

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Sound financial system is a hallmark of developed economy. A well developed financial system contributes to the society's well being and to raise the standard of living by channeling the nation's wealth into the best and profitable uses. It is obvious that economic development is impossible without the development of different sectors like agriculture, industry, trade, tourism, etc. of the country. So, development of these sectors needs a regular supply of financial resources. In developing countries there is always shortage of the capital for the development activities. It is not possible to handle and develop all the sectors by the government alone at a time. Private people also cannot undertake large business because per capita income of the people is very low while their propensity to consume is very high. Due to low income, their saving is very low and capital formation is very low. So their saving is not sufficient for carrying on development works.

The development of a country is always measured by its economic development. The key economic force in the Nepalese business environment consist of manufacturing industries, including export and import industries, and service industries, including tourism, transport, construction, trade and services financial and consulting industries.

Economic development demands transformation of saving or investable resources into the actual investment. They are the manufacturing industry

which mobilizes the resources in investment and service industry, especially commercial banks, which collects the idle money for providing loans to manufacturing industry. The development of financial system virtually benefits all the members of the economy. Thus, financial sector plays an important part in the development of the country.

Modern manufacturing enterprises in Nepal have a history of about 73 years. It was in 1936 that the first modern industry of Nepal, Biratnagar Jute Mill, was established. Along with manufacturing enterprises, service industries are also getting important in Nepal's economic environment. They contribute more than 40 percent in Nepal's Gross Domestic Product. Among the service industries, commercial banks are the buttress of the financial services.

Thus for the economic development of the country and even the enhancement of the organization, the financial system should be strong. Hence, a company should build a strong financial policy for the upcoming days and for that the evaluation of financial performance is essential. The present study deals with the comparative study of financial performance of Service Companies, viz. Nepal Investment Bank Limited and Standard Chartered Bank Nepal Limited, to know the contribution of these financial institutions in the nation's economic enhancement.

1.1.1 Profile of the Selected Banks

a) Nepal Investment Bank Limited

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

-) A group of companies holding 50% of the capital
-) Rastriya Banijya Bank holding 15% of the Capital.
-) Rastriya Beema Sansthan holding 15% of the Capital.
-) The remaining 20% being held by the General Public.

NIBL, which is managed by a team of experienced bankers and professionals having proven track record, offers what one is looking for. The bank ensures that one's choice of a bank will be guided among other things by its reliability and professionalism. The vision of the bank is to be 'the most preferred provider of Financial Services in Nepal'.

b) Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited, formally known as Nepal Grindlays Bank Limited has been in operation since 1987. It is one of the topmost joint venture banks of Nepal. Capital structure of this bank is; 50 percent by Chartered Grindlays Bank, 33 percent by Nepal Bank Limited, the country's oldest and largest financial institutions and 17 percent by the Nepalese public. On July 31, 2000, Standard Chartered Bank Nepal Limited conducted the acquisition with ANZ Grindlays Bank Limited of the

Australia and New Zealand Banking Group. With this acquisition, 50 percent shares of Nepal Grindlays Bank Limited (NGBL), previously owned by ANZ Grindlays Bank Limited, change the name of bank to Standard Chartered Bank Nepal Limited with effect from 16 July 2001.

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.

1.2 Statement of the Problem

A well functioning financial system is an essential element in economic growth. A good financial system is supposed to mobilize savings from households and business in low cost of financing activities and channel funds to the most productive investment opportunities.

Though the service industry, especially banking sector, is in emerging trend, it cannot be predicted that this industry would continue to maintain its profitability and stability of earnings, because of the tough global competition.

This study attempts to evaluate the financial performance of selected commercial banks of Nepal by using various financial and statistical tools. It gives the answer to these issues:

- a. Are the financial positions of the banking industry in a sound situation?
- b. Are the commercial banks utilizing their collected fund efficiently?
- c. What are the major weaknesses and strengths of commercial banks?

1.3 Objectives of the Study

The basic objective of the study is to examine the financial performance of the selected service industry. The objective has been further specified in the following sub-objectives:

- a. To analyze and compare the liabilities payment capacity of NIBL and SCBNL through liquidity ratios.
- b. To measure the capital structure through leverage ratios.
- c. To determine the efficiency of the NIBL and SCBNL in utilizing deposits to generate revenue.
- d. To measure the financial achievement of NIBL and SCBNL in terms of profitability.

1.4 Significance of the Study

The main purpose of the study is to compare the financial performance of the service organization, especially commercial banks, by the means of various ratio analyses.

More precisely, the analytical tools used in this study would be instrumental in assessing the strengths and weaknesses, and opportunities and threats - in

relation with financing aspect - for the newly established as well as historically operating organizations in the country.

The present study is expected to provide with necessary operating corrective measures to NIBL and SCBNL so as to improve their financial strategies more successfully.

Besides these, the present work would contribute significantly to the upcoming generation in better understanding of theoretical and practical implications of various financial tools and techniques to make effective financial decisions.

1.5 Limitations of the Study

The study explains and analyses the subject matter with the help of already established analytical techniques used in usual practices, therefore as in conclusion-oriented study, it does not much concern with fundamentals and decision oriented study. Basically the research is done for the partial fulfillment for MBS degree in Management. This study is concerned with the financial performance of the listed commercial banks. The limitations of the study are given below:

-) The study focuses only on the financial performance and hence does not touch the other financial aspects.
-) The study is totally dependent on the secondary data analysis. And the secondary data entirely depends upon the reliability of the annual reports of NIBL and SCBNL.

-) The study covers only five years data, i.e. from the fiscal year 2003/04 to 2007/08.
-) Only two commercial banks, NIBL and SCBNL, have taken which may not represent the entire population.

1.6 Organization of the Study

The study has been organized mainly into five chapters;

Chapter – I: Introduction

The first chapter deals with the background of the study, profile of the selected companies, statement of the problem, objectives of the study, significance of the study and limitations of the study.

Chapter – II: Review of Literature

The second chapter confines the review of literature of related studies in journals (Literature) and review of related studies in Nepal with reference to previous thesis and policies of the government.

Chapter – III: Research Methodology

The third chapter describes the research methodology employed in the study. Mainly research design, nature and sources of data, statistical and financial tools used are described.

Chapter – IV: Data Presentation and Analysis

The fourth chapter presents and analyzes the data collected for study and thus fulfills the objectives of the study. At the end of the fourth chapter, the major findings drawn are presented.

Chapter – V: Summary, Conclusion and Recommendations

And, the last chapter contains summary and conclusions of the study. It also offers recommendations on the basis of findings.

Eventually, Bibliography and Appendices are presented at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

This chapter deals with the exploration of the related theoretical as well as practical aspects of comprehensive reviews of related literature. The whole chapter has been developed in four distinct section, viz. conceptual review, review of journals and articles, review of thesis and research gap.

2.1 Conceptual Review

2.1.1 Financial Performance Analysis

“Financial performance analysis is a quantitative analysis of the firm’s efficiency. In other words, it is a way of studying financial position or condition of a company. The company’s financial plan and policy are prepared and implemented by the management should judge on the ground of its financial performance. Conceptually, the vocabulary “financial performance” concerns with the management and analysis of financial operation of the firm though the means of profitability, liquidity, efficiency and utility of resources.

Traditional financial ratio analysis has focus on the number. The value of the approach is that quantitative relation can be used to diagnose strength and weakness of a firm’s performance. But the world is becoming more dynamic and subject to rapid change. It is not enough to analyze operating performance, financial analysis must also include consideration of strategic and economic development to which the firm must relate for long-term success. In addition to the categories of stakeholders must be bordered formally ration analysis was performed from the point of view of the firm’s

owners and creditors in the present political and social environment the shareholders must be expanded to include employees, customers, social environmental consideration and other government regulatory interest” (*Weston & Copeland, 1992: 191*).

“Financial analysis involves the use of various financial statements- the first is the balance sheet, which represents a snapshot of the firm’s financial position at a moment in time and next is the income statement that depicts a summary of the firm’s profitability over time” (*Vanhorn & Wachowicz, 1997: 120*).

“It is possible to identify the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account” (*Pandey, 1998: 96*).

“It is also the analytical and judgmental process that helps answer questions that have been posed. Therefore, it is means to end, apart from the specific analytical answers, the solutions to financial problems and issues and on the nature and reliability of the information available” (*Helfert, 1990: 2*).

Besides, it can be taken as the starting point for making plans, before using any sophisticated forecasting and planning procedures. Financial data can be used to analyze a firm’s past performance and assess its present financial strength. Management of the firm would be particularly interested in knowing the financial strengths to make their best use and to spot out the financial weaknesses to take corrective actions.

“To know the financial strength and weakness of the organization, one should properly analyze information reported in various statements. Management should be particularly interested in knowing financial strength of the organization to make their best use and to be able to spot out financial weaknesses of the organization to take corrective actions. The future planning of the organization should be laid down in view of the organization’s financial strength and weaknesses. Thus, financial analysis is the starting point for making plans before using any sophisticated forecasting and planning procedures. Understanding the past is the pre-requisite for anticipating the future” (*Khan & Jain, 1997: 201*).

“Financial analysis is the process of identifying the financial strength and weaknesses of the organization by properly establishing relationship between the items of the balance sheet and the profit and loss a/c. Financial analysis can be undertaken by management of the organization or by the parties outside the organization i.e. owners, creditors, investors and others. The nature of analysis will differ depending on the purpose and objectives of analyst” (*Pandey, 1998: 105*).

“The nature of analysis will differ depending on the purpose of analyst:

- a. Trade creditors will be interested to know the ability of a firm to meet their claims over a short period of time. Their analysis will be centralized on the valuation of firm’s liquidity position.
- b. Suppliers on the other hand, will be much more concerned to know the firm’s long-term solvency and survival. For that they would like to know

the firm's future solvency and profitability through financial statement analysis.

- c. Similarly, investors will be eager to know about their investments in firm's net earning. So they are interested in the firm's financial structure to the extent, it influences the firm's earning ability and risk.
- d. Management of the firm certainly be interested to update the financial aspects of the organizations. For that overall financial analysis, it is essential to update the financial condition of the firm" (*Pandey, 1998: 106-107*).

2.1.2 Objectives of Financial Performance Analysis

From the concept of financial performance analysis, it has been evident that one can explore various facts related to the past performance of business and predict out the future potential for achieving expected result. Various parties involved in the business directly or indirectly. Therefore, objective of the analysis also differs from one party to other. However, major objectives of analysis in broad sense, can be stated as;

a) Assessment of Past Performance and Current Position

"Past performance is often good indicator of future performance. Therefore, an investor or creditor is interested in the past sales, expenses, net income, cash flow and return on investment. In addition, an analysis of current position will tell what assets the business owns and what liabilities must be paid. Besides, it will provide the information about various facts in relation to business such as;

- a. Earning capacity or the profitability of the concern.
- b. Operational efficiency of the concern as a whole and of its various departments.

- c. Long term and short term solvency of the business for the benefit of debenture holders and trade creditors.
- d. Real meaning and significance of financial data” (Shekher, 1994: 87).

b) Assessment of Potential and Related Risks

“The past and present information are useful only to the extent they have bearing on the future decisions. An Investor judges the potential earning capacity of a company because that will affect the value of the investment or share and the amount of dividend the company will pay. The creditors judge the potential debt paying ability of the company. The potentials of existing company are easier to predict than of others. This means there is less risk of the investment or loan hinges on how easy it is to predict the future profitability and liquidity. Besides, the managers of business concerns will get information about the potential, such as;

- a. Possibility of development in the future though forecast and budget allocation.
- b. Financial stability of the business concern.
- c. Reforms needed for in the present policies and procedures that will help reduce weakness and strength performance” (Shekher, 1994: 89).

2.1.3 Types of Financial Performance Analysis

“The nature of financial analysis depending on the purpose of analyst financial statement analysis can be categorized into different types on the basis of materials used, objective of the analysis and modulus operandi of analysis” (Jain & Narayan, 1989: B23-B25).

a) On the basis of Material Used

“On the basis of material available and used by analyst can either be external or internal. Persons who don’t have access to the detailed records of the company make an external analysis. They have to depend almost entirely on published financial statements. Investors, credit agencies, government agencies and research scholars make such types of analysis” (*Jain & Narayan, 1989: B23*).

b) On the basis of Objectives

“On the ground of the objectives or purpose of study, financial analysis can either be long-term or short-term. Long-term analysis is made in order to study the long-term financial stability, solvency and liquidity as well as profitability and earning capacity of a business concern. This analysis helps for long-term financial planning which is essential for the continued success of a business.

Short-term analysis is made to determine the short-term solvency, stability and liquidity as well as earning capacity of the business concern. This analysis helps for short-term financial planning which is essential for continuation of success of the business” (*Jain & Narayan, 1989: B24*).

c) On the basis of Modulus Operandi of Analysis

“On the basis of Modulus operandi of analysis, it can either be horizontal or vertical. Horizontal analysis is conducted to review and analyze financial statements of a number of years and therefore it is based on data taken for

several years. Hence it is also known as dynamic analysis. Vertical analysis is conducted to review and analysis the financial statement of one particular year only. As it is based on the data for one year, it is also called static analysis” (*Jain & Narayan, 1989: B25*).

2.1.4 Methods of Financial Performance Analysis

“An enterprise communicates financial information to users through financial statements and reports. Financial statements are summarized information of the firm’s financial affairs, organized systematically. They are the means to present the firm’s financial situation to owners, creditors and general public. The preparation of financial statement is the responsibility of top management. As investor and financial analysis to examine the firm’s performance in use these statement under to make investment decisions. So, concern authority should be prepared very carefully and contain as much as information as possible” (*Dahal & Dahal, 2002: 63*).

Two basic financial statements are prepared for the purpose of external reporting to owner, investors and creditors are;

- a. Balance Sheet (or Statement of financial position)
- b. Profit and Loss Account (or, Income Statement)

“For internal management purpose i.e. for the planning and controlling much information than contained in published financial statement is needed. The account officer or accountant prepares these financial statements at the end of firm’s income year. Balance Sheet and Income Statement undoubtedly provides useful financial data regarding the operation of an enterprise but

they fail to present all the useful financial data required for major investing and financial decision by the management. Therefore, another financial statement, Funds Flow Statement is also in use. It summarized the source from which funds have been applied. It is prepared to show additional useful information not covered by the traditional statements” (*Bedi & Mardikar, 1993: 47*).

2.1.5 Major Steps in Financial Performance Analysis

“The basis for financial analysis is financial information obtained form Balance Sheet and Profit and Loss Account. The analysis of financial statement is completed in three major steps” (*Srivastav, 1993: 56*).

“The first involves the reorganization and rearrangement of the entire financial data as contained in the financial statements. This calls for regrouping them into few principal elements according to their resemblance and affinities. Thus, Balance Sheet and Income Statement are completely recast and presented in the condensed form entirely different from original shape.

The next step is the establishment of significant relationship between the individual components of Balance Sheet and Profit and Loss Account. This is done through the application of tools of financial analysis.

Ultimately, significance of result obtained by means of financial tools is evaluated. This requires establishment of standard against which actual be compared" (*Dangol & Dangol, 2004: 45-46*).

2.1.6 Tools and Techniques of Financial Analysis

"To evaluate the financial condition and performance of a company, the financial analyst needs certain yardsticks. The yardsticks frequently used are a ratio or index relating to pieces of financial data to each other. Analysis and interpretation of various ratios should give experienced and skilled analyst a better understanding of financial condition and performance of the firm, than they will obtain from analysis of the financial data alone" (*Vanhorn, 1999: 691-692*).

The techniques of analysis are employed to ascertain or measure the relationship among the financial statement items of a single set of statement and changes that have taken place in these items as reflected in successive financial statement. The fundamental of the analytical technique is to simplify or reduce the data under review of the understandable terms.

Out of the various techniques, selection of a technique or combination of the techniques depends on the purpose of analysis. Different techniques reveal different facts associated with the business, so some or all of the following major techniques can be used for the analysis depending on the purpose and availability of the materials demanded by the technique.

2.1.6.1 Funds Flow Analysis

“The statements of the changes in financial position prepared to determine only the sources and the use of funds between two dates of balance sheet is known as Funds Flow Statement. It is prepared to uncover the information that financial statement fails to describe clearly. It spells out the sources from which funds were derived and uses to which these funds were put.

This statement is prepared to summarize the changes in assets and liabilities resulting from financial and investment transaction during the period as well as those changes occurred due to change in owner’s equity. It is also aimed to depict the way in which the firm used its financial resources during the period” (*Grywinski; 1997: 66*).

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

The utility of this technique stems from the fact that it enables shareholders, creditors and other interested persons to evaluate the use of funds. It also enables them to determine how these uses were financed. In the light of

information so supplied by statement the outsider can decide whether or not to invest in the enterprise. It enables finance manager to detect the imbalances in the use of funds and undertaken remedial actions. It serves as control device to measure the deviation between actual use of fund and the estimated budget. An analyst can evaluate the financed pattern of concern (what position of the growth was financed internally and what portion externally).

“In spite of the great significance of funds flow analysis various parties associated with the business, it is not free from drawbacks. Its shortcomings can be listed as;

- a. This is not full proof as it depends on conventional financial statements.
- b. It can't introduce any new items, which causes changes in financial status of business.
- c. It is not much relevant technique as study of change in cash position is more useful rather than fund position.
- d. It is historical in nature, so can not estimate source and application of fund in near future.
- e. It does not reflect the structure and policy changes” (*Gupta, 2002: 37*).

2.1.6.2 Cash Flow Analysis

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

It summarizes the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash receipts from debtor against credit sales are recognized as the source of cash. Similarly, cash purchase and cash payment to supplies for credit purpose is regarded as the use of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis" (*Ivamy, 1993: 52*).

This type of analysis is useful for short-run planning of firm. "The firm needs sufficient cash to pay debt maturing in near future, to pay interest and other expenses and to pay dividend to shareholders. The projection of cash flow for near future can be made to determine the availability. Though it is more confidential than funds flow analysis for the decisions related to the near future, it is also not free from drawbacks. Its drawbacks can be listed as;

- a. It is not perfect evident as it depends on conventional statements.
- b. It is historical in nature.
- c. It doesn't reflect structural and policy changes" (*Khubchandani, 2002: 77*).

2.1.6.3 Trend Analysis

In financial analysis the direction of change over a period of years is crucial importance. "Trend analysis of the ratio indicates the direction of change. The kind of analysis is particularly applicable to the items of profit and loss Account. It is advisable that tend of sales and net income may be studies in the light of two factors. The rates of fixed companion secular tend in the growth of business and general price level; it might be found in practice that a number of firms could show a persistence growth over a period of years. But

yet a true trend growth; sales figure should be adjusted by suitable index of general prices. In other words, sales figure should grow without a price change. Another method of growth and one which can be used instead of the adjusted sales figure or as a check on them is to tabulate and plot the output or physical volume of sales expressed in suitable units of measure. If the general price level is not considered while analyzing the trend of growth, it can mislead management. They may be unduly optimistic in a period of prosperity and pessimistic in a dull period" (Vaidya, 1999: 12).

This method is immensely helpful in making a comparative study of financial statements of several years. This method of analysis involves the computation of percentage relationships that each statement item bears to the same in the base year. Base year for the purpose of comparison may be an earlier year, the latest year or any intervening year under the study. This exhibits the direction to which the concern is progressing.

Trend analysis facilitates the horizontal study of the data. But trend analysis is generally not computed for all items in the statement, as the fundamental objective is to make comparison between items having the same logical relationship to one another.

"Trend analysis reveals whether the current financial position of the company has improved over the past year or not. It shows which of the items have moved in a favorable direction and which of them in an unfavorable direction. Though it is an important tool of analysis, it is bound by certain limitations. They are;

- a. Trend for a single balance sheet or income statement is seldom very informative.
- b. It does not give accurate result if accounting principles followed by the accountants is not consistent over the period of study.
- c. Price level change adversely affects the comparison.
- d. Selected base year for some of the items in the statement may not be typical" (*Reed, Cotter, Gills & Smith, 1976: 232*).

2.1.6.4 Ratio Analysis

"An arithmetic relationship between two figures is known as ratio. Two number used in the ratio are called the term of ratio. The first term is the antecedent and is the divided; the second is the consequent and is the divider. Ratio is computed by dividing one item of relationship with the other. Ratio simply means the relation of one quantity to another of the same kind is defined to be that pure (abstract) number, integral, or fractional, which express the number of times the later is contained in the former.

Ratio analysis is a technique of analysis and interpretation of financial statement to evaluate the performance of an organization by creating ratios from the figure of different accounts consisting in balance sheet and income statement (P/L A/C) is known as ratio analysis" (*Pandey, 1994: 436-437*).

Financial ratios are the basic tool of financial analysis. The operational and financial problem of corporation can be ascertained by examining the

behavior of these ratios. In financial analysis a ratios are as an index or yardstick for evaluating the financial position and performance of an enterprise. A financial ratio is a relationship between two financial variables and a process of identifying the financial strength and weakness of an enterprise. The liquidity ratio measures the corporations overall efficiency of operation. Similarly, leverage ratio measures the extent to which the corporation has been finance by debt, and turnover ratios measure the utilization of the corporation's resources. These financial ratios help us to find symptoms of problems. The cause of any problem may be determined only after locating the symptoms. Hence, the study of financial ratios behavior of the corporations assumes great significant.

“Ratio analysis is carried out to develop meaning relationship between individual items or group of items usually shown in the periodical financial statements. An accounting ratio shows the relationship between the two inter-related accounting figures. Ratios are guides or shortcuts that are useful in evaluating the financial position and operations of a company. When the relationship between two figures in the balance sheet is established, the ratio so calculated is called ‘balance sheet ratio’. Ratio may be expressed in the form of quotient, percentage or proportion” (*Foulke, 1998: 27*).

“Ratio analysis involves tow types of comparison for the useful interpretation of the financial statement. A ratio itself doesn't indicate the favorable or unfavorable position. Most commonly used standards to evaluate the ratio are;

- a. Comparison of present ratio with past or expected future ratio.

- b. Comparison of the ratio of the firm with those of similar firms over the period of time of with industry average at the same point of time.

With the help of ratio, one can judge financial performance of a business concern over a period of time and against the industry coverage. The ratio helps whether the performance of firm is good, questionable or poor. Management of the firm can take strategic decisions on the basis of position revealed by ratio. Investors can decide about the future of their investment. Creditors judge whether the firm is able to meet its obligations and whether the more lending would be beneficial for them or not” (*Adhikari, 1999: 41*).

In view of the requirement of the various users of ratios they can be classified into four major categories. They are;

-) Liquidity ratio
-) Leverage ratio
-) Activity ratio
-) Profitability ratio

Liquidity ratio measures the ability of firm to meet its current obligations. Leverage ratio evaluated the long-term financial position of the firm. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its resources. Finally, profitability ratios are calculated to measure the operating efficiency of the company.

“Though ratio analysis is a powerful technique of financial analysis, it should be used with extreme care and considered judgments because it suffers from certain drawbacks. The drawbacks of the ratio analysis are listed below.

- a. It is difficult to decide the proper basis of comparison.

- b. It calls interpretation to certain aspects of the business, which need detailed investigation before arising at any final conclusion.
- c. Unless there is a consistency in adoption of accounting methods, ratio may not prove of greater use in case of inter- firm comparison.
- d. The price level changes make the interpretation of ratios invalid.
- e. The ratios are generally calculated from past financial statements and thus, are no indicator of future” (Howard, 1961: 327).

2.2 Review of Journals and Articles

Some of the journals and articles published by management experts in financial aspects have been reviewed in this section:

I.G. Dambolena & S.J. Khoury (1980), in their article, “*Ratio Stability and Corporate Failure*”, tried to know the stability of all financial ratios over time, as well as the level of there ratios as explanation variables in the derivation of a discriminate function. The data were collected from 68 firms half of them failed and half of them did not fail. The following ratios were used in the analysis of the study.

- a. Profitability ratio
- b. Activity and turnover ratio
- c. Liquidity ratio
- d. Indebtedness ratio

The major findings of this study were as follows:

- a. Standard deviation of ratios over times appeared to be the strongest measure of ratio stability.
- b. The ratios of net profit to sales, net profit total assets, fixed assets to net

worth, funded debt to net working capital, total debt to net working capital and fixed assets to net worth have shown to be relevant in predicting corporate failure.

Bikram Shrestha (1980), in his article "*Financial Management-Theory Practice*", has concluded that the bank has sufficient liquidity to meet the claim of depositors (excluding fixed deposits). The bank has a highly geared capital structure and is more depending on borrower funds. The bank has been able to meet the interest on deposits out of its profits. The rate of return on ownership capital is favorable. He further suggested that operational efficiency should be enhanced to achieve its higher profit goal for better performance.

S. Chopra (1990), in his article "*Role of Foreign Banks in Nepal*" conducted that the joint venture banks are playing an increasingly dynamic and vital role in the economic development of the country.

B.M. Rimal (1990), in his article, "*Policy Less Uses and Development in Nepal Banking System*" concludes that the central bank should instead drive for an approach towards indirect monetary control rather than quantitative individual bank selling. Indirect monetary bill quotations and operating up of inter bank market and targeting broad financial variables like net foreign assets or for that matter, net domestic assets should even out small irritants in the banking system. Small irritants it might seem, but its implications have been broad and fairly wide, as we have seen in the forms of reluctance on the part of commercial bank in accepting its bread and basket, i.e. deposit and in the development of additional dose of productive capital.

Serra Gilles (1991), in his article *“The Role of Commercial Banks in Nepalese Context”* concluded that due to rapid competition in banking sector for public welfare, five commercial banks are improving their services issue.

Radhe Shayam Pradhan (1994), in his article, *“Financial Management Practices in Nepal”* has studied about the major feature of financial management practices in Nepal. To address his issue, distributing a multiple questionnaire, which contained questions on various aspects of financial management practices in Nepal, carried out a survey of 78 enterprises.

He found the among the several finance functions, the most important finance function appeared to be working capital management. While, the least important one appeared to be maintaining good relations which stockholders. The finding reveals that banks and retained earnings are the two most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between banks to whichever offers best interest rates. Most enterprises find that banks are flexible in interest rates and covenants. He further found that among the bank loans, bank loans of less than one year are more popular in public sector where as bank loans of 1-5 years are more popular in private sector. In period's tight money, the majority of private sector enterprises fill that bank will treat all firms equally while public sector does not feel so. Similarly he concluded that the majority of enterprises in trade sector find that banks, interest rate is just right while the majority in non-traded sector find that the same is one higher side.

W.H. Beaver (1996), in his article, *“Financial Ratio and Predictors Failure*

With Accounting Research” tested the ability of financial ratios to predict failure. This study revealed five ratios which could discriminate between failed and non failed firms. The ratios are cash flow to total debt; net income to total assets; total debt to total assets; working capital to total assets and current ratios. It was obvious that failed firms had more debt and low return on assets. They had less cash but more receivable as well as low current ratios. The stock was low.

J.O. Horrigan (1996), in his article, *“The Determination of long Term Credit Standing with Financial Ratios”* tested the power of financial ratios to predict corporate bond ratings. His multiple regression analysis revealed that working capital to sales, net worth to total debt, sales to net worth and net operating profit to sales were best for predicting bond rating.

2.3 Review of Thesis

Arun Kumar Neupane (1997), in his Master’s Thesis, *“A Comparative Study about Birgunj Sugar Factory and Lumbini Sugar Factory”*, has the main objective to analyze whether the financial performance of public enterprises i.e. Birgunj Sugar Factory and Lumbini Sugar Factory are sound or not.

The study was conducted from the year 2048/2049 to 2052/2053. The major findings were;

- a. Liquidity position of Lumbini Sugar Factory was better than Birgunj Sugar Factory.
- b. Total assets turnover ratio of Birgunj Sugar Factory was not better than that of Lumbini Sugar Factory.

- c. Net worth of Lumbini Sugar Factory was higher than Birgunj Sugar Factory.
- d. Overall profitability ratio of Lumbini Sugar Factory was better than Birgunj Sugar Factory.

Shyam Kumar Udas (2001), has conducted a study on, *“A Comparative Appraisal on Financial Performance of Nepal Bangladesh Bank and Bank of Kathmandu.”* The main objective of the study is to show the causes of changes in cash position of the two banks. The other objectives were;

- a. To evaluate the liquidity position of NBB and BOK.
- b. To analyze the profitability ratios of NBB and BOK.
- c. To examine the marketability position of NBB and BOK.

His major findings were;

- a. NBB is more efficient than BOK in all respect and the study found the current ratio of NBBL was high.
- b. NBBL is utilizing its deposits more effectively than BOK, all the profitability rates were found to be higher in case of NBBL than BOK.
- c. Since BOK is suffering losses in three fiscal years, thus showing its operational deficiencies in mobilizing the resources in production sectors. On the other hand, NBBL has always been increasing its profit from the outset.
- d. On average, BOK was generating more cash from financial activity than NBBL. However, the contribution of financial activity in the final cash and bank balance of the bank was not as significant that of operating activities.

Himal Bahadur Chhetri (2002), has conducted a study on, *“Comparative Study of Financial Performance Between Everest Bank Limited and Bank of Kathmandu Limited.”* The main objective of the study is to made a

comparative financial analysis between EBL and BOK. The other specific objectives were;

- a. To compare the liquidity position of EBL and BOK.
- b. To examine the efficiency of EBL and BOK.
- c. To analyze the solvency of EBL and BOK.
- d. To trace out the financial strength and weakness.

His major findings were;

- a. The current ratio of both banks are not satisfactory. Cash and bank balance to total deposits of EBL and BOK do not go outward equally. EBL has more secured credit position than BOK.
- b. Loans and advances to total deposit ratio of BOK is better than EBL. But the ratio implies that EBL is utilizing its fixed deposit in loans and advance more efficiently.
- c. Net profit to working fund ratios on both banks is in poor condition but in latest years, it seems in positive way. Both banks have been improving or overcoming from the weak condition.
- d. Average earning per share of EBL is seen well rather than BOK but both of them are not running in favor of investors. Market value per share of EBL is increasing slowly while in case of BOK, it has zero value in initial three years.
- e. To sum up, it can be said that EBL has performed better than BOK during the study period. It seems that EBL will perform better than BOK in future too.

Bigyan Tripathi (2002), conducted Master's Thesis on, "*Financial Performance Analysis of Soaltee Crown Plaza Hotel Ltd.*" The objectives of the study were;

- a. To highlight the company's financial performance.

- b. To analyze its dividend policy in practice and figure out its relationship with key element such as earning per share, net profit, net worth and stock price.
- c. To provide the best favorable suggestions and recommendation on the basis of findings.

The major findings of the study were;

- a. Current assets of SHL are never sufficient to meet their current liabilities. It is below standard 2.1.
- b. Financial leverage of SHL is decreasing year by year which indicates lower risk. Total assets turnover ratio of the hotel over years is not satisfactory.
- c. Net sales to net worth turnover are gradually decreasing due to the low occupancy rate.
- d. Profitability ratio percentage in terms of capital employed has been gradually increased which shows that the performance is quite good.
- e. There is highly positive correlate between earning per share and dividend per share as well as between sales and net profit.
- f. The ratio of net profit to net sales is in increasing trend which again indicates of good performance.

Gopal Prasad Ghimire (2003), has made a study on, "*Financial Performance of Commercial Banks : A comparative Case Study of Nepal Bangladesh Bank Ltd., Himalayan Bank Ltd. and Everest Bank Ltd.*" the main objective of the study is to reveal the comparative financial performance of NBBL, HBL and EBL. The other specific objectives were;

- a. To analyze and compare the liquidity, portability, stability and market value positions among three commercial banks.
- b. To analyze and compare solvency ratio such as total capital fund.
- c. To analyze the financial strength and weakness of these banks.

His major findings were;

- a. The saving deposit to total deposit ratio of NBBL has been recorded the lowest of all. It indicates the better liquidity position of the bank to meet short-term obligation.
- b. Analysis of activities ratio reveals that all the banks have been able to utilize the resources satisfactorily.
- c. Total debt to equity ratio of all banks reveals that the claims of the outsiders exceed far more than those of the owners over the banks assets.
- d. Comparatively Himalayan Bank has more levered capital structure. Profitability ratio indicates the degree of success in achieving desired profit level.
- e. All the banks need lot of exercise in more credit creation and reducing the interest rate for loan and advances. This helps them to remain more competitive.

Kapil Karki (2005), in his thesis entitled, *“A Comparative Analysis of Financial Performance of NABIL and SCBNL”*, has pointed out following objectives.

- a. To evaluate liquidity position of both banks.
- b. To analyze comparative financial performance of both banks.
- c. To study comparative position of both banks.
- d. To offer a package of suggestion to improve the financial performance.
- e. To identify the relationship between interests earned and operating profit.

The major findings of the study were;

- a. SCBNL has efficiently operated its long-term fund, deposit and assets to generate more profit.

- b. Liquidity position of NABIL bank is favorable in many cases. It seems excessive. The proposed recommendation for these banks are to reduce its excessive non-performing assets (cash and bank balance) and invest on the income generating current assets (treasury bill), while SCBNL must strength the liquidity position.
- c. Comparatively SCBNL's profit ability position is better than that of NABIL.

Pallava Kasaju, (2006), has conducted a study on, "*A Comparative Study on Performance Analysis of Top Five Commercial Banks of Nepal.*" The main objective of the study is to analyze and compare liquidity, profitability, stability and market value position among the top five commercial banks. The other specific objectives were;

- a. To trace out the trend of loan and advances.
- b. To find out the relationship between deposits and loans & advances, and deposits and net profit.
- c. To analyze the trend of profit and dividend distribution.

His major findings were;

- a. EBL and NIBL have been getting lower net profit out of total income with comparison to all the banks.
- b. EBL comparatively fails to maintain operating ratio on total assets whereas NIBL did best. HBL, EBL and NIBL have been suffering from ineffectively using the total fund. so, they are getting lower return than SCBNL and NABIL.
- c. All top five commercial banks have been earning sufficient interest income on loan and advances. It means they have been high utilizing the loan and advances.
- d. NABIL has been providing comparatively greater cash dividend on share capital in a consistency manner too. SCBNL and NIBL have been

providing lower cash dividend in inconsistency manner. SCBNL has been providing dividend on share capital comparatively greater than other banks in a consistency manner.

- e. NABIL has also been providing better dividend in a consistency manner to some extent too. As a lower average, NIBL has not provided dividend on share capital. NABIL shows greater inconsistency too.

Sanjeeb Sadula (2007), in his thesis entitled, *“Financial Performance of Commercial Banks and Returns to Investors; with special Reference to BOK, EBL, SCBNL, NIBL and NABIL”* has pointed out following objectives;

- a. To evaluate liquidity position of these banks.
- b. To analyze comparative financial performance of these banks.
- c. To study comparative position of selected banks.
- d. To offer package of suggestions to improve the financial performance.

The major findings of the study were;

- a. Commercial banks, except SCBNL and NABIL, are not maintaining constant DP ratio.
- b. Net income of SCBNL is the highest and that of BOK is the lowest during the study period. SCBNL has highest EPS and that of BOK is the lowest.
- c. SCBNL and NABIL are continuously paying the dividend maintaining higher DP ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.
- d. NIBL has the highest net interest income.

Benu Madhev Bhattarai (2008), in his thesis entitled, *“A Comparative Analysis of Financial Performance of NABIL, NIBL and SCBNL”* has pointed out following objectives;

- a. To evaluate the liquidity position to measure the strength of financial performance of NABIL, NIBL and SCBNL.
- b. To evaluate the activity and operation with reference to mobilization of the collected funds.
- c. To analyze price earning, market value to book value per share and dividend payout.
- d. To evaluate the earning and profitability position of selected banks.
- e. To identify the relationship between total deposit and total investment.
- f. To identify the relationship between interest earned and operating profit.

The major findings of the study were;

- a. Among all the sample banks, NIBL has the lowest ratio of net profit to total assets. NABIL has been successful in earning more net profit by the proper use of available assets.
- b. NABIL’s solvency position is better than NIBL and SCBNL.
- c. EPS of SCBNL is the highest than other selected joint venture banks.
- d. SCBNL with the highest DPR refers that bank provides maximum amount of dividend to its shareholders.
- e. NABIL bank has been paying highest amount of staff expenses as salary, allowance and gratuity funds to its staff.
- f. NIBL has the highest price earning ratio.

2.4 Research Gap

Large numbers of research are available bearing the same topic, *“A Comparative Analysis of Financial Performance of Commercial Banks”*. The

present researcher tries to draw insights from them. However, the researcher will sustain gap by covering the relevant data and information from the year 2003/04 to 2007/08. Moreover, the researcher has selected two commercial banks of Nepal as sample banks viz. Nepal Investment Bank Ltd. and Standard Chartered Bank Nepal Ltd. These banks are leading commercial banks by which we can find for the perfect comparison between highly growing commercial bank rather than rapidly growing new commercial banks. Financial analysis is the major function of every commercial bank for evaluating the financial performance. Therefore, it is the major concern of stakeholders to know the financial situation of the bank.

NIBL and SCBNL are the leading commercial banks of the country having the huge market share and its investment activities and these banks has significant impact on developing the economy of the country. Every year the financial performances are changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about the in depth analysis of the financial performance which is the major concern of the shareholders and stakeholders. This research work will help to acquire knowledge regarding tools and technique used and extra knowledge for the further researchers who are going to study in the topics related to the financial performance of commercial banks.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter presents with the various methodological aspects related to the present study. There are mainly four sections which will enable us to the research work comprehensively. Each section has been developed to justify the present scenarios of service organizations, in the light of past resulting historical data and statistical tools to incorporate the detail analysis of different variables.

3.1 Research Design

This study aims to find out the financial performance of NIBL and SCBNL. The research design used for is basically, a historical, empirical, descriptive-cum-analytical research methodology. Descriptive approach has been adopted for the conceptualization of the problem. Analytical approach has been followed to analyze the related data and the relationship among variables. Some statistical tools have been applied to examine the descriptive technique which has been adopted to evaluate financial position of the selected banks.

3.2 Population and Sample

Although there are 28 commercial banks operating in Nepal right now, the evaluation of financial performance of all these banks within this study is impossible. So, taking 28 commercial banks as the population of the study, 2 commercial banks, namely Nepal Investment Bank Limited and Standard Chartered Bank Nepal Limited, are taken as sample for the study.

3.3 Sources of Data and Collection Methods

Most of the data collected for the purpose of the present study belong to secondary sources in the forms of organization-published financial statements for a period of five years. The data of the organizations are extracted from published balance sheets for the period of the years 2004/05 to 2008/09. Besides these, the official websites of the bank, NEPSE and NRB are also viewed for the data purpose.

3.4 Analytical Tools

The collected data are grouped in various tables showing the comparative displays of various ratios to identify the companies' stand in relation with selected financial performance ratios.

3.4.1 Financial Tools

The ratios which are closely related to financial statements (balance sheet and income statement) focuses the firms financial history, their tendencies (rising or falling) and evaluation of present position. The selected ratios for the comparative studies of manufacturing and service companies are;

A) Liquidity Ratios

This ratio measures the financial capability of the firm to pay back the short term liabilities. It is the process of finding the financial status of the organization to meet current liabilities or financial capacity to pay the short term loan. The ratios measured are;

i. Current Ratio

Current ratio measure the short-term solvency, i.e. its ability to meet short-term obligation or as a measure of creditors versus current assets. For many types of business 2:1 is considered to be an adequate ratio. The current ratio is calculated by dividing current assets by current liabilities.

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

ii. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposits ratio measures the capacity of bank to meet unexpected demand made by depositors, i.e. current account

holders, saving depositors, call and other depositor. This ratio is computed by using the following formula:

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

iii. Cash and Bank Balance to Total Assets Ratio

Since, cash is the most liquid asset; a financial analyst may examine cash coverage into the total assets. Trade investment or marketable securities are equivalent of cash; therefore, they may include in the computation of cash ratio. The calculation of this ratio is;

$$\text{Cash \& Bank to Total Assets Ratio} = \frac{\text{Cash \& Bank} + \text{Marketable Securities}}{\text{Total Assets}}$$

iv. Fixed Deposit to Total Deposit Ratio

Fixed deposit is a long-term and high interest bearing deposit. More fixed deposit may be an advantage if it can be invested in long-term credit. This ratio is calculated in order to find out the proportion of fixed deposit in total deposit. Fixed deposits are long-term deposit and banks can mobilize them on investment, loans and advances. Fixed deposit to total deposit ratio can be calculated by dividing the amount of fixed deposit by the amount of total deposit.

$$\text{Fixed Deposit to Total Deposit Ratio} = \frac{\text{Total Fixed Deposit}}{\text{Total Deposit}}$$

v. Net working capital to Total Assets Ratio

It is considered that, between two firms, the one having the larger NWC has the greater ability to meet its current obligations. Thus, NWC ratio measures the organization's potential reservoir of funds.

$$\text{NWC to Total Assets Ratio} = \frac{\text{Net Working Capital}}{\text{Total Assets}}$$

B) Leverage Ratio

Leverage ratio, also known as capital structure ratio, indicates the proportionate relationship between debt and equity. Leverage ratios are concerned with the long-term solvency of the bank and show the proportion of outsiders fund and shareholder's fund of the bank.

i. Debt to Total Capital Ratio

It is a relationship between long term debt and total capital. Total capital includes owner's equity as well as borrowed capital It is calculated as;

$$\text{Debt to total Capital Ratio} = \frac{\text{Long Term Debt}}{\text{Capital Employed}}$$

ii. Debt-Equity Ratio

The relationship between borrowed fund and owner's equity is known as debt-equity ratio. A high ratio shows the large share of financing by the creditors, as compare to that of owners. This means creditor would suffer more in times of distress than the owner. It is calculated in following ways;

$$\text{Debt - Equity Ratio} = \frac{\text{Long Term Debt}}{\text{Shareholder's Equity}}$$

iii. Capital Adequacy Ratio

Commercial banks are required to maintain adequate capital. Holding too much capital may result in lower return from their investment and holding too little capital though result in higher return yet may not comply with the rules of central bank. Banks have been directed to meet any short fall in capital adequacy ratio by transferring part of profit to general reserve and thereby increasing equity fund. Capital adequacy ratio is calculated by dividing the capital fund by total deposit of the firm.

$$\text{Capital Adequacy Ratio} = \frac{\text{Capital Fund}}{\text{Total Deposits}}$$

C) Efficiency Ratios

Activity ratio is concerned with measuring the efficiency in its assets management. This ratio measures the degree of effective use of resources of a firm. It indicates how quickly certain current assets are converted into cash. Higher the rate means more efficient in management on the utilization of its resources and vice-versa.

i. Interest Expenses to Total Deposit Ratio

Commercial banks not only make profit from the deposit but also pay interest to the deposit holders. This ratio measures the amount of interest paid on accepting deposit by the banks to its account holders. Lower the ratio is considered better and vice versa. This ratio is calculated by;

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

ii. Loan and Advances to Total Deposit Ratio

This ratio measures the bank's ability to mobilize the depositors fund to earn profit by providing loans and advances. It also measures the extent to which the banks are successful in mobilizing deposits for the purpose of profit generating. The ratio is calculated by dividing loans and advances by total deposits.

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

iii. Loan and Advances to Fixed Deposit Ratio

This ratio indicates, how much of loans and advance has been granted against fixed deposit. Fixed deposit is the higher interest rate payable deposit and is payable only after certain date. Hence the bank must utilize the fixed deposit property. Loan and advance to fixed deposit ratio indicates how properly the fixed deposit has been utilized. The ratio is calculated by dividing loans and advance by fixed deposit.

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

iv. Loan and Advances to Total Assets Ratio

Loan and Advances to total assets ratio reflects the extent to which the bank is successful in mobilizing its total assets on loan and advance for the purpose of income generating. It is calculated by dividing loan and advances by total assets.

$$\text{Loan \& Advances to Total Assets Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Assets}}$$

D) Profitability Ratios

Profit is the ultimate output of a company and its existence is not justified if it fails to make sufficient profit. Therefore the company should continuously evaluate the efficiency of the company in terms of profit. The profitability ratios are calculated to measure the operating efficiency of the company. Generally, two major types of profitability ratios are calculated:

- a) Profitability in relation to sales
- b) Profitability in relation to investment.

i. Net Profit Margin

Net profit margin indicates margin of compensation left to the owners for providing their capital, after all expenses have met. It helps in determining the efficiency with which the affairs of the business are being managed. A net profit margin would enable the firm to withstand adverse economic conditions and low margin will have opposite implications.

$$\text{Net Profit Margin} = \frac{\text{NPAT}}{\text{Interest Income}}$$

ii. Return on Total Assets

Return on total assets explains the contribution of assets to generating net profit. This ratio indicates efficiency towards of assets mobilization. In other words return on total assets ratio is an overall profitability rate, which measures earning power and overall operation efficiency of a firm. This ratio helps the management in identifying the factors that have a bearing on overall performance of the firm.

$$\text{Return on Total Assets} = \frac{\text{NPAT}}{\text{Total Assets}}$$

iii. Return on Net Worth/Equity

Return on net worth reflects how well the firm has used the recourse of the owner's. The earning of satisfactory return is the most desirable objective of business as common or ordinary shareholders are entitled to the residual profits. It is calculated by dividing profit after tax by net worth.

$$\text{Return on Equity} = \frac{\text{NPAT}}{\text{Net Worth}}$$

iv. Return on Capital Employed

This ratio measures the organization's profit in per rupee investment of Shareholder's and borrower fund. The higher the ratio retains the shareholders and earns the credibility of the borrowers.

$$\text{Return on Capital Employed} = \frac{\text{NPAT}}{\text{Capital Employed}}$$

v. Return on Total Deposit

Return on total deposit ratio measures how efficiently the deposits have been mobilized. It reveals the relationship between net profit after tax and total deposits, an explanation of the ability of management in efficient utilization of deposits. The ratio is calculated as;

$$\text{Return on Total Deposits Ratio} = \frac{\text{NPAT}}{\text{Total Deposits}}$$

vi. Interest Paid to Interest Income Ratio

Interest paid to interest income ratio reveals the proportionate relationship between interest paid on different liabilities and interest income from different source. Higher ratio indicates that the bank has paid higher amount of interest on liabilities in relation to interest income and vice versa.

$$\text{Interest Paid to Interest Income Ratio} = \frac{\text{Total Interest Expenses Total}}{\text{Interest Income}}$$

vii. Earning Per Share

The profitability of the common shareholders' investment can also be measured in term of earning per share. The earning per share is calculated by dividing the profit after tax by total number of common share outstanding.

$$\text{Earning Per Share} = \frac{\text{NPAT}}{\text{No. of Common Shares}}$$

viii. Dividend Per Share

The net profit after tax belongs to shareholders. But the income, which they really receive, is the amount of earnings distributed as dividends. Therefore, a large number of present and potential investors may be interested in dividend per share, rather than earning per share. DPS is the earnings distributed to ordinary shareholders divided by the number of ordinary shares outstanding.

$$\text{Dividend Per Share} = \frac{\text{Dividend Paid}}{\text{No. of Common Shares}}$$

ix. Dividend Payout Ratio

Dividend payout ratio indicates the percentage amount of dividend paid to shareholders out of earning per share, i.e. this ratio reflects at what percentage of net profit is to be distributed in terms of dividend and what percentage is to be retained in company as retained earning. This ratio is calculated by dividing the dividend per share by earning per share.

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

3.4.2 Statistical Tools

Besides financial ratio analysis, the present study has also undertaken the analysis of the data using measures of central tendency by the help of basic statistical tools too. Various statistical tools related to this study will be drawn out to make the conclusion more reliable according to the available financial data. For this following statistical tools are used.

A) Arithmetic Mean or Average

The average value is a single value with in the range of the data that is used to represent all of the values in the series. It is also called a measure of central value. Since average represents the entire data, its value lies somewhere in between the two average. Arithmetic mean of a given set of observation is their sum divided by the number of observation. In general X_1, X_2, \dots, X_n are the given number of observation, their arithmetic mean can be derived in this way.

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

Where,

\bar{X} = Arithmetic Average

$\sum x$ = summation for total values of the variable/observation

N = number of items

B) Standard Deviation

The standard deviation is the most important and widely used measure of studying dispersion. It is also known as root mean square. It is also denoted by the small Greek letter σ (sigma). The standard deviation measures the absolute dispersion or variability of a distribution. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series. A large standard deviation means just the opposite. Hence, standard deviation is extremely useful in judging the representative of the mean.

Symbolically,

$$\sigma = \frac{\sum d^2}{N}$$

Where,

σ = Standard Deviation

$\sum d^2$ = Sum of squares of the deviation measured from the arithmetic average

N = number of items

C) Coefficient of Variations

The coefficient of variations is the corresponding relative measure of dispersion, comparable across distribution which is defined as the ratio of the standard deviation to the mean expressed in resulting percentage. It is used in such problems where we want to compare the variability of two or more than two series. The series for which the coefficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable, or less homogeneous. On the other hand, the series for which coefficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogeneous. We can denote this by following formula.

$$C.V. = \frac{\sigma}{\bar{X}} \times 100$$

Where,

C.V. = Coefficient of variation

σ = Standard Deviation

\bar{X} = Arithmetic Average

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the analysis and interpretation of data following the research methodology dealt in the third chapter. In the course of analysis, data gathered from the various sources have been inserted in the tabular form according to their homogeneous nature. The various tables prepared for the analysis purpose have been shown in annexes. Using financial and statistical tools, the data have been analyzed. The result of the analysis has been interpreted keeping in mind the conventional standard with respect to ratio analysis, directives of NRB and other factors while using other tools. Moreover, financial performance of the sampled banks has specially been analyzed in cross sectional manner. Specially, the chapter includes and interpretation of the following:

-) Liquidity Ratio
-) Leverage Ratios
-) Efficiency Ratios
-) Profitability Ratios

4.1 Secondary Data Analysis

In this section, the financial data obtained from secondary source of Nepal Investment Bank Limited (NIBL), and Standard Chartered Bank Nepal Limited (SCBNL) are analyzed to present the comparative financial performance and to meet the objectives set out.

4.1.1 Liquidity Ratio

Every organization needs liquidity to meet the current liabilities. The organization should ensure that it does not suffer from the liquidity problem and should ensure that it does not have excess liquidity as well. The failure of the company to meet its obligation will result bad credit image and loss of creditors confidence.

4.1.1.1 Current Ratio

The current ratio is a measure of the firm's short-term solvency. Current ratio of 2:1 or more is generally considered satisfactory, which is not a strict rule. This conventional rule is based on the assumption that even if the current assets are decreased by half, the firm can easily meet its current obligations. Current assets are cash and those cash equivalent of a business which can be converted into cash within a short period, while current liabilities are those which are to be paid within a short period of time not exceeding a year.

Table 4.1

Current Ratio on Current Assets & Current Liabilities

(Ratio in Times)

Fiscal Year	NIBL			SCBNL		
	CA	CL	CR	CA	CL	CR
2004/05	21009.55	19799.97	1.06	21710.27	22068.03	1.07
2005/06	15720.09	14098.11	1.12	25675.03	24022.19	1.07
2006/07	26831.38	24912.72	1.08	28471.1	26080.34	1.09
2007/08	37903.22	35136.52	1.08	33218.52	30843.25	1.08
2008/09	51950.05	48052.96	1.08	39214.54	37535.00	1.04
Mean			1.08			1.07

S.D.			0.02			0.02
C.V.%			1.92			1.9

(Source: Appendix-I)

The Table 4.1 measures the current ratio of Nepal Investment Bank Limited and Standard Chartered Bank Nepal Limited. The current ratio of the Nepal Investment Bank Limited is in fluctuating trend, the ratio was 1.06:1 in the fiscal year 2004/05, which increased to 1.12:1 in the fiscal year 2005/06, and remained 1.08:1 for the fiscal year 2006/07, 2007/08 and 2008/09. In average, the bank maintained 1.08:1 as the current ratio. The standard deviation on such ratio was 0.02:1 and the coefficient of variation was 1.92%, which indicated higher consistency in the ratio.

Similarly, the ratio in Standard Chartered Bank Nepal Limited (SCBNL) has followed fluctuating trend in the last five years. The ratio ranged from 1.09:1 in the fiscal year 2006/07 to 1.07:1 in the two fiscal years 2004/05 and 2005/06. Besides these, the average ratio was 1.07:1 and the coefficient of variation was 1.9%, which indicated higher inconsistency.

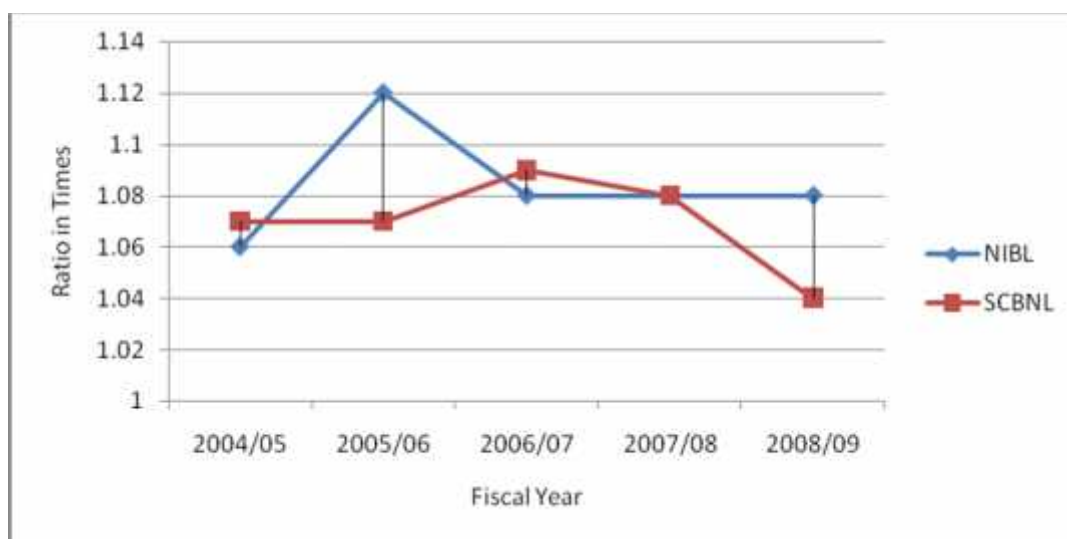
As per the nature of assets and liabilities of commercial banks, the ratio below the stated standard may be accepted as satisfactory, but it signifies that the banks have the poor liquidity position. The banks may face the problem of working capital if they need to pay the current liabilities at demand. Delay in payment of liabilities may lead the banks to lose their goodwill. They will have the problem in winning the confidence of current depositors and short-term lenders.

For commercial banks, it is very important to maintain a good balance between liquidity and profitability. If banks keep large portion of money under

its control it affects in profit because idle money earn nothings but other hand the bank should have enough cash balance with it to fulfill the requirement of short-term liabilities.

On the basis of current ratio, it can be concluded that the liquidity position of SCBNL and NIBL is in same situation, however, the current ratio of SCBNL is more consistent than the ratio maintained by NIBL.

Figure 4.1
Current Ratio



4.1.1.2 Cash and Bank Balance to Total Deposit Ratio

Adequate liquidity is also must in the banking sector in order to protect its solvency and to honor its short-term obligations and liabilities. Failing to do so, banks might have gone for liquidation and hence to protect the creditor's interest Central bank (NRB) has directed all the banks to maintain the adequate CRR by the provisioning of 5.5 percent of total deposits.

Table 4.2
Cash and Bank Balance to Total Deposit Ratio

(Ratio in %)

Fiscal	NIBL	SCBNL

Year	CBB	TD	Ratio	CBB	TD	Ratio
2004/05	1340.48	14254.57	9.40	1111.12	19363.47	5.74
2005/06	2336.52	18927.31	12.34	1276.24	23061.03	5.53
2006/07	2441.51	24488.86	9.97	2021.02	24647.02	8.20
2007/08	3754.94	34451.73	10.90	2050.24	29744.00	6.89
2008/09	7918.00	46697.9	16.96	3173.3	35871.8	8.75
Mean			11.91			7.02
S.D.			3.03			1.44
C.V.%			25.44			20.51

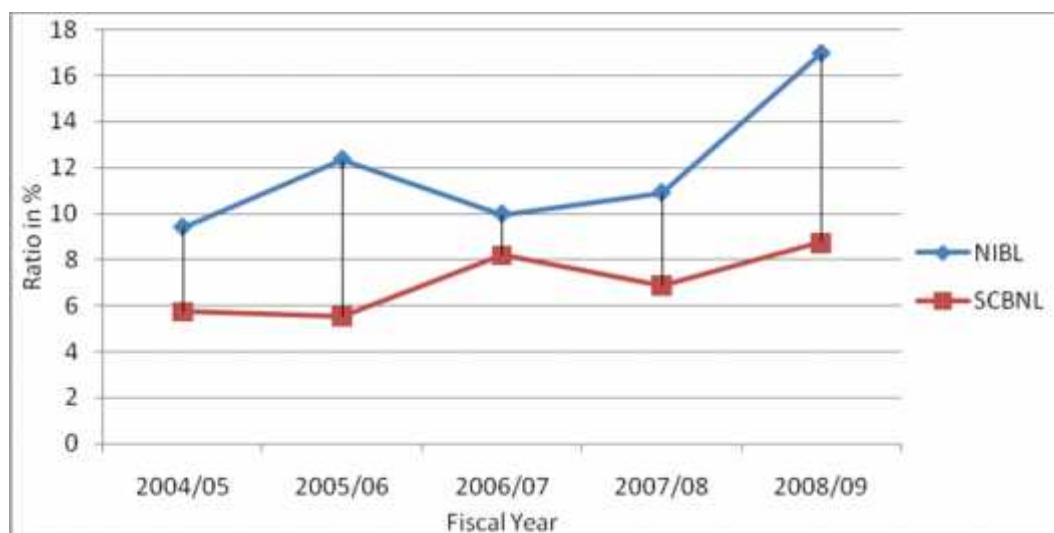
(Source: Appendix-I)

The Table 4.2 showed the cash and bank balance to total deposit ratio of two sampled banks. The table showed that the ratio in NIBL followed fluctuating trend in the five years period taken for research. Initially the ratio was 9.40% in the fiscal year 2004/05, which ranged from 12.34% in the fiscal year 2005/06. In average, NIBL kept 11.91% of the total deposit as cash.

Likewise, the cash and bank balance to total deposit ratio of SCBNL fluctuated during the five years period. The ratio was 5.74% in the fiscal year 2004/05, which decreased to 5.53% in the fiscal year 2005/06, then increased to 8.20% in the fiscal year 2006/07 then again decreased to 6.89% in the fiscal year 2007/08 and finally increased to 8.75% in the fiscal year 2008/09. In average, the cash and bank balance occupied 7.02% of the total deposit collected by the bank.

Comparing two banks on the basis of cash and bank balance to total deposit ratio, it can be considered that SCBNL has the policy of keeping lower cash reserve, whereas NIBL has the policy of keeping higher cash reserve to meet the daily obligation. Hence, NIBL has good liquidity position than SCBNL.

Figure 4.2
Cash and Bank Balance to Total Deposit Ratio



4.1.1.3 Cash and Bank Balance to Total Assets Ratio

This ratio measures the coverage of cash and bank balance in total assets of the company. Neither too much cash nor too less cash is considered good. Keeping higher amount cash obviously represents good liquidity but in contrast decreases profitability.

Table 4.3
Cash and Bank Balance to Total Assets Ratio

(Ratio in %)

Fiscal Year	NIBL			SCBNL		
	CBB	TA	Ratio	CBB	TA	Ratio

2004/05	1340.48	21330.14	6.28	1111.12	21781.68	5.10
2005/06	2336.52	16063.54	14.55	1276.24	25776.33	4.95
2006/07	2441.51	27590.84	8.85	2021.02	28596.69	7.07
2007/08	3754.94	38873.31	9.66	2050.24	33335.79	6.15
2008/09	7918.00	53010.80	14.94	3137.30	40587.47	7.73
Mean			10.86			6.2
S.D.			3.77			1.21
C.V.%			34.71			19.52

(Source: Appendix-I)

The Table 4.3 showed that the cash and bank balance of NIBL for the periods taken for research was in fluctuating trend. The ratio was 6.28% in the fiscal year 2004/05, which increased to 14.55 in the fiscal years 2005/06, and then decreased to 8.85 in the fiscal years 2006/07, again decreased to 9.66% in the fiscal year 2007/08 and was finally increased to 14.94% in the fiscal year 2008/09. In average, the cash and bank balance occupied 10.86% of the total assets for the five years period. This indicated that the total assets of bank were composed of high liquid assets, i.e. cash. However, the coefficient of variation of 34.71% indicated that the ratio was high inconsistency in the ratio, which was also verified by the table.

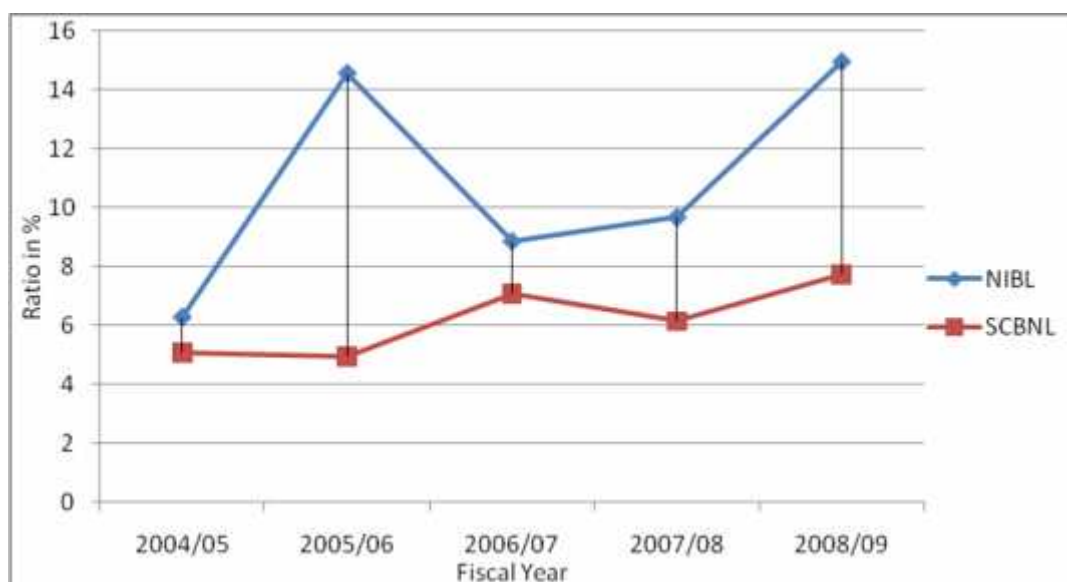
Similarly, the cash and bank balance to total assets ratio of SCBNL fluctuated during the entire period. The ratio ranged from 7.73% in the fiscal year 2008/09 to 5.10% in the fiscal year 2004/05. Likewise, the ratio was 6.2% of the total assets in average, which indicated that the company might have been in problem in case of high cash requirement. The coefficient of variation on such ratio was 19.52%, which also indicated higher inconsistency in the

ratio. Thus, the wide difference in the ratio among the five years period indicated that the company had no policy of keeping the cash reserve with consideration of total assets.

Comparing two banks on the basis of average cash and bank balance to total assets, it can be considered that the cash occupies more percentage of total assets in NIBL than in SCBNL and hence NIBL's liquidity position is better than SCBNL's liquidity position on the basis of this ratio. Also, the ratio was more uniform in NIBL than in SCBNL.

Figure 4.3

Cash and Bank Balance to Total Assets Ratio



4.1.1.4 Fixed Deposit to Total Deposit Ratio

The higher the proportion of fixed deposits, the lower the proportion of current, saving or short-term deposit in the total deposit. This situation shows higher short-term liquidity position of the bank.

Table 4.4

Fixed Deposit to Total Deposit Ratio

(Ratio in %)

Fiscal Year	NIBL			SCBNL		
	FD	TD	Ratio	FD	TD	Ratio
2004/05	3212.27	14254.57	22.54	1416.38	19363.47	7.31
2005/06	5412.97	18927.31	28.60	2136.31	23061.03	9.26

2006/07	7516.69	24488.86	30.69	3196.49	24647.02	12.97
2007/08	7944.23	34451.73	23.06	3301.01	29744.00	11.10
2008/09	11633.4	46697.9	24.91	7101.70	35871.80	19.80
Mean			25.96			12.09
S.D.			3.55			4.80
C.V.%			13.67			39.70

(Source: Appendix-I)

The Table 4.4 showed the ratio of fixed deposit to total deposit of the sampled banks. The table showed that the ratio in NIBL increased for the first three years, i.e. from 22.54% in the fiscal year 2004/05 to 30.69% in the fiscal year 2006/07, and then decreased to 23.06% in the fiscal year 2007/08 and finally increased to 24.91% in the fiscal year 2008/09. In average, 25.96% of the total deposit of NIBL was represented by the fixed deposit. And the coefficient of variation on such ratio was 18.04%, indicating inconsistency in the ratio.

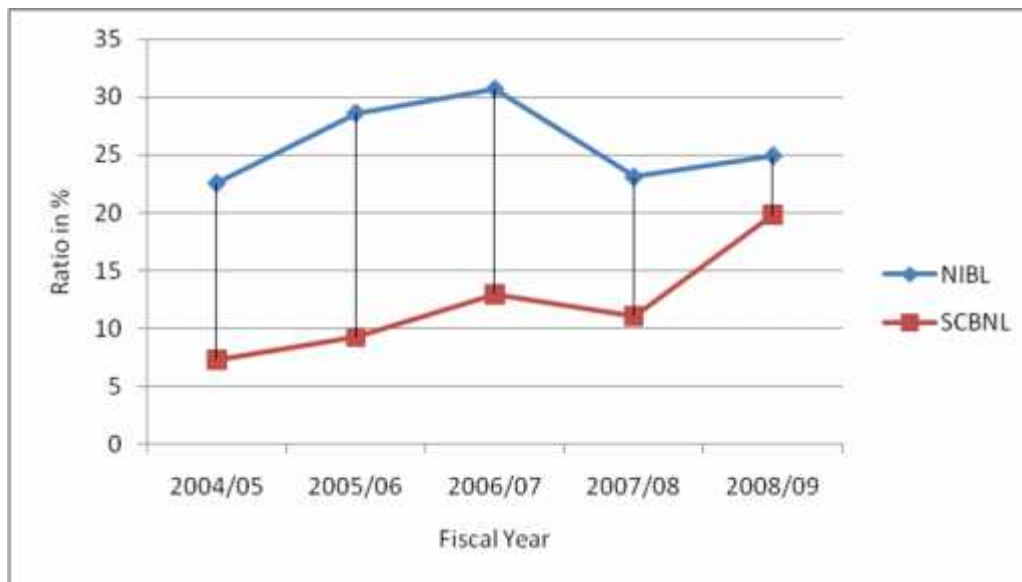
However the ratio was in fluctuating trend in case of SCBNL. The fixed deposit covered 7.31 of the total deposit in the fiscal year 2004/05, which increased to 9.26% and 12.97% in the fiscal year 2005/06 and 2006/07 respectively and then again decreased to 11.10% in the fiscal year 2007/08. But finally increased to 19.80% in the fiscal year 2008/09. In average, 12.09% of the total deposit of SCBNL had been represented by the fixed deposit.

Comparing two banks, it can be concluded that NIBL remained more successful than SCBNL in maintaining higher proportion of fixed deposit to

total deposit and hence mobilized higher portion of total deposit in investment.

Figure 4.4

Fixed Deposit to Total Deposit Ratio



4.1.1.5 Net Working Capital to Total Assets Ratio

This ratio reflects the coverage of net working capital in comparison to the total assets. The higher the ratio indicates higher liquidity availability to meet the long term debt of the company. The net working capital to total assets ratio of NIBL and SCBNL are presented in the Table 4.5.

Table 4.5

Net Working Capital to Total Assets Ratio

(Ratio in %)

Fiscal Year	NIBL			SCBNL		
	NWC	TA	Ratio	NWC	TA	Ratio

2004/05	1209.58	21330.14	5.67	1538.55	21781.68	7.06
2005/06	1621.98	16063.54	10.10	1652.84	25776.33	6.41
2006/07	1918.66	27590.84	6.95	2390.76	28596.69	8.36
2007/08	2766.70	38873.31	7.12	2375.27	33335.79	7.13
2008/09	3897.09	53010.80	7.35	1679.54	40587.47	4.14
Mean			7.44			6.62
S.D.			1.62			1.56
C.V.%			21.77			23.56

(Source: Appendix-I)

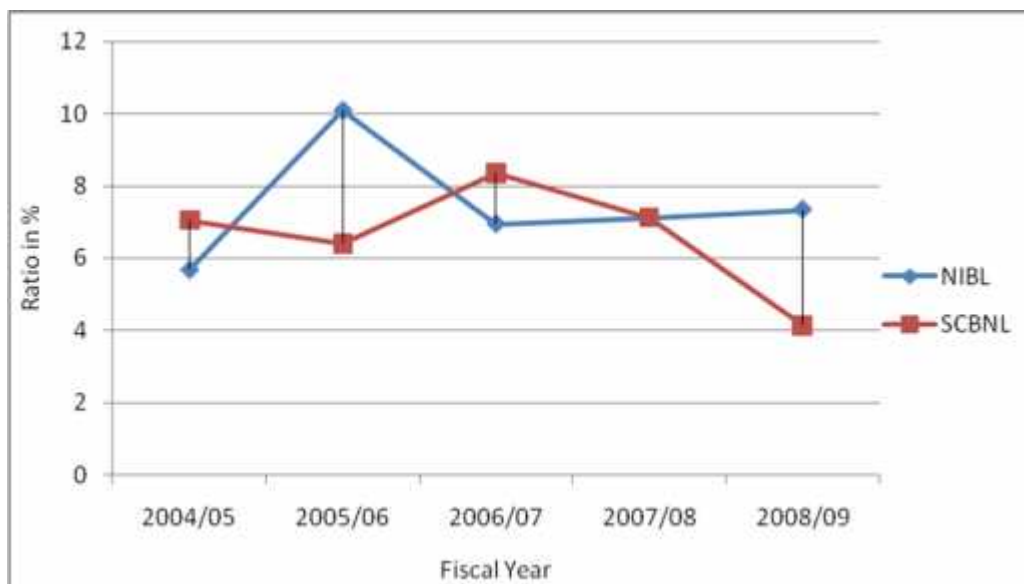
The table 4.5 showed that the net working capital to total assets ratio of NIBL fluctuated during the five years period. The ratio was 5.67% in the base year, 2004/05, which then ranged from 10.10% in the fiscal year 2005/06 to 6.95% in the fiscal year 2006/07. In average the net working capital of NIBL was 7.44% of the total assets. And the coefficient of variation was 21.77%, which indicated higher inconsistency.

Similarly, in case of SCBNL, the ratio was found to be in fluctuating trend in the five year periods. The ratio was 7.06%, 6.41%, 8.36% , 7.13% and 4.14% in the fiscal year 2004/05, 2005/06, 2006/07 , 2007/08 and 2008/09 respectively. In average, the net working capital was 6.62% of the total assets, which indicated that SCBNL had low net working capital for its investment and other long term liabilities to be met.

Comparing NIBL with SCBNL in term of net working capital to total assets, it can be concluded that the liquidity position of NIBL (7.44%) was better than that of SCBNL (6.62%). However, the ratio was more inconsistent in NIBL (21.77%) than that in SCBNL (23.56%).

Figure 4.5

Net Working Capital to Total Assets Ratio



4.1.2 Leverage Ratios

An organization should have strong short-term as well as long-term financial position. The long-term financial position of the bank is judged by the leverage or capital structure ratio analysis. It measures the extent of the bank's total debt burden. It reflects the bank's ability to meet its short-term as well as long-term obligations. The second objective of the study is the measurement of capital structure through leverage ratio which is given below.

4.1.2.1 Debt to Total Capital Ratio

The debt to capital ratio measures the firm's capital structure. The firm should finance its total assets by appropriately mixing the debt capital and equity capital. Neither the firm should follow the aggressive policy by financing major portions by debt capital and nor the firm should follow the conservative policy by financing major portion by equity capital. It would be better if the firm adopts moderate policy.

Table 4.6**Debt to Total Capital Ratio**

(Ratio in Times)

Fiscal Year	NIBL			SCBNL		
	Debt	CE	Ratio	Debt	CE	Ratio
2004/05	350.00	1530.17	0.23	27.55	1609.97	0.02
2005/06	550.00	1965.43	0.28	0.00	1754.14	0.00
2006/07	800.00	2678.12	0.30	400.00	2516.35	0.16
2007/08	1050.00	3736.79	0.28	0.00	2492.54	0.00
2008/09	1050.00	4957.84	0.21	0.00	3052.47	0.00
Mean			0.26			0.04
S.D.			0.04			0.08
C.V.%			15.38			200

(Source: Appendix-I)

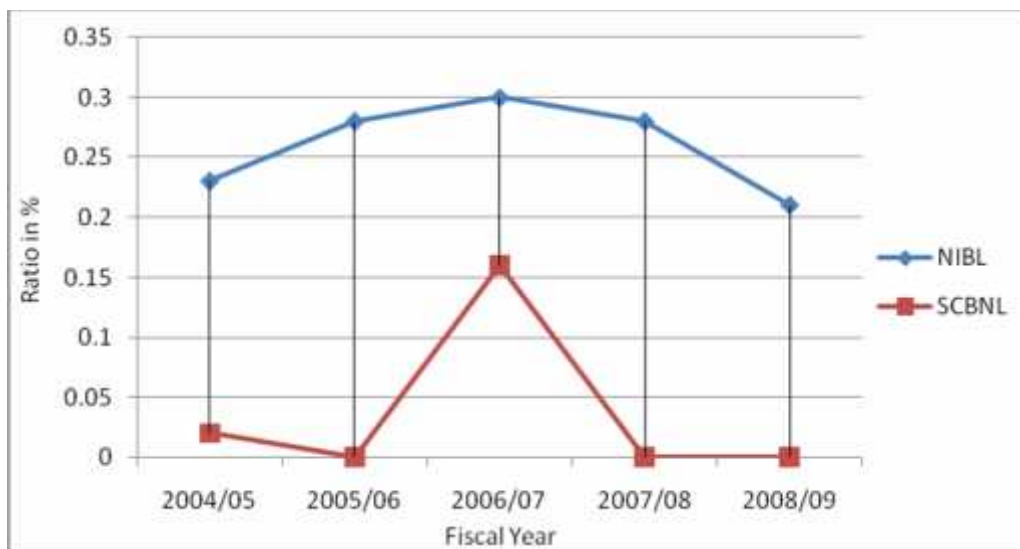
The table 4.6 showed that the debt to total capital ratio of NIBL was in fluctuating trend during the periods taken for study. The ratio was highest, 0.30 times in the fiscal year 2006/07 and lowest, 0.21 times, in the fiscal year 2008/09. In average the debt to total capital employed ratio of NIBL was 0.26 times, which indicated that the bank followed the conservative policy of financing its total assets with internal finance rather than outside finance. The coefficient of variation i.e. 15.38% also indicated quite uniformity in the ratio.

Similarly, the ratio in SCBNL also fluctuated during the periods. The ratio was highest, 0.16 times, in the fiscal year 2006/07 and lowest, 0.00 times, in the fiscal year 2005/06, 2007/08 and 2008/09 when SCBNL used no long term debt to finance its total assets. In average the ratio was 0.04 times, which indicated that SCBNL followed conservative policy of financing its requirement mostly through equity financing. Also, the coefficient of variation on such ratio was 200% which indicated higher inconsistency.

Comparing two banks, it can be concluded that both NIBL and SCBNL followed conservative policy to finance their assets. However, NIBL mobilized more long term debt than SCBNL. Also, the ratio was more consistent in NIBL (15.38%) than in SCBNL (200%).

Figure 4.6

Debt to Total Capital Ratio



4.1.2.2 Debt-Equity Ratio

A debt-equity ratio measures the relative importance of debt in the capital structure. Generally very high debt to equity ratio is unfavorable to the business. Excess debt allows the third party to have legal claims on the company. Similarly, a very low debt to equity ratio is also unfavorable from the shareholder's point of view as it affects their profitability.

Debt refers to short-term loan and long term loan, while equity refers to share capital, reserves and surplus.

Table 4.7**Debt-Equity Ratio**

(Ratio in Times)

Fiscal Year	NIBL			SCBNL		
	LTD	SE	Ratio	LTD	SE	Ratio
2004/05	350	1180.17	0.30	27.55	1582.42	0.02
2005/06	550	1415.43	0.39	0.00	1754.14	0.00
2006/07	800	1878.12	0.43	400.00	2116.35	0.19
2007/08	1050	2686.79	0.39	0.00	2492.54	0.00
2008/09	1050	3907.84	0.27	0.00	3052.47	0.00
Mean			0.36			0.04
S.D.			0.07			0.08
C.V.%			19.44			200

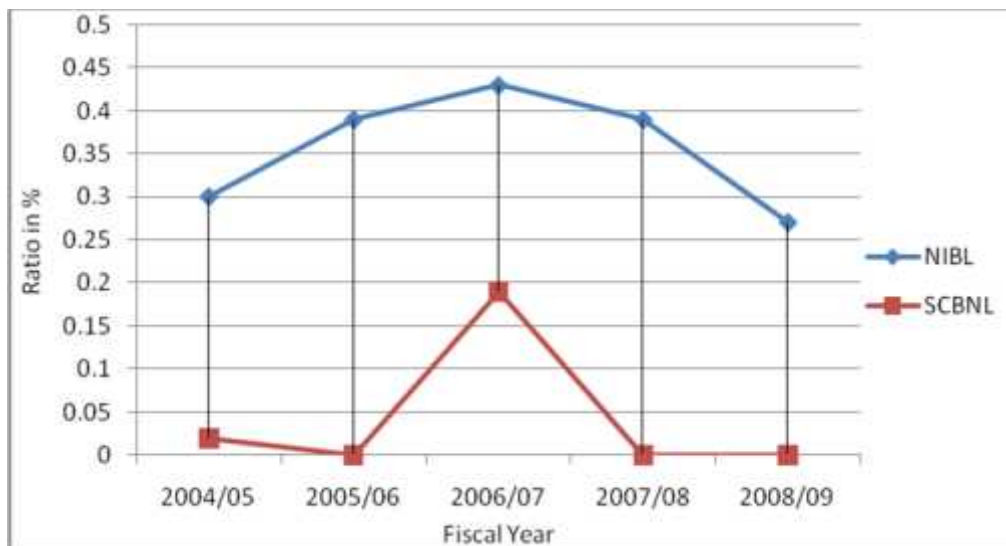
(Source: Appendix-I)

The table 4.7 showed that debt-equity ratio of NIBL was 0.30 times, 0.39 times, 0.43 times and 0.39 times in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 respectively. The ratio followed fluctuating trend in the entire period. However, both the debt capital and equity capital of NIBL followed almost increasing trend. But in the fiscal year it decreases by 0.27 times. The average debt-equity ratio of 0.36 times indicates that NIBL used only 36% of the shareholder's equity to finance the assets. The coefficient of variation on such ratio was 19.44%.

Likewise, the debt-equity ratio of SCBNL was 0.02 times, 0.02 times, 0.00 times (no long term debt financing), 0.19 times , 0.00 times (no long term debt financing) and 0.00 times (no long term debt financing) in the fiscal year 2004/05, 2005/06, 2006/07 , 2007/08 and 2008/09 respectively. The long term debt financing in three years was nil in three fiscal years. However, the average debt-equity ratio of SCBNL was 0.04 times only, and the coefficient of variation on such ratio was 200%.

Comparing NIBL with SCBNL on the ground of debt-equity ratio, it can be concluded that total assets of NIBL was more risky than that of SCBNL, as NIBL uses higher portion of debt capital to finance the total assets than SCBNL does.

Figure 4.7
Debt-Equity Ratio



4.1.2.3 Capital Adequacy Ratio

Capital adequacy ratio shows whether commercial banks are maintaining sufficient amount of capital fund or shareholder's fund in comparison to the

total amount of their deposits. According to capital adequacy ratio principles, safety and stability of the fragile financial system ultimately rest upon the confidence of the depositors and creditors.

Table 4.8
Capital Adequacy Ratio

(Ratio in %)

Fiscal Year	NRB's Requirement	NIBL		SCBNL	
		CAR	Surplus	CAR	Surplus
2004/05	11.00	11.58	0.58	16.06	5.06
2005/06	11.00	11.97	0.97	14.93	3.93
2006/07	11.00	12.17	1.17	15.71	4.71
2007/08	11.00	11.28	0.28	13.15	3.00
2008/09	10.00	11.24	1.24	14.70	4.7
Mean		11.65	0.79	14.91	4.28
S.D.		0.41	0.41	1.13	0.83
C.V.%		3.52	51.90	7.58	19.39

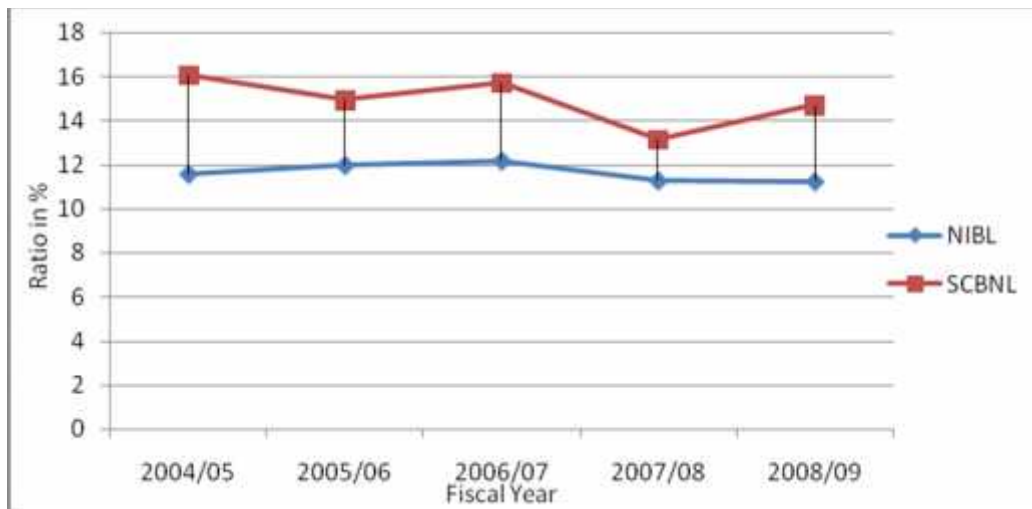
(Source: Financial Reports of NIBL & SCBNL)

Table 4.8 showed Total Capital Adequacy Ratio of NIBL and SCBNL, for the study period. The ratio of NIBL was 11.58%, 11.97%, 12.17% , 11.28% and 11.24%.SCBNL was 16.06%, 14.93%, 15.71%, 13.15% and 14.70%for the fiscal year 2004/05, 2005/6, 2006/07 , 2007/08 and 2008/09 respectively. The NRB standard on the Total Capital Adequacy for the commercial banks is 11% for the said period. But in the fiscal year 2008/09 NRB'S requirement was 10% The data revealed that the ratio maintained by sampled commercial banks was more than the NRB standards on the study period. The table also disclosed mean CAR of NIBL and SCBNL 11.65 and 14.91% respectively. It also

revealed that C.V. of NIBL and SCBNL was 3.52 and 7.58% respectively. Based on mean CAR, it can be concluded that the capital base of SCBNL was stronger than that of NIBL. However, the value of C.V. concluded that there was greater variability in CAR of NIBL than that in SCBNL.

Figure 4.8

Capital Adequacy Ratio



For the third objective of the study, the efficiency of NIBL and SCBNL in utilizing deposits to generate revenue is calculated through the different ratios

4.1.3 Efficiency Ratios

Efficiency ratio is employed to measure the efficiency which the organization manages and utilize its resources. This ratio indicates the efficiency, speed and rapidity with which the assets have been used or converted into income.

4.1.3.1 Interest Expenses to Total Deposit Ratio

This ratio is analyzed to find out how much the banks were successful to accept deposit at cheaper cost. Generally, the ratio with decreasing trend is preferred.

Table 4.9

Interest Expenses to Total Deposit Ratio

(Ratio in %)

Fiscal Year	NIBL			SCBNL		
	IED	TD	Ratio	IED	TD	Ratio
2004/05	328.32	14254.57	2.30	246.53	19363.47	1.27
2005/06	462.66	18927.31	2.44	299.92	23061.03	1.30
2006/07	645.03	24488.86	2.63	406.20	24647.02	1.65
2007/08	916.37	34451.73	2.66	449.09	29744.00	1.51
2008/09	159.67	46697.9	3.42	520.76	35871.80	1.45
Mean			2.69			1.44
S.D.			0.43			0.16
C.V.%			15.99			11.11

(Source: Appendix – I)

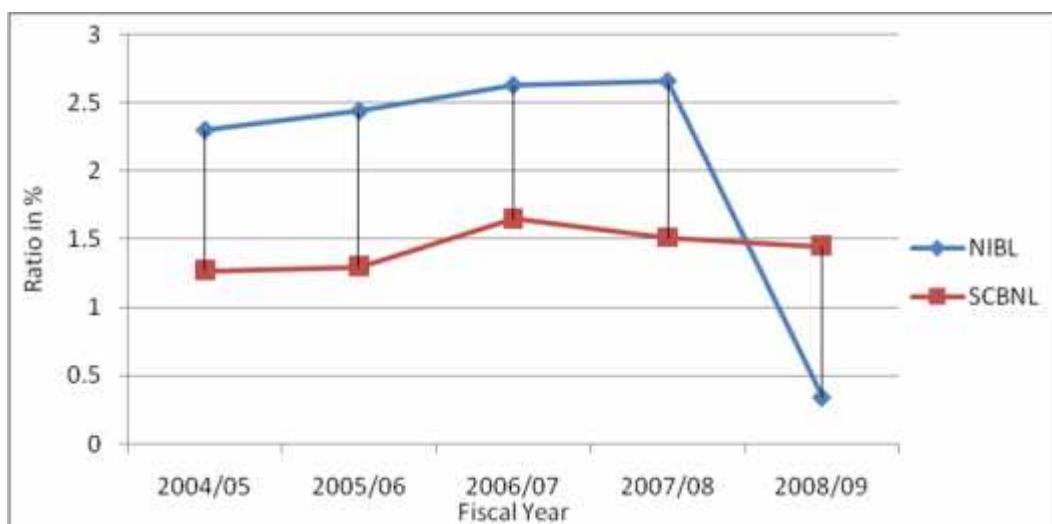
The table showed the ratio of interest expenses, which is incurred for deposit, to the total deposit. The table showed that the ratio in all two banks fluctuated during the entire period. The ratio in NIBL was 2.30%, 2.44%, 2.63% ,2.66% and 3.42% in the fiscal year 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. NIBL incurred 2.69% of the total deposit as interest expenses in average. Further, the coefficient of variation of 15.99% indicated higher consistency in the ratio.

In SCBNL the ratio increased for the first three years, i.e. from 1.27% in the fiscal year 2004/05 to 1.65% in the fiscal year 2006/07, slightly decreased to 1.51% in the fiscal year 2007/08 and to 1.45% in the fiscal year 2008/09. In average, SCBNL incurred 1.44% of the total deposit as interest expenses. The coefficient of variation on such ratio was 11.11%.

Comparing two banks on the basis of average interest expenses to total deposit ratio, it can be concluded that SCBNL has more control over cost and thus remained more successful to reduce interest expenses. However, it would be worthwhile if NIBL promotes the non-interest bearing and lower interest bearing account and thus reduces the interest expenses, and eventually increases the net profit.

Figure 4.9

Interest Expenses to Total Deposit Ratio



4.1.3.2 Loan and Advances to Total Deposit Ratio

This ratio measures the banks' ability to mobilize the depositor's fund to earn profit by providing loans and advances. Loan and advances refer to total sum of loan, advances, credit, overdraft, local and foreign bills purchased and discounted. Total deposits include total outsiders' fund or all kinds of deposits. A high ratio indicates higher efficiency to utilize depositor's fund and low ratio indicates bank's inability to efficiently utilize the depositor's fund.

Table 4.10**Loan and Advances to Total Deposit Ratio**

(Ratio in %)

Fiscal Year	NIBL			SCBNL		
	LA	TD	Ratio	LA	TD	Ratio
2004/05	10126.06	14254.57	71.04	8143.21	19363.47	42.05
2005/06	12776.21	18927.31	67.50	8935.42	23061.03	38.75
2006/07	17286.43	24488.9	70.59	10502.64	24647.02	42.61
2007/08	26996.65	34451.8	78.36	13718.6	29744.00	46.12
2008/09	36241.21	46697.9	77.61	13679.76	35871.8	38.14
Mean			73.02			41.53
S.D.			4.74			3.23
C.V.%			6.49			7.78

(Source: Appendix – I)

The table demonstrated the loan and advances to total deposit of the selected banks, viz. NIBL and SCBNL. The table showed that the ratio of loan and advances to total deposit of was NIBL found to be in increasing trend except in the fiscal year 2005/06 and 2008/09. The ratio was 71.04% in the fiscal year 2004/05 and increased to 78.36% in the fiscal year 2007/08. In average, 73.02% of the total deposit of NIBL was utilized in providing loans and advances and the coefficient of variation on such ratio was 6.49% only.

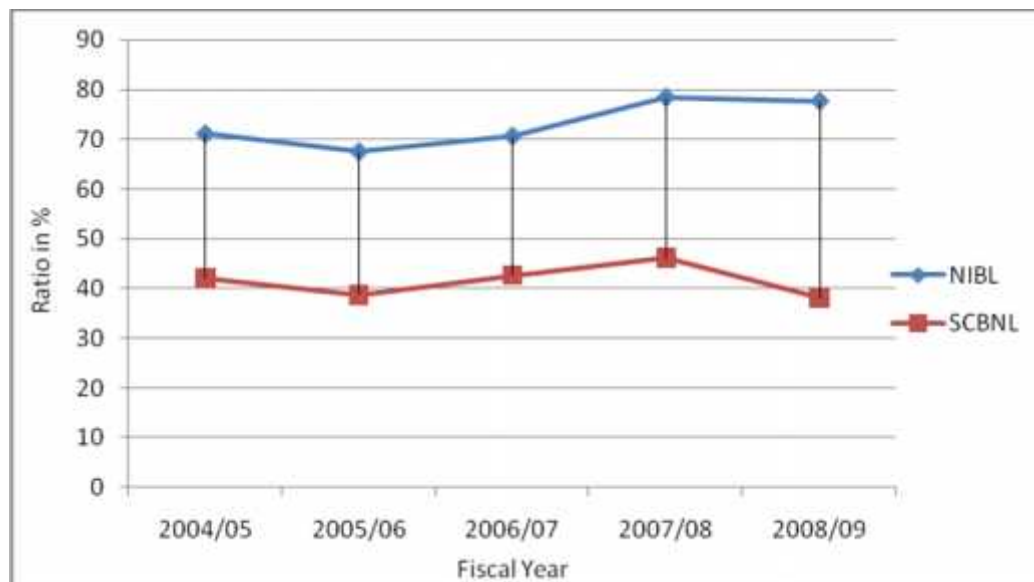
Similarly, the ratio in SCBNL is in fluctuating trend .It was 42.05% in the fiscal year 2004/05 which decreases to 38.75% in the fiscal year 2005/06. Later

it increases for two fiscal years i.e. 42.61% in the fiscal year 2006/07 and 46.12% in the fiscal year 2007/08 but again it decreases to 38.14% in the fiscal year 2008/09. In average, SCBNL mobilized 41.53% of the total deposit in disbursing loans and advances.

Comparing two banks, it can be concluded that NIBL followed aggressive policy and SCBNL followed conservative policy in mobilizing the total deposit in loans and advances.

Figure 4.10

Loan and Advances to Total Deposit Ratio



4.1.3.3 Loan and Advances to Fixed Deposit Ratio

This ratio indicates, how much of loans and advances has been granted against fixed deposit. Loan and advance includes total loans, advance, cash credit, overdraft etc. Fixed deposit is that kind of deposit, which has fixed time period to maturity. A high ratio indicates more efficiency in utilizing their fixed deposit and vice-versa.

Table 4.11

Loan and Advances to Fixed Deposit Ratio

(Ratio in Times)

Fiscal Year	NIBL			SCBNL		
	LA	FD	Ratio	LA	FD	Ratio
2004/05	10126.06	3212.27	3.15	8143.21	1416.38	5.75
2005/06	12776.21	5412.97	2.36	8935.42	2136.31	4.18
2006/07	17286.43	7516.69	2.30	10502.64	3196.49	3.29
2007/08	26996.65	7944.23	3.40	13718.6	3301.01	4.16
2008/09	36241.21	11633.4	3.12	13679.76	7101.70	1.93
Mean			2.87			3.86
S.D.			0.50			1.40
C.V.%			17.42			36.27

(Source: Appendix-I)

The Table 4.11 showed the loans and advances to fixed deposit ratio of NIBL was 3.15 times in the base year 2004/05, which ranged to 2.30 times in the fiscal year 2006/07 to 3.40 times and 3.12 times in the fiscal year 2007/08 and 2008/09 respectively. In average, almost 35% (1/2.87) of the total loans and advances disbursed was financed through fixed deposit. The coefficient of variation of 17.42% indicated inconsistency in the ratio.

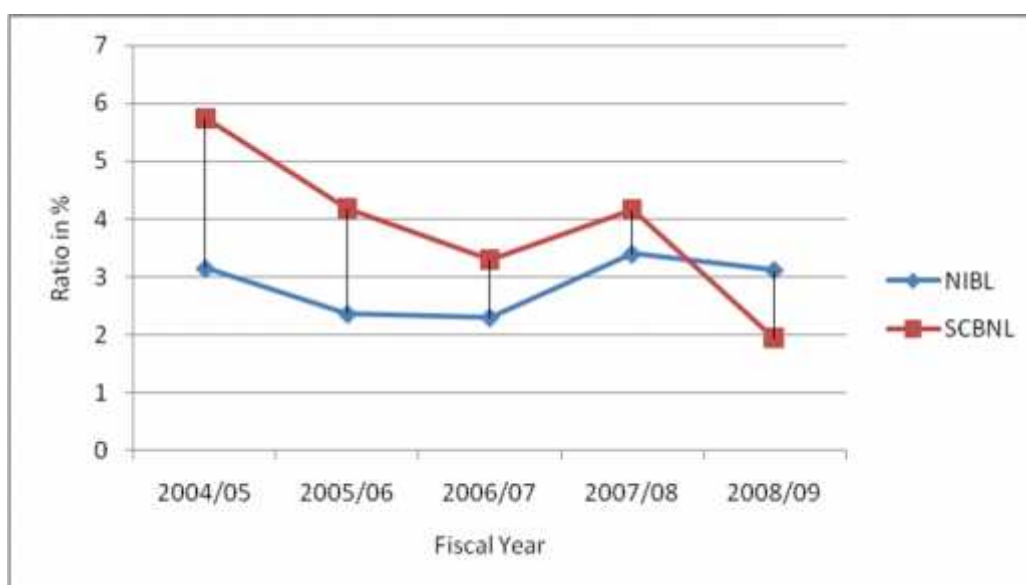
Similarly, the ratio in SCBNL fluctuated in the five consecutive years. The loans and advances of SCBNL was 5.75 times, 4.18 times, 3.29 times, 4.16 and times greater than the fixed deposit amount collected in the fiscal year 2004/05, 2005/06, 2006/07 and 2007/08 respectively. But it was only 1.93 times in the fiscal year 2008/09. In average, SCBNL disbursed 3.86 times of the

fixed deposit as loans and advances, which implied that almost 23% (1/3.86) of the total loans and advances was covered by fixed deposit.

Comparing two banks, it can be concluded that SCBNL is more efficient in utilizing the fixed deposit than NIBL, as the ratio in SCBNL was highest (3.86 times) than that in NIBL (2.87 times).

Figure 4.11

Loan and Advances to Fixed Deposit Ratio



4.1.3.4 Loan and Advances to Total Assets Ratio

Loan and advances to total assets ratio reflects the extent to which the bank is successful in mobilizing its total assets on loan and advance for the purpose of income generating. It is calculated by dividing loan and advances by total assets. A high ratio is more desirable to the bank and indicates more successful to mobilize the total assets.

Table 4.12**Loan and Advances to Total Assets Ratio**

(Ratio in %)

Fiscal Year	NIBL			SCBNL		
	LA	TA	Ratio	LA	TA	Ratio
2004/05	10126.06	21330.14	47.47	8143.21	21781.68	37.39
2005/06	12776.21	16063.54	79.54	8935.42	25776.33	34.67
2006/07	17286.43	27590.84	62.65	10502.64	28596.69	36.73
2007/08	26996.65	38873.31	69.45	13718.6	33335.79	41.15
2008/09	36241.21	53010.80	68.37	13679.76	40587.47	33.70
Mean			65.50			36.73
S.D.			11.77			2.89
C.V.%			17.97			7.87

(Source: Appendix-I)

The Table 4.12 showed that the loans and advances to total assets ratio of NIBL, was found to be in fluctuating trend. The loans and advances to total deposit ratio ranged from 47.47% in the fiscal year 2004/05 to 79.54% in the fiscal year 2005/06. In average, 65.50% of the total assets of NIBL was covered by loans and advances amount. The coefficient of variation on such ratio was only 17.97%, indicating inconsistency in the ratio.

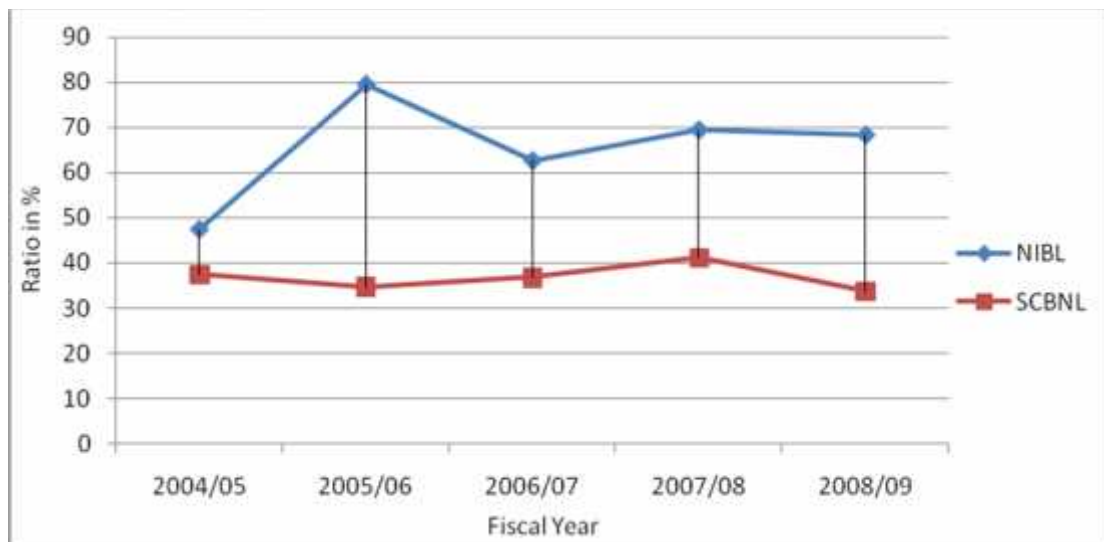
Similarly, the ratio in SCBNL fluctuated in the study period. The ratio was 37.39% initially in the fiscal year 2004/05, which decreased to 34.67% in the

fiscal year 2005/06, then increased to 36.73% and 41.15% in the fiscal year 2006/07 and 2007/08 respectively, and again decreased to 33.70% in the fiscal year 2008/09 . In average, the loans and advances occupied only 36.73%, i.e. almost one-third, of the total assets of SCBNL. The average ratio directly indicated that the loans and advances only occupied the minor place in total assets.

Comparing two banks, it can be concluded that NIBL remained more successful than SCBNL in mobilizing total assets in loans and advances. However, the higher ratio also indicated that the total assets of NIBL was more risky than that of SCBNL.

Figure 4.12

Loan and Advances to Total Assets Ratio



For the fourth objective which is measurement of financial achievement of banks in terms of profitability is given below:

4.1.4 Profitability Ratios

Profitability ratios are the measure of firm's overall efficiency. Generally, profitability ratios can be calculated in term of the company's sales, investments and earnings and dividends.

4.1.4.1 Net Profit Margin

This ratio measures the overall profitability of a business by establishing the relationship between net profit and net sales. Higher the ratio is considered better. The net profit margin of NIBL and SCBNL is presented in the Table 4.13.

Table 4.13

Net Profit Margin

(Ratio in %)

Fiscal Year	NIBL	SCBNL
2004/05	20.26	34.01
2005/06	23.99	37.06
2006/07	25.07	34.55
2007/08	25.33	34.94
2008/09	22.97	36.84
Mean	23.52	35.48
S.D.	2.05	1.38
C.V.%	8.72	3.89

(Source: Financial Reports of NIBL & SCBNL)

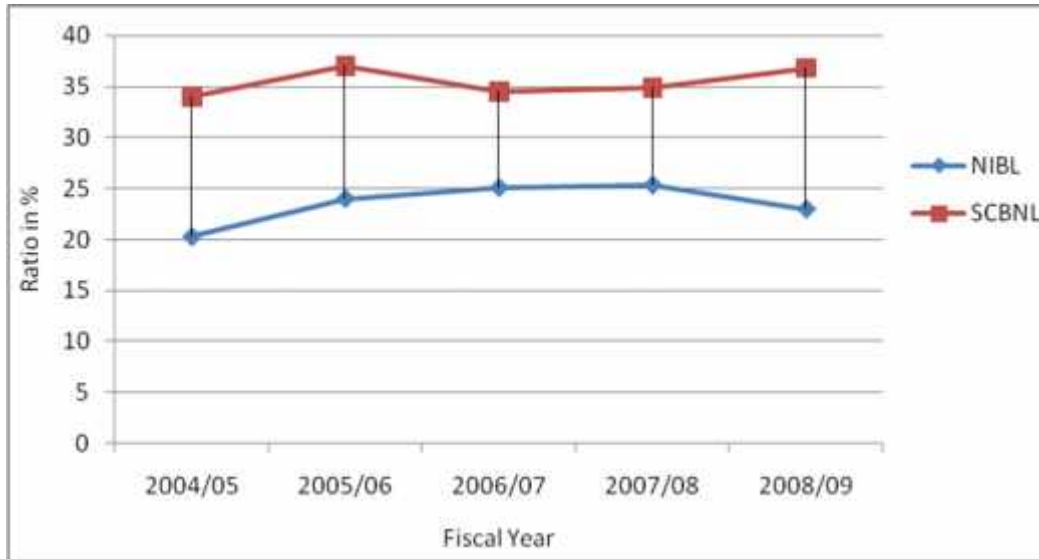
The table 4.13 revealed that the net profit margin of NIBL was in increasing trend in the four years period. The net profit margin was 20.26% in the fiscal year 2004/05 which finally reached to 25.33% in the fiscal year 2007/08 but in the fiscal year 2008/09 it decreases to 22.97%. In average the net profit margin of NIBL was 23.52%. The increasing trend of net profit margin enlightened higher achievement of NIBL in terms of profitability. The coefficient of variation on the ratio was 8.72%.

However, the net profit margin of SCBNL followed fluctuating trend in the five year periods. The net profit margin of SCBNL in the fiscal year 2004/05, 2005/06, 2006/07 , 2007/08 and 2008/09 was 34.01%, 37.06%, 34.55% , 34.94% and 36.84% respectively. In average the net profit margin was 35.48%, which elaborated that SCBNL earned Rs. 35.48 net profit from per Rs. 100 interest income.

Comparing SCBNL with NIBL, it can be concluded that SCBNL was stronger than NIBL in terms of profitability. Both the net profit margin and net profit earned of SCBNL was greater than those of NIBL.

Figure 4.13

Net Profit Margin



4.1.4.2 Return on Total Assets

The return on Total Assets (ROA) measures the relationship between the total assets and net profit after tax. It measures the productivity of the assets and determines how effectively the total assets have been used by the company.

Table 4.14

Return on Total Assets

(Ratio in %)

Fiscal Year	NIBL			SCBNL		
	NP	TA	Ratio	NP	TA	Ratio
2004/05	232.15	21330.14	1.09	536.24	21781.68	2.46
205/06	350.54	16063.54	2.18	658.76	25776.33	2.56
2006/07	501.40	27590.84	1.82	691.67	28596.69	2.42
2007/08	696.73	38873.31	1.79	818.92	33335.79	2.46
2008/09	900.62	53010.80	1.70	1025.11	40587.47	2.53

Mean			1.72			2.49
S.D.			0.39			0.06
C.V.%			22.67			2.41

(Source: Appendix-I)

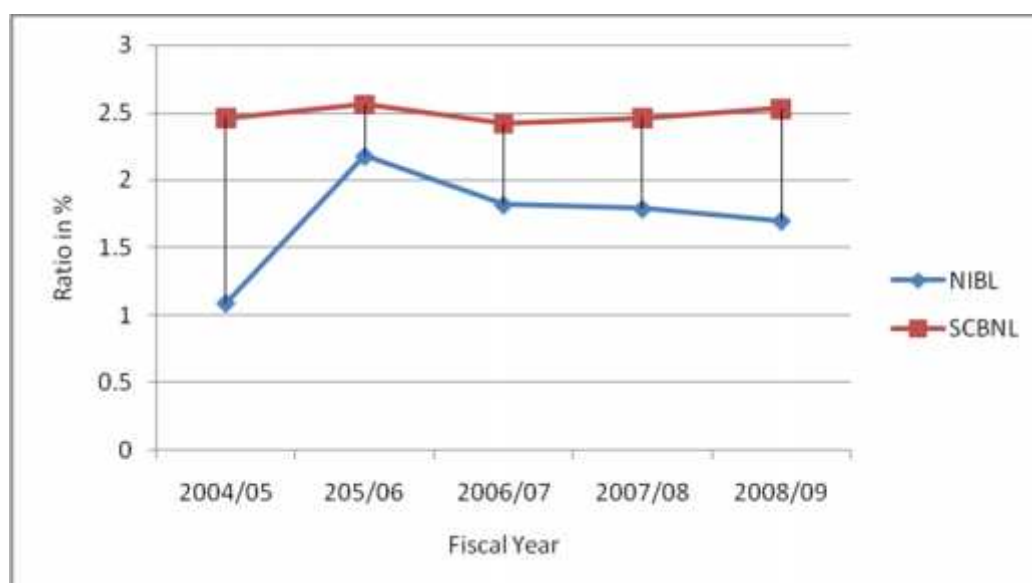
The table 4.14 revealed that the return on total assets of NIBL was 1.09% in the fiscal year 2004/05, which increased to 2.18% in the fiscal year 2005/06, but it decreases to 1.82% in the fiscal year 2006/07, then again decreased to 1.79% in the fiscal year 2007/08 and 1.70% in the fiscal year 2008/09. In average the ratio was 1.72% in the five years period. The average ratio indicated that NIBL generated Rs. 1.72 net profit from Rs. 100 investment in total assets. However, the coefficient of variation of 22.67% indicated higher inconsistency in the ratio.

Also the return on total assets of SCBNL was 2.46% in the fiscal year 2004/05, which followed increasing trend up to the fiscal year 2005/06, when the ratio was 2.56% and then slightly decreased to 2.42% in the fiscal year 2006/07, and finally increased to 2.46% and 2.53% in the fiscal year 2007/08 and 2008/09 respectively. The average ratio showed that SCBNL generated Rs. 2.49 from Rs. 100 investment in total assets.

Comparing NIBL with SCBNL, it can be concluded that SCBNL was more success than NIBL in mobilizing total assets to generate net profit, as the return on total assets (ROA) of SCBNL was greater than that of SCBNL. Also, the ratio of SCBNL was more consistent than that of NIBL, since the coefficient of variation of ROA of SCBNL (2.41%) was lower than that of NIBL (22.67%).

Figure 4.14

Return on Total Assets



4.1.4.3 Return on Equity

This ratio expresses the profitability of a business in relation to the owner's fund. Higher the return on equity is favorable for the company. The ROE of NIBL and SCBNL is presented in the Table 4.15.

Table 4.15

Return on Equity

(Ratio in %)

Fiscal Year	NIBL			SCBNL		
	NP	SE	Ratio	NP	SE	Ratio
2004/05	232.15	1180.17	19.67	536.24	1582.42	33.89
2005/06	350.54	1415.43	24.77	658.76	1754.14	37.55
2006/07	501.40	1878.12	26.70	691.67	2116.35	32.68
2007/08	696.73	2686.79	25.93	818.92	2492.54	32.85

2008/09	900.62	3907.84	23.05	1025.11	3052.47	33.58
Mean			24.02			34.11
S.D.			2.80			1.99
C.V.%			11.66			5.83

(Source: Appendix-I)

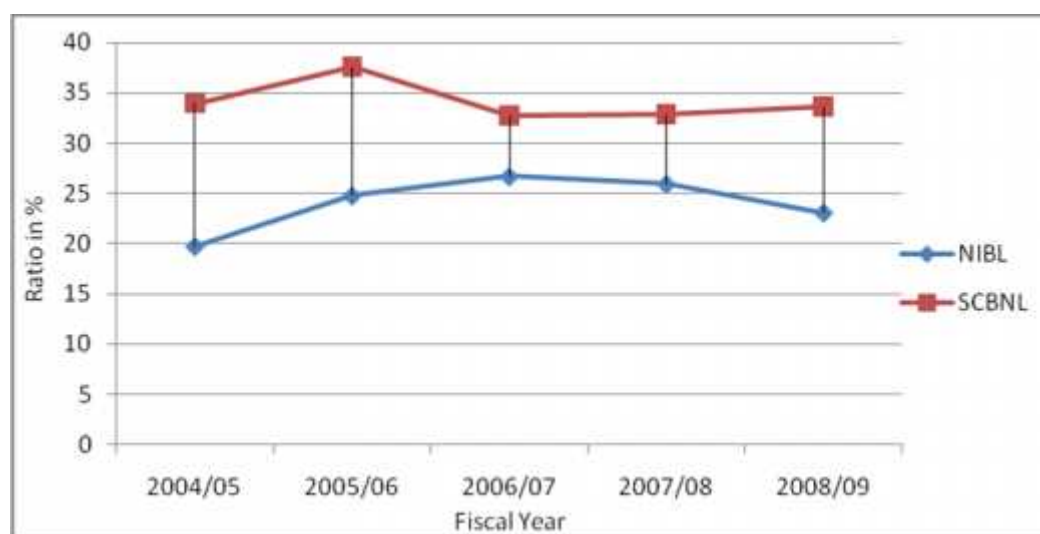
The table 4.15 depicted the return on equity of NIBL and SCBNL. The table showed that ROE of NIBL ranged from 19.67% in the fiscal year 2004/05 to 26.70% in the fiscal year 2006/07. In average the ratio was 24.02% in the five years period. The average ratio elaborated that NIBL was able to return Rs. 24.02 on Rs. 100 investment in equity capital to its shareholder.

However, the return on equity investment of SCBNL was in fluctuating trend. The ratio was lowest, 32.68%, in the fiscal year 2006/07 and highest, 37.55%, in the fiscal year 2005/06. In average, SCBNL was able to convert 34.11% of the total amount invested by shareholder in the form of net profit. Also, the coefficient of variation on the ratio was only 5.83%, indicating higher consistency.

On the basis of average return on equity, it can be concluded that the income earning capacity of SCBNL from mobilizing the shareholders equity effectively was greater than that of NIBL. Thus, it can be considered that SCBNL was more success than NIBL to retain the existing shareholders and allure potential shareholders.

Figure 4.15

Return on Equity



4.1.4.4 Return on Capital Employed

The funds used by the company to generate profit consist of both shareholder's fund and borrowed funds. Therefore the company's overall performance can be judged in terms of capital employed. The return on capital employed (ROCE) of NIBL and SCBNL is presented in Table 4.16.

Table 4.16

Return on Capital Employed

(Ratio in %)

Fiscal Year	NIBL			SCBNL		
	NP	CE	Ratio	NP	CE	Ratio
2004/05	232.15	1530.17	15.17	536.24	1609.97	33.31
2005/06	350.54	1965.43	17.84	658.76	1754.14	37.55
2006/07	501.40	2678.12	18.72	691.67	2516.35	27.49

2007/08	696.73	3736.79	18.65	818.92	2492.54	32.85
2008/09	900.62	4957.84	18.17	1025.11	3052.47	33.58
Mean			17.71			32.96
S.D.			1.24			3.59
C.V.%			7.00			10.89

(Source: Appendix-I)

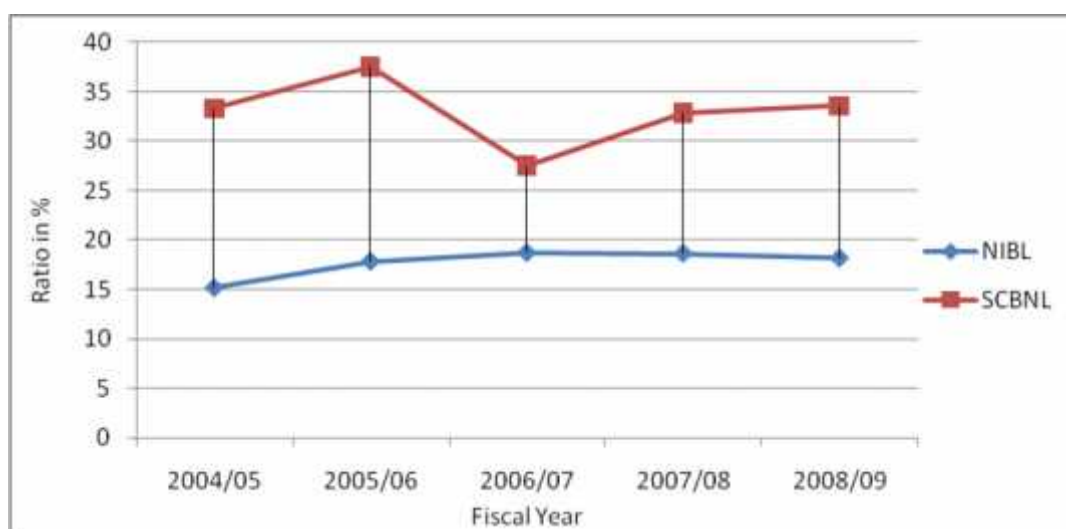
The Table 4.16 indicated that the return on capital employed of NIBL was 15.17%, 17.84%, 18.72%, 18.65% and 18.17% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. The average ratio of 17.71% enlightened that NIBL generated Rs. 17.71 return from per Rs.100 capital employed. Also, the coefficient of variation i.e. 7.00% also indicated quite consistency.

Similarly, the table also depicted that the return on capital employed of SCBNL was in fluctuating trend. The ratio was highest, 37.55%, in the fiscal year 2005/06 and lowest, 27.49%, in the fiscal year 2006/07. This might be due to the adoption of higher amount of debt capital in each year, whose interest amount deducted the net profit. The average ROCE delineated that SCBNL generated Rs. 32.96 net profit from Rs. 100 capital employed. Also, the coefficient of variation on such ratio was 10.89% only.

Comparing SCBNL with NIBL, it can be considered that the profitability position of SCBNL on the ground of return on capital employed was stronger than that of NIBL, since the average return on capital employed of SCBNL (32.96%) was greater than that of NIBL (17.71%). Also, the ratio was more uniform in SCBNL (C.V. = 10.89%) than in NIBL (C.V = 7.00%).

Figure 4.16

Return on Capital Employed



4.1.4.5 Return on Total Deposit

Return on total deposit ratio measures how efficiently the deposit has been mobilized. This ratio is a mirror of bank's overall financing performance; deposits are outsiders' capital fund that entails paying fixed interest, this affects NPAT ultimately. Shareholders' depositors and management are concerned with this ratio.

Table 4.17

Return on Total Deposit Ratio

(Ratio in %)

Fiscal Year	NIBL			SCBNL		
	NP	TD	Ratio	NP	TD	Ratio
2004/05	232.15	14254.57	1.63	536.24	19363.47	2.77
2005/06	350.54	18927.31	1.85	658.76	23061.03	2.86
2006/07	501.40	24488.86	2.05	691.76	24647.02	2.81

2007/08	696.73	34451.73	2.02	818.92	29744.00	2.75
2008/09	900.62	46697.90	1.93	1025.11	35871.8	2.86
Mean			1.90			2.81
S.D.			0.17			0.05
C.V.%			8.95			1.78

(Source: Appendix-I)

Table 4.17 shows that the return on total deposit of NIBL increased for the first three years, i.e. from 1.63% in the fiscal year 2004/05 to 2.05% in the fiscal year 2006/07, and then decreased to 2.02% and 1.93% in the fiscal year 2007/08 and 2008/09 respectively. The average ratio of 1.90% indicated that NIBL turned Rs. 1.90 as net profit from the investment of Rs. 100 collected as deposit.

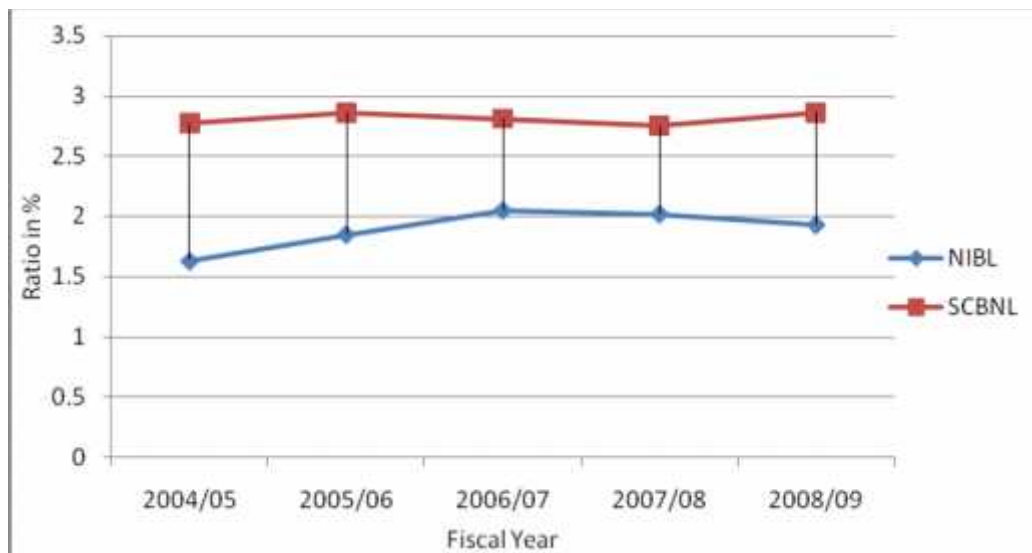
Likewise, the return on total deposit of SCBNL increased for the first two years, i.e. from 2.77% in the fiscal year 2004/05 to 2.86% in the fiscal year 2005/06, and then decreased in the last two years, i.e. 2.81% in the fiscal year 2006/07 to 2.75% in the fiscal year 2007/08. But again it is increased to 2.86% in the fiscal year 2008/09. In average, the return on total deposit of SCBNL was 2.81%, which indicated that SCBNL earned Rs. 2.81 as net profit by investing Rs. 100 deposit collected.

Comparing two sampled banks on the ground of return on total deposit, it can be concluded that the capacity of turning total deposit into net profit of SCBNL was much more admirable than that of NIBL. Hence, it can also be considered

that the investment sector of the total deposit amount of SCBNL was more fruitful than that of NIBL.

Figure 4.17

Return on Total Deposit Ratio



4.1.4.6 Interest Earned to Total Assets Ratio

Interest earned to total assets ratio shows how much interest has been generated by mobilizing the assets in the bank. Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa. 'Interest earned' represents the total interest shows in the income side of profit and loss account. And 'total assets' represent the total of balance sheet.

Table 4.18**Interest Earned to Total Assets Ratio**

(Ratio in %)

Fiscal Year	NIBL			SCBNL		
	II	TA	Ratio	II	TA	Ratio
2004/05	886.80	21330.14	4.16	1058.68	21781.68	4.86
2005/06	1172.74	16063.54	7.30	1189.60	25776.33	4.62
2006/07	1584.99	27590.84	5.74	1411.98	28596.69	4.94
2007/08	2194.28	38873.31	5.64	1591.20	33335.79	4.77
2008/09	3267.94	53010.80	6.16	1887.22	40587.47	4.65
Mean			5.8			4.77
S.D.			1.13			0.14
C.V.%			19.48			2.94

(Source: Appendix – I)

Table 4.18 showed that the interest earning capacity of NIBL ranged from 4.16% in the fiscal year 2004/05 to 7.30% in the fiscal year 2005/06. In average, the interest earned to total assets ratio was 5.8%, means NIBL generated Rs. 5.8 as interest income from Rs. 100 investment in total assets. The coefficient of variation on such ratio was 19.48%.

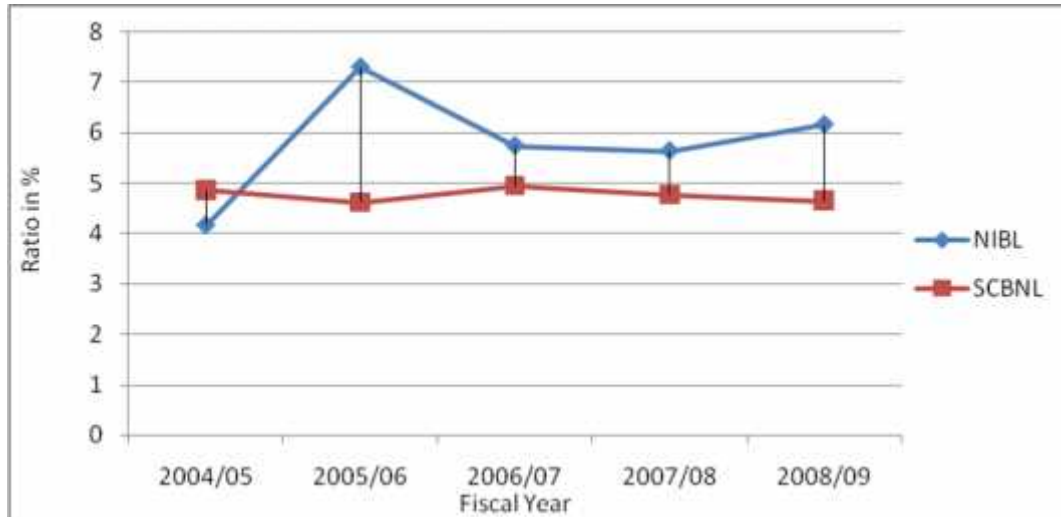
Similarly, the ratio in SCBNL ranged from 4.86% in the fiscal year 2004/05 to 4.94% in the fiscal year 2006/07. In average, the interest earned to total assets

ratio was 4.77%, which indicated that SCBNL generated Rs. 4.77 as interest income from Rs. 100 investment in total assets.

Comparing two banks on the basis of interest earned to total assets, it can be concluded that the capacity of utilizing total assets to generate interest income is highest in NIBL compared to SCBNL.

Figure 4.18

Interest Earned to Total Assets Ratio



4.1.4.7 Interest Expenses to Interest Income Ratio

Interest expenses to interest income ratio reveals the proportionate relationship between interest paid on different liabilities and interest income from different sources. In this present study, 'Total interest expenses' includes interest paid on deposits and borrowings. And 'interest income' includes the interest from loan and advance, cash-credit and overdraft, government securities, inter bank and other investments.

Table 4.19

Interest Expenses to Interest Income Ratio

(Ratio in %)

Fiscal Year	NIBL			SCBNL		
	IE	II	Ratio	IE	II	Ratio

2004/05	354.55	886.80	39.98	254.13	1058.68	24.00
2005/06	490.95	1172.74	41.86	303.20	1189.60	25.49
2006/07	685.53	1584.99	43.25	413.06	1411.98	29.25
2007/08	992.16	2194.28	45.22	471.73	1591.20	29.65
2008/09	1686.97	3267.94	51.62	543.79	1887.22	28.81
Mean			44.39			27.44
S.D.			4.48			2.47
C.V.%			10.09			9.00

(Source: Appendix-I)

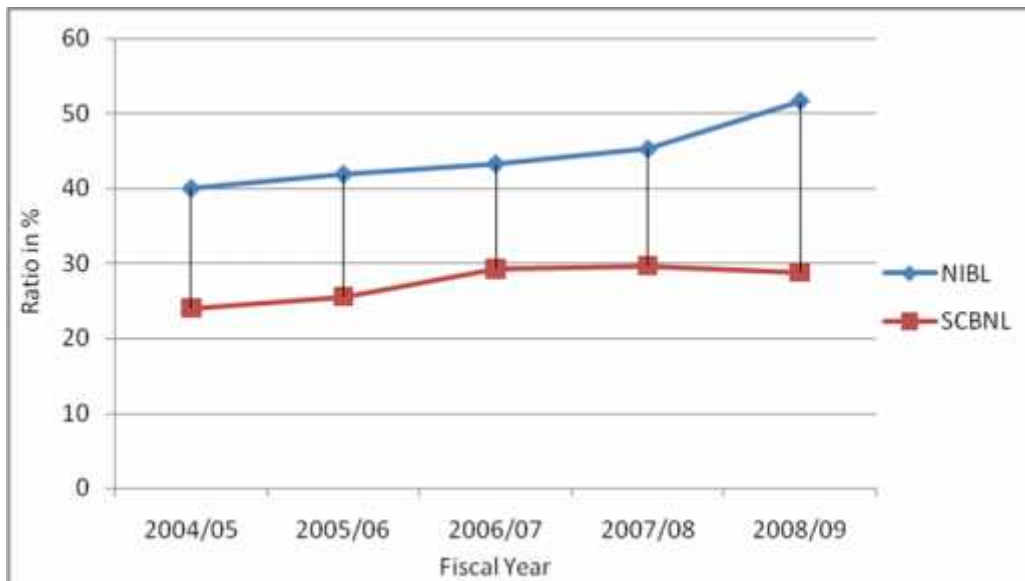
The above table showed that the interest paid to interest income ratio of NIBL was highest, 51.62%, in the fiscal year 2008/09 and lowest, 39.98%, in the fiscal year 2004/05. In average, 44.39% of the total interest income was spent by NIBL as interest expenses. The coefficient of variation on such ratio was 10.09%, which indicated higher uniformity in the ratio.

Likewise, the ratio in SCBNL was highest, 29.65%, in the fiscal year 2007/08 and lowest, 24.00%, in the fiscal year 2004/05. In average, SCBNL incurred only 27.44% of the total interest income as interest expenses.

Comparing the sampled banks, it can be concluded that SCBNL has the higher control on interest expenses than NIBL, as the interest paid to interest income of SCBNL was lower than that of NIBL.

Figure 4.19

Interest Expenses to Interest Income Ratio



4.1.4.8 Earning Per Share

EPS measures the profit available to equity shareholders on per share basis. This ratio expresses the earning power of the company in terms of a share held by the equity shareholders.

Table 4.20**Shares Ratio on Equity Shareholders**

(Unit in Rs.)

Fiscal Year	NIBL			SCBNL		
	NPAT	Shr. No.	EPS	NPAT	Shr. No.	EPS
2004/05	232147098	5877385	39.50	536244885	3746404	143.14
2005/06	350532211	5905860	59.35	658755881	3746404	175.84
2006/07	501398852	8013526	62.57	691668064	4132548	167.37
2007/08	696731516	12039154	57.87	818921008	6207840	131.92
2008/09	900619072	24070689	37.42	1025114536	9319664	109.99
Mean			51.34			145.65
S.D.			11.90			26.69
C.V.%			23.18			18.32

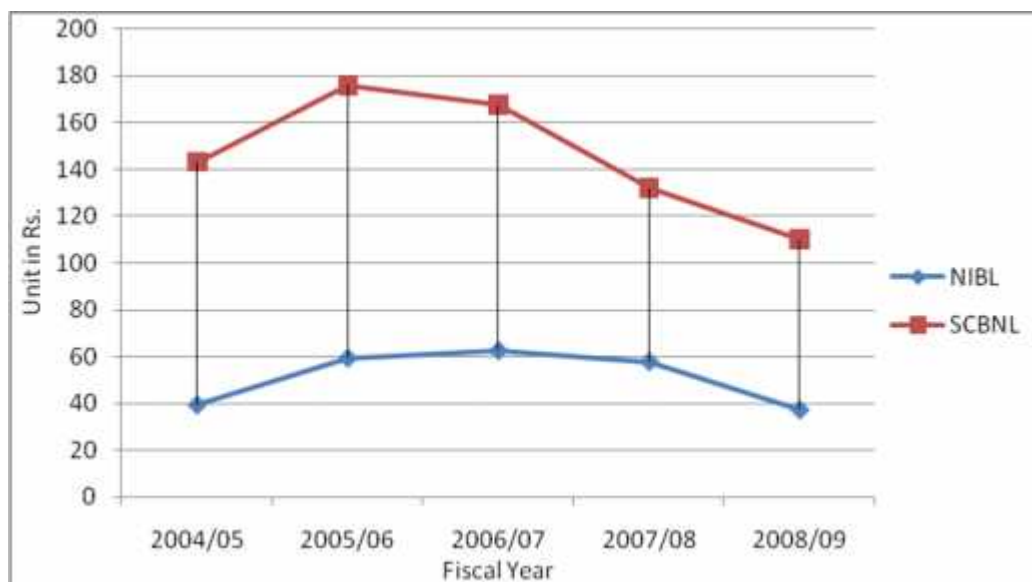
(Source: Appendix-I)

The table showed that the earning per share of NIBL was Rs. 39.50, Rs. 59.35, Rs. 62.57, Rs. 57.87 and Rs.37.42 in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Similarly the EPS of SCBNL for the same period was Rs. 143.14, Rs. 175.84, Rs. 167.37, Rs. 131.92, Rs. 109.99 and respectively. Also, the average EPS of NIBL and SCBNL was Rs. 51.34 and Rs. 145.65 respectively.

Comparing two banks, it can be concluded that SCBNL earned more earnings per share than NIBL, as a result it can be expected that the investors as well as the staffs of SCBNL may have enjoyed high earnings and bonus respectively than that of NIBL.

Figure 4.20

Earning Per Share



4.1.4.9 Dividend Per Share

The profit earned by the company finally belongs to the equity shareholders. Therefore, all or some of them are distributed to them which are known as dividends. This ratio shows how much per share of stock held by them is paid out as dividends.

Table 4.21

Dividend on Shares Ratio

(Unit in Rs.)

Fiscal Year	NIBL			SCBNL		
	Dividend	Shr. No.	DPS	Dividend	Shr. No.	DPS
2004/05	73467310	5877385	12.50	449568440	3746404	120

2005/06	327184640	5905860	55.40	524496560	3746404	140
2006/07	240405780	8013526	30.00	537231240	4132548	130
2007/08	491558658	12039154	40.83	807019200	6207840	130
2008/09	481413780	24070689	20.00	931966400	9319664	100
Mean			31.75			124
S.D.			16.98			15.17
C.V.%			53.48			12.23

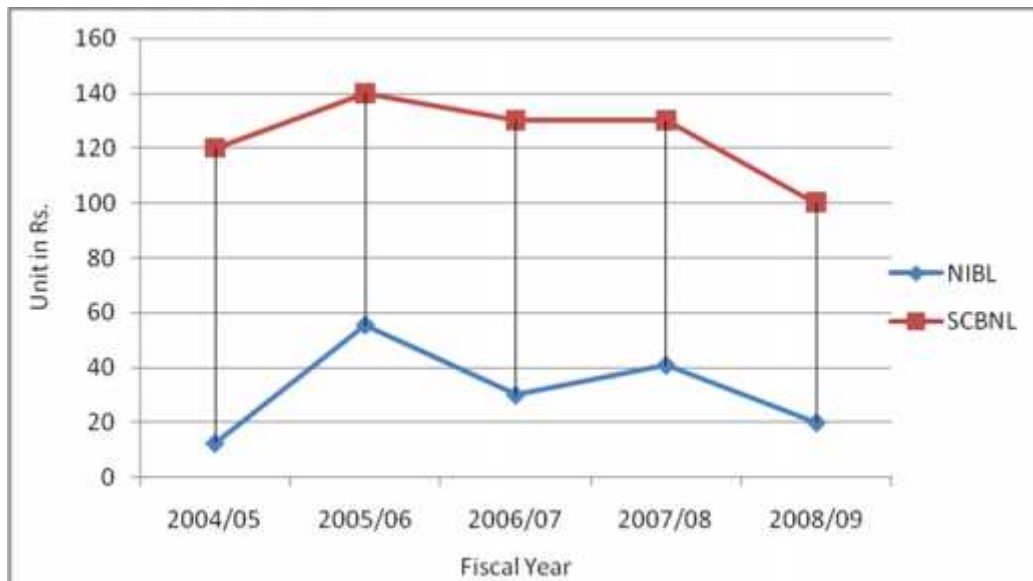
(Source: Appendix-I)

The above table showed that the NIBL distributed Rs. 12.50, Rs. 55.40, Rs. 30.00, Rs. 40.83 and Rs. 20.00 as dividend in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. The same table showed that SCBNL distributed Rs.120, Rs.140, Rs.130, Rs.130 and Rs.100 as dividend in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. The table showed that in each year the dividend distribution of SCBNL was higher than that of NIBL.

Comparing two banks, it can be concluded that NIBL adopted the policy of retaining profit by distributing lower DPS, while SCBNL adopted the policy of retaining shareholders and fascinating potential investors by disbursing higher amount of DPS.

Figure 4.21

Dividend Per Share



4.1.4.10 Dividend Payout Ratio

Dividend payout ratio indicates the percentage amount of dividend paid to shareholders out of earning per share. Banks distribute the earnings to shareholders in terms of dividend but they don't pay in the full value. They will retain some earnings in-order to expand the business. Higher dividend payout ratio indicates higher cash dividend to shareholders.

Table 4.22

Dividend Payout Ratio

(Ratio in %)

Fiscal Year	NIBL			SCBNL		
	DPS	EPS	DPR	DPS	EPS	DPR
2004/05	12.50	39.50	31.65	120	143.14	83.83
2005/06	55.40	59.35	93.34	140	175.84	79.62
2006/07	30.00	62.57	47.95	130	167.37	77.67

2007/08	40.83	57.87	70.55	130	131.92	98.54
2008/09	20.00	37.42	53.45	100	109.99	90.92
Mean			59.39			86.12
S.D.			11.90			8.61
C.V.%			20.04			10.00

(Source: Appendix-I)

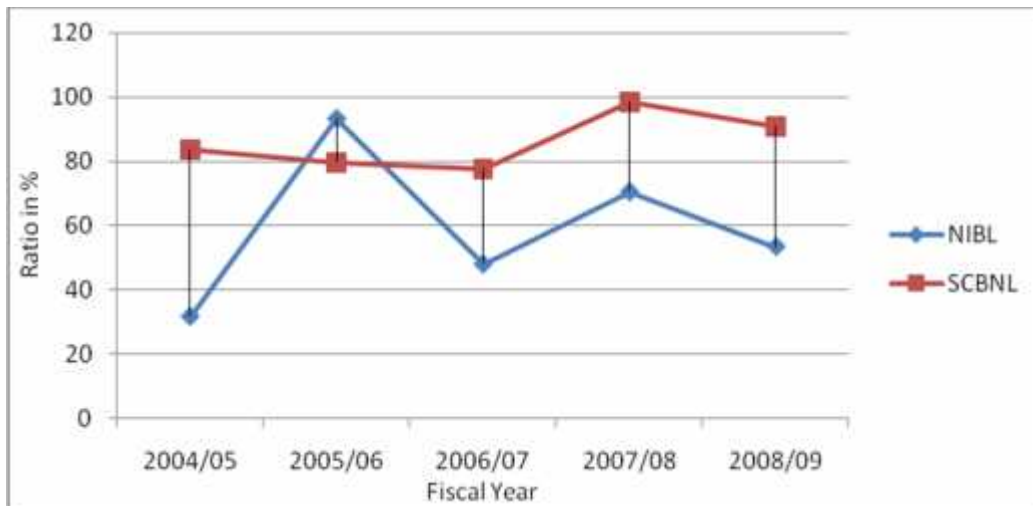
The table 4.22 showed the dividend payout ratio of the sampled banks, NIBL and SCBNL. The table showed that the dividend payout ratio of NIBL ranged from 31.65% in the fiscal year 2004/05 to 47.95% in the fiscal year 2006/07. Also, the dividend payout ratio of SCBNL in the five consecutive years were 83.83%,79.62%,77.67%,98.54% & 90.92% respectively.

In average, NIBL and SCBNL distributed 59.39%% and 86.12% respectively of the total earnings as dividend to the shareholders of the corresponding banks. Besides these, the coefficient of variations on dividend payout ratio of NIBL was 20.04% and SCBNL was 10.00%.

Comparing two banks, it can be considered that the dividend payout ratio of SCBNL is better, since the average dividend payout ratio of SCBNL is higher compared to that of NIBL. Hence, it can be considered that the shareholders of SCBNL were more satisfied than those of NIBL, as SCBNL's shareholders got more percentage of EPS in the form of dividend. Also, on the basis of higher dividend payout ratio, it can be considered that SCBNL is most matured bank than NIBL. In addition, the lowest C.V. of 10.00% of SCBNL indicated that SCBNL has best benchmark and uniformity on dividend payout ratio.

Figure 4.22

Dividend Payout Ratio



4.2 Major Findings of the Study

From the data analysis, the following major findings have been drawn;

Findings from Liquidity Ratios

-) The current ratio showed that NIBL and SCBNL maintained 1.08:1 & 1.07:1 as current ratio in average respectively. However, the current ratio of SCBNL is more consistent than the ratio maintained by NIBL.
-) The average cash and bank balance to total deposit of NIBL was 11.91% and that of SCBNL was 7.02%. SCBNL has the policy of keeping lower cash reserve; whereas NIBL has the policy of keeping higher cash reserve to meet the daily obligation.
-) Similarly, the average cash and bank balance to total assets of NIBL was 10.86% during the five year periods. Also, the cash and bank balance represented 6.2% of the total assets in average in SCBNL.
-) NIBL collected 25.96% of its total deposit from fixed account in average, whereas SCBNL collected only 12.09% of its total deposit from fixed

account. This indicated higher liquidity position in NIBL in comparison with SCBNL.

-) Also the net working capital to total assets of NIBL was 7.44% in average, while that of SCBNL was 6.62%. The higher net working capital to total assets of NIBL than that of SCBNL indicated good liquidity position of NIBL to meet the long term debt than that of SCBNL.

Findings from Leverage Ratios

-) The average debt to total capital of NIBL was 0.26 times and that of SCBNL was 0.04 times, indicating excess percentage of debt capital used in NIBL than in SCBNL.
-) Similarly, the debt-equity ratio of NIBL and SCBNL was 0.36 times and 0.04 times, which indicated higher debt capital used to finance total assets of NIBL than that of SCBNL.
-) Both the banks maintained higher Capital Adequacy ratio than the ratio specified by the NRB. The average CAR maintained by NIBL and SCBNL within these five years period was 11.65% and 14.91% respectively.

Findings from Efficiency Ratios

-) NIBL paid 2.07% of the total deposit as interest expenses and SCBNL paid 1.44% of the total deposit as interest expenses.
-) NIBL was most successful in mobilizing the total deposit in loans and advances. NIBL utilized 73.02%, and SCBNL utilized 41.53% of the total deposit in loans and advances.
-) The loans and advances to fixed deposit ratio of NIBL and SCBNL was 2.87times and 3.86 times respectively. Hence, SCBNL was more successful in utilizing the fixed assets in loans and advances than NIBL.

Likewise, 65.50% and 36.73% of the total assets of NIBL and SCBNL were mobilized in disbursing loans and advances respectively.

Findings from Profitability Ratios

-) The net profit margin indicated that SCBNL was more profitable than NIBL. The net profit margin of NIBL and SCBNL was 23.52% and 35.48% respectively.
-) SCBNL was more successful than NIBL to efficiently utilize the total assets in generating net profit. The return on total assets of NIBL and SCBNL was 1.72% and 2.49% respectively. Similarly, the return on equity of NIBL and SCBNL was 24.02% and 34.11% respectively. And the return on capital employed of NIBL and SCBNL was 17.71% and 32.96% respectively. Also, the return on total deposit of NIBL was 1.90% and that of SCBNL was 2.81%.
-) NIBL bank remained more successful than SCBNL in efficiently utilizing the total assets in generating interest income. The interest earned to total assets of NIBL and SCBNL was 5.80% and 4.77% respectively. Likewise, the interest paid to interest income ratio of NIBL and SCBNL was 44.39% and 27.44% respectively.
-) The average EPS of NIBL and SCBNL for the five years period was Rs. 51.34 and Rs. 145.65 respectively. Similarly, the average DPS distributed by NIBL and SCBNL was Rs. 31.75 and Rs. 124.00 respectively.
-) SCBNL showed more generosity than NIBL in distributing dividend. The dividend payout ratio of SCBNL was 86.12% of the total earning per share, which was greater than the dividend payout ratio of NIBL, 59.39%.

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Financial performance concerns with the management and analysis of financial operation of the firm through the means of profitability, liquidity, efficiency and utility of resources. Considering these facts, the present study tries to make a comparative financial performance analysis between two commercial banks, namely NIBL and SCBNL.

To a greater extent, economic growth is based on the banks and other financial institutions' performance in an economy. Many researchers have revealed that banks and economic condition are two wheels of the same chariot. Nowadays, banking activities are spreading all over the world. In the beginning of this thesis, there were twenty six commercial banks operating in Nepal, licensed by NRB up to mid-July, 2008. Also, some other development banks are in the process of their conversion into commercial banks and few other commercial banks are emerging too. This has led to the intense competition in the banking business. Only those banks, providing better services and having a greater profit margin would survive in the long run.

The primary objective of this study is to examine the financial performance of the sampled commercial banks on the basis of liquidity, profitability, stability and market value. This analysis also helps to provide package of suggestions and possible guidelines to improve the banking operation in order to maximize the values of its shareholders based on the finding of the study.

The researcher has identified the research problem of the joint venture bank then the objectives are determined on the basis of research problem. Related literatures are reviewed on the bases of the purposive study. Then the data have been collected from the different secondary sources. The analysis of data has

been done according to the available data and the objectives of this study. The five years financial statements, covering from the fiscal year 2004/05 to 2008/09, have been examined for the purpose of the study. The analysis and interpretation of data has been done by applying the wide varieties of methodology as stated in earlier chapter.

To achieve the objectives of the study, viz. the comparative study of the financial performance of service industry, commercial banks, various related studies have been reviewed. Further, different financial and statistical tools have been applied.

5.2 Conclusion

From the data analysis and the major findings drawn, it can be concluded that the liquidity position of NIBL was better than that of SCBNL, since the cash and bank balance to total asset ratio, cash and bank balance to total deposit ratio, fixed deposit to total deposit ratio and net working to total assets of NIBL are greater than the those of SCBNL. However, both NIBL and SCBNL maintained same level of current ratio.

Similarly, both the banks followed conservative policy to finance the total assets, which meant that the debt financing in are greater than the equity financing to finance total assets. Between two banks, NIBL financed high portion of total debt than SCBNL, since the debt to total capital ratio and debt-equity ratio of NIBL was greater than that of SCBNL. Thus, the leverage ratio indicated that the total assets of NIBL was more risky than that of SCBNL. However, both the banks had made sufficient capital provision, since the capital adequacy ratio maintained by both the banks are greater than the ratio specified by NRB.

Likewise, the efficiency ratios aid to conclude that NIBL was most successful in mobilizing the total deposit in loans and advances. NIBL utilized higher

portion of total deposit in loans and advances and than SCBNL. However, SCBNL remained more efficient than NIBL in collecting the deposit with low interest. The loans and advances to fixed deposit ratio of NIBL was lower than that of SCBNL, which indicated better utilization of fixed deposit in loans and advances by NIBL. Likewise, the total assets of NIBL was more risky than that of SCBNL, since the total assets of NIBL included high portion of loans and advances.

However, the profitability ratios indicated that SCBNL was more successful than NIBL to earn profit, since the net profit margin of SCBNL was more than that of NIBL. Also, SCBNL was more successful than NIBL to efficiently utilize the total assets in generating net profit. Further, the return on equity and return on capital employed, and return on total deposit of SCBNL were higher than those of NIBL. In addition the EPS of SCBNL was greater than that of NIBL. Along with higher EPS, SCBNL focused on retaining existing shareholders and alluring potential investor by distribution higher dividend and dividend payout ratio than NIBL did.

5.3 Recommendations

On the basis of the major findings and conclusion drawn, the following recommendations have been provided.

- a. The liquidity position of NIBL and SCBNL is in same situation, since the average current ratio of both the banks are i.e. 1.08:1 and 1.07:1 respectively. However, the current ratio of SCBNL is more consistent than the ratio maintained by NIBL.
- b. The cash and balance to total assets of SCBNL was lower than that of NIBL. It would be better if SCBNL keeps more liquid reserve to meet the cash requirement.
- c. Both NIBL and SCBNL practice the conservative policy in financing the total assets. It would be better if NIBL and SCBNL follow moderate policy and retain more of its internal funds.

- d. NIBL should try to maximize the low interest bearing deposit to increase profit, since the interest paid to total deposit of NIBL was greater than that of SCBNL.
- e. SCBNL should increase investment in loans advances to gain high interest income. Further, both the banks should quest other sectors of investment, besides loans and advances, investment in government securities, corporate shares.
- f. The profitability ratios of NIBL were lower than those of SCBNL. It would be better if NIBL recognizes the unnecessary expenses and tries to reduce such expenses in order to increase the profitability ratios.
- g. NIBL should made strong financial policy to mobilize the capital employed and shareholder equity to get higher profit.
- h. Finally, it would better if NIBL distributes profit in terms of dividend corresponding with the earning, to attract potential investors and retain existing investors.

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