL. So, the SBL seems safer than MBL with the view point of creditors' side. Similarly, the risk of SBL is also consistent.
- c) The shareholders' equity to total assets of SBL is less than MBL. So, the owners' control over assets of SBL is weaker than MBL one and there also seems more inconsistency in controlling.

iv) Profitability Ratio

The major performance indicator of any bank is profit. Following findings have been drawn on the basis of profitability position of SBL and MBL.

- a) Interest earned to total assets ratio of SBL is lower than MBL and also lesser variability in the ratio.

It reveals that MBL has been efficiently using its assets to earn higher interest income in comparison to SBL. The SBL is not so conscious to managing its assets in order to earn more interest ratio.

- b) Net profit to total deposit ratio of SBL is lower than MBL. It says that SBL has become unable to do efficient utilization of total deposit in comparison to MBL. There is also more inconsistency in profit earning of SBL.

- c) The net profit to total assets ratio of SBL is also lesser than MBL. So, the MBL seems more successful to manage and utilize its available assets in order to generate revenue. Its variability is also neutral (i.e. 0).

- d) Net profit to net worth ratio of SBL is lower than MBL i.e. $0.0422 < 0.0478$ which shows that MBL is more successful to earn high profit through the efficient utilization of its equity capital.

- e) There is higher net operating profit to total assets ratio of SBL in comparison to MBL. There is also more consistency in generating the profit of SBL than MBL.

The overall findings of profit ability ratios show that MBL has been using more successfully its sources in comparison to SBL. But due to higher inconsistency its overall net operating profit during study period seems less than SBL.

v) Other Ratio

From the above study, the following findings also can be drawn out of commercial banks during study period:

- a) Average earning per share of SBL is higher than that of MBL i.e. $19.57 > 5.812$. It means SBL is efficiently using its resources to get more earning per share and it seems quite successful by generating higher EPS in each year. There is also more consistency in EPS than MBL's one.
- b) The mean price earning ratio of SBL is lower than MBL i.e. $37.91 < 132.31$. It denotes that for getting Rs. 1 as earning one should invest Rs. 37.91 in SBL and Rs. 132.31 in MBL. Looking the mean ratio we conclude that, in short run, the investors of MBL are getting better profitability because they are selling their shares in high price. Since EPS of SBL is lower than MBL, it suggests shareholders to sell their stocks to get high income from the share of MBL.

4.3.2 Trend Analysis

The following findings can be drawn out on the basis of time series analysis:

- a) The trend line of net profit of SBL and MBL is upward sloping. But SBL has aggressively and MBL has smoothly. The position of SBL is better in order to generate profit than MBL.
- b) The trend line of total deposit of both banks is upward sloping. It reveals that total deposit of SBL seems highly growing than MBL. It refers that SBL has become more successful to collect deposit.
- c) The trend line of loans and advances for both banks is upward sloping. It reveals that loans and advances of SBL seems highly growing than MBL. It refers that SBL is more aggressive in mobilizing its loans and advances.
- d) The trend line of investment for SBL and MBL is upward sloping and MBL one's smoothly. It refers that SBL has better increasing trend of investment than MBL.
- e) The trend of non-performance assets of both banks is increasing. But the increasing rate of MBL is higher than SBL. So, it can be concluded that the NPA of MBL will be more than SBL one's.

Above analysis reveals that both banks have well ratios except earning per ratio of MBL is negative growth. Other trends of both banks are increasing trend. Here the every ratio of SBL is higher than MBL. It indicates better performance of SBL rather than MBL.

CHAPTER-V

Summary, Conclusion and Recommendations

This unit contains three sections. The first section provides the brief summary of the study. The second demonstrates the conclusion of the study and third one includes recommendation.

5.1 Summary

Economic development is essential for the development of the country. For this it is required to transform savings into actual investment. Economic development is supported by the financial infrastructure of the country. The financial institutions transfer funds from surplus spending units to deficit units.

The fundamental function of financial institutions is to mobilize the saving of the community and ensure efficient allocation of the savings to high yielding investment projects of offering attractive and secured returns to different sectors of the economy according to the planned priorities to the country. On the other hands, this process of financial institutions gives rise to the money and other financial assets which therefore have a central place in the development process of the economy. Banking sector plays an important role in the economic development of the country. It provides an effective payment and credit system, which facilitates the channeling of funds from the surplus units (savers) to the deficit units (investors) in the economy.

In most years, banks are the leading buyers of bonds and notes issued by the government to finance public facilities, ranging from hospitals and football stadium to airport and highways. Moreover, banks reserve the principal channel for government economic policy to stabilize the economy. Banks are also the most important sources of short-term working capital needed for the business. They have increasingly become active in recent years in making long-term business loans for new plants and machinery. When business and consumers must make payment for the purchase of goods and services, more often they use bank provided cheques, debit or credit cards or electronic accounts

connected to a computer network. It is the banker, to whom they turn most frequently for advice and counsel when they need financial information and financial planning.

Every bank always puts in effort to maximize its profitability. The profit is excess of revenue over expenditures to maximize profit. The major source of revenue of a bank is interest from loans, investments and fee based proceeds. As loan and advances dominate the asset side of the balance sheet of any bank, earnings from such loans and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the shrinkage in the value of loans and advances. Hence, loans are known as risky assets and investment operation of commercial banks is a very risky one. Risk of non-performing loans erodes even existing capital considering. The importance of lending to the individual banks and also to the society it serves, it is imperative that the bank meticulously plans its credit operations.

The major problems in almost all underdeveloped countries are capital formation and proper utilization. In such countries, the commercial banks have to bear more responsibilities and acts as development bank due to the lack of other specialized institutions.

Commercial banks in the developing countries like Nepal have the greatest responsibility towards the economic development of the country. In modern times, since credit or bank money constitutes bulk is the economy's aggregate money supply, it mostly changes the volume of the bank money or credit rather than changes in the total supply of the high-powered money issued by the reserves held by the bank against their deposit liabilities that account for the changes in the aggregated money supply. The main goal of commercial bank is to maximize the surplus by the efficient use of its funds and resources. In spite of being a commercial institution, it has a responsibility to provide social

service oriented contribution for the social economic upliftment of the country by providing specially considered loans and advances towards less privileged sector.

A bank's marketing starts with a proper relationship with customers either to attract savings or for the loans disbursement. Both the depositors and the creditors are customers of the bank. A bank offers various products for deposit mobilization and disburses the credit products as per the portfolio management. Customers as per their need purchase different type of product offered in the market. Deposit products offered to the customers are categorized into general products and special products, and credit products can be bifurcated into fund based products and non-fund based products. The fund based products in practice are developed from the credit products generally known as overdraft, working capital loan, term loan, bill purchase or negotiation, export and import bills, import/trust receipt loan, export credit, loan against fixed deposit receipt, loan, export credit, loan against fixed deposit receipt, loan against shares, loan against securities, and loan against bank guarantee and deprived sector loan. The term loan used in practice generally addresses short-term loan, medium term loan and long term loan to be advanced in various forms such as housing loan, hire purchase loan and bridge financing. The non-fund based product is composed of letter of credit (LC) and bank guarantees with different forms (i.e. bid bonds, performance bonds etc.).

Among the different banking products available in the market, the product with high demand are consumer credit, export and import credit, term loan, project loan and syndicate loan. All banks and financial institutions on the basis of their capital base and liquidity position offer those credit products but none of them so far have been found to have expertise in any one of them for marketing. Relying on any one of the product by portfolio seems more risky. Banks in foreign countries are known to bring out numerous products. As an example, the banks in America have vast ranges of banking business serving

individuals and small firms and big share of the loan syndicate market. It means market is there for some products and it is created for others. But, the banks in Nepal are weak in locating the existing market and in creating new markets too. Loan disbursement is a trade of win-win game as lenders and borrowers both get benefit out of it. Customers are the ultimate source of income not products. For the analysis of customers several question need to be answered. This includes questions such as which customer buys the product and how do they use it? Where do customers buy? How do customers choose? Why do they prefer the product? How do they respond? And will they buy it again? All these data available in the respective files of the customer make the marketing activities quite easier and effective.

5.2 Conclusion

The overall aspect of liquidity of MBL is comparatively better than SBL. The lower liquidity position of SBL shows that the current assets have been utilized in some profit generating sectors. But as the same time the bank has weak short- term solvency position.

The mean current ratio of SBL is 0.972 and MBL is 0.95. The current ratio of SBL is little higher than MBL. But mean cash and bank balance to total deposit ratio and mean cash and bank balance to current assets ratio of SBL is lesser than MBL (i.e. $0.0852 < 0.1521$ and $0.0858 < 0.1517$). Both these ratios show that there is higher liquidity condition of MBL as compared to SBL. Regarding this analysis, it can be said that MBL has a better ability to meet daily cash requirements of their customers.

Considering the leverage aspect there is higher mean ratio of MBL (i.e. debt asset ratio- $0.0212 > 0.0207$ and shareholders' equity to total assets ratio – $0.0915 > 0.083$). But the debt-equity ratio of MBL is less than SBL (i.e. $0.0959 < 0.2337$).

Regarding the above data it can be concluded that MBL is utilizing more resources from outsider to buy its fixed assets and its borrowing capital is also lesser than SBL. So, the capital cost of MBL is also less than SBL as a whole.

The overall findings of profitability ratios show that MBL has earned higher profit in relation to every aspect of bank than SBL except net operating profit to total assets ratio (i.e. this ratio of MBL is only 0.0035 whereas there is 0.0076 of SBL). It refers that MBL has properly utilized its all assets to generate revenue. The interest earned to total assets of MBL is some better than of SBL (i.e. $0.00641 > 0.0199$). So, MBL has become success to earn more interest than SBL. The MBL has also efficiently utilized the deposit collected from customers to earn more revenue. It also has taken more gain over its usable assets than SBL. But in case of net worth ratio the MBL has become little success to utilize and earn net profit than SBL (i.e. $0.0478 > 0.0422$). But the message to its stakeholders is not better than SBL i.e., operating profit of it is less than SBL.

The analysis proves that both banks' EPS is not desirable. The average EPS of SBL is 19.57 and 5.812 of MBL. It means SBL is efficiently using its resources to get more EPS and it seems more successful by generating higher EPS in each year and average too. There is also more consistency in EPS of SBL than MBL. But there is reverse condition in the case of P/E ratio i.e. the P/E ratio of SBL is less than MBL ($37.91 < 132, 31$). It indicates that for getting Rs. 1 as earning, one should invest Rs. 37.91 in SBL and Rs. 132.31 in MBL. Watching the mean ratio we can conclude that, in short run, the investors of SBL are getting better profitability because they are selling their shares in high price. Since the EPS of MBL is lesser than of SBL it is suggested to the shareholders to sell their stock and buy the share of other institution to get high income.

As the basis of time series the trend line of net profit for SBL and MBL is upward sloping. But SBL has aggressive and MBL has smoothly. The position

of SBL is better in order to generate higher profit than MBL. The trend line of total deposit of both banks is also upward sloping and the average growth rate of collecting is also about same. The trend line of loan and advances for both banks is upward sloping. It refers that the growth rate of SBL seems higher than MBL. It means SBL is more aggressive than MBL in mobilizing its loans and advances. The investment trend line of SBL and MBL is upward sloping whereas SBL has far aggressive upward sloping of investment trend line. But there seems the higher trend of MBL than SBL in case of NPA.

Above analysis reveals that both banks have lower ratio than standard one. Trend of both banks have increasing trend. But there seems higher increasing trend of SBL. Further more the every trend line of SBL is higher than MBL. So, it clarifies the MBL has to take strict action rather than SBL.

5.3 Recommendations

From above analysis and findings it is clear that both banks are not strong in all fields. None of them are strong neither in profit making, mobilizing deposits, utilizing resources nor to maintain the consistency. So, the following recommendations should be brought into highlight to overcome weakness, inefficiency and to develop present fund mobilization and get success.

-) The current ratio of both commercial banks is lower than standard. This can not be regarded as good liquidity position. The liquidity position affects internal and external elements. Such as central bank requirement, prevalent investment situation and so on. Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, these banks should maintain enough liquid assets to pay short-term obligation. So, it is recommended to maintain sound liquidity position to SBL and MBL.
-) To get success in competitive banking environment, deposit must be utilized as loans and advances. The largest item of bank assets side is

loans and advances. It has been found that loans and advances to total deposit ratio of SBL is higher than that of MBL. It means MBL has not properly used their existing fund as loans and advances. So, MBL is recommended to follow liberal lending policy and to invest more deposit in loans and advances.

-) Both banks are recommended to formulate and implement the sound and effective investment portfolio to increase volume of investment and loans and advances that helps to meet required level of portfolio as well as social responsibility.
-) SBL and MBL both have possible risk because there is large amount of doubtful loans and risky investment. So it is recommended to evaluate that investment and invest in risk less assets to grab opportunities.
-) EPS and DPS play vital role to determine the market price of the shares and also indicate the financial performances of banks. Higher EPS and DPS indicate the higher performance of banks. So, both commercial banks have to be able to provide good returns.
-) The sample banks should be careful in increasing gain to maintain the confidence of shareholders, depositors and customers. So, it is strongly recommended to utilize risky assets and funds to gain high amount of profit.
-) Those banks are suggested to improve its management structure to increase the efficiency. In order to win the hear of the client, they should be given desired facility and deal with maximum courtesy.

-) It is recommended these banks to expand its services in rural areas so that the people in the rural areas will also be able to have the facilities provided by the bank.

-) NRB has given directives to financial institutions to invest their certain percentage of investment in deprived and priority sectors. Both banks have earned gain from profitable and private sectors. So, they are recommended to strictly follow up the directives issued by NRB and should make investment on public utilities sectors like agriculture, drinking water, health, sanitation, education etc.

-) Last political instability directly affects the economic sector such as hotel and tourism, manufacturing and trading sectors. Bank loans and advances is decreasing in these sectors as well as banks should give priority to these sectors and banks should create new investing sector to mobilize deposits amount.

Keeping all these in consideration, the MBL has little less performance than that of SBL. Therefore, in the future ahead, MBL should improve its weaknesses by adopting the innovative approach to marketing. In the light of growing competition in the banking sector both banks SBL and MBL should be customer oriented. They should strengthen and activate their marketing function as it is an effective tool to attract and retain the customers. For the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive price. Both banks are also required to explore new market areas. For this purpose, it is recommended to form a strong market department in their central level which deals with the banking products, price, places and promotion.

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.Ratio Analysis
Annex 1
Siddhartha Bank Ltd.
Calculation of S.D.

s. no.	Ratio(x)	(x-)	(x-) ²
1	0.99	0.018	0.000324
2	1	0.28	0.000784
3	0.95	-0.022	0.000484
4	0.95	-0.022	0.000484
5	0.97	-0.002	0.000004
n =5	x		(x-) 5= 0.00208

Source: Annual Reports.

$$\bar{x} = \frac{\sum x}{n} = \frac{4.86}{5} = 0.972$$

$$\text{Standard Deviation ()} = \sqrt{\frac{\sum x^2}{N} - \frac{(\sum x)^2}{N}} = \sqrt{\frac{0.00208}{5}} = 0.0204$$

$$\text{C.V.} = \frac{\text{S.D.}}{\bar{x}} \times 100 = \frac{0.0204}{0.972} \times 100 = 2.10$$

Machhapuchchhre Bank Ltd.
Calculation of S.D

S. no.	Ratio(x)	(x-)	(x-) ²
1	0.94	-0.01	0.0001
2	0.92	-0.03	0.0009
3	0.98	0.03	0.0009
4	0.93	-0.02	0.0004
5	0.98	0.03	0.0009
n=5	x=4.75		(x-) ² =0.0032

Source: Annual Report.

Siddhartha Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-) ²
1	0.078	-0.0072	0.000005
2	0.0429	-0.0423	0.00189
3	0.0976	0.0124	0.00015
4	0.1192	0.034	0.00116
5	0.0883	0.0031	0.00001
n=5	x=0.426		(x-)²=0.0032

Source: Annual Report.

Machhapuchchhre Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-) ²
1	0.1355	-0.0166	0.00028
2	0.1802	0.0281	0.00079
3	0.1777	0.0256	0.00065
4	0.1327	-0.0194	0.00038
5	0.1345	-0.0176	0.00031
n=5	x=0.7606		(x-)²=0.00241

Source: Annual Report.

Siddhartha Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-) ²
1	0.0742	-0.0116	0.0001
2	0.0422	-0.0436	0.0019
3	0.1008	0.015	0.002
4	0.1218	0.036	0.0013
5	0.0900	0.0042	0.0000
n=5	x=0.4230		(x-)²=0.0036

Source: Annual Report.

Machhapuchchhre Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-)²
1	0.1410	-0.0107	0.0001
2	0.1667	0.0150	0.0002
3	0.1813	0.0296	0.0009
4	0.1413	-0.0104	0.0001
5	0.1280	-0.0237	0.0006
n=5	x=0.7583		(x-)²=0.0019

Source: Annual Report.

Siddhartha Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-)²
1	0.9393	0.0647	0.0042
2	0.9161	0.0415	0.0017
3	0.8407	-0.0339	0.0012
4	0.8246	-0.05	0.0025
5	0.8521	-0.0225	0.0005
n=5	x=4.3727		(x-)²=0.0748

Source: Annual Report.

Machhapuchchhre Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-)²
1	0.7490	-0.0651	0.0042
2	0.7939	-0.0202	0.0004
3	0.7994	-0.0147	0.0002
4	0.8078	-0.0063	0.0000
5	0.9207	0.1066	0.0114
n=5	x=4.0707		(x-)²=0.0163

Source: Annual Report.

Siddhartha Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-) ²
1	0.5416	0.3079	0.0948
2	0.1920	-0.0417	0.0017
3	0.1783	-0.0554	0.0031
4	0.1422	-0.0915	0.0084
5	0.1147	-0.119	0.0142
n=5	x=1.1686		(x-)²=0.1221

Source: Annual Report.

Machhapuchchhre Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-) ²
1	0.2318	0.1359	0.0185
2	0.1631	0.0672	0.0045
3	0.0024	-0.935	0.0087
4	0.0821	-0.0138	0.0002
5	0.7052	0.6093	0.3713
n=5	x=0.4794		(x-)²=0.4031

Source: Annual Report.

Siddhartha Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-) ²
1	0.054	0.0333	0.0011
2	0.0176	-0.0031	0.0000
3	0.0126	-0.0081	0.0001
4	0.0100	-0.0107	0.0001
5	0.0093	-0.0114	0.0001
n=5	x=0.0207		(x-)²=0.0014

Source: Annual Report.

Machhapuchchhre Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-)²
1	0.0210	-0.0002	0.0000
2	0.0160	-0.0052	0.0000
3	0.0002	-0.0142	0.0002
4	0.0070	-0.042	0.0002
5	0.619	0.5978	0.3574
n=5	x=0.1061		(x-)²=0.3578

Source: Annual Report.

Siddhartha Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-)²
1	0.1000	0.0171	0.0003
2	0.0915	0.0086	0.0000
3	0.0715	-0.0115	0.0001
4	0.0704	-0.0126	0.0002
5	0.0815	-0.0015	0.0000
n=5	x=0.4149		(x-)²=0.0007

Source: Annual Report.

Machhapuchchhre Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-)²
1	0.0907	-0.0008	0.0000
2	0.0980	0.0065	0.0000
3	0.0957	0.0042	0.0000
4	0.0857	-0.0058	0.0000
5	0.0877	-0.0038	0.0000
n=5	x=0.4577		(x-)²=0.0001

Source: Annual Report.

Siddhartha Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-)²
1	0.0143	-0.0056	0.0000
2	0.0170	-0.0029	0.0000
3	0.0171	-0.0028	0.0000
4	0.021	0.0012	0.0000
5	0.0295	0.01	0.0001
n=5	x=0.0995		(x-)²=0.0002

Source: Annual Report.

Machhapuchchhre Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-)²
1	0.0643	0.0002	0.0000
2	0.0144	-0.0497	0.0025
3	0.0597	-0.0044	0.0000
4	0.0793	0.0152	0.0002
5	0.1028	0.0387	0.0015
n=5	x=0.3205		(x-)²=0.0042

Source: Annual Report.

Siddhartha Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-)²
1	-0.0047	-0.0083	0.0001
2	0.0069	0.0033	0.0000
3	0.0042	0.0006	0.0000
4	0.0049	0.0013	0.0000
5	0.0066	0.003	0.0000
n=5	x=0.0178		(x-)²=0.0001

Source: Annual Report.

Machhapuchchhre Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-) ²
1	0.0061	0.0011	0.0000
2	0.0057	0.0007	0.0000
3	0.0060	0.001	0.0000
4	0.0069	0.0019	0.0000
5	0.0005	-0.0045	0.0000
n=5	x=0.0252		(x-)²=0

Source: Annual Report.

Machhapuchchhre Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-) ²
1	0.0053	0.0009	0.0000
2	0.0049	0.0005	0.0000
3	0.0053	0.0009	0.0000
4	0.006	0.0016	0.0000
5	0.0004	-0.004	0.0000
n=5	x=0.0220		(x-)²=0

Source: Annual Report.

Siddhartha Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-) ²
1	-0.0039	-0.0071	0.0001
2	0.0060	0.0028	0.0000
3	0.0037	0.0005	0.0000
4	0.0043	0.0011	0.0000
5	0.0059	0.0027	0.0000
n=5	x=0.0150		(x-)²=0.0001

Source: Annual Report.

Siddhartha Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-)²
1	-0.039	-0.0812	0.0066
2	0.066	0.0238	0.0006
3	0.052	0.0098	0.0001
4	0.0611	0.0189	0.0004
5	0.072	0.0298	0.0009
n=5	x=0.2111		(x-)²=0.0085

Source: Annual Report.

Machhapuchhre Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-)²
1	0.0587	0.0109	0.0001
2	0.0501	0.0023	0.0000
3	0.0557	0.0079	0.0000
4	0.0700	0.0222	0.0005
5	0.0045	-0.0433	0.0019
n=5	x=0.2390		(x-)²=0.0026

Source: Annual Report.

Siddhartha Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-)²
1	0.0060	-0.0016	0.0000
2	0.0067	-0.0009	0.0000
3	0.0062		0.0014
4	0.0076	0	0.0000
5	0.0118	0.0042	0.0000
n=5	x=0.0382		(x-)²=0.00002

Source: Annual Report.

Machhapuchchhre Bank Ltd.
Calculation of S.D

S no.	Ratio(x)	(x-)	(x-)²
1	0.0083	0.0048	0.0000
2	-0.0012	-0.0047	0.0002
3	0.0084	0.0049	0.0000
4	0.0061	0.0026	0.0000
5	-0.0043	-0.0078	0.0001
n=5	x=0.0174		(x-)²=0.0001

Source: Annual Report.

Siddhartha Bank Ltd.
Calculation of S.D

S no.	EPS(x)	(x-)	(x-)²
1	15.88	-3.694	13.6456
2	17.29	-2.28	5.1984
3	22.89	3.32	11.0224
4	21.99	2.42	5.8564
5	19.82	0.25	0.0625
n=5	x=97.87		(x-)²=35.7853

Source: Annual Report.

Machhapuchchhre Bank Ltd.
Calculation of S.D

S no.	EPS(x)	(x-)	(x-)²
1	7.05	1.238	1.5326
2	6.56	0.748	0.5595
3	6.28	0.468	0.2190
4	8.66	2.848	8.1111
5	0.51	-5.302	28.112
n=5	x=29.06		(x-)²=38.5335

Source: Annual Report.

Siddhartha Bank Ltd.
Calculation of S.D

S no.	P/E Ratio(x)	(x-)	(x-)²
1	48.98	11.074	122.63
2	63.04	25.13	631.5169
3	43.70	5.79	33.5241
4	20.19	-17.72	313.9984
5	13.62	-24.29	590.0041
n=5	x=189.53		(x-)²=1691.6770

Source: Annual Report.

Machhapuchchhre Bank Ltd.
Calculation of S.D

S no.	P/E Ratio(x)	(x-)	(x-)²
1	170.21	37.904	1436.71
2	124.19	-8.116	65.87
3	77.83	-54.476	2967.84
4	32.58	-99.73	9945.28
5	256.72	124.414	15478.8434
n=5	x=661.53		(x-)²=29894.34

Source: Annual Report.

Appendices

Appendix IA Calculation of the Trend of Net Profit of Siddhartha Bank Ltd.

(Rs. in million)

F/Y (t)	Net Profit (y)	x(t-2065/66)	x²	xy	y=a+bx
2063/64	-31	-2	4	62	-6
2064/65	70	-1	1	-70	31.6
2065/66	66	0	0	0	69.2
2066/67	98	1	1	98	136.8
2067/68	143	2	4	286	144.4
n=5	y=346	x=0	x²=10	xy=376	,

Source: Annual Report.

Calculation of the Trend of Net Profit of Siddhartha Bank Ltd.

F/Y (t)	x(t-2065/66)	y=a+bx
2068/69	3	182
69/70	4	219.60
70/71	5	257.21
71/72	6	294.80
72/73	7	332.40

Calculation of the Trend of Net Profit of Machhapuchchhre Bank Ltd.

(Rs. in million)

F/Y (t)	Net Profit (y)	x(t-2066)	x²	xy	y=a+bx
063/64	58	-2	4	-11.6	48.60
2064/65	54	-1	1	54	58.40
2065/66	93	0	0	0	68.20
2066/67	128	1	1	128	78.00
2067/68	8	2	4	32	87.80
n=5	y=341	x=0	x²=10	xy=98	

Source: Annual Report.

**Calculation of the Trend of Net Profit of
Machhapuchchhre Bank Ltd.**

F/Y (t)	X (t-2066)	y= a + bx
2068/69	3	97.60
69/70	4	107.40
70/71	5	117.2
71/72	6	127.00
72/73	7	136.80

**Appendix-IIA
Calculation of the Total Deposit of
Siddhartha Bank Ltd.**

(Rs. in million)

F/Y (t)	Total Deposit (y)	x(t-2066)	x²	xy	Y_c=a+bx
2063/64	6,625	-2	4	-13250	6907.20
64/65	10,191	-1	1	-10191	10,898
65/66	15,855	0	0	0	14888.80
66/67	20,197	1	1	20197	18879.60
67/68	21,576	2	4	43152	22870.4
n=5	y=74444	x=0	x²=10	xy=39908	

Source: Annual Report.

**Calculation of the Trend of the Total Deposit of
Siddhartha Bank Ltd.**

F/Y (t)	x(t-2065/66)	y_c = a + b x
2068/69	3	26861.20
69/70	4	30852.00
70/71	5	34842.80
71/72	6	38833.60
72/73	7	42824.40

Appendix-IIB
Calculation of Total Deposit Trend of
Machhapuchchhre Bank Ltd.

(Rs. in million)

F/Y (t)	Net Profit (y)	x(t-2065/66)	x²	xy	y_c = a + b x
2063/64	9,475	-2	4	-18950	9334.8
64/65	9,532	-1	1	-9532	11622.4
65/66	15,596	0	0	0	13910
66/67	18,536	1	1	18536	16197.6
67/68	16411	2	4	32282	18485.2
n=5	y=69550	x=0	x²=10	xy = 22876	

Source: Annual Report.

Trend value of total deposit of
Machhapuchchhre Bank Ltd.

F/Y	x(t-2066)	Y_c = a + b x
2068/69	3	20772.8
69/70	4	23060.40
70/71	5	25348
71/72	6	27635.60
72/73	7	29923.20

Appendix-III A
Calculation of Loans and Advances of
Siddhartha Bank Ltd.

(Rs. in million)

F/Y (t)	Loans and Advances (y)	x(t-2066)	x²	xy	y_c = a + b x
2063/64	6223	-2	4	-12446	6457.20
64/65	9336	-1	1	-9336	9621.2
65/66	13329	0	0	0	12785.20
66/67	16654	1	1	16654	15949.20
67/68	18384	2	4	36768	19113.20
n=5	y=63926	x=0	x²=10	xy = 31640	

Source: Annual Report.

Trend value of Loans and Advances

F/Y	x(t-2066)	$Y_c = a + b x$
2068/69	3	22277.20
69/70	4	25441.20
70/71	5	28605.20
71/72	6	31769.20
72/73	7	34933.20

Appendix-IIIB Calculation of the Trend of Loans and Advances of Machhapuchchhre Bank Ltd.

(Rs. in million)

F/Y (t)	Net Profit (y)	x(t-2065/66)	x^2	xy	$y=a + b x$
2063/64	7007	-2	4	-14194	6832.20
64/65	7567	-1	1	7567	9099.60
65/66	12467	0	0	0	11367
66/67	14973	1	1	14973	13634.40
67/68	14731	2	4	29462	15901.80
n=5	y=56835	x=0	$x^2=10$	xy = 22674	

Source: Annual Report.

Trend value of Loans and Advances of Machhapuchchhre Bank Ltd.

F/Y	x(t-2066)	$Y_c = a + b x$
2068/69	3	18169.20
69/70	4	20436.60
70/71	5	22704
71/72	6	24971.4
72/73	7	27238.8

Appendix-IVA
Calculation Investment Trend of
Siddhartha Bank Ltd.

(Rs. in million)

F/Y (t)	Investment (y)	x(t-2066)	x ²	xy	y _c = a + bx
2063/64	865	-2	4	-1730	906.60
2064/65	1150	-1	1	-1150	1371.50
2065/66	2176	0	0	0	1836.40
2066/67	2453	1	1	2453	2301.30
2067/68	2538	2	4	5076	2766.20
n=5	y=9182		10	xy = 4649	

Source: Annual Report.

Trend value of Investment of
Siddhartha Bank Ltd.

F/Y	x(t-2066)	Y _c = a + b x
2068/69	3	3231.10
69/70	4	3696.00
70/71	5	4160.90
71/72	6	4625.80
72/73	7	5090.70

Appendix-IV B
Calculation of Investment Trend of
Machhapuchchhre Bank Ltd.

(Rs. in million)

F/Y (t)	Investment (y)	x(t-2065/66)	x ²	xy	y = a + b x
2063/64	1279	-2	4	-2558	1201.80
2064/65	1168	-1	1	-1168	1321.20
2065/66	1246	0	0	0	1440.60
2066/67	2100	1	1	2100	1560
2067/68	1410	2	4	2820	1679.40
n=5	y=7203	x=0	x²=10	xy = 1194	

Source: Annual Report.

**Trend value of Investment of
Machhapuchchhre Bank Ltd.**

F/Y	x(t-2066)	$Y_c = a + b x$
2068/69	3	1798.80
69/70	4	1918.20
70/71	5	2037.60
71/72	6	2157
72/73	7	2276.40

**Appendix-VA
Calculation of NPATrend of
Siddhartha Bank Ltd.**

(Rs. in million)

F/Y (t)	NPA(y)	x(t-2066)	x^2	xy	$y_c = a + b x$
2063/64	0.34	-2	4	0.68	0.412
64/65	0.69	-1	1	0.69	0.486
65/66	0.45	0	0	0	0.560
66/67	0.53	1	1	0.53	0.634
67/68	0.79	2	4	1.58	0.708
n=5	y=2.8	x=0	$x^2=10$	xy =	

Source: Annual Report.

**Trend value of NPA of
Siddhartha Bank Ltd.**

F/Y	x(t-2066)	$Y_c = a + b x$
2068/69	3	0.782
69/70	4	0.856
70/71	5	0.930
71/72	6	1.004
72/73	7	1.078

Appendix-VB

Calculation of NPA Trend of Machhapuchchhre Bank Ltd.

(Rs. in million)

F/Y (t)	NPA(y)	x(t-2066)	x^2	xy	$y_c = a + b x$
2063/64	1.35	-2	4	-2.70	1.934
64/65	3.52	-1	1	-3.52	2.288
65/66	2.75	0	0	0	2.642
66/67	1.42	1	1	1.42	2.996
67/68	4.17	2	4	8.34	3.350
n=5	y=13.21	x=0	$x^2=10$	xy = -3.54	

Source: Annual Report.

Trend value of NPA of Machhapuchchhre Bank Ltd.

F/Y	x(t-2066)	$Y_c = a + b x$
2068/69	3	3.704
69/70	4	4.058
70/71	5	4.412
71/72	6	4.766
72/73	7	5.12