CHAPTER – I

INTRODUCTION

1.1 Background

A bank is an institution, the major function of which is to deal in money and credit. The main business of a bank is to pool the scattered idle deposits in the public and channel it for productive use. It collects deposits and invests or lends to those who stand in need of money. Bank, in other words is a custodian of money received from the depositors. Hence, its responsibility towards the general public is pretty different than those who are involved in other types of trades and service. Modern day banks exhibit the trait more of a department store with a wide range of financial products to offer.

Bank can be a person, a company or a firm, with a place of business, and must be involved in credit creation. The business of a modern day bank is not confined in borrowing. Deposits and lending advances only, it performs host of other financial activities which has immensely contributed to achieve industrial and commercial progress of every country.

"The commercial bank has its own role and contribution in the economic development. It is a source for economic development, it maintains economic confidence of various segments and extends credit of people." (Ggywinshki, 1991, P.24).

"A banker or a bank is person firm or company, having a place of business where credits are opened by the deposit or collection of money or currency subject to be paid or remitted upon draft cheque or order of where money is advanced or loaned on stocks, bonds, billion on bills of exchange and promissory notes are received for discount and sale." (Upadhya, & Tiwari, 1982, P.167)

American institute of banking defined, "commercial bank is the corporation, which accepts demand deposits subject to check and makes short-term loan to business enterprises regardless of the scope of its other sources." (American Institute of Banking, 1972, P.345)

"A bank is an organization the major function of which is to deal with others money and lend it in Different Productive sectors. Bank's main business is to pool the scattered ideal deposit from the public and channel it to productive use. It collects deposits and lends or invests to those who stand in need of money. Bank in other words is a custodian of money received from the depositors. Banks can be person, company or firm with a place of business and must be involved in credit creation. Modern day's bank's business is not confined in borrowing deposits and lending advanced only, it performs a host of other financial activities which has immensely contributed to achieve industrial and commercial progress of every country." (Shrestha, 2006, P.1)

"A bank is an institution whose debts are widely accepted in settlement of their people's debt to each other." (Sayers, 1967, P.312)

In the world of banking revolution act of India banking means the accepting for the purpose of landing and Investment of deposit of money from the public repayable on demand or otherwise and withdrawal by cheques or drafts or otherwise.

1.2 History of commercial banks in Nepal.

The history of commercial bank in Nepal starts from the establishment of the Nepal Bank Ltd. On 1994 B.S. it is the first bank in Nepal and prior to this, there was no such organized banking system in the country. The bank was started with the paid up capital of 845000 rupees. The balance sheet figure of the first year of Nepal Bank Ltd. was Rs 2815000. It started its business by accepting deposits form the public by collecting Rs. 17002000 in the initial year which was considered as an indication success. Later, the Nepal Rastra Bank was established on 2013B.S. which has helped to make banking system more systematic and dynamic during that time.

As the time passed, the Rastriya Banijaya Bank was established on 2022 B.S. in order to play a major role not only in domestic banking services but also in the foreign trade. After the establishment of this bank, there was progress in the banking industry. Nepal has opened its door to

foreign commercial banks to operate in the country almost a decade back. Consequently, Nepal Arab Bank was established in 2041 B.S. under the commercial bank Act 3031, similarly, the Nepal Indosuez Bank was established as joint venture between Nepal and France on 2042 B.S. and Nepal Grindlays Bank on 2043 B.S. As a country followed economic liberalization, there was massive entrance of foreign banks in Nepal. The establishments of Himalayan Bank as a joint venture with Pakistan bank, Nepal SBI bank as a joint venture bank with a reputed bank of India, Nepal Bangladesh Bank as a joint Venture bank with the Bangladesh Bank, Bank of Kathmandu as a joint venture bank with Thailand Bank. Everest Bank as the joint venture bank with Punjab National Bank, Nepal Sri Lanka Bank as a Joint venture bank with Sri Lanakan Bank, are the examples of expansion of banking industry Nepal.

A part from the above listed banks, Number of private banks are coming in the banking market. At present twenty six Class A banks are established in banking market of Nepal.

The legitimate entry of foreign commercial banks with full fledged banking system, accompanied by greater sophistication due to diversity of raising funds and deployment funds. Not withstanding its many shortcomings the system has shown dynamism and innovativeness in meeting the challenges of mobilizing resources for country development. The liberalization policy led to dozens of commercial banks actively playing in the financial market of the country.

1.3 Focus of the study

A research work has different dimensions, while making a comparative financial performance of two firms. Here an attempt is made to compare Standard Chartered Bank Nepal Limited and Nabil Bank Limited with respect to their financial performance.

In common parlance profit is regarded as major criteria of measuring financial performance. However there are other aspects that also should be considered while analyzing the financial performance. The researcher has attempted to analyze the comparative performance SCBNL and NBL and their individual strength on the basis of their internal reports and published annual reports. For this purpose different tools and techniques have been applied to judge the performance of these organizations. An attempt is made to draw out the strength and weakness of the firms and try to prescribe remedial measures to improve the performance of these two banks.

In the present context of keen competition, among the commercial banks and other banks in Nepal, SCBNL has the highest market price per share and NBL has second highest market share per share in the stock market of Nepal. (Source: www.nepalstock.com. November 18, 2009). In other words the first and second priority of investors is SCBNL and NBL. So, the study is focused on these selected commercial banks.

1.3.1 Standard Chartered Bank Nepal Limited (SCBNL)

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987. The Bank is an integral part of Standard Chartered Group having an ownership of 75% and the balance owned by the Nepalese public. The Bank is the largest international bank currently operating in Nepal.

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets in over 70 countries. Standard Chartered employs almost 75,000 people, representing over 115 nationalities, worldwide. This diversity lies at the heart of the Bank's values and supports the Bank's growth as the world increasingly becomes one market.

With 16 points of representation, 17 ATMs and more than 350 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

Standard Chartered Bank Nepal Limited offers a full range of banking products and services in Wholesale and Consumer banking. The Bank has been the pioneer in introducing 'customer focused' products and services and aspires to continue to be a leader in introducing new products in delivering superior services.

The shareholding structure of SCBNL. is as follows:

Standard Chartered Grindlays Ltd, Sydney, Australia   50%

Standard Chartered Bank, UK   25%

General Public   25%

    Total   **100%**

1.3.2 Nabil Bank Limited (NBL):

NBL, the first foreign joint venture bank of Nepal, stared operation in July 1984 AD. NBL was incorporated with the objective of extending international standard modern banking services to various sector of the society. Purchasing its objective, NBL provides a full range of commercial banking services through its 19 points of representation across the nation and over 180 reputed correspondent banks across the world.

The arrival of Nabil Bank in Nepal on the 12th of July 1984 through a joint venture with Dubai Bank Ltd. under a Technical Service Agreement (TSA), marks a new dawn in the Nepalese banking industry. What is more admirable is with the opening of then Nepal Arab Bank Ltd, Customer Service or marketing took a U-turn. That in substance accelerated the evolution in banking products and services thereafter in Nepal. The bank commenced with a team of about 50 staff members and Rs. 28 million as capital.

NBL is the largest bank in terms of the network and number of branches amongst the commercial banks with a wide network of ATMs and offerings including a range of diversified service products. NBL has expanded its network by adding 9 more branches that totals to 28 points of representation in the nation. NBL has diversified its realms of business in the interests of customers and is also being inspired by the noble cause of adding value to economic development. Bank has multiple sectors in focus to serve host of entrepreneurs as its new strategies are to expand dynamically, exploring new avenues and opportunities.

NBL, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector represented a milestone in the banking history of Nepal as it an era of modern banking with customer satisfaction measured as a focus objective while doing business. NBL is introducing many innovative products and marketing concepts in banking sector of Nepal with 15 branches and 2 countries in all major cities. Also the number of outlets in country is the highest among the joint venture and private bank operating in Nepal. Success of NBL, the milestone in the banking history of Nepal as it paved the way for the establishment of many commercial banks and financial institutions. It is the bank offering computerized source.

Operation of the bank including day to day operation and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology, which

includes ATMs, Credit Card, state of art, world-renowned software from Infosys Technology, internet banking system and Tele- banking system. The main objective of NBL is to provide better service to its customer.

The shareholding structure of NBL is as follows:

N. B. (International) Limited,	50%
Nepalese Public	30%
Nepal Industrial Development Corporation	6.15%
Rastriya Beema Sanstha	9.67%
Nepal Stock Exchange Limited	0.33%
Promoters others	3.85%
Total	**100%**

1.4 Statement of the problem

Joint venture Banks (JVBs) are operationally more efficient, having superior performance while comparing with the local state owned banks. The main focus of the statement of the problem stressed towards the comparative analysis of financial performance of two selected joint venture banks i.e. Standard Chartered Bank Nepal Limited and Nabil Bank Limited.

A comparative analysis of financial performance is a basic process, which provides information about the profitability, liquidity position,

earning capacity, efficiency in operation, credit worthiness, sources and uses of capital, financial achievement and status of the company. The information obtained can be used to measure the efficiency and effectiveness of the company in respect of financial resources in the profitable manner.

The present study seeks to explore the efficiency and weakness of SCBNL and NBL. Attempts will also the made to explore the answers the following questions.

-) How efficiently of NBL and SCBNL are managing their liquidity, assets, capital structure etc?
-) How far have NBL and SCBNL been able to convert the mobilized resources into investment?
-) What extent these banks have been able to raise their profitability?
-) Based on the above questions, which bank has faced more financial risk?

1.5 Objective of the study:

Main objectives of the analysis are to have a comparative financial performance of two joint venture banks. The specific objectives are as follows.

a) To examine relative financial performance of two banks.

b) To provide suggestions to overcome the problem and improve the performance.

c) To know the degree of correlation between the following relevant variables.

⟩ Investment and total deposit,

⟩ Interest earning and profitability.

⟩ Interest earned and interest paid.

d) To make comparative analysis of other indicators with reference to earning per share, dividend per share.

e) To evaluate the income and expenses pattern.

f) To compare the growth trend of bank as regards to other related variables, using trend percentage method.

g) To analyze the mobilization of resources into investment of both banks.

1.6 Importance of the study:

The study bears much usefulness to various parties, management shareholders, policy makers and other outsiders, which can be enlisted as follows:

To the management: the study will be useful to the management to go deeply into various matters as to why the performance of bank is better than their competitors. The management may also know the weak and lacking areas, which must be corrected.

To the shareholders: The shareholders of the concerned JVBs are also benefited by the study. It supplies much information regarding the financial performance and the soundness of their bank.

Policy makers: Policy makers refer to the authorities that formulate and determine rules, regulations and policies regarding the operation of the JVBs and other banking institutions.

To the outsiders: the other outsiders refer to those concerned groups such as depositors, investors, competitors etc. they are interested to know the financial soundness of concerned JVBs to obtain different information regarding the financial position. The study will be helpful to these groups and individuals.

1.7 Assumptions and limitations of the study:

The following limitations are pointed out to the study of comparative financial performance analysis of SCBNL and NBL.

I. It only focuses on SCBNL and NBL banks, among many commercial banks.

II. This study is based on only five years data form 2003/04 to 2007/08.

III. This analysis is mainly based on published secondary data by there banks.

IV.   The overall financial performance has been calculated on the basis of limited financial and statistical tools and techniques.

1.8 Organization of the study:

This research of comparative financial performance of Standard Chartered Bank Nepal Ltd and Nabil Bank Ltd has been divided into five chapters namely Introduction, Review of Literature, Research Methodology, Presentation of data and analysis and Summary, Conclusion and Recommendation.

A brief explanation of the chapter is as follows:

Chapter –I: Introduction

It includes introductory part of the study. Introduction of related banks Origin and Historical background of bank and a brief introduction of Standard Chartered Bank Nepal Limited and Nabil Bank Limited, Statement of problems, Importance of the study, Limitations of the study and finally terminology used in this study.

Chapter- II: Review of literature

This chapter deals with past content of theoretical analysis and review of related articles and journal on financial performance analysis.

Without review of literature researcher cannot forward the study. Reviewing literature is the basis of the present study. It provides the

information regarding up to what level the study has been conducted in the related field of study and what remains to be done. It includes study of past and present related information, Books, Journals, Thesis, News, International magazines, Historical finding and own independent knowledge can be used to analyze these data.

Chapter - III: Research methodology

It includes Research design, Nature and sources of data, Data collection and processing procedure, Population and Sample of the study, various types of statistical tools and techniques along with other reliable method of data analysis.

Chapter – IV: Presentation and analysis of data

This is the main body of research work under which data study is done. The data required for the study has been presented, analyzed and interpreted by using various tools and techniques of financial management, accounts and statistics to present the result relation to this study.

Chapter- V: Summary, conclusion and recommendation.

This chapter includes Summary of the study with appropriate conclusion and finally a series of recommendations based on analysis. The bibliography and appendices are in corporate in the end of the study.

CHAPTER –II

REVIEW OF LITERATURE

2.1 Introduction

The review of literature for the concerned subject matter for the present study has been presented in this chapter. Review means thinking again, studying the documents published or un-published related to the field of research is a review. Review of literature is the process of reading related documents and writing comments about the subject matter. The scholars in respect of financial performance have expressed different visions. Here, in this chapter review of concept of financial performance tools and techniques, of concept of financial performance related research studies, regulation relating to commercial banks is strived to present briefly.

2.2 Conceptual review

In the beginning of civilization, the number of business transactions had taken a very small place. Conceptual review specially the concept of financial performance, meaning of commercial banks are briefly described follows.

Profit is an essential for an enterprise for of its survival and growth and to maintain capital adequacy through profit retention. Profit is one of the indicators of sound financial performance.

As the human civilization has been growing, human activities have also been increasing remarkably. Scientific technology has been keeping close relation in the field of business as well as in the service enterprises by the help of financial performance. Every businessperson could show actual business condition to the different members and shareholders.

For the first time when finance emerged as a separate field of study in the early 1990's, the study of financial management has under gone significant changes over the years. In those days firm had critical problem for operating capital for their modernization and expansion. The capital markets were relatively insufficient and unaware for the collection of funds form the individuals.

Due to general development in business enterprises and the great depression of 1930's financial analysis was thought to be needed for everyone business enterprises for its survival. During 1940 and 50 finance continued to be thought as a subject.

This study was designed to help banks maximizing profit and share value in the market up 1950 balance sheet drew more attention for evaluation the institutional performance. Financial statements i.e. balance sheet and income statement have been used to record the business financial transaction but both of in slowly could not serve the purpose of overall education.

Therefore, other tools of finance as ratio analysis funds flow and trend analysis etc. took place in evaluation task financial performance companies two distinct words but gives integrated meaning. Financial analysis was started by western experts for the evaluation of financial performance. For the evaluation of financial performance, enterprises use financial statement, which refers to simply balance sheet, profit and loss statement.

Investors are more convened with a firm's long-term financial strength, while evaluation the financial performance, business with converting with resource mobilization, failure to collect enough deposit exhibits inefficiency of the bank. Commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing, deposit and extend of loans and advance of these banks are also expending.

2.3 Review of related studies

Review of related studies includes meaning, history and function of commercial banks.

2.3.1 Meaning of commercial banks

Commercial Bank Act of Nepal has defined as "A commercial bank means bank which deals in exchanging currency, accepting deposit giving loans and doing commercial transactions."(Commercial Bank act 2031)

"Principally commercial bank accepts deposits and provides loans primarily to business firms thereby facilitating the transfer of funds in the economy."(Abro & Gupts, 1968, P.64)

Role of banks primarily consists of the utilization of deposits and producing credit. In other words the banks in such countries have very important role of play in accumulation scattered resources and diverting such resources into productive channels. On the other hand, obliviously they pull all the scattered savings that are idle or otherwise would have been wasted in unproductive consumption like marriage, gambling, festivals, social economic activities etc. and they changes them in productive investment. Most of the developing countries suffer form almost complete lack of capital market, both the commercial bank and non-banking financial institutions consequently have a special role to play in the long process of growth. In principal they should undertake the responsibility for activation the increasing follow of personal savings so that the amount of hoarded wealth are diverted form unproductive to productive uses

. Commercial bank has covered each and every aspect of the economy. It provides different services for the economic development of the nation. The development of various sectors of the economy would not be possible. The whole community derives benefit form banks in different ways. It provides facilities to the commerce of the country. In addition to the acceptance of deposits, accepting traveler's cheques, underwriting,

purchase and sale of securities, government bonds for customers, buy and sell of foreign exchange. The other services of commercial banks are commercial letter credit, supply of timely credit and market information, providing remittance facilities and so on.

In developing country like Nepal, commercial banks pay vital catalyst role to ever growing economic for the upliftment of the country. If can not be denied that without the development of commercial banks in the country the four wheels of economic development like agriculture, industry, trade and commerce would be paralyzed in Nepal. So, in the present banking scenario there are 26 commercial banks which are providing modern banking services and facilities.

2.3.2 Development of commercial bank in Nepal

The term "bank" is new thing for Nepalese economy; there was banking business in the firm at money lending business done by several persons. It is assumed that the regular history of coinage in Nepal began form the 5th century A.D. in the year. "It is not possible to give correct chronological history in view to the fact that not authentic historical record is available in respect of banking, it can be inferred form references in the history of Nepal. Regarding rebuilding of Katmandu in 723 A.D. by Gunakama Dev form the borrowing and that of Tankadhari action of introduction of Nepalese sambat. Some 57 years there after to mark the repayment of all debts that money lending have been prevent long before that."(NRB Bank Samachar. 2055, P.71)

In 1877 A.D. Prime minister Ranoddip Singh introduced many financial and economic reforms. The 'Tejarath Adda' was established at that time. The basic purpose of establishing this 'Tejarath Adda' was to provide credit facilities to the public at a very low interest rate. The Tejarath Adda disbursed credit to the people based on collateral of gold and silver. All employees of government were also eligible for this type of loan, Which was settled by deduction form their salary. Under the prime ministership of Chandra Shamsher Rana Tejarath Adda extended its services outside the Katmandu valley. Legal loans extended by private dealers. Hence, the establishment of Tejarath Adda is regarded as the foundation of modern banking in Nepal. However, 'Kaushi Tosh Khana' established during the regime of king Pritivi Narayan Saha is also considered as the first step towards initiating banking development in Nepal.

Tejarath Adda extended credit only. It did not accept deposits from the public. Hence, the ads finally faced financial crisis making it impossible to meet the credit need of the general population of the country. (Shrestha, 2009, P.3)

In the year 1937 A.D. a semi-government bank was establish to remove, the inconvenience caused to the people and hindrances in the economic development of country due to absence of modern banking system known as Nepal Bank Limited and was incorporated under the Nepal Bank Act 1936. The bank's 51% share held by GON and 49% share

held by private sector. Nepal Bank Ltd. Played a dual role of commercial bank and the central bank, until the establishment of Nepal Rastra Bank 26th April, 1956, it carried all the functions of a central bank.

"The establishment of NRB set a milestone in the history of banking in Nepal. After this, a new way of thinking and a new sort of spirit arose in the field of banking. NRB was establishing with an objective of supervising, protecting and directing the functions of commercial banking activities. Although the NRB established in 1956, it took entirely, a decade to consolidate its powers as the banker's bank and controller of the credit. NRB started issuing currency on in 1956 A.D." (Shrestha, 1995, P.4)

Nepal bank was s semi government bank so it was unwilling to go to many sectors where the government felt the need of providing banking services. Hence, Rastrya Banijya Bank, a fully government owned bank was established on 23rd January 1966.

In 1963 A.D. a co-operative bank was established that was converted later into Agriculture Development Bank in 2041 B.S. to be the main financial institution for small rural, agro-industrial and co-operative sectors.

Until 1984, the Nepalese financial sectors were dominated by these two commercial banks. Commercial Banking Act 1974 was amended in 1984 to increase competition among commercial banks. Hence, provision was made to allow private sectors including foreign investments to open

commercial banks. As result, Nepal Arab Bank Ltd. (Nabil Bank) was established on July 12, 1984, with the partnership of Dubai Bank Ltd., Dubai. The numbers of commercial banks operating in the country are increasing everyday and many more are in the pipeline to commerce their business.

Until July 2009 number of banks and financial institutions establish in Nepal are as follows.

Banks/ Financial Institutions	No
Class A Commercial Banks	26
Class B Development Banks	42
Class C Finance Companies	77
Class D Micro Credit Development Banks	13
Saving and Credit Co-operatives (Licensed by NRB)	16
Non- Government Organization (NGOs) (Licensed by NRB)	45

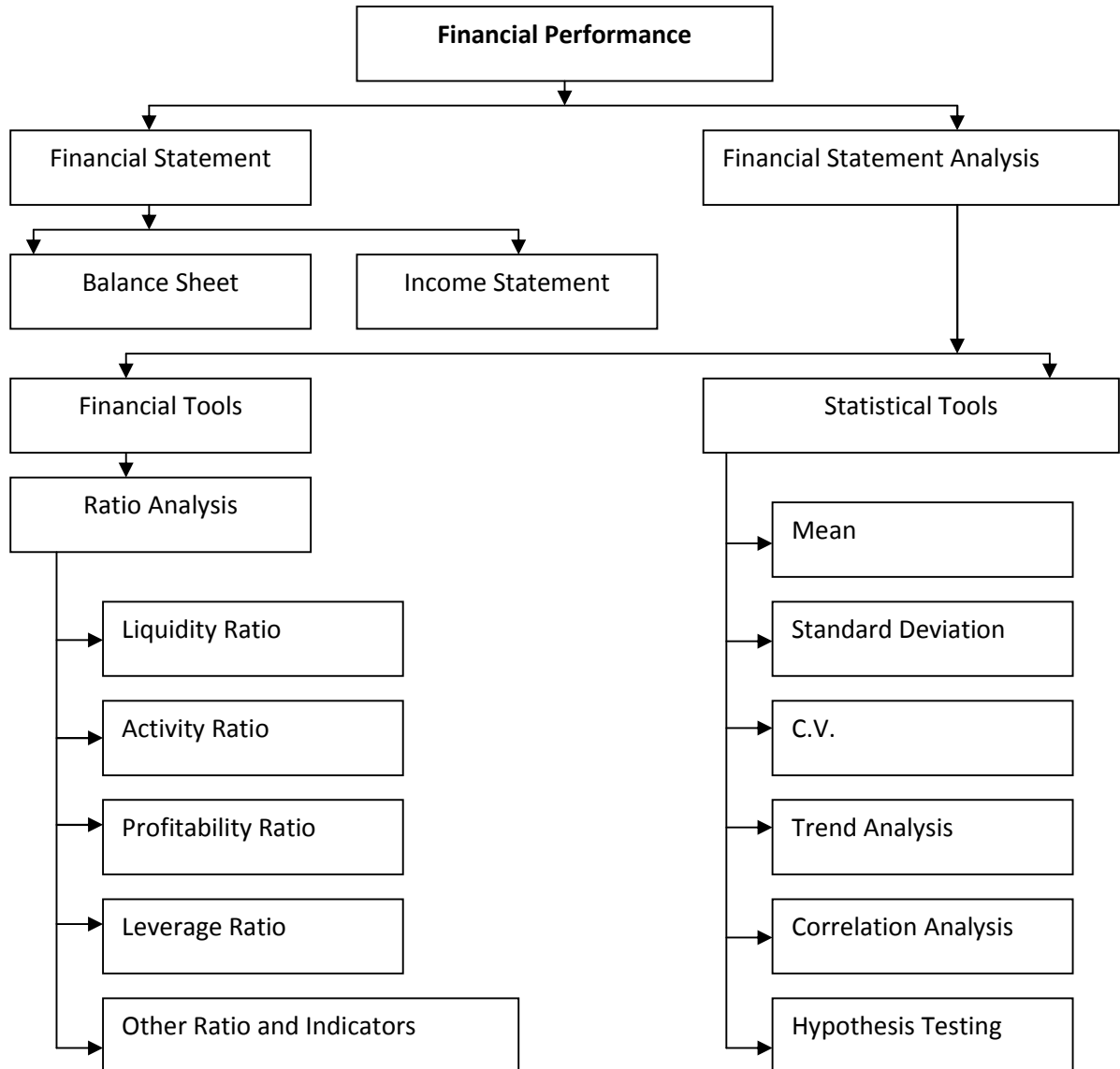## 2.3.3 Function of commercial banks

Primary functions

⌡ Collect deposits in various types of accounts.

⌡ Provide credit in the form of various loans, overdraft, and co-financing to industry, commerce, agriculture, export and service.

⌡ Remit funds.

Subsidiary functions

- Invest in government securities, treasury bills etc.

- Deal in foreign exchange.

- Provide agency functions such as collection of cheques, bills, promissory notes etc.

- Execute standing instructions such as payment of rent, insurance premium, income tax etc. on behalf of their customers.

- Involve in collection of dividends and interest on shares and debentures.

- Purchase or sale of securities.

- Act as trustee when so nominated.

- Act as a customer's correspondent or representative in dealing with other banks.

- Underwrite shares floated by government bodies and public bodies.

- Supply trade information and statistical data.

- Involve in LC & Guarantee issuance, Purchase or sale TC and Circular Notes etc.

- Act as a referee with regard to the financial status of customers.

2.4 Components of financial performance

Financial Performance Components are presented below.

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                        ┌─────────────────────────┐
                        │  Financial Performance  │
                        └─────────────────────────┘
                    ┌──────────────┴──────────────────┐
          ┌──────────────────────┐      ┌──────────────────────────────┐
          │ Financial Statement  │      │ Financial Statement Analysis │
          └──────────────────────┘      └──────────────────────────────┘
          ┌──────────┴──────────┐                       │
   ┌──────────────┐   ┌──────────────────┐              │
   │ Balance Sheet│   │ Income Statement │              │
   └──────────────┘   └──────────────────┘              │
          │                                             │
   ┌──────────────┐                          ┌──────────────────┐
   │Financial Tools│                         │ Statistical Tools│
   └──────────────┘                          └──────────────────┘
          │                                             │
   ┌──────────────┐                          ┌──────────────────┐
   │Ratio Analysis│                          │      Mean        │
   └──────────────┘                          └──────────────────┘
          │                                  ┌──────────────────┐
   ┌──────────────────┐                      │Standard Deviation│
   │ Liquidity Ratio  │                      └──────────────────┘
   └──────────────────┘                      ┌──────────────────┐
   ┌──────────────────┐                      │      C.V.        │
   │  Activity Ratio  │                      └──────────────────┘
   └──────────────────┘                      ┌──────────────────┐
   ┌──────────────────┐                      │  Trend Analysis  │
   │Profitability Ratio│                     └──────────────────┘
   └──────────────────┘                      ┌──────────────────────┐
   ┌──────────────────┐                      │Correlation Analysis  │
   │  Leverage Ratio  │                      └──────────────────────┘
   └──────────────────┘                      ┌──────────────────┐
   ┌──────────────────────────┐              │Hypothesis Testing│
   │Other Ratio and Indicators│              └──────────────────┘
   └──────────────────────────┘
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2.4.1 Financial statement

Financial statements are prepared form the accounting records maintained by the firm. The generally accepted accounting principles and procedures are followed to prepare these statements. The basic objective of financial statements is to assist in decision making.

Financial statements are prepared for the purpose of presenting a periodical review or report on progress of presenting a periodical review or report on progress by the management and deal with the status of the investment in the business and results achieved during the period under review. They reflect a combination of recorded facts, accounting conventions, and personal judgments and the judgments and conventions applied affect them materially. The soundness of the judgment necessarily depends on the competence and integrity of those who make them and on their adherence to generally accepted accounting principles and conventions.

"Financial statement refers to the two summarized financial reports which the accountant prepares usually at the end of the fiscal year of firm. They are balance sheet or statement of financial position and the income statement or profit & loss account" (Pandey, 1993, P.35)

Financial statement means balance sheet, profit and loss account, but each county has different regulation regarding the publication of financial information.

2.4.2 Balance sheet

Balance sheet is a statement of the assets, liabilities and capital of a business. It is the statement, which depicts the financial position of the business at the particular date of an accounting period. It is a sheet of ledger accounts, which were not closed by closing entries.

"A balance sheet may be defined as statement prepared with a view to measure the exact financial position of a business on a certain date. In other words, it represents assets or liabilities existing on the date of closing of accounts."(Juneja, Chawala & Saxena, 1994, P.304)

2.4.3 Income statement/profit & loss statement

Profit and loss account is prepared to ascertain net profit or net loss at the end of an accounting period. It contains all the items of revenue gain, losses and operating expenses of an accounting period. Therefore, it can be defined as an account which summarizes the annual revenues and expenses. The profit and loss account measures net income or losses by matching revenue and expenses according to the accounting principle. It is an account, which collects all expenses, losses, incomes and gains of an accounting period in order to ascertain the net profit or net loss.

"The determination of the net income of the net income of a business enterprise for a certain period of time is the central feature of accounting. Business is primarily conducted for earning income and therefore the net

income is the most significant figure produced by the accounting process to measure the degree of attainment of the objective.

The income statement provides a review of the factors directly convened with the determination of the net income; the revenue realized form the sales of goods or services and the cost incurred in the process of producing the revenue. These costs are cost of sales and selling, general and administrative expenses. They are deducted form the revenue to determine the income form regular operations. In addition, they may be income form other sources and other deductions form income."(John, 1974, P.15)

2.4.4 Financial statement analysis

Analyzing financial statement is a process of evaluating relationship between component parts of financial statement to obtain a better understanding of firm's position and performance.

"Financial Statement analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of balance sheet and profit and loss account." (Pandey, 1993, P.96)

"It is also the analytical and judgment process that helps answer questions that have been posed. Therefore, it is means to end. A part from the specific analytical answers, the solutions to financial problem and

issues of the parties involve in the relative issues and on the nature and reliability of the information available."(Helfert, 1992, P.2)

"Financial statement analysis involves a comparison of a firm's performance with that of others firms in the same line of business, which is often identifies the firm's industry classification."(Weston, Besley & Eugene, 1996, P.78)

" Analysis and interpretation of financial statements are attempt to determine the significance and meaning of financial statements data, so that a forecast may be made of the prospects for future earnings, ability to pay interest, debt maturities both current as well as long term and profitability."(Mohan & Goyal, 1977, P.390)

The tools of financial statement analysis, which are applied on this thesis work, are:

1. Financial tools
2. Statistical tools

2.5 Financial tools

For analyzing the financial performance of the selected commercial banks of Nepal financial tool ratio analysis has been used.

2.5.1 Ratio analysis

Ratio is the relationship between two figures. They provide two important facts about the management, the return on investment and the soundness of

the company's financial position. "Ratio analysis provides guides and clues especially in supporting trends towards better or poor performance and in finding out significant deviation form any average applicable standard." (Helferh, 1957, P.57)

However, there are a large number of ratios and its types. Our study will be confined within the scope of bank's financial analysis. Our study will be limited to liquidity ratio, leverage ratio, profitability ratio and activity ratio.

2.5.2 Types of ratio

There are mainly statement ratios and functional ratios and functional ratios as indicated below.

Functional ratios

A. Liquidity ratio

    a. Current ratio

    b. Quick ratio

B. Profitability ratio

    a. Net profit margin

    b. Gross profit margin

    c. Operating expenses ratio

    d. Return on total assets

e. Earning power ratio

f. Return on equity

g. Payout ratio

C. Leverage ratio

a. Debt-equity ratio

b. Debt to total capital ratio

c. Coverage ratio

D. Activity ratio

a. Inventory turnover ratio

b. Debtor turnover ratio

c. Average collection period

d. Fixed assets turnover ratio

e. Total assets turnover ratio

f. Capital employed turnover ratio

2.5.3 Liquidity ratio

There are two types of liquidity ratio: Current ratio and quick ratio. The analyst has to observe borrowing unit's ability to meet its current obligation through liquidity ratios. "Liquidity refers to nearness to cash.

The nearer an investment is to cash the lower is to its rate of return. The larger size of current assets is associated with high liquidity and low profitability and vice-versa, inadequate liquidity may lead a corporation to delay payments sell assets or obtain temporary financing on unfavorable terms."(Pradhan, 1986, P.13)

In terms of Banking sector liquidity refers net cash that bank have in the consideration of the deposits. Liquidity means cash and bank balance to total deposits. The analyst has to observe the borrowing unit's ability to meets its current obligation through liquidity ratio.

It is calculated by using this formula:

$$\text{Liqudity} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposits}}$$

2.5.4 Cash and bank balance to total deposit

Cash and bank balance to total deposit ratio measures the availability of bank highly liquid funds to meet its unanticipated calls on different types of deposits. This ratio also indicates the ability of banks funds to cover their current saving, fixed and other deposit. This ratio also access that what proportion of cash and bank balance remain.

This is calculated using the following formula.

$$\frac{\text{Cash and bank balance}}{\text{to total deposit}} = \frac{\text{Total Cash and bank Balance}}{\text{Total Deposit}}$$

2.5.5 Profitability ratio

The financial analyst must attempt to understand whether the firm's profit is in the rising trend. In the initial years of establishment of a firm, the profit will be in the lower side, but slowly, year by year, profit gradually starts to rise. 'The profitability ratio is calculated to measure the operating efficiency of the company. Besides management of the company, creditors and owners are also interested in the profitability of the firm.'(Pandey, 1993, P.116)

The analyst must make an attempt to find the answers of the following questions.

⟩ Is the firm earning adequate profit?

⟩ What is the rate of return?

⟩ What is the earning per share?

⟩ What is the return on investment?

⟩ What is the return on equity?

The various ratios used to provide the above answers.

2.5.6 Return on total assets ratio

The ratio judges effectiveness in using the pool of funds that is useful to measure the profitability of all the financial resources invested in the firm's assets, it also plays an important role to measure the profit after tax against the amount invested in total assets to ascertain whether assets are being utilized properly or not.

The ratio of return on total assets is calculated by dividing net profits after tax by total assets.

$$\text{Return on total assets ratio} = \frac{\text{Total net profit after tax}}{\text{Total assets}}$$

2.5.7 Return on net worth

From the owners point of view return on net worth is an important measurement. It measures the return on owner's funds. This ratio indicated how well the firm has used the resources of owners. Higher is the ratio; the better will be the utilization of owner's funds. So higher ratio is preferable.

This ratio is calculated by using the following formula.

$$\text{Return on net worth} = \frac{\text{Net profit after tax}}{\text{Net worth}}$$

2.5.8 Return on total deposit ratio

This ratio in order to know the operation management of the institution is well efficient or not in mobilizing it's total deposits. The net profit to total deposit ratio enables to evaluate to what extent the management has been able to mobilize and utilize the deposits. Further more it assists to identify overall performance as well as its success is generating profit.

The net profit to total deposit ratio can be calculated by dividing the net profit by total deposits.

$$\text{Return on total deposit ratio} = \frac{\text{Total net profit after tax}}{\text{Total deposits}}$$

Profitability is affected by the capital structure of the firm. The higher the ratio signifies better utilization of deposits and the return from investment on loans and desirable, lower ratio indicates that the funds are not properly mobilizing.

2.5.9 Interest earned to total assets ratio

The ratio signifies the mobilization of its assets in interest generating purposes. Interest earned to total assets ratio measure the percentage of interest earned in relation to total assets of the bank. Banks usually earn interest through the provision of loans, advances over draft and investment in various securities, which are major sources of income from the banks. The ratio plays a significant role in evaluating their efficiency in earning

interests. This ratio is calculated by dividing total interest earned by total assets.

$$\text{Interest earned to total assets} = \frac{\text{Total interest earned}}{\text{Total assets}}$$

High ratio reflects the better efficiency in utilizing the utilizing the resources in interest generating sectors and vice-versa.

2.5.10 Interest paid to interest earned ratio

Banks play with two rate of interest, interest charged and interest paid. Bank receives interest form loans and advances, investment in government securities and treasury bills, money at call and short notice. Similarly banks pays interest to its depositors. To earn profit, bank should mobilize their deposit in such a way that they are able to pay interest to its depositors and able to earn profit. This ratio is calculated by using this formula.

$$\text{Interest paid to interest earn ratio} = \frac{\text{Interest paid}}{\text{Interst earned}}$$

2.5.11 Return on capital employed ratio (ROCE)

The term capital employed refers to long term funds supplied by the creditors and owners of the firms. This ratio is an indicator of the earning capital of the capital employed in the business. This ratio basically assess

the profit related to the long-term source of funds. Return on capital employed is the relationship between net profit after tax to total capital employed i.e. paid up capital, reserve and surplus and long term debts. The ratio measures the overall effectiveness of management in producing profits form the total capital. It is calculated by applying the following formula.

$$\text{Return on Capital Employed ratio} = \frac{\text{Total net profit after tax}}{\text{Total capital employed}}$$

2.6 Need of Financial Statement analysis

In a business various stakeholders involved in the business such as shareholders, creditors, depositors, employees, trade associations, managers, investors and other persons who are directly or indirectly involved in the business. They are interested in the performance or financial condition of the firm for their own purpose. Financial statement analysis is very helpful in assessing the financial position, profitability and information on processing system designated to provide data for decision making. "The process of analysis of financial statement involves the compilation and study financial and operating data and the preparation and interpretation with measuring devices such as ratios, trend and percentages."(Agrawal, 1981, P.525)

N.P. Agrawal states on the significance of financial statement analysis, "In the interest of good health, medical authorities advice every individuals

to have a periodic examination of his body and similarly in the interest of sound financial policy, every company should also analyze its accounts periodically." (Agrawal, 1981, P.5)

Financial appraisal deals with numeric values. The actual and projected financial spread is analyzed through numerous indicators. The financial analysis is done to ascertain the liquidity, profitability, leverage, debt servicing and interest servicing ability of the firm. Financial statement analysis thus assists the management to take benefit of the strategic management technique by providing the management with the information regarding the strength & weakness of the enterprises to exploit the opportunities lying in the environment and overcome the threats posted by the environment.

So, the financial statements analysis play significant role in decision making for the management for finding out favorable and unfavorable situation of business firm. Likewise, financial statement analysis is exceptionally useful to firm's stakeholders. The analysis is important for different aspects of their interest.

2.7 Review of previous related research studies.

Review of literature comprises with previous articles concerned with the study i.e. financial performance regarding with financial corporation company and other studies. Different studies have been reviewed so that

the chance of duplication will be avoided form the present study and some new and change can be created for achieving the objectives.

Krishna Prasad Upadhyay, Course Contract Teacher, Faculty of Management, Prithivi Narayan Campus, Pokhara, in his journal "Financial Analysis of Finance Companies in Pokhara: A Comparative Study of Pokhara Finance Ltd. and Annapurna Finance Company Ltd." Concludes:

1. The solvency position of both companies is not sound. The net worth is not sufficient to support the long-term debt, and debt capital is used extremely more than the equity capital. Amount of fixed assets in both companies is not sufficient to bear the burden and claim of long-term suppliers. Thus, the outsiders claim on the assets is more than the owners. The overall trend of solvency position is being positive in the latest years.

2. Based on the cash reserve ratio, primary reserve ratio and secondary reserve ratio, the liquidity position or the capacity to pay short- term obligation of Annapurna Finance Company Ltd is better than that of Pokhara Finance Ltd. But based on the current and acid test ratios, Pokhara Finance Ltd. has better liquidity position. This indicates that, from the insiders' view point, Pokhara Finance Ltd. is not so successful to mobilize its fund to the productive sector. Likewise, the Pokhara Finance Ltd. is not able to meet the demand of depositors.

3. The operating efficiency of Pokhara Finance Ltd. is better than that of Annapurna Finance Company Ltd. Pokhara Finance Ltd. is able to

mobilize its debt and capital in productive sector. Interest coverage and cash flow coverage ratios indicate the better financial position of Pokhara Finance Ltd.. However, the credit creation capacity is good in both companies in aggregate.

4. The better return on investment, return on equity, and return on assets of Pokhara Finance Ltd. indicate that earning power of the Pokhara Finance Ltd. is sound. EPS of Annapurna Finance Company Ltd is greater but DPS is lower as compared to the DPS of Pokhara Finance Ltd.. Pokhara Finance Ltd. has retained its earning in productive sector but Annapurna Finance Company Ltd is attracting the shareholders having poor economic status. It is puzzling. (Upadhyay, 2004)

A research study conducted by Vikram Chandra Gurung entitled " A financial study of joint venture banks in Nepal. A comparative study of Nepal Grindlays Bank Limited and Nepal Indosuez Bank Limited" concluded that the liquidity position of Indosuez bank that below normal standard current ratio of 2:1 indicates unsatisfactory position the bank is efficient utilizing most of its assets profitability of the bank has assumed and increasing trend but yet to be fully satisfactory. The capital structure of the bank is extremely leveraged. The bank has maintaining sound capital adequacy ratio as directly by the central bank.(Gurung, 1995)

A research study made by Rajiv Raj Joshi in his unpublished master's thesis "A Comparative study on financial performance of NABIL &

NGBL" with the main objectives of evaluating the financial performance of commercial banks and to highlights on the activities. He concluded that the commercial banks have maintained a sound liquidity position. The banks are utilizing their resources efficiency. The investment pattern of both banks seems to be appropriate according to their deposit structure. Similarly, the researcher tried to find out the overall profitability of NGBL & NABIL and trend analysis of these banks on different regards. Based on the finding of analysis, the researcher also suggested both the bank on their different aspects for their improvement of performance in future. (Joshi, 2001)

A research study conducted by Ganendra Acharya entitled, "A comparative study of financial performance of joint venture banks in Nepal especially on the Nabil & NIBL." Pointed out that the liquidity position of both the banks was below the standard of 2:1. The study further highly leveraged. Capital adequacy ratio of NIBL was better than that of Nabil and profitability position of both banks was recorded as satisfactory. (Acharaya, 1997)

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

The research methodology is the process of arriving to the solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of fact and figure. "Research is a systematic method of finding out solution to a problem where as research methodology refers to the various problems where as research methodology refers to the various sequential steps adopt by a researcher in studying a problem with certain objectives in view."(Kothari, 1989, P.19) Research methodology may be defined as a systematic process that is adopted by a researcher in studying a problem with certain objectives in view. In other words research methodologies describe the methods and process applied in the entire aspect of the study. A systematic research study needs to follow a proper methodology to achieve the pre-determination objective. Research methodology is a sequential procedure and methods to adopt in systematic study.

It is important part of our study. The Basic Objectives of the study is to make a comparative analysis of financial performance of the two selected commercial banks i.e. NBL and SCBNL for the purpose of achieving the objectives the detailed research methodology used in this study are highlighted this chapter .

3.2 Population and sample:

The term population means whole universe refers the total observation, which is related with this study. Population must be defined in terms of elements, sampling units, extent and time. On the other hand, sample is the number of representative, which is going to be studied. In another words, a sample refers to a part chosen from the population. Thus, the process of selecting a sample form population is called sampling. The sampling process is based on the principle that a sufficiently large number drawn at random from the population will be representative of the total population.

The two commercial banks namely Nabil Bank Limited and Standard Chartered Nepal Bank are chosen for this study. The comparative balance sheet and profit & loss statement have been assessed to examine the financial performance of Nabil Bank Limited and Standard Chartered Nepal Bank Limited which has been published till now is the population of the study. It is quite difficult to acknowledge the total population in this study that contains five years of the published audit annual reports.

3.3 Nature and sources of data collection:

Generally, the data are classified into two categories:

A) Primary data

B) Secondary data

A) Primary data:

Primary data are original data gathered by the researcher for the research project at hand. Thus, these data are collected for meeting the specific objectives of the study. Primary data can be collected through interviews, questionnaires, observations, or experiments. The methods applicable for collection are:

a) Direct Personal Investigation

b) Indirect Personal Interview

c) Mailed questionnaire Method

d) Information from corresponds

e) Schedule sent through enumerator

B) Secondary data:

Secondary data is those data, which is not originally collected rather obtained from published or unpublished sources.

In this study, only secondary data are used to analyze the financial performance of Nabil Bank Limited and Standard Chartered Nepal Bank Limited. The data made available for the entire study from published annual reports of respective Banks. As annual report of the bank is fully audited by the government's concerned department, authenticity of these data could not be questioned. Financial statement from the financial year

2003/04 to 2007/08 and other essential relevant documents and information relating to this study are collected from the banks official website.

3.4 Tools and techniques use for analysis:

The appropriate financial and statistical tools and techniques are used to analyze and interpret the present research work.

3.4.1 Statistical Tools:

3.4.1.1 Average (Mean $\bar{x}$)

Average (Mean $\bar{x}$) is the most popular widely used measure of representing the entire data by the one volume. The mean is the figure we get when the total of all the values in a distribution is dived by the number of values in the distribution. The calculation of average is necessary due to following of average is necessary due to following reasons.

∫ Mainly, average reduces the mass of data to a single figure. They are very helpful for the purpose of making comparative study.

∫ To get a single value which is representative of the characteristics of the entire mass of data. They set aside the unnecessary details of the data and put forward a concise picture of the complex phenomena under investigation.

Symbolically,

$$\bar{X} = \frac{\Sigma X}{N}$$

Where $\bar{X}$ = Mean

ΣX = Sum of all value of the variable.

N = No of observations.

3.4.1.2 Standard deviation (S.D.)

SD is the root mean square of deviation from the arithmetic mean. It is denoted by sigma (δ). Small standard deviations mean high degree of uniformity of these observations as wheel homogeneity of a series; a large standard deviation means just the opposite. Hence, SD is extremely useful in judging the representative of the mean. It can be computed as following:

$$\text{S.D.} = \sqrt{\frac{Ex^2}{N}}, or \sqrt{\frac{Ex^2}{N} - \left(\frac{Ex}{N}\right)^2}$$

Where, x^2 = standard for the mean deviation

N = no. of observation.

3.4.1.3 Co-efficient of variation (C.V)

The relative measures of scatterness of variation are denoted as coefficient of variation (CV) and are calculated as under.

$$CV = \frac{\delta}{\bar{X}} \times 100.$$

Karl Person's coefficient of correlation (r)

Karl Person's coefficient measures the relationship between two variables. In this context, the coefficient of correlation is calculated in under to examine the relationship between deposit and investment, interest earned and profitability and interest earned and interest paid or both the commercial banks. Symbolically this coefficient correlation is denoted by 'r'.

$$r \, X \frac{N \quad XY \, \mathrm{Z} \quad X. \quad Y}{\sqrt{N \quad X^2 \, \mathrm{Z} \! f \! x^2 \mathrm{A} \mathrm{z} \sqrt{N \quad Y^2 \, \mathrm{Z} \! f \quad Y \mathrm{A}}}}$$

The coefficient of correlation, as obtained by the above formula shall always lies between ±1.

3.4.1.4 Trend index analysis:

It is useful express balance sheet and income statement items in percentage. Trend analysis is important, because it reveals whether the firms ratios are improving or deteriorating over item. Trend is general

terms, signifies a tendency. It helps in forecasting and planning future operation.

In this analysis, the tendency of

) Trend of deposit

) Trend of investment

) Trend of operating income

) Trend of operating expenses

) Trend of interest earning

) Trend of interest paid

) Trend of net profit

The formula of trend analysis of as follows

$$Y_c = a + bx$$

Where, a $= \dfrac{Y}{n}$ B $= \dfrac{xy}{X^2}$

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

Y= Y- $\overline{Y}$

Y_c is used to designate the trend values to distinguished form the actual Y values, a is the y variable, when, X=0, b represents the slope of the trend line of the amount of change in y variable that is associated with change of one unit in X variable .

3.4.2 Financial tools:

Among the different financial tools, we have and extensively used into analysis method. The following ratios have been used.

-) Liquidity ratio,
-) Activity ratio
-) Income and expenses analysis
-) Deposit utilization ratio
-) Profitability ratio
-) Other ratios.

CHAPTER – IV

PRESENTATION OF DATA ANALYSIS.

4.1 Introduction:

In this chapter, the collected data of Nabil Band Limited and Standard Chartered Bank Nepal Limited are presented in the form charts, graph and table as necessary. After presentation, the appropriate statistical and financial tools and techniques are applied to examine the financial performance of NBL, The study is confined to merely five years from 2003/04 to 2007/08. The findings are then analyzed and interpreted to achieve the mentioned objective.

4.2 Liquidity

Cash is the most liquid fund and it is considered as the defense of banks. The bank should maintain certain amount of cash in order to meet its cash requirements of the depositors. This ratio measures the availability of banks highly liquid funds to meet its unanticipated calls on different types of deposit. This ratio indicates the ability of bank funds to cover their current, saving, fixed call and other deposits.

According to NRB directories Banks need to maintain cash and bank balance as 5.5% of total deposits. This ratio is also called cash reserve ratio (CRR).

This ratio is calculated by using this formula.

$$\text{Liqudity} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposits}}$$

Table No. 4.1

Liquidity position of SCBNL and NBL

Year	SCBNL	NBL
	Ratio %	Ratio %
2003/04	9.46	6.87
2004/05	8.77	3.83
2005/06	6.86	3.26
2006/07	5.46	6.00
2007/08	5.84	8.37
Mean	7.28	5.67
Standard Deviation	1.77	2.12
Coefficient of variation	24.32	37.47

Source: Annual Report form respective banks.

Above table clearly shows that SCBNL maintains its CRR ratio throughout the study period but in case of NBL was not maintaing CRR ratio in the year 2004/05 and 2005/06 as directories form NRB.

The above table shows that average liquidity ratio in case of SCBNL is higher than NBL. It means the two banks differ significantly as regards cash and bank balance. SCBNL maintain 7.28% of total deposit as idle cash there by utilizing at 92.72% of the deposit. NBL utilizes 94.33% of its

total deposits. The liquid ratio shows that SCBNL have better ability to meet its current obligation through liquidity than NBL. S.D. of SCBNL is 1.77 and in case of NBL is 2.12 it shows that SCBNL has more uniformity on liquidity than NBL. Regarding the consistency to maintain liquidity position SCBNL has the better consistency than NBL.

4.3 Comparative Activities

Various ratios are to be calculated to compare the activities of the two banks. These ratios are the indicator of a concern with regard to its efficiency in assets management, or to assess how far they are successful in mobilizing total deposit on investment. It indicates the speed of collection of funds and utilization of that funds to increase revenue by providing loans and advances, investments and other service renders by banks, in this section the main focus aims to analyze and compare the NBL and SCBNL with regard to collecting total funds, deposit structure, and assess efficiency in utilizing available resources.

4.3.1 Fund structure

Total deposits and net worth are the main source of fund. Paid up capital, reserve and surplus and undistributed profit are net worth. Net worth is shareholders funds that support daily operation and ensuring the long term fund mobilization. This fund plays a catalytic role in the upliftment of the banking status and assists in maintaining public confidence in the banks management. Net worth is the first hand fund that initiates to operate the

whole banking function. Total deposit is the sum of current deposit, saving deposit, fixed deposit and call & other deposit.

Table No. 4.2

Total Deposit, Net worth and Net worth to Total Deposit ratio.

(Rs. In percentage)

Fiscal Year	SCBNL		NBL	
	Total Deposit	Net Worth	Total Deposit	Net Worth
2003/04	93.40	6.60	90.50	9.50
2004/05	92.45	7.55	89.80	10.20
2005/06	92.93	7.07	91.17	8.83
2006/07	92.09	7.91	91.90	8.10
2007/08	92.27	7.73	92.91	7.09
Mean	92.63	7.37	91.25	8.75
S.D.	0.53	0.53	1.21	1.21
C.V.	0.58	7.23	1.32	13.82

(Source: Annual reports form respective banks)

The above table shows proportion of total deposit and net worth of SCBNL and NBL along with their average, standard deviation and coefficient of variation during the study period. It is clear that the mean total deposit of SCBNL is higher than mean total deposit of NBL. SCBNL is more consistent on deposit than NBL. In other hand mean net worth of NBL is higher than SCBNL. It shows that comparatively, NBL is less risky than SCBNL.

4.3.2 Deposit Structure

Deposits are vital portion of working capital for the banks. Deposits means those amounts, which are received by bank form its valuable depositors. Banks main function is to accept deposit form depositors. To attract different types of depositors bank offers different kinds of accounts. Broadly such deposits are fixed, saving, current account and call & others. deposit can be mobilized for short term or medium term loan. Current depositors must be paid whenever they want to withdraw their deposits. It would be risky to utilize the funds collected as current deposit, because there is no restriction in withdrawing such deposit. But on the basis of past experience a bank can use small portion of such amount to grant short-term loans. If the bank not able to make payment, it gives negative impact on the bank's reputation.

To meet its unanticipated calls on current, saving, call and other deposit and for consistent professional reputation banks have to maintain sufficient liquid fund. It is the nature of deposit structure that determines the lending pattern of a bank. Bank being a financial institution deals on others money. The outsiders money collected by the bank will be utilized profitability bank pays less interest to the depositors than it charges on loan. The difference between the two rates of interest is the main source of income for a bank.

Proportion of various type of deposit to total deposits have been compared and analyzed in this regard as below.

Table No. 4.3

Deposit Structure of SCBNL and NBL

(In Percentage)

| Fiscal Year	SCBNL				NBL			
	Current Deposit	Saving Deposit	Fixed Deposit	Call & other Deposit	Current Deposit	Saving Deposit	Fixed Deposit	Call & other Deposit
2003/04	28.45	60.35	6.75	4.45	21.34	42.45	16.36	19.84
2004/05	23.75	67.40	7.33	1.53	21.53	48.17	14.25	16.05
2005/06	22.51	63.30	9.26	4.92	16.93	45.33	17.83	19.91
2006/07	21.43	61.85	12.97	3.76	16.10	43.64	23.28	16.97
2007/08	22.35	60.03	11.10	6.52	17.95	38.10	26.52	17.43
Mean	23.70	62.59	9.48	4.23	18.77	43.54	19.65	18.04
S.D.	2.78	2.99	2.59	1.82	2.52	3.72	5.09	1.75
C.V.	11.74	4.77	27.37	43.07	13.42	8.55	25.91	9.68

(Source: Annual reports form respective banks)

The above table clearly shows the deposit structure of SCBNL and NBL with average deposit, standard deviation and coefficient of variation.

Below presented the pie chart and bar diagram shows vividly comparative study on deposits pattern of respective banks.

Pie cart of Average Deposit
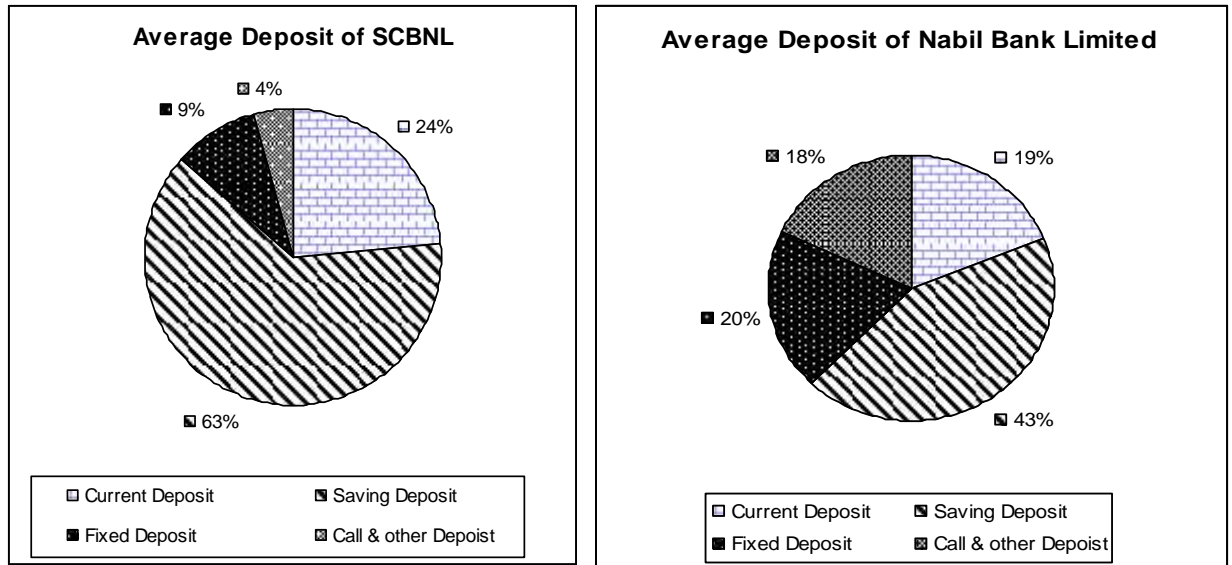
Above pie chart shows that average current deposit of SCBNL and NBL is 63% and 43% respectively. The average current deposit and saving deposit percentage in case of SCBNL is higher than NBL. The deposit structure shows that SCBNL enjoying cost free (current deposit) more than NBL.
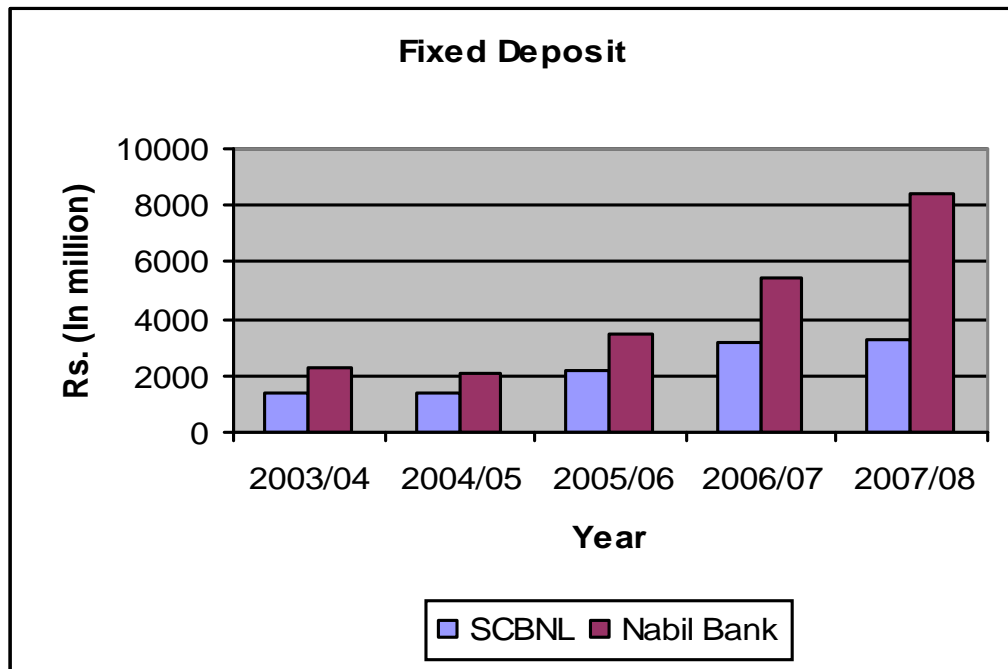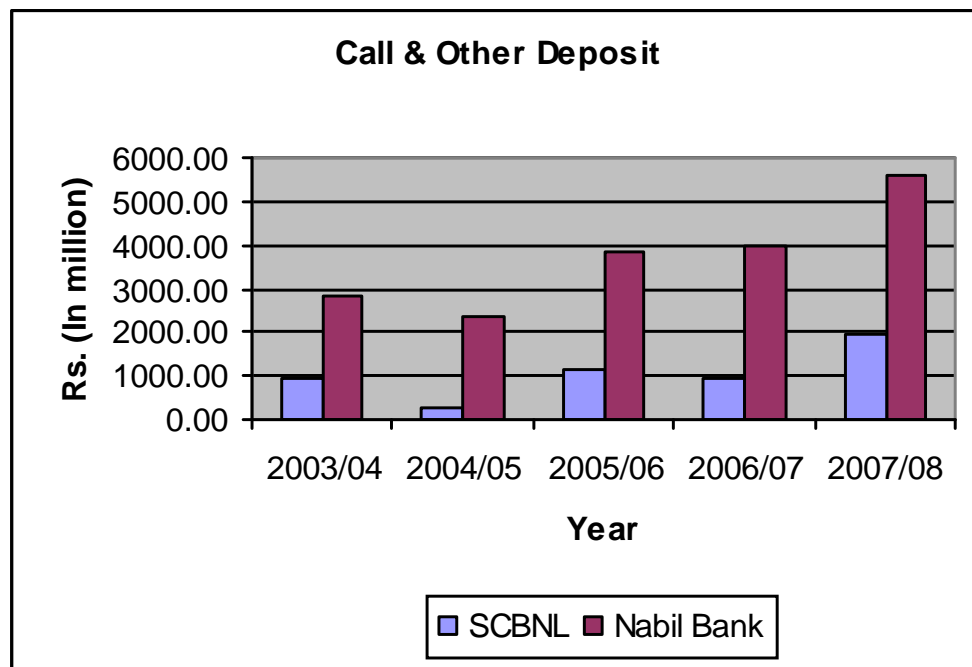
Graph No. 2   Graph No. 3

Graph No. 4

Fixed Deposit


Graph No. 5

Call & Other Deposit
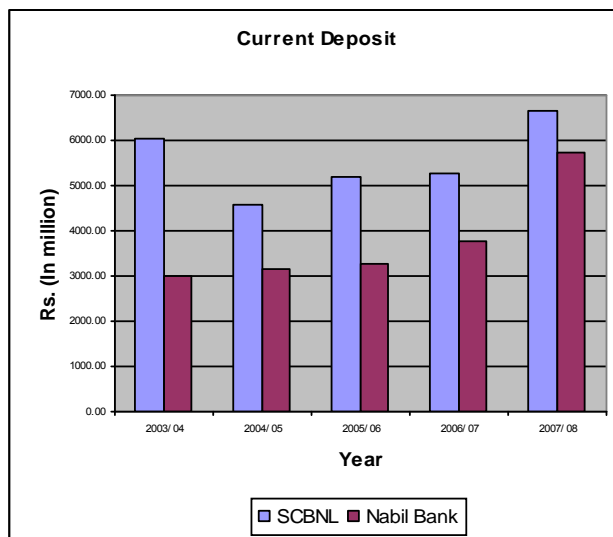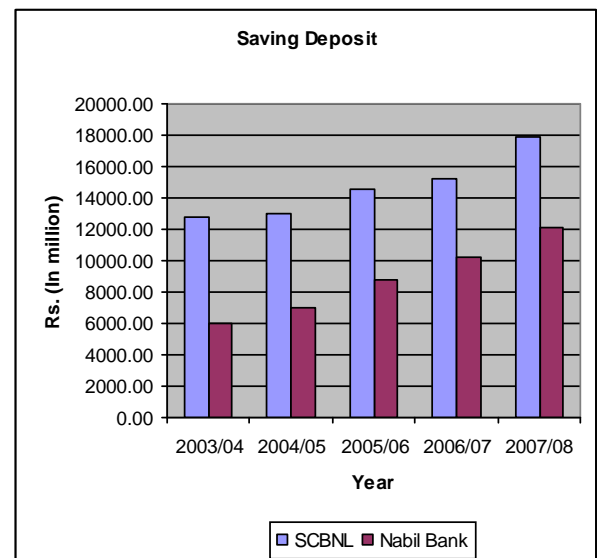
The average ratio of fixed deposit in case of NBL is 20% and SCBNL has 9%, so the fixed deposit of NBL is higher than SCBNL. The above graph

clearly shows that NBL has greater volume fixed deposit than SCBNL. The average ratio of call and other deposit in case of NBL is 18% and SCBNL has 4% only.

According to above indicators NBL is more capable to finance long-term loan than SCBNL.

Graph No. 6
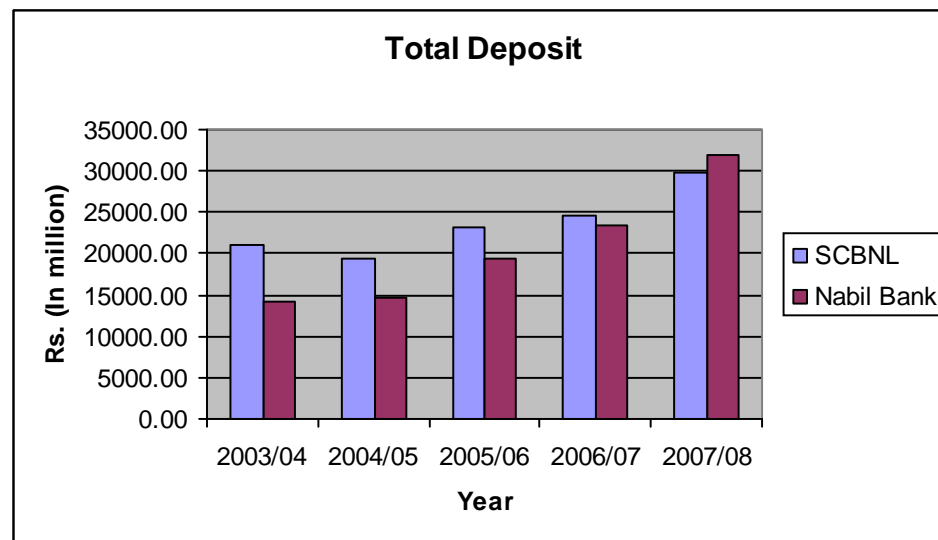
The above graph shows that in past years SCBNL has greater volume than NBL but in the year 2007/08 NBL collects more deposits.

4.3.4 Investment Structure

Investments are loans and advances, purchase and discount of bills cash credit and overdraft, investment in government securities bond, debenture and shares. Investment is that amount of funds which generates income to the bank. Bank has two types of funds for investment i.e. net worth and deposit.

To attain greater profit investment should be invested in profitable sector. Investment decision plays vital role for the performance of the banks. Here, different types of investment and presented below.

Table No. 4.4

Investment Structure of two banks

(In percentage)

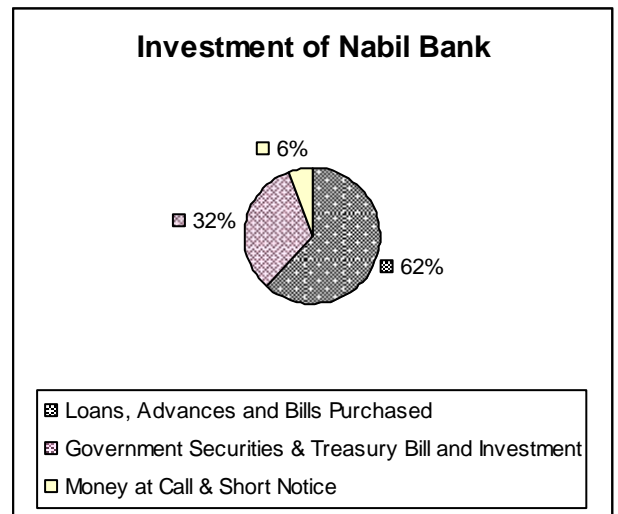| Fiscal Year	SCBNL			NBL		
	Loans, Advances and Bills Purchased	Government securities & treasury bill and Investment	Money at call & short notice	Loans, Advances and Bills Purchased	Government securities & treasury bill and Investment	Money at call & short notice
2003/04	32.07	56.83	11.10	54.80	39.05	6.15
2004/05	40.50	48.26	11.24	67.30	27.18	5.52
2005/06	37.61	54.07	8.32	62.02	29.65	8.33
2006/07	40.68	52.50	6.82	62.05	35.70	2.25
2007/08	46.01	46.62	7.37	64.24	29.89	5.87
Mean	39.37	51.66	8.97	62.08	32.29	5.62

(Source: Annual reports form respective banks)

The above table clearly shows the investment structure of SCBNL and NBL. Average of loans and advances and bills purchased, government securities & treasury bill and investment and money at call & short notice are presented.
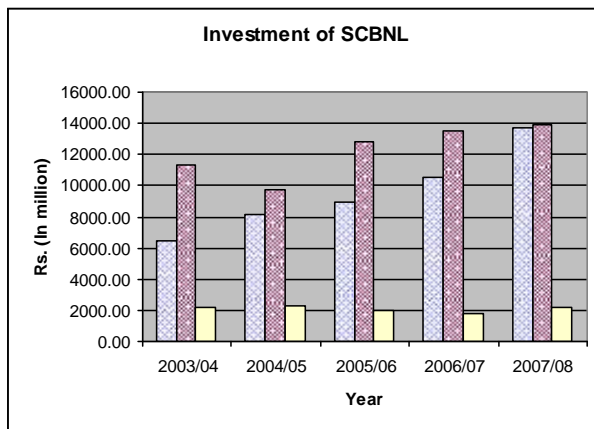
Graph No. 7   Graph No. 8

Investment of SCNBL

- Loans, Advances and Bills Purchased
- Government Securities & Treasury Bill and Investment
- Money at Call & Short Notice

Investment of Nabil Bank

- Loans, Advances and Bills Purchased
- Government Securities & Treasury Bill and Investment
- Money at Call & Short Notice
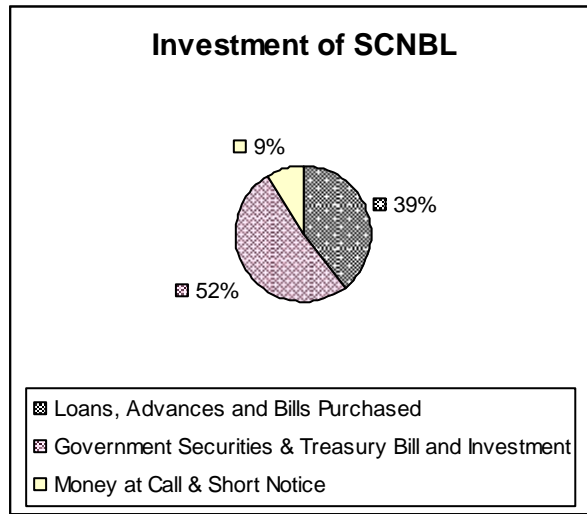
The above table and graphs clearly shows that SCBNL invests in treasury bill 52% and in other hand NBL invests only 32%. NBL invests in loans, advances and bills purchased 62% and SCBNL invests only 39%. Both banks SCBNL and NBL invest on money at call & short notice 9% and 6% respectively.

Graph No. 9   Graph No. 10

Investment of SCBNL

Investment of Nabil Bank

- Loans, Advances and Bills Purchased
- Government securities & treasury bill and Investment
- Money at call & short notice
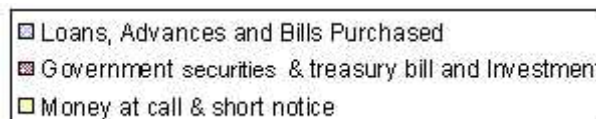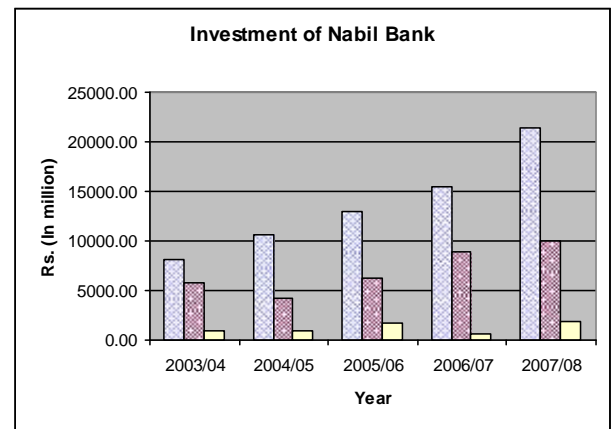
The above bar diagram clearly shows that SCBNL invests equally on loans, advances & bills purchased and Government securities & treasury bill and investments. NBL invests more in loans, advances and bills purchased than government securities & treasury bill and investments. It means that SCBNL investment is less risky than NBL investment.

4.3.5 Total investment to total deposit ratio

This ratio shows the relationship between total investment and total deposit. This ratio measures which banks are successful in mobilizing total deposit on investment, that means, this ratio is affected by the convened financial policy which is based on implementation aspect of deposits i.e. investment. Here the investment includes investment on loans, cash credit and overdraft, government securities, bills discounted and purchase, money at call and short notice where as total deposit includes current, saving, fixed call and other deposits.

The ratio is calculated by using the following formula

$$\text{Total investment to total deposit ratio} = \frac{\text{Total investment}}{\text{Total deposit}}$$

Calculation of total investment to total deposit ratio of SCBNL and NBL during the study period is displayed in the following table.

Table No. 4.5

Total investment to total deposit ratio

(Rs. In million)

Fiscal Year	SCBNL			NBL Bank		
	Total Investment	Total Deposit	Ratio (%)	Total Investment	Total Deposit	Ratio (%)
2003/04	19989.17	21161.44	94.46	14944.67	14119.03	105.85
2004/05	20105.45	19335.09	103.98	15730.13	14586.61	107.84
2005/06	23760.22	23061.03	103.03	20835.98	19347.40	107.69
2006/07	25817.02	24647.02	104.75	25054.62	23342.29	107.34
2007/08	29818.95	29744.00	100.25	33257.19	31915.05	104.21
Mean			101.30	Mean		106.58
S.D.			4.18	S.D		1.55
C.V.			4.13	C.V.		1.45

Source: Annual reports form respective banks

The above table shows that the ratios of both banks are in better position. Both banks invest more than their deposit but average ratio of NBL is better than SCBNL ratio. The ratio of SCBNL lies between 94.46% of 104.75% and NBL lies between 104.21% to 107.84%. It shows that NBL is more capable to utilize its deposits in investment. The coefficient of variation of NBL is 1.45 and SCBNL is 4.13, it shows that NBL get more consistency than SCBNL.

4.3.6 Total loans and advance to total deposit ratio.

This ratio examines the relationship between loans and advances to total deposits.

This ratio observes the frequency of utilization of deposit for loan and advances is dependent upon the liquidity which is required to maintain daily requirement and check drawing. If the frequency of cheque drawing is high then the necessity of cash reserve also become low and which may be helpful to increase the investment in loan and advances. So , from the firm's point of the view, higher ratio is better because the higher frequency of changing deposit into investment is favorable for the percentage increase of profitability but before deciding to increase the amount of investment, management should think seriously about the liquidity, which is needed to maintain daily expenditure and drawing by customer.

This ratio measures that which bank is successful in mobilizing them for the purpose of profit generation. A high ratio represents the greater efficiency to utilize funds provided by outsiders and vice-versa. Total deposits include current, saving, fixed, call margin and other deposit. This ratio is calculated by using following formula.

$$\text{Loans and advance to total deposit ratio} = \frac{\text{Total loan and advances}}{\text{Total deposit}}$$

This ratio has been tabulated below.

Loans and Advance to Total Deposit Ratio

(Rs. In million)

Fiscal Year	SCBNL			NBL		
	Loan & Advance	Total Deposit	Ratio (%)	Loan & Advance	Total Deposit	Ratio (%)
2003/04	6410.24	21161.44	30.29	8189.99	14119.03	58.01
2004/05	8143.21	19335.09	42.12	10586.17	14586.61	72.57
2005/06	8935.42	23061.03	38.75	12922.54	19347.40	66.79
2006/07	10502.64	24647.02	42.61	15545.78	23342.29	66.60
2007/08	13718.60	29744.00	46.12	21365.05	31915.05	66.94
Mean			39.98	Mean		66.18
S.D.			6.01	S.D		5.22
C.V.			15.04	C.V.		7.88

Source: Annual reports form respective banks

The above table shows loan & advance to total deposit ratio in case of both banks. This ratio is ranged between 30.29% to 46.12% of SCBNL and 58.01% to 72.57 % of NBL. The mean loan and advance to total deposit ratio of SCBNL is considering lower than that of NBL (39.98>66.18). It means the earning from loan and advance is poor for SCBNL in comparison to NBL. Coefficient of variation of NBL i.e. 7.88 is also lower than SCBNL i.e. 15.04.

The above computation and analysis helps to conclude that loan and advance to total deposit ratio are better in NBL than SCBNL, which leads NBL to better performance. The ratio in case of NBL has always remaining high during the study period indicating the superior efficiency of the firm in utilizing the outsiders funds in extending credit to further profit generation.

4.4 Profitability ratio

Business organizations main objective is to make profit by fulfilling human needs and wants. Profit is the only one motive to run business enterprises or firms. Profit is essential for a firm's survival and future growth. Hence management of the firm is interested in the operation efficiently of the firm. Profitability ratio being one of the important indictors of operation efficiency. One of the focus of commercial bank is to be enough profitable so as to meet a variety of objectives like achieving a desirable liquidity position, meet fixed interest obligation, overcome the future contingencies, explicit hidden investment opportunities, encourage branch expansion etc. profitability ratio are as matter as fact, best indicators of overall efficiency of the bank because they compare return of value over a bounds above values put into business with the help as assets employed. Here, aims to analyze and compare the profitability pattern of SCBNL and NBL by using following tools.

4.4.1 Return on net worth

This ratio measures whether the bank has earned as satisfactory return for its equity, long-term investment. This ratio reveals how well the firm has used the resources of the owners to earn profit. Here net worth includes paid up capital and reserve & surplus. It is calculated by using following formula.

$$\text{Return on net worth} = \frac{\text{Net profit after tax}}{\text{Net worth}}$$

The return on net worth ratio of SCBNL and NBL has been presented below.

Table No. 4.7

Return of Net Worth

(Rs. In million)

Fiscal Year	SCBNL			NBL		
	NPAT	Net worth	Ratio (%)	NPAT	Net worth	Ratio (%)
2003/04	537.80	1495.74	35.96	487.07	1481.68	32.87
2004/05	536.24	1582.42	33.89	520.11	1657.63	31.38
2005/06	658.76	1754.14	37.55	635.26	1874.99	33.88
2006/07	691.67	2116.35	32.68	673.96	2057.05	32.76
2007/08	818.92	2492.54	32.85	746.47	2437.20	30.63

Mean	34.59	Mean	32.30
S.D.	2.11	S.D	1.29
C.V.	6.10	C.V.	4.00

Source: Annual reports form respective banks

The above table shows that the return in net worth in case of SCBNL has ranged between 32.68% to 37.55% and in case of NBL has ranged between 30.63% to 33.88%. It shows that the ratio has registered fluctuation trend in both banks. But by observation we can say that entire the study period net profit after tax is rising year by year. From the view point of Coefficient of variation NBL has lower C.V. than SCBNL.

The average ratio of SCBNL is favorable for stockholders, which represent the sound management and efficient mobilization of the owners' equity.

4.4.2 Return on total assets ratio

Return on total assets measures the uses of assets for profit making. Assets management is very important because of the return on assets will rise if fewer assets are employed and all the measures of the effective management of working capital. Minimizing taxes with in the legal options available will also improve the return. Return on total assets ratio is examined to measure the profitability of all financial investment in the banks assets return on total assets is vital ratio for the measuring financial performance.

This ratio is calculated by following formula.

$$\text{Return on total assets ratio} = \frac{\text{Total NPAT}}{\text{Total assets}}$$

Return on total assets ratio of SCBNL and NBL is tabulated below.

Table No. 4.8

Return on total assets ratio

Fiscal Year	SCBNL Ratio (%)	NBL Ratio (%)
2003/04	2.27	2.73
2004/05	2.46	3.06
2005/06	2.56	3.23
2006/07	2.42	2.72
2007/08	2.46	2.32
Mean	2.43	2.81
S.D.	0.11	0.35
C.V.	4.32	12.49

Source: Annual reports form respective banks

The above table shows average, standard and coefficient of variation of return on total assets ratio. Average return on total assets ratio of SCBNL is 2.43% and NBL% is 2.81 which is higher than SCBNL ratio. Likewise the coefficient of variation of SCBNL is 4.32 which is lower than ratio of NBL

i.e. 12.49. It shows that SCBNL is more consistent than NBL for the utilizing the assets.

This ratio results that NBL shown better performance than SCBNL. It implies that NBL is comparatively efficient in utilizing the overall resources.

4.4.3 Return on total deposit ratio

This ratio explores the relationship between profit and deposit. This ratio measure its efficiency towards its deposits mobilization. Profit is Net profit after tax. Total deposit includes current, saving, fixed, call and other deposits. Higher the ratio signifies better utilization of deposits and vise versa. Other factors of the firm strongly affects its profitability.

This ratio is calculated by using following formula.

$$\text{Return on total deposit ratio} = \frac{\text{Total NPAT}}{\text{Total deposit}}$$

The return on total deposit ratio of SCBNL and NBL has been tabulated below.

Table No. 4.9

Return on total deposit ratio

(Rs. in million)

Fiscal Year	SCBNL			NBL		
	NPAT	Total Deposit	Ratio (%)	NPAT	Total Deposit	Ratio (%)
2003/04	537.80	21161.44	2.54	487.07	14119.03	3.45
2004/05	536.24	19335.09	2.77	520.11	14586.61	3.57
2005/06	658.76	23061.03	2.86	635.26	19347.40	3.28
2006/07	691.67	24647.02	2.81	673.96	23342.29	2.89
2007/08	818.92	29744.00	2.75	746.47	31915.05	2.34
Mean			2.75	Mean		3.11
S.D.			0.12	S.D		0.50
C.V.			4.40	C.V.		16.08

Source: Annual reports form respective banks

The above table shows the return on total deposit ratio of SCBNL has ranged 2.54% to 2.86% and NBL has 2.34% to 3.57%. The mean ratio of NBL is 3.11% which is greater than SCBNL ratio i.e. 2.75%. It means NBL shows better performance in terms of net profit to total deposit ratio.

The coefficient of variation between the ratios of NBL is lower than ratio of SCBNL i.e. 4.40 % < 16.08%. Hence we can conclude that the context of return on total deposit ratio of SCBNL is more consistent than that of NBL.

4.4.4 Interest earned to total assets ratio

Interest affected directly to the profit. Interest earned determines the profitability of the banks. Interest is a major source of earning and it holds large proportion of total operating income of the bank. This ratio is the relationship between interest earned and total assets. Interest earned to total assets ratio signifies the mobilization of its assets in interest generating purpose. This ratio measures the percentage of interest earned in relation to total assets of the banks. Commercial banks are principally covered with the mobilization of their resources, the ratio plays a significant role in evaluating their efficiency in earning interest, banks usually earn interest through provision of loans and advances, overdraft and investment in various securities, which are the major sources of the banks. A high ratio reflects the better efficiency in utilizing the resources in interest generating sectors and vice versa.

This ratio is calculated by using this formula.

$$\text{Interest earned to total assets ratio} = \frac{\text{Total interest earned}}{\text{Total assets}}$$

Interest earned to total assets ratio of SCBNL and NBL has been tabulated below.

Table No. 4.10

Interest earned to total assets ratio

(Rs. in million)

Fiscal Year	SCBNL			NBL		
	Interest Earned	Total Assets	Ratio (%)	Interest Earned	Total Assets	Ratio (%)
2003/04	1,042.18	23,642.06	4.41	1,001.62	16,745.49	5.98
2004/05	1,058.68	21,893.58	4.84	1,068.75	17,064.08	6.26
2005/06	1,189.60	25,767.35	4.62	1,310.00	22,329.97	5.87
2006/07	1,411.98	28,596.69	4.94	1,587.76	27,253.39	5.83
2007/08	1,591.20	33,335.79	4.77	1,978.70	37,132.76	5.33
Mean			4.71	Mean		5.85
S.D.			0.21	S.D		0.34
C.V.			4.39	C.V.		5.80

Source: Annual reports form respective banks

The above presentation table shows the interest earn to total assets ratio of both banks for five years. The five years average or mean of the interest earn to total assets ratio 4.71 to 5.85 of SCBNL and NBL. The average of NBL is higher by 1.14 than that SCBNL. The trend of this ratio is fluctuating in both financial companies.

From the above table we can also calculate the standard deviation of both banks in which we can see that from the above table that the standard deviation of NBL is 0.34 where as SCBNL is 0.21. This shows that

SCBNL in the NBL in the terms of interest earn to total assets ratio is more inconsistent.

The comparison of this table also gives us the ratio regarding the coefficient of variation of both the banks and this CV enables us to analysis the variation position of both the banks at s glance, for the money with the higher amount of the CV is the more inconsistent and the one with the less CV is less inconsistent and in the above table we can to the conclusion that in the case of interest earned to total assets ratio is that NBL CV is inconsistent because its CV is 5.80 to that compared to 4.39 of SCBNL. Hence we can conclude that the context of net worth to total assets ratio of NBL is more consistent than that of Nepal Investment Bank Limited.

4.4.5 Return on Capital Employed Ratio

Total capital employed in the business determines the bank profit. Return on capital employed ratio basically assess the profit related to the long term sources of funds, supplied by creditors and owners of the firm, that is paid up capital reserve and surplus, undistributed profit and long-term debts, Where as long-term debt includes fixed deposit. It provides sufficient insight into how creditors are being used. Return on capital employed ratio can be calculated by using the following formula.

$$\text{Return on capital employed} = \frac{\text{Total NPAT}}{\text{Total capital employed}}$$

Return on capital employed of SCBNL and NBL has been tabulated below.

Table No. 4.11

Return on capital employed

(Rs. In million)

Fiscal Year	SCBNL			NBL		
	NPAT	Capital Employed	Ratio (%)	NPAT	Capital Employed	Ratio (%)
2003/04	537.80	2924.23	18.39	487.07	3792.25	12.84
2004/05	536.24	2998.80	17.88	520.11	3736.165	13.92
2005/06	658.76	3890.45	16.93	635.26	5324.084	11.93
2006/07	691.67	5312.84	13.02	673.96	7492.24	9.00
2007/08	818.92	5793.55	14.14	746.47	11141.29	6.70
Mean			16.07	Mean		10.88
S.D.			2.37	S.D		2.97
C.V.			14.75	C.V.		27.28

Source: Annual reports form respective banks

The return on capital employed of both the banks show that the mean is that in the case of SCBNL is 16.07% where as that NBL is 10.88%. It indicates that SCBNL is more efficient use of the capital employed. Comparing from the above tabulated data we can also the SD of SCBNL is 2.37 and that of NBL is 2.97. The trend of ratio of SCBNL is fluctuating but in case of NBL is decreasing. From the given table we can see SCBNL

in comparison to NBL in terms of return on capital employed is more inconsistent. CV of SCBNL is 14.75 and NBL is 27.28. From the above tabulated data of both the banks we can conclude that CV of SCBNL is more inconsistent than that of NBL in the terms of return on capital employed. It implies that of SCBNL is efficient in utilizing its overall resources.

4.4.6 Interest Paid to interest earned ratio

The major source of income in commercial banks is generated from the spread in two rates of interest charged and interest paid. Interest is the major source of earning for commercial bank. Bank receives interest form loan and advance, investment in government securities and treasury bills, money at call and short notice on the other hand bank pays interest to its deposits. So, bank should mobilize deposits in such way that it is able to pay interest to its depositors and able to earn profit. This ratio is calculated by using this formula.

$$\text{Interest earn to interest paid ratio} = \frac{\text{Total interest paid}}{\text{Total interest earned}}$$

Interest paid to interest earned ratio of SCBNL and NBL has been tabulated below.

Interest paid to interest earned ratio

(Rs. In million)

Fiscal Year	SCBNL			NBL		
	Interest Paid	Interest Earned	Ratio (%)	Interest Paid	Interest Earned	Ratio (%)
2003/04	275.81	1,042.18	26.46	282.95	1,001.62	28.25
2004/05	254.13	1,058.68	24.00	243.54	1,068.75	22.79
2005/06	303.20	1,189.60	25.49	357.09	1,092.64	32.68
2006/07	413.06	1,411.98	29.25	555.21	1,517.96	36.58
2007/08	471.73	1,591.20	29.65	747.40	1,943.96	38.45
Mean			26.97	Mean		31.75
S.D.			2.43	S.D		6.36
C.V.			9.01	C.V.		20.02

Source: Annual reports form respective banks

By the observation of the above computation, it is clear that interest paid to interest earn ratio of both the banks is high but comparatively NBL has a mean figure of the ratio is 31.75% and the mean figure of SCBNL is 26.97. So, the mean figure of NBL is higher. Similarly SD of SCBNL is 2.43 and SD of NBL is 6.36, we can see that SD of NBL is higher in comparison to that of SCBNL. So, the SD of SCBNL is consistent. As the same way CV of SCBNL is less than CV of NBL in the comparison SCBNL is more consistent.

4.5 Other Indicators

Some other important financial performance indicator have also been analyzed to assess the financial soundness of there two banks SCBNL and NBL. These indicators are earning per share (EPS). Dividend per share (DPS), dividend payout ratio etc. analysis of such ratio also helps to the investors to know the investment potentiality of the bank before taking final decision. Here those ratios are analyzed as follows.

4.5.1 Earning Per Share

In shareholders point of view, earning per share is the main measure tool for assessing the profitability of a firm. It measures the percentage profit available to the equity holders on per share basic. It indicates investor's judgment about the firm's performance. Earning per share is calculated by using the following formula.

$$\text{Earning per share} = \frac{\text{Total NPAT}}{\text{Total no. of common share outstanding}}$$

Earning per share of SCBNL and NBL has been tabulated below.

Table No. 4.13

Earning per share

(Rs. in millions)

Fiscal Year	SCBNL	NBL
	Rs	Rs
2003/04	143.55	92.61
2004/05	143.14	105.49
2005/06	175.84	129.21
2006/07	167.37	137.08
2007/08	131.92	108.31
Mean	152.36	114.54
S.D.	18.42	18.20
C.V.	12.09	15.89

Source: annual report of respective banks

The above table shows earning per share in rupees of SCBNL and NBL. Mean earning per share of SCBNL is Rs. 152.36 and NBL is Rs. 114.54. That means SCBNL have greater earning than NBL and SCBNLs' shareholders are more benefited than NBLs' shareholders. The standard deviation of earning per share is almost same in both banks. In the context of coefficient of variation SCBNL has 12.09 and NBL has 15.89, which means that SCBNL earn more consistency than NBL.

4.5.2 Dividend on share capital

Dividend on share capital is that portion of net profit, which is distributed to the shareholders as return on their investment. Dividend on share capital depends on earning per share or net profit after tax of business firm. In this research dividend per share includes cash dividend and share capital dividend. This ratio is calculated using following formula.

$$\text{Dividend on share capital} = \frac{\text{Total dividend}}{\text{Share capital}} \times 100$$

Dividend on share capital of SCBNL and NBL has been tabulated below.

Table No. 4.14

Dividend on share capital

Fiscal Year	SCBNL Ratio(%)	NBL Ratio %)
2003/04	110	65
2004/05	120	70
2005/06	140	85
2006/07	130	140
2007/08	130	100
Mean	126	92
S.D.	11.40	30.12
C.V.	9.05	32.74

Source: Annual reports form respective banks

The dividend on share capital of both the banks show that the mean is that in the case of SCBNL is 126% where as that NBL is 92%. It indicates that SCBNL gives more return for shareholders. Comparing from the above tabulated data we can also the SD of SCBNL is 11.40 and that of NBL is 30.12. The trend of ratio in both banks is fluctuating. From the given table we can see SCBNL in comparison to NBL in terms of dividend on share capital is more inconsistent. CV of SCBNL is 9.05 and NBL is 32.74. From the above tabulated data of both the banks we can conclude that CV of SCBNL is more inconsistent than that of NBL in the terms of dividend on share capital. It implies that of SCBNL is more profitable for shareholders holders.

4.6 Income analysis

This ratio is analyzed to find out the proportionate contribution of different sources of income ingenerating total income. Income analysis is one of the important indicators of the financial performance.

Commercial banks' income sources are interest earned form loan and advances, commission & discount, foreign exchange, non operating income and other income.

The tables shows the contribution of each sources of these to banks which is presented below.

<p style="text-align:center">Table No. 4.15</p>

Total income of SCBNL

<p style="text-align:right">(In Percentage)</p>

Sources of income	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	SD	CV
Interest	66.78	68.91	62.26	68.17	69.58	67.14	2.92	4.35
Commission/ discount	13.27	11.82	17.62	14.26	14.61	14.32	2.14	14.96
Foreign exchange	18.18	17.19	17.86	15.08	13.72	16.41	1.93	11.75
Other Income	1.77	2.08	2.27	2.48	2.10	2.14	0.26	12.35
Total	100	100	100	100	100			

<p style="text-align:right">Source: Annual reports form respective banks</p>

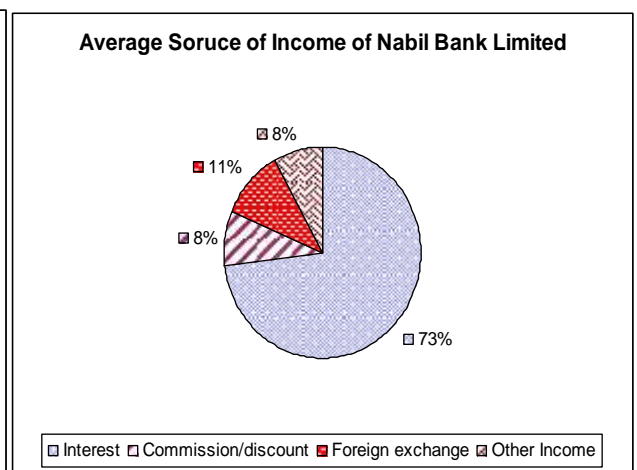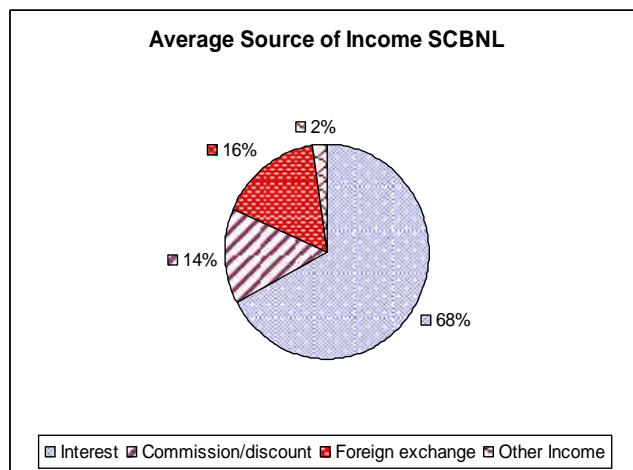Graph No. 11   Graphs No. 12

Average Source of Income SCBNL

Average Soruce of Income of Nabil Bank Limited

Total income of NBL

Sources of income	2003/04	2004/05	2005/06	2006/07	2007/08	Average	SD	CV
Interest	70.09	70.75	69.47	75.53	79.51	73.07	4.32	5.92
Commission/ discount	9.70	8.53	8.79	7.49	6.39	8.18	1.27	15.55
Foreign exchange	11.01	12.24	11.79	10.45	8.04	10.70	1.64	15.36
Other Income	9.20	8.48	9.95	6.53	6.06	8.05	1.69	20.97
Total	100	100	100	100	100			

Source: Annual reports form respective banks

4.6.1 Interest earnings

By observing the above tables and graphs interest earning is the major source of income for both banks. Received form loans and advances, cash credit and overdraft are included in interest income. Its average contribution is 67.14% of SCBNL and 73.07% of NBL of total earnings. It means that NBL income source more depends on interest than SCBNL. CV of SCBNL is 4.35 and NBL is 5.92. From the above tabulated data of both the banks we can conclude that CV of SCBNL is more inconsistent than that of NBL in the terms of interest earnings.

4.6.2 Commission and discount

Commission and discount include income received as commission, besides the commission received form letter of credit, draft, bank transfer guarantee commission selling of share, remittance charges; other charges are included in this heading.

The above tables and graphs show that the mean is that in the case of SCBNL is 14.32% where as that NBL is 8.18%. It means that SCBNL commission and discount have greater portion in profit than NBL. Observing the S.D we can say that NBL have more uniformity than SCBNL. In the context of C.V. SCBNL have 14.96 and NBL has 15.55, which is almost same.

4.6.3 Foreign exchange

This income is by dealing in foreign exchange and appears are change in foreign exchange rates. It includes not only gain on sale of foreign currency but also major source of the total income of the commercial banks than includes through the sale of exchange currency and revolution gain.

Average percentage of foreign exchange income in case of SCBNL is higher than NBL i.e. 16.41%>10.70%. The S.D. and C.V. of both is almost same.

4.6.4. Other income

Other income includes of various titles of income i.e. non operating income, net income form sale of investment and assets, non banking assets subsidy form NRB fixed assets written back and other.

The above table shows that contribution of other income to total income in case of both banks. Average percentage of SCBNL is 2.14% and NBL is 8.05% which is greater than SCBNL. The S.D. of SCBNL is 0.26 and NBL is 1.69. It means SCBNL have better uniformity than NBL in the case of other income. The C.V. of SCBNL is 12.35 and NBL is 20.97. It means SCBNL is more constant than NBL.

4.7 Expenses analysis

The major heads of expenses are interest expenses on deposit and borrowing loan and advance, staff expenses, office operating expenses and provision for bonus. The tables show the different headings of expenses in both banks, which are presented as below.
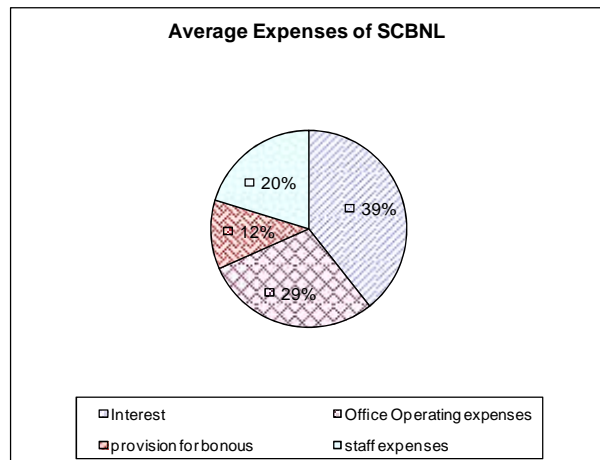
Operating Expenses of SCBNL

(In percentage)

Expenses Head	2003/04	2004/05	2005/06	2006/07	2007/08	Average
Interest	34.91	34.62	38.55	43.81	45.06	39.39
Office Operating expenses	35.40	34.96	28.11	24.23	22.02	28.95
provision for bonus	10.88	12.08	11.94	10.78	11.40	11.42
staff expenses	18.81	18.35	21.39	21.19	21.52	20.25
Total (%)	100.00	100.00	100.00	100.00	100.00	

Source: Annual reports form respective banks

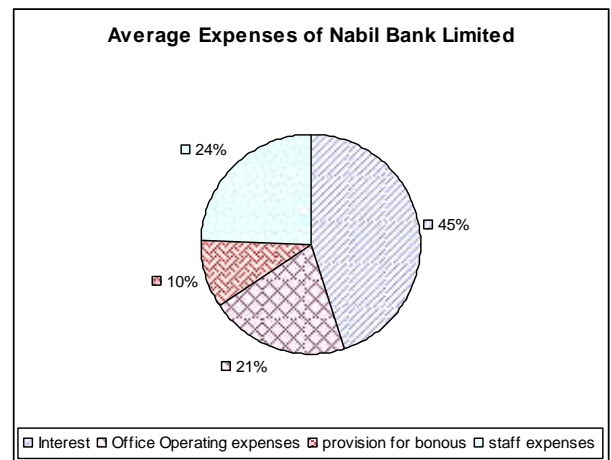Graph No.13   Graph No. 14

Average Expenses of SCBNL

- Interest
- Office Operating expenses
- provision for bonous
- staff expenses

20% 39% 12% 29%

Average Expenses of Nabil Bank Limited

- Interest
- Office Operating expenses
- provision for bonous
- staff expenses

24% 45% 10% 21%

84

Table No. 4.18

Operation Expenses of NBL

(In percentage)

Expenses Head	2003/04	2004/05	2005/06	2006/07	2007/08	Average
Interest	41.22	33.94	42.05	51.29	56.14	44.93
Office Operating expenses	21.96	26.52	21.51	17.37	16.34	20.74
provision for bonus	10.48	11.73	10.57	9.18	8.06	10.01
staff expenses	26.34	27.80	25.87	22.16	19.46	24.33
Total (%)	100.00	100.00	100.00	100.00	100.00	

Source: Annual reports form respective banks

4.7.1 Interest expenses

Interest paid includes interest paid on deposit, borrowing and loan. The above table clearly shows that average interest payments cover 39.39% in SCBNL and 44.93% in NBL. The above table and graphs shows that both banks interest payment occupies the major portion of operating expenses.

4.7.2 Office operating expenses

Office operating expenses includes house rent, light, electricity and water, repair and maintenance, insurance, postage, telex, telephone, fax, office equipment, furniture and repair, traveling allowances and expenses, stationery and printing, periodicals and books, advertisement, legal expenses, donations, expenses relating to board of directors, general meeting, expenses, expenses relating to audit, commission on remittances,

depreciation on fixed assets, amortization of pre operating expenses, share issue expenses, technical services fees, entertainment, written off expenses, security expenses, credit guarantee premium, commission and discount etc.

The above tables and graphs clearly show that office operating is expenses occupied second position on expenses head. Average office expenses of SCBNL is 28.95 and NBL is 20.74. It means that NBL expends less or more efficient to reduce operating expenses than SCBNL.

4.7.3 Provision for bonus

Bonus refers to the extra incentives paid to the employees for their efficient services. When the firm earns profit they distribute bonus to their employees for making them prompt and efficient for the next operation. It helps to uplift the moral of the workers at the work. The above tables and graphs clearly shows that average provision for bonus almost same. The provision for bonus of SCBNL is 11.42% and NBL is 10.01%. It shows that there are similarities for provision for bonus in both banks.

4.7.4 Staff expenses

Staff expenses refer to salaries allowances, contribution to provident funds and other expenses relating to personnel, i.e. dress materials, medical claims etc. The average staff expenses in case of SCBNL is 20.25% and NBL is 24.33%. Comparing these two banks, NBL holds higher ratio in staff expenses than SCBNL. On other word NBL spent more amounts on this head.

4.8 Correlation Analysis

A statistical tools and techniques which measure the degree of relationship between two or more than two variable is correlation. Its value lies in between 0 ± 1. Higher the value of correlation of coefficient i.e. as it approaches to 1 the variable are said to be closely related. This relationship may be positive or negative. In case of positive relationship the variable change to the same direction where as in negative correlation the variable under consideration change to the opposite direction, in this research analysis, an attempt is made to know the degree of relationship between the following variables.

4.8.1 Interest received and Profit

Banks earn interest form investment, income structures of both banks reveal that interest income covers big portion of total income. So, interest income is the major source or earning for a bank. Here, interest income affects profit is calculated to measure the closeness of relationship between these two variables.

Table No. 4.19

Calculation of correlation between interests received and profit of SCBNL

(Rs in million)

Fiscal Year	SCBNL	
	Interest received	Profit
2003/04	1,042.18	537.80
2004/05	1,058.68	536.24
2005/06	1,189.60	658.76
2006/07	1,411.98	691.67
2007/08	1,591.20	818.92
Correlation coefficient (r)		0.971
Coefficient of determination (R)		0.94

Source: Annual reports form respective banks & Appendix A

Table No. 4.20

Calculation of correlation between interests received and profit of NBL

(Rs in million)

Fiscal Year	NBL	
	Interest received	Profit
2003/04	1,001.62	487.07
2004/05	1,068.75	520.11
2005/06	1,310.00	635.26
2006/07	1,587.76	673.96
2007/08	1,978.70	746.47
Correlation coefficient (r)		0.967
Coefficient of determination (R)		0.93

Source: Annual reports form respective banks & Appendix B

The above table 4.16 and 4.24 shows the correlation coefficient between interest earned and operating profit of SCBNL and NBL. Here the correlation coefficient between interest earned and profit in case of SCBNL is 0.971 and 0.967 in NBL. So, there in perfect correlation between two variables interest and profit in both banks.

Similarly, in order to measure the degree of change in dependent variable (profit) due to change in independent variable (interest earned), coefficient of determination is calculated from the coefficient determination point of view, it is known that when there is change in interest income it brings 94% change in profit in case of SCBNL and 93% change in case of NBL. So, it can be concluded that both banks profit mainly depends upon interest earning.

4.8.2 Interest received and interest paid

Interest is the common use title and major source of income for commercial bank. In other hand bank receives investment i.e. loan and advances, cash credit, investment in government securities, treasury bills and money at call and short notices.

On the other hand, bank pays interest to its depositors. If bank has more deposit (fixed and saving) bank has to pay more interest to their depositors, but bank can earn more interest by investing their deposits their depositors, but bank can earn more interest by investing their deposits in profitable sectors in profitable sectors. So, interest earned and interests paid are related variables, commercial banks major sources of income is generated

by differentiating into two rate of interest (interest charged and interest paid). To know the degree of closeness or relationship between interest paid and interest earned, correlation is calculated between these two variables.

Table No. 4.21

Calculation of correlation between interest earned and interest paid of SCBNL

(Rs in million)

Fiscal Year	SCBNL	
	Interest Earned	Interest Paid
2003/04	1,042.18	275.81
2004/05	1,058.68	254.13
2005/06	1,189.60	303.20
2006/07	1,411.98	413.06
2007/08	1,591.20	471.73
Correlation coefficient (r)		0.99
Coefficient of determination (R)		0.98

Source: Annual reports form respective banks& Appendix C

Table No. 4.22

Calculation of correlation between interest earned and interest paid of NBL

(Rs in million)

Fiscal Year	NBL	
	Interest Earned	Interest Paid
2003/04	1,001.62	282.95
2004/05	1,068.75	243.54
2005/06	1,310.00	357.09
2006/07	1,587.76	555.21
2007/08	1,978.70	747.40
Correlation coefficient (r)		0.987
Coefficient of determination (R)		0.97

Source: Annual reports form respective banks & Appendix D

The above tables shows the correlation coefficient between interest earned and interest paid of SCBNL and NBL. Here, the correlation coefficient between interest earned and interest paid in case of SCBNL and NBL is 0.99 and 0.087 respectively. So, there is perfect high degree correlation between these two variables in both banks. Coefficient of determination in case of SCBNL is 98%, it means there is a change in interest earned, it brings 98% change in interest paid. Similarly, coefficient of determination of NBL is 98% it means that it there is a change in interest paid, it brings

97% change in interest paid. From the above analysis we can know that interest earned and interest paid are fully correlated in both banks.

4.8.3 Deposit and investment

Banks collects deposits form general public and this same deposit will be used grant loans and advances to the public. When a bank collects more deposit its capacity of granting loans and advances will be higher, conversely, its capacity of lending decreases as the volume of deposit collection decreases. Investment policy of bank is highly influenced by deposit collected by the bank. Therefore there should be positive relationship between the deposit and investment.

Total deposit of bank includes fixed, saving, current and call & other deposit where as investment of bank, companies loans, cash credit and overdraft, bills discounted and purchase, investment on government securities and money at calls and short notices. Investment on share and debenture is not included in this analysis because it is of fixed nature and banks do not changes it when there is change on deposit. Generally, such investments are covered by net worth instead of deposit.

Table No. 4.23

Calculation of correlation between total deposit and investment of SCBNL

(Rs in million)

Fiscal Year	SCBNL	
	Total Deposit	Total Investment
2003/04	21161.44	19989.17
2004/05	19335.09	20105.45
2005/06	23061.03	23760.22
2006/07	24647.02	25817.02
2007/08	29744.00	29818.95
Correlation coefficient (r)		0.975
Coefficient of determination (R)		0.95

Source: Annual reports form respective banks & Appendix E

Table No. 4.24

Calculation of correlation between total deposit and investment of NBL

(Rs in million)

Fiscal Year	NBL	
	Total Deposit	Total Investment
2003/04	14119.03	14944.67
2004/05	14586.61	15730.13
2005/06	19347.40	20835.98
2006/07	23342.29	25054.62
2007/08	31915.05	33257.19
Correlation coefficient (r)		0.999
Coefficient of determination (R)		1

Source: Annual reports form respective banks & Appendix F

The above tables 4.20 and 4.21 shows correlation coefficient and coefficient of determination between total deposit and total investment of SCBNL and NBL. The correlation coefficient between total deposit and total investment of SCBNL and NBL is 0.975 and 0.999 respectively. So, it shows that there is high degree positive correlation between total deposit and total investment in both banks.

Similarly, in order to measure the degree of change in dependent variable (total investment) due to change in independent variable (total deposit), coefficient of determination is calculated from the coefficient determination point of view, it is known that when there is change in interest income it brings 95% change in investment in case of SCBNL and 100% change in investment in case of NBL. So, it can be concluded that NBL is more dependent in deposit for investment than SCBNL.

4.9 Trend Analysis

Trend analysis indicated the direction of change in financial analysis, the direction of change over a period of a year is of crucial importance.

In this is section we are going to analysis some of the significant items contained in the financial statement by means of trend. This tool directs the change as regard major activates of the organization, following trends are calculated and presented.

a) Trend of deposit
b) Trend of investment

c) Trend of operating income

d) Trend of operating expenses

e) Trend of interest earning

f) Trend of interest paid

g) Trend of net profit

Trend analysis revels whether the financial position of a firm is improving or deterioration over the years, with the help of trend analysis direction of movement can be known. It shows whether the trend is favorable or not. To know the trend value first year of study is taken as base year. So the value of first year is regarded as 100 values of subsequent year are expressed as percentage of base year quantity.
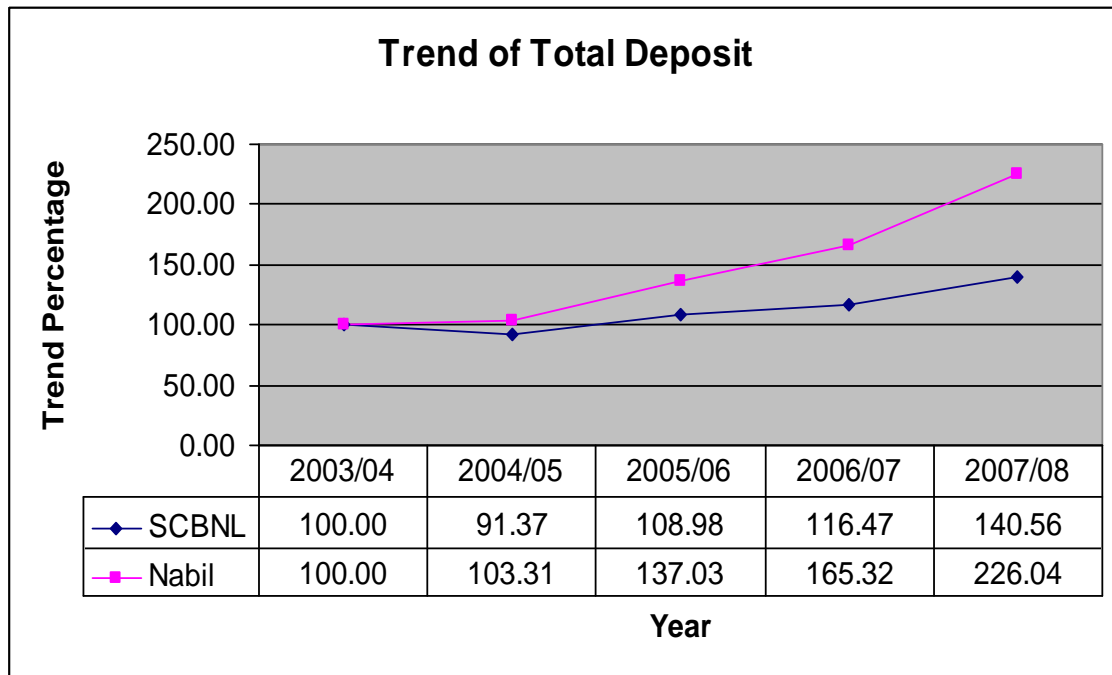
4.9.1 Trend of deposit

Trend of deposit is calculated to compare the improvement in the collection of deposit of SCBNL and NBL during the study period.

4.9.2 Trend of Total deposit

Total deposit of bank includes fixed deposit, saving deposit, current deposit, call and other deposit. Trend of total deposit of SCBNL and NBL is shown below.

Trend of Total Deposit

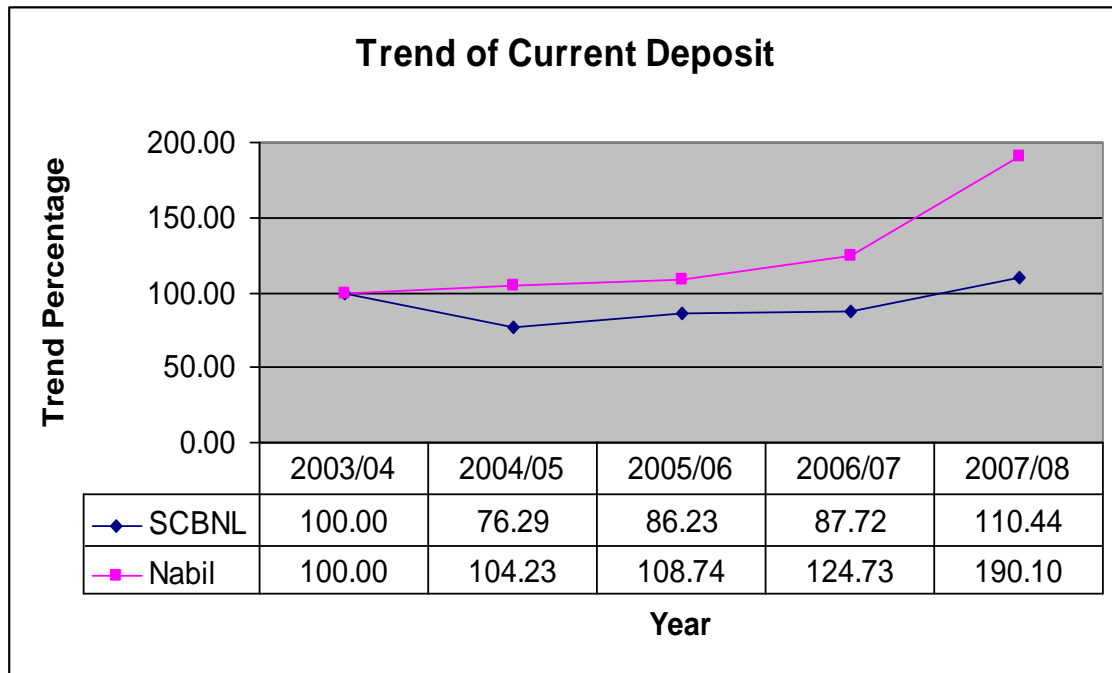| Year	2003/04	2004/05	2005/06	2006/07	2007/08
SCBNL	100.00	91.37	108.98	116.47	140.56
Nabil	100.00	103.31	137.03	165.32	226.04

The above graph shows the trend line of SCBNL and NBL. During the study period NBL trend line is rising without falling in any year but SCBNL trend line fall in 2004/05. It is clear that the total deposit trend of NBL is always above than SCBNL. It shows that SCBNL raises its total deposit by 40% but NBL raises its total deposit by 126%.

4.9.1.1 Trend of Current Deposit

Current account is known by demand deposit as bankers have to pay on demand and no withdrawal restrictions can be imposed on such accounts. This account is not considered very suitable for long-term lending but it can be uses for short term lending.

Graph No. 16

Trend of Current Deposit

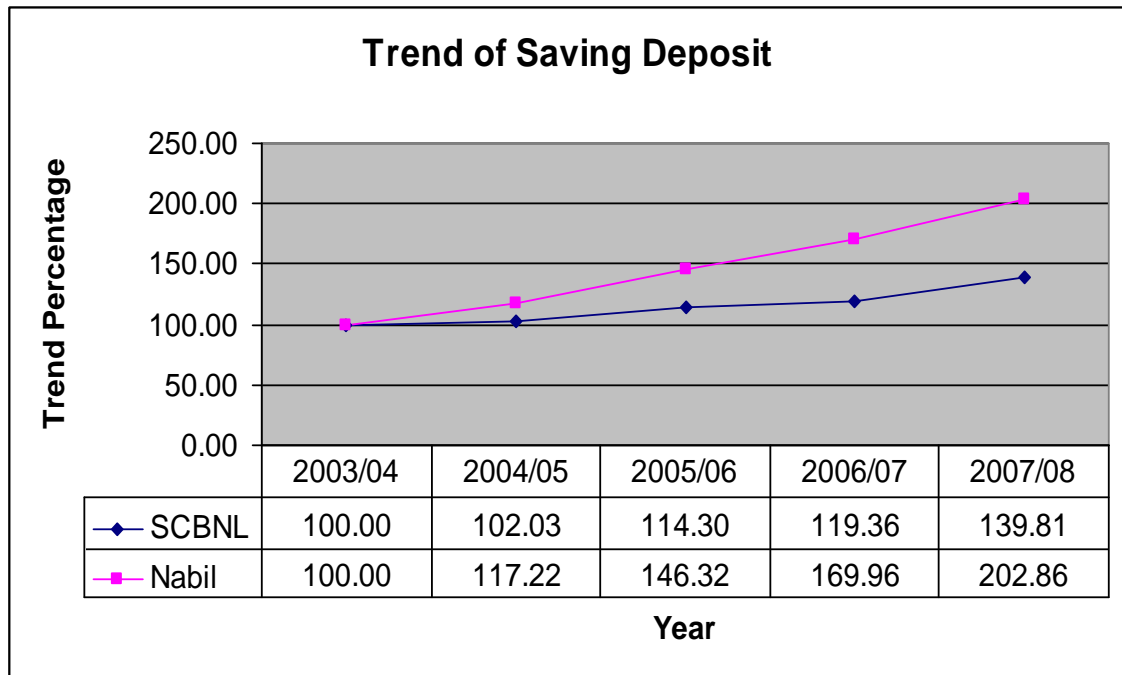| Year	2003/04	2004/05	2005/06	2006/07	2007/08
SCBNL	100.00	76.29	86.23	87.72	110.44
Nabil	100.00	104.23	108.74	124.73	190.10

The above graph shows current deposit trend of SCBNL and NBL. This trend is increasing trend for NBL but in case of SCBNL it is fluctuating. The trend line of current deposit in case of NBL is always above than SCBNL. According to this trend NBL has strong position at 2007/08, than SCBNL.

4.9.1.2   Trend of Saving Deposit

The bank in case of deposit withdrawing amount form saving account imposes some limitations. Bank can mobilize saving deposit to finance medium and short-term loan trend of saving deposit of SCBNL and NBL has presented below.

Graph No. 17

Trend of Saving Deposit

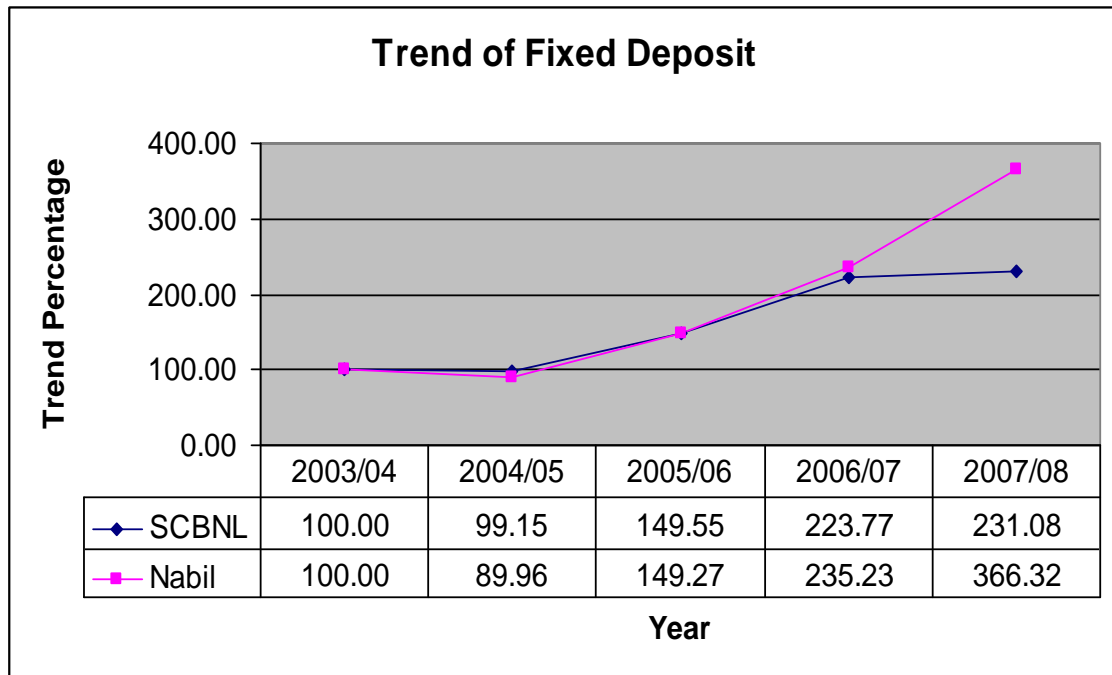| Year	2003/04	2004/05	2005/06	2006/07	2007/08
SCBNL	100.00	102.03	114.30	119.36	139.81
Nabil	100.00	117.22	146.32	169.96	202.86

The above graph shows that the saving deposit of SCBNL and NBL during the study period, saving deposit of both banks are in increasing trend. It is clear that the saving deposit trend of NBL is always above than SCBNL. We can say the trend of saving deposit collection of NBL is stronger than SCBNL.

4.9.1.3 Trend of Fixed Deposit

Deposits in this type of account are accepted for a fixed period of time. Fund cannot be withdrawn before the maturity period of the deposit. Bank can utilize deposit for long-term investment, which yields high returns, fixed deposits trend of both banks is shown as below.

Trend of Fixed Deposit

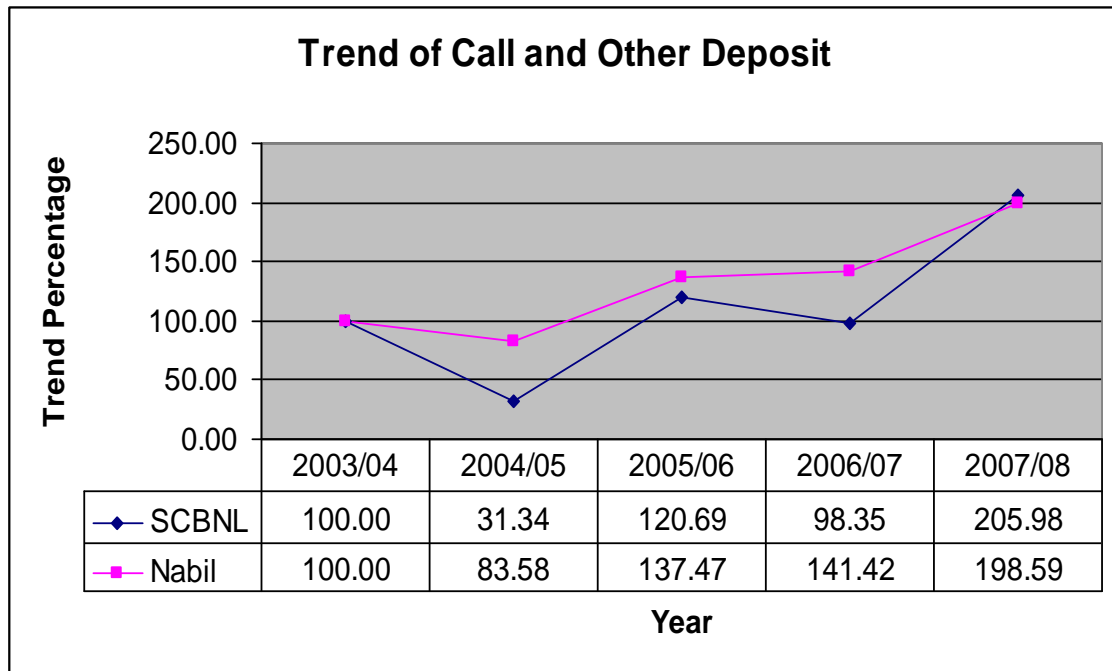|	2003/04	2004/05	2005/06	2006/07	2007/08
◆ SCBNL	100.00	99.15	149.55	223.77	231.08
■ Nabil	100.00	89.96	149.27	235.23	366.32

Trend Percentage / Year

The above graph shows that the trend of fixed deposit of SCBNL and NBL during the study period. Fixed deposit of both bank in increasing trend but this trend is higher in third year. According to fixed deposit trend NBL has stronger position than SCBNL.

4.9.1.4 Trend of Call and Other Deposit

This is hybrid account, having mix features of savings account and current account. Deposits in this account earn interest as in saving account and at the same time, the deposits can be withdrawn similar to that of current account. This deposit is used for short term lending. Trend of call and other deposit is presented below.

Graph No. 19

Trend of Call and Other Deposit

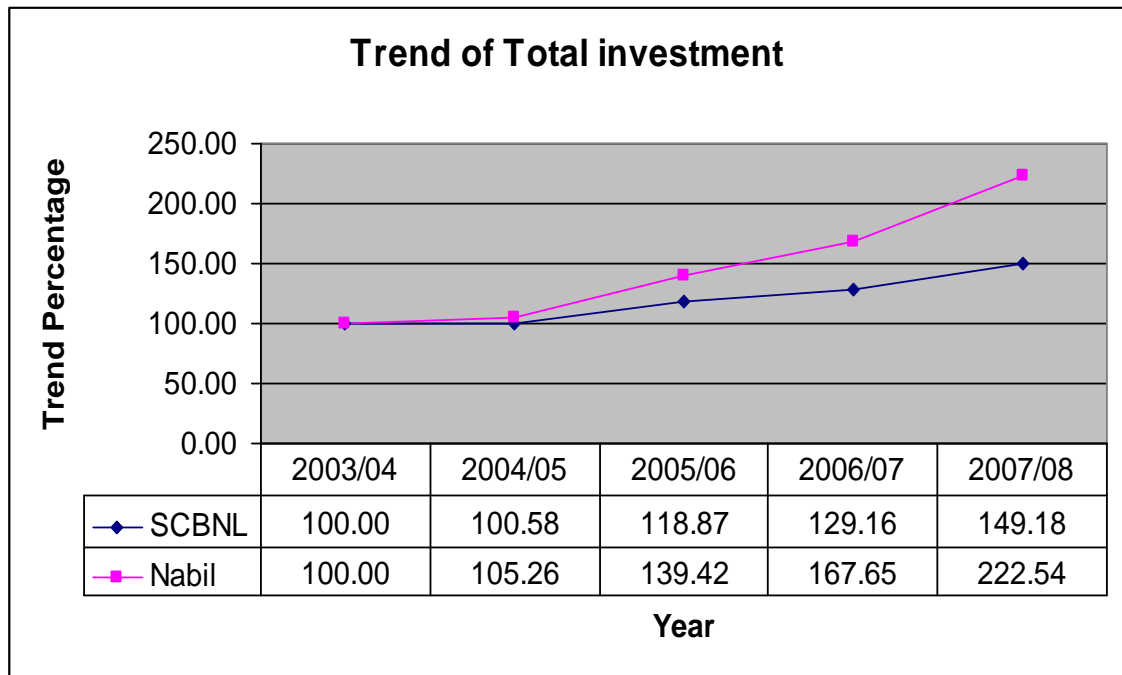| Year	2003/04	2004/05	2005/06	2006/07	2007/08
SCBNL	100.00	31.34	120.69	98.35	205.98
Nabil	100.00	83.58	137.47	141.42	198.59

The above graph shows that the trend of call and other deposit of SCBNL and NBL. It is clear that this trend of call and other deposit of both banks are fluctuating. SCBNL trend is more fluctuating than NBL trend. NBL has better trend than SCBNL but in last year SCBNL trend percentage is higher than NBL.

4.9.2 Trend of Total investment

Total investment include investment in loan advance cash credit, government securities, bills discounted and purchased money at call and short notice etc. trend of total investment is presented below. Income depends on investment, so investment trend shows the future profitability strength of the firm.

Trend of Total investment

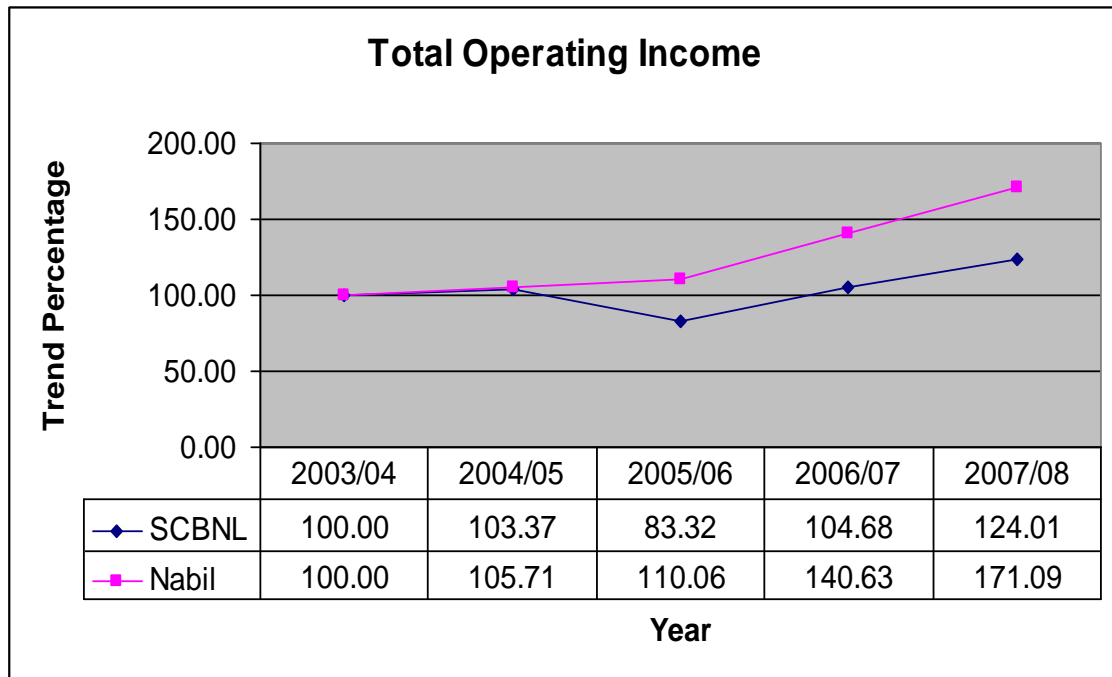| Year	2003/04	2004/05	2005/06	2006/07	2007/08
SCBNL	100.00	100.58	118.87	129.16	149.18
Nabil	100.00	105.26	139.42	167.65	222.54

The above graph shows the trend lines of total investment in case of SCBNL and NBL. Total investment of both banks are increasing regularly. It is clear that NBL has the better investment trend than SCBNL.

4.9.3 Trend of Total Operating Income

Banks has different source of income i.e. interest received, commission and discount, exchange income, dividend and other total amount collected from those heading are called total income. It is also known as operating income. Trend of operating income of SCBNL and NBL is presented below.

Total Operating Income

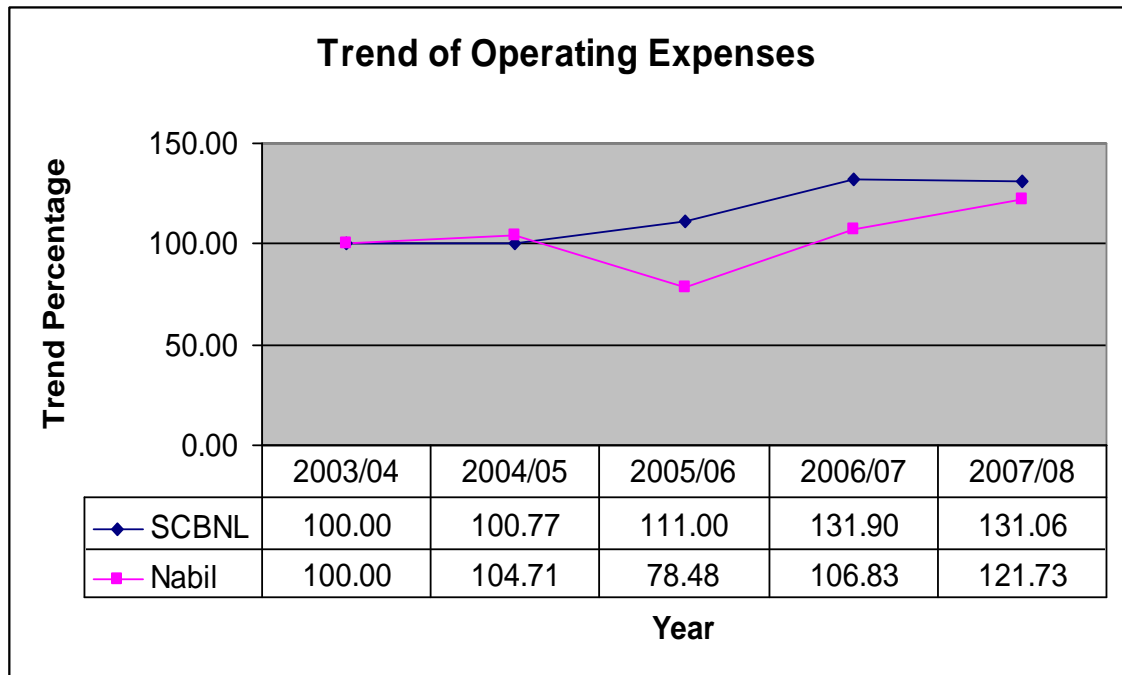| Year	2003/04	2004/05	2005/06	2006/07	2007/08
SCBNL	100.00	103.37	83.32	104.68	124.01
Nabil	100.00	105.71	110.06	140.63	171.09

The above graph shows the trend of total operating income of SCBNL and NBL during the study period. The trend of total operating income of NBL is increasing and SCBNL is fluctuating. It is clear that the trend of total operating of NBL is better than SCBNL.

4.9.4 Trend of Operating Expenses

The major headings of expenses are interest paid on borrowing the deposit, salaries, allowances and provident fund expenses, provision for bonus and other general expenses i.e. office expenses, annual general meeting expenses, board meeting fees, audit fee, advertisement, insurance, repair and maintains, rent management expenses etc. total expenses trend of both banks have been presented below.

Graph No. 22

Trend of Operating Expenses

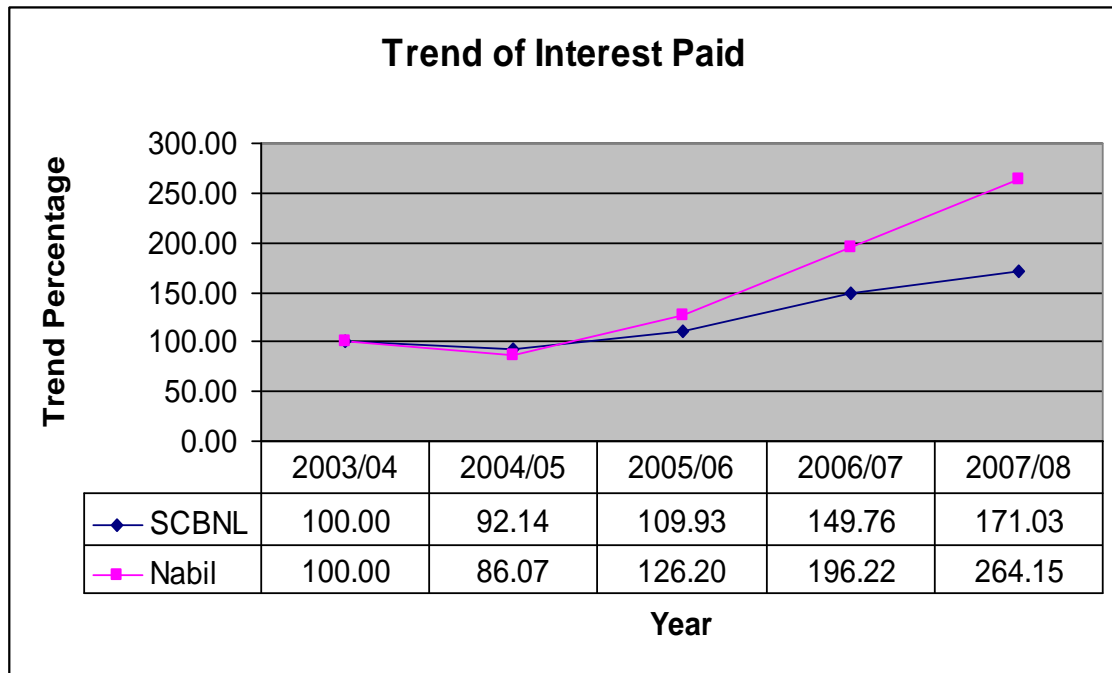| Year	2003/04	2004/05	2005/06	2006/07	2007/08
SCBNL	100.00	100.77	111.00	131.90	131.06
Nabil	100.00	104.71	78.48	106.83	121.73

The above graph shows the total expenses trend of SCBNL and NBL during the study period. The total expenses trend of SCBNL is continuously increasing but in case of NBL it is fluctuating. So, we can say that this trend of NBL better than SCBNL.

4.9.5 Trend of Interest Paid

Cost of services of commercial banks includes interest paid, salaries, allowance and provided fund. Among all these expenses interest paid holds the larger proportion. Generally, commercial bank pays interest on two types of loan i.e. on borrowings and on deposit. Interest paid trend of SCBNL and NBL, during the study period is presented below.

Graph No. 25

Trend of Interest Paid

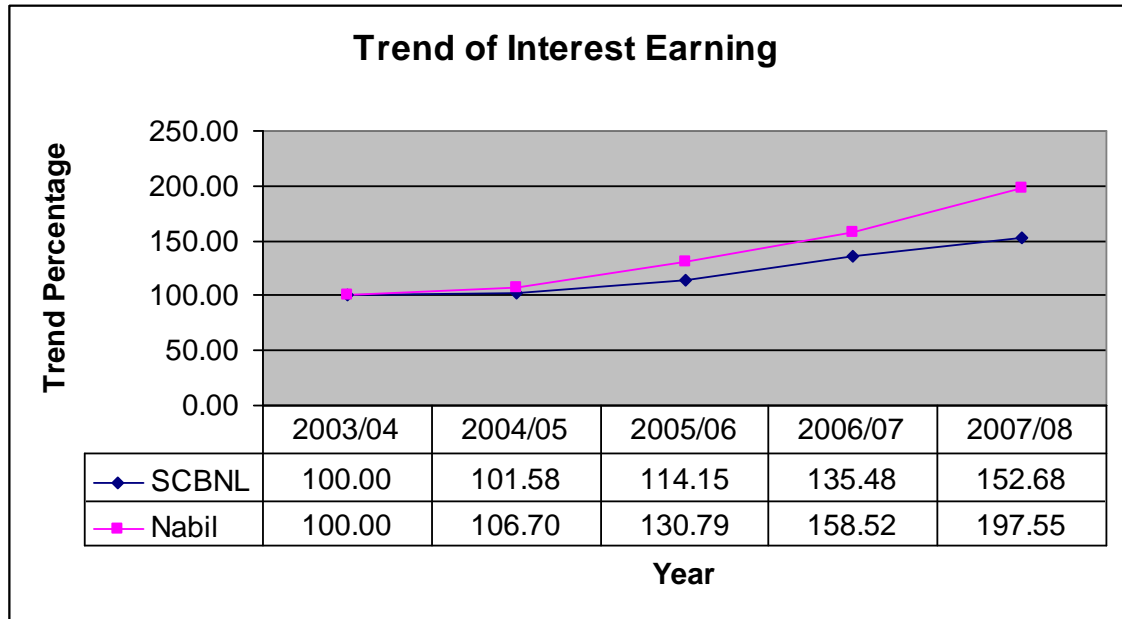|	2003/04	2004/05	2005/06	2006/07	2007/08
SCBNL	100.00	92.14	109.93	149.76	171.03
Nabil	100.00	86.07	126.20	196.22	264.15

Year

The above table shows, interest trend of SCBNL and NBL during the study period. Percentage fluctuating in interest paid in relation to the base year in both banks. It is clear that interest paid trend of NBL is more strongly growing than SCBNL.

4.9.6 Trend of interest earning

Earning interest is the major component of operating income of commercial bank, which holds larger proportion of total operating income. Below graph is the trend of interest earnings of both banks.
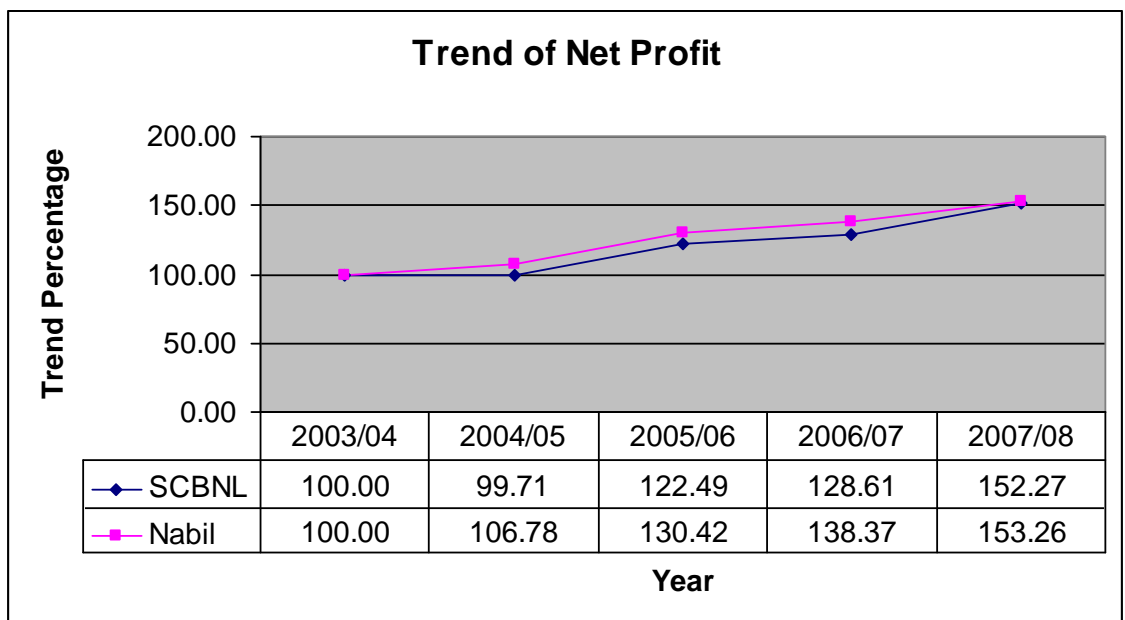
Graph No. 24

Trend of Interest Earning

Year	2003/04	2004/05	2005/06	2006/07	2007/08
SCBNL	100.00	101.58	114.15	135.48	152.68
Nabil	100.00	106.70	130.79	158.52	197.55

4.9.7 Trend of Net Profit

The primary objectives of each and every commercial banks operating in Nepal is to earn Profit. Net profit refers that profit which is actually earned by the bank. Here, net profit trend of SCBNL and NBL is presented below.

Graph No. 23

Trend of Net Profit

Year	2003/04	2004/05	2005/06	2006/07	2007/08
SCBNL	100.00	99.71	122.49	128.61	152.27
Nabil	100.00	106.78	130.42	138.37	153.26

The above table and graph shows net profit trend of SCBNL and NBL during the study period. It is clear that net profit of NBL is continuously increasing form the base year. But in case of SCBNL except 2004/05 it trends also increasing. Comparatively the trend of net profit shows that NBL is stronger position than SCBNL.

CHAPTER – V
SUMMARY, FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In the chapter the findings of the analysis of the study is summarized, concluded and then some suggestion are made accordingly for the betterment of financial performance of the selected commercial banks. This chapter is the final chapter, which consists the summary of the four earlier chapters which briefly explains the findings of the study, tires to fetch out conclusions of the study and attempts to offer various suggestions and recommendations for the improvement of the future performance of SCBNL and NBL.

5.2 Summary

This study has been undertaken to analyze as well as to compare the financial performance of SCBNL and NBL in relation to the financial tools such as ratio analysis, and trend percentage analysis along with the statistical, tools such as mean, standard deviation, coefficient of variation, correlation analysis. The financial statement of last five years i.e. from fiscal year 2003/04 to 2007/08 has been examined for the subject matter of financial performance analysis. The study is based on historical data, so the research design is historical and explanatory.

The study have been divided into five chapters, they are introduction, review of literature, research methodology, presentation, analysis and interpretation of data and then finally summary, research findings, conclusion and recommendations.

The general introduction of commercial bank, fours of study, statements of problem, objectives of the study, assumption and limitations have been discussed in the very first chapter. Concept and statistical tools have been explained in the second chapter. However the third chapter explains about the research methodology which is used to evaluate the financial performance of SCBNL and NBL. The third chapter includes research design, population and sample sources of data and data processing. Moreover the collected data of the banks have been presented, analyzed and interpreted by using financial tools such as ratio analysis and statistical tools like mean, standard deviation, coefficient of variation, correlation and trend analysis in the fourth chapter. Lastly, the findings of the study and some valuable recommendations for the improvement of the firms have been presented in the fifth chapter.

5.3 Findings and conclusions

5.3.1 Ratio analysis

A. Liquidity position
➢ After the study of cash and bank balance to total deposit ratio of SCBNL and NBL, it has been found that SCBNL maintains its CRR

ratio throughout the study period but in case of NBL was not maintain CRR ratio in the year 2004/05 and 2005/06 as directories form NRB. Here in case of NBL has not maintained its cash and bank balance as required by NRB. Comparatively SCBNL maintained more liquidity than NBL. So, SCBNL has better liquidity position than NBL during the study period. In other words, SCBNL is more capable in meeting its short term obligation or unanticipated call of deposit than NBL. Here, it is obvious that SCBNL is more capable to meet of its depositors.

B. Comparative performance analysis

➢ The average fund structure of SCBNL consist of 92.63% of total deposit and 7.37% of net worth where as average fund structure of NBL consists of 91.25% of total deposit and 8.75% of net worth. Coefficient of variation of total deposit in SCBNL and NBL 0.58 and 1.32 respectively where as C.V. of net worth in SCBNL and NBL is 7.23 and 13.82 respectively. It shows that total fund of NBL has more than SCBNL. Therefore, comparatively, NBL is less risky than SCBNL.

C. Deposit utilization position

➢ The average deposit structure of SCBNL consist of 23.70% current deposit, 62.59% saving deposit, 9.48% fixed deposit and 4.23% call and other deposit, where as average deposit structure of NBL consists of 18.77% current deposit, 43.54% saving

deposit, 19.65% fixed deposit and 18.04% call and other deposit. C.V. of current, saving, fixed and call and other deposit in case of SCBNL is 11.74%, 4.77%, 27.37%, 43.07% respectively. Where as C.V. of current, saving, fixed and call and other deposit in case of NBL is 13.42%, 8.55%, 25.91%, 9.68%, respectively. It shows that in the collection of deposit NBL is better than SCBNL.

➢ The mean total investment to total deposit ratio of SCBNL and NBL 101.30% and 106.58% respectively. Similarly S.D. and C.V. of this ratio in SCBNL is 4.18 and 4.13 respectively, in NBL is 1.55 and 1.45 respectively. This ratio shows that NBL is better for utilizing its funds.

➢ The average loan and advances to total deposit ratio of SCBNL is 39.98% and in case of NBL 66.18%. Similarly S.D. and C.V. of loan and advances to total deposit ratio of SCBNL and NBL is 6.01, 15.04 and 5.22 and 7.88 respectively. This sector of investment is more profitable than other investments. So, greater percentage of this ratio shows better performance. It shows that NBL invests its funds in more profitable sector than SCBNL.

D. Investment and deposit structure analysis

➢ The average investment structure of SCBNL consists of 39.37% loans, advances and bills purchased, 51.66% government securities & treasury bill and investment, 8.97% money at call & short notice. Where as average investment structure of NBL consists of 62.08% loans, advances and bills purchased, 32.29%

government securities & treasury bill and investment, 5.62% money at call & short notice. It shows that the investment of SCBNL is less riskier than NBL investment.

E. Profitability position

➢ The mean of return on net worth of SCBNL and NBL is 34.59% and 32.30%. S.D. of the ratio of SCBNL and NBL is 2.11 and 1.29 respectively. C.V. of this ratio in case of SCBNL is 6.01 and 4 in NBL. The average ratio of SCBNL is more favorable for stockholders than NBL, which represents the sound management and efficient mobilization of the owners' equity.

➢ The average return on total assets of SCBNL and NBL is 2.43% and 2.81% respectively. S.D. of this ratio in case of SCBNL is 0.11 and 0.35 in NBL. C.V. of this ratio in case of SCBNL is 4.32 and 2.81. This ratio results that NBL shown better performance than SCBNL. It implies that NBL is comparatively efficient in utilizing the overall resources.

➢ The mean return on total deposit of SCBNL and NBL is 2.75% and 3.11% respectively. S.D. of the ratio of SCBNL and NBL is 0.12 and 0.50 respectively. C.V. of this ratio in case of SCBNL and NBL is 4.40% and 16.08% respectively. Hence, we can conclude that the context of return on total deposit ratio of SCBNL is more consistent than that of NBL.

- The average interest earned to total assets ratio of SCBNL and NBL is 4.71% and 5.85% respectively. S.D. of the ratio of SCBNL and NBL is 0.21 and 0.34 respectively. Similarly C.V. of this ratio in case of SCBNL and NBL is 4.39 and 5.80. Hence, we can conclude that the context of net worth to total assets ratio of NBL is more consistent than that of Nepal Investment Bank Limited.

- The mean return on capital employed ratio in case of SCBNL and NBL is 16.07% and 10.88% respectively. S.D. of the ratio of SCBNL and NBL is 2.37 and 2.97 respectively. Similarly, C.V. of this ratio in case of SCBNL and NBL is 14.75% and 27.28%. It implies that of SCBNL is efficient in utilizing its overall resources.

- The average interest paid to interest earned ratio of SCBNL and NBL is 26.97% and 31.75% respectively. S.D. of this ratio in case of SCBNL and NBL is 2.43 and 6.36 respectively. Similarly C.V. of this ratio in case of SCBNL and NBL is 9.01 and 20.02 respectively. So, we can say that SCBNL is better than NBL in terms of interest paid to interest earned ratio.

- The average earning per share of SCBNL and NBL is 152.36% and 114.54%. respectively. S.D. of this ratio in case of SCBNL and NBL is 18.42 and 18.20 respectively. Similarly C.V. of this ratio in case of SCBNL and NBL is 12.09 and 15.89 respectively. So, we can conclude that SCBNL is more productive than NBL.

➢ The mean of dividend on share capital of SCBNL and NBL is 126% and 92% respectively. S.D. of this ratio in case of SCBNL and NBL is 11.40 and 30.12 respectively. Similarly C.V. of this ratio in case of SCBNL and NBL is 9.05 and 32.04. It implies that of SCBNL is more profitable for shareholders holders.

5.3.2 Income and expenses analysis

➢ In average percentage income from interest in case of SCBNL and NBL is 67.14 and 73.07 respectively. The average percentage of Commission and discount of SCBNL and NBL 14.32 and 8.18 respectively. The average percentage of foreign exchange of SCBNL and NBL is 16.41 and 10.70 respectively. The average percentage of other income of SCBNL and NBL is 2.14 and 8.05 respectively.

➢ The average percentage expenses on interest of SCBNL and NBL is 39.39 and 44.93 respectively. The average percentage expenses on office operating expenses of SCBNL and NBL 28.95 and 20.74 respectively. The average percentage expenses on provision for bonus of SCBNL and NBL is 11.42 and 10.01 respectively. The average percentage on staff expenses of SCBNL and NBL is 20.25 and 24.33 respectively.

5.3.3 Correlation analysis

a) Relationship between interest received and profit.

   ➢ The correlation coefficient between interest received and profit of SCBNL and NBL is 0.971 and 0.967 respectively. So there is positive correlation between profit and interest earning. Similarly, the coefficient of determination between profit and interest received of SCBNL and NBL is 0.94 and 0.93 respectively. So, there is perfect positive correlation between profit and interest received.

b) Relationship between interest earned and interest paid.

   ➢ The correlation between interest earned and interest paid in case of SCBNL and NBL is 0.99 and 0.987 respectively. So there is positive correlation between interest earned and interest paid. Similarly, coefficient of determination between interest earned and interest paid in case of SCBNL and NBL is 0.98 and 0.97 respectively. So, there is perfectly positive correlation between interest earned and interest paid.

c) Relationship between total deposit and total investment.

   ➢ The correlation coefficient between total deposit and total investment of SCBNL and NBL is 0.975 and 0.999 respectively. So, there is positive correlation between total deposit and total investment of both banks. Similarly, the coefficient of

determination between total deposits and total investment of SCBNL and NBL is 0.95 and 1. So, we can say that there is perfectly positive correlation between total deposit and total investment.

5.3.4 Trend analysis

Trend of Total deposit

➢ The trend of total deposit in case of SCBNL and NBL is in increasing trend through out the study period. The increasing trend of deposit of NBL is higher than SCBNL through out the study period. The trend shows that SCBNL and NBL raise its total deposit by 40% and 126% respectively. It shows that NBL have better trend of total deposit than SCBNL. The trend graph shows that in future the trend of deposit of SCBNL and NBL will be in increasing order.

Trend of current deposit

➢ The trend of current deposit of SCBNL is fluctuating but in case of NBL trend is continuously increasing. At last year 2008 the current deposit trend percentage of SCBNL is 110.44% and in case of NBL is 190.10%. It shows that NBL has better trend than SCBNL.

Trend of saving deposit.

➢ The trend of saving deposit of SCBNL and NBL is increasing trend. At last year 2008 the current deposit trend percentage of SCBNL is 139.81% and in case of NBL is 202.86%. It shows that NBL has better saving deposit trend than SCBNL.

Trend of fixed deposit

➢ The trend of fixed deposit of SCBNL and NBL is fluctuating. The trend of this deposit in year 2008 in case of SCBNL is 231.08% and 366.32% in NBL. It shows that NBL has better trend than SCBNL.

Trend of call and other deposit

➢ The trend of call and other deposit of SCBNL and NBL is fluctuating. The trend of this deposit in year 2008 in case of SCBNL is 205.98% and 198.59% in NBL. It shows that SCBNL has better trend than NBL.

Trend of total investment

➢ The trend of total investment of SCBNL and NBL is increasing. The trend of total investment in year 2008 in case of SCBNL is 149.18% and 222.54% in NBL. It shows that NBL has better total investment trend than SCBNL.

Trend of Total income

➢ The trend of total operating income of SCBNL is fluctuating and in case of NBL is increasing through out the study period. The trend of total operation income in year 2008 in case of SCBNL is

124.01% and 171.09% in NBL. It shows that the trend of total operation income of NBL is better than SCBNL.

Trend of operating expenses.

➢ The trend of operating expenses of SCBNL is continuously increasing and in case of NBL is fluctuating. The trend of operating expenses in the year 2008 in case of SCBNL is 131.06% and 121.73% in case of NBL. It shows that trend of operating expenses of NBL is better than SCBNL.

Trend of interest paid

➢ The trend of interest paid of SCBNL and NBL fall at the year of 2004/05 and then it is continuously increasing. The trend percentage of interest paid rate increasing of NBL is higher than SCBNL. The trend of interest paid in the year 2008 in case of SCBNL is 171.03% and 264.15% is NBL. It shows that trend of interest paid of SCBNL is better than NBL.

Trend of interest earning

➢ The trend of interest earning of SCBNL and NBL are increasing throughout he study period. The trend percentage of interest paid rate in the year 2008 in case of SCBNL is 152.68% and in case of NBL is 197.55%.

Trend of net profit.

➢ The trend of net profit of SCBNL is fluctuating and in case of NBL, it is continuously increasing throughout the study period. The trend percentage of net profit in the year 2008 of SCBNL and NBL is 152.27% and 153.26% respectively. Hence, it can be seems that increasing trend of net profit of the banks will be continue in future too.

5.4 Recommendation

As regards with the Analysis and interpretation of data of SCBNL and NBL are successful of some extent to meet their operation, as well as the financial goals. But there may still some loopholes exist in their operations. This study attempts to offer various following suggestions and recommendations on the basis analysis, findings and conclusions for the improvement of the future performance of three banks.

⟩ The liquidity position of NBL is lower than as directed as NRB. So, NBL should be maintain cash balance as directed by NRB.

⟩ The liquidity position of SCBNL is higher than as directed as NRB. It is suggested that idle fund should not be maintained instead of maintaining higher cash balance to remain liquidity, SCBNL is suggested to utilize remain liquidity by financing short-term loans.

- SCBNL and NBL are suggested to reduce their operating expenses. The banks should initiate the cost of control and cost of reduction techniques.

- SCBNL should increase its investment in high-risk assets i.e. loans and advances. So as to increase its interest income, which is the major source of earning of commercial banks.

- SCBNL has low percentage of fixed deposit out of its total deposit. So it has to increase fixed deposit, because of more reliable source of fund.

- Although, commercial banks are found to be profit oriented, but they should not forget social responsibilities, so banks should render their services in rural areas to promote and mobilize small investors. Mostly, commercial banks especially JVBs are concentrating their focus only in Kathmandu valley and other certain urban areas, which is unfair in practice. So, these JVBs should expand their branches in rural areas too.

- Beside these all, these Banks should explore the profitability areas and make investment in profitable areas to increase their operating profits. At last, the contribution made by all these banks in the development of our country is highly appreciated and are recommended to conduct activities meeting their social Responsibilities.

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