CHAPTER -I

INTRODUCTION

1.1 Background of the Study

The establishment of banking industry is relatively recent in Nepal. Some crude bank operations were in practice even in the ancient times. According to historical record, the king of Katmandu, Guna Kama Dev, borrowed money to reconstruct his kingdom in 723 AD. A merchant named 'Shankhadhar' paid all the debts of the people and 'Nepal Sambat' (Nepal Era) was established for the remembrance of that occasion in 880 AD. Likewise, Jayasthiti Malla classified the people in 4 classes and 64 castes by their occupations. One of those castes, which were engaged in money lending business at the time, was called 'Tankadhari'. All these descriptions serve as evidence of prevalence of money lending and borrowing practices in Nepal.

"Before 1842 BS, the local 'goldsmith' and 'money lenders' participated in general type of economic activities by collecting valuable metals from the public. Gradually, it evolved as 'Tejaratha Adda' under the prime minister ship of Ranodeep Singh" (Bhushal; 2055: 41).

During the prime minister ship of Ranodeep Singh (1877-1885 AD) '*Tejaratha Adda*' was established as the first financial institution of the country. At the beginning, only government staff was allowed to take loan at 5% interest rate. Later on, the general public was also allowed to take the loan at the same rate of interest with gold and silver ornaments as security of collateral. The credit facilities of '*Tejaratha Adda'* were also extended outside the valley during the prime minister ship of Chandra Shamsher. Although this institution did not accept any deposits, it had played an important role in the development process of banking system in Nepal.

The main defects of this institution were: there was no further financial institution set-up and there was no effort to expand the services. Above all of the defects, this institution did not accept any deposit from the public. In the absence of saving-mobilization, the

'Adda' faced financial problems, making it impossible to cater to the credit and services need of general population throughout the country. After that, again for a long time, several unorganized bankers and indigenous moneylenders continued to flourish as the sole provider of credit and services to the general public.

At the same time, the government started trade with India and Tibet. Following it, various indigenous bankers started handling even trade because huge transfer of the money could safely be made only through these bankers in the absence of modern banking institutions. Hence, the need of banking institution was realized. This was even strongly supported by the situation caused by 1934 AD's earthquake, where there was a need of finance for the reconstruction.

In Nepal, commercial banking started with the establishment of Nepal Bank Limited under the Nepal Bank Act, 1993 BS. Majority of authorized capital (i.e. 51%) was contributed by the government and the remaining (49%) by the public. It was established in 1994 BS. There was a political revolution in 2007 BS. Solid and even more important event took place in the 14th of Baisakh, 2013 BS because a central bank, Nepal Rastra Bank (NRB), was established with Rs. 1 Crore authorized capital under the Nepal Rastra Bank Act, 2012. Besides the central banking functions, it has a heavy burden to develop the whole economy, such as giving timely direction to all the financial institutions, to help and industry by mobilizing its capital, to issue shares and debentures, to promote the banking habit and transactions, and to fix the exchange rate with foreign currency.

The gradual development of commercial banks moved in parallel with the economic liberalization policy of the government that caused the establishment of more commercial banks. The financial policy of the government welcomed the establishment of JVBs. Such sort of commercial banks are established under the Commercial Bank Act 2031 BS and registered with the recommendation of the NRB. Nepal Bank Ltd (NBL) and Rastriya Banijya Bank (RBB) are the only commercial banks established before 2041 BS.

Nepal Arab Bank (NAB) was the first bank in Nepal to be established as a JVB. The number or JVB has significantly increased after liberalization of economic policy of the government following restoration of democracy in 2046 BS. Foreign banks have the dominant role in managing the JVBs in Nepal as they hold majority of shares. These banks have been investing their capital in manufacturing industry, trading business, hotel, textile and medicine. The banks have their objectives to serve in financial sector in spite of its main objectives of making profit, which is a positive aspect.

1.1.1 Concept of Commercial Banks

"Banking institutions are inevitable for the resource mobilization and all-round development of the country. It is the resource for economic development; it maintains economic confidence of various segments and extends credit to people."(Grywinshki; 1993:87).

The Nepal Commercial Bank Act, 2031 states, "A commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans, and performs commercial banking functions and which is not a bank meant for co-operatives, agriculture, industries or for such specific purpose."

According to the World Bank, "Commercial banks are the financial institutions which engage only in deposit taking and short-term loans and medium-term lending."

The legal definitions of banking, and the permitted activities of banks, vary across countries. Nevertheless, the essential characteristics of banks are the same. They issue liquid, nominally valued liabilities, many of which are payable on demand at par, and they mainly acquire assets that are illiquid, relatively difficult to value, and of longer maturity than their liabilities.

"When two or more independent firms mutually decide to participate in a business venture, contribute to the total equity or more or less capital and establish a new organization, it is known as a joint venture." (Jauch & Glueck; 1998:232).

"A joint venture is the joining of forces between tow or more enterprises for the purpose of carrying out a specific operation (Industrial or commercial investment, production and trade)" (Gupta; 1984:15).

Joint Venture Bank is combination of Joint Venture Company and commercial bank. So it can be said JVBs are commercial banks in which foreign institution along with local financial institution and general public of the country makes investment. These banks primarily play a role in accumulation and mobilization of funds in a national level.

From the establishment of first commercial bank in Nepal in 1994 BS, the banking sector has grown significantly. Nepal has witnessed a phenomenal growth in the last two decades. In 1980 AD, the government introduced 'Financial Sector Reforms' and Nepal allowed the entry of foreign banks as joint ventures with up to a maximum of 50% equity participation. A meaningful step towards financial liberalization was undertaken in the year 1987/88 AD, with the objective of expediting the process of economic development under structural adjustments program and major reforms including liberalization of interest rate, strengthening of banking operation from direct to indirect monetary control instruments. There are 25 commercial banks in the country.

"While the role of banking in the economy is declining in some industrial countries, banks continue to dominate the financial systems of most developing and transition countries. A sound banking system is important because of the key role it plays in the economy: intermediation, maturity transformation, facilitating payments flows, credit allocation, and maintaining financial discipline among borrowers. Banks provide important positive externalities as gatherers of savings, assigners of resources, and providers of liquidity and payments services. In developing economies with less developed financial markets, banks typically are the only institutions producing the information necessary for intermediation, providing the portfolio diversification required for maturity transformation and risk reduction, and helping monitor corporate governance. Even in economies with highly developed financial markets, banks remain at the center of economic and financial activity and stand apart from other institutions as

primary providers of payments services and as a fulcrum for monetary policy implementation." (Lindgren; 1996:28).

The two essential functions of commercial banks may best be summarized as the borrowing and lending of money. They borrow money by taking all kinds of deposits – deposits may be received on current, savings or fixed account In fixed account, the banker incurs the obligation of paying legal tender after the expiry of a fixed period with pre-defined interest rate. In saving account, the banker undertakes to pay the customer an agreed rate of interest on it in return for the right to demand from him an agreed period of notice for withdrawals. Thus, a commercial banker, whether through current account or fixed deposit account, mobilizes the savings of the society. Then it lends it to those who are in need of it by granting overdrafts or term loans or by discounting bills of exchange or promissory notes. By discharging these functions efficiently, a commercial banker renders very valuable service to the community by increasing the productive capacity of the country and thereby accelerating the pace of economic development. It gathers small savings from general public, thus reducing idle money to the lowest limit. It combines small amount held by general public to make larger amount to be employed profitably in those enterprises where it is most called for and most needed. It makes idle fund effective and provides industry with capital. For instance, the practice of discounting bills can be taken. Commercial banks bridge the time element between the sale and actual payment of money by converting future claims into present money. This enables the seller to carry on his business without hindrance and the buyer will get enough time to realize the money. Thus, we have seen that bank receive deposits, which it has to repay to the depositor according to pre-defined terms and condition, and make them available to those people who are really in need of them. It actually distributes deposits to the borrower as well as its own vault, which is the most delicate function of a commercial bank.

Commercial banks are the heart of the financial system. It holds deposits of many persons, government establishment and business units. It makes funds available through lending and investing activities to borrowers be it individuals or business firms. It also offers financial services to the government. It acts as medium of exchange and it is the

medium through which monetary policy is implemented. These facts show that the commercial banking system of the nation is important to the functioning of the economy.

"Banks provide opportunity to people for participation in the development process of the country via issuing shares to be owned by them and accepting deposits from them. Then, banks mobilize and invest such accumulated resources in the field of agriculture, trade, commerce, industry, tourism, hydro-electricity projects etc." (Shakya; 1995:2).

1.1.2 Role of the Commercial Banks

The entry of JVBs in Nepal has taken the concept of banking to a new level. The Nepalese people have been able to benefit from the state of the art and customized services these banks have to offer. There is no doubt that JVBs have become the choice of people when it comes to banking. And since the industry is still relatively growing, a lot can be achieved in the years to come.

"Joint venture banks are already playing a dynamic and vital role in the economic development of the country. This will undoubtedly increase with the passage of time." (Chopra; 2056:2).

"Joint venture banks are successful not only in penetrating the market but also consolidating their position over the years. It is due to its customer orientation and strong marketing strategy" (Thakur; 2056:81).

In order to specifically point out the roles, it can be presented as under;

i. **Healthy Competition:** The induction of joint venture banks also brings the benefit of healthy competition. The competition would force the domestic banks; Nepal Bank Ltd. and Rastriya Banijya Bank to improve their services and efficiency.

ii. **Foreign Investment:** Foreign investment is one of the important aspects for the development of the country. When looking at the possibility of investing in Nepal, multinational companies are unfamiliar with the local

companies to build up their confidence for investment by providing necessary information and financial support.

iii. **New Banking Techniques:** Modern banking services are being provided to Nepalese financial system by new JVBs. New banking techniques such as tele-banking, computerization, Automated Telling Machines, Debit Cards and Credit Cards are the important contribution of JVBs to the gradual changing commercial banking scenario.

1.1.3 Profile of Sample Bank

A. Everest Bank limited

Everest Bank limited was established in 1992 under the company Act, 1964 with an objective of carrying out commercial banking activities under the commercial Bank Act, 1974. United Bank of India Ltd. under Technical services Agreement signed between it Nepali promoters was managing the bank from the very beginning till November 1996. Later on, it handed over the management to the Punjab National Bank Ltd. India which holds 20% equity on the bank‘s share capital. The bank has 18 branches in various parts of the country. Its head office is located in Baneshowr, kathmandu. Other Branches located within Kathmandu and Lalitpur valley are New Road Branch, Teku Branch, Pulchok Branch, Lajimpat Branch,Chabahil Branch and Satungal Branch. Remaining Branches outside the valley are in Biratnagar, Duhabi, Itahari, Janakpur, Birgunj, I.C.D.Dry.Port, Simara, Pkhara, Butuwal, Bhairahawa and Dhangadhi.

Its present capital structure is as follows:

Capital	**Present (**Amount**)**
Authorized Equity capital	1000 million
Issued Equity capital	729.8 million
Paid up Equity capital	729.8 million

B. Standard Chartered Bank Nepal Limited (SCBNL)

Standard Chartered Bank Nepal Limited, formally known as Nepal Grindlays Bank Limited has been in operation since 1987. It is one of the topmost joint venture banks of Nepal. Capital structure of this bank is; 50 percent by Chartered Grindlays Bank, 33 percent by Nepal Bank Limited, the country's oldest and largest financial institutions and 17 percent by the Nepalese public. On 31st July 2000, Standard Chartered Bank Nepal Limited conducted the acquisition with ANZ Grindlays Bank Limited of the Australia and New Zealand Banking Group. With this acquisition, 50 percent shares of Nepal Grindlays Bank Limited (NGBL), previously owned by ANZ Grindlays Bank Limited, change the name of bank to Standard Chartered Bank Nepal Limited with effect from 16 July 2001. the capital structure of bank are as follows.

Capital	**Present (**Amount)
Authorized Equity capital	1000 million
Issued Equity capital	500 million
Paid up Equity capital	500 million

1.2 Focus of the Study

Nepal's entry into privately and publicly owned commercial/joint venture banks is relatively new compared to other countries. It can be said that the poor performance of Nepalese commercial banks as well as the national bank owes to the lack of effective policies and measures taken by the government towards the collective improvement of the Nepalese banking sector.

This study focuses on the financial performance of two joint venture banks, viz., Standard Chartered Bank Nepal Limited and Everest Bank Limited. Ratio analysis has been used to assess the financial strengths and weakness of these banks.

1.3 Statement of the Problem

Banking institutions are inevitable for the resource mobilization and all-round development of the country. It is the resource for economic development; it maintains economic confidence of various segments and extends credit to people. In Nepal, the profitability rate, operating expenses, dividend distribution among the shareholders etc. have been found to be inconsistent. The problem of the study will ultimately find out the reason behind the differences in their financial performance.

The tendency to concentrate JVBs only in urban areas like Katmandu, Biratnagar and Pokhara etc. has raised the certain questions. This state of affairs cannot contribute much to the socio-economic development of the country where 90% of the population lives in the rural areas and 81% of population depends upon agriculture. These JVBs are reluctant to extend their operation in rural areas. Despite the circular of NRB, the central bank of the country, regarding compulsory investment of 10% of their total investment in the rural areas, these banks are inclines to pay fines rather than direct their resources to such less profitable sector. This problem needs to be solved, so that even the small investors in the rural areas can benefit from the services of such banks. Moreover, even the existing branches of the commercial banks in the rural areas do not seem to have been able to mobilize the local resources effectively.

The mushrooming of banking, finance companies, rural banks, and co-operative societies in a short span of time has brewed new competitive scenario and has passed a challenge to the previously dominant banks like Nepal Arab Bank Ltd (now NABIL), Nepal Grindlays Bank Ltd. (now SCBNL) and Nepal Indo-Suez Bank Ltd. (now NIBL) who have been making attractive profits. In the changed scenario, these banks need to explore their strengths and weaknesses, and improve their performance because their success depends upon their ability to boost their productivity and financial performance.

The present study seeks to explore the efficiency and weakness of SCBNL and EBL with the help of ratio analysis.

Thus, this study attempts to answer the following research questions:

- What is the comparative position of two banks in term of liquidity, profitability, turnover, leverage and capital adequacy?
- Is there any difference in financial performance between Standard Chartered Bank Nepal Ltd. and Everest Bank Ltd.?
- How is the liquidity position of the banks?
- What is the overall financial status of banks?

1.4 Objectives of the Study

The overriding objective of this dissertation is to study the financial performance of SCBNL and EBL. To be more specific, this proposed study keeps the following objectives;

i. To present the existing financial position of SCBNL and EBL
ii. To examine the relative financial performance of SCBNL and EBL in terms of different kinds of ratios.
iii. To assess the financial strengths and weaknesses of these banks
iv. To provide a package of suggestions and possible guideline to improve the performance of EBL and SCBNL.

1.5 Significance of the Study

The significance of the study can be highlighted through the following points;

i. 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.
ii. 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.
iii. The financial agencies, stock exchanges and stock traders are also interested in the performance of the banks as well as the customers, depositors, and debtors, who can objectively identify the better bank to deal in terms of profitability, safety, and liquidity.

iv. Policy makers at the macro level, i.e. the government and NRB will also benefit regarding the formulation of further policies in regard to economic development through banking institutions.

1.6 Limitation of the Study

- The time was the major limitation of the study. As a partial fulfillment for the degree of Masters of Business Studies, it was supposed to be completed within three months.

- The scope of the study is limited within the framework of ratio analysis only. The study doesn't cover other financial performance analysis techniques.

- Reference of Journals and Articles could not be presented due to unavailability of suitable materials.

- Since the study is fully based on the secondary data collected from various sources, their relevancy will depend upon the authenticity of the publishers.

- The study has not paid attention toward the funds flow and cash flow patterns.

1.7 Organization of the Study

This dissertation will be presented in the following order:

Chapter 1: Introduction

This is the very first segment of the dissertation, which starts, with the general background of the emergence of joint venture banks in Nepal. A brief concept of commercial JVBs is also given followed by the role they play in Nepal. Focus of the study, statement of the problem, objectives of the study, limitation of the study is also presented in this chapter.

Chapter 2: Review of Literature

Various related books, periodicals, reports and other publications have been studied and reviewed in this part of the dissertation. This chapter broadly consists of two segments- review of conceptual framework and review of previous studies. Review of conceptual framework is done in order to make the concept of the study clear; financial ratios in this case. Likewise, several other related studies are reviewed in separate segment to show what types of studies were made in this field and what conclusions the previous researchers drew.

Chapter 3: Research Methodology

This segment of the study attempts to explain the methodology of the research undertaken. The chapter contains research design, sources of data, population and sample, method of data collection and analysis.

Chapter 4: Presentation & Analysis of Data

The calculated results of each of the ratios are presented in a tabulated form in this segment of the dissertation. Along with the tabulated data, a graphical presentation is also made along with the findings and interpretations of the calculated figures.

Chapter 5: Summary, Conclusion, and Recommendations

The whole study is summarized and concluded in this final chapter. A list of recommendations derived from the analysis is presented at the end of the chapter.

A list of Bibliography is presented after chapter 5 and the necessary supplements are presented in the final segment as the annexure.

CHAPTER - II

REVIEW OF LITERATURE

The review of literature basically highlights the existing literature and research work related to the present research 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 had been classified into three subgroups as follow.

- Conceptual Review
- Reviews of journal and articles
- Review of related studies

2.1 Conceptual Review

2.1.1 Bank

Banking, transactions carried on by any individual or firm engaged in providing financial services to consumers, businesses, or government enterprises. In the broadest sense, banking consists of safeguarding and transfer of funds, lending or facilitating loans, guaranteeing creditworthiness, and exchange of money. These services are provided by such institutions as commercial banks, savings banks, trust companies, finance companies, and merchant banks or other institutions engaged in investment banking. A narrower and more common definition of banking is the acceptance, transfer, and, most important, creation of deposits. This includes such depository institutions as commercial banks, savings and loan associations (more common in the United States), building societies, and mutual savings banks. All countries subject banking to government regulation and supervision, normally implemented by central banking authorities. For further information on central banks and investment banking, see the relevant articles.

2.1.2 Concept of Commercial Bank

Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through

their lending and investing activities to borrowers, individual business firms and services from the producers to customers and the financial activities of the government. They provide a large portion of the medium of exchange and they are media through monetary policy is affected. These facts show that the commercial banking system of the nations is important for the functioning of the economy.

Banks are business firm; like Frisbee Manufacturer, fast food chains and textbook publishers, bankers buy inputs, message them a bit, burn a little incense, say the magic words, and out pop some output from the oven. If there lick holds, they sell the finished product for more than it costs to buy the raw materials in the first place. For bankers, the raw materials are money.

Evaluation of financial performance is a study of overall financial position of any organization. It is closely related to the decision making. In the 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.

2.1.3 Financial statements

"The Financial Statements are the means of presentation of a firm's financial condition and basically consist of two types of statements - The Balance Sheet & Income Statement. These are prepared to report the overall business activities as well as financial status of the firm for a specified period to its stakeholders. These contain summary of information regarding financial affairs that is organized systematically. The top management is responsible for preparing these statements.

The basic objective of financial statements is to assist in decision making. The analysis and interpretation of financial statements depend on the nature and type of information available there in" (Panday; 2004: 31).

Hence financial statement refers to any formal and original statement that discloses the financial information related to any business concern during a period. The income

statements and balance sheet usually prepared at the end of each financial year show the firm's position.

A) Balance Sheet

"Balance sheet is one of the basic financial statements of an enterprise. It is also called the fundamental accounting report. As the name suggests, the balance sheet provide information about financial standing or a position of a firm at a particular point of time usually end of the financial year. It can be visualized as a snapshot of the financial status of a company" (Khan and Jain; 1993:13).

Balance sheet summarizes the assets, liabilities and owner's equity of a business at a moment of time, usually at the end of the financial year. Balance sheet is a financial statement, which contains information regarding different capital expenditures made on purchase of assets on particular date and information regarding various sources of funds acquired by the business concern to finance these assets and also the different sources of capital and liabilities at that particular point of time.

B) Income Statement

"Income statement is designed to portray the performance of the business firm for specific period of time i.e. for a year or month or quarter. The business revenues and expenses resulting from the accomplishment of the firms operation are shown in the income statements. It is the "Scoreboard" of the firm's performance during particular period of time. It shows the summary of revenues, expenses and net income or loss of a firm for a particular period of time. Income statement also serves as a true measure of the firm's profitability"**.**

2.1.4 Financial Performance Analysis

"Financial Analysis is the process of determining financial strengths and weaknesses of a company by establishing strategic relationship between the components of a balance sheet and profit and loss statement and other operative data" (Pandey; 1999:96).

“Financial Statement Analysis involves the use of various financial statements. These statements perform several things. First, the balance sheet summarizes the assets, liabilities and owner’s equity of a business at a moment in time, usually the end of a year or a quarter. Next, the income statement summarizes the revenues and expenses of the firm over a particular period of time, again usually a year or quarter. While the balance sheet represents a snapshot of the firm’s financial position at a moment in time, the income statement depicts a summary of the firm’s profitability over time. From these two statements certain derivate statements can be produced, such as statement of retained earnings, a sources and uses of funds statements and a statement of cash flows etc (Van Horne; 1998:56).

“Financial Analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. (Pandey/2004/560). Analyzing financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a firm’s position and performance” (R.W. Metcalf; 1976:157).

“Financial Statement Analysis allows managers, investors and creditors as well as potential investors and creditors to teach conclusion about the recent and current status of a corporation” The checking of financial performance in a business deserves much attention in carrying out the financial position. It also requires to retrospective analysis for the purpose of evaluating the wisdom and efficiency of financial planning. Analyzing of what has happened should be of great value in improving the standards, techniques and procedures of financial control involved in carrying out finance function” (Kuchhal; 1982).

The four basic statements contained in the annual report are the balance sheet, the income statement the statement of the retained earnings and the statement of cash flows. Investors use the information contained in these statements to form expectations about the future levels of earnings and dividends and about the risks of these expected values.

Financial statement analysis generally begins with the calculation of a set of a financial ratios designed to reveal the relative strength and weakness of a company as compared to other companies in the same industry, and to show whether the firm's position bas been improving or deteriorating over time. (Weston/1996:306). Financial analysis is that sort of calculation which is done with the help of annual report. And the annual report would contain the essentials for such analysis. So the data retrieved from the annual report is indispensable for the financial analysis.

It is both an analytical and judgmental process that helps answer questions that have been properly posed. Therefore, it is means to end. Apart from the specific analytical answer, the solutions to financial problems and issues depend significantly on the views of the parties involved, the related importance of the issue and on the nature and reliability of the information available" (Helfert, 1992:2).

"Financial appraisal is a scientific evaluation of profitability and financial strength of any business concern. Financial appraisal is the process of scientifically making a proper, critical and comparative evaluation of the profitability and financial health of a given concern through the application of the techniques of financial statement analysis. A complete financial analysis and interpretation of financial statement involves the assessment of past business performance, an evaluation of the present condition of the business and the predictions about the future potential for achieving expected or desired results"(P. K. Jain;1996:36- 37).

"The Analysis and interpretation of financial statement depicts the actual position of a firm regarding the objectives of that firm within a specified period of time. "Financial appraisal is a process of synthesis and summarization of financial and operative data with a view to get an insight into the operative activities of a business enterprise. It is a technique of X-raying the financial position as well as progress of a concern" as observed by Robert H. Wessel.

“Financial statement analysis involves a comparison of firm’s performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strengths and correct its weaknesses” (Weston J. Fred; 1996:78).

“Financial Performance Analysis is used primarily to gain insight into operating and financial problems confronting 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 into their components on the basis of purpose in the one hand and establish relationships between these components and between individual components and totals 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 understanding of changing profitability and financial condition of the business organization” (Hampton; 1998:99).

Much can be learnt about business performance and financial position through appraisal of financial statements, the appraisal or analysis of financial statements spotlights the significant facts and relationship concerning managerial performance, corporate efficiency, financial strength and weakness and credit worthiness that would have otherwise been buried in a maze of details (P. K.Jain; 1996:37).

2.1.5 Objectives of Financial Performance Analysis

Financial Analysis enables us to explore various facts related to the past performance of business and predicts about the future potentials for achieving expected results. Major objectives of analysis of financial statement are to assess various factors in relation to the business firm as presented below.

- The present and future earning capacity or profitability of the concern
- The operational efficiency of the concern as a whole, and of its various parts or departments.

- The short-term and long-term solvency of the concern.
- The comparative study regarding to one firm with another firm.
- The possibility of developments in the future making future forecasts and preparing budgets.
- The financial stability of business concern,
- The rea1meaning and significance of financial data,
- The long term liquidity of its fund.

2.1.6 Need of Financial Performance Analysis/ Financial Statement Analysis

The need for the Analysis of financial statement arises in order to address the following questions (Pradhan Radhe Shayam/ "Management of Working Capital"2000: 47-48).

- How was the firm doing in the past? Was there any problem? If so, in what Area?
- How it is doing at present? Is it doing better compared to the past performance, competitors and industry average? Is there any problem at present? If so, in what areas?
- What about the future? Is there any likely problem on the way in the future? What will its position be in the future?
- What corrective actions can be taken now to solve the problems and improve the performance? How will the recommendation of any course of actions or changes in the policy or practice help solve problems and improve the company's position?
- What are the expected results of recommendations? Are there any improvements?

2.1.7 Significance of Financial Analysis

Significance of Analysis lies on the objectives of financial analysis of any firm. The facts discovered by the analysis are perceived differently by different groups associated with the concern. The facts and the relationships concerning managerial performance, corporate efficiency, financial strengths and weaknesses and credit worthiness are interpreted on the basis of objectives in the hand.

"Such Analysis leads management of an enterprise to take crucial decisions regarding operative policies, investment value of the firm, internal financial control system and bargaining strategy for funds from external sources"(Agrawal Govinda Ram/1993:582).

“The parties that are benefited by the results or conclusion drawn from the analysis of financial performance can be numerated as” (Srivastava/ 1993:58-59)

- Top Management
- Creditors
- Shareholders
- Economists
- Labor Unions

A) Top Management

The responsibility of the top management is to evaluate:

- Are the resources of the firm has been used effectively and efficiently?
- Is the financial condition of the firm sound enough?

On the basis of past facts, firms can anticipate their future. Hence, top management can measure the success or failure of a company’s operations, determine the relative efficiency of various departments, process and products appraise the individual’s performance and evaluate the system of internal audit.

B) Creditors

The creditors can find out the financial strength and capacity of the borrower to meet their claims. Trade creditors are interested in the firm’s ability to meet their claims over a short span of time. The suppliers of long term debt focus upon the firm’s long term solvency and survival. A lending bank through and analysis of these statements can decide whether the borrower retains the capacity of refunding the principal and paying interest in time or not.

C) Shareholders

The shareholders, who have invested their money in the firm' s shares are most concerned about the firm's earning. They evaluate the efficiency of the management and determine about the necessity for the change. In large company the shareholder's interest is to decide whether to buy, sell or hold the shares. They wish to buy the shares in case of sound performance of the firm where as they simply intend to hold the shares in the condition of satisfactory performance. But they are hurried to sell the shares in case of poor performance.

D) Economists

To diagnose the prevailing status of business and economy, economists analyze the financial statements (of any firm). The government agencies analyze them for the purpose of price regulation; rate setting and similar other purposes.

E) Labor Unions

Productivity is the synonym of well-motivated labors. Labor unions are interested in rights and benefits of labor to enhance the moral of labors. For further motivation they expect increase in wages, fringe benefits and so on. These benefits are affected by the company's profitability condition. Therefore the union assesses the financial condition of the firm to determine whether the firm is in the situation or not to make such facilities available.

2.1.8 Process of Financial Performances Analysis

Financial Analysis basically financial statement analysis, is a technique of answering various questions regarding the performance of a firm in the past, present and the future on the basis of past performance. The analysis recommends the steps to be taken by financial managers while undergoing the assessment of financial position.

The questions, that as elucidated above create the need to follow certain steps such as first identification and analysis of problem in order to come up with appropriate recommendations, and then to project the expected results and examine them if there are improvements before implementing such recommendations. The following chart presents the process to be followed in the analysis of financial statements.

2.1.9 Types of Financial Performance Analysis

“The nature of financial Analysis differs according to the purpose of the analyst. “ a distinction may be drawn between various types of financial analysis either on the basis of material used for the same or according to the modus operandi of the analysis”(Man Mohan;1997-356).

A) According to material used

1. External Analysis

It is made by those who do not have access to the detailed records of the company. This group, which has to depend almost entirely on published financial statements, includes investors, credit agencies and governmental agencies regulating a business in a nominal way.

2. Internal Analysis

The internal analysis is accomplished by those who have access to the books of accounts and all other information related to the business. While conducting this analysis, the analyst is a part of the enterprise he is analyzing. Analysis for managerial purpose is the internal type of analysis and is conducted by executives and employee of the enterprise as well as governmental and court agencies which may have major regulatory and other jurisdiction over the business.

B) According to Modus Operandi Analysis

1. Horizontal Analysis

When Financial Statements for a number of years are reviewed and analyzed, the analysis is called horizontal analysis. As it is based on data from year to year, rather than on one date or period of times as a whole, this is also known as dynamic analysis.

2. Vertical Analysis

It is frequently used for referring to ratios developed for one date or for one accounting period. It is also called static analysis.

Besides, the types of financial analysis on the basis of material used and modus operandi, S.P Jain and K.L. Narang have categorized on the basis of objective of the study.

C) According to Objective

1. Long Term Analysis

This is made in order to study the long term financial stability, solvency and liquidity as well as profitability and earning capacity of a business concern. For the long run success of a business concern, this analysis helps in the long term financial planning.

2. Short Term-Analysis

This is made to determine the short-term solvency, stability and liquidity as well as earning capacity of the business. This analysis is helpful for short term financial planning.

2.1.10 Techniques of Financial (Statement) Analysis

The fundament of the analytical technique is to simplify or reduce the data under review to the understandable terms. There are various tools and techniques of financial statement analysis, each of which is used according to the purpose for which the analysis is carried out. The widely used techniques are as follows:

a. Ratio Analysis

b. Du Pont System of Financial Statement Analysis

c. Common Size Analysis

d. Funds Flow Analysis

e. Cash Flow Analysis

a. Ratio Analysis:

Ratio Analysis has been used as a major tool in the interpretation and evaluation of financial analysis. The term ratio refers to the numerical quantitative relationship between the two items/variables. A ratio is calculated by dividing one item of the relationship with the other base. In financial analysis, a ratio is used as a yardstick for the evaluation of financial performance of the firm. "The analysis of financial ratio involves two types of comparison. First, the present ratio may be compared with the past and expected future ratios for the same company and second, the method of comparison involves comparing the ratios of one firm with those of similar firm or with industry averages at the same point, in time. Such comparison gives insight into the financial performance of the firm." Ratio analysis is widely in use. It may not give the entire picture of an enterprise. Ratios themselves are not conclusion. They are only the means. The Ratios are calculated from data available in the financial statement of an enterprise. The Ratio completed from the available data are numerical, there should not be the tendency to regard them as a precise portrayals of a firm true financial status. For some firms, accounting data may closely

approximate economic reality, for others, it is necessary to go beyond the figures in order to obtain their financial condition of performance.

Types of Ratios

Different Ratios can be calculated from the available data in the financial statement. Broadly Ratios are classified in four groups. They are:

i) Liquidity ratios

ii) Capital structure/leverage ratios

iii) Activity (assets management) ratios

iv) Profitability ratios

i) Liquidity Ratio

Liquidity refers to the ability of enterprises to pay its current liabilities. Liquidity implies the utilization of such funds of the firm which are idle or in very little amount. A proper balance between the two contradictory requirements i.e. liquidity and profitability are required for the efficient financial management. The more current assets associated with high liquidity and low profitability and vice versa. The less current Ratio and quick Ratio are the most widely used ratios for the general purpose to measure the liquidity position of an enterprise.

ii) Capital Structure/Leverage Ratios

The Capital Structure/Leverage Ratio is associated with the long -term solvency of an enterprise. The long -term creditors would judge the soundness of a firm on the basis of long term financial strength measured in terms its ability to pay the interest regularly as well as repay the installment of principal due to dates or in one lump sum at the time of maturity. Leverage Ratios show how much of an enterprise's fund are financed by debt & equity. These Ratios also show the prospects for future financing.

The Capital Structure Ratio indicates the soundness of capital structure of an enterprise. It can be calculated on two ways. The first approach is to examine what proportion of borrowed capital occupies the capital structure i.e. calculated the Debt to Total Capital

Ratio. The second approach is to examine the number of times the interest earned covered by earnings and to calculate the fixed charges covered by earnings.

iii) Activity Ratio

An Activity Ratio may be defined as the test of relationship between sales and various types of Activity Ratios. Activity Ratios are employed to evaluate the efficiencies with which the firm manages and utilizes its assets. These Ratios are also called Turnover Ratios because they indicate the speed with which the assets are being covered or turned over into sales. So Activity Ratios presume that there exists an appropriate relationship between sales and various assets. The more important Activity Ratios for general - purpose analysis are Inventory Turnover Ratio, Total Assets Turnover Ratio, Fixed Assets Turnover Ratio, Capital Employed Turnover Ratio etc.

iv) Profitability Ratio

Profitability is very important aspect of management of any enterprise. It shows the overall performance of an enterprise. The Profitability Ratios are calculated to measure the operative effectiveness of an enterprise. Besides management of the company, creditors and owners are interested in the Profitability Ratios of the firm. Profitability Ratios can be calculated on the basis of either sales or investment. The important Profitability Ratios, calculated in relation to sales are Net Profit Margin, Gross Profit Margin, and Operating Expenses Ratio etc. Similarly, the important Profitability Ratios, calculated in relation to investment are Return on Shareholders' Equity, Return on Capital Employed, and Return on Fixed Assets etc. Together these Ratios indicate the firm's efficiency of operation (Panday/1998: 133).

b. Du Pont System of Financial Statement Analysis

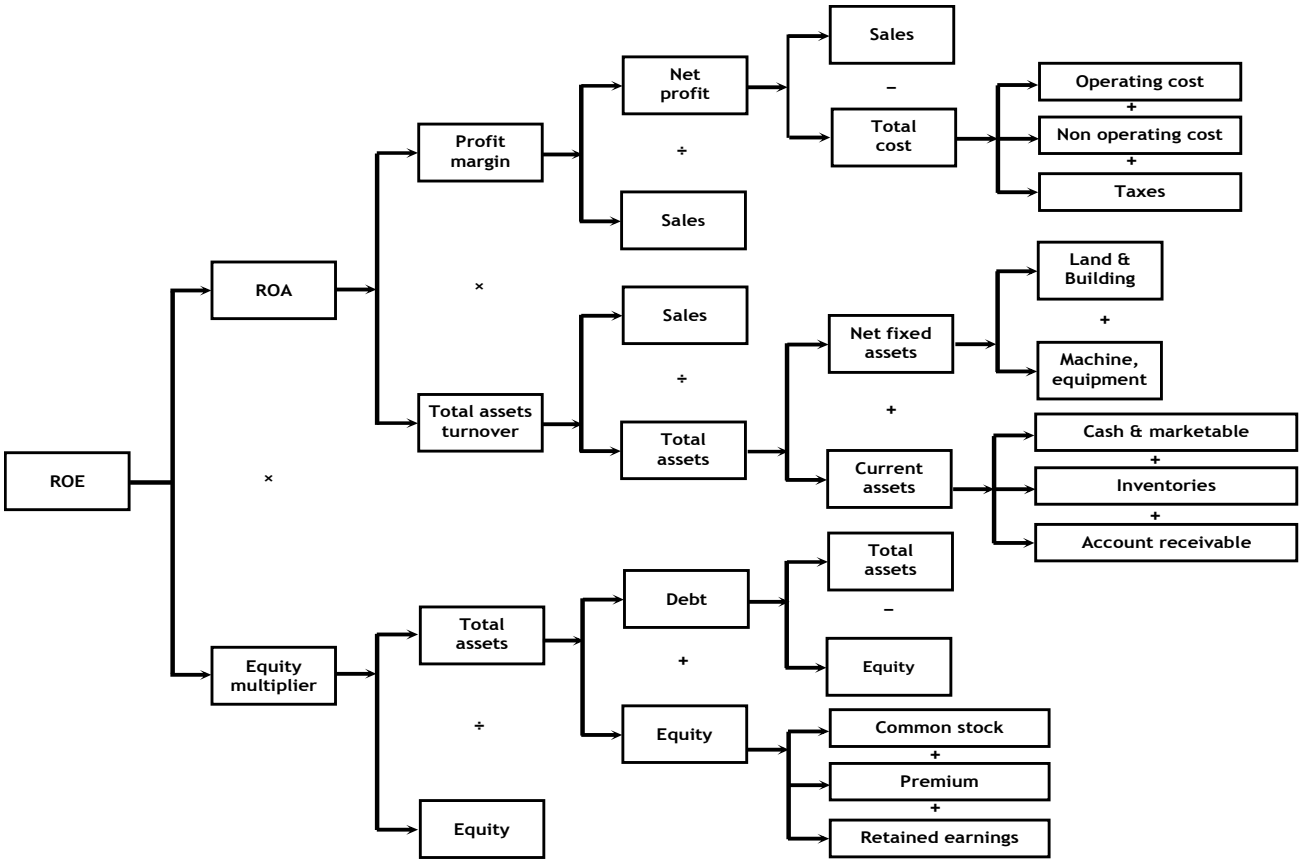
“The Du Pont system is designed to show how the profit margin on sales, the assets turnover ratio and the use of debt interact to determine the rate of return on equity” (Weston/1996-307)

The Du Pont system of financial statement analysis is developed by the financial experts of the Du Pont Company by putting together the effects of profitability, investment and

the equity ratios. The approach is based on the relationship among the three basic areas of the firm such as (i) cost controlling area (ii) Assets management area and (iii) Financial leverage area. The directed to address the concern of the shareholders; hence its main focus is on the return on equity (ROE)The ROE is analyzed in terms of the factors that directly affect the ROE. The factors such as costs, assets utilization and leverage ratio are the grounds on which several test are made to see how the ROE is affected by such factors. The following modified Du Pont Chart presents the relationship among these factors and ROE.

Figure 2.1

Du Pont System of Financial Analysis



Source: F. Weston and E. F. Brigham. The Dryden Press. 9th Edition, P99.

For a business firm, the return on assets (ROA) is the rate of return on the total investment that includes both equity and debt capital. The ROA does not reflect the

actual rate of return to equity holders. What reflects the return for stock holders is the return on their money (i.e. ROE), which is generally higher than the ROA. Thus ROA is an overall measure and reflects the overall performance of the company. The Du Pont system addresses the concerns of stockholder and focuses on ROE.

Du Pont equation defines ROE as a product of ROA and equity multiplier and ROA as a product of profit margin and total assets turnover.

The Du Pont equation is as follows:

ROE = ROA x equity multiplier

= profit margin x total assets turnover x equity multiplier

= Net profit/sales x sales/total assets x total assets/ equity

c. Common Size Analysis

The common size analysis is another technique of analyzing the items of financial statement on relative terms. Under this method, the percentage of every item in the income statements and balance sheets is carried out for past several years to determine the performance trend of each item during the period under analysis. After analyzing the rising, falling or constant trend of efficiency in the business operation one can make comparison with the industry average or competitors.

The common size analysis is carried out for a period of one or more. The income statement items are divided by sales and expressed as a percentage of sales. The balance sheets items are divided by total assets and expressed as percentage of total assets. These percentages for a company are compared with the standard measures such as percentages calculated in the same manner industry and the competitors. Thus, the comparison shows the company's performance relative to competitors as well as compared to it own past record.

d. Funds Flow Analysis

Funds flow Analysis is the statement of changes in financial position of any organization that determines only the sources and used of fund between two dates of balance sheet. It

is prepared to uncover the information that financial statements fail to describe clearly. It describes the sources from which funds were derived and used to which these funds were put.

The statement is prepared to summarize the changes in assets and liabilities resulting from financial and investment transactions during the period as well as those changes occurred due to the changes in owner's equity. It also uncovers the way of using financial resources during the period by the firm.

Method of preparing funds flow statement depends essentially upon the sense in which the term 'fund" is used. There are three concept of fund: cash concept, total resources concept and working capital concept. According to cash concept, the word fund is synonymous with cash. Total resources concept refers total assets and resources as fund. The term' fund" represents only to working capital on the stated last concept However, working capital concept of fund has gained wide acceptance as compared to the other concepts. Therefore any transaction that increases the amount of working capital is taken as source of fund while conducting funds flow analysis. Any transaction that decreases working capital is treated as application. But, any transaction that affects current liabilities or current assets without resulting any changes in working capital is not taken as sources or use.

e. Cash Flow Analysis

This statement is carried out to know clearly the various items of inflow outflow of cash. It is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital.

It deals the causes of changes in cash position for the period of two balance sheets date in brief. At the time of preparing cash flow statement, only cash receipt from debtors against credit deals are considered as the source of cash. Similarly, cash purchases and cash payments to suppliers for credit purpose are regarded as the uses of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

2.1.11 Limitations of Financial Performance Analysis

Financial Performance Analysis is of great significance for investor, creditor, management, economist, and other parties having interest in business. It helps management to evaluate its efficiency in past performance and takes decision relating to the future. (Jain, 1989-33) However, it is not free from drawbacks. Its limitations are listed below.

(a) **Historical nature of financial statements:**

The basic nature of statements is historical. Past can never be a precise and can never be perfectly helpful for the future forecast and planning.

(b) **No subject for judgment:**

Financial analysis is a tool to be used by experts, analysts etc. to evaluate the financial performance of firm. That's why it may lead to faulty conclusion if used by unskilled analyst.

(c) **Reliability of figures:**

Reliability of Analysis depends on reliability of the figures of the financial statements under scrutiny. The entire working of analysis will be vitiated by manipulation in the income statement, window dressing in the balance sheet, questionable procedures adopted by the accountant for the valuation of fixed assets and such other facts.

(d) **Single year analysis is not much valuable:**

The analysis of these statements relating to single year only will have limited use and value. From this, one can not draw meaningful conclusion.

(e) **Result may have different interpretation:**

Different users may differently interpret the result derived from the analysis. For example, a high current ratio may suit the banker but it may be the cause of inefficiency of the management due to under-utilization of fund.

(t) **Change in accounting methods:**

Analysis will be effective if the figures derived from the financial statements are comparable. Due to change in accounting methods the figures of current period may have no comparable base, and then the whole exercise of analysis will become futile.

(g) **Pitfall in inter-firm comparison:**

When different firms are adopting different procedures, records, objectives, policies and

different items under similar heading, comparison will be more difficult. If done, it will not provide reliable basis to assess the performance, efficiency, profitability and financial condition of the firm as compared to the whole industry.

(h) **Price level change reduces the validity of analysis:**

The continuous and rapid changes in the value of money, in the present day, economically also reduces the validity. Acquisition of assets at different level of prices make comparison useless as no meaningful conclusion can be drawn from a comparative analysis of such items relating to several accounting periods.

Selection of appropriate tool

There are different tools of analysis available to the analyst. The tools to be used in a particular situation depend on skill, training, intelligence and expertise of the analyst. If wrong tool is used, it may lead to wrong conclusion. This may be harmful to the interest of business. (Orne and Walchowicz, 1997:120)

2.2 Review of Journal and Articles

Under this heading, reviews of research papers of researchers are analyzed to find out the investment policies of commercial banks.

Govinda Bahadur Thapa, (1994), expresses his views in his research paper *"Financial System of Nepal"* that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to high credit needs particularly by newly emerging industries, the bank still seems to lack adequate funds. The banks are increasing their lending to non –traditional sectors along with the traditional sectors. Out of all commercial banks (excluding two recently opened regional commercial banks), Nepal Bank Ltd. and Rastriya Banijya Bank are operating with a nominal profit, the later turning towards negative from time to time. Because of growing competition and limitation of investment sectors, the spread between interest income and interest expenses is declining. These banks have not been able to increase their income from commission and discount. On the contrary, they have got heavy burden of

personal and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected. On the other hand, the foreign joint venture banks have been functioning in an efficient way. They are making profit year after year and have been distributing bonus to their employees and dividends to their shareholders.

He concludes that by its very nature of the public sector, these two domestic banks couldn't compete with the private sector banks, so only remedy to the problems of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private hands (Thapa, 1994:29-37).

Radhe S. 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.

2.3 Review of Thesis

Sunity Shrestha, (1993), has conducted a study on "*Investment Planning of Commercial Banks in Nepal*" with the objectives:

1. To evaluate the financial performance of commercial banks in Nepal.
2. To examine the investment of commercial banks of Nepal with reference to securities, loans & advances.
3. To establish the relationship of banks' portfolio variables with the national income and interest rates.

The research findings of the study are summarized as:

- The general trend of commercial banks asset holding is growing. Deposits have been a major source of funds. The excess reserve level of the banks allows idle money and loss of opportunity. Debt equity ratios are very high, greater than 100%.
- The return ratios are on the average higher for foreign joint venture banks than for the Nepalese bank but return of asset found to be statistically some. Risk taking attitude is higher in foreign joint venture banks. The total management achievement index is higher in case of foreign banks in comparison to the Nepalese banks.
- The hypothesis that the commercial banks have non –professional style of decision making in investment has been accepted. The investment of commercial banks in shares and securities is normal and not found to have strategic decision towards investment in shares and securities. Yield from the security has been found to be satisfactory.
- Investment in various economic sectors shows industrial and commercial sector taking higher shares of loan till 1990.
- Investment in various sectors has a positive impact on the national income from their respective sectors.
- Lending in priority sector showed cottage and small industry sector sharing higher loans.

- Priority sector lending showed positive impact on the national income.

The secured loan analysis showed commercial loan as being very important followed by social and industrial loans. The loan loss ratio has been found to be increase with low recovery of loan. Demand of bank credit has been found to be affected by the national income and lending and Treasury bill rate. The investment of commercial banks on government securities has been observed to be affected by total deposit, cash reserve requirements and Treasury bill and lending rates. Interest rates, lending rate, deposit rate were found to constitute a set of significant variables affecting the bank portfolio composition (Sherestha, 1993:86).

Upendra Tuladhar, (2000), conducted a study on "*A Study on Investment Policy of Nepal Grindlays Bank Limited in Comparison to other Joint Venture Banks of Nepal*" with the objective of:

1. To study the fund mobilization and investment policy with respect to fee-based off – balance sheet transaction and fund based on balance sheet transactions.
2. To study the liquidity, efficiency of assets management and profitability position.
3. To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit.
4. To perform an empirical study of the customer's views and ideas regarding the existing services and adopted invested policy of the Joint venture banks.

The study is mainly based on secondary data and in some aspects of the study primary data are also collected through questionnaire survey of 100 respondents.

The research findings of the study are as follows:

- From the analysis of primary data concerning in which sector should JVBs invest; 28.37% respondents emphasized on educational sector to be invested by these JVBs as the potential investment sector. Consequently poverty stricken and deprived sector was given second priority (26.24), whereas industrial sector

(18.44), tourism sector (16%), agricultural sector (16%) , and construction sector (4.25) are given third, fourth, fifth and sixth priority respectively.

R. B. Kapadi, (2002), has conduct 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.

- Total debt to equity ratio of both the banks reveals that the claims of the outsider exceeds mere than that of the owner's over the bank asset. However NABIL bank seems to be more leveraged than SCBNL.
- 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.
- 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.

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

Shiba Raj Loudari, (2003), conducted a study on *"A Study on Investment Policy of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd."* with the objective of:

1. To examine the liquidity, asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd.
2. To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL in comparison to Nepal SBI bank ltd.
3. To analyses relationship between deposit and investment, deposits and loan & advances, net profit and outside assets of Nepal Indosuez Bank Ltd. In comparison to Nepal SBI Bank Ltd.

The research findings of the study are as follows:

- Current ratios for both the banks are satisfactory.
- Although Cash reserve ratio is managed by both banks as per Nepal Rastrya Bank directives, both banks have not paid sufficient insight towards cash management. Their cash reserves have fluctuated in a high degree.
- Nepal SBI Bank ltd. has increased investment in government securities where as Nepal Indosuez Bank has decreased.
- Nepal Indosuez Bank Ltd. has maintained both current ratio and cash reserve ratio better than Nepal SBI Bank Ltd. But its cash and bank balance, investment in government securities and loan and advances in comparison to current assets are lower than that of Nepal SBI Bank Ltd.
- Deposit utilization of Nepal Indosuez Bank Ltd. is less effective than that of Nepal SBI Bank Ltd. Further Nepal Indosuez Bank Ltd. has

invested lesser amount on government securities and shares and debenture than that of Nepal SBI Bank.

- Nepal Indosuez Bank Ltd. did a better performance in return on total assets and loan and advances and interest earning, but it paid lower interest amount to working fund.
- The analysis of growth ratios shows that growth ratios of total deposit, loan and advances, total investment and net profit of Nepal Indosuez Bank are less than that of Nepal SBI Bank.

The trend value of loan and advances to total deposits ratio is decreasing in case of both banks. The trend value of total investment to total deposits ratio is also decreasing in case of both banks

Durgesh Gopal Shrestha, (2004), on his thesis entitled "*Role of Rastriya Banijya Bank in Priority Sector Credit & its 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:

- 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.
- RBB is very much success in complying the NRB policy.
- Bank was not able to fully utilize the collected deposits in a proper way.
- The study reveals that the disbursement & recovery under DSC is in decreasing trend; however the ratio of repayment to disbursement is in increasing trend.

- Loan repayment under DSC was more satisfactory from industry sector that the agriculture sector & services sector.
- The trend valves 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.

S. 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.

S. P. 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 three JVB's viz. SCBNL and NBBL to examine and evaluation the financial data.

The research findings of the study are as follows:

- 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.
- The on an average, NBBL bank constitutes 16.27 times of P/E ratio, which should be reduce as quickly as possible.
- 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.
- The average ROE of JVB's i.e. SCBL and NBBL area 37.36% and 21.75% 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

Ram Limbu, (2008), in his dissertation "*Credit Management of NABIL Bank Limited"* highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition

The main objectives of the research study are as follow.

1. To evaluate various financial ration of the Nabil Bank.
2. To analyze the portfolio of lending of selected sector of banks

3. To determine the impact of deposit in liquidity and its effect on lending practices.
4. To offer suitable suggestions based on findings of this study.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances.

The research findings of the study are as follows:

- Assets management position of the bank shows better performance in the recent years. Non–performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank.
- In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses' higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio.
- In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances.
- Earning per share and The Price earning ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share.
- Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. In the

study every aspect of banks seems to be better and steady in every year. Its all analysis indicates better future of concern bank.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research in common parlance refers to a 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."

"Research is a systematic inquiry for seeking facts and methodology means the analysis of specific topic by using proper method. In other words research methodology is the way to solve systematically the research problem." (Kothari, 1999: 61).

Thus, Research is a systematic inquiry seeking facts through objectives verifiable methods in order to discover the relationship among them and to deduce from them broad principles or laws. It is really a method of critical thinking by defining and redefining problems, formulating hypothesis or suggested solution, collecting, organizing and evaluating data, making decisions and making conclusions to determine whether they fit the formulated hypothesis.

However, the following steps provide useful procedure guidance so far as research methodology is concerned.

1. Tentative selection of problem (i.e. topic of research);
2. Initial survey of literature;
3. Defining or selection the research problem;
4. Extensive literature survey;
5. Specification of the information required: formulating the hypothesis;
6. Design of the research project;
7. Sample design;

8. Collection of data / construction of questionnaires;
9. execution of the project;
10. Analysis of data;
11. Testing the hypothesis
12. Arriving at generalizations; and
13. Preparation of the report (stating or writing down the results) 33

The main objective of this topic is to analyze, examine, highlight and compete the financial performances of Everest Bank Ltd and SCBNL and recommend suggestions for improvements. This chapter looks into the research designs, nature and sources of data, data collection, procedures and tools and techniques of analysis.

3.2 Research Design

Research is a theory building activity. Research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research questions and to control variances.

"A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combined relevance to the research purpose with economic in procedure" (Kothari, 1989:59).

Since the main objectives of this study is to analysis financial performance of the banks, all the indicators that shows the financial performance of the banks were calculated using data obtained from the five year end internally generated accounting records maintained by sampled Banks. The study depends on the secondary data. Various financial parameters and effective research techniques are employed to evaluate the financial performance of the banks. Furthermore, various descriptive as well as analytical techniques are used. The study is designed as to give a clear picture of the Bank's financial circumstances with the help of available data with useful suggestions and recommendation.

3.3 Population and Sample

Twenty-three Commercial banks are operating in Nepal. All the commercial banks that are operating in Nepal are considered as the population. It is not possible the study all the data related with all JVBs because of the limited time period and showed also taken in to consideration of the partial fulfillment of the Master's Degree. Currently aggregate 25 commercial banks are running in Nepal. They all 25 Commercial bank are taken as population. Thus two joint venture banks i.e. EBL and SCBNL have been selected as sample for the present study.

3.4 Nature and Sources of data

The study is mainly conducted on secondary data relating to the study of financial performance of samples Banks, as they are they are available at concerned Banks. For the purpose of the study, various related books, booklets, magazine, journals, newspaper and thesis made in this field have been referred. Besides necessary suggestions are taken from various experts both inside and outside the bank whenever required.

3.5 Data Collecting Procedures

The annual reports of the concerned banks were obtained from their head office and their websites. NRB publication, such as Banking and Financial Statistics Economic Reports, Annual Reports of NRB etc .has been collected from the personal visit of concerned department of NRB at Baluwatar. Besides, a details review materials are collected from the library of Shanker Dev Campus and central library of T.U.

3.6 Tools and Techniques used

"The analysis of data consists of organizing, tabulating, and performing statistical analysis" (Wolf and Pant: 127)

In this study, various financial and statistical tools have been used to achieve the objective of the study. According to the pattern of data available, the analysis of data will be done. The various tools applied in this study have been briefly presented as under:

3.7 Financial Tools

Financial performance is analyzed through the use of two important tools. The financial tool is one of the most important tool, which includes ratio analysis and the other one financial statement analysis have been used in this study. Financial tools are used to examine the financial strength and weakness of bank. Although there are many financial ratios, only selected ratios are used in this study.

3.7.1 Analysis of Financial Ratios

The techniques of ratio analysis in of considerable significance in studying the financial stability, liquidity, profitability and the quality of management of the business and industrial concerns, the important ratios that are studied for this purpose are given below.

3.7.1.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Liquidity provides honor strength health and prosperity to an organization. It is extremely essential for an organization to meet its obligations as they become due. A firm should ensure that it has not lack of liquidity and also that it is not too much highly liquid.

The following ratios are evaluated and interpreted under liquidity ratios:

i) Current Ratio

Current ratio indicates whether the concern has instant ability to payout the current liabilities as they mature. The ratio is the yardstick t judge the soundness of the short term financial position of the business unit or industry. Standard of current ratio is 2:1.

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

Where, current assets = cash in hand, cash at bank, bills receivable, sundry debtors or account receivable, short term loan & advances, inventories , prepaid expenses etc.

Current Liabilities = Bills Payable, Sundry Creditor, Accrued expenses, Bank overdraft, short term loan, provision for taxation, etc.

ii) **Cash and Bank balance to Current Assets Ratio**

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

$$\text{Cash and Bank balance to Current Asset Ratio } X\frac{\text{Cash and Bank balance}}{\text{Current Asset}}$$

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

iii) Investment of Government Securities to Current Assets Ratio

Government securities are slightly liquid assets as well as confidential investment until the state is living. So it is also a very important and very near cash item of current assets. Investments on Government securities to current assets ratio visualize the proportion of investment on government securities to current assets.

Investment of Government Securities to Current Assets Ratio

$$X\frac{\text{Investment on Government Security}}{\text{Current Asset}}$$

iv) Loan and Advances to Current Assets Ratio

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

$$\text{Loan and Advance to Current Asset Ratio } X\frac{\text{Loan and Advance}}{\text{Current Asset}}$$

v) Cash and Bank Balance to Total Deposit Ratio

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

$$\text{Cash and Bank balance Total Deposit Ratio } X\frac{\text{Cash and Bank balance}}{\text{Total Deposit}}$$

3.7.1.2 Activity Ratio

Activity or turnover ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. These ratios are employed to evaluate the efficiency with which the firm manages and utilize its assets.

A commercials bank must manage its assets properly to earn high profit.
Under this chapter following ratios are studied.

i) Loan and Advance to Total Deposit Ratio

This ratio measure the extent to which the banks are successful to mobilize their total deposit on loan and advances.

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

ii) Total Investment to Total Deposit Ratio.

This ratio measures the extent to which the banks are able to mobilize their deposit on investment on various securities. A high ratio indicates the success in mobilizing deposits in securities and vice versa.

$$\text{Total Investment to Total Deposit Ratio } X\frac{\text{Total Investment}}{\text{Total Deposit}}$$

iii) Loan and Advances to working Fund Ratio

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

$$\text{Loan and Advance to Working Fund Ratio X} \frac{\text{Loan and Advances}}{\text{Total Working Fund}}$$

Total working fund is the total assets. It composed up of current assets, fixed assets, miscellaneous assets, investment, loan for development bank etc.

3.7.1.3 Profitability Ratio

Profitability ratio indicates degree of success in achieving desired profit level. Profitability ratio, which measures management overall effectiveness, are shown by the returns generated on sale and investment. A bank should be able to earn profit to survive and grow over a long period of time. Profit is the indicator of effective operation of a bank. The banks acquire profit by providing different services to its customer or by making investment of different kind.

Profitability ratio measures the efficiency of bank. Higher profit ratio shows higher efficiency of the bank. The following profitability ratios are related to study in this heading.

i) Return on Equity (ROE)

If banks can mobilize its equity capital properly, they can earn high profit. The return on equity capital measures the extend to which a bank is successful to mobilize its equity.

$$\text{Return on Equity X} \frac{\text{Net Profit}}{\text{Total Equity Capitals}}$$

Equity Capital includes paid up equity, Profit & Loss Account, Various Reserve, General loan, loss provision etc.

ii) Interest Earned to Working Fund Ratio

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

$$\text{Interest Paid to Working Fund Ratio } X\frac{\text{Interest Earned}}{\text{Total Asset}}$$

iii) Interest Paid to Total Assets Ratio

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

$$\text{Interest Paid to Total Assets Ratio } X\frac{\text{Interest Paid}}{\text{Total Asset}}$$

iv) Interest Earned to Operating Income Ratio

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

$$\text{Interest Earned to Operating Income Ratio } X\frac{\text{Total Interest Earned}}{\text{Total Operating Icomr}}$$

Where, Total operating income includes the interest income, commission & discount, income from dividend, foreign exchange income and others.

v) Return on Total Assets Ratio

Its measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the banks working fund is well managed and efficiently utilized. Where, Net profit includes the profit that is left to the internal equities after all costs, charges and expenses.

$$\text{Return on working Fund } X\frac{\text{Net Profit}}{\text{Total Asset}}$$

vi) Return on Loan and Advances Ratio

Its measures the earning capacity of commercial banks on its total deposits mobilized on loan and advances.

$$\text{Return on Loan \&Advances Ratio X} \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

vii) Earning per Share (EPS)

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

$$\text{Earning Per Share X} \frac{\text{Net Income Available to the common stockholders}}{\text{Total No. of Common stock outstanding}}$$

3.7.1.4 Lending Efficiency Ratio

This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility of available fund. One following is the various types of lending efficiency ratio.

i) Loan Loss Provision to Total Loan and Advances ratio

Loan loss provision to total loan and advances describes the quality assets that a bank holding. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan mean the net profit of the banks will come down by such amount. Increase in loan loss provision decreases in profit result to decreases in dividends but its positive impact is that strengthens financial conditions of the bank by controlling the credit risk and reduced the risks related deposits. So, it can said that loan suffer it only for short term while the good financial conditions and safety of loans will make banks prosperity regulating increasing profits for long term.

The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates more risky assets in total volume of loan advances.

$$\text{Loan loss provision to total loan and advances} = \frac{\text{Loan loss provision}}{\text{Total loan and advances}}$$

ii) Non-Performing Loan to Total Loan and Advances

This ratio shows the relationship of Non-Performing loan and total loan and advances and is to determine how efficiently the total loan and advances have been used by management. Higher ratio shows the low efficient operating of the management and lower ratio shows the more efficient operating of credit management.

$$\text{Non - performing loan to total loan and advance Ratio X} \frac{\text{Non - performing loand}}{\text{Total Loan and Advances}}$$

iii) Interest Expenses to Total Deposit Ratio

This ratio measures the percentage of total interest paid against total deposit. A high ratio indicates higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has more the probability of generating loans, advances, and vice versa.

$$\text{Interest Expenses to Total Deposit Ratio X} \frac{\text{Interest Expenses}}{\text{Total Deposit Ratio}}$$

3.8 Statistical Tools

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

3.8.1 Average/Mean

An average is a single value related from a group of values to represent them in someway, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. There are various types of averages. Arithmetic mean (AM, Simple & Weighted), median, mode, geometric mean, harmonic mean are the

major types of averages. The most popular and widely used measure representing the entire data by one value is the AM. The value of the AM is obtained by adding together all the items and by dividing this total by the number of items.

Mathematically:

Arithmetic Mean (AM) is given by,

$$\bar{X} = \frac{X}{n}$$

Where, $\bar{X}$ = Arithmetic mean

$\sum x$ = Sum of all the values of the variable X

n = Number of observations

3.8.2 Standard deviation:

The standard deviation measures the absolute dispersion. It is said that higher value of standard deviation the higher the variability and vice versa. Karl Pearson introduced the concept of standard deviation in 1823 A. D. and this is denoted by the small Greek letter (pronounced sigma) the formula to calculate the standard deviation is given below:

$$\pm \sqrt{\frac{x^2}{N}}$$

Where, x = $\int X - \bar{X}$

3.8.3 Coefficient of variation

The coefficient of variation reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviations known as coefficient of variation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the CV. It is used for comparing variability of two distributions; the CV is defined as,

$$CV = \frac{\pm}{\bar{X}} \varepsilon \ 100$$

Greater the CV, the more variable or conversely less consistent, less uniform, less stainable and homogenous than the consistent more uniform, more stable and homogenous. This nature of CV uses that actual size of working capital.

3.8.4 Coefficient of correlation (r)

Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is liner related to another. Coefficient of correlation is the measurement of the degree of relationship between two casually related sets of figure whether positive or negative. Its values lie somewhere ranging between - 1 to +1. If the both variables are constantly changing in the similar direction, the value of coefficient will be –1, two variables take place in opposite defection. The correlation is said to be perfect negative. In this study, simple correlation is use to examine the relationship of different factors with working capital and other variable.

$$\text{Coefficient of correlation (r)} = \frac{\text{CoVariance of X \& Y}}{\pm_X \ \pm_Y}$$

i) Coefficient of Correlation between Deposit and Loan & Advances.

Deposit have played a very important role in performance of commercial banks and similarly loan & advances are important to mobile the collected deposits. Coefficient of Correlation between deposit and loan & advances measures the degree of relationship between the two variables. In this analysis, deposit is independent variable (X) and loan & advances is dependent variables(Y). The main objectives of computing 'r' between these two variables are to justify whether deposits are significantly used on loan & advances in a proper way or not.

The following table shows the value of 'r', '$r^{2'}$ probable Error (P.Er) and P.Er between deposit and loan & advances for the study period 2002/03 to 2006/07.

ii) Coefficient of Correlation between Deposit and Total Investment

Coefficient of correlation between deposit and total investment measures the degree of relation between these two variables. Here deposit is independent variable (x) and total

investment is dependent variable(y). The purpose of computing coefficient of correlation between deposit and total investment is to find whether deposit is significantly used as Investment or not.

3.8.5 Trend Analysis

The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The straight line trend of a seires of data is represented by the following formula.

$Y= a + bx$

Here,

Y is the dependent variable, a is y intercept or value of y when x=0, b is the slope of the trend line or amount of change that comes in y for a unit change in x.

Where,

y= Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

CHAPTER - IV

PRESENTATIONS AND ANALYSIS OF DATA

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

i) Analysis of financial ratios

ii) Statistical tools

4.1 Analysis of Financial Rations

The techniques of ratio analysis in of considerable significance in studying the financial stability, liquidity, profitability and the quality of management of the business and industrial concerns, the important ratios that are studied for this purpose are given below.

4.1.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Liquidity provides honor strength health and prosperity to an organization. It is extremely essential for an organization to meet its obligations as they become due. A firm should ensure that it has not lack of liquidity and also that it is not too much highly liquid.

The following ratios are evaluated and interpreted under liquidity ratios:

i) Current Ratio

Current ratio indicates whether the concern has instant ability to payout the current liabilities as they mature. The ratio is the yardstick t judge the soundness of the short term financial position of the business unit or industry. High ratio indicates sound liquidity position of the bank and vice-versa. But too high ratio is not good for bank since it

reveals the under utilization of fund. Standard of current ratio is 2:1. In the following table, we can see the data relating to Current Ratio of EBL.

Table No 4.1

Current ratio of EBL and SCBNL

(RS IN MILLION)

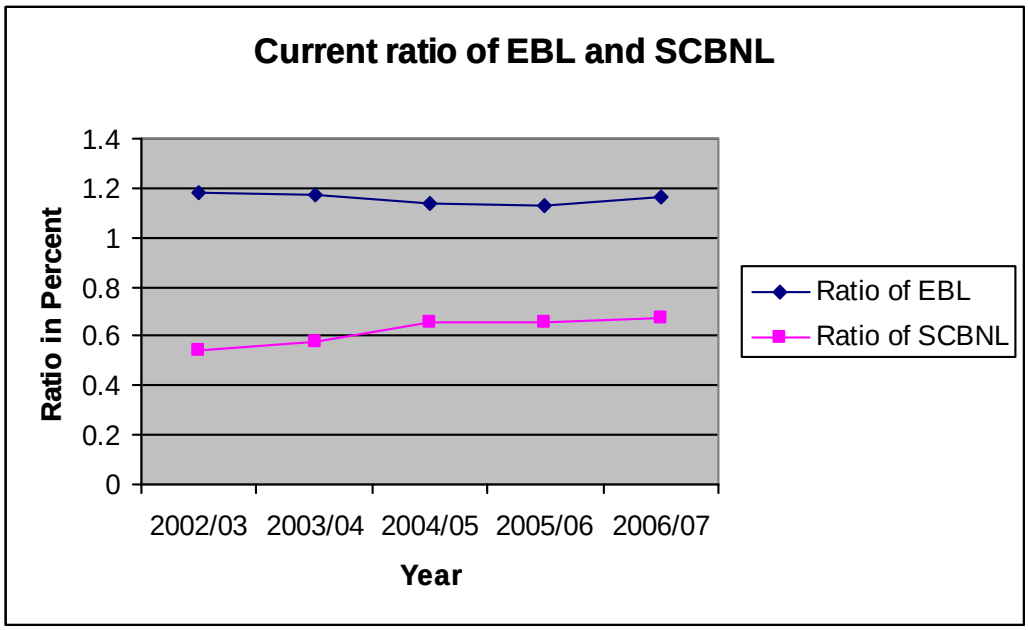
Year	EBL			SCBNL		
	Current Assets (Rs)	Current Liabilities (Rs)	Current Ratio (Times)	Current Assets (Rs)	Current Liabilities (Rs)	Current Ratio (Times)
2002/2003	7942.62	6717.06	1.18	11134.34	20734.38	0.54
2003/2004	9490.20	8085.94	1.17	13540.69	23349.48	0.58
2004/2005	11598.45	10138.99	1.14	14345.56	21795.58	0.66
2005/2006	15807.2	13932.91	1.13	17245.92	25946.61	0.66
2006/2007	21262.48	18296.45	1.16	19678.85	28976.62	0.67
Mean			1.16			0.63
S.D.			.0207			.058
C.V.			0.0178			.092

Source: Financial statement of Bank 2002/03 to 2006/07

Above table and figure shows that the current assets to current liabilities ratio of EBL is in decreasing trend except in 2006/07. The highest ratio is 1.18 times in year 2002/2003 and lowest ratio 1.13 times in year 2005/06. The mean ratio is 1.16 times, standard deviation is 0.207 and coefficient of variation is 0.0178. Whereas the ratio of SCBNL is in increasing trend. The highest ratio is 0.67 times in year 2006/07 and lowest ratio is 0.54 in 2002/2003. The mean ratio is 0.63 times, standard deviation is 0.58 and coefficient of variation is 0.092

While observing the data, we notice that both the banks have not met the standard ratio. How ever, in comparison EBL has sound ability to meet its short term obligation than that of SCBNL. Current Ratio is represented in figure as follow.

Figure No 4.1



ii) Cash and Bank balance to Current Assets Ratio

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

In the present study cash and bank balances includes cash on hand including foreign cheques other cash item and balance with domestic banks and abroad. Cash and bank balances are highly liquid assets than other current assets. So this ratio scans higher liquidity position than current ratio. Following table shows the data relating to cash and bank balance to current assets.

Table No 4.2

Cash and Bank balance to Current Assets Ratio

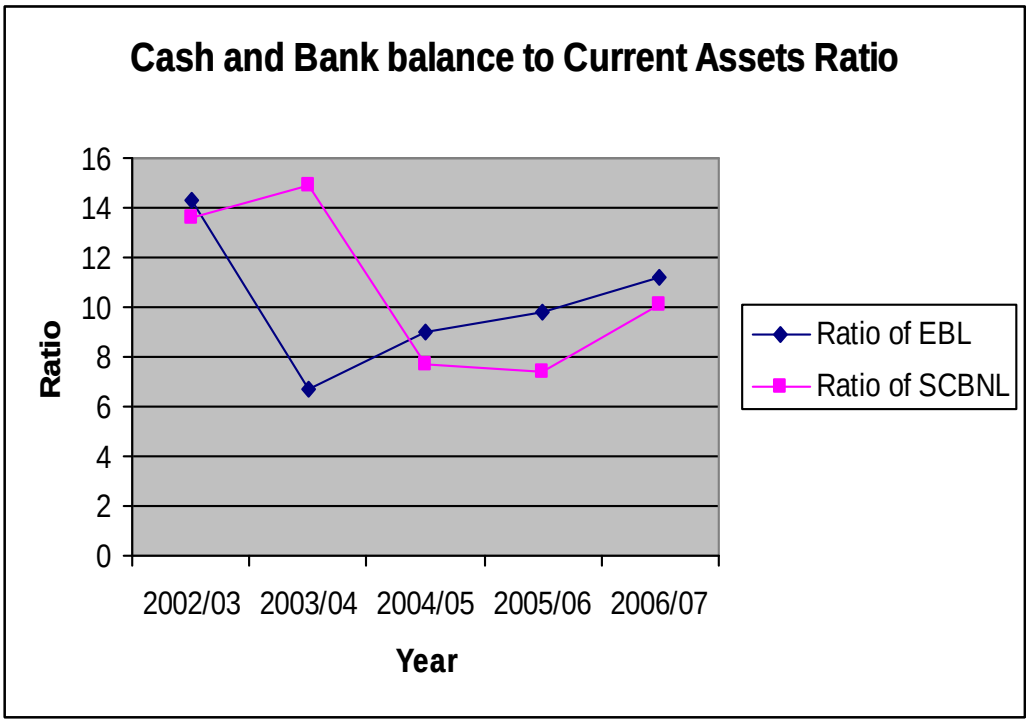
(RS IN MILLION)

Year	EBL			SCBNL		
	Cash and Bank Balance(Rs)	Current Assets (Rs)	Ratio (%)	Cash and Bank Balance (Rs)	Current Assets (Rs)	Ratio (%)
2002/2003	1139.57	7942.62	14.35	1512.31	11134.34	13.58
2003/2004	631.80	9490.20	6.66	2023.16	13540.69	14.94
2004/2005	1050.00	11598.45	9.05	1111.12	14345.56	7.75
2005/2006	1553.00	15807.2	9.82	1276.24	17245.92	7.40
2006/2007	2391.42	21262.48	11.25	1992.18	19678.85	10.12
Mean			10.23			10.76
S.D.			2.84			3.40
C.V.			.278			0.316

Source: Financial statement of Bank 2002/03 to 2006/07

Above table, shows that the cash and bank balance to current assets ratio of EBL and SCBNL are in fluctuating trend. The highest ratio of EBL is 14.35% in year 2002/2003 and lowest ratio 6.66% in year 2003/2004. The mean ratio is 10.23% .Similarly, the highest ratio of SCBNL is 14.94% in 2003/2004 and lowest ratio is 7.40% in 2005/2006.The mean ratio of SCBNL is 10.76%. While observing the data, we notice that EBL has slightly lower mean ratio. It indicates that SCBNL has the slightly higher portion of cash and bank balance over current assets. it means SCBNL has slightly sound liquid assets than that of EBL. The standard deviation is 2.84 and coefficient of variation is 0.278 of EBL and the standard deviation SCBNL is 3.40 and coefficient of variation is 0.316. Cash and Bank balance to Current Assets Ratio is represented in figure as follow.

Figure No 4.2



iii) Investment of Government treasury bills to Current Assets Ratio

Government securities are slightly liquid assets as well as confidential investment until the state is living. So it is also a very important and very near cash item of current assets. Investments on Government treasury bills to current assets ratio visualize the proportion of investment on government securities to current assets.

The following table shows the figure of this ratio

Table No 4.3

Investment on Government treasury bills to Current Assets

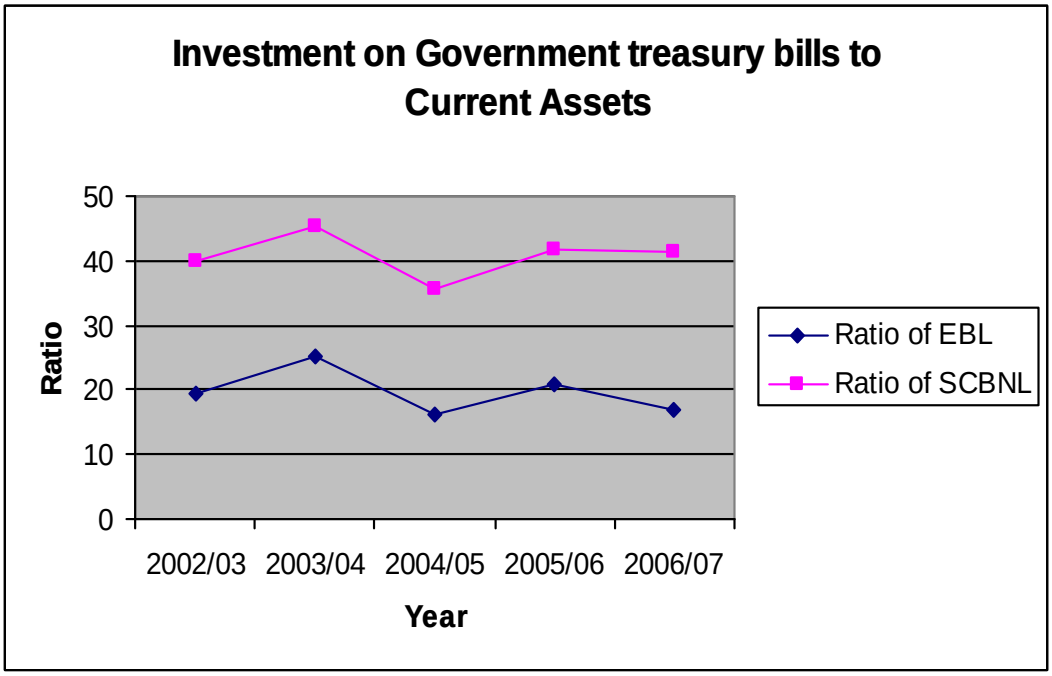
(RS IN MILLION)

Year	EBL			SCBNL		
	Investment on Government treasury bills	Current Assets	Ratio (%)	Investment on Government treasury bills	Current Assets	Ratio (%)
2002/2003	1537.30	7942.62	19.36	4438.52	11134.34	39.86
2003/2004	2392.10	9490.20	25.21	6130.45	13540.69	45.27
2004/2005	1873.71	11598.45	16.15	5089.37	14345.56	35.48
2005/2006	3322.44	15807.2	21.02	7210.50	17245.92	41.81
2006/2007	3614.54	21262.48	17.00	8136.21	19678.85	41.34
Mean			19.75			40.76
S.D.			3.61			3.55
C.V.			.183			.087

Source: Financial statement of Bank 2002/03 to 2006/07

Above table shows that the investment on government treasury bills to current assets of EBL and SCBNL are in fluctuating trend. The highest ratio of EBL is 25.21% and SCBNL is 45.27% in 2003/04. and the lowest ratio of EBL and SCBNL are 16.15% and 35..48% in 2004/05 respectively. Similarly, the standard deviation of EBL is 3.61 and coefficient of variation is 0.183 and the standard deviation SCBNL is 3.55 and coefficient of variation is 0.087. From the table we notice that mean ratio of EBL and SCBNL are 19.75% and 40.76% respectively. SCBNL has higher ratio in every year and mean too. It means SCBNL has invested more money in risk free assets than that of EBL. In another words EBL has emphasized on more loan and advances and other short term investment than investment in govt. securities. For minimization of investment risk, EBL should divert its investment in govt. securities. Investment on Gvt. securities to current asset Ratio is represented in figure as follow.

Figure No 4.3



iv) Loan and Advances to Current Assets Ratio

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

The table below shows the ratio of loan and advance to current assets ratio.

Table No 4. 4

Loan and Advance to Current Assets Ratio.

(RS IN MILLION)

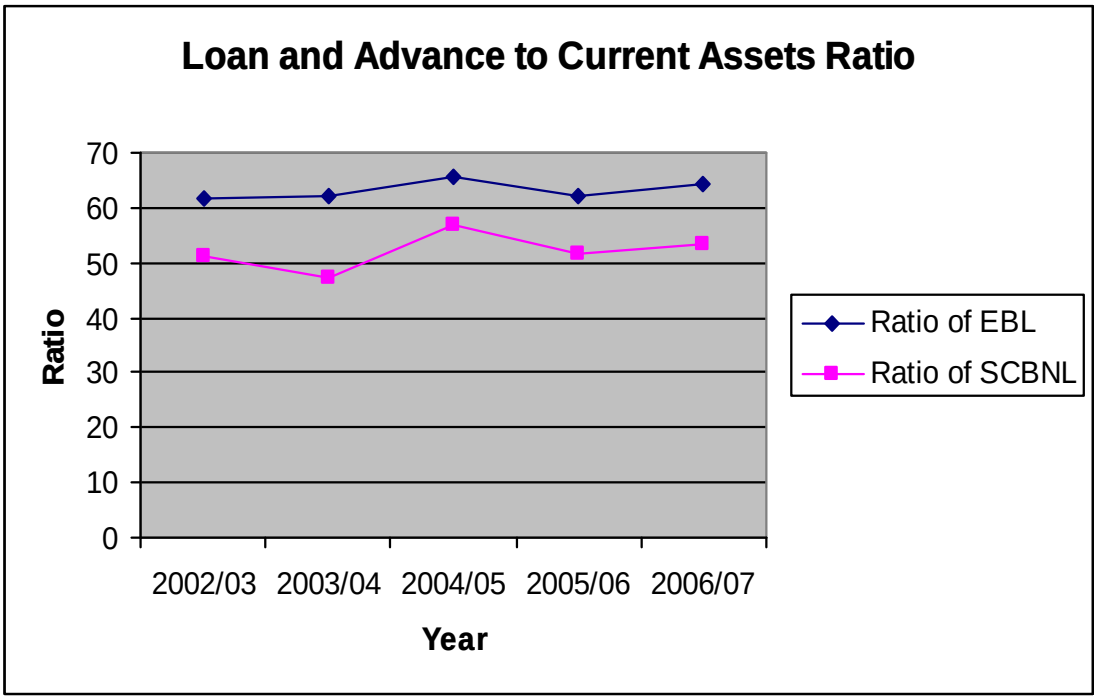
Year	EBL			SCBNL		
	Loan & Advances	Current Assets	Ratio (%)	Loan & Advances	Current Assets	Ratio (%)
2002/2003	4908.46	7942.62	61.80	5695.82	11134.34	51.16
2003/2004	5884.12	9490.20	62.00	6410.24	13540.69	47.34
2004/2005	7618.67	11598.45	65.69	8143.21	14345.56	56.76
2005/2006	9801.30	15807.2	62.00	8935.42	17245.92	51.81
2006/2007	13664.08	21262.48	64.26	10502.64	19678.85	53.37
Mean			63.15			52.09
S.D.			1.74			3.42
C.V.			.028			.066

Source: Financial statement of Bank 2002/03 to 2006/07

Above table shows that loan and advances to current of EBL and SCBNL are fluctuating trend. The highest ratio of EBL is 64.26% and SCBNL is 56.76% in 2004/05. and the lowest ratio of EBL and SCBNL are 61.80% in 2002/2003 and 47.34% in 2003/04 respectively. The standard deviation is 1.74 and coefficient of variation is 0.28 of EBL and the standard deviation is 3.42 and coefficient of variation is 0.066 of SCBNL

From the table we notice that mean ratio of EBL and SCBNL are 63.15% and 52.09% respectively. EBL has higher ratio in every year and mean too. It means EBL has invested more money in the area of interest generation sources out of the current assets Risk free assets than that of EBL. In another words EBL has emphasis on more loan and advances. on the other hand SCBNL has invested more money in risk free assets out of the current assets than that of EBL For minimization of investment risk, EBL should divert its investment in govt. securities other investment sector. Loan and Advance to Current Assets Ratio is represented in figure as follow.

Figure No 4.4



V) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the liquid current assets. This ratio measures the percentage of liquid fund with the bank to make immediate payment to the depositors. Both higher and lower ratios are not desirable. The reserve requirement below 10% of deposit liabilities is noted as fully liberalized, 10%-15% as largely liberalized, 15%-25% as partially repressed and above 25% as completely repressed, it is ranked by 3, 2, 1 and 0 respectively

The following table shows the ratio measurement of the years.

Table No 4.5

Cash and Bank Balance to Total Deposit Ratio

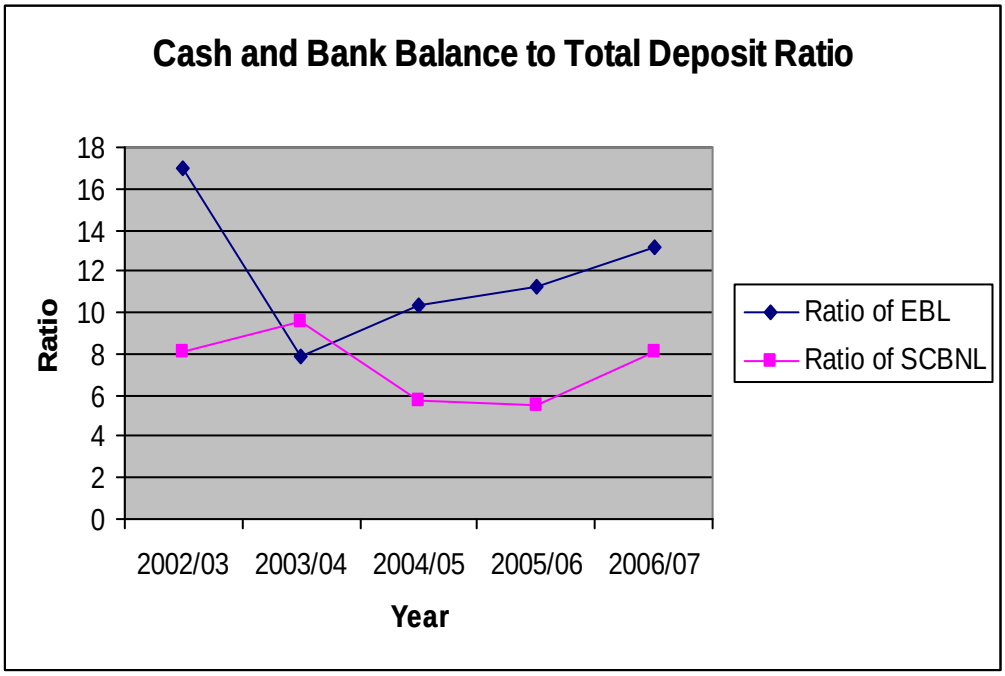
(RS IN MILLION)

Year	EBL			SCBNL		
	Cash & Bank Balance (Rs)	Total Deposit (Rs)	Ratio (%)	Cash & Bank Balance (Rs)	Total Deposit (Rs)	Ratio (%)
2002/2003	1139.57	6695.00	17.02	1512.31	18755.63	8.06
2003/2004	631.80	8063.90	7.83	2023.16	21161.44	9.56
2004/2005	1050.00	10097.70	10.40	1111.12	19363.47	5.74
2005/2006	1553.00	13802.44	11.25	1276.24	23061.03	5.53
2006/2007	2391.42	18186.25	13.15	1992.18	24647.02	8.08
Mean			11.93			7.40
S.D.			3.43			1.72
C.V.			.288			.232

Source: Financial statement of Bank 2002/03 to 2006/07

Above table shows that total deposit of SCBNL is higher than that of EBL. Similarly in first 3-years cash and bank balance in SCBNL is higher and in last 2-years cash and bank balance in EBL is higher. Both the bank have fluctuating trend of ratio. The mean ratio of EBL and SCBNL are 11.93% and 7.40% respectively. EBL has higher ratio than that of SCBNL. It signifies that EBL has sound liquid fund to make immediate payment to the depositors but EBL has excess liquidity rather than that of SCBNL because of poor investment opportunities. The standard deviation is 3.43 and coefficient of variation is 0.288 of EBL and the standard deviation SCBNL is 1.72 and coefficient of variation is 0.232. Cash and Bank balance to Total deposit ratio is represented in figure as follow.

Figure No 4.5



4.1.2 Activity Ratio

Activity or turnover ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. These ratios are employed to evaluate the efficiency with which the firm manages and utilize its assets.

A commercials bank must manage its assets properly to earn high profit.

i) Loan and Advance to Total Deposit Ratio

This ratio measures the extent to which the bank is successful to manage its total deposit on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of collected deposit and vice-versa. However, it should be noted that too high ratio might not be better from liquidity point of view.

The table below shows the ratio of loan and advances to total deposit ratio.

Table No. 4. 6

Loan and Advance to Total Deposit Ratio

(RS IN MILLION)

Year	EBL			SCBNL		
	Loan & Advances (Rs)	Total Deposit (Rs)	Ratio (%)	Loan & Advances (Rs)	Total Deposit (Rs)	Ratio (%)
2002/2003	4908.46	6695	73.32	5695.82	18755.63	30.37
2003/2004	5884.12	8063.90	72.97	6410.24	21161.44	30.29
2004/2005	7618.67	10097.7	75.45	8143.21	19363.47	42.05
2005/2006	9801.30	13802.44	71.01	8935.42	23061.03	38.75
2006/2007	13664.08	18186.25	75.14	10502.64	24647.02	42.61
Mean			73.58			36.81
S.D.			1.8			6.10
C.V.			.024			.166

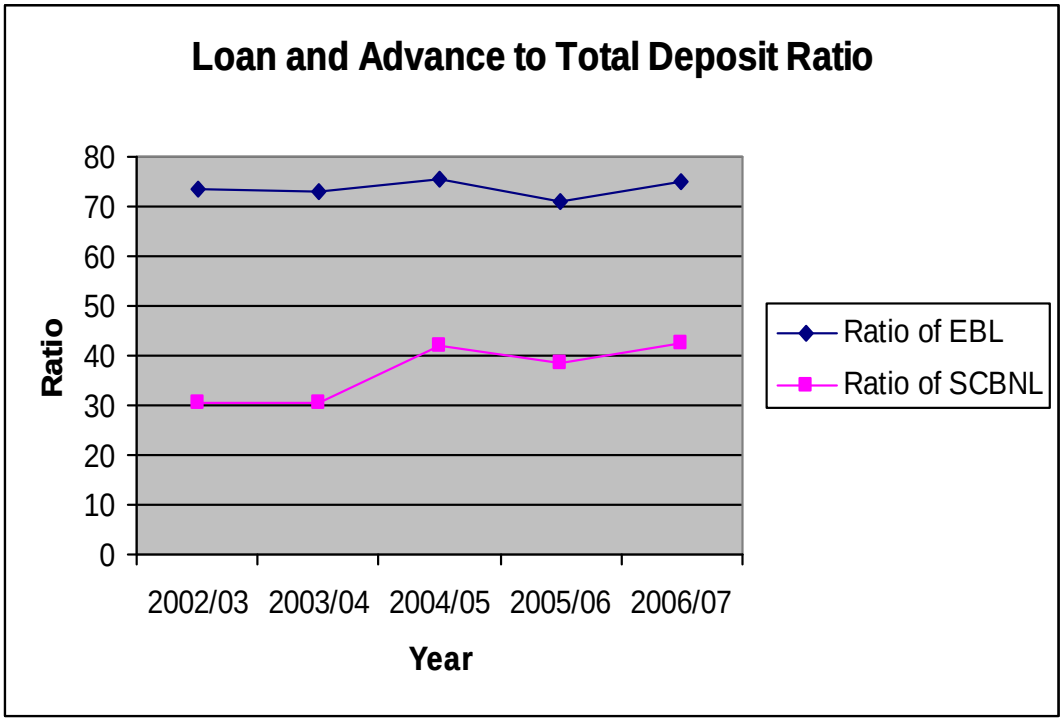
Source: Financial statement of Bank 2002/03 to 2006/07

The loan and advances and total deposit in both banks have increased in each year except total deposit of SCBNL in 2004/2005.From the above table we notice that EBL has successfully increased the loans and advances throughout the studied period. However deposit collection of SCBNL is satisfactory in comparison. While observing their ratios; EBL seems quite successful in generating higher ratio in each year. The standard deviation is 1.8 and coefficient of variation is 0.024 of EBL and the standard deviation is 6.10 and coefficient of variation is 0.166 of SCBNL

The mean of EBL and SCBNL are 73.58% and 36.81% respectively. So EBL has higher ratio than that of SCBNL. It reveals that the deposits of EBL are quickly converted in to loan and advances to earn income. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the EBL has met the NRB requirement or it has utilized its deposit to provide loan. But SCBNL has not met the NRB requirement or it has not utilized its

deposit to provide loan properly. Loan advance to total deposit Ratio is represented in figure as follow.

Figure No 4.6



ii) Total Investment to Total Deposit Ratio.

This ratio measures the extent to which the banks are able to mobilize their deposit on investment on various securities. A high ratio indicates the success in mobilizing deposits in securities and vice versa.

The following table exhibits the ratio of Total Investment to Total Deposit.

Table No 4.7

Total Investment to Total Deposit Ratio

(RS IN MILLION)

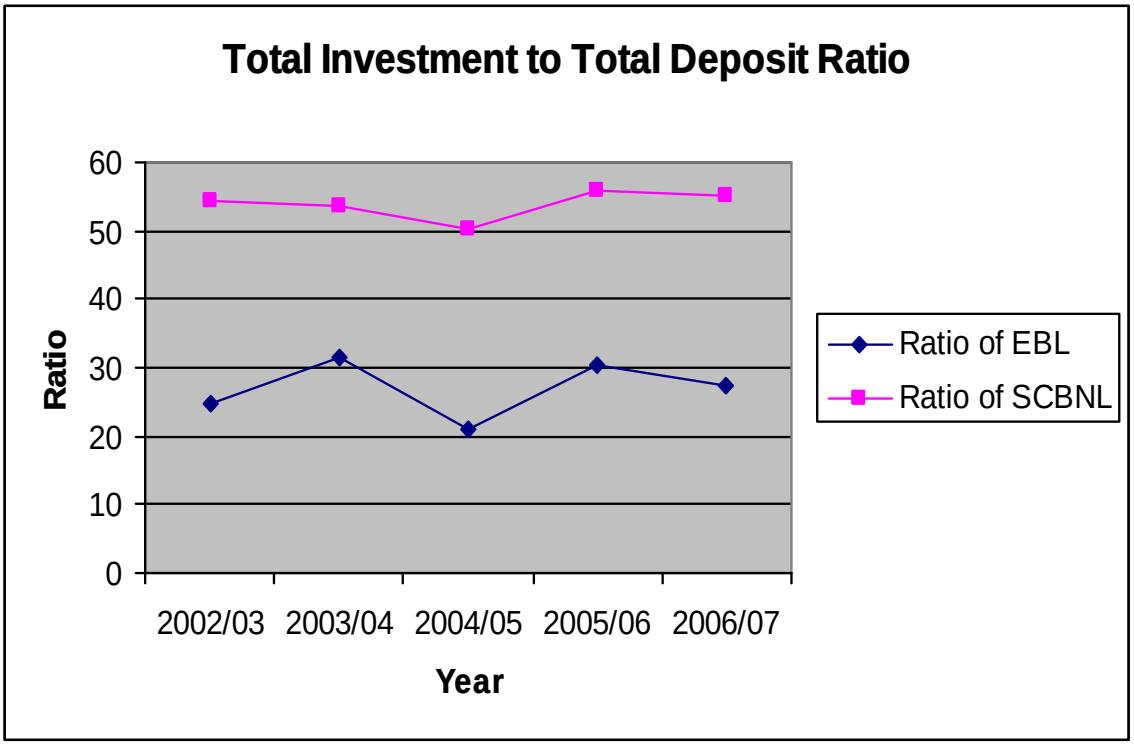
Year	EBL			SCBNL		
	Total Investment (Rs)	Total Deposit (Rs)	Ratio (%)	Total Investment (Rs)	Total Deposit (Rs)	Ratio (%)
2002/2003	1653.98	6695	24.70	10216.20	18755.63	54.47
2003/2004	2535.65	8063.90	31.45	11360.33	21161.44	53.68
2004/2005	2128.93	10097.7	21.08	9702.55	19363.47	50.12
2005/2006	4200.52	13802.44	30.43	12847.54	23061.03	55.71
2006/2007	4984.31	18186.25	27.41	13553.23	24647.02	54.99
Mean			27.01			53.79
S.D.			4.24			2.18
C.V.			.157			.041

Source: Financial statement of Bank 2002/03 to 2006/07

From the above table, it is observed that the investment trend of both bank have increased except in 2004/05. Investment volume of EBL is lower than that of SCBNL because more funds of EBL were used in profitable loans to achieve optimum mix of interest earning assets.

The mean of the ratio of EBL and SCBNL are 27.01% and 53.79% respectively so SCBNL has higher ratio. It signifies SCBNL has successfully allocated its deposit in investment portfolio. The standard deviation is 4.24 and coefficient of variation is 0.157 of EBL and the standard deviation is 2.18 and coefficient of variation is 0.041 of SCBNL. The S.D. and c.v. SCBNL is lower than the EBL. Total Investment to Total Deposit Ratio is represented in figure as follow.

Figure No 4.7



iii) Loan and Advances to working Fund Ratio

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

Total working fund is the total assets. It composed up of current assets, fixed assets, miscellaneous assets, investment, loan for development bank etc.

The following table exhibits the ratio of loan & advances to total working fund.

Table No 4.8

Loan and Advances to Total Assets

(RS IN MILLION)

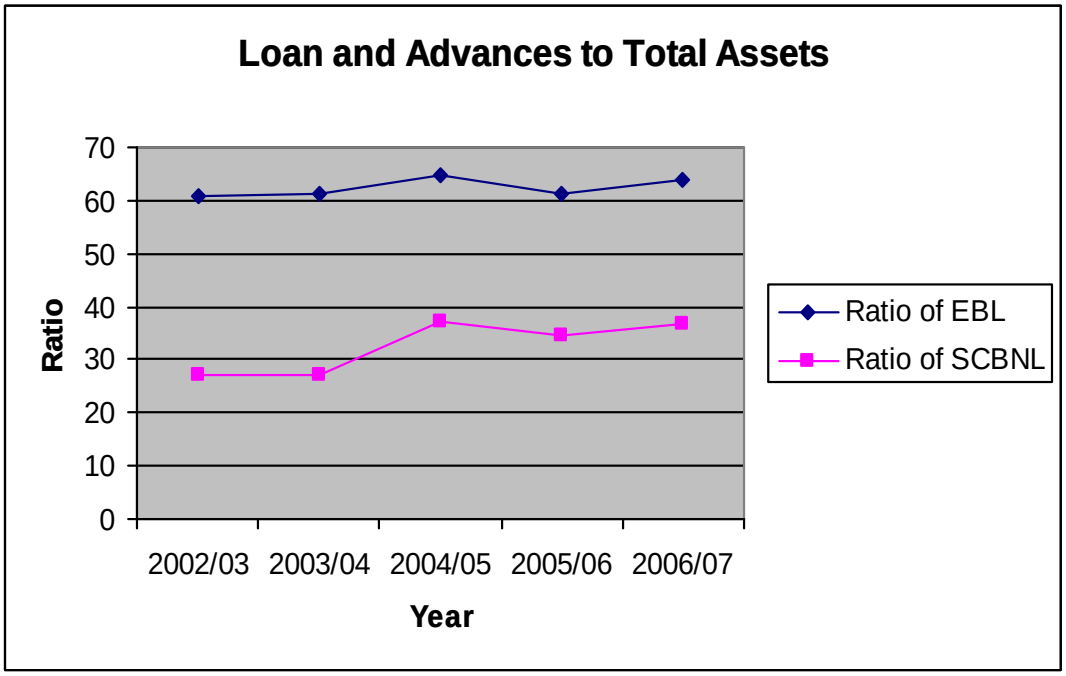
Year	EBL			SCBNL		
	Loan & Advances (Rs)	Total Assets (Rs)	Ratio (%)	Loan & Advances (Rs)	Total Assets (Rs)	Ratio (%)
2002/2003	4908.46	8052.20	60.96	5695.82	20910.97	27.24
2003/2004	5884.12	9608.57	61.24	6410.24	23642.06	27.11
2004/2005	7618.67	11732.51	64.93	8143.21	21781.68	37.39
2005/2006	9801.30	15959.28	61.42	8935.42	25767.35	34.68
2006/2007	13664.08	21432.57	63.75	10502.64	28596.69	36.73
Mean			62.46			32.63
S.D.			1.77			5.08
C.V.			.028			.156

Source: Financial statement of Bank 2002/03 to 2006/07

Above table shows that loan and advances to total assets ratio of EBL and SCBNL are in fluctuating trend. The loan and advances and total assets in both banks have increased in each year except total assets of SCBNL in 2004/2005.From the above table we notice that EBL has successfully increased the loans and advances throughout the studied period. However total assets of SCBNL is satisfactory in comparison. While observing their ratios; EBL is better mobilizing of fund as loan and advances and it seems quite successful in generating higher ratio in each year.

The mean of EBL and SCBNL are 62.46% and 32.63% respectively. The standard deviation is 4.24 and coefficient of variation is 0.157 of EBL and the standard deviation is 2.18 and coefficient of variation is 0.041 of SCBNL. The S.D. and C.V. SCBNL are higher than the EBL. So EBL has higher ratio than that of SCBNL. It reveals that in total assets, EBL has high proportion of loan and advances. We can see in following figure.

Figure No 4.8



4.1.3 Profitability Ratio

Profitability ratio indicates degree of success in achieving desired profit level. Profitability ratio, which measures management overall effectiveness, are shown by the returns generated on sale and investment. A bank should be able to earn profit to survive and grow over a long period of time. Profit is the indicator of effective operation of a bank. The banks acquire profit by providing different services to its customer or by making investment of different kind.

Profitability ratio measures the efficiency of bank. Higher profit ratio shows higher efficiency of the bank. The following profitability ratios are related to study in this heading.

i) Return on Equity (ROE)

If banks can mobilize its equity capital properly, they can earn high profit. The return on equity capital measures the some extend to which a bank is successful to mobilize its equity.

Equity Capital includes paid up equity, Profit & Loss Account, Various Reserve, General loan, loss provision etc.

The table below shows the ROE in different years during the study period.

Table No 4.9

Return on Equity Ratio (ROE)

(RS IN MILLION)

Year	EBL			SCBNL		
	Net Profit (Rs)	Total Equity Capital (Rs)	Ratio (%)	Net Profit (Rs)	Total Equity Capital (Rs)	Ratio (%)
2002/2003	94.18	612.82	15.37	506.93	1368.91	37.03
2003/2004	143.66	710.31	20.22	537.80	1495.74	35.96
2004/2005	170.8	832.61	20.51	536.24	1582.42	33.89
2005/2006	237.30	962.8	24.65	658.76	1754.14	37.55
2006/2007	296.41	1201.51	24.67	691.67	2116.35	32.68
Mean			21.08			35.42
S.D.			3.85			2.08
C.V.			.183			.059

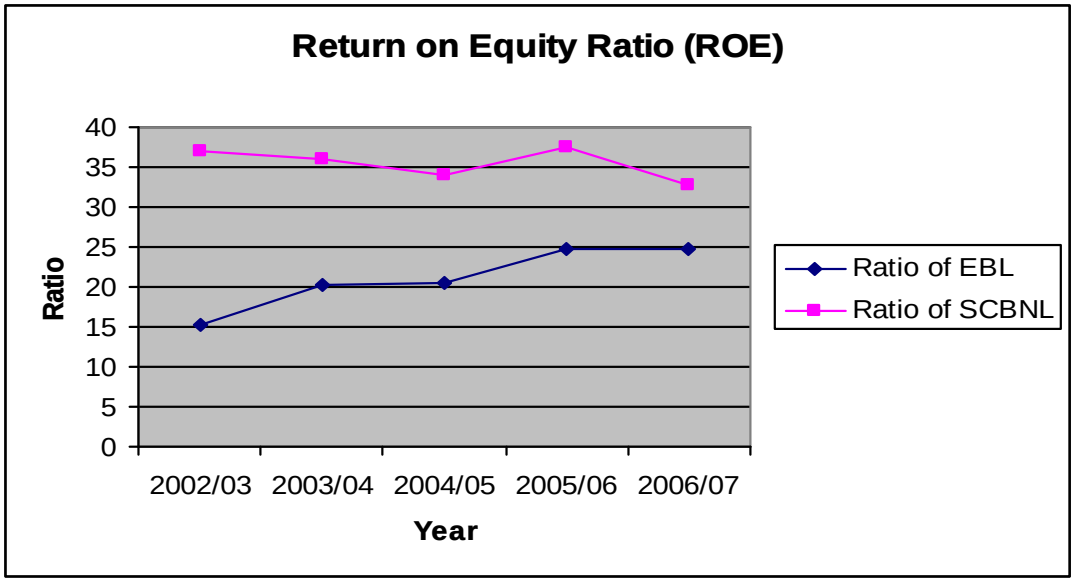
Source: Financial statement of Bank 2002/03 to 2006/07

Above table shows that both the bank has increased net worth during the studied period. The increment ratio of net worth in EBL is more rapid in each year than that of SCBNL. Because of increment in profit of EBL in comparison to net worth, the ROE ratio drastically went up to 15.37% to 24.67%. But because of increment in net worth in comparison to net profit, the ROE ratio drastically went down from 37.03% to 32.68%. However, SCBNL has higher ratio in each year. Similarly, the standard deviation is 3.85 and coefficient of variation is 0.183 of EBL and the standard deviation is 2.08 and

coefficient of variation is 0.059 of SCBNL. The S.D. and C.V. SCBNL is lower than the EBL.

Despite stiff competition and an adverse macro economic environment, SCBNL is currently generating higher ROE, which is best in the market among all. In brief, it signifies that the shareholders of SCBNL are getting higher return but in case of EBL, they are getting lesser. It can be concluded that SCBNL has better utilized the equity for the profit generation. It proves to be a good strength of SCBNL in attracting future investment also while EBL shows its weakness regarding efficient utilization of its owner's equity. It is quite satisfying to state that SCBNL has been able to maximize the shareholder wealth at a homogeneous rate. Return on Equity Ratio is represented in figure as follow.

Figure No 4.9



ii) Interest Earned to Working Fund Ratio

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

Table No 4.10

Interest Earned to Total Assets Ratio

(RS IN MILLION)

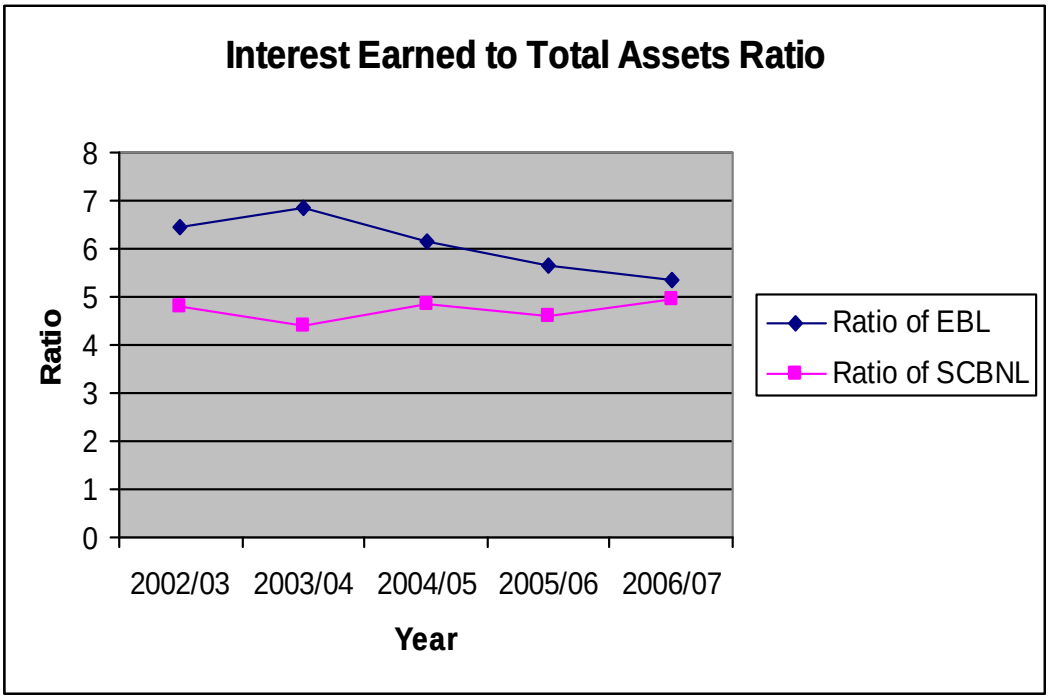
Year	EBL			SCBNL		
	Total Interest Earned (Rs)	Total Assets (Rs)	Ratio (%)	Total Interest Earned (Rs)	Total Assets (Rs)	Ratio (%)
2002/2003	520.17	8052.20	6.46	1001.36	20910.97	4.79
2003/2004	657.25	9608.57	6.84	1042.18	23642.06	4.41
2004/2005	719.29	11732.51	6.13	1058.68	21781.68	4.86
2005/2006	903.41	15959.28	5.66	1189.60	25767.35	4.62
2006/2007	1144.41	21432.57	5.34	1411.98	28596.69	4.94
Mean			6.09			4.72
S.D.			.60			.21
C.V.			.099			.045

Source: Financial statement of Bank 2002/03 to 2006/07

Above table shows that both banks have increased total assets except by SCBNL in 2004/05. Furthermore, they both have increased total interest earned during studied period. Despite the higher Total assets and interest earned in SCBNL, it seems less conscious about managing its assets in order to earn more interest ratio. EBL shows the decreasing trend of the interest earned ratio and its average ratio is 6.09% whereas SCBNL shows fluctuating trend and it has maintained average ratio 4.72%. SCBNL has the highest ratio in 2006/07. It indicates it has been utilizing its assets to get more interest in the latest year. The mean ratio of EBL is more than that of SCBNL. In comparison, EBL seems effective in earning interest to some extent although it has lower earning of interest income but it must break the decreasing trend in coming year. The standard deviation is 0.60 and coefficient of variation is 0.099 of EBL and the standard deviation is 0.21 and coefficient of variation is 0.045 of SCBNL. The S.D. and C.V. SCBNL is

lower than the EBL. Interest Earned to Total Assets Ratio is represented in figure as follow.

Figure No 4.10



iii) Interest Paid to Total Assets Ratio

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

The following table shows the figures of this ratio

Table No 4.11

Interest Paid to Working Fund Ratio

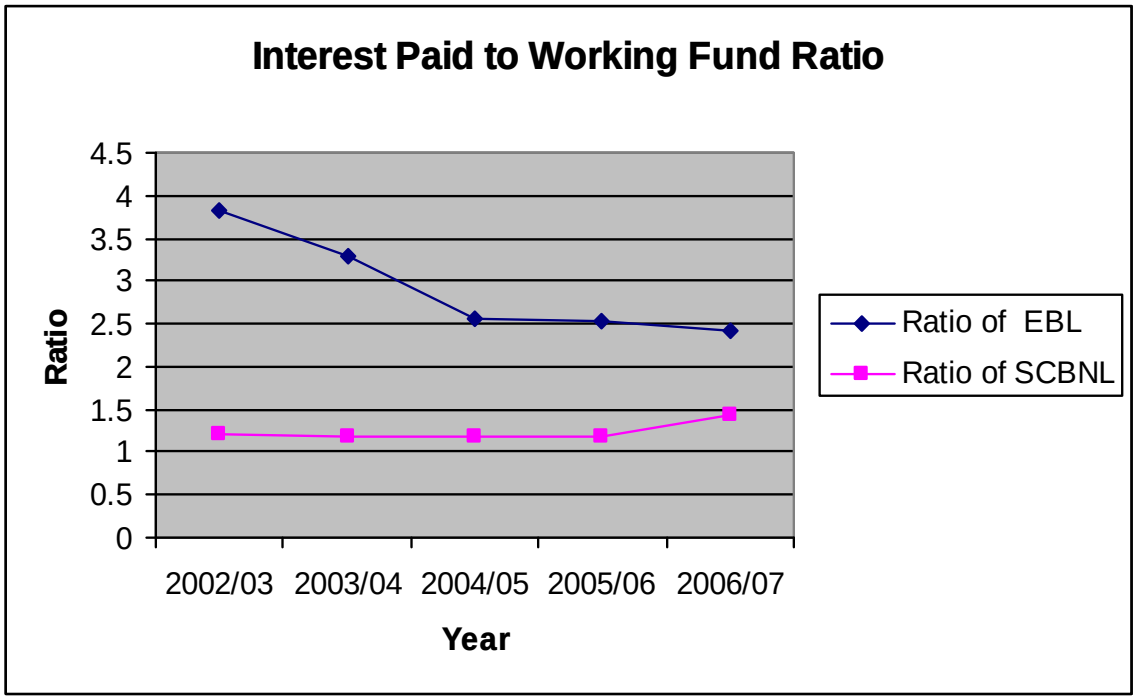
(RS IN MILLION)

Year	EBL			SCBNL		
	Total Interest Paid(Rs)	Total Assets(Rs)	Ratio (%)	Total Interest Paid (Rs)	Total Assets (Rs)	Ratio (%)
2002/2003	307.63	8052.20	3.82	255.15	20910.97	1.22
2003/2004	316.36	9608.57	3.29	275.81	23642.06	1.17
2004/2005	299.57	11732.51	2.55	254.13	21781.68	1.17
2005/2006	401.39	15959.28	2.52	303.20	25767.35	1.18
2006/2007	517.17	21432.57	2.41	413.06	28596.69	1.44
Mean			2.92			1.23
S.D.			.61			.12
C.V.			.209			.098

Source: Financial statement of Bank 2002/03 to 2006/07

Above table and figure shows that both banks have increased total assets except by SCBNL in 2004/05. Further more they both have increased total interest paid during studied period except in 2004/05.Interest paid of EBL is higher in each year it may either due to the higher saving and fixed deposit or higher interest rate in deposit. Due to the higher ratio in each year of EBL, it seems less conscious about borrowing cheaper fund. EBL shows the decreasing trend of the interest paid ratio and its average ratio is 2.92% whereas SCBNL also shows decreasing trend except in 2005/06 and 2006/2007 and it has maintained average ratio1.23 percentage. SCBNL has the highest ratio in 2006/07. It indicates it has either used higher saving and fixed deposit or higher. The mean ratio of EBL is more than that of SCBNL similarly S.D and C.V. also lower than the EBL. In comparison, EBL seems ineffective in getting cheaper fund. Interest Paid to Working Fund Ratio is represented in figure as follow.

Figure No 4.11



iv). Interest Earned to Operating Income Ratio

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

The following table shows the figure of this ratio

Table No 4.12

Interest Earned to Operating Income Ratio

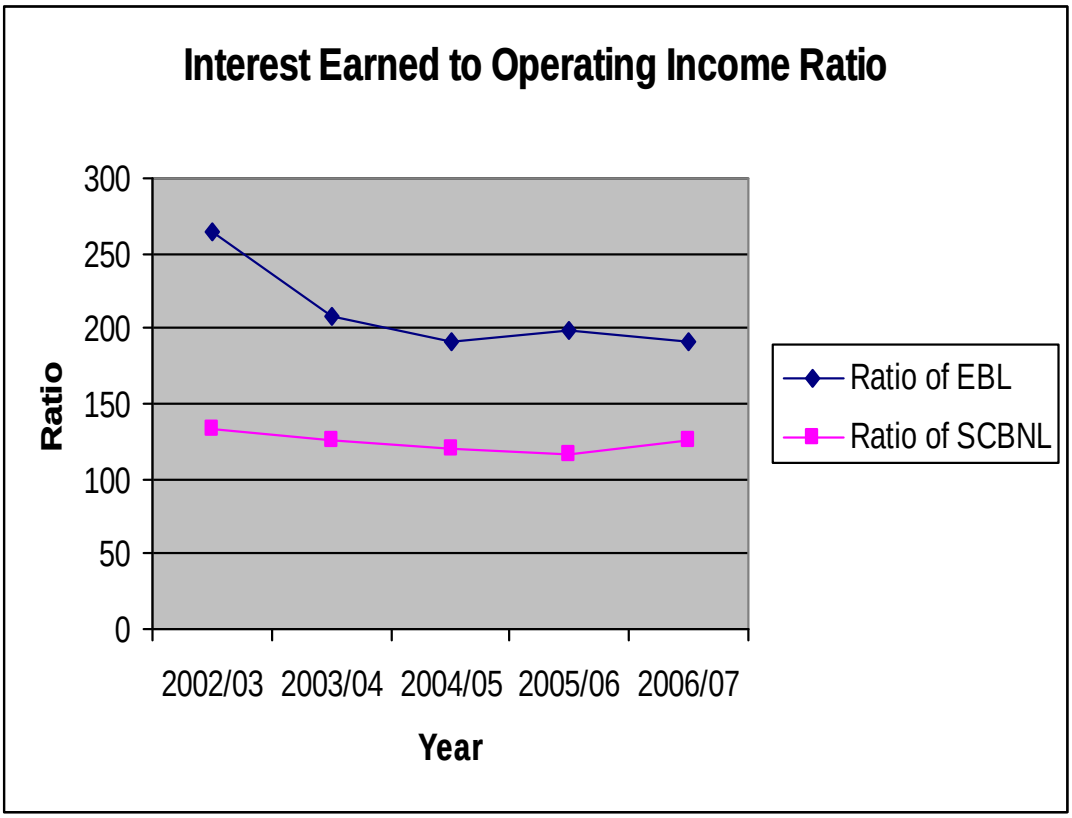
(RS IN MILLION)

Year	EBL			SCBNL		
	Interest Earned(Rs)	Operating Income	Ratio (%)	Interest Earned(Rs)	Operating Income	Ratio (%)
2002/2003	520.17	196.74	264.39	1001.36	753.63	132.87
2003/2004	657.25	316.36	207.50	1042.18	823.99	126.48
2004/2005	719.29	375.23	191.69	1058.68	880.30	120.26
2005/2006	903.41	453.17	199.35	1189.60	1028.93	115.62
2006/2007	1144.41	597.87	191.41	1411.98	1129.77	124.98
Mean			210.87			124.042
S.D.			30.64			6.52
C.V.			.145			.053

Source: Financial statement of Bank 2002/03 to 2006/07

Above table shows that both banks have increased operating income and interest earned during studied period. The mean ratio of EBL and SCBNL are 210.87% and 124.04% respectively. EBL has higher ratio, it indicates the high contribution in operating income made by lending and investing activities (core banking activity).SCBNL has lower ratio, it indicates that high contribution in operating income do not made by lending and investing activities (core banking activity).High contribution in operating income made by lending and investing activities (core banking activity) is not good for long run but in short run it is not so bad. The standard deviation is 30.64 and coefficient of variation is 0.145 of EBL and the standard deviation is 6.52 and coefficient of variation is 0.053 of SCBNL. The S.D. and C.V. SCBNL is lower than the EBL. Thus, from short term view, EBL is in good condition but from long term view, SCBNL is in good condition. In overall, SCBNL has managed sound interest earned to operating income ratio. Interest Earned to Operating Income Ratio is represented in figure as follow.

Figure No 4.12



v) Return on Total Assets Ratio

Its measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the banks working fund is well managed and efficiently utilized and vice versa.

Net profit includes the profit that is left to the internal equities after all costs, charges and expenses. Following tables shows the figure of this ratio.

Table No 4. 13

Return on Total Assets Ratio

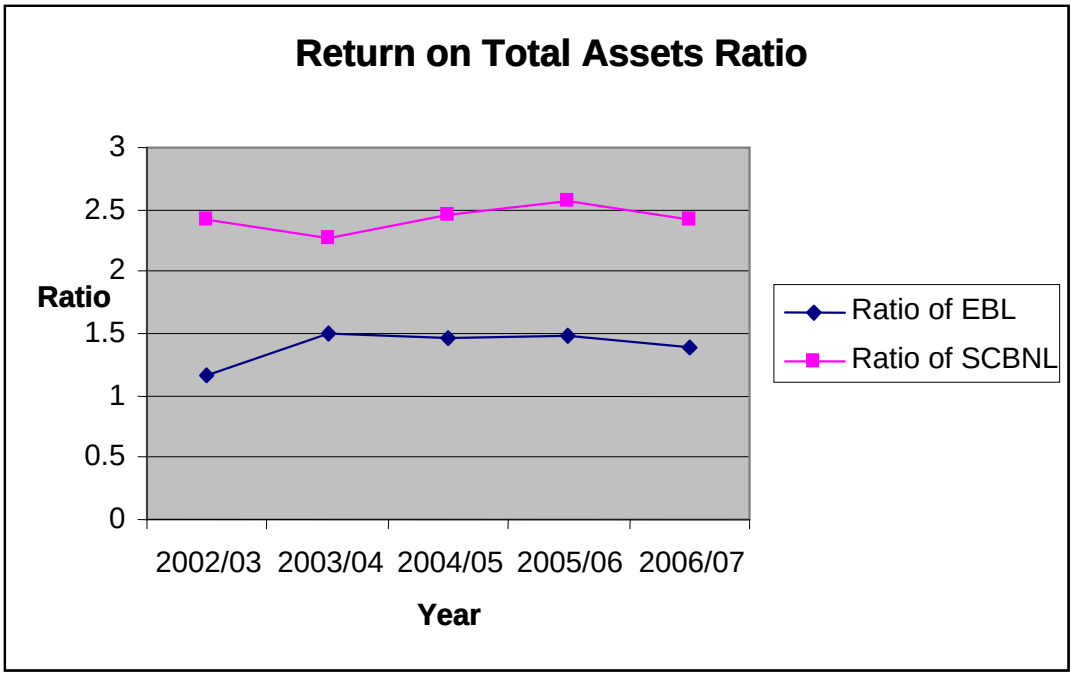
(RS IN MILLION)

Year	EBL			SCBNL		
	Net Profit(Rs)	Total Assets (Rs)	Ratio (%)	Net Profit(Rs)	Total Assets (Rs)	Ratio (%)
2002/2003	94.18	8052.20	1.17	506.93	20910.97	2.42
2003/2004	143.66	9608.57	1.50	537.80	23642.06	2.27
2004/2005	170.8	11732.51	1.46	536.24	21781.68	2.46
2005/2006	237.30	15959.28	1.49	658.76	25767.35	2.56
2006/2007	296.41	21432.57	1.38	691.67	28596.69	2.42
Mean			1.40			2.43
S.D.			.137			.104
C.V.			.098			.043

Source: Financial statement of Bank 2002/03 to 2006/07

From the above table, we notice that net profit and total assets of both banks are in increasing trend except total assets of SCBNL in 2004/05. The ROA of both banks are in fluctuating trend however, SCBNL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 2.43% of total assets in an average. The standard deviation is 0.137 and coefficient of variation is 0.098 of EBL and the standard deviation is 0.104 and coefficient of variation is 0.043 of SCBNL. The S.D. and C.V. SCBNL are lower than the EBL Return on Total Assets Ratio is represented in figure as follow.

Figure No 4.13



vi) Return on Loan and Advances Ratio

Its measures the earning capacity of commercial banks on its total deposits mobilized on loan and advances.

The following table shows the figure of this ratio

Table No 4.14

Return on Loan and Advances Ratio

(RS IN MILLION)

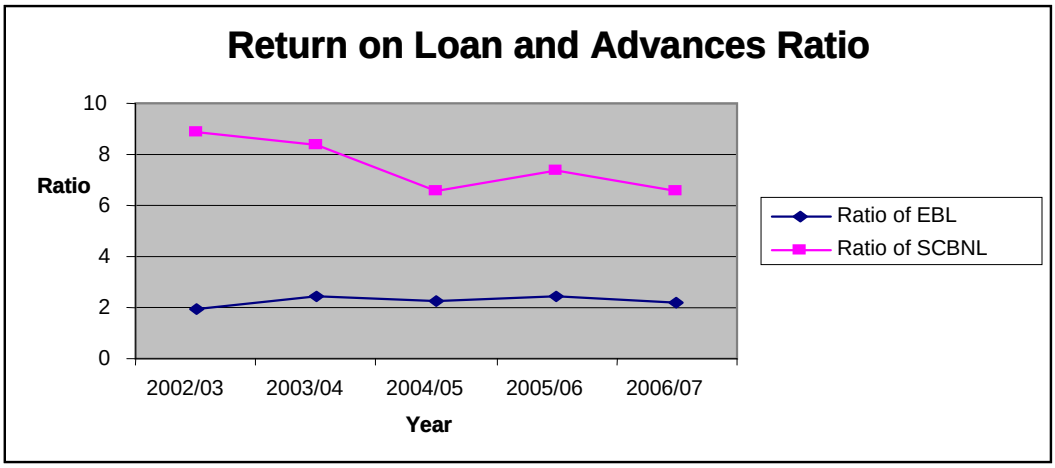
Year	EBL			SCBNL		
	Net Profit(Rs)	Loan & Advances	Ratio (%)	Net Profit(Rs)	Loan & Advances	Ratio (%)
2002/2003	94.18	4908.46	1.92	506.93	5695.82	8.90
2003/2004	143.66	5884.12	2.44	537.80	6410.24	8.39
2004/2005	170.80	7618.67	2.24	536.24	8143.21	6.59
2005/2006	237.30	9801.30	2.42	658.76	8935.42	7.37
2006/2007	296.41	13664.08	2.17	691.67	10502.64	6.59
Mean			2.24			7.57
S.D.			.212			1.05
C.V.			.095			.139

Source: Financial statement of Bank 2002/03 to 2006/07

Above table shows that return on loan and advances ratio of EBL and SCBNL are in fluctuating trend. The highest ratio of EBL is 2.44% in the year 2003/ 2004 and lowest ratio 1.87% in year 2002/2003. The mean ratio is 2.24%. This shows the normal earning capacity of EBL in loan and advances. Whereas highest ratio of SCBNL is 8.90% in year 2002/2003 and lowest ratio is 6.59 in 2004/2005 and 2006/07. The mean ratio is 7.57% of SCBNL. The standard deviation is 0.212 and coefficient of variation is 0.095 of EBL and the standard deviation is 10.05 and coefficient of variation is 0.139 of SCBNL. The S.D. and C.V. SCBNL is Higher than the EBL.

From the table we notice that SCBNL has higher Ratios in each year and mean ratio is also higher. So it seems successful by generating higher ratio. It can be concluded that SCBNL has better utilized the loan and advance for the profit generation. Return on Loan and Advances Ratio is represented in figure as follow.

Figure No 4.14



vii) Earning per Share (EPS)

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

Table No 4.15

Earning Per Share

(RS IN MILLION)

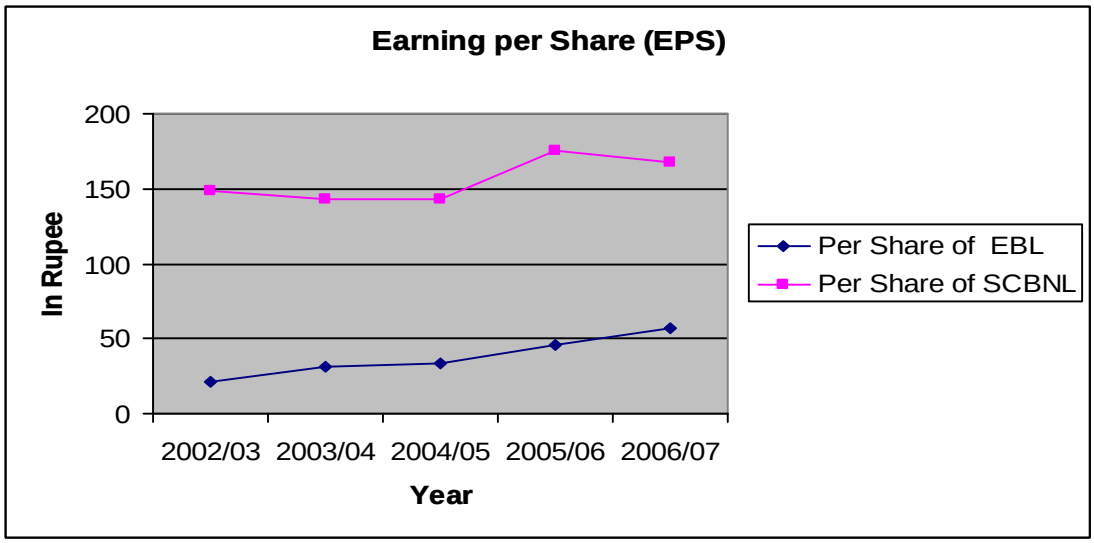
Year	EBL			SCBNL		
	Net Profit(Rs)	No. of Share	Rupees Per Share	Net Profit(Rs)	No. of Share	Rupees Per Share
2002/2003	94.18	4.55	20.70	506.93	3.40	149.10
2003/2004	143.66	4.55	31.57	537.80	3.75	143.41
2004/2005	170.8	5.18	32.97	536.24	3.75	143.00
2005/2006	237.30	5.18	45.81	658.76	3.75	175.67
2006/2007	296.41	5.18	57.22	691.67	4.13	167.47
Mean			37.66			155.73
S.D.			14.104			14.94
C.V.			.375			.096

Source: Financial statement of Bank 2002/03 to 2006/07

Above table shows that the Earning per share of EBL is in increasing trend. Whereas EPS of SCBNL is in decreasing trend in 2003/04 and 2004/05. SCBNL has increased its EPS in 2005/2006 dramatically but it reduced to RS 167.47 in 2006/07. The standard deviation is 14.104 and coefficient of variation is 0.375 of EBL and the standard deviation is 14.94 and coefficient of variation is 0.096 of SCBNL. Looking at the table, EBL has increased its EPS in each year drastically. From the above table we notice that EBL is doing progress in each year whereas result of SCBNL is not in satisfactory condition, as it couldn't maintain the increasing trend in comparison with EBL.

While observing their ratios in overall; SCBNL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful and strongest in the banking sector by generating higher EPS in each year and in average too. It is quite satisfying to state that SCBNL has been able to maximizing shareholder wealth. Earning per Share is represented in figure as follow.

Figure No 4.15



viii) Price Earning Ratio

This ratio shows the relationship between earning per share and market value per share. This ratio measures the profitability of the firm. In the short run, higher ratio shows the higher efficiency of the management and lower ratio shows the lower efficiency of the

management. But for the sustainable fair market price, lower ratio is useful and vice versa.

Table No 4.16

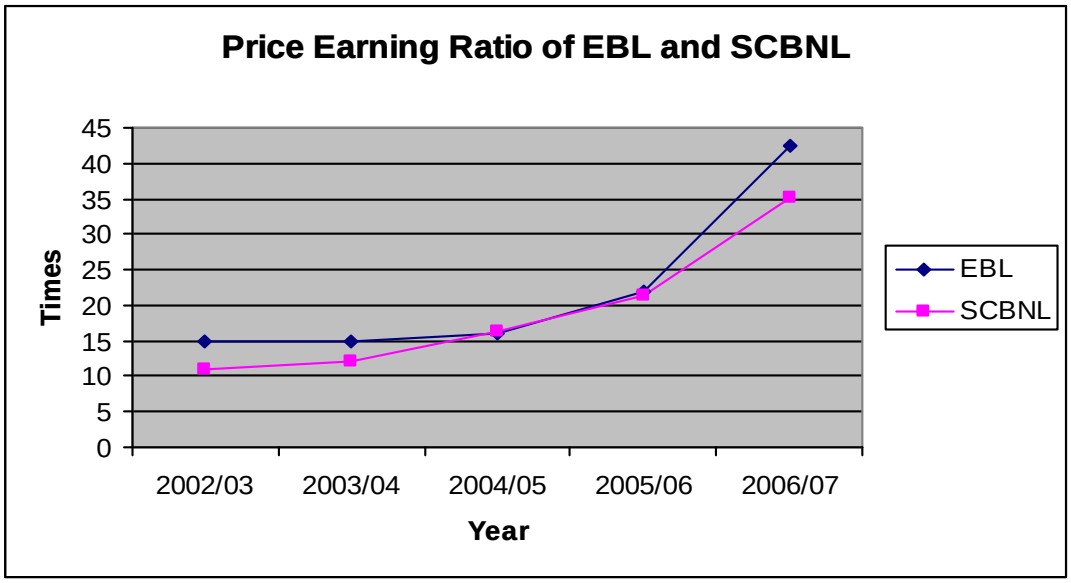
Price Earning Ratio

Year	EBL			SCBNL		
	MPS	EPS	Times	MPS	EPS	TIMES
2002/2003	445	29.90	14.88	149.30	1640	10.98
2003/2004	680	45.58	14.92	143.55	1745	12.16
2004/2005	870	54.22	16.05	143.14	2345	16.38
2005/2006	1379	62.78	21.97	175.84	3775	21.47
2006/2007	2430	57.22	42.47	167.37	5900	35.25
Mean			22.06			19.25
S.D.			11.78			9.85
C.V.			.534			.512

Source: Financial statement of Bank 2002/03 to 2006/07

Above table shows that price earning ratio earning of EBL and SCBNL are in increasing trend. From the mean point of view, mean ratio of the EBL and SCBNL are 22.06 and 19.25 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 22.06 in EBL and Rs 19.25 in SCBNL. The standard deviation is 11.78 and coefficient of variation is 0.534 of EBL and the standard deviation is 9.85 and coefficient of variation is 0.512 of SCBNL. The S.D. and c.v. SCBNL is lower than the EBL. Looking the mean ratio we conclude that in short run, investor of EBL are getting better profitability because they are selling their shares in high price although EPS of EBL is lower in comparison than that of SCBNL. But from the long term view and sustainable fair price, investor of SCBNL will get better profitability and they will be in safe side. Price Earning Ratio is represented in figure as follow.

Figure No 4.16



4.1.4 Lending Efficiency Ratio

The efficiency of firm depends largely on the efficiency with which its assets are managed and utilized. This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility to available fund. The following are the various type of lending efficiency ratio:

i) Loan Loss Provision to Total Loan and Advances Ratio

Loan loss provision to total loan and advances describes the quality of assets that a bank holding. The amount of loan loss provision in balance sheet refers to general loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan means the profit of the banks will come down by such amount. Increase in loan loss provisions decreases in profit result to decrease in dividends but its positive impact is that strength financial conditions of the banks by controlling the credit risk and reduced the risks related to deposits. Therefore, it can be said that banks suffer it only for short-term loan while the good financial conditions and safely of loans will make bank's prosperity resulting increasing profit for long term. Loan loss provision is not more than 1.25% of risk bearing assets.

Table No 4.17

Loan Loss Provision to Total Loan and Advances

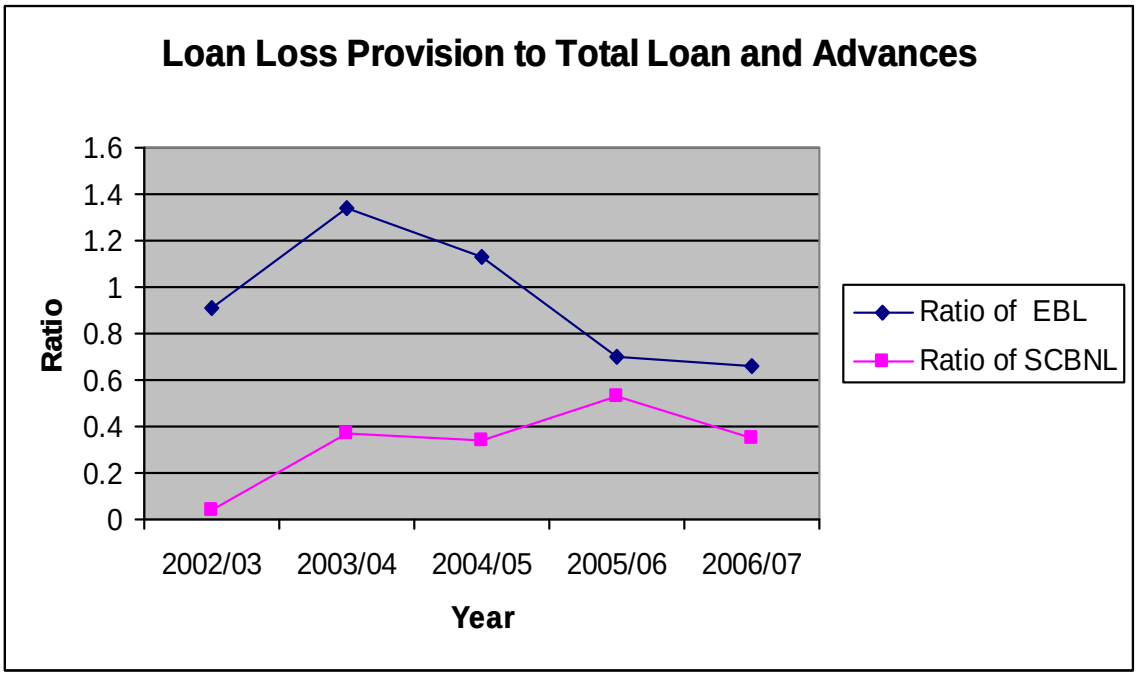
Year	EBL			SCBNL		
	Loan loss provision	Loan and advances	Loan loss provision to Loan and advances ratio (%)	Loan loss provision	Loan and advances	Loan loss provision to Loan and advances ratio (%)
2002/2003	45.7	5049.5	0.91	2.34	5695.82	0.04
2003/2004	81.8	6095.8	1.34	23.52	6410.24	0.37
2004/2005	88.9	7900.0	1.13	27.73	8143.21	0.34
2005/2006	70.5	10136.2	0.70	47.73	8935.42	0.53
2006/2007	89.7	13664.1	0.66	36.81	10502.64	0.35
Mean			0.94			0.33
S.D.			.288			.177
C.V.			.306			.536

Source: Financial statement of Bank 2002/03 to 2006/07

Above table shows that loan loss provision to total loan and advances ratio of EBL and SCBNL are in decreasing trend except in 2003/04 of EBL and in 2004/05 of SCBNL. The mean ratio is 0.94, the standard deviation is 0.288 and coefficient of variation is 0.306 of EBL and the mean ratio is 0.33, standard deviation is 2.18 and coefficient of variation is 0.041 of SCBNL. The mean and S.D. is higher and C.V. is lower of EBL.

Loan loss provision is not more than 1.25% of risk bearing assets according to NRB directives. So, in all of the year, both the bank have met the NRB requirement. As EBL has higher mean ratio, EBL has more risky assets in total volume of loan advances. Loan Loss Provision to Total Loan and Advances ratio is shown figure as follow.

Figure No 4.17



ii) Interest Expenses to Total Deposit Ratio

The ratio measures the percentage of total interest against total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has more the probability of generating loans and advances and vice-versa.

Table 4.18

Interest Expenses to Total Deposit Ratio

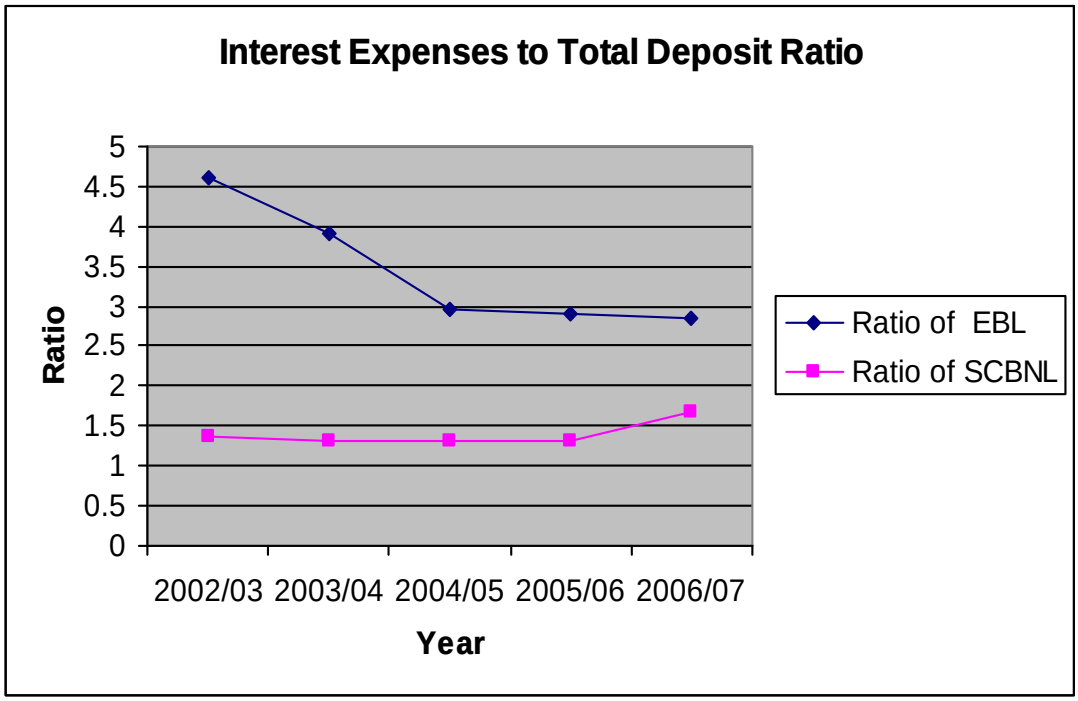
Year	EBL			SCBNL		
	Interest expenses	Total deposit	Interest expenses to total deposit ratio (%)	Interest expenses	Total deposit	Interest expenses to total deposit ratio (%)
2002/2003	307.6	6695.0	4.60	255.15	18755.63	1.36
2003/2004	316.4	8063.9	3.92	275.81	21161.44	1.3
2004/2005	299.6	10097.7	2.97	254.13	19363.47	1.31
2005/2006	401.4	13802.4	2.91	303.20	23061.03	1.31
2006/2007	517.2	18186.3	2.84	413.06	24647.02	1.67
Mean			3.45			1.39
S.D.			.780			.158
C.V.			.226			.114

Source: Financial statement of Bank 2002/03 to 2006/07

Above Table shows that interest expenses to total deposit ratio of EBL is in decreasing trend. Whereas, interest expenses to total deposit of SCBNL is in fluctuating trend and it has the highest ratio of 1.68% in the year 2006/07. From mean point of view, interest expenses to total deposit ratio of EBL and SCBNL are 3.45% and 1.39% respectively. The standard deviation is 0.780 and coefficient of variation is 0.226 of EBL and the standard deviation is 0.158 and coefficient of variation is 0.114 of SCBNL. The S.D. and C.V. of SCBNL are lower than the EBL. It indicates that both the bank do not have higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. So, in comparison, SCBNL does not have higher interest

expenses on total deposit than that of EBL. Interest Expenses to Total Deposit Ratio is shown figure as follow.

Figure No 4.18



iii) Non-Performing Loan to Total Loan and Advances Ratio

Higher ratio shows the low efficient operating of the management and lower ratio shows the more efficient operating of credit management.

Table 4.19

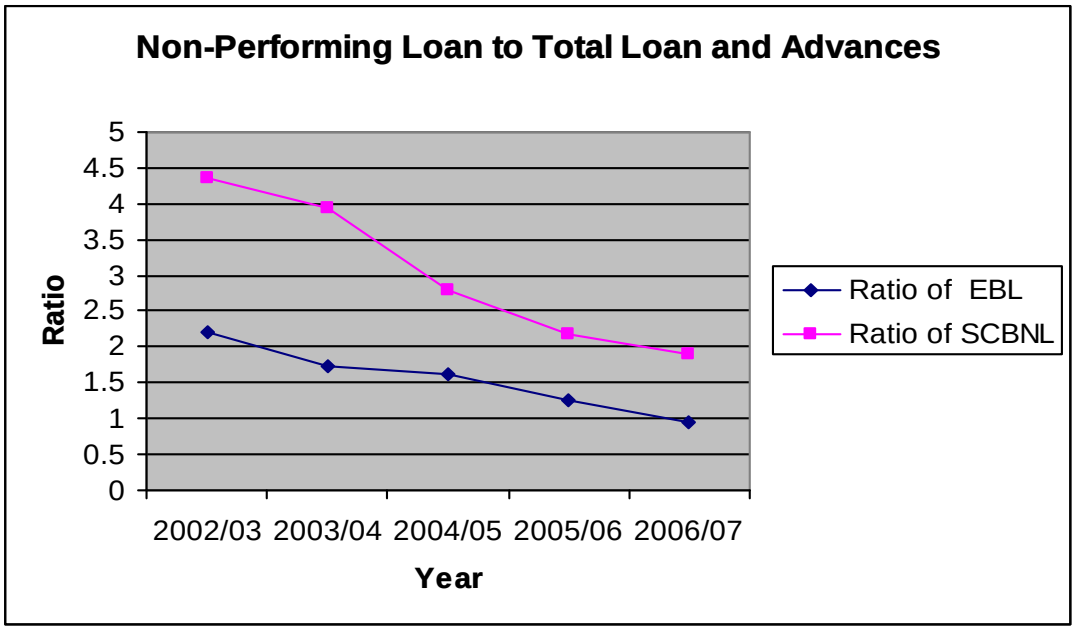
Non-Performing Loan to Total Loan and Advances

Year	EBL			SCBNL		
	Non-performing loan	Loan and advances	Non-performing loan to loan and advances (%)	Non-performing loan	Loan and advances	Non-performing loan to loan and advances (%)
2002/2003	111.2	5049.5	2.20	247.95	5695.82	4.35
2003/2004	104.7	6095.8	1.72	252.20	6410.24	3.93
2004/2005	128.8	7900.0	1.63	226.31	8143.21	2.78
2005/2006	129.2	10136.2	1.27	195.93	8935.42	2.19
2006/2007	128.2	13664.1	0.94	197.46	10502.64	1.89
Mean			1.55			3.03
S.D.			.476			1.075
C.V.			.307			.355

Source: Financial statement of Bank 2002/03 to 2006/07

Above table shows that NPL to total loan and advances of EBL and SCBNL are in decreasing trend. Decreasing trend is the good sign of the efficient credit management. From mean point of view, non-performing loan to total loan and advances ratio of EBL and SCBNL are1.55 % and 3.03% respectively during the study period. The mean is 1.55, standard deviation is 0.476 and coefficient of variation is 0.307 of EBL and the mean is 3.03, standard deviation is 1.075 and coefficient of variation is 0.355 of SCBNL. These Ratios indicate the more efficient operating of credit management of both banks according to NRB directives. However, in comparison, EBL has efficient operating of credit management than that of SCBNL. In another words, SCBNL has lower efficient operating of credit management than that of EBL. As, EBL has lower ratio, EBL has efficiently used the total loan and advances than that of SCBNL. Non-Performing Loan to Total Loan and Advances shown figure as follow

Figure No 4.19



4.2 Statistical tools

In this chapter some statistical tools such co-efficient of correlation analysis between Deposit and loan and advances, deposit and total investment, total assets and net profit, net profit and total deposit, market value per share and book value per share are used to achieve the objective of the study.

4.2.1 Correlation Coefficient

When the relationship is of quantitative nature, the appropriate statistical tool for discovering and measuring the relationship and expressing it in a brief formula is known as correlation. If the values of the variables are directly proportional then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, the correlation is said to be negative, but the correlation is said to be negative, but the correlation coefficient always remains within the limit of + 1 to – 1. By Karl person, the simple correlation coefficient (between tow variables, say X and Y) is given by:

$$r_{xy} = \frac{Cov(x, y)}{\pm_x \pm_y}$$

Where,

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

'r' lies between +1 to -1

When r = +1, there is perfect positive correlation

When r = -1, there is perfect negative correlation

When r = 0, there is no correlation

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

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

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

Probable Error

The coefficient of correlation shall be interpreted based on probable error. If the value of correlation coefficient is greater than 6 times the value of probable error, the correlation is deemed as significant and reliable. If the value of correlation coefficient is less than 6 times the value of probable error, the correlation coefficient is said to be insignificant and there is no evidence of correlation.

The probable error can be calculated as below:

Probable error of 'r' (P.Er.) = 0.6745 1-r2

The probable error is used to test whether the calculated value of sample correlation is significant or not

If r<P.E., then the value of r is not significant.

If r>6xP.E., then r is definitely significant.

The square of the correlation is called coefficient of correlation. It is denoted by r^2

Coefficient of correlation between deposit, loan and advances.

Deposit has played a very important role in performance of a commercial bank and similarly loan & advances are important to mobilize the collected deposits. Coefficient of

correlation between deposit and loan and advances measure the degree of relationship between these two variables. In this analysis, deposit is independent variables (X) and loan and advances is dependent variable(Y). The main objective of computing "r" between these two variables is to justify whether deposits are significantly used as loan and advances in a proper way or not. The below table shows the value of "r", "r^2", probable Error (P.Er) and 6 P.Er. Between deposit and loan and advances of EBL with comparison to SCBNL.

Table No 4.20

Coefficient of Correlation between Deposit and Loan and Advance

Banks	**Evaluation Criterions**			
	r	**r^2**	**P.Er.**	**6P.Er.**
EBL	0.998	0.996	0.0018	0.0108
SCBNL	0.828	0.686	0.1404	0.8424

Source: Appendix 1 & 2

From the above table, in case of EBL, it is found that coefficient of correlation between deposit and loan and advances is 0.998. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is 0.996 and it means 99.60% of the variation in the dependent variable (loan and advances) has been explained by the independent variable (deposit)

Similarly, considering the value of (r) i.e.0.998 and comparing it with 6.P.ER. This reveals that the value of r is significant. In other words, there is significant relationship between deposit and loan and advances in case of EBL.

Like wise, in case of SCBNL, it is found that coefficient of correlation between deposit and loan and advances is 0.828 It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is 0.686 and it means 68.6% of the variation in the dependent variable (loan and advances) has been explained by the independent variable (deposit)

Similarly, considering the value of (r) i.e.0.828 and comparing it with 6.P.ER. This reveals that the value of r is significant. In other words, there is significant relationship between deposit and loan and advances in case of SCBNL also.

Above data indicates that EBL has successfully mobilized their deposit in proper way as loan and advances. Moreover, we can further conclude that EBL has higher correlation between deposit and loan and advances as well as higher value of r^2 than that of SCBNL, which indicates that it is in better condition to grant loan and advances for mobilizing the collected deposit in comparison to SCBNL.

Coefficient of correlation between deposit and investment

Deposit has played a very important role in performance of a commercial bank and similarly investment is important to mobilize the collected deposits. Coefficient of correlation between deposit and investment measure the degree of relationship between these two variables. In this analysis, deposit is independent variables (X) and investment is dependent variable(Y). The main objective of computing "r" between these two variables is to justify whether deposits are significantly used as investment in a proper way or not. The below table shows the value of "r", "r^2", probable Error (P.Er) and 6 P.Er. Between deposit and investment of EBL with comparison to SCBNL.

Table No 4.21

Coefficient of Correlation Between deposit and investment

Banks	**Evaluation Criterions**			
	r	**r^2**	**P.Er.**	**6P.Er.**
EBL	0.957	0.916	0.0376	0.2256
SCBNL	0.978	0.956	0.0197	0.1182

Source: Appendix 3 & 4

From the above table, in case of EBL, it is found that coefficient of correlation between deposit and investment is 0.957. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is

0.916 and it means 91.60% of the variation in the dependent variable (Investment) has been explained by the independent variable (deposit).

Similarly, considering the value of (r) i.e.0.916 and comparing it with 6.P.ER. This reveals that the value of r is significant. In other words, there is significant relationship between deposit and investment in case of EBL.

Like wise, in case of SCBNL, it is found that coefficient of correlation between deposit and investment is 0.978 It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is 0.956 and it means 95.60% of the variation in the dependent variable (Investment) has been explained by the independent variable (deposit)
Similarly, considering the value of (r) i.e.0.978 and comparing it with 6.P.ER. This reveals that the value of r is significant. In other words, there is significant relationship between deposit and investment in case of SCBNL also.

Above data indicates that SCBNL has successfully mobilized their deposit in proper way as investment. Moreover, we can further conclude that SCBNL has higher correlation between deposit and investment as well as higher value of r^2 than that of EBL, which indicates that it is in better condition to grant investment for mobilizing the collected deposit in comparison to EBL.SCBNL has followed the policy of maximizing the investment of their deposit.

Coefficient of correlation between total assets and net profit

Coefficient of correlation between total assets and net profit measures the degree of relationship between these two variables. In this analysis, total assets are independent variables (X) and net profit is dependent variable(Y). The main objective of computing "r" between these two variables is to justify whether net profit is significantly correlated with respective total assets or not. The below table shows the value of "r", "r^2", probable Error (P.Er) and 6 P.Er. Between total assets and net profit of EBL with comparison to SCBNL.

Table No 4.22

Coefficient of Correlation Between Total Assets and Net Profit

Banks	Evaluation Criterions			
	r	**R^2**	**P.Er.**	**6P.Er.**
EBL	0.987	0.974	0.0116	0.0696
SCBNL	0.955	0.912	0.0394	0.2364

Source: Appendix 5 & 6

From the above table, in case of EBL, it is found that coefficient of correlation between total assets and net profit deposit is 0.987. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is 0.974 and it means 97.40% of the variation in the dependent variable (net profit) has been explained by the independent variable (total assets)

Similarly, considering the value of (r) i.e.0.987 and comparing it with 6.P.ER. This reveals that the value of r is significant. In other words, there is significant relationship between total assets and net profit in case of EBL.

Like wise, in case of SCBNL, it is found that coefficient of correlation between total assets and net profit is 0.955 It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is 0.912 and it means 91.2% of the variation in the dependent variable (net profit) has been explained by the independent variable (total assets)

Similarly, considering the value of (r) i.e.0.955 and comparing it with 6.P.ER. This reveals that the value of r is significant. In other words, there is significant relationship between total assets and net profit in case of SCBNL also.

Above data indicates that EBL has higher correlation between total assets and net profit as well as higher value of r^2 than that of SCBNL which indicates that it is in better condition to increase profit by increasing total assets in comparison to SCBNL.

Coefficient of correlation between Net Profit and Total Deposit

Coefficient of correlation between net profit and total deposit measure the degree of relationship between these two variables. In this analysis, deposit is independent variables (X) and net profit is dependent variable(Y). The main objective of computing "r" between these two variables is to justify whether deposits are significantly used to get proper net profit or not. The below table shows the value of "r", "r^2", probable Error (P.Er) and 6 P.Er. Between total deposit and net profit of EBL with comparison to SCBNL.

Table No 4.23

Coefficient of Correlation Between Net Profit and Total Deposit

Banks	**Evaluation Criterions**			
	r	**R^2**	**P.Er.**	**6P.Er.**
EBL	0.990	0.980	0.0089	0.0534
SCBNL	0.957	0.916	0.0376	0.2256

Source: Appendix 7 & 8

From the above table, in case of EBL, it is found that coefficient of correlation between deposit and net profit is 0.990. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is 0.980 and it means 98.0% of the variation in the dependent variable (net profit) has been explained by the independent variable (deposit)

Similarly, considering the value of (r) i.e.0.990 and comparing it with 6.P.ER. This reveals that the value of r is significant. In other words, there is significant relationship between deposit and net profit in case of EBL.

Like wise, in case of SCBNL, it is found that coefficient of correlation between deposit and net profit is 0.957 it shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is 0.916 and

it means 91.6% of the variation in the dependent variable (net profit) has been explained by the independent variable (deposit)

Similarly, considering the value of (r) i.e.0.957 and comparing it with 6.P.ER. This reveals that the value of r is significant. In other words, there is significant relationship between deposit and net profit in case of SCBNL also.

Above data indicates that EBL has successfully mobilized their deposit to generate better profit proper. Moreover, we can further conclude that EBL has higher correlation between deposit and net profit as well as higher value of r^2 than that of SCBNL, which indicates that it is in better condition for mobilizing the collected deposit to generate more profit in comparison to SCBNL.

4.2.2 Trend Analysis:

Here, trend analysis of total deposits and loan and advances is projected for the five years. The measure of trend analysis shows the behavior of given variables in series of time. This trend analysis is carried out to see average performance of the banks for next five years. Sample of trend analysis are

- Total Deposit

-Total Loan and Advance

a) Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. This is calculated by the least square method.

$Y = a + bx$

Where,

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

X = deviation from some convenient time periods.

Table No 4.24

Calculation of Trend Analysis of Total Deposit of EBL

Year	Total Deposit(Y)	X = x - 2004/05	X^2	XY
2002/03	6695	-2	4	-13390
2003/04	8063.9	-1	1	-8063.9
2004/05	10097.7	0	0	0
2005/06	13802.44	1	1	13802.44
2006/07	18186.25	2	4	36372.5
Total (n) = 5	**∑Y=**6845.29	**∑X =** 0	**∑** X^2 = 10	**∑XY =** 721.04

Source: Annul report of EBL

Let trend line be

Y = a + b x……. (I)

Where x = X - Middle year

Here,

$$a = \frac{SY}{N} \qquad b = \frac{SXY}{SX^2}$$

$$= \frac{56845.29}{5} = 11369 \qquad = \frac{38721.04}{10} = 3872$$

Substituting these values of a and b in eq (I) we get the required trend line

Yc = 11369 + 3872x

Table No 4.25

Calculation of Trend Analysis of Total Deposit of SCBNL

Year	Total Deposit(Y)	X= x- 2004/05	X2	XY
2002/03	18756	-2	4	-37511
2003/04	21161	-1	1	-21161
2004/05	19363	0	0	0
2005/06	23061	1	1	23061
2006/07	24647	2	4	49294
Total (n) = 5	**∑Y =** 106989	**∑X =** 0	**∑** X^{2} = 10	**∑XY=**13682.4

Source: Annul report of SCBNL

Let trend line be

Y = a + b x……. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

$= \frac{106989}{5}$ $= \frac{3682.4}{10}$

= 21397.72 = 1368.24

Substituting these values of a and b in eq^{n} (I) we get the required trend line

Yc = 21397.718 + 1368.24x

Table No 4.26

Trend of Total Deposit of EBL and SCBNL

(Amount in million)

Year	Total Deposit of EBL	Total Deposit of SCBNL
2002/03	3625	18661.24
2003/04	7497	20029.48
2004/05	11369	21397.72
2005/06	15241	22765.96
2006/07	19113	24134.2
2007/08	22985	25502.44
2008/09	26857	26870.68
2009/10	30729	28238.92
20010/11	34601	29607.16
20011/12	38473	30975.4

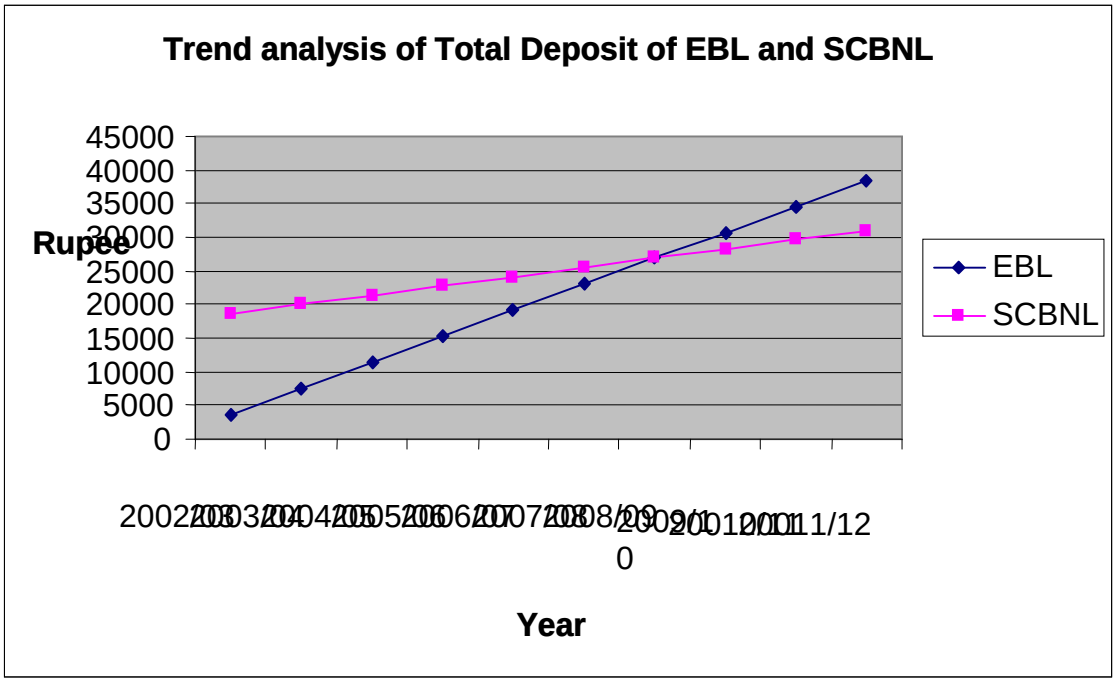
Source annul report of EBL & SCBNL

The following graph helps to show the trend lines of total deposit for the projected five years. The equations are

Yc = 11369 + 3872x of EBL

Yc = 21397.718 + 1368.24x of SCBNL

Figure No 4.20



Above figure show that. The trend of deposit collection by EBL is aggressive or high but the trend of SCBNL has smooth and regular up warding position.

b) Trend Analysis of Total Loan and Advance:

Table No 4.27

Calculation of Trend Analysis of Total Loan and Advance of EBL

Year	Total Loan(Y)	X=x-2004/05	X^2	XY
2002/03	4908.5	-2	4	-9817
2003/04	5884.1	-1	1	-5884.1
2004/05	7618.7	0	0	0
2005/06	9801.3	1	1	9801.3
2006/07	13664.1	2	4	27328.2
Total	**∑Y =** 1876.7	**∑X=** 0	**∑** X^2 =10	**∑XY =** 1428.4

Source: Annul report of EBL

Let trend line be

Y = a + b x……. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

$= \frac{41876.7}{5}$ = 8375.3 $= \frac{21428.4}{10}$ = 2142.8

Substituting these values of a and b in eq. (I) we get the required trend line

Yc = 8375.3 +2142.8x

Table No 4.28

Calculation of Trend Analysis of Total Loan and Advance of SCBNL

Year	Total Loan(Y)	X = x-2004/05	X^2	XY
2002/03	5695.8	-2	4	-11391.6
2003/04	6410.2	-1	1	-6410.2
2004/05	8143.2	0	0	0
2005/06	8935.4	1	1	8935.4
2006/07	10502.6	2	4	21005.2
Total	**∑Y =** 39687.2	**∑X =**0	**∑** X^{2} =10	**∑XY =**12138.8

Source: Annul report of SCBNL

Let trend line be

Y = a + b x……. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

$= \frac{39687.2}{5} = 7937.4$ $= \frac{12138.8}{10} = 1213.9$

Yc = 7937.4 + 1213.9

Table No 4.29

Trend Analysis of Total Loan and Advance

Year	Total loan of EBL	Total loan of SCBNL
2002/03	4089.7	5509.6
2003/04	6232.5	6723.5
2004/05	8375.3	7937.4
2005/06	10518.1	9151.3
2006/07	12660.9	10365.2
2007/08	14803.7	11579.1
2008/09	16946.5	12793
2009/10	19089.3	14006.9
20010/11	21232.1	15220.8
20011/12	23374.9	16434.7

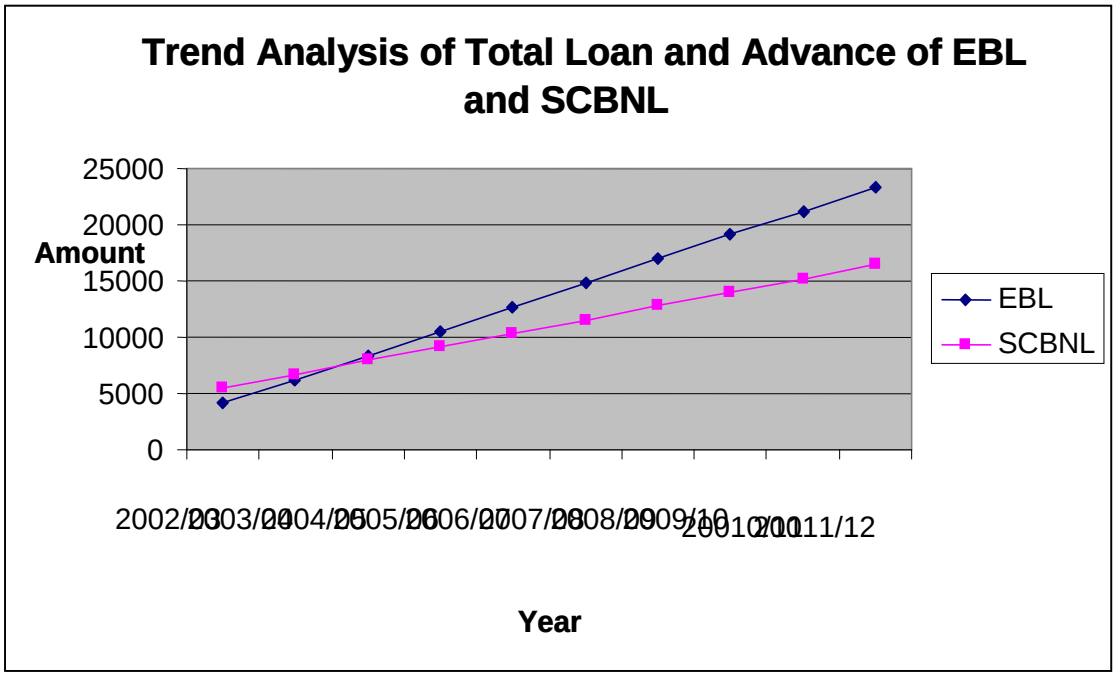
Source: Annul report of EBL & SCBNL

The following graph helps to show the trend lines of total deposit for the projected five years. The equations are

Yc = 8375.3 +2142.8x of EBL

Yc = 7937.4 + 1213.9 of SCBNL

Figure No 4.21



Above figure show that. The trend of loan and advance of EBL is aggressively increasing trend. The trend of loan and advance of SCBNL has smooth and regular up warding trends.

4.2.3 Major Findings of the Study

In the preceding part, the researcher has presented and analyzed the various aspects of the study with the help of the financial and statistical tools. In this part, the researcher has enlisted the major findings in a summarized manner so that a complete picture of the data presentation and analysis can be presented. The major findings of the study, based on the financial and statistical tools can be presented as follows:

Liquidity Ratio

Current ratio of EBL is ranging from 1.18 to 1.16 and SCBNL is ranging from0.54 to 0.67 over the study period. The mean ratio of EBL and SCBNL are 1.16 and 0.63 respectively. While observing the data, we notice that both the banks

have not met the standard ratio. How ever, in comparison EBL has sound ability to meet its short term obligation than that of SCBNL

Cash and bank balance to current of EBL and SCBNL are ranging from 14.35% to 11.25% and 13.58% to 10.12% respectively over the study periods. The mean ratio of EBL and SCBNL are 10.23% and 10.76% respectively. It indicates that SCBNL has the slightly higher portion of cash and bank balance over current assets. It means SCBNL has slightly sound liquid assets than that of EBL.

Investment on government securities to total current assets ratio of EBL is ranging from 19.36% to 17.00% during the study period and the ratio of SCBNL is ranging from 39.86% to 41.34% of the same period. This shows that SCBNL is more interested on the government securities since it has no risk. But, this also can be stated that EBL has succeeded to search the lending market in comparison to SCBNL

Loan & advances to current assets ratio of EBL ranging from 61.80% to 64.26% but the ratio of SCBNL is 51.16% to 53.37%. The ratio of SCBNL is low due to the greater portion invested in the government securities.

Cash and bank balance to total deposit ratio of EBL and SCBNL are ranging from 17.02% to 13.15% and 8.06% to 8.08% respectively over the study periods. However the mean ratio of EBL and SCBNL are 11.93% and 7.40% respectively. Cash and bank balance is the Cash Reserve Ratio (CRR) which is to be managed by the banks in duly manner (not too high and not too low). The minimum CRR to be maintained by the banks is 5% of the total deposit. Both the banks have maintained the NRB requirement. But above data implies that EBL has sound liquid fund to make immediate payment to the depositors but EBL has excess liquidity rather than that of SCBNL because of poor investment opportunities.

Assets Management Ratio

Loans & advances to total deposit ratio of EBL is ranging from 73.32% to 75.14% where as the ratio of SCBNL is ranging from 30.37% to 42.61%.The mean ratio of EBL and SCBNL are 73.58% and 36.81% respectively. So EBL has higher ratio than that of SCBNL. It reveals that the deposit of EBL is quickly converted in to loan and advances to earn income. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the EBL has met the NRB requirement or it has utilized its deposit to provide loan. But SCBNL has not met the NRB requirement or it has not utilized its deposit to provide loan properly.

Total investment to total deposit ratio of EBL is ranging from 24.70% to 27.41% where as the ratio of SCBNL is 54.47% to 54.99%.The mean ratio of EBL and SCBNL are 27.01% and 53.79% respectively. Investment volume of EBL is lower than that of SCBNL because more funds of EBL were used in profitable loans to achieve optimum mix of interest earning assets. SCBNL has higher ratio. It signifies SCBNL has successfully allocated its deposit in investment portfolio.

Loans & advances to total working fund ratio of EBL is ranging in between 60.96% to 63.75% whereas the ratio of SCBNL is ranging from 27.24% to 36.73% over the periods. The mean ratio of EBL and SCBNL are 62.46% and 32.63% respectively. While observing their ratios; EBL is better mobilizing of fund as loan and advances and it seems quite successful in generating higher ratio in each year.

Profitability Ratio

Return on equity (ROE) of EBL is in between 15.37% and 24.67% where as the ROE of SCBNL is in between 37.03% and 32.68%.It signifies that the shareholders of SCBNL are getting higher return but in case of EBL they are getting lesser.

Total interest income to total working fund ratio of EBL is in between 6.46% and 5.34% where as the ratio of SCBNL is in between 4.79% and 4.94%.The mean

ratio of EBL and SCBNL are 6.09% and 4.72% respectively. The mean ratio of EBL is more than that of SCBNL. In comparison, EBL seems effective in earning interest to some extent although it has lower earning of interest income.

Total interest expenses to total working fund ratio of EBL is in between 3.82% and 2.41% where as the ratio of SCBNL is in between 1.22% and 1.44%. The mean ratio of EBL is higher than that of SCBNL (i.e. 2.92%>1.23%). Due to the higher ratio in each year of EBL, it seems less conscious about borrowing cheaper fund.

Interest earned to operating income ratio of EBL is in between 264.39% to 191.41% whereas the ratio of SCBNL is in between 132.87% and 124.98%. The mean ratio of EBL and SCBNL are 210.87% and 124.04% respectively. EBL has higher ratio, it indicates the high contribution in operating income made by lending and investing activities (core banking activity).SCBNL has lower ratio, it indicates that high contribution in operating income do not made by lending and investing activities (core banking activity).High contribution in operating income made by lending and investing activities (core banking activity) is not good for long run but in short run it is not so bad. Thus, from short term view, EBL is in good condition but from long term view, SCBNL is in good condition. In overall, SCBNL has managed sound interest earned to operating income ratio.

Return on total working fund ratio (ROA) of EBL is in between 1.17% and 1.38% whereas the ratio of SCBNL is in between 2.42% and 2.27%. The ROA of both banks are in fluctuating trend how ever SCBNL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 2.43% of total assets in an average.

Return on loans & advances ratio of EBL is in between 1.92% and 2.17% but in case of SCBNL the ratio is in between 8.90% and 6.59%. We notice that SCBNL has higher Ratios in each year and mean ratio is also higher. So it seems successful by

generating higher ratio. It can be concluded that SCBNL has better utilized the loan and advance for the profit generation.

Earning per share (EPS) of EBL is in between 20.70 and 57.22 where as the EPS of SCBNL is in between 143.00 and 175.67.The mean ratio of EBL and SCBNL are Rs 37.66 and Rs 155.73 respectively. While observing their ratios in overall; SCBNL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful and strongest in the banking sector by generating higher EPS in each year and in average too. It is quite satisfying to state that SCBNL has been able to maximizing share holder wealth.

Price earning ratio of EBL is in between 14.88 times to 42.47 times. Whereas the price earning ratio of SCBNL is in between 10.98 times to 35.25 times. The mean ratio of EBL and SCBNL are 22.06 times and 19.25 times respectively. Looking the mean ratio we conclude that in short run, investor of EBL are getting better profitability because they are selling their shares in high price although EPS of EBL is lower in comparison than that of SCBNL. But from the long term view and sustainable fair price, investor of SCBNL will get better profitability and they will be in safe side.

Lending Efficiency Ratio

Loan loss provision to total loans & advances ratio of EBL is in between 0.66% to 1.34% where as the ratio of SCBNL is in between 0.04% to 0.53%.The mean ratio of EBL and SCBNL are 0.94% and 0.33% respectively. Loan loss provision shouldn't be more than 1.25% of risk bearing assets according to NRB directives. So, in all of the year, both the bank have met the NRB requirement. As EBL has higher mean ratio, EBL has more risky assets in total volume of loan advances.

An interest expense to total deposit of EBL is in between 2.84% to 4.60% whereas ratio of SCBNL is in between 1.30% to 1.67%. From mean point of view, interest expenses to total deposit ratio of EBL and SCBNL are 3.45% and 1.39% respectively. It indicates that both the bank do not have higher interest expenses on total

deposit. Commercial banks are dependent upon its ability to generate cheaper fund. So, in comparison, SCBNL does not have higher interest expenses on total deposit than that of EBL.

Non-performing loans to total loans & advances ratio of EBL is in between0.94% & 2.20% whereas ratio of SCBNL is in between 1.89% to 4.35% respectively. From mean point of view, non-performing loan to total loan and advances ratio of EBL and SCBNL are1.55 % and 3.03% respectively during the study period. These ratio indicate the more efficient operating of credit management of both banks according to NRB directives. However, in comparison, EBL has efficient operating of credit management than that of SCBNL. In another words, SCBNL has lower efficient operating of credit management than that of EBL. As, EBL has lower ratio, EBL has efficiently used the total loan and advances than that of SCBNL.

The growth rate of deposit for the study period of EBL is more than that of SCBNL. However the total amount of deposit is greater of SCBNL than to EBL. The growth rate of EBL of loans & advances is more than that of SCBNL during study period the. The EBL has also greater amount of loan and advances than SCBNL. In overall deposit and total loan of EBL are increasing in aggressive trend where as these are increasing in SCBNL in moderate trend.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATION

There are two aspects included in this chapter. The first aspect focuses on the summary and the conclusion of the study while the second aspect focuses on the suggestions and recommendations that are useful to improve the financial performance of EBL and SCBNL.

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 basic task of financial institutions is to mobilize the saving of the community and ensure efficient allocation of the savings to high yielding investment projects to offer attractive and secured returns to different sectors of the economy according to the planned priorities of the country. On the other hand, 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 (savers) units to the deficit units (investors) in the economy.

Investment operation of commercial banks is a very risky one. For this, commercial banks have to pay due consideration while formulating investment policy. A healthy development of any commercial bank depends upon its investment policy. A good investment policy attracts both the borrowers and the lenders, which helps to increase the volume of quality deposits and investment.

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, bank reserves the principal channel for government economic policy to stabilize the economy. And banks are also the most important sources of short-term working capital needed for the businesses. They have increasingly become active in recent years in making long-term business loans for new plant and equipments. When businesses and consumers must make payments for the purchase of goods and services, more often they use bank provided cheques, credit or debit cards, or electronic accounts connected to a computer network. It is the bankers, to whom they turn most frequently for advice and counsel when they need financial information and financial planning.

A bank always puts in effort to maximize its profitability. The profit is excess of income over expenses. To maximize profit, income should be reasonably excess over expenses. The major source of income of a bank is interest income from loans, investments and fee based income. As loan and advances dominate the asset side of the balance sheet of any bank; similarly, earnings from such loan 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 loan and advances. Hence, loan is known as risky asset 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 problem in almost all underdeveloped countries and Nepal as no exception is that of capital formation and proper utilization. In such countries, the commercial banks have to shoulder more responsibilities and acts as development banks, 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 of 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 the bank as a commercial organization 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 (obligation) to provide social service oriented contribution for the social economic upliftment of the country by providing specially considered loans and advances towards less privileged sectors.

A bank's marketing starts with a proper relationship with customers either to attract savings or for the loan disbursement. Both the depositors and the creditors are customers of the bank. Banks offer various products for deposit mobilization and disburse the credit products as per the portfolio management. Customers as per their need purchase different types 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, bills purchase or negotiation, export and import bills, import/trust 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 loam 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 (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 institution on the basis of their capital base and liquidity position offer these 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 bank of America has a vast range of banking business serving individuals and small firms and a big share of the loan syndicate market. It means markets are there for some products and it is created for others. 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 lenders and borrowers both get benefited out of it. Customers are the ultimate source of income not products. For the analysis of customers several questions need to be answered. These includes questions such as which customer buys the product and how do they use it? where do customers buy the product, when do customer buy, how do customers choose, why do they preferred that 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 Conclusions

Current assets to current liabilities ratio of EBL is in decreasing trend except in 2006/07. The highest ratio is 1.18 times in year 2002/2003 and lowest ratio 1.13 times in year 2005/06. The mean ratio is 1.16 times. Whereas this ratio of SCBNL is in increasing trend. The highest ratio is 0.67 times in year 2006/07 and lowest ratio is 0.54 in 2002/2003. The mean ratio is 0.63 times. While observing the data, we notice that both the banks have not met the standard ratio. How ever, in comparison EBL has sound ability to meet its short term obligation than that of SCBNL.

Cash and bank balance to current assets ratio of EBL and SCBNL are in fluctuating trend. The highest ratio of EBL is 14.35% in year 2002/2003 and lowest ratio 6.66% in year 2003/2004. The mean ratio is 10.23% .Similarly, the highest ratio of SCBNL is 14.94% in 2003/2004 and lowest ratio is 7.40% in 2005/2006.The mean ratio of SCBNL is 10.76% While observing the data, we notice that EBL has slightly lower mean ratio. It indicates that SCBNL has the slightly higher portion of cash and bank balance over current assets. it means SCBNL has slightly sound liquid assets than that of EBL.

The investment on government treasury bills to current assets of EBL and SCBNL are in fluctuating trend. The highest ratio of EBL is 25.21% and SCBNL is 45.27% in 2003/04. And the lowest ratio of EBL and SCBNL are 16.15% and 35.48% in 2004/05 respectively. Mean ratio of EBL and SCBNL are 19.75% and 40.76% respectively. SCBNL has higher ratio in every year and mean too. It means SCBNL has invested more money in risk free assets than that of EBL. In other words EBL has emphases on more loan and advances and other short term investment than investment in govt. securities. For minimization of investment risk, EBL should divert its investment in govt. securities.

Loan and advances to current of EBL and SCBNL are in fluctuating trend. The highest ratio of EBL is 64.26% and SCBNL is 56.76% in 2004/05. And the lowest ratio of EBL and SCBNL are 61.80% in 2002/2003 and 47.34% in 2003/04 respectively. Mean ratio of EBL and SCBNL are 63.15% and 52.09% respectively. EBL has higher ratio in every year and mean too. It means EBL has invested more money in the area of interest generation sources out of the current assets. Risk free assets than that of EBL. In another words EBL has emphases on more loan and advances . on the other hand SCBNL has invested more money in risk free assets out of the current assets than that of EBL For minimization of investment risk, EBL should divert its investment in govt. securities other investment sector.

Total deposit of SCBNL is higher than that of EBL. Similarly in first 3-years cash and bank balance in SCBNL is higher and in last 2-years cash and bank balance in EBL is higher. Both the bank have fluctuating trend of ratio. The mean ratio of EBL and SCBNL

are 11.93% and 7.40% respectively. EBL has higher ratio than that of SCBNL. It signifies that EBL has sound liquid fund to make immediate payment to the depositors but EBL has excess liquidity rather than that of SCBNL because of poor investment opportunities.

The loan and advances and total deposit in both banks have increased in each year except total deposit of SCBNL in 2004/2005.From the above table we notice that EBL has successfully increased the loans and advances throughout the studied period. However deposit collection of SCBNL is satisfactory in comparison. While observing their ratios; EBL seems quite successful in generating higher ratio in each year.
The mean of EBL and SCBNL are 73.58% and 36.81% respectively. So EBL has higher ratio than that of SCBNL. It reveals that the deposit of EBL are quickly converted in to loan and advances to earn income. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the EBL has met the NRB requirement or it has utilized its deposit to provide loan. But SCBNL has not met the NRB requirement or it has not utilized its deposit to provide loan properly.

It is observed that the investment trend of both bank have increased except in 2004/05. Investment volume of EBL is lower than that of SCBNL because more funds of EBL were used in profitable loans to achieve optimum mix of interest earning assets. The mean of the ratio of EBL and SCBNL are 27.01% and 53.79% respectively so SCBNL has higher ratio. It signifies SCBNL has successfully allocated its deposit in investment portfolio.

Loan and advances to total assets ratio of EBL and SCBNL are in fluctuating trend. The loan and advances and total assets in both banks have increased in each year except total assets of SCBNL in 2004/2005.From the above table we notice that EBL has successfully increased the loans and advances throughout the studied period. However total assets of SCBNL is satisfactory in comparison. While observing their ratios; EBL is better mobilizing of fund as loan and advances and it seems quite successful in generating

higher ratio in each year. The mean of EBL and SCBNL are 62.46% and 32.63% respectively. So EBL has higher ratio than that of SCBNL. It reveals that in total assets, EBL has high proportion of loan and advances.

Both the bank has increased net worth during the studied period. The increment ratio of net worth in EBL is more rapid in each year than that of SCBNL. Because of increment in profit of EBL in comparison to net worth, the ROE ratio drastically went up to 15.37% to 24.67%. But because of increment in net worth in comparison to net profit, the ROE ratio drastically went down from 37.03% to 32.68%. However, SCBNL has higher ratio in each year. Despite stiff competition and an adverse macro economic environment, SCBNL is currently generating higher ROE, which is best in the market among all. In brief it signifies that the shareholders of SCBNL are getting higher return but in case of EBL they are getting lesser. It can be concluded that SCBNL has better utilized the equity for the profit generation. It proves to be a good strength of SCBNL in attracting future investment also while EBL shows its weakness regarding efficient utilization of its owner's equity. It is quite satisfying to state that SCBNL has been able to maximize the share holder wealth at a homogeneous rate.

Both banks have increased total assets except by SCBNL in 2004/05. Further more they both have increased total interest earned during studied period. Despite the higher Total assets and interest earned in SCBNL, it seems less conscious about managing its assets in order to earn more interest ratio. EBL shows the decreasing trend of the interest earned ratio and its average ratio is 6.09% whereas SCBNL shows fluctuating trend and it has maintained average ratio 4.72%. SCBNL has the highest ratio in 2006/07. It indicates it has been utilizing its assets to get more interest in the latest year. The mean ratio of EBL is more than that of SCBNL. In comparison, EBL seems effective in earning interest to some extent although it has lower earning of interest income but it must break the decreasing trend in coming year.

Both banks have increased total assets except by SCBNL in 2004/05. Further more they both have increased total interest paid during studied period except in 2004/05.Interest

paid of EBL is higher in each year it may either due to the higher saving and fixed deposit or higher interest rate in deposit. Due to the higher ratio in each year of EBL, it seems less conscious about borrowing cheaper fund. EBL shows the decreasing trend of the interest paid ratio and its average ratio is 2.92% whereas SCBNL also shows decreasing trend except in 2005/06 and 2006/2007 and it has maintained average ratio1.23%. SCBNL has the highest ratio in 2006/07. It indicates it has either used higher saving and fixed deposit or higher. The mean ratio of EBL is more than that of SCBNL. In comparison, EBL seems ineffective in getting cheaper fund.

Both banks have increased operating income and interest earned during studied period. The mean ratio of EBL and SCBNL are 210.87% and 124.04% respectively. EBL has higher ratio, it indicates the high contribution in operating income made by lending and investing activities (core banking activity).SCBNL has lower ratio, it indicates that high contribution in operating income do not made by lending and investing activities (core banking activity).High contribution in operating income made by lending and investing activities (core banking activity) is not good for long run but in short run it is not so bad. Thus, from short term view, EBL is in good condition but from long term view, SCBNL is in good condition. In overall, SCBNL has managed sound interest earned to operating income ratio.

Net profit and total assets of both banks are in increasing trend except total assets of SCBNL in 2004/05.The ROA of both banks are in fluctuating trend how ever SCBNL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 2.43% of total assets in an average.

Return on loan and advances ratio of EBL and SCBNL are in fluctuating trend. The highest ratio of EBL is 2.44% in the year 2003/ 2004 and lowest ratio 1.87% in year 2002/2003. The mean ratio is 2.24%. This shows the normal earning capacity of EBL in loan and advances. Whereas highest ratio of SCBNL is 8.90% in year 2002/2003 and lowest ratio is 6.59 in 2004/2005 and 2006/07. The mean ratio is 7.57% of SCBNL.SCBNL has higher Ratios in each year and mean ratio is also higher. So it seems

successful by generating higher ratio. It can be concluded that SCBNL has better utilized the loan and advance for the profit generation.

Earning per share of EBL is in increasing trend. Whereas EPS of SCBNL is in decreasing trend in 2003/04 and 2004/05. SCBNL has increased its EPS in 2005/2006 dramatically but it reduced to RS 167.47 in 2006/07.Looking at the table, EBL has increased its EPS in each year drastically. From the above table we notice that EBL is doing progress in each year whereas result of SCBNL is not in satisfactory condition, as it couldn't maintain the increasing trend in comparison with EBL. While observing their ratios in overall; SCBNL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful and strongest in the banking sector by generating higher EPS in each year and in average too. It is quite satisfying to state that SCBNL has been able to maximizing share holder wealth.

Price earning ratio earning of EBL and SCBNL are in increasing trend. From the mean point of view, mean ratio of the EBL and SCBNL are 22.06 and 19.25 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 22.06 in EBL and Rs 19.25 in SCBNL. Looking the mean ratio we conclude that in short run, investor of EBL are getting better profitability because they are selling their shares in high price although EPS of EBL is lower in comparison than that of SCBNL. But from the long term view and sustainable fair price, investor of SCBNL will get better profitability and they will be in safe side.

Loan loss provision to total loan and advances ratio of EBL and SCBNL are in decreasing trend except in 2003/04 of EBL and in 2004/05 of SCBNL. The mean ratio of EBL and SCBNL are 0.90% and 0.33% respectively. Loan loss provision shouldn't be more than not more than 1.25% of risk bearing assets according to NRB directives. So, in all of the year, both the bank have met the NRB requirement. As EBL has higher mean ratio, EBL has more risky assets in total volume of loan advances.

Interest expenses to total deposit ratio of EBL is in decreasing trend. Whereas, interest expenses to total deposit of SCBNL is in fluctuating trend and it has the highest ratio of 1.68% in the year 2006/07. From mean point of view, interest expenses to total deposit ratio of EBL and SCBNL are 3.45% and 1.39% respectively. It indicates that both the bank do not have higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. So, in comparison, SCBNL does not have higher interest expenses on total deposit than that of EBL.

NPL to total loan and advances of EBL and SCBNL are in decreasing trend. Decreasing trend is the good sign of the efficient credit management. From mean point of view, non-performing loan to total loan and advances ratio of EBL and SCBNL are1.55 % and 3.03% respectively during the study period. These ratios indicate the more efficient operating of credit management of both banks according to NRB directives. However, in comparison, EBL has efficient operating of credit management than that of SCBNL. In another words, SCBNL has lower efficient operating of credit management than that of EBL. As, EBL has lower ratio, EBL has efficiently used the total loan and advances than that of SCBNL.

In the above table, the correlation coefficient between deposit and loan and advances of EBL is 0.998 and of SCBNL is 0.828 this means the loans & advances is perfectly positively correlated. It means to provide the loans & advances to its customers the deposits are required. Higher the volume of deposits higher will be the volume of loans & advances.

The correlation coefficient between total deposits and total investment describes the degree of relationship between these two items. How a unit increases in deposits impact in the volume of investment is measured by this correlation. Here, deposit is the independent variable and the investment is the dependent variable.

In the above table, the correlation coefficient between deposits and investment of EBL is 0957 and of SCBNL is 0.978. This means the deposits and investments are positively correlated but not perfectly.

The correlation between total assets and net profit measures the degree of relationship between total assets and total net profits. It measures whether the net profit is accompanied by increase in the volume of total assets. Here, the total asset is the independent variable where as the dependent variable.

In the above table, the correlation coefficient between total assets and net profit of EBL is 0.987 and of SCBNL is 0.955. Than from this we can say that the amount of net profit heavily depends upon the amount and quality of total assets.

The correlation coefficient between total deposit and total net profit measures the degree and the movement of the relationship between these two variables. Here, total deposit is the independent variable and the net profit is the dependent variable.

The correlation coefficient between total deposit and net profit of EBL is 0.990 and of SCBNL is 0.957.This means both the bank has the positive correlation of investment with the net profit.

The growth rate of deposit for the study period of EBL is more than that of SCBNL. However the total amount of deposit is greater of SCBNL than to EBL. The growth rate of EBL of loans & advances is more than that of SCBNL during study period the. The EBL has also greater amount of loan and advances than SCBNL. In overall deposit and total loan of EBL are increasing in aggressive trend where as these are increasing in SCBNL in moderate trend.

5.3 Recommendations

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make performance of the EBL and SCBNL effective and efficient.

- As the current ratios of EBL are more than 1:1, it is good as it can meet the short-term obligations. But SCBNL has less than 1:1so it has no ability to pay its short term obligation in comparison with EBL. So it should either increase its current assets or decrease its current liability to meet the short-term obligation in time.
- From the table we notice that mean ratio investment on government treasury bills to current assets of EBL and SCBNL are 19.75% and 40.76%respectively.SCBNL has higher ratio in every year and mean too. It means SCBNL has invested more money in risk free assets than that of EBL. In other words EBL has emphases on more loan and advances and other short term investment than investment in govt. securities. For minimization of investment risk, EBL should divert its investment in govt. securities.
- EBL has invested more money in the area of interest generation sources out of the current assets. Risk free assets than that of EBL. In another words EBL has emphasized on more loan and advances. on the other hand SCBNL has invested more money in risk free assets out of the current assets than that of EBL For minimization of investment risk, EBL should divert its investment in govt. securities other investment sector.
- The mean ratio of cash and bank balance to total deposit of EBL and SCBNL are 11.93% and 7.40% respectively. EBL has higher ratio than that of SCBNL. It signifies that EBL has sound liquid fund to make immediate payment to the depositors but EBL has excess liquidity rather than that of SCBNL because of poor investment opportunities. So EBL must search new investment opportunities.
- The mean ratio loan and advances to total deposit of EBL and SCBNL are 73.58% and 36.81% respectively. So EBL has higher ratio than that of SCBNL. It

reveals that the deposit of EBL is quickly converted in to loan and advances to earn income. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the EBL has met the NRB requirement or it has utilized its deposit to provide loan. But SCBNL has not met the NRB requirement or it has not utilized its deposit to provide loan properly. So SCBNL should quickly convert its unused deposit into loan and advances.

- The mean ratio of total investment to total deposit ratio of EBL and SCBNL are 27.01% and 53.79% respectively so SCBNL has higher ratio. It signifies SCBNL has successfully allocated its deposit in investment portfolio. So EBL should search new investment opportunities to make its depositor risk free.
- SCBNL is currently generating higher ROE, which is best in the market among all. In brief it signifies that the shareholders of SCBNL are getting higher return but in case of EBL they are getting lesser. So EBL must try to increase ROE for satisfying its owner.
- EBL seems effective in earning interest to total assets to some extent although it has lower earning of interest income but it must break the decreasing trend in coming year for the sustainable increment.
- Due to the higher ratio of interest paid to total assets in each year of EBL, it seems less conscious about borrowing cheaper fund. In comparison with SCBNL, EBL seems ineffective in getting cheaper fund. So it should be conscious about borrowing cheaper fund.
- The mean ratio of interest earned to operating income ratio of EBL and SCBNL are 210.87% and 124.04% respectively. EBL has higher ratio, it indicates the high contribution in operating income made by lending activitiy. SCBNL has lower ratio, it indicates that high contribution in operating income do not made by lending activity. High contribution in operating income made by lending activity is not good for long run but in short run it is not so bad. Thus, from short term view, EBL is in good condition but from long term view, SCBNL is in good condition. So for the long run, EBL should generate more income from other

sources (like: commission and discount, income from dividend, foreign exchange income, other investment etc)

- SCBNL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 2.43% which is more than that of EBL of total assets in an average. So it is recommended that EBL should increase its ROA either by increasing net profit or by decreasing total assets.
- SCBNL has higher return on loan and advances in each year and mean ratio is also higher. So it seems successful by generating higher ratio. It is recommended that EBL should better utilize the loan and advances for the profit generation.
- EBL has increased its EPS in each year drastically. EBL is doing progress in each year whereas result of SCBNL is not in satisfactory condition, as it couldn't maintain the increasing trend in comparison with EBL. Therefore SCBNL should maintain the increasing trend.
- While observing EPS ratio in overall; SCBNL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful and strongest in the banking sector by generating higher EPS in each year and in average too. It is quite satisfying to state that SCBNL has been able to maximizing share holder wealth. So EBL should try to increase its EPS for the maximizing shareholder wealth.
- Looking the mean ratio of price earning ratio we conclude that in short run, investor of EBL are getting better profitability because they are selling their shares in high price although EPS of EBL is lower in comparison than that of SCBNL. But from the long term view and sustainable fair price, investor of SCBNL will get better profitability and they will be in safe side. So for the sustainable fair price either EPS of EBL should be increased or price should be decreased.
- As EBL has higher mean ratio of loan loss provision to total loan and advances, EBL has more risky assets in total volume of loan advances. So it should try to decrease risky assets in total volume of loan and advances.
- Commercial banks are dependent upon its ability to generate cheaper fund. So, in comparison, SCBNL does not have higher interest expenses on total deposit than

that of EBL. So EBL should try to decrease interest expenses on total deposit for the increment in the profit.

- NPL to total loan and advances of EBL and SCBNL are in decreasing trend. Decreasing trend is the good sign of the efficient credit management. Both banks have maintained required ratio according to NRB directives. However, in comparison, EBL has efficient operating of credit management than that of SCBNL. In another words, SCBNL has lower efficient operating of credit management than that of EBL. As, EBL has lower ratio, EBL has efficiently used the total loan and advances than that of SCBNL. Therefore SCBNL should try to decrease non performing loan to be more efficient in operation of credit management.

Keeping all these in consideration, the EBL has less performance than that of SCBNL. This might be due to the SCBNL is established before than EBL. However, in this short span of time the EBL has earned the good reputation in the market. Another point is that SCBNL is an international bank. So, in the future ahead, the EBL should improve its weaknesses by adopting the innovative approach to marketing. In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its 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 prices. The bank is also required to explore new market areas. For this purpose, it is recommended to form a strong market department in its central level, which deals with the banking products, places, price and promotion.

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