

CHAPTER–I

INTRODUCTION

1.1 Introduction

Bank means an institution that deals with money. A bank performs several financial, monetary and economic activities, which are essential for the economic development of a country. It is a monetary institutional vehicle for domestic resources mobilization of the country, which accepts deposits from various sources and invests such accumulated resources in the fields of agriculture, trade, commerce etc.

Generally, the term “bank” refers commercial banks. Commercial banks are the foundation of the national economy. It is the transformation of monetary sources from savers to users. They involve in various functions like creation of money, facilitating credit, and facilitating foreign trade, safe keeping of the values etc. Commercial bank has its own role and contribution in the economic development. It is a source for economic development and it maintains economic confidence of various segments and extends credit to people. Thus, the activities of commercial banking sector have contributed to eliminate poverty, reduce unemployment and economic growth.

Modern commercial banks can be identified by different names such as business banks, retail banks, clearing banks, Joint venture banks, Merchant banks etc. No matter what name is given to bank, they all perform the same basic function. They provide a link between lenders, those who have surplus money and do not wish to spend immediately with borrowers, they who do not have surplus money but wish to borrow for investment in productive purpose. By charging a rate of interest to borrowers slightly higher than they pay to lenders, the banks make their profit. This is known as financial intermediation. Commercial banks provide the following major products and services:

- ✎ Acceptance of deposits
- ✎ Granting of Advances
- ✎ Remittance collection and distribution
- ✎ Cash management

- ✎ Insurance of letters of credit and Guarantee
- ✎ Merchant banking business
- ✎ Credit cards
- ✎ Technology based services-Internet Banking services
- ✎ Loan distribution
- ✎ Safe keeping services /Lockers
- ✎ Handling government Business.
- ✎ Automated Teller Machines (ATMs)

Financial information is required for financial planning, analysis and decision making. Accounting of a firm is the main source of financial information. The accounting system helps to accumulate, measure, and communicate financial information to various users for making economic decisions. The users of financial information include owners, employees, customers, suppliers, governments, and society.

The financial statements- Balance Sheet and Profit & Loss a/c are the basic instrument of an accounting system to communicate financial information to users. Balance Sheet shows the financial condition of the state of affairs of the firm at a particular point of time. It contains detailed information about the firm's assets and liabilities. While current assets are converted into cash within an accounting period, liabilities are accounts payable by the firm. Liabilities payable within an accounting period are called current liabilities and those payable after a year or so are called long-term liabilities. Funds contributed by owners to the firm are called owner's equity. Thus, Balance Sheet gives a concise summary of the firm's resources and obligations and measures the firm's liquidity and solvency.

The Profit & Loss a/c shows the profitability of the firm by giving details about revenues and expenses. Revenues are benefits which customers contribute to the firm in exchange for goods or services provided by the firm. The cost of the economic resources used in providing goods or services to the customers is called expenses. Profit is the difference of revenue over expenses.

“Financial statement report a company’s past financial performance and current financial position. They are designed to provide information on four primary business activities: planning, financing, investing, and operating activities.”¹

The practice of keeping such financial statements is carried out by almost all kinds of business organizations in Nepal as well as other countries of the world. The role of financial statements becomes more significant for organizations that have a large number of stakeholders, viz., owners, shareholders, creditors, banks and financial institutions, and customers etc. These stakeholders tend to be highly aware about the financial performance of the organization as it has a direct impact on their financial interests. A bad financial performance of an organization would mean loss for the owners, less dividend for the shareholders, bad debts for creditors, and unsatisfactory services to its customers.

Financial statement analysis plays an important role in assessing the strengths and weaknesses of an organization. “Financial Statement Analysis applies analytical tools and techniques to general purpose financial statements and related data to derive estimates and inferences useful in business decisions. It is a screening tool in selecting investment or merger candidates, and is a forecasting tool in assessing financing, investing, and operating activities, and is an evaluation tool for managerial and other business decisions. Financial statement analysis reduces our reliance on hunches, guesses, and intuition, and in turn it diminishes our uncertainty in decision making. It does not lessen the need for expert judgment but rather establishes an effective and systematic basis for making business decisions.”

✎ As mentioned earlier, it is a common obligation for these banks to prepare financial statements at the end of every fiscal year. These financial statements serve as a means to the various stakeholders of the firm to analyze the organization’s financial strengths, weaknesses, and performance. There are various ways to conduct the financial performance study. One of them is the financial ratio analysis.

✎ A financial ratio is a relationship between two financial variables. It helps to ascertain the financial condition of a firm. Ratio analysis is a process of identifying the financial strengths and weaknesses of the firm. This may be accomplished either

¹ Bernstein, Leopold A. and John J. Wild, *Financial Statement Analysis: Theory, Application, and Interpretation*, Irwin McGraw Hill, 6th Edition, 1998, p. 3

through a trend analysis of the firm's ratios over a period of time or through a comparison of the firm's ratios with its nearest competitors and with the industry average.

“Traditional financial ratio analysis has focused on the numbers. The value of this approach is that quantitative relations can be used to diagnose strengths and weaknesses in a firm's performance. But the world is becoming more dynamic and subject to rapid changes. It is not enough to analyze operating performance. Financial analyses must also include consideration of the strategic and economic developments to which the firm must relate for its long-run success. In addition, the categories of stakeholders must be broadened. Formerly, ratio analysis was performed from the point of view of the firm's owners and creditors. In the present political and social environment, the stakeholders must be explained to include employees, consumers, social and environmental considerations, and other government regulatory interests.”²

✍ The uses of financial ratios for the assessment of financial performance of organizations are relatively new in Nepal. As this study focuses on the financial performance of two JVBs, it would be appropriate to give a brief introduction of the concept of banks and the evolution of banking system in Nepal

1.2 General Background of the Study

The bank is an institution established by law, which deals with money and credit is called banking. In other words, it is obvious that an institution which deals with money, receiving it on deposits from customers, honoring customers drawings against such deposits and demand, collecting cheques from customers, and lending or investing surplus deposits until they are required for repayment. In common sense, financial institution which deals with monetary transaction by accepting various types of deposits, distributing various types' loans and translation other financial services. There is several definition of a bank by different authors and scholar's.

According to Oxford Dictionary

“A bank is an establishment for the custody of money received from or on its customers, its essential duty is to pay their draft on it, its profit arises from its use of money left unemployed by them.”

² J F Weston & T E Copeland, *Managerial Finance*, 9th Edition, pp 185-186

Banking plays significant role in the economic development of a country. Bank is a resource for the economic development which maintains the self-confidence of various segments of society and extends credit to the people. So, commercial banks are those financial institutions mainly dealing with activities of the trade, commerce, industry and agriculture that seek regular financial and other helps from them for growing and flourishing, the objectives of commercial banks is to mobilized idle resources into the most profitable sector after collecting them form scattered source commercial bank contributes is significantly and the formation and mobilization of internal capital and development effort.

The economic development of any nation is highly dependent on the various industrial sectors. This industrial sector comprises public sectors, manufacturing enterprises, tourism, transportation, construction, consulting services, trade, and services. The smooth operations of these sectors certainly have positive results over the economic growth and development of the nation. The failure of only one sector may also delay the economic growth. The level of contribution of these sectors on Gross Domestic Product (GDP) should be increased year by year. The contribution of financial and consultancy services in overall GDP cannot be overlooked. Agriculture sector has dominated other sector as almost 80 Percent of the people rely on agriculture for their existence. The service sector especially financial sector has occurred significant position in comparison to others. The sector has vital role in smooth running of the economic activities. It is the fact that the existence of financial sector in the development of the capital market as well as money market is remarkable. Moreover, the sector has been able to lure a large community to invest in equity shares through primary & secondary market. Whatever may be the position of the sector, one can definitely state that it is one of the major catalysts in removal of backwardness and poverty from the nation. The financial and consultancy services, one of the important industrial sectors comprises; commercial banks, development banks, rural development banks, agriculture development banks, finance companies, co-operative with limited banking transactions.

Integrated and speedy development of the country and its financial position of the people are possible only when competitive banking service with its effective credit management reaches nooks and corners of the country. In the developing country like

Nepal, there is always lack of financial resources not only because of its real absence but because of the available resources not properly mobilized and not fully utilized for the productive purpose; in this course the commercial banks play a vital role. In modern times, commercial banks, which are facilitated, regulated and supervised by the Central bank, confined them and concentrated in their activities of fulfilling the financial needs of their customers. In the present scenario, Nepalese banking system is evolving itself as a powerful instrument of planning and economic growth of all the developed and underdeveloped sectors. The scope and scale of banking too have undergone substantial change in response to the saving and credit needs of people.

Bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society that they are serving.

While talking about financial system there are two important aspects of financial deepening and financial repression. Financial repression is defined as a situation where the government and/ or central bank's regulations change the operation of financial market. In other words, it means banks are dictated by the central bank and/or government not to charge more than certain amount of interest and restriction on other activities too. The indicators of such situation are ceiling on the nominal interest rate, mandatory investment in government paper, imposition of reserve requirement limiting their ability to lend and mandatory directed credit in priority and deprived sector (Koch & McDonald: 1998: 310). Similarly, financial deepening is defined as the situation where banks are allowed to charge interest on the prevailing market rate. There is negligible restrictions imposed by the central bank and commercial banks have been given total freedom on their activities.

Banking is the business of collecting and safeguarding money as deposits and lending of the same. The history of such business transaction is as old as our civilization. There was existence of the money-changers and money-lenders of keepers in ancient times who used to buy the currency of other countries and give local coins in return and also lend money to the people in need. People used to save and keep their money with the persons having some credibility for security and for use in their old age. Later on, these money-keepers and changers started paying some

extra money to induce the depositors and started lending such deposits at a higher rate to needy people. Practice of receiving and safeguarding deposits and lending the same led to the emergence of modern banking system. With the passage of time, BANCO DE RIALTO was established as the first bank of the world in Venice, Italy in 1587.

“Banking concept existed even in the ancient period when the goldsmith and rich people used to issue receipt against the promise of safe keeping of their valuable items and on the presentation of the receipt, the depositors would get back their gold and valuables after paying a small amount for safekeeping and saving.”³

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

“Before 1842 BS, the local ‘goldsmith’ and ‘money lenders’ participated in general type of economic activities by collecting valuable metals from the public. Gradually, it evolved as ‘Tejaratha Adda’ under the prime minister ship of Ranodeep Singh”⁴

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

³ Samuelson, Paul A., *Economics*, McGraw Hill Book Co., New York, 1989, p. 211

⁴ Bhusal, Lekh Nath, *Nepal Rastra Bank Annual Report*, Kathmandu, 14 Baisakh 2055 BS, p. 41

The main defects of this institution showed as there was no further financial institution set-up and there was no effort to expand the services. Above all of the defects, this institution did not accept any deposit from the public. In the absence of saving-mobilization, the 'Adda' faced financial problems, making it impossible to cater to the credit and services need of general population throughout the country. After that, again for a long time, several unorganized bankers and indigenous money lenders continued to flourish as the sole provider of credit and services to the general public.

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

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

The gradual development of commercial banks moved in parallel with the economic liberalization policy of the government that caused the operation of commercial banks in increasing number. The financial policy of the government welcomed the establishment of JVBs. Such sort of commercial banks are established under the Commercial Bank Act 2031 BS. And are registered with the recommendation of the NRB and the same bank is capable legally to issue the patent

for the financial transactions of the banks. The NRB, Nepal Bank Ltd., and Rastriya Banijya Bank are the only commercial banks established before 2041 BS.

Nepal Arab Bank was the first bank in Nepal to be established as a JVB, the number has significantly increased after the restoration of democracy in 2046 BS and due to the liberal economic policy of the government. Foreign banks have the dominant role in managing the JVBs in Nepal. The banks have been found interested to invest their capital in manufacturing company, hotel, textile and medicine. The banks have their objectives to serve in financial sector with the margin of profit in spite of its main objectives of making profit. It bears some positive aspects and if the positive dimensions of such banks are implied in Nepalese banking system, the related sides will be benefited.

1.1 Concept of Commercial and Joint Venture Banks

In order to explain the concept of joint venture banks, it would be appropriate to give their meanings. Although JVBs are also commercial banks, they differ in the fact that these banks are operated in collaboration with foreign established banks. Banks primarily play a role in accumulation and mobilization of funds in a national level.

“Banking institutions are inevitable for the resource mobilization and all-round development of the country. It is the resource for economic development; it maintains economic confidence of various segments and extends credit to people.”⁵

In order to highlight the differences between commercial banks and JVBs, they have been explained separately as follows;

1.1.1 Commercial Banks

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

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

⁵ Grywinshki, Ronald, *The New Fashioned Banking*, Harvard Business Review, May-June 1993, p. 87

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

“While the role of banking in the economy is declining in some industrial countries, banks continue to dominate the financial systems of most developing and transition countries. A sound banking system is important because of the key role it plays in the economy: intermediation, maturity transformation, facilitating payments flows, credit allocation, and maintaining financial discipline among borrowers. Banks provide important positive externalities as gatherers of savings, assigners of resources, and providers of liquidity and payments services. In transition and developing economies with less developed financial markets, banks typically are the only institutions producing the information necessary for intermediation, providing the portfolio diversification required for maturity transformation and risk reduction, and helping monitor corporate governance. Even in economies with highly developed financial markets, banks remain at the center of economic and financial activity and stand apart from other institutions as primary providers of payments services and as a fulcrum for monetary policy implementation.”⁶

The two essential functions of commercial banks may best be summarized as the borrowing and lending of money. They borrow money by taking all kinds of deposits – deposits may be received on current account whereby the banker incurs the obligation of paying legal tender after the expiry of a fixed period or on deposit account whereby the banker undertakes to pay the customer an agreed rate of interest on it in return for the right to demand from him an agreed period of notice for withdrawals. Thus, a commercial banker, whether it is through current account or fixed deposit account, mobilizes the savings of the society. Then he provides this money to those who are in need of it by granting overdrafts or fixed loans or by discounting bills of exchange or promissory notes. Thus, the primary function of a commercial bank is that of a broker and dealer in money. By discharging this function

⁶ Lindgren, Carl-Johan, Gillian Garcia, and Matthew I. Shal, *Bank Soundness and Macroeconomic Policy*, International Monetary Fund, 1996, p. 28

efficiently, a commercial banker renders very valuable service to the community by increasing the productive capacity of the country and thereby accelerating the pace of economic development. He gathers the small savings of the people, thus reducing to the lowest limits idle money. Then, they combine their small holdings in amount large enough to be profitably employed in those enterprises where they are most called for and most needed. Here, he makes capital effective and gives industry the benefits of capital, both of which otherwise would have remained idle. Take for instance, the practice of discounting bills. By converting future claims into present money, the commercial banker bridges the time element between the sale and actual payment of money. This enables the seller to carry on his business without hindrance and the buyer will get enough time to realize the money. Thus, it has been seen that a banker receives deposits, which they have to repay according to his promise, and makes them available to those people who are really in need of them. They are actually distributing his deposits between the borrower and their own vault. Herein lies the most delicate of the function of a commercial bank.

Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment and business units. They make funds available through their lending and investing activities to borrowers, individuals, and business firms. They also offer financial services to the government. They provide a large portion of the medium of exchange and they are the medium through which monetary policy is affected. These facts show that the commercial banking system of the nation is important to the functioning of the economy.

“Banks provide opportunity to people for participation in the development process of the country via issuing shares to be owned by them and accepting deposits from them. Then, banks mobilize and invest such accumulated resources in the field of agriculture, trade, commerce, industry, tourism, hydro-electricity projects etc.”⁷

A commercial bank is a financial intermediary which collects credit from lenders in the form of deposits and lends in the form of loans. A commercial bank holds deposits for individuals and businesses in the form of checking and savings accounts and certificates of deposit of varying maturities while a commercial bank

⁷ Shakya, Dinesh Raj, *Financial Analysis of Joint Venture Banks in Nepal*, An unpublished masters dissertation, Prithvi Narayan Multiple Campus, Pokhara, 1995, p. 2

issues loans in the form of personal and business loans as well as mortgages. The term commercial bank came about as a way to distinguish it from an "investment bank." The primary difference between a commercial bank and its counterpart is that a commercial bank earns revenue by issuing primary loans from its pool of deposits while an investment bank brings debt and equity offerings to market for a fee. Among its assets, including loans, a commercial bank holds a portfolio of other securities to generate proprietary income.

A financial institution that provides services, such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investment products like savings accounts and certificates of deposit. The traditional commercial bank is a brick and mortar institution with tellers, safe deposit boxes, vaults and ATMs. However, some commercial banks do not have any physical branches and require consumers to complete all transactions by phone or Internet. In exchange, they generally pay higher interest rates on investments and deposits and charge lower fees.

Joint Venture Banks

“When two or more independent firms mutually decide to participate in a business venture, contribute to the total equity or more or less capital and establish a new organization, it is known as a joint venture”⁸

“A joint venture, an association of two or more individuals or parties having exceptional advantages in a specific operation, is undertaken to make the operation highly remunerative with their collective efforts”

“A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation (Industrial or commercial investment, production and trade).”⁹

A project or other business activity in which two persons or companies partner together to conduct the project is called joint venture. In a joint venture, each of the persons or companies in the joint venture is responsible for profits, losses, and operations. A joint venture operates like a partnership and is usually taxed like one. A key difference between a joint venture and a partnership is the fact that a joint venture,

⁸ Jauch & Glueck, *Business Policy and Strategic Management*, McGraw Hill, 5th Edition, 1988, p. 232

⁹ Gupta, D P, *The Banking System: Its Role in Export Development*, UNCTAD, GATT, 1984, p. 15

when it involves companies, does not necessitate the merging of all the companies' operations and interests; rather, they cooperate for purposes of the joint venture only.

A **joint venture** (JV) is a business agreement in which parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets. There are other types of companies such as JV limited by guarantee, joint ventures limited by guarantee with partners holding shares.

Functionally, JVBs offer the same services as commercial banks. The primary difference lies in the fact that JVBs are operated in collaboration between two or more banks in order to take the benefit of new methods and technologies possessed by other banks. They are the mode of trading to achieve mutual exchange of goods and services for sharing comparative advantages by performing joint investment schemes between Nepalese and foreign individuals or institutions. In such a case, Nepalese financial and non-financial institution as well as private investors and their parent bank each supply 50 Percent of total investment. JVBs are formed in Nepal as full-fledged commercial bank under the Economy Act, 2021 BS and operated under the Banijya Bank Act, 2032 BS.

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

As of 2011 AD, there were 17 commercial banks in the country. Out of these, the number of JVBs in Nepal is listed below;

Table 1.1 Joint Venture Banks in Nepal

S. No.	Joint Venture Banks	Foreign Partner Banks	Date of Establishment (B.S.)	Date of Operation (B.S.)	Head Office
1	Everest Bank Ltd.	Punjab National Bank, India	2051/07/01	2051/07/01	Kathmandu
2	Himalayan Bank Ltd.	Habib Bank, Pakistan	2049/10/05	2049/10/05	Kathmandu
3	NABIL Bank Ltd.	National Bank Ltd., Bangladesh	2041/03/29	2041/03/29	Kathmandu
4	Nepal Bangladesh Bank Ltd.	IFIC Bank, Banglaesh	2050/02/23	2050/02/23	Kathmandu
5	Nepal Credit and Commerce Bank Ltd*. (Formerly Nepal Bank of Ceylon Ltd.)	Bank of Ceylon, Sri Lanka	2053/06/28	2053/06/28	Siddharthanagar
6	Nepal Investment Bank Ltd.* (formerly Nepal Indo-suez Bank Ltd.)	Credit Agricole Corporate and Investment Bank	2042/11/16	2042/11/16	Kathmandu
7	Nepal SBI Bank Ltd.	State Bank of India, India	2050/03/23	2050/03/23	Kathmandu
8	Standard Chartered Bank Nepal Ltd. (formerly Nepal Grindlays Bank)	Standard Chartered Grind Lays Bank Ltd.; Australia & UK.	2043/10/16	2043/10/16	Kathmandu
9	NMB Bank Ltd.	Young Lien Reality SDN BHD; Malaysia	2065-02-20	2065-02-20	Kathmandu

Source: Banking and Financial Statistics, NRB

*= Presently privately owned

Highlights on Performance of Banks and Non-Bank Financial Institutions

Financial Sector at a Glance

The history of financial system of Nepal was begun in 1937 with the establishment of the Nepal Bank Ltd. as the first commercial bank of Nepal with the joint ownership of government and general public. Nepal Rastra Bank was established after 19 years since the establishment of the first commercial bank. A decade after the establishment of NRB, Rastriya Banijya Bank, a commercial bank under the ownership of Government Nepal was established.

In the context of banking development, the 1980s saw a major structural change in financial sector policies, regulations and institutional developments. Government emphasized the role of the private sector for the investment in the financial sector. With the adoption of the financial sector liberalization by the government in 80's opened the door for foreign Banks to open Joint venture Banks in Nepal. As a result, various banking and non-banking financial institutions have come into existence. Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. During two decades, Nepal witnessed tremendous increment in number of financial institutions. Nepalese banking system has now a wide geographic reach and institutional diversification.

Consequently, by the end of mid – July 2011, altogether 272 banks and non-bank financial institutions licensed by NRB are in operation. Out of them, 31 are “A” class commercial banks, 87 “B” class development banks, 79 “C” class finance companies, 21 “D” class micro-credit development banks, 16 saving and credit co-operatives and 38 NGOs. In mid- July 2011, the commercial banks branches reached to 1245 with the population of twenty one thousand per branch. Present development of financial institutions in Nepal is reflected in table below.

1.2 Growth of Financial Institutions

Types of Financial Institutions	Mid -July											
	1980	1985	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011
Commercial Banks	2	3	5	10	13	17	18	20	25	26	27	31
Development Banks	2	2	2	3	7	26	28	38	58	63	79	87
Finance Companies				21	45	60	70	74	78	77	79	79

Micro-finance Development Banks				4	7	11	11	12	12	15	18	21
Saving & Credit Co-operatives Limited Banking Activities)				6	19	20	19	17	16	16	15	16
NGOs (Financial Intermediaries)					7	47	47	47	46	45	45	38
Total	4	5	7	44	98	181	193	208	235	242	263	272

Source: Banking and Financial Statistics--No_57 July 2011
as per the report of Nepal Rastra Bank, the lists of joint venture banks are as follows:

1. **Himalayan Bank Ltd.**
2. **Everest Bank Ltd.**
3. **NABIL Bank Ltd.**
4. **Standard Chartered Bank Nepal Ltd.**
5. **Nepal Bangladesh Bank Ltd.**
6. **Nepal SBI bank Ltd.**
7. **NMB Bank Ltd.**

Everest Bank Ltd. (EBL)

Everest Bank Ltd. was registered under the company act 1964 in 19th November 1993 and started commenced banking transaction in 16th October 1994, the promoter of the bank decided to join hands with an Indian bank and entered into joint venture agreement in January 1997 AD with Punjab National Bank (PNB), which is one of the leading commercial bank of India, having over 100 years of successful banking experience and known for its strong system and procedure. A team of professionals are deputed by PNB under this arrangement. Now the bank has 38 branches including main branch in Nepal. Nepalese promoter holds 50 Percent and rest 30 Percent held by General public.

The main purpose of EBL is to extend professional banking services to various sectors of the society in the Kingdom of Nepal and thereby contributing in the economic development of the country. It provides following facilities and services to their customers;

- Cumulative Deposit Scheme

- Unfix Fixed Deposit
- Required Deposit Plan
- Telegraph Transfer (T.T)
- Letter of Credit
- Drawing Arrangement
- SWIFT Transfer
- International Trade and Bank Guarantees
- Remittance
- Foreign Currency Deposits/ Lending
- Foreign Exchange
- Trade Finance
- 365 Days Banking
- Debit Card
- Merchant Banking
- ATM (Automated Teller Machine) etc.

Share ownership structures of Everest Bank Limited is as follows

Shareholding Pattern	Percentage
A. Local Ownership	80 Percent
a. Other institutions	12 Percent
b. Individual	68 Percent
B. Foreign Ownership	20 Percent

Everest Bank Ltd. is moving towards to the consumer finance and providing different types of loans like; Home Loan, Education Loan, Personal Loan and Vehicle Loan etc.

Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation. Today the Bank is an integral part of Standard Chartered Group having an ownership of 75 Percent in the company with 25 Percent shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal.

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1750 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of the world's most international banks, 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 19 points of representation, 23 ATMs across the country and with more than 425 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

Standard Chartered Bank Nepal Limited offers a full range of banking products and services in Consumer banking, Wholesale and SME Banking catering to a wide range of customers encompassing individuals, mid-market local corporates, multinationals, large public sector companies, government corporations, airlines, hotels as well as the DO segment comprising of embassies, aid agencies, NGOs and INGOs.

The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first Bank in Nepal that has implemented the Anti-Money Laundering policy and applied the 'Know Your Customer' procedure on all the customer accounts.

Services from Standard Chartered Bank Nepal Ltd.

- 20ATM machines with in Nepal.
- 15 Branch offices.
- And 4 extension counters.
- Safe deposit locker
- Remittance
- Online Banking
- Personal Banking
- Priority Banking

- SME Banking
- Wholesale Banking
- Cards/Insurance & Loans etc.

Share ownership structures of Standard Chartered Bank Nepal Ltd. is as follows

Shareholding Pattern	Percentage
C. Local Ownership	25 Percent
c. Other institutions	2.14 Percent
d. Individual	22.86 Percent
D. Foreign Ownership	75 Percent

1.1.2 Role of Joint Venture Banks in Nepal

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

“Joint venture banks are already playing a dynamic and vital role in the economic development of the country. This will undoubtedly increase with the passage of time.”¹⁰

“Joint venture banks are successful not only in penetrating the market but also consolidating their position over the years. It is due to its customer orientation and strong marketing strategy.”¹¹

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

- Healthy Competition:** The induction of joint venture banks also brings the benefit of healthy competition. The competition would force the domestic banks; Nepal Bank Ltd. and Rastriya Banijya Bank to improve their services and efficiency.
- Foreign Investment:** Foreign investment is one of the important aspects for the development of the country. When looking at the possibility of investing in Nepal, multinational companies are

¹⁰ Chopra, Sunil, *Role of Foreign Banks in Nepal*, Nepal Rastriya Bank Samachar, NRB Kathmandu, 14 Baisakh 2056 BS, p. 2

¹¹ Thakur, Ashwini Kumar, *Performance of Nepalese Commercial Banks*, Partisan Journal of Bankers' Training Center, NRB Ktm, Vol. 35, 2052 BS, p. 81

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

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

In such manner , joint venture banks are successful to bring healthy competition among banks, increase in foreign investment , promoted and expand export-import trade introduce new techniques and technologies .The various roles plays by the joint venture banks in Nepal can be classified into three categories. The joint venture banks in Nepal have been largely responsible for the introduction of the new banking technique such as computerization ,hypothecation ,consortium finance , fee based activities and syndicating under the foreign exchange transactions by importers, and exporters , merchant banking, inter banking market for the money and securities , arranging foreign currency loans etc. The introduction of joint venture banks also brings the benefit of healthy competition of which the main beneficiaries are bank customers and the economy. The increase in competition also force the existing banks to improve their qualities of services by simplifying procedures providing training and motivation to their own staff to respond to the new challenge.

Advantages & Disadvantage of a Joint Venture

There are many good business and accounting reasons to participate in a Joint Venture (often shortened JV). Partnering with a business that has complementary abilities and resources, such as finance, distribution channels, or technology, make good sense. These are just some of the reasons partnerships formed by joint venture are becoming increasingly popular.

A joint venture is a strategic alliance between two or more individuals or entities to engage in a specific project or undertaking. Partnerships and joint ventures can be similar but in fact can have significantly different implications for those involved. A partnership usually involves a continuing, long-term business relationship, whereas a joint venture is based on a single business project.

Parties enter Joint Ventures to gain individual benefits, usually a share of the project objective. This may be to develop a product or intellectual property rather than joint or collective profits, as is the case with a general or limited partnership.

A joint venture, like a general partnership is not a separate legal entity. Revenues, expenses and asset ownership usually flow through the joint venture to the participants, since the joint venture itself has no legal status. Once the Joint venture has met its goals the entity ceases to exist.

What are the Advantages of forming a Joint Venture?

- Provide companies with the opportunity to gain new capacity and expertise
- Allow companies to enter related businesses or new geographic markets or gain new technological knowledge
- access to greater resources, including specialized staff and technology
- sharing of risks with a venture partner
- Joint ventures can be flexible. For example, a joint venture can have a limited life span and only cover part of what you do, thus limiting both your commitment and the business' exposure.
- Companies can gradually separate a business from the rest of the organization, and eventually, sell it to the other parent company. Roughly 80 Percent of all joint ventures end in a sale by one partner to the other.

The Disadvantages of Joint Ventures

- It takes time and effort to build the right relationship and partnering with another business can be challenging. Problems are likely to arise if:
- The objectives of the venture are not 100 per cent clear and communicated to everyone involved.
- There is an imbalance in levels of expertise, investment or assets brought into the venture by the different partners.
- Different cultures and management styles result in poor integration and co-operation.
- The partners don't provide enough leadership and support in the early stages.
- Success in a joint venture depends on thorough research and analysis of the objectives.

1.3 Focus of the Study

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

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

1.4 Statement of the Problem

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

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

The mushrooming of banking, finance companies, rural banks, and co-operative societies in a short span of time has brewed new competitive scenario and

has passed a challenge to the previously dominant banks like Nepal Grindlays Bank Ltd. (now SCBNL) and Nepal Indo-Suez Bank Ltd. (now NIBL) who have been making attractive profits. In the changed scenario, these banks need to explore their strengths and weaknesses, and improve their performance because their success depends upon their ability to boost their productivity and financial performance.

In fact, financial ratios suffer from so many limitations that they seem to be not useful. They are not effective for the financial analysis due to various limitations. But it is not true. Analysts have been using the ratios to analyze the financial performance from many years. Even they used ratio for the prediction purpose also. Here, one can raise questions. The questions are, can ratios predict about future? Have ratios some predictive power? And so on. The answer is that, to some extent ratio can predict and it has predictive power. Stock analysts and credit analysts have used ratios for the prediction. So, having so many limitations, ratios have predictive power. This is the main problem of this study or the ratios which have so many limitation and it seems to be useless, can have predictive power or it can predict is the main problem of this study.

The commercial banks have been operating well from their establishment. Their experience on international banking, prompt and computerized services, professional attitude are factors for their rapid progress. They have been growing rapidly. These banks have succeeded to capture remarkable market share of Nepalese banking sectors of financial services industry in a relatively short period of time.

According to research, inefficiency and weaknesses can be traced with the financial statement analysis in same aspects of the bank's financial performance. Banks provide only short-term credit while demand for long and medium term credit has met in the process of development. The margin ratio for providing loans is too high, which makes deposits unutilized, though all the commercial banks are increasing their profit. However, Nepal is facing lots of national as well as international problems such as: instability of politics, difficulty in collecting resources, declining of tourism industry, falling of manufacturing companies and garments etc. These areas are mainly affected by recent unfavorable international economic conditions. Therefore, these areas and recent unfavorable economic

conditions are adversely affecting the investment of the banks. Against these problems this research deals with the following issues:

- ✎ How efficiently banks are managing their assets and liquidity ratio?
- ✎ What is the relationship of investment with deposits and net profit?
- ✎ To what extent are Liquidity Ratio, Profitability Ratio, Debt Management Ratio, and Assets Management Ratio useful to predict failure of Banks?
- ✎ How far commercial banks as well as banks have been able to convert the mobilized deposits into investment?
- ✎ To what extent these banks have been able to raise their profitability ratio?

The establishment of the joint venture banks, enforcement of priority sector and productive sectors lending policies of Nepal Rastra Bank to financial institutions does not seem to have an appreciative impact. Nepalese joint venture banks have not formulated their investment policies in organized manner. They mainly rely upon the instruction and guidelines of Nepal Rastra Bank. They don't have clear view towards investment policy further more. The implementation of the policy is not in an effective way.

The problems of joint venture banks are presented briefly as under:

1. Joint venture banks are efficient but how far are they efficient?
2. State the relationship of the investment and loans and advances with total deposits and net profits.
3. Are they maintaining sufficient liquidity position?
4. Whether these commercial banks able to meet obligation or not?
5. Are they maintain its deposit and credits to increase its volume of banking operations?

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

1.5 Objectives of the Study

The overriding objective of this study is examine the financial performance of SCBNL and EBL for the years from 2006-07 to 2010-11. The specific objectives of this study are as follows:

- i. To examine the relative financial performance of SCBNL and EBL,
- ii. To assess the financial strengths and weaknesses of these banks,
- iii. Comparative analysis of profitability trend of two JVBs.
- iv. To statistically test whether the ratios of these banks significantly differ from each other or not.
- v. Comparative analysis of profitability trend, liquidity analysis, activity analysis of JVBs.

1.6 Significance of the Study

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

- i. The study enlightens the shareholders about the financial performance of their respective banks. This allows them to have a comparative review whether their fund was better utilized or not.
- ii. The study also compels the management of respective banks for self-assessment of what they have done in the past and guides them in their future plans and programs.
- iii. The financial agencies, stock exchanges and stock traders are also interested in the performance of the banks as well as the customers, depositors, and debtors, who can objectively identify the better bank to deal in terms of profitability, safety, and liquidity.
- iv. Policy makers at the macro level, i.e. the government and NRB will also benefit regarding the formulation of further policies in regard to economic development through banking institutions.

1.7 Limitations of the Study

All research study has been done to solve a particular research problem. It requires various kinds of data, material and other relevant information which may not sufficient to the researcher. This study also cannot escape from the frame of limitations. This study is mainly based on secondary data on the base previous records which may not sufficient for the good research study. Since annual finance report of all joint venture banks are not available in the web site/internet) so only SCBNL and EBL was selected because of updated finance report of last five years.

- ✎ The time was the major limitation of the study.
- ✎ The scope of the study is limited within the framework of ratio analysis only. The study doesn't cover other financial performance analysis techniques.
- ✎ Since the study is fully based on the secondary data collected from annual reports published by the banks.
- ✎ Various sources, their relevancy will depend upon the authenticity of the publishers.
- ✎ The study has not paid attention toward other accounting tools.
- ✎ The study includes two Joint Venture Banks as sample study.
- ✎ The study covers five years data.
- ✎ This study will cover only four terms of analysis profitability trend, liquidity analysis, activity analysis of the JVBs.

1.8 Organization of the Study

This dissertation will be presented in the following order;

Chapter 1: Introduction

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

Chapter 2: Review of Literature

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

Chapter 3: Research Methodology

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

Chapter 4: Presentation & Analysis of Data

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

Chapter 5: Summary, Conclusion, and Recommendations

The whole study is summarized and concluded in this final chapter. A list of recommendations derived from the analysis is presented at the end of the chapter. A list of Bibliography is presented after chapter 5 and the necessary supplements are presented in the final segment as the annexure.

CHAPTER—II

REVIEW OF LITERATURE

Literature review is basically a 'stock taking' work of available literature. To make the research more realistic- review of literature is required. It provides significant knowledge in the field of research. Thus, the review of various books, research studies and articles have been used to make clear about the concept of ratio analysis and capital structure as well as to recall the previous studies made by various researchers.

The purpose of literature review is to find out what research studies have been conducted in this field of study, and what remains to be done. Review of literature provides foundation to the study. The literature survey also minimizes the risk of pursuing the dead-end in research to make meaningful research study conceptual review has been done through the study of various books, journals and articles and researches conducted by the previous researchers in the field of ratio analysis i.e. research work, thesis and dissertation etc.

2.1 Review of Conceptual Framework

Review of conceptual framework attempts to clarify the concept of the study; financial ratios in this case. The meaning of ratio analysis, types of financial ratios, their significance and users, limitations are presented hereunder.

2.1.1 Meaning of Financial Ratio Analysis

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Financial analysis can be undertaken by management of the firm, or by parties outside the firm, viz. owners, creditors, investor and others. The nature of analysis will differ depending on the purpose of the analyst.

“Financial analysis applies analytical tools and techniques to general purpose financial statements and related data to derive estimates and inferences useful in business decisions. It is a screening tool in selecting investment or merger candidates, and is a forecasting tool of future financial conditions and consequences. It is a diagnostic tool in assessing financing, investing and operating activities, and is an evaluation tool for managerial and other business decisions. Financial statement analysis reduces our reliance on hunches, guesses, and intuition, and in turn it diminishes our uncertainty in decision making. It does not lessen the need for expert

judgment but rather establishes an effective and systematic basis for making business decisions.”¹²

“Financial analysis is a science and an art.”¹³ While the science part can be attempted to be explained, the art comes with practice and experience – from many hours of number crunching and use of the numbers to make decisions on the firing line.

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as “the indicated quotient of two mathematical expressions” and as “the relationship between two or more things.”¹⁴ In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of a firm. An accounting figure conveys meaning when it is related to some other relevant information. For example, a Rs. 5 crore net profit may look impressive, but the firm’s performance can be said to be good or bad only when the net profit figure is related to the firm’s investment.

Ratio analysis is a widely-used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strengths and weaknesses of a firm as well as its historical performance and current financial conditions can be determined. In order to get a clear view on the meaning of ratio analysis and ratios, it would be appropriate to discuss the definitions provided by various writers on the subject;

“The relationship between two accounting figures, expressed mathematically, is known as a financial ratio. Ratios help to summarize large quantities of financial data and to make qualitative judgment about the firm’s financial performance. For example, consider current ratio. It is calculated by dividing current assets by current liabilities; the ratio indicates relationship - a quantified relationship between current assets and current liabilities. This relationship is an index or yardstick which permits a qualitative judgment to be formed about the firm’s ability to meet its current obligations. It measures the firm’s liquidity. The greater the ratio, the greater the firm’s liquidity, and vice versa. Such is the nature of all financial ratios.”¹⁵

¹² Bernstein, Leopold A. and John J. Wild, *Financial Statement Analysis: Theory, Application, and Interpretation*, Irwin McGraw Hill, 6th Edition, 1998, p. 3

¹³ Weston, J. Fred and Thomas E. Copeland, *Managerial Finance*, The Dryden Press, 9th Edition, p. 186

¹⁴ Webster’s *New Collegiate Dictionary*, 8th Ed., Springfield, Mass: G & C, 1975, p. 958

¹⁵ I M Pandey, *Financial Management*, 8th Ed., Vikas, 1999, p. 109

“Ratio analysis is used to compare a firm’s financial performance and status to that of other firms or to itself over time.”¹⁶

“Ratios are relationships, expressed in mathematical terms between figures which have a cause and effect relationships or which are connected with each other in some or other manner.”¹⁷

“The term ratio refers to the numerical or quantitative relationship between two item/variables. This relationship can be expressed as (i) Percentages, say, net profits are 25 Percent of sales (assuming net profits of Rs.25,000 and sales of Rs.1,00,000), (ii) fraction (net profit is one-fourth of sales), and (iii) proportion of numbers (the relationship between net profits and sales is 1 : 4).”¹⁸

“A ratio is a statistical yardstick that provides a measure of the relationship between two variables or figures. This relationship can be expressed as Percentage (cost of goods sold as Percentage of sales) or as a quotient (current assets as a certain number of times the current liabilities).”¹⁹

“Ratio is simply one number expressed in terms of another, it is an expression of relationship split out by dividing one figure into the another.”²⁰

“Ratio is the numerical or an arithmetical relationship between two figures. It is expressing one number in terms of another, i.e. one figure is divided by another number in another number in order to calculate the ratio.”²¹

“A ratio may be defined as a fixed relationship in degree or number between two numbers. In finance, ratios are used to point out relationships that are not obvious from the raw data.”²²

With the help of definitions provided in the above paragraphs, it can conclude that ratio involves measuring the degree of the relationship between two variables or figures. In our case, we shall be looking at the figures provided in the financial statements, or more specifically, the balance sheet and the profit and loss a/c. This relationship can be expressed in terms of Percentage, fraction, or proportion of the

¹⁶ Gitman, Lawrence J, *Principle of Managerial Finance*, Harper Collins Publishers, 6th Edition, 1988, p. 275

¹⁷ Grewal T.S., *Management Accounting*, Sultan Chand & Sons, 1974, p. 102

¹⁸ Khan, M. Y. and P. K. Jain, *Management Accounting*, Tata McGraw Hill, 2nd Edition, 1993, p. 60

¹⁹ Kuchhal, S. C., *Financial Management: An Analysis & Concept*, Chatnya Publishing House, 1979, p. 22

²⁰ Goyal, S. N. and M. M., *Principle of Management Accounting*, Shaity Bhavan, Agra, 1988, p. 50

²¹ Jain, S. P. and K. L. Narayan, *Financial & Management Accounting*, Kalyani Publishers, Delhi, 1991, p. 15

²² Hampton, J. J., *Financial Decision Making*, Prentice Hall of India P. Ltd., New Delhi, 1986, p. 122

number and compared against the performance of competing firms or against their own past performances. A carefully undertaken financial analysis can significantly help an organization in assessing its strengths and weaknesses. Based on the results derived from such an analysis, better decisions can be taken towards organizational performance and development.

Several writers have also expressed their views on the use of ratios in financial analysis in various journals and periodicals. It would be appropriate to mention some of the journal reviews pertinent to this study.

The Balance Sheet and the Statement of Income are essential, but they are only the starting point for successful financial management. But the Ratio Analysis is used to Financial Statements to analyze the success, failure, and progress of business.

Ratio Analysis enables the business owner/manager to spot trends in a business and to compare its performance and condition with the average performance of similar businesses in the same industry. To do this compare your ratios with the average of businesses similar to yours and compare your own ratios for several successive years, watching especially for any unfavorable trends that may be starting. Ratio analysis may provide the all-important early warning indications that allow you to solve your business problems before your business is destroyed by them.

Similar to baseball's use of statistics to rank players and teams, in business there are endless possible ratio combinations. Ratio Analysis uses a combination of financial or operating data from a company or industry to provide a basis of comparison. Each ratio measures a unique relationship that may impact others

“Financial ratios help us to find out the symptoms of problems. The cause of any problem may be determined only after locating the symptoms.....The operational and financial problems of a corporation can be ascertained by examining the behavior of these ratios.”²³

“Financial ratios have been a topic of number of empirical studies in the past decades. Many scholars have conducted empirical studies on different subject matters about financial ratios. One group of empirical studies utilizes ratios derived from failed and non-failed firms' balance sheets and income statements to predict corporate failure. For e.g., Altman (1968) has identified several statistically useful financial ratios for predicting corporate failure. Another direction which emerged in research into financial ratio analysis was the classification and reduction of a large number of ratios into a small subset (Pinches et. al., 1975; Chen and Shimerda, 1981). Another

²³ Pradhan, Dr. Radeshyam, *Public Corporations of Nepal*, National Book Organization, N. D., 1986, p. 1

research direction is the behavioral aspects of decision making using financial ratios. Slovic (1969) examined the investment worthiness of firms by means of ANOVA models where treatments are the firm's ratio attributes and the dependent variables are the respondents' rating scores. Gibson(1983), (1985), (1987) has examined useful financial ratios from a behavioral perspective and discussed which ratios are more useful than others for accountants, bankers, and financial analysts. Recently, Shivaswamy, Hoban and Matsumoto have conducted a study to examine the behavioral aspects of financial ratios analysis to identify behaviorally useful financial ratios for retailers and manufacturers; to examine the similarity and dissimilarity between behaviorally useful ratios and statistically useful ratios derived from bankruptcy analysis and to investigate whether or not credit analysts find a different set of ratios useful in studying retail firms and manufacturing firms.”²⁴

“A comparative study can be made between different statistics concerning varied facets of a business unit with the help of ratio analysis. Besides, just as the blood pressure, pulse, and temperatures are the measures of the health of an individual, so does ratio analysis measure the economic and financial health of a business concern. In a nutshell, economic and financial position/performance of a firm can be fully x-rayed through ratio analysis.”²⁵

The ratio analysis involves comparison for a useful interpretation of the financial statements. A single ratio in itself does not indicate favorable or unfavorable condition. It should be compared with some standard. Standards of comparison may consist of:²⁶

- Past ratios, i.e. ratios calculated from the past financial statements of the same firm;
- Competitors' ratios, i.e. ratios of some selected firms, especially the most progressive and successful competitor, at the same point in time;
- Industry ratios, i.e. ratios of the industry to which the firm belongs; and
- Projected ratios, i.e. ratios developed using the projected, or pro forma, financial statements of the same firm.

2.1.2 Types of Financial Ratios

The parties interested in financial analysis are short-term and long-term creditors, owner, and management. Short-term creditors' main interest is in the

²⁴ Shivaswamy, Hoban & Matsumoto, *A Behavioral Analysis of Financial Ratios*, The Mid-Atlantic Journal of Business, March 1993, Vol.29 No.1, pp. 7-19

²⁵ Kothari, C. R., *Quantitative Techniques*, Vikas Publishing House, New Delhi, 1990, p. 487

²⁶ Anthony, R. N. and Reece, J. S., *Management Accounting Principles*, Taraporewala, 1975, pp. 260-263

liquidity position or the short-term solvency of the firm. Long-term creditors, on the other hand, are more interested in the long-term solvency and profitability of the firm. Similarly, owners concentrate on the firm's profitability and financial condition. Management is interested in evaluating every aspect of the firm's performance, the have to protect interests of all parties and see that the firm grows profitably.

Several ratios, calculated from the accounting data, can be grouped into various classes according to financial activity or function to be evaluated. Depending on their beliefs and objectives, different authors have classified ratios differently. Empirical evidences also indicate that ratios can be classified in a variety of ways. However, the traditional classification of ratios seeks to serve the requirements of the various users or ratios.

“Ratios can be classified in a number of ways to suit any particular purpose. Different kinds of ratios are selected for different types of situations. The nature of analysis depends on the purpose for which the ratios are used and the kind of dates available. “(Pillai & Bagavathi, 1998:134)

Ratios have generally been classified on the basis of statement from which items have been taken on the basis of nature of ratios, on the basis of purposes which they serve , on the basis of accounting significance ;on the basis of persons interested in them and finally but not the last on the basis of relative importance of the ratios. Some of the possible classifications are being mentioned below.” (Gupta, 1990:56)

A) Classification by Statements

1) Balance sheet ratios/ Financial Ratios

- Liquidity ratios,
- Current Ratios,
- Stock Ratio,
- Proprietary Ratio,
- Capital generating Ratio.

2) Profit and loss account Ratios/ Operating Ratios

- Gross Profit Ratio,
- Express Ratio,
- Operating Ratio,
- Net Profit Ratio.

3) Balance Sheet and Profit and Loss Account Ratio or Inter Statement Ratios/ Combined Ratios/ Mixed Ratios:

- Return on capital employed
- Return on shareholders fund
- Stock Turnover
- Debtors Turnover
- Creditors Turnover

- Working capital turnover
- Current assets turnover
- Total turnover or Total Capital Turnover
- Net sale to Tangible assets

B) Classification by Users

This classification is based on the parties who are interested in making the use of these ratios. This classification includes:

- 1) Ratio for MGMT / MGMT Efficiency Ratios.
 - Operating ratios
 - Return on capital employed
 - Stock turnover debtors turnover
 - Solvency turnover
- 2) Ratios for creditors
 - Current ratio
 - Acid test ratio
 - Creditors turnover
 - Fixed assets ratio
- 3) Ratios for shareholders
 - Return on shareholders fund
 - Dividend Per Share
 - Assets cover of share Capital

C) Classification by Relative Importance

This classification is being adopted by the British Institute of management and includes the following groups:

- 1) Primary Ratios/ Explanatory ratio
 - Return on capital employed
 - Assets turnover
 - Profit Ratio
- 2) Secondary performance ratios
 - Working capital turnover
 - Stock to current assets
 - Current assets to fixed assets
 - Stock to fixed assets
 - Fixed assets to total assets
- 3) Secondary credit ratios
 - Creditors turnover
 - Debtors turnover
 - Liquid turnover
 - Current ratio
 - Average collection period
- 4) Growth ratios
 - growth rate in sales

- Growth rate in net assets

D) Classification by Accounting Significance

- Solvency ratio
- Earnings ratio
- Capitalization ratio
- Credit ratio
- Management ratios

E) Classification by Nature

- Inventory ratio
- Debtors and creditors ratio
- Sales ratio
- Earnings and dividend ratio

F) Classification by Purpose

This is a classification based on the purpose for which an analyst computes these ratios.

- Profitability ratios
- Activity ratios
- Financial ratios

Van Horne, 1994, in his book “Financial Management and Policy” grouped the financial ratios in the following five types:

- Liquidity ratio
- Debt ratio
- Profitability ratio
- Market value Ratio

G) Common Classification of Ratios

In the view of the requirements of the various users of ratios, we may classify them into the following four important categories: (this is the most common, traditional classification of ratios. However, empirical evidence indicated that ratios can be classified in a variety of ways. Also, depending on their beliefs and objectives, different authors have classified ratios differently. For a comprehensive treatment of the financial treatment)

- Liquidity ratios
- Leverage ratio
- Activity Ratios
- Profitability Ratio

Liquidity Ratios

The liquidity ratios measure the ability of a firm to meet its short-term obligations and reflect the short-term obligations and reflect the short-term financial

strength/solvency of a firm. A firm should ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity. The failure of a company to meet its obligations due to lack of sufficient liquidity, will result in a poor creditworthiness, loss of creditors' confidence, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad; idle assets earn nothing. The firm's funds will be unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

These ratios indicate the ease of turning assets into cash. They include the Current Ratio, Quick Ratio, and Working Capital.

The most common ratios which indicate the extent of liquidity or lack of it are: (i) current ratio and (ii) quick ratio.

Leverage Ratios

“Leverage ratios have a number of implications. First, creditors look at equity, or owner-supplied funds, as a cushion or base for the use of debt. If owners provide only a small proportion of total financing, the risks of the enterprise are borne mainly by the creditors. Second, by raising funds through debt the owners gain the benefits of achieving control of the firm with a limited commitment. Third, the use of debt with a fixed interest rate magnifies both the gains and losses to the owners. Fourth, the use of debt with a fixed interest cost and with a specified maturity increases the risks that the firm may not be able to meet its obligation.”²⁷

This Debt/Worth or Leverage Ratio indicates the extent to which the business is reliant on debt financing (creditor money versus owner's equity).

The short-term creditors who are interested in the current financial position would use the liquidity ratios. The long-term creditors would judge the soundness of a firm on the basis of the long-term financial strength measured in terms of its ability to pay the interest regularly as well as repay the installment of the principal on due dates or in one lump sum at the time of maturity. The long-term solvency of a firm can be examined by using leverage or capital structure ratios. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owners' equity in financing the firm's assets. The leverage or capital structure ratios may be defined as financial ratios which throw light on the long-term solvency of a firm reflected in its ability to assure the long-term creditors with regard to (i) periodic payment of interest during the period of the loan

²⁷ Weston, J. Fred and Thomas E. Copeland, *Managerial Finance*, The Dryden Press, 9th Edition , p. 203

and (ii) repayment of principal on maturity or in pre-determined installments at due dates.

“Leverage ratios may be calculated from the balance sheet items to determine the proportion of debt in total financing. Many variations of these ratios exist; but all these ratios indicate the same thing – the extent to which the firm has relied on debt in financing assets. Leverage ratios are also computed from the profit and loss items by determining the extent to which operating profits are sufficient to cover the fixed charges.”²⁸

Activity Ratios

Funds of creditors and owners are invested in various assets to generate sales and profits. “Activity ratios are concerned with measuring the efficiency in asset management. Sometimes, these ratios are also called efficiency ratios or asset utilization ratios. The efficiency with which the assets are used would be reflected the speed and rapidity with which assets are converted into sales. The greater the rate of turnover or conversion, the more efficient the utilization/management, other things being equal. For this reason, such ratios are also designated as turnover ratios. Turnover is the primary mode for measuring the extent of efficient employment of assets by relating the assets to sales. An activity ratio may, therefore, be defined as a test of relationship between sales (more appropriately with cost of sales) and the various assets of a firm. Depending upon the various types of assets, there are various types of activity ratios.”²⁹

Activity ratios, thus, involve a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed well. Several activity ratios can be calculated to judge the effectiveness of asset utilization. Since loans and advances are assets and deposits are cost of sales for a bank, an example of a bank’s activity ratio would be loans and advances to total deposits ratio or loans and advances to total assets ratio.

Profitability Ratios

Apart from the creditors, both short-term and long-term also interested in the financial soundness of a firm are the owners and management or the company itself. The management of the firm is naturally eager to measure its operating efficiency. Similarly, the owners invest their funds in the expectation of reasonable return. The operating efficiency of a firm and its ability to endure adequate return to its shareholders depends ultimately on the profits earned by it. A company should earn

²⁸ I M Pandey, *Financial Management*, 8th Ed., Vikas Publishing House Pvt. Ltd., 1999, p. 118

²⁹ Khan, M. Y. and P. K. Jain, *Management Accounting*, Tata McGraw Hill, 2nd Edition, 1993, p. 90

profits to survive and grow over a long period of time. “Profit is the difference between revenues and expenses over a period of time (usually one year). Profit is the ultimate ‘output’ of a company, and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company.”

Profitability is a measure of efficiency and the search for it provides an incentive to achieve efficiency. Profitability also indicates public acceptance of the product and shows that the firm can produce competitively. Moreover, profits provide the money or repaying the debt incurred to finance the project and the resources for the internal financing expansion.

“There are three different concepts of investment in vogue in financial literature: assets, capital employed and shareholders' equity. Based on each of them there are three broad categories of ROI. They are i) Return on Assets (ROA) ii) Return on Capital Employed iii) Return on Shareholder Equity.” (Khan & Jain, 2000: 4.20)

Return on Assets (ROA)

Here, the profitability ratio is measured in terms of the relationship between net profits and assets. The ROA may also be called profit to assets ratio. There are various approaches possible to define net profits and assets, according to the purpose and nature of the calculation of the ratio. Depending upon how these two terms are defined may variations of ROA as possible.

“The concept of net profit may be: I) net profit after tax ii) net profit after taxes plus interest iii) net profit after tax plus interest minus tax saving.”

(Spiller, Financial Accounting, 1977 p.653-54 as quoted by Khan & Jain)

Assets may be defined as: i) Total assets ii) Fixed Assets and iii) Tangible assets. Accordingly the different varieties of the ROA are:

These measures, however, may not provide current results for inter firm comparisons, particularly when these firms markedly vary capital structures. As a measure of operating performance, therefore equation ii) to iv) should be substituted by the following.

The ROA measures the profitability of the total funds invested of a firm, it however, throes no light on the profitability of the different sources of funds which financial the total assets. These aspects are covered by other ROI

Return on Capital Employed (ROCE)

It is similar to ROA except in one respect. Here the profits are related to the total capital employed. The term capital employed refers to long term funds supplied by the creditors and owners of the firm. The higher is the ratio, the more efficient is the use of capital employed.

Return on Shareholders' Equity (ROSE)

This profitability ratio carries the relationship of return to the sources of fund yet another step further. While, the ROCE expresses the profitability of a firm in relation to the funds supplied by the creditors and owners take together, the return on shareholders' equity measures exclusively the return on the owners' funds. The profitability ratios based on shareholders equity are termed as shareholders equity. There are several measures to calculate their return on shareholders' equity: i) Rate of return on a) total shareholders' equity b) equity of ordinary shareholders ii) earnings per share iii) Dividend per share iv) Dividend payout ratio v) Dividend and earning yield vi) Price earnings ratio vii) Market to book ratio. (Khan & Jain, 2000: 4.21)

Return on Total Shareholders' Equity

According to this ratio, profitability is measured by dividing the net profit after tax (but before preference dividend) by the average total shareholders' equity. The term shareholders equity includes preference share capital and net worth. This ratio reveals how profitability the owners' funds have been utilized by the firm. (Ibid p. 4.22)

Earnings per share (EPS)

It measure the profit available to the equity holders on a per share basis that is, the amount that they can get on every share held,

$$\text{EPS} = \frac{\text{Net profit available to equity-holders}}{\text{No. of ordinary share outstanding}}$$

Dividend per share (DPS)

DPS is the net distributed profit belonging to the shareholders divided by the number of ordinary share outstanding. It measures the amount of dividend distributed to each equity shareholders.

Dividend –Payout Ratio

It measures the relationship between the earnings belonging to the ordinary shareholders and the dividend paid to them. In other words, DIP ratio shows what Percentage share of the net profit after tax and preference dividend is paid out as

dividend to the equity –holders. If the Dividend- Payout Ratio is subtracted from 100 it will give what Percentage share of net profit are retained in the business.

Price Earnings Ratio (P/E Ratio)

The P/E ratio reflects the price currently being paid by the market for each rupee of currently reported EPS. In other words, the P/E ratio measures investors' expectations and the market appraisal of the performance of a firm.

“P/ E ratio is the reciprocal of the earning yield. The P/E ratio is widely used by the security analysis to value the firm's performance as expected by investors P/E ratio reflects investors' expectation about the growth in the firm's earnings.” (Pandey, 2000 132)

Market – To- Book Value (M/B)

The market to book value ratio is a relative measure of how the growth option for the company is being valued vis-à-vis its physical assets. The greater the expected growth and value placed such, the higher the ratio. M/B ratio for established companies ranges from 0.5 to as 8.0. The former often is associated with a company which earns less than what the financial markets require a harvest situation and the later with a company which earns substantially more through industry attractiveness and / or competitive advantages.” (Van Horne, 1991:706).

2.1.3 Significance of Financial Ratios

Performance management is a key function in running a small business. Business owners often use a variety of management tools to gauge the effectiveness of their operations. Accounting is the function responsible for recording, reporting and analyzing company financial information. Financial statements are usually the final output of the company& accounting system. Owners use financial ratios to break down their financial statements during the performance management process.

As a tool of financial management, financial ratios are of crucial significance. The importance of ratio analysis lies in the fact that it presents facts on a comparative basis and enables the drawing of inferences regarding the performance of a firm. Ratio analysis is relevant in assessing the performance of a firm in respect of the following aspects;

a) Performance Analysis: A short-term creditor will be interested in the current financial position of the firm, while a long-term creditor will pay more attention to the solvency of the firm. Shareholders are generally concerned with the

return on their capital. The management is concerned with the overall performance of the organization.

b) Short-term Liquidity: The liquidity position of a firm would be satisfactory if it is able to meet its current obligations when they become due. A firm can be said to have the ability to meet its short-term liabilities if it has sufficient liquid funds to pay the interest on its short-maturing debt usually within a year as well the principal. This ability is reflected in the liquidity ratios of a firm. The liquidity ratios are particularly useful in credit analysis by banks and other suppliers of short-term loans.

c) Long-term Solvency: The long-term solvency is measured by the leverage/capital structure and profitability ratios which focus on earning power and operating efficiency. Ratio analysis reveals the strength and weaknesses of a firm in this respect. The leverage ratios, for instance, will indicate whether a firm has a reasonable proportion of various sources of finance or whether heavily loaded with debt in which case its solvency is exposed to serious strain. Similarly, the various profitability ratios would reveal whether or not the firm is able to offer adequate return to its owners consistent with the risk involved.

d) Industry Comparison: The ratios of a firm by themselves do not reveal anything. For meaningful interpretation, the ratios of a firm should be compared with the ratios of similar firms and industry. This comparison will reveal whether the firm is significantly out of line with its competitors. If it is significantly out of line, the firm should undertake a detailed analysis to spot out the trouble areas. If the results are at variance either with the industry average or with those of the competitors, the firm can seek to identify the probable reasons and, in that light, take remedial measures.

e) Trend Analysis: Ratio analysis enables a firm to take the time dimension into account. In other words, whether the financial position of a firm is improving or deteriorating over the years. This is made possible by the use of trend analysis. The significance of a trend analysis of ratios lies in the fact that the analyst can know the direction of movement, i.e. whether the movement is favorable or unfavorable. For example, the ratio may be low as compare to the norm/standard but the trend may be upward. On the other hand, though the present level may be satisfactory but the trend may be declining one. Thus, trend analysis of great significance.

f) Operating Efficiency: Another dimension of the usefulness of the ratio analysis, relevant from the viewpoint of management, is that it throws light on the degree of efficiency in the management and utilization of its assets.

g) Over-all profitability: Unlike the outside parties which are interested in one aspect of the financial position of a firm, the management is constantly concerned about the over-all profitability of the enterprise. That is, they are concerned about the ability of the firm to meet its short-term as well as long-term obligations to its creditors, to ensure a reasonable return to its owners and secure optimum utilization of the assets of the firm. This is possible if an integrated view is taken and all the ratios are considered together.

2.1.4 Users of Financial Ratios

Financial ratios have a wide variety of users whose interests vary from a broad set of items to a limited number. However, they can be broadly classified into two groups, viz. (i) internal users and (ii) external users.

Internal Users

Internal users, primarily the managers of a company, are involved in making operating and strategic decisions for the business. As employees, they typically have complete access to a company's information system. Internally generated financial reports are, therefore, specifically tailored to the unique information needs of an internal decision maker, such as a CEO, CFO, or internal auditor.

“The credit department of a business firm will generally use a broad range of ratios. However, when a credit department must deal with a large number of customers, such as a food wholesaler selling to many retail outlets, a large number of accounts may be involved. For a first screening, the analysis could be limited to three ratios to help predict whether the prospective buyer of merchandise is a good credit risk.

1. The total assets to shareholders' equity ratio to determine the extent to which the prospective customer's own funds are invested in the business.
2. The current and/or quick ratio to measure the ability of the prospective buyer to meet its maturing obligations.
3. The return on equity compared with the firm's cost of equity capital or some broad norm for the cost of equity capital as a test of the firm's profitability.

Logical relationships can be discerned among these three key ratios. If the leverage factor is high, the owners may have insufficient funds in the business and are likely to use supplier financing, which increases current liabilities and reduces the current ratio. So, high leverage ratios are likely to cause low liquidity ratios and the customer is likely to be slow in paying its bills. The account can still be profitable depending upon how slowly payments are made and whether the profitability level of the customer is sufficient to make ultimate payments possible. A high leverage ratio coupled with low liquidity and weak profitability is likely to lead the credit manager to withhold approval of a sale on credit.”³⁰

External Users

External users are individuals not directly involved in the company’s operations. These users must rely on information provided by management as part of the financial reporting process. There are many classes of external users of financial ratios.

Creditors are bankers, bondholders, and other individuals who lend money to business enterprises. Creditors look to financial statement for evidence concerning the ability of the borrower to pay periodic interest payments and repay the principal amount when the loan matures. Interest coverage ratio and debt service coverage ratio are helpful to creditors in determining the security of their investment. Equity investors include existing and potential shareholders of a company. Existing shareholders need financial information in deciding whether to continue holding the stock or sell it. Potential shareholders need financial information to help in choosing among competing alternative investments. Equity investors are generally interested in assessing the future profitability and/or risk of a company. Merger and acquisition analysts are interested in determining the economic value and assessing the financial and operating compatibility of potential merger candidates. Auditors use financial analysis in determining areas warranting special attention during their examination of a client’s financial statements. A company’s board of directors, in their role as appointees of shareholders, monitor management’s actions. Regulatory agencies utilize financial statements in the exercise of their supervisory functions. The government is interested in having the firm be a good economic citizen, meaning that the firm does not engage in price fixing, that it does not adulterate its products, that it does not mislead in advertising, and that it realizes its potential contribution to employment and growth in the economy. The employees are interested in healthy firms that can pay competitive wages including fringe benefits. They want to be

³⁰ Weston, J. Fred and Thomas E. Copeland, *Managerial Finance*, The Dryden Press, 9th Edition, p. 216

assured that pension funds are managed reliably by the firm. Suppliers to the firm seek a good long-term relationship to support long-term investments to produce the products supplied. Other external users include intermediaries (in offering investment advice).

2.1.5 Limitations of Financial Ratios

Although financial ratios can be effective tools for gauging financial performance and managerial effectiveness, they should not be used blindly. First, they should be used as only one instrument in the management tool kit. Essentially, a financial ratio gives an indication of the weak and strong points in a business. Ratios will not say why something is going wrong and what to do about a particular situation; they only pinpoint where a problem is. For example, the inventory turnover may have gone from 10 to 7 over a period of three years, and the industry average may be at 9; this means that management will have to investigate further to see what is going wrong and what to do about it.

A second limitation of ratios emerges when a particular set of ratios of a business is compared to other businesses or industry averages. Although there are accepted accounting principles and conventions for constructing financial statements, several different numbers can be used to calculate a ratio. For example, for calculating the inventory turnover one business may use the cost of goods sold as the numerator, while another may wish to use its sales figures. Even though both companies are part of the same industry, and are equally efficient in the management of inventory, they will show different ratios. In another situation, a business may use the operating profit to calculate its total assets turnover, while another may use the net income after taxes. What is important to remember is that before ratios are compared, some of the numbers on the financial statements may have to be adjusted for comparison purposes.

Third, the fact that different operating methodologies may be employed to run a business may render the comparison of financial ratios irrelevant. For instance, one business may lease most of its assets while another may own them. If this is the case, some of the ratios, such as debt to total assets, fixed-charge coverage, total assets turnover, and return on total assets, would be unrelated.

A fourth limitation is the inflation factor. Inflation can make the ratio of a particular business look good or bad over time, when trends are examined. For example, inventory turnover may have deteriorated over a three-year period; the problem here may not be due to the increase in physical inventory, but rather, to substantial increase in the cost of the goods. Also, an increase in return on total assets

may not mean that the company is more efficient; it may reflect the fact that sales prices (and not volume) have increased rapidly and that the capital assets, which are shown on the financial statements at book costs, have remained unchanged.

Finally, since financial statements reflect the financial situation of a business at a particular point in time, usually at the end of a fiscal period (e.g., December 31), this may indicate a weak ratio which might not be the case if the same calculations were done using the June figures. The balance sheet figures show the situation of a business only on one day out of 365. For instance, because of business cycles, inventories and accounts receivable may be high in December and low in June.

In the fast- changing world it is difficult to take with the pace of change due to the arrival of unforeseen difficulties every study always bounded by some limitations. Some limitations of financial ratio analysis are given below:

1. Qualitative factor may be more important than the quantitative factors; the ratio analysis ignores the qualitative aspect, as it is basically a quantitative analysis.
2. The quality of the ratios depends upon the quality of the accounts on the basis of which these are established. The ratio can only be accurate if the books of accounts are correctly drawn up. The financial statements because the ratio is based on the information provide this.
3. The comparability of ratio suffers, if the price of the commodities in two different years is not the same. In reality, price does not remain the same and the ratio analysis does not have an inbuilt mechanism to adjust the changing prices. A ratio can be accurately interpreted only if the effect of change in price, which may have taken place in adjusted in the figure used in the ratio.
4. Ratio analysis is basically historical in nature since the financial statements on the basis of which the ratio are established, are historical in nature. Unless the ratio analysis is based on the projected financial statements prepared to plan the future.
5. Ratios are only indicators; they cannot be taken as final regarding good or bad financial position of the firms. No ratio may be regarded as good or bad, it may be an indication that a firm is weak or strong, but it must never be taken as proof either one.
6. Another limitation is that of standard ratios with which the actual ratio may be compared. Generally, there is no such ratio, which may be treated as standard for the purpose of comparison, because conditions of concern

differ significantly from those of another concern and over the years of the same concern.

7. The current economic conditions are ignored. [(Ibid, p. 1341)
8. Ratios are simply means not end
9. It is a guide rather than solution to present problem and future plans
10. It is difficult to find out a proper basis of comparison. It is recommended to compare with industry average but the industry average is not easily available

Although ratio analysis is a widely-used tool of financial analysis, it suffers from various limitations. Beyond the operating conditions affecting a company's ratios, it's must be aware of the effects of economic events, industry factors, management policies, and accounting methods. These are some of the limitations of ratio analysis;

1) Standards for Comparison

Ratios of a company have a meaning only when they are compared with some standards. It is difficult to find out a proper basis of comparison. Usually, it is recommended that ratios should be compared with industry average. But the industry averages are not easily available.

2) Company Differences

Situations of two companies are never same. Similarly, the factors influencing the performance of a company in one year may change in another year. Thus, the comparison of the ratios of two companies becomes difficult and meaningless when they are operating in different situations.

3) Price Level Changes

The interpretation and comparison of ratios are also rendered invalid by the changing value of money. The accounting figures, presented in the financial statement, are expressed in the monetary unit which is assumed to remain constant. In fact, prices change over years which affect accounting earnings. At least three effects of inflation can be identified. First, the nominal value of inventory increases on account of rising prices. This results into 'inventory profit'. A firm will lose in real terms if the general price level increases faster than appreciation in the value of inventory. Second, assets are stated at original cost (less depreciation) in the balance sheet. Because of inflation, their current value or replacement cost will be much higher than book value. Thus depreciation calculated on book value will be very low. Third, inflation affects accounting profits of the firms which borrow. If the interest

rate is fixed, shareholders gain at the cost of lenders. The real value of the lenders' obligation is reduced by inflation. The accounting profits do not recognize the gain from borrowing arising due to inflation. Since firms will differ in terms of the nature of their inventory, age and type of assets and debt policy, inflation will affect them differently.

4) Different Definitions of Variables

In practice, differences exist as to the meaning of certain terms. Diversity of views exists as to what should be included in net worth or shareholders' equity, current assets or current liabilities. Whether preference share capital and current liabilities should be included in debt in calculating the debt-equity ratio? Should intangible assets be excluded to calculate the rate of return on investment? If intangible assets have to be included, how will they be valued? Similarly, profit means different things to different people.

5) Changing Situations

The ratios do not have much use if they are not analyzed over years. The ratios at a moment of time may suffer from temporary changes. This problem can be resolved by analyzing trend of ratios over years. Although trend analysis is more useful, still the analysis is static to an extent. The balance sheets, prepared at different points of time are static in nature. They do not reveal the changes which have taken place between dates of two balance sheets. These statements of changes in financial position reveal this information.

6) Historical Data

The basis to calculate ratios are historical financial statements. The financial analyst is more interested in what happens in future, while ratios indicate what happened in the past. Management of the company has information about the company's future plans and policies and, therefore, is able to predict future happening to a certain extent. But the outside analyst has to rely on the past ratios, which may not necessarily reflect the firm's financial position and performance in the future.

“Prior to computing ratios, or similar measures like trend indices or Percent relations, it must be confirmed that the numbers underlying their computation are valid and constant. For example, when inventories are value using LIFO and prices are increasing, the current ratio is understated because LIFO inventories (the numerator) are understated. Similarly, certain pension liabilities are often unrecorded and disclosed in notes only. It is normally wanted to recognize these liabilities when computing ratios like debt to equity. It is must be also recognized that when it makes

adjustments for one ratio, consistency often requires for other ratios. For example, the omission of a pension liability implies understated pension expenses. Accordingly, net income numbers often require adjustment in ratio computation. It is also needed to remember the usefulness of ratios depends on the quality of the numbers in their computation. When a company's internal accounting controls or other governance and monitoring mechanisms are unreliable in producing credible figures, the resulting ratios are equally unreliable."³¹

2.2 Review of Articles and Journals:

Under this headings effort has been made to examine and review of some related articles published in different economic journals, magazines, newspapers and related books. Modern commercial banks have various kinds of sets in their possession. Generally the size & volume of the asset depend on the scientific and rational management of asset.

A successful performance of the bank in the economy is determined by size of market, the development of trade and commerce, the existing discount and money market for assuring the safety and liquidity off assets. With regard to the distribution of bank's assets the theory of commercial loan and industrial loan has been an issue of controversy between bankers and economist. The commercial banks hold the view that the bank should confine them to advancing short-term loan of self-liquidating nature, whereas industrialist hold their activities also to granting long term loans for development of country's industry. Economist upholds their views for granting of long-term advance side by side with the short-term loans. There are three main principles which the commercial banks adhere to. They are:

- 1.) Profitability
- 2.) Safety
- 3.) Liquidity

Profitability: It is the objectives which earn maximum profit. Banker naturally likes to use a high Percentage of its total resources in loans & advances.

Safety: Here safety means stability of volume of assets over a particular period of time and credit worthiness of debtors in payments of interest and repayment of the principles. If the interest rate is raised above the expected level, it says the assets are risky and vice-versa. The credit worthiness of the debtors is another measure for degree of safety in the assets.

³¹ Bernstein, Leopold A. and John J. Wild, *Financial Statement Analysis: Theory, Application, and Interpretation*, Irwin McGraw Hill, 6th Edition, 1998, p. 29

Liquidity: Liquidity means protection against the risk. The latter might occur if the banks are forced to sell the credit worthy assets in adverse market to meet the demand of depositors. That is liquidity means not only the bank's ability to meet the possible withdrawals of demand depositors but also to provide the legitimate credit need of the community as well. (Aryal, 1967-1970, p.63)

Likewise, Mr. Khem Raj Baral, the senior officer of Rastriya Banijya Bank said in his writing "Deposit Mobilization in commercial banks" that branch expansion, increase in deposit interest rates, proper facilities to customers, deposit insurance policy, deposits from semi-government organizations can help to collect more deposits and by expanding commercial bank branches and suitable rates play an important role in mobilization of the collected deposits.

An article on "Basel Capital Accord: past, present and future" tries to explain the requirement of Basel Capital. The Basel Capital Accord is a manual for capital measurement and capital standards. The Accord is prepared by the Basel Committee on Banking Supervision. The Basel Committee issued the first Basel Capital Accord in 1988. By the end of 1992, the capital accorded was implemented worldwide. The present NRB directives on capital fund (Directive No. 1) are based on the Basel Capital Accord of 1988.

The Basel Capital Accord of 1988 has provided that the capital fund of a bank should be based on the measurement of risks associated with the assets of the bank. The assets could be on and off balance sheet items. The total capital fund is calculated by adding up the amount of tier-1 capital and tier-2 capital.

Tier-1 capital, which is called core capital, consists of share capital, share premium, non-preference share, general reserve funds, cumulative profit/loss and current year profit.

Tier-2 capital, also known as supplementary capital, consists of loan loss provision, exchange equalization reserve, assets revaluation reserve, hybrid capital instruments, unsecured subordinated term debt, interest rate fluctuation fund and other free reserve.

The capital adequacy ratio is the ratio of total capital fund to total risk-weighted assets. The Basel Capital Accord of 1988 had set the target standard ratio of capital to weighted risk assets (Capital Adequacy Ratio) at 8 Percent (of which the core capital element was at least 4 Percent).

The Basel Capital Accord of 1988 only focuses on a single risk measure to overcome such a drawback. In June 1999, the Basel Committee released a proposal to

replace the 1988 accord with a more risk sensitive framework. After going through the comments received from various sources, the committee published the new Basel Capital Accord in 2001 to be implemented by 2006.

Dr. Govida Bahadur Thapa has expressed his view that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise loans and advances of these banks are also increasing. But compared to the huge credit needs particularly by the newly emerging industries the bank still seems to lack adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors. (Thapa, 1994:15)

A provision requiring the commercial banks established to operate in the Kathmandu valley are required to maintain compulsory a minimum capital fund of Rs. 500 million by the end of the fiscal year. The amount under the headings of paid-up capital, general reserve, share premium, non-redeemable preference share and retained earnings would be considered for calculating the minimum capital funds. The commercial banks could not use the retained earnings included in the core capital funds to the extent of the minimum capital funds failing short of Rs.500 million till the end of fiscal year, they were not allowed to declare and distribute the dividend and bond.

2.3 Reviews of Previous Studies

Various studies have been undertaken to compare the financial performance of JVBs (Joint Venture Banks) in Nepal. However, much study has not been carried out on the comparative financial performance between Standard Chartered Bank Nepal Ltd. (SCBNL) and Everest Bank Ltd. (EBL). Therefore, it has made an attempt to review the previous studies that are closely related to the topic of the study.

One study was conducted on “A study on Financial Performance of JVBs in Nepal”³² of 5 JVBs in Nepal for the period of 1995/96 to 2000/01 by Biru Ram Jaishi in 2003. The comparative analysis of these five banks mentioned its objectives as;

1. To evaluate effectiveness of monitoring and collecting policies of related JVBs,
2. To calculate the trend analysis of total deposits, total investment, total income, total expenses, and total net income.

³² Jaishi, Biru Ram, *A study on Financial Performance of JVBs in Nepal*, An unpublished master’s dissertation submitted to CDM, TU, 2003

He concluded with a table providing various financial ratios of the 5 JVBs included in his study.

Table 2.1 Combined mean of various JVBs from 1995/96 to 2001/02

Ratios	NABIL	SCBNL	NIBL	NSBIBL	NBBL
1. Liquidity	18.75	16.44	30.54	48.79	77.57
2. Activity	109.32	75.20	108.47	164.74	148.23
3. Capital Structure	32.92	35.09	32.58	36.75	36.17
4. Profitability	13.40	13.87	10.19	8.25	12.42
5. Invest ability	50.41	106.65	44.60	26.99	27.71
6. Others	18.01	18.47	16.27	19.69	21.52

Mr. Jaishi further added that while NBBL could easily pay its current liabilities, other banks needed to maintain a 2:1 ratio of liquidity position. Activity ratio of NSBIBL was better than other banks. Capital structure ratio of NSBIBL was high, indicating that the bank had used more debt capital. Although the proportion of debt to equity was high in NSBIBL, its profit was low which meant that the bank was not successful in utilizing its debt efficiently. The profitability position of SCBNL and NABIL were similar. Invest ability ratio of SCBNL was better than other banks. It indicated that the bank had yet to fully exploit its investment opportunities.

Another study was conducted on the “Financial Evaluation and Analysis of NIBL & SCBNL”³³ by Mr. Krishna Ram Pahi (study period- 1991/92 to 2000/01) where the study’s objectives were stated as;

1. To evaluate the trends in growth of loans and investment and total deposits of NIBL and SCBNL.
2. To analyze the relationship between MPS, DPS, and EPS of NIBL and SCBNL.
3. To evaluate the liquidity, profitability, capital structure, activity, and capital adequacy positions of NIBL and SCBNL.

Some of the conclusions made in Mr. Pahi’s study are as follows;

1. The liquidity position of both the banks revealed that; (a) the mean ratio of cash and bank balance to total deposits of NIBL was greater than that of SCBNL and the variability of the ratio of SCBNL was more uniform than that of NIBL, and (b) the mean ratio of balance with NRB to total deposits

³³ Pahi, Krishna Ram, *Financial Evaluation and Analysis of NIBL & SCBNL*, An unpublished master’s dissertation submitted to CDM, TU, 2003

of SCBNL was slightly lower than that of NIBL. However, the variability of the ratios of NIBL was more homogeneous than that of SCBNL.

2. NIBL was comparatively more successful than SCBNL in on-balance sheet assets utilization.
3. The capital adequacy position of NIBL was better than that of SCBNL.
4. The capital structure of SCBNL was more leveraged in comparison to NIBL. This implied that SCBNL was utilizing more outside funds for the benefit of its shareholders.
5. Profitability position of SCBNL was comparatively better than that of NIBL.
6. The estimated MPS of NIBL with respect to its DPS showed that other things remaining the same, if the DPS of NIBL went up by, say a rupee, the mean or average MPS of NIBL decreased by about Rs.0.41 (i.e. the slope of MPS curve is -0.41). Of course, this is a purely mechanical interpretation of the intercept term. On logical grounds, however, there is to believe that a stable dividend policy does lead to higher stock prices.

In another study titled “Financial Analysis of JVBs in Nepal”³⁴, by Mr. Dines Raj Shakya about the financial performance of NABIL and NGBL (study period-1987/88 to 1993/94) has been undertaken. The researcher has presented major findings of his study in more than one dozen points. The summaries of main findings are as follows;

1. There existed highly positive correlation between total deposits and loans and advances of NABIL and NGBL.
2. NGBL’s liquidity and profitability position was comparatively better than that of NABIL.
3. The capital structure position of NGBL was more risky than that of NABIL, in average.
4. NABIL’s capital adequacy position was more satisfactory than that of NGBL, in average, but NABIL’s position had deteriorated each year.

Yet another study titled “Nepal’s Best Joint Venture Banks (1999-2001)”³⁵ was conducted with the objectives as by Mr. Prakash Sharma;

- I. To find out the comparative competitive position of the JVBs.

³⁴ Shakya, Dines Raj, *Financial Analysis of JVBs in Nepal*, An unpublished master’s dissertation submitted to FOM, TU, Prithvi Narayan Campus, Pokhara, 1995, p.2

³⁵ Sharma, Prakash, *Nepal’s Best Joint Venture Banks (1999-2001)*, An unpublished master’s dissertation submitted to FOM, TU, 2003

- II. To analyze their financial, operational, productivity and profitability conditions.
- III. To rank the JVBs according to their financial, operational, productivity, and profitability conditions.

Several conclusions were made by Mr. Sharma at the end of his study which have been summarized and presented below;

1. SCBNL had the strongest financial position as it enjoyed large profit compared to other JVBs. NABIL was strong in average working fund and reported net profit. NSBIBL and EBL's financial condition was not so good. NIBL had the lowest deposit, net profit, and operating profit. Its financial growth was also very weak.
2. NBBL, SCBNL, and NIBL were stronger than other JVBs in the operational aspect. NBBL had high interest as well as non-interest income. HBL not able to gain satisfactory return to its average working funds. Its lending also faced high risk of default.
3. In terms of profitability, SCBNL was undoubtedly the highest profit-earner among the JVBs. NBBL was another strong bank in profitability. On the other hand, EBL, NSBIBL, and NIBL were not doing well in generating profit.
4. SCBNL showed high level of productivity in its performance. HBL and NABIL's productivity was also commendable. The branches of all these banks made profit. NSBIBL, NBBL, and EBL were poor in productivity. EBL and NBBL were poor in business per employee while NSBIBL was weak in profit related case.

An another study "Dividend Policy of Joint Venture Banks in Nepal"³⁶ has been conducted by Mr. Pramesh KC to compare the financial performance of NABIL, NISBL, and NGBL (study period from 1984/85 to 1989/90) with the objectives as follows;

- I. To provide conceptual framework of dividend models,
- II. To analyze the financial variables affecting the stock value and interpret the dividend paying implication under dividend valuation models, and
- III. To provide suggestions, this will give vision for determination and espousal of dividend policy of JVBs.

³⁶ K C, Pramesh, *Dividend Policy of Joint Venture Banks in Nepal*, An unpublished master's dissertation submitted to IOM, TU, 1991

At the end of the study, he had presented main findings in more than one dozen points. The summaries of main findings are as follows;

1. The EPS of all 3 JVBs increased satisfactorily.
2. There was correlation between EPS & DPS.
3. Amount of cash dividend had been increasing each year.
4. The P/E ratio, earning yield, dividend yield Percentage exposed cyclical behavior.
5. R/E ratio fluctuated in smaller proportion.
6. The market values per share of JVBs stocks in Security Exchange Center significantly fluctuated and were trading on high prices.
7. JVBs in Nepal were seen as growth banks because actual capitalization rate (r) was higher than the normal capitalization rate (k), i.e. $r > k$.
8. Under CAPM, the Beta Risk of JVBs was less risky.
9. CDPS of JVBs were significantly increasing each year.
10. The annual average growth rate in CDPS of NABIL, NISBL, and NGBL were recorded as 35 Percent, 51.70 Percent, and 100 Percent respectively.

Another study, “A Comparative Study of the Financial Performance of Nepal Arab Bank Ltd. and Indosuez Bank Ltd.”³⁷, by Bhoj Raj Bohara stated its objectives as;

- I. To highlight on the functions and policies of JVBs,
- II. To evaluate the comparative financial performance of NABIL and NISBL in terms of their liquidity, activity, profitability along with other parameters.

At the end of the study, it was concluded that;

1. The current assets of the banks were adequate to discharge current liabilities. The primary and secondary reserve position with respect to short-term deposits was better in NABIL than NISBL.
2. NISBL had been utilizing more deposits for the income generating purpose than NABIL. Besides, the former had been utilizing low cost-bearing deposits more efficiently than NABIL.
3. NISBL was following safer deposits and more selective lending policy than NABIL.
4. NISBL had been performing well in terms of ‘Return On Capital’, ‘Cash Dividend Per Share’, ‘Tax Per Share’, ‘Dividend Payout Ratio’, ‘Price

³⁷ Bohara, Bhoj Raj, *A Comparative Study of the Financial Performance of Nepal Arab Bank Ltd. and Indosuez Bank Ltd.*, An unpublished master’s dissertation submitted to TU, 1992

Earning Multiple’, ‘Market Value of the Securities to Net Worth’ than NABIL whereas the latter had been performing well in terms of ‘Return on Assets’, ‘Return on Deposits’, and ‘Earnings Per Share’. Besides this, the Percentage average operating profits of NABIL was higher than that of NISBL, but was decreasing faster also.

5. The increasing trend of NISBL’s EPS, CDPS, and Tax per Share, Net Profit, Total Deposits, Total Loans and Advances, and Market Value per Share in the last three years of the study period had shown improvement in the financial performance of the same than that of NABIL.

Yet another study titled “A Comparative Study on the Financial Performance of NISBL & NGBL”³⁸ by Mr. Hiralal Prasad conducted a comparative analysis of the financial performance of NISBL and NGBL (study period- 1989 to 1996) and stated its objectives as;

- I. To evaluate trends and growth at loans and investments and total deposit patterns of NISBL and NGBL and make projection of these for next eight years.
- II. To analyze the relationship between MPS, DPS, and EPS of NISBL and NGBL.
- III. To evaluate absolutely and comparatively the liquidity profitability leverage-ness and operation of NISBL.

In the conclusion part of his study, Mr. Prasad writes; NGBL had been able to gain a higher market share in case of deposit compared to NISBL. However, it was to be noted that NGBL had more of the current deposits fund as a result of its loans and advances, total deposits are significantly lower than that of NISBLs. The following table would exhibit the comparative performance of both banks;

Table 2.2 Combined mean of NISBL and NGBL from 1989 to 1996

Ratio	Combined Mean	
	NISBL	NGBL
1. Liquidity	18.87	20.64
2. Capital Adequacy	62.61	70.85
3. Leverage	50.76	53.51
4. Profitability	22.64	27.74

³⁸ Prasad, Hiralal, *A Comparative Study on the Financial Performance of NISBL & NGBL*, An unpublished master’s dissertation, TU, 1999

From the above table, it is quite clear that NGBL's performance was comparatively better from the point of view of profitability as well as investments. The various ratios calculated throws light on the superiority of performance of NGBL over NISBL.

Another study "A Study of Predictability of Financial Ratios"³⁹ has made an attempt to measure the degree of predictability of financial ratios by Mr. Shree Prasad Siwakoti. The study has made an attempt to test the predictive power of each of the ratios and find out the best ratio among them. An effort has also been made to categorize all the ratios according to their predictive power and to determine whether the predictive powers of all the ratios are same or not.

On concluding his study, Mr. Siwakoti states that;

1. Among current ratios, the quick ratio has the greatest predictive power. The current ratio can predict more accurately than the net working capital ratio.
2. Of the four leverage ratios, the interest coverage ratio has the greatest predictive power. Debt to total assets ratio can predict well too.
3. Total assets turnover ratio has the highest predictive power among the activity ratios.
4. While testing the predictability of profitability ratios, net profit margin ratio scored the highest. Return on capital employed ratio and return on shareholders' equity ratio showed equal predictive power.
5. While categorizing all the ratios according to their predictive power, interest coverage ratio ranked 1st whereas net profit margin ratio ranked 2nd. On the other hand, net working capital ratio showed that it had the least predictive power (Rank 17th).
6. Finally, Mr. Siwakoti concludes that the predictive power of each financial ratio varies with each other. Some ratios are superior and some are not. So, all the ratios cannot predict equally.

2.4 Review of Related Dissertation:

Under this heading, effort has been made to examine and review of some related unpublished dissertation.

Nepal, Binod (2004) has carried out his study on "*An Analysis on Working Capital Management with Special Reference to Hetauda Textile and Balaju Textile.*" The main objective of this study is to analyze the liquidity, long term solvency, assets utilization and profitability position of both industries and to make

³⁹ Siwakoti, Shree Prasad, *A Study of Predictability of Financial Ratios*, An unpublished master's dissertation submitted to FOM, TU, Post Graduate Campus, 2060 BS

an overall comparison of working capital management of both companies. The major findings of this study are as follows.

- The liquidity position of Hetauda textile ltd. was better than that of Balaju textile Ltd. But both companies have not followed a proper working capital policy.
- Total assets turnover of both companies was not satisfactory and there was no significant difference of total assets turnover.
- Cash balance maintained by Balaju textile Ltd. was better than that of Hetauda textile.
- Solvency position of Hetauda textile was better than that of Balaju textile.
- Profitability position of Hetauda textile was better than that of Balaju textile; however both companies have not good profitability position during the study period.

Karki, Nirmal (2005) has conducted a study on "*Comparative Study of working capital management of Nepal Bank Limited and Nepal Arab Bank limited.*" The main objective is to analyze the comparative study of working capital management of NBL and NIBL. The major findings of the study are as follows:

- The liquidity position of NBL is better than that of NIBL.
- NIBL has better turnover and investment efficiency on loan and advance than NBL. So the management of loan and advance is more problematic in NBL than NIBL.
- Profitability position of NIBL is far better although NBL earned higher interest than NIBL.

He has recommended that both banks should adopt matching working capital policy rather than conservative policy. He has also recommended that both banks should give attention to collect over

Dated loan and advances and utilize the idle funds. High cost deposit should be reduce to minimize operating cost and maximize profit.

Parajuli, Bharat (2006) conducted a study one evaluating the financial performance of Nepal Bank Ltd. The basic objective of study was to evaluate financial performance of this bank from FY 2000/01 to 2005/06. Other objectives of the study were, to examine the trend of deposit mobilization along with the cost of deposits to assess the investment portfolio of the bank, to measure liquidity, profitability and operating efficiency of the bank, to evaluate the earning power and dividend paying ability of the bank.

It was concluded that investment portfolio of the bank had not been managed so efficiently to maximize the returns therefore, the bank was suffered from series of operational losses over the period. So, operational efficiency was not satisfactory. Likewise, allocation of the loans and advances by the bank was not as meaningful as the productive sector had little share in the loan portfolio. Similarly lower return on investment and lower market value of the banks share as against the book value was a reflection of the weaker financial performance of the bank. Nothing was satisfactory except liquidity position.

Adhikari, Sumitra (2007), entitled with “*A Study of Non-Performing Loan & Loan Loss Provision of Commercial Bank, A Case Study of NIBL, SCB and NBL*” has made study about a part of credit risk associated with those banks. The main objectives of her study were:

- To find out the proportion of non-performing loan in the selected commercial banks.
- To find out the factors leading to accumulation of non-performing loan in commercial banks
- To study and analyze the guidelines and provisions pertaining to loan classification and loan loss provisioning.

- To find out the relationship between loan and loan loss provision in the selected commercial bank.
- To study and the impact of loan loss provision on the profitability of the commercial banks.

The major finding in her study was that the NBL has the highest portion of the loan in total asset followed by NIBL and KBL. She concludes that the SCBL shows the risk-averse attitude. Likewise the non-performing loan to total loan is found highest in NBL, NIBL and KBL. Likewise the Loan Loss Provision is also highest in NBL whereas the SCBL has the least Loan Loss Provision.

Likewise, the NBL has the highest portion of Loss loan followed by NIBL and SCBL. This study is more concentrated on non-performing loans; however, there exist lots of areas in credit risk management where further research is called for. In context of credit risk, collateral risk, concentration risk, organization risk management system can be studied.

Sapkota, Arjun (2008) "Deposit Mobilization of commercial Banks in Nepal" has concluded that the commercial banks have not been successful in the mobilization of deposits collected by the commercial banks. It is because of the facts that the commercials have not been able to motivate and facilitate to their clients except to change in the rate of interest. On the end, she recommended that banking services should be extended in more other area including rural area by which amount of investment will be increased.

Shrestha, Prem Bahadur (2009) in his study on "Capital and Assets Structure Management of Commercials Bank in Nepal" is on the basis of financial and statistical analysis, finding issues and gaps of the study. He remarked that the existence of a commercial bank in today's competitive banking environment is largely depends upon its financial strength and sound internal management. Negligence in designing, efficient organization structure, capital and assets structure, plans and programs could be the main cause of various crises in the bank and one of the main reasons of a bankruptcy.

Motivation, training programs and other co-ordination programmers may be the significant ingredients for the conceptual development and for adequate knowledge, which may lead to innovate in policy formulation. Finally better performance through capital control and efficient internal and external management will ensure the effectiveness of bank capital and assets structure management policy.

Amatya, Dinesh Raj (2010) "Financial Analysis of Joint venture Banks in Nepal" tries to find out trend of deposits and loans of NIBL Bank and KBL Bank. Besides this his objectives are to evaluate the liquidity, profitability, capital structure, activity and capital adequacy of these banks. He remarked that banks should operate new utilization of same as well as to increase their transaction and to provide financial services and facilities to more customers. It is recommended to increase its cash and bank balance as well as Money at call for improving its liquidity position.

CHAPTER—III

RESEARCH METHODOLOGY

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

Researcher needs sequential steps to adopt realistic study or studying a problem with certain object/objects in view. So that, Through Research methodology researcher can get appropriate guidelines and knowledge about the various sequential steps to adopt a systematic analysis. Research Methodology is the investigation tools of any certain area and it measures clearly observation of certain objective. Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigation backed by collection presentation and interpretation of relevant details or data.

Research is a systematic & organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering, recording analysis & interpreting the data with the purpose of finding answers to the problem. Research methodology suggests the systematic way to solve the research problem. Basically it consists of the research design, the nature and sources of data, data collection tools, population and sample, data analysis tools, research variables and research questions.

3.1 Research Design

“A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.”⁴⁰

This research study attempts to examine and compare the financial performance of two Joint-Venture Banks operating in Nepal. While financial tools have been employed to examine their financial strengths and weaknesses, statistical tools have been used to compare the relative performance of the two banks under study.

⁴⁰ Kothari, C. P., *Research Methodology: Methods and Techniques*, Willey Eastery Limited, New Delhi, 1989, p. 86

The research design followed is analytical cum descriptive approach to evaluate and compare the financial performance of the banks under study. Evaluation and comparison has been done on the basis of secondary data, i.e. the financial statements of these banks for the last 5 years.

3.2 Nature & Sources of Data

Secondary sources of data have been used exclusively for the purpose of this study, viz. the annual reports published by these banks at the end of each fiscal year. Similarly, articles, journals related to the financial performance study, previous research reports etc. were also taken into account while collecting information. Bulletins and reports published periodically by various government bodies have also been helpful in undertaking this research study.

3.3 Population and Sample

All 7 joint-venture banks currently operating in Nepal is the population. On the basis of the researcher's judgment, the study will cover only 2 samples out of all the JVBs, viz. Standard Chartered Bank Nepal Ltd. (SCBNL) and Everest Bank Ltd. (EBL). The published financial statements of these banks for the years from 2006-2007 to 2010-2011 (5 years) have been taken as sample data.

3.4 Data Collection Procedure

As the study is analytical-cum-descriptive in nature, research is based on the historical data of the banks available in the annual reports of the banks. The annual reports were collected from the respective banks as well as the internet (www.nepalstock.com.np). Books, periodicals, journals, articles on the related subject were extensively reviewed in the library. Quotations from various authors on the related topic have been placed throughout the chapters. The secondary data will be obtained by various publications of NRB, publications of Security Board Nepal (SEBO), Nepal Stock Exchange (NEPSE), various annual reports of sample commercial bank as well as financial institutes economic survey, development plans, various national and international journals, newspapers, previous dissertations etc.

3.5 Method of Data Analysis

The study basically uses secondary data which were firstly collected and tabulated into a separate form systematically. These are presented and analyzed in a descriptive way. Graphs, tables are presented where necessary.

In order to make a clear presentation, calculations of the figures have been done separately and the resulting figures are then presented in tables. Simple statistical analysis, such as Percentage, ratio and arithmetical mean is used to represent the resultant figures.

A) Analysis by Tabular and Graphical Presentation:

Tabular presentation usually depicts the data of different period of time presented in attractive manner and graphical presentation means presenting those data in the graph. Here in this section, it has been tried best to present data relating to balance sheet and income expenditure account in very precise manner. There are many items in these account but few items like loans and advance, investment and deposit are few of those important variable balance sheet. Operating profit is the other important variable of income and expenditure account. So in order to analyze the assets and liabilities management of selected joint venture banks, first the tabular presentation has been done and later presented in graph.

B) Financial Tools:

Financial tools are used to examine the financial performance i.e. strength & weakness of a bank. In this study financial tool like ratio analysis has been used.

3.5.1 Financial Tools

Several relevant financial tools are used to find out the best appropriate results as per the designated objectives of the study. As the study focuses on the financial performance of the two JVBs, financial ratios have been used in order to assess their strengths and weaknesses. The types of financial ratios used for this study are presented below;

3.5.1.1 Liquidity Ratios

Liquidity ratios measure the firm's ability to meet current obligations. In fact, analysis of liquidity needs the preparation of cash budgets and cash and fund flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity. A firm

should ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity. The failure of a company to meet its obligations due to lack of sufficient liquidity, will result in a poor creditworthiness, loss of creditors' confidence, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad; idle assets earn nothing. The firm's funds will be unnecessarily tied up in current asset. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

The types of liquidity ratios used in this study are as follows;

1. Cash & Bank Balance to Current Assets Ratio

$$= \frac{\text{Cash and Bank Balance}}{\text{Current Assets}} \times 100$$

2. Loans & Advances to Current Assets Ratio

$$= \frac{\text{Loans and Advances}}{\text{Current Assets}} \times 100$$

3. Fixed Deposit to Total Deposit Ratio

$$= \frac{\text{Fixed Deposit}}{\text{Total Deposit}} \times 100$$

4. Saving Deposit to Total Deposit Ratio

$$= \frac{\text{Saving Deposit}}{\text{Total Deposit}} \times 100$$

5. Investment on Govt. Securities to Current Assets Ratio

$$= \frac{\text{Investment on Govt. Securities}}{\text{Current Assets}} \times 100$$

6. Current Ratio

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}} \times 100$$

7. Cash & Bank Balance to Total Deposit Ratio

$$= \frac{\text{Cash & Bank Balance}}{\text{Total Deposit}} \times 100$$

3.5.1.2 Activity Ratio/Turnover Ratios

Activity ratios reflect the firm's efficiency in utilizing its assets. They are employed to evaluate the efficiency with which the firm manages and utilizes its assets. These ratios are called turnover ratios because they indicate the speed with which assets are being converted or turned over into sales. Activity ratios, thus, involve a relationship between sales and assets.

1. Loans & Advances to Total Deposit Ratio

$$= \frac{\text{Loans and Advances}}{\text{Total Deposit}}$$
2. Loans & Advances to Fixed Deposit Ratio

$$= \frac{\text{Loans and advances}}{\text{Fixed Deposit}}$$
3. Loans & Advances to Saving Deposit Ratio

$$= \frac{\text{Loans and Advances}}{\text{Saving Deposit}}$$
4. Operating Profit to Net Worth Ratio

$$= \frac{\text{Operating Profit}}{\text{Net Worth}}$$
5. Total Investment to Total Deposit

$$= \frac{\text{Total Investment}}{\text{Total Deposit}}$$

3.5.1.3 Capital Adequacy Ratios:

Capital Adequacy ratio shows whether 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 principal, safety and stability of the fragile financial system ultimately rest upon the confidence of the depositors and creditors. NRB has directed all banks to keep Capital Adequacy ratio of at least 10 Percent of total weighted risk assets.

1. Shareholder's Fund to Total Deposit Ratio:

$$= \frac{\text{Shareholder's Fund}}{\text{Total Deposit}}$$

2. Shareholder's Fund to Total Assets Ratio:

$$= \frac{\text{Shareholder's Fund}}{\text{Total Assets}}$$

Shareholder's fund = Paid up Capital + Reserve Fund + Net Profit (Loss)

3.5.1.4 Profitability Ratio

“The future stream of cash flows is the result of a large number of policies and decisions. It is started with historical data about cash flow and profitability but

emphasize that these represent only the starting point. Further strategic and operating analysis is required to make a meaningful projections for the future.”⁴¹

Profitability ratios measure overall performance and effectiveness of the firm. Besides management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and payment of principal regularly. Owners want to get a required rate of return on their investment. This is possible only when the company earns enough profits.

Some of the profitability ratios used in this study is;

1. Interest Earned to Working Fund Ratio

$$= \frac{\text{Interest Earned}}{\text{Working Fund}} \times 100$$

2. Interest Paid to Working Fund Ratio

$$= \frac{\text{Interest Paid}}{\text{Working Fund}} \times 100$$

3. Net Profit to Working Fund Ratio

$$= \frac{\text{Net Profit}}{\text{Working Fund}} \times 100$$

4. Net Profit to Total Deposit Ratio

$$= \frac{\text{Net Profit}}{\text{Total Deposit}} \times 100$$

5. Return on Total Assets Ratio

$$= \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

6. Interest Earned to Total Assets ratio

$$= \frac{\text{Total Interest}}{\text{Total Assets}}$$

7. Return on Shareholder’s Equity Ratio

$$= \frac{\text{Net Profit after Tax}}{\text{Total Shareholders' Equity}} \times 100$$

3.5.1.5 Capital Structure Ratio/Leverage Ratios

Leverage ratios show the proportions of debt and equity in financing the firm’s assets. As a general rule, there should be an appropriate mix of debt and owner’s equity in financing the firm’s assets.

Leverage ratios may be calculated from the balance sheet items to determine the proportion of debt in total financing. Many variations of these ratios exist; but all

⁴¹ J F Weston & T E Copeland, *Managerial Finance*, 9th Edition, p 193

these ratios indicate the same thing- the extent to which the firm has relied on debt in financing assets. Leverage ratios are also computed from the profit and loss items by determining the extent to which operating profits are sufficient to cover the fixed charges. Some of the leverage ratios used is;

1. Long Term Debt to Net Worth Ratio

$$= \frac{\text{Long Term Debt}}{\text{Net Worth}} \times 100$$

2. Net Fixed Assets to Long Term Debt Ratio

$$= \frac{\text{Net Fixed Assets}}{\text{Long Term Debt}} \times 100$$

3. Total Debts (Liabilities) to Net Worth Ratio

$$= \frac{\text{Total Liabilities}}{\text{Net Worth}} \times 100$$

4. Debt to Equity Ratio

$$= \frac{\text{Long Term Debt}}{\text{Shareholder's Equity}} \times 100$$

3.5.1.6 Other Financial Indicators

Other financial indicators such as price earnings ratio, earnings per share, and dividend per share reveal the potentiality of an institution to earn in the future. Investors contemplating to invest in the common stocks would be keen to know the investment potentiality of a company which is revealed by these indicators.

1. Price Earnings (P/E) Ratio

$$= \frac{\text{Market Value of Share (Clsng. Val.)}}{\text{Earnings Per Share}}$$

2. Earnings Per Share

$$= \frac{\text{Market Value of Share (Clsng. Val.)}}{\text{P / E Ratio}}$$

3. Dividends per Share

$$= \frac{\text{Dividends Declared}}{\text{Number of Shares o/s}}$$

3.5.2 Statistical Tools

Several numbers of statistical tools can be employed to examine the financial data of SCBNL and EBL. Some of the statistical tools that are used for the purpose of this study are presented below;

3.5.2.1 Arithmetic Mean

Most of the time when "average" refer to the something, we are talking about its arithmetic mean. To find out the arithmetic mean, it sums the values and divides by the number of observations. The mean can be calculated as;

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

Where,

\bar{x} = Mean

$\sum x$ = Sum of values of all observation

n = Number of elements in the sample

3.5.2.2 Standard Deviation

The standard deviation is the square root of the average of the squared distances of the observations from the mean. It enables us to determine, with a great accuracy, where the values of a frequency distribution are located in relation to the mean. To compute the sample standard deviation, The following formula is used;

$$S.D. = \sqrt{\frac{1}{n-1} \sum (x - \bar{x})^2}$$

Where,

S.D. = Standard deviation

x = Value of each of the n observation

\bar{x} = Mean of the sample

$n-1$ = Number of observations in the sample minus 1

3.5.2.3 Coefficient of Variation

The coefficient of variation is the relative measure of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation of the mean expressed in Percent.⁴² The unit of measure, then, is “Percent” rather than the same units as the original data. For a population, the formula for the coefficient of variation is;

In symbol,

$$C.V. = \frac{S.D.}{\bar{x}} \times 100$$

Where,

C.V. = Coefficient of Variation

\bar{x} = Arithmetic Mean

$$S.D. (s) = \text{Standard Deviation} = \sqrt{\frac{1}{n-1} \sum (x - \bar{x})^2}$$

⁴² Levin, Richard I and David S Rubin, *Statistics for Management*, Prentice Hall of India Pvt. Ltd., New Delhi, Fifth Edition, 1994, p. 114

CHAPTER–IV

PRESENTATION AND ANALYSIS OF DATA

This chapter puts forward the analysis of secondary data along with their results and interpretations. The chapter starts with the presentation of secondary data in a tabular form. A graphical representation is also made followed by analysis and interpretation of the calculated data. Several relevant tools such as mean, standard deviation, coefficient of variation have been used for calculation.

The data collected from various sources are presented, analyzed and interpreted in this chapter. Different analytical tools have been used to analyze and interpret the data following the research methodology explained in previous chapter. Data collected from different sources has been first tabulated and hence interpreted with the help of various financial and statistical tools.

Financial statements serve as a means to various stakeholders of the firm to analyze the organization's financial strengths, weaknesses, and performance. There are various ways to conduct the financial performance study. One of them is the financial ratio analysis.

A financial ratio is a relationship between two financial variables. It helps to ascertain the financial condition of a firm. Ratio analysis is a process of identifying the financial strengths and weaknesses of the firm. This may be accomplished either through a trend analysis of the firm's ratios over a period of time or through a comparison of the firm's ratios with its nearest competitors and with the industry average.

Therefore, this chapter particularly analyzes and interprets the following aspects of financial position of SCBNL and EBL;

- Liquidity position
- Activity/Turnover position
- Profitability position
- Capital structure/Leverage position
- Other financial positions such as; price earnings ratio, earnings per share, and dividends per share.

4.1 Liquidity Ratios

A satisfactory liquidity position is one of the distinguishing characteristics of a sound bank. As a critical factor of evaluation, liquidity is the ability of a bank to satisfy the credit needs of the community, to meet demands for deposit substitutes, withdrawals, pay maturing obligation on time, and to convert non-cash assets into

'cash' to satisfy immediate needs without loss to bank and consequent impact in the long-term profitability.

Liquidity ratios such as cash and bank balance to current assets ratio, loans and advances to current assets ratio, fixed deposit to total deposit ratio, saving deposit to total deposit ratio, and investment of government securities to current assets ratio attempts to figure out the liquidity positions of the two banks under study.

The liquidity ratios measure the liquidity position and short term solvency indicating the firm's ability to meet short-term obligations. A firm should ensure that it does not suffer from the liquidity crunch and also that it is too much highly liquidity. There should be a proper balance between liquidity and lack of liquidity. The very high degree of liquidity results in an idleness of assets whereas low degree of liquidity results in a poor creditworthiness, loss of creditor's confidence and even shutdown of the firm.

A bank must be ensuring that it has a sound liquidity position to face the instant claim by its creditors. Therefore, in order to protect bank's solvency and to honor its short\term obligations or liabilities, adequate liquidity are must. Regarding this NRB has directed to all banks to maintain adequate Cash Reserve Ratio (CRR).

4.1.1 Current Ratio

Current Assets includes cash and those assets which can be converted into cash within the year; such as cash in hand or at bank, money at call, investment in the government securities, short-term loans and advances, bills for collection, balance with banks and other assets. Similarly, current liabilities include obligations maturing within a year, such as deposits, sundry creditors, borrowings, bills payable and other liabilities.

$$\text{Current Ratio} = \frac{\text{CurrentAssets}}{\text{CurrentLiabilities}}$$

Table 4.1 Current Ratio

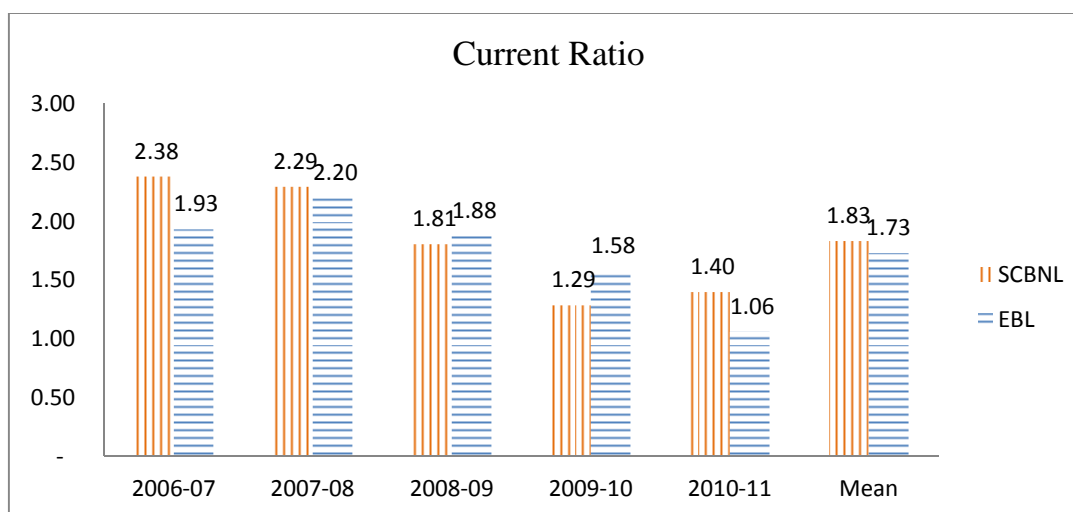
Rs. in (000,000)

YEAR	SCBNL			AVERAGE	EBL		
	CURRENT ASSETS	CURRENT LIABILITIES	RATIO		CURRENT ASSETS	CURRENT LIABILITIES	RATIO
2006-07	22,543.00	9,468.00	2.38	2.16	14,225.00	7,361.00	1.93
2007-08	23,550.00	10,272.00	2.29	2.24	24,944.00	11,353.00	2.20
2008-09	31,444.00	17,419.00	1.81	1.84	32,423.00	17,286.00	1.88
2009-10	29,232.00	22,746.00	1.29	1.43	35,049.00	22,236.00	1.58
2010-11	33,758.00	24,147.00	1.40	1.23	20,552.00	19,412.00	1.06
		Mean	1.83			Mean	1.73
		S.D.	0.50			S.D.	0.43
		C.V.	27%			C.V.	25%

Table 4.1 shows that Current Ratios of these two banks are highly fluctuating. The highest ratio pointed at 2.38 of SCBNL during the year 2006/07 and the lowest ratio pointed to 1.29 in the year 2009-10 and the highest ratio pointed at 2.20 of EBL during the year 2007-08 and lowest is 1.06 in the year 2010-11.

In the case of current assets both banks under study contained more than its liabilities except EBL for 2010-11. But the both banks are not meeting its standard ratio of current ratio through all the study period. This signifies that both banks had inadequate current assets to pay short-term obligation in some years. Though the idle standard of the current ratio is 2:1 but only one or two times the idle standard has meet.

GRAPHIC PRESENTATION: 4.1



Graphical presentation of current ratio of two banks shows that current ratios of these banks are fluctuating. During the year 2006/07 the average current ratio is 2.38, after that it decrease to 2.29 in 2007/08 then the trend is decreasing. Similarly

the average ratio of EBL is also in decreasing trend. Since the CV of both banks are almost similar so it is observed that the data are uniform.

4.1.2 Loans & Advances to Current Assets Ratio

This ratio measures the portion of current assets that have been given as loans and advances to other commercial banks. The current assets and loans & advances of SCBNL and EBL for the years from 2006-07 to 2010-11 have been collected and presented in the table 4.2 below;

$$\text{Loans \& Advances to Current Assets Ratio} = \frac{\text{Loans \& Advances}}{\text{Current Assets}}$$

Table 4.2 Loans & Advances to Current Assets Ratio

Rs. in (000,000)

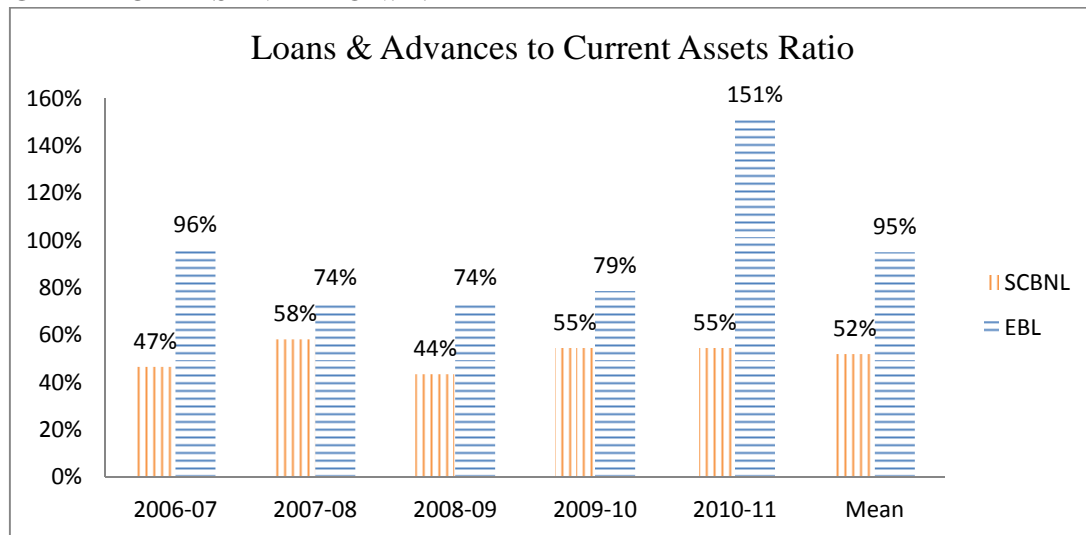
YEAR	SCBNL			AVERAGE	EBL		
	LOANS & ADVANCES	CURRENT ASSETS	RATIO %		LOANS & ADVANCES	CURRENT ASSETS	RATIO %
2006-07	10,502.64	22,543.00	47%	71.32%	13,664.08	14,225.00	96%
2007-08	13,718.60	23,550.00	58%	65.89%	18,339.09	24,944.00	74%
2008-09	13,679.76	31,444.00	44%	58.59%	23,884.67	32,423.00	74%
2009-10	15,956.96	29,232.00	55%	66.60%	27,556.36	35,049.00	79%
2010-11	18,427.27	33,758.00	55%	102.85%	31,057.69	20,552.00	151%
		Mean	52%			Mean	95%
		S.D.	0.06			S.D.	0.33
		C.V.	12%			C.V.	35%

Loans and advances include loans, cash credit, overdrafts; bill discounted, and bill purchases. These are profit earning assets of an organization. Generally speaking, an increase in bank's investment on loans and advances would lead to an increase in its profit earning capacity, but it is necessary to ensure that the quality of investment is maintained so that it may not turn into Non-Performing Assets (NPAs). Assets turn into NPAs when the borrower becomes incapable to repay the debt.

In the above table, it seems that the amount of loans and advances of SCBNL has increased from Rs. 10,502.60 million in 2006-07 to Rs. 18,427.27 million in 2010-11. Similarly, its current assets has also increased from Rs. 22,543.00 million in 2006-07 to Rs. 33,758.00 million 2010-11. EBL's loans and advances has also increased from Rs. 13,664.08 million in 2006-07 to Rs. 31,057.69 million in 2010-11. The amount of current assets increased from Rs. 14,225.00 million in 2006-07 to Rs. 20,552.00 million in 2010-11 but it is less than the previous year. It is seen that the loans and advances to current assets ratio of both the banks have fluctuating in the period of this study. The ratio was 47 Percent for SCBNL and 96 Percent for EBL in

2006-07. In 2008-09, the ratio decreased to 44.00 Percent for SCBNL and decreased to 74 Percent for EBL. Then it again increased to 55 Percent and 151 Percent of SCBNL and EBL respectively in year 2010-11. The mean loans and advances to current assets ratio were 52 Percent and 95 Percent for SCBNL and EBL respectively. The standard deviation between the ratios of SCBNL and EBL was 0.06 and 0.33 respectively. The coefficient of variation for SCBNL was 12 Percent and it was 35 Percent for EBL. The loans and advances to current assets ratio of the two banks for the years from 2006-07 to 2010-11 has been graphically presented below;

GRAPHIC PRESENTATION: 4.2



SCBNL and EBL have witnessed a fluctuating trend in the amount of loans and advances made against its current assets. This could be due to the fact that the Nepalese economy has experienced a setback in the recent years due to the political instability in the country. The mean ratios of both the banks reveal that SCBNL maintained only 52 Percent of its current assets as loans and advances while EBL maintained 89 Percent. It indicates that EBL has been conservative in its approach of advancing loans and advances. The coefficients of variation (C.V.) between the two banks are 12 Percent for SCBNL and 24 Percent for EBL which means that the ratio of Loan & Advances to Current Assets varied almost double of EBL than SCBNL.

As loans and advances are interest earning income for banks, they should concentrate at not only increasing the business bookings but at the same time maintaining the quality of credit. The loans and advances to current assets ratio of EBL shows that they are aggressively extending loans and advances. While this is good for the bank, its long term consequences need to be carefully analyzed.

4.1.3 Fixed Deposit to Total Deposit Ratio

This ratio measures the proportion of fixed deposits against the total deposit maintained by banks. Fixed deposit and total deposit of SCBNL and EBL for the years from 2006-07 to 2010-11 have been collected and presented in the table below. The fixed deposit to total deposit ratio has also been calculated for each year and tabulated hereunder.

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

Table 4.3 Fixed Deposits to Total Deposit Ratio

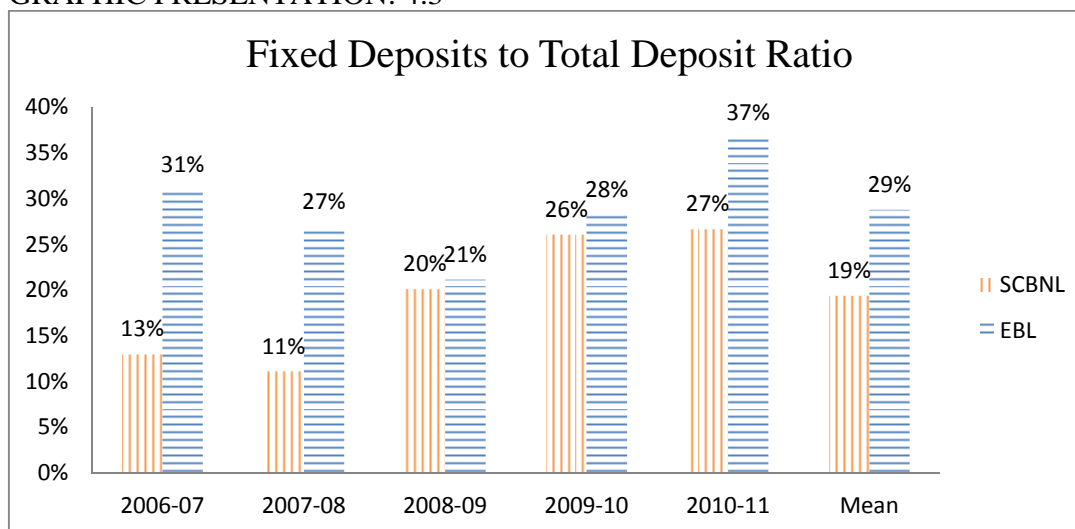
Rs. in (000,000)

YEAR	SCBNL			AVERAGE	EBL		
	FIXED DEPOSIT	TOTAL DEPOSIT	RATIO %		FIXED DEPOSIT	TOTAL DEPOSIT	RATIO %
2006-07	3,196.40	24,647.02	13%	21.95%	5,626.66	18,186.25	31%
2007-08	3,301.00	29,744.00	11%	18.99%	6,446.18	23,976.30	27%
2008-09	7,101.60	35,350.82	20%	20.62%	7,049.98	33,322.95	21%
2009-10	9,175.00	35,182.72	26%	27.17%	10,440.28	36,932.31	28%
2010-11	10,136.20	37,999.24	27%	31.65%	15,061.94	41,127.91	37%
	Mean		19%			Mean	29%
	S.D.		0.07			S.D.	0.06
	C.V.		37%			C.V.	20%

Fixed deposits are term deposits and these are the funds that banks can fully utilize until it matures. As funds from fixed deposits will be uncalled for until it is matured, the provision made for unanticipated calls will be very low. As a result, bank will have the capacity to invest more. Profitability, however, depends on how productively and efficiently the funds have been utilized for the purpose of income generation.

Total deposits are constituted from fixed deposits, savings deposits, current deposits, call & short deposits etc. While fixed and savings deposits are interest bearing deposits, other kinds of deposits may or may not be interest bearing. Fixed and savings deposits are likely to have less transactions than the other kinds of deposits, viz. current deposits.

GRAPHIC PRESENTATION: 4.3



In the table and graph presented above, it is observed that the fixed deposit to total deposit ratio of both the banks have increased through the period of the study.

The fixed deposit to total deposit ratio has increased for both the banks. When the volume of total deposit of SCBNL was Rs. 24,647.02 million in 2006-07, the ratio was 13 Percent and in 2010-11, when total deposit increased to Rs. 37,999.24 million, the ratio increased to 27 Percent. The fixed deposits have increased considerably at SCBNL gradually. The fixed deposits at SCBNL for the year 2010-11 was NPR 10,136.20 million whereas the amount was NPR 3,196.40 million for the year 2006-07. Similarly, when the total deposit of EBL was Rs18, 186.25 million in 2006-07, the ratio was 31.00 Percent and in 2006-07, the total deposit increased to Rs. 41,127.91 million in 2010-11, the fixed deposit to total deposit ratio increased to 37.00 Percent. The standard deviation of SCBNL and EBL was 0.07 and 0.06 respectively. The mean fixed deposit to total deposit ratios of SCBNL and EBL are 19 Percent and 29 Percent respectively.

While SCBNL's fixed deposit against its total deposits was 13 Percent, the portion of fixed deposits on total deposits for EBL was 31.00 Percent, almost half of the total deposits. The coefficient of variation between the ratios of SCBNL and EBL are 37 Percent and 20 Percent respectively which indicate that the ratios of EBL have remained more uniform than the ratios of SCBNL.

Although a high Percentage of fixed deposits will increase a bank's investment capacity, it will also increase its operating cost as these are high interest bearing deposits. A proper balance of the various types of deposits is necessary to ensure that the costs of funds are kept at a minimum level.

4.1.4 Saving Deposit to Total Deposit Ratio

The saving deposit to total deposit ratio represents the proportion of savings deposits in the total deposits. In order to assess the saving deposit to total deposit ratio, the volume of saving and total deposit of SCBNL and EBL for the years from 2006-07 to 2010-11 have been collected and presented in the table below. The calculated results (ratio) have also been presented in the table.

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

Table 4.4 Saving Deposit to Total Deposit Ratio

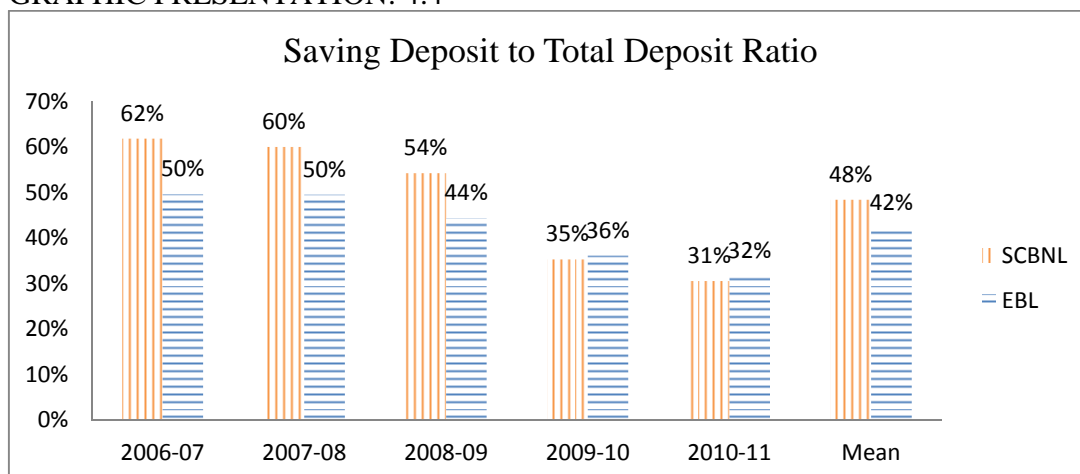
Rs. in (000,000)

YEAR	SCBNL			AVERAGE	EBL		
	SAVING DEPOSIT	TOTAL DEPOSIT	RATIO %		SAVING DEPOSIT	TOTAL DEPOSIT	RATIO %
2006-07	15,244.30	24,647.02	62%	55.75%	9,029.26	18,186.25	50%
2007-08	17,856.10	29,744.00	60%	54.80%	11,883.86	23,976.30	50%
2008-09	19,187.60	35,350.82	54%	49.32%	14,782.33	33,322.95	44%
2009-10	12,430.00	35,182.72	35%	35.75%	13,360.04	36,932.31	36%
2010-11	11,619.80	37,999.24	31%	31.14%	13,039.11	41,127.91	32%
	Mean		48%			Mean	42%
	S.D.		0.14			S.D.	0.08
	C.V.		30%			C.V.	19%

Savings deposits are interest bearing deposits. However, the interest paid on this type of deposits is comparatively cheaper than interest paid on fixed deposits. Transactions on savings deposits are higher compared to fixed deposits.

In the table presented above, it is observed that the saving deposit to total deposits of SCBNL has witnessed decreasing trend. The amount of saving deposit of SCBNL in the year 2006-07 was Rs. 15,244.30 million and it decreased to Rs. 11,619.80 million in 2010-11. Similarly, saving deposit of EBL increased from Rs. 9,029.26 million in 2006-07 to Rs. 13,039.11 million in 2010-11. The saving deposit to total deposit ratio of SCBNL has decreased whereas the ratio of EBL has been also decreased. The saving deposit to total deposit ratio of SCBNL was 62 Percent in 2006-07 and 31 Percent in 2010-11. Whereas EBL's saving deposit to total deposit ratio was 50 Percent in 2006-07 and 32 Percent in 2010-11. The mean saving deposit to total deposit ratio of SCBNL and EBL was 48 Percent and 42 Percent respectively. Standard deviation of SCBNL and EBL was 0.14 and 0.08 respectively. A graphical representation of the ratios of the two banks during the study period is presented below.

GRAPHIC PRESENTATION: 4.4



The ratio for SCBNL for the year 2006-07 was 62 Percent and 31 Percent for the year 2010-11. On average, the ratio was 48 Percent. On the other hand, the mean ratio for EBL was 42 Percent for the years from 2006-07 to 2010-11. The mean ratio of SCBNL is higher than the mean ratio of EBL indicating that SCBNL's proportion of savings deposits on its total deposits is comparatively higher than that of EBL. On the whole, both the banks have not been able to increase its saving deposits. EBL has not witnessed a substantial growth in its saving deposits to total deposits ratio from 50 Percent in the year 2006-07 to 32 Percent in the year 2010-11. The coefficient of variation for SCBNL (30 Percent) and EBL (19 Percent) indicate that the ratio of EBL is more uniform in nature than that of SCBNL.

Though the amount of Saving Deposit and Total Deposit is increasing trend but the ratio is decreasing trend. This is because the portion of saving deposit is decreasing in the total deposit amount.

Since, the both banks have been facing problem of collection of saving deposit, so it can be recommended that EBL should attempt to increase its saving deposit.

4.1.5 Investment on Govt. Securities to Current Assets Ratio

This ratio measures the Percentage of investment made by banks on government securities from its total current assets. In order to calculate the investment on government securities to current assets ratio, the amount invested on government securities and amount of current assets have been collected and presented in the below;

$$\text{Investment on Gov. Securities to Current Assets Ratio} = \frac{\text{Inv.on Gov. Securities}}{\text{Current Assets}}$$

Table 4.5 Investment on Govt. Securities to Current Assets Ratio

Rs. in (000,000)

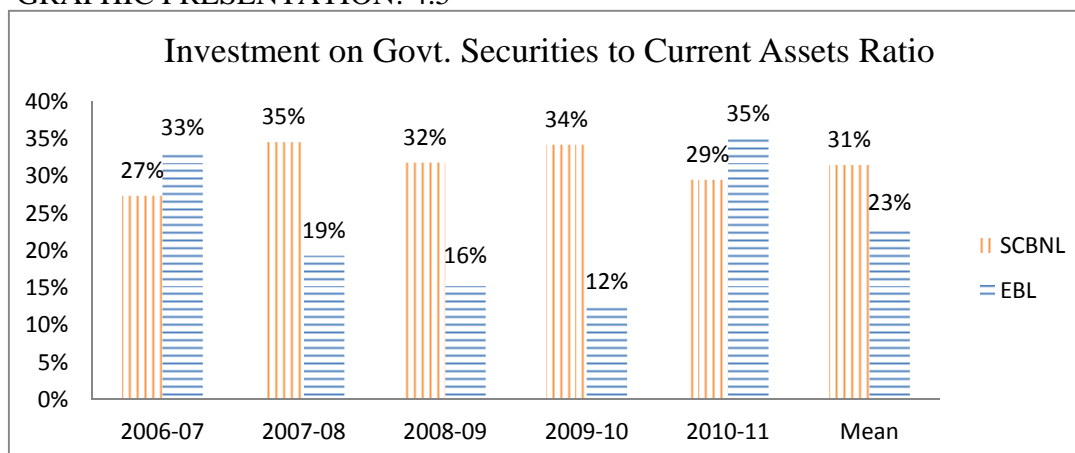
YEAR	SCBNL			AVERAGE	EBL		
	INVESTMENT ON GOVT. SECURITIES	CURRENT ASSETS	RATIO %		INVESTMENT ON GOVT.	CURRENT ASSETS	RATIO %
2006-07	6,166.40	22,543.00	27%	30.21%	4,704.60	14,225.00	33%
2007-08	8,137.60	23,550.00	35%	26.94%	4,821.60	24,944.00	19%
2008-09	9,998.70	31,444.00	32%	23.83%	5,146.00	32,423.00	16%
2009-10	9,998.70	29,232.00	34%	23.31%	4,354.30	35,049.00	12%
2010-11	9,957.20	33,758.00	29%	32.13%	7,145.00	20,552.00	35%
		Mean	31%			Mean	23%
		S.D.	0.03			S.D.	0.10
		C.V.	10%			C.V.	44%

Government securities are treasury bills and bonds which provide a stable income to the banks. Banks usually invest in government securities to earn a regular income. The amount that banks invest on these types of securities depends on the policies maintained by them.

From the table 4.5, it is observed that the investment on government securities to current assets ratio of SCBNL is fluctuating whereas EBL has decreasing as well as fluctuating trend during the period of the study. The amount of investment on government securities for SCBNL was Rs. 6,166.40 million in 2006-07 and the ratio was 27 Percent. The volume of investment on government securities increased to Rs. 9,957.20 million in 2010-11 and the ratio was 29 Percent. Similarly, EBL's investment on government securities increased from Rs. 4,704.60 million in 2006-07 to Rs. 7,145.00 million in 2010-11. But the ratio decreased from 33.00 Percent in 2006-07 to 35 Percent in 2010-11. The mean investment on government securities to current assets ratio for SCBNL and EBL was 31 Percent and 23 Percent respectively. The standard deviation was 0.03 for SCBNL and 0.10 for EBL.

The mean investment on government securities to current assets ratio reveal that SCBNL has invested about 31 Percent of its current assets in government securities whereas EBL's investment is only 23 Percent. The coefficient of variation of 10 Percent for SCBNL and 44 Percent for EBL suggests that the investment on government securities for SCBNL has been more uniform than that of EBL. In the graph below, It is observed that there was a decline in the ratio for EBL but it is constant for SCBNL from year 2007-08 to 2009-10 for the rest of the years under study.

GRAPHIC PRESENTATION: 4.5



Government securities offer stable returns and are risk free assets. While it is common for all banks to invest a certain portion of its current assets in these securities, the volume of investment depends upon the individual policies of the banks. The interest rates on these types of securities have recently declined to very minimum and banks have started to lose preference on them. The responsibility is on

The banks to assess to what degree the investment is to be made since these risk-free securities have a bearing on the cost of funds.

4.1.6 Cash & Bank Balance to Current Assets Ratio

The Cash & Bank Balance to Current Assets Ratio measures the portion of cash & bank balances maintained against its current assets. In order to analyze and interpret the cash and bank balance to current assets position of the sampled banks, researcher obtained the required data from these banks and put them in Table 4.6. The results of the analysis have also been presented in the same table.

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

Table 4.6 Cash & Bank Balance to Current Assets Ratio

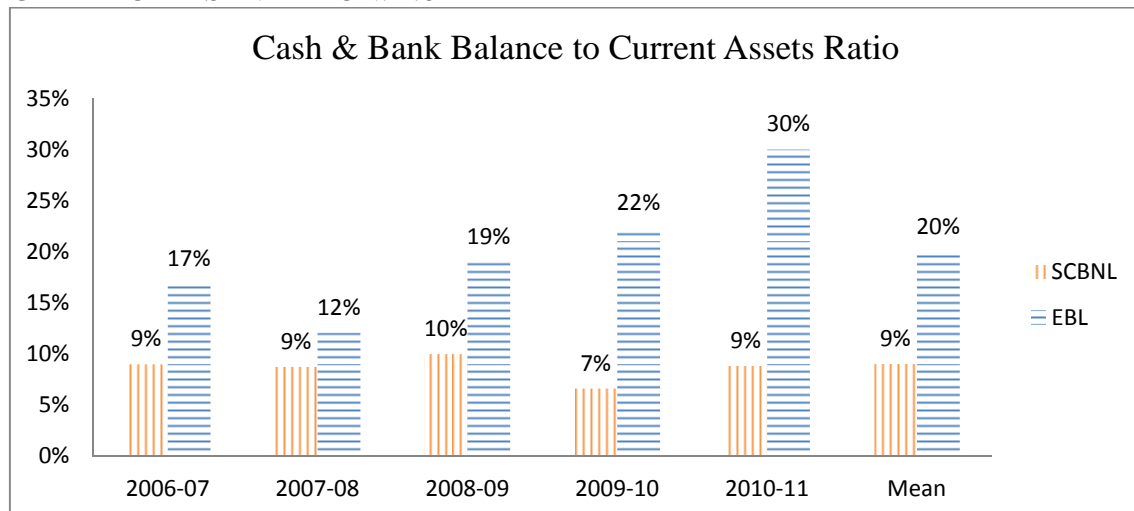
Rs. in (000,000)

YEAR	SCBNL			AVERAGE	EBL		
	Cash and Bank Balance	CURRENT ASSETS	RATIO %		Cash and Bank Balance	CURRENT ASSETS	RATIO %
2006-07	2,021.02	22,543.00	9%	12.89%	2,391.42	14,225.00	17%
2007-08	2,050.24	23,550.00	9%	10.39%	3,013.97	24,944.00	12%
2008-09	3,137.16	31,444.00	10%	14.49%	6,164.37	32,423.00	19%
2009-10	1,929.31	29,232.00	7%	14.45%	7,818.82	35,049.00	22%
2010-11	2,975.80	33,758.00	9%	19.30%	6,122.86	20,552.00	30%
	Mean		9%			Mean	20%
	S.D.		0.01			S.D.	0.07
	C.V.		14%			C.V.	33%

Cash and bank balances are assets that constitute the bank's first line of defense and consist of cash on hand, foreign cash on hand, cheque and other cash items, balance with domestic/foreign banks etc. These are bank's highly liquid and immediately available funds to meet its unanticipated calls on deposit. Current Assets, on the other hand, also have high liquidity. These are investment assets that can be converted into cash in a short span of time. However, cash and balances have a high liquidity ratio than current assets and it is necessary for banks to maintain a certain level of highly liquid assets at any time to meet contingent demands. It is also necessary to ensure that a certain level of ratio of highly liquid assets to less liquid assets is maintained. While highly liquid assets are important for an organization, high ratio of the same can result in potential assets lying idle.

In the table presented above, it is observed that the cash and bank balance of SCBNL was Rs.2, 021.02 million in 2006-07 and Rs. 2,975.80 million in 2010-11. Similarly, the cash and bank balance of EBL was Rs. 2,391.42 million in 2006-07 and Rs. 6,122.86 million in 2010-11. Current assets of SCBNL increased from Rs. 22,543.00 million in 2006-07 to Rs. 33,758.00 million in 2010-11. Similarly, currents assets of EBL gradually increased from Rs. 14,225.00 million in 2006-07 to Rs. 20,552.00 in 2010-11. The average/mean Cash & Bank Balances to Current Assets ratio of SCBNL and EBL is 9 Percent and 20 Percent respectively. A graphical presentation of the cash and bank balance to current assets ratio of SCBNL and EBL for the year from 2006-07 to 2010-11 is given below;

GRAPHICPRESENTATION: 4.6



The mean cash and bank balance to current assets ratio indicates that while EBL maintained 20 Percent of its current assets as cash and bank balances, SCBNL maintained only 9 Percent on average for the five fiscal years from 2006-07 to 2010-

11. This is because while SCBNL has largely invested in other forms of deposits such as money at call and government securities, EBL's concentration is more on its cash and bank balances. The coefficient of variation (C.V.) between ratios of EBL (33 Percent) is considerably greater than the C.V. of SCBNL (14 Percent). It indicates that the variability of the ratios of SCBNL is more uniform than that of EBL.

It can be suggested that EBL should increase its investment on government securities as these securities offer stable and regular return. EBL should also increase the amount of investment on money at call and short notice so that a proper balance is maintained.

4.1.7 Cash and Bank Balance to Total Deposit Ratio

Like current ratio, banks have to maintain certain amount of cash in order to ensure enough liquid to face heavy deposit withdrawals. Cash and Bank balance to Deposit ratio indicates the ability of the banks to immediately fund the withdrawals of their various deposits. This ratio is computed by cash and bank balance divided by total deposits to meet their daily requirements and deposits and vice versa.

Banks have to be prepared for the high amount of withdrawal situation, but some banks had very less amount of cash and bank balance is also disadvantageous because it will lack up the capital since it return back nothing. This also shows the inability of bank to invest in more productive sector like government securities, treasury bills etc. to enhance its profitability.

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

Table 4.7 Cash & Bank Balance to Total Deposit Ratio

Rs. in (000,000)

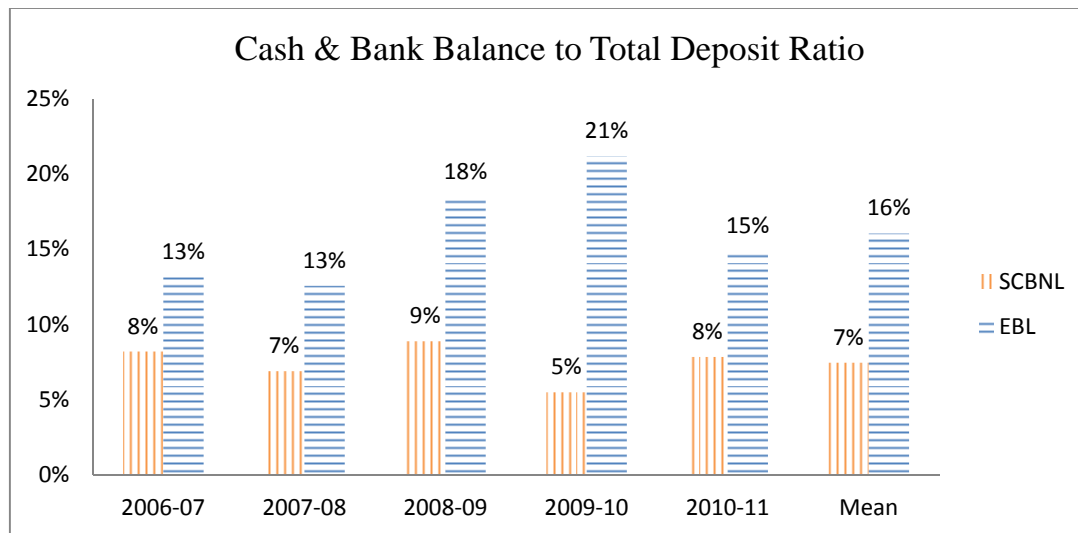
YEAR	SCBNL			AVERAGE	EBL		
	CASH AND BANK BALANCE	TOTAL DEPOSIT	RATIO		CASH AND BANK BALANCE	TOTAL DEPOSIT	RATIO
2006-07	2,021.02	24,647.02	8%	10.67%	2,391.42	18,186.25	13%
2007-08	2,050.24	29,744.00	7%	9.73%	3,013.97	23,976.30	13%
2008-09	3,137.16	35,350.82	9%	13.69%	6,164.37	33,322.95	18%
2009-10	1,929.31	35,182.72	5%	13.33%	7,818.82	36,932.31	21%
2010-11	2,975.80	37,999.24	8%	11.36%	6,122.86	41,127.91	15%
		Mean	7%			Mean	16%
		S.D.	0.01			S.D.	0.04
		C.V.	18%			C.V.	23%

Table 4.7 shows that Cash and Bank Balance to Total Deposit Ratios of these two banks are constantly different. The highest ratio pointed at 9 Percent of SCBNL during the year 2008/09 and the lowest ratio pointed to 5 Percent in the year 2009-10 and the highest ratio pointed at 21 Percent of EBL during the year 2009-10 and lowest is 13 Percent in the year 2006-07 & 2007-08.

The mean of SCBNL is 7 Percent lower than the EBL 16 Percent. Since the CV of SCBNL is 18 Percent lower than EBL 23 Percent this indicates that the data are more uniform of SCBNL than of EBL.

According to Table 4.7, it may conclude that the cash and bank balance position with respect to total deposit has better performance in case of EBL because EBL is almost double ratio comparing to SCBNL. On the contrary, the lowest ratio of cash and bank balance signifies that the banks have burden more idle money. Thus, these banks could invest more.

GRAPHIC PRESENTATION: 4.7



Graphical presentation of Cash & Bank Balance to Total Deposit ratio of two banks shows that SCBNL has put more Cash & Bank balance as compare to EBL to meet the high level of withdrawals.

4.2 Activity/Turnover Ratios

Activity ratios reflect the firm’s efficiency in utilizing its assets. They are employed to evaluate the efficiency with which the firm manages and utilizes its assets. These ratios are called turnover ratios because they indicate the speed with which assets are being converted or turned over into sales. These ratios are also called turnover ratios because they indicate the speed with which assets are being converted

or turned over into sales. Activity ratios, thus, involve a relationship between sales and assets.

The funds of creditors and owners of the banks, which are reflected under Liabilities side of the Balance Sheet, form the sources of fund, whereas the loans & advances, and investments reflected under the Assets side of the Balance Sheet are the uses of Funds. These funds are invested by the banks in various assets to generate profit margins. Activity ratios are employed to evaluate the efficiency with which the bank manages and utilized the funds.

Activity ratios indicates the degree of efficiency in Assets Management, hence they are often referred to as efficiency ratios. In this section, some of the efficiency ratios are calculated to assess the banks efficiency in utilizing the available resources.

4.2.1 Loans & Advances to Total Deposit Ratio

The loans and advances to total deposit ratio reflect the extent to which the banks are successful in mobilizing their total deposits on loans and advances. It is calculated by dividing loans and advances by total deposits.

Banks makes profit by lending or utilizing the deposited funds by charging a higher rate of interest to the borrowers than they pay to the depositors. The core banking function is to mobilize the funds from the depositors to the borrowers. Hence, they are known to be efficient in utilizing the funds they can advance a greater proportion of the deposited funds into Risky Assets. Loans and Advance to Total Deposit or Total Credit to Total Deposit ratio measures the extent to which the banks are successful to mobilize the outsiders' fund. The required data in order to calculate the loans and advances to total deposit ratio of SCBNL and EBL for the fiscal years from 2006-07 to 2010-11 is presented in the table below;

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

Table 4.8 Loans & Advances to Total Deposit Ratio

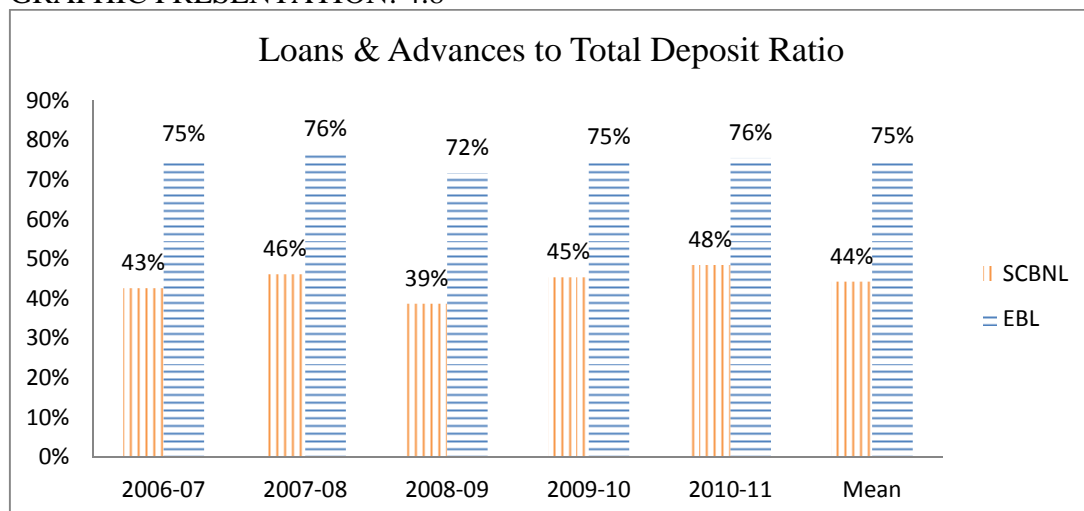
Rs. in (000,000)

YEAR	SCBNL			AVERAGE	EBL		
	LOANS & ADVANCES	TOTAL DEPOSIT	RATIO		LOANS & ADVANCES	TOTAL DEPOSIT	RATIO
2006-07	10,502.64	24,647.02	43%	58.87%	13,664.08	18,186.25	75%
2007-08	13,718.60	29,744.00	46%	61.31%	18,339.09	23,976.30	76%
2008-09	13,679.76	35,350.82	39%	55.19%	23,884.67	33,322.95	72%
2009-10	15,956.96	35,182.72	45%	59.98%	27,556.36	36,932.31	75%
2010-11	18,427.27	37,999.24	48%	62.00%	31,057.69	41,127.91	76%
	Mean		44%			Mean	75%
	S.D.		0.04			S.D.	0.02
	C.V.		8%			C.V.	2%

Loans & Advances are investments made by banks in order to earn interest income. In the comparative table presented above, it can be observed that both the banks have witnessed increasing trend in the loans and advances during the period of the study of both the banks. But the ratio has fluctuating trend of both banks during the period of study. The ratio of SCBNL was 43 Percent in 2006-07 and it decreased to 39 Percent in year 2008-09 then it again increased to 48 Percent in 2010/11. Then the ratio of EBL was 75 Percent in 2006/07 and decrease to 72 Percent in year 2008-09 and again increased to 76 Percent in 2010-11. The mean loans and advances to total deposit ratio of SCBNL and EBL was 44 Percent and 75 Percent respectively.

While both the banks have increased the amount of loans and advances every year, the Percentage of loans and advances against its fixed deposits has fluctuating of both the banks. The mean ratio of loans and advances to total deposits ratio of SCBNL and EBL indicates that SCBNL has been able to invest 44 Percent of its total deposit on loans and advances whereas EBL was 75 Percent. Both the banks have witnessed a decreasing and increasing trend in its loans and advances to total deposit ratio. SCBNL has been experiencing an increase as well as EBL experienced also increase during 2006-07 and 2010-11. The coefficient of variation for SCBNL and EBL is 8 Percent and 2 Percent respectively denoting that the variability in the loans and advances to total deposit ratio of EBL is lesser than that of SCBNL. The varying trend of loans and advances to total deposit ratio of SCBNL and EBL has also been presented in the graph below;

GRAPHIC PRESENTATION: 4.8



The amount of total deposit determines the extent to which loans and advances can be forwarded because a bank can give loan only from what deposit it has. EBL seems to have aggressively extended loans and advances. In 2010-11, the loans and

advances to total deposit ratio of SCBNL was 0.48 which means that the bank had given credit equaling 48 Percent of its total deposit. While it is good for the bank as more loans mean more income, too much aggressiveness is not recommended.

4.2.2 Loans & Advances to Fixed Deposit Ratio

The loans and advances to fixed deposit ratio measure the extent to which the fixed deposits have been utilized as loans and advances. The amount of loans and advances and fixed deposit of SCBNL and EBL for the years from 2006-07 to 2010-11 have been presented in the table below.

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

Table 4.9 Loans & Advances to Fixed Deposit Ratio

Rs. in (000,000)

YEAR	SCBNL			AVERAGE	EBL		
	LOANS & ADVANCES	FIXED DEPOSIT	RATIO		LOANS & ADVANCES	FIXED DEPOSIT	RATIO
2006-07	10,502.64	3,196.40	329%	285.71%	13,664.08	5,626.66	243%
2007-08	13,718.60	3,301.00	416%	350.04%	18,339.09	6,446.18	284%
2008-09	13,679.76	7,101.60	193%	265.71%	23,884.67	7,049.98	339%
2009-10	15,956.96	9,175.00	174%	218.93%	27,556.36	10,440.28	264%
2010-11	18,427.27	10,136.20	182%	194.00%	31,057.69	15,061.94	206%
		Mean	259%			Mean	267%
		S.D.	1.08			S.D.	0.49
		C.V.	42%			C.V.	18%

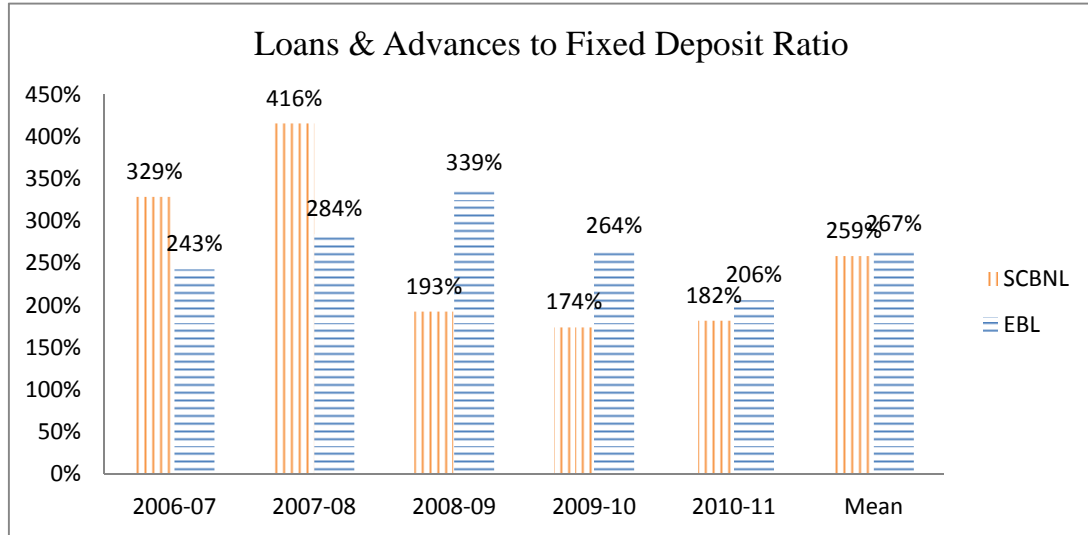
Fixed deposits are interest bearing deposits. These are term deposits usually maturing after a year or more. Since fixed deposits are less likely to have unanticipated calls than other types of deposits, the funds thus collected will have less transaction than savings deposits.

In the table above, it seems that the amount of loans and advances of SCBNL has increased from Rs. 10,502.64 million in 2006-07 to Rs18, 427.27 million in 2010-11. On the other hand, its fixed deposit also increased from 3,196.40 million in 2006-07 to Rs. 10,136.20 million in 2010-11. The loans and advances to fixed deposit ratio of SCBNL was 329 Percent in 2006-07 then it was decreased to 182 Percent in 2010-11. The amount of loans and advances of EBL increased from Rs. 13,664.08 million in 2006-07 to Rs. 31,057.69 million in 2010-11. Similarly, its total deposit increased from Rs. 5,626.66 million in 2006-07 to Rs. 15,061.94 million in 2010-11. The mean loans and advances to total deposit ratio of SCBNL and EBL is 259 Percent and 267 Percent respectively. The standard deviation of the ratios of SCBNL is 1.08 and

coefficient of variation is 42 Percent. Similarly, standard deviation of EBL is 0.49 and coefficient of variation is 18 Percent.

The mean loans and advances to fixed deposit ratio of SCBNL and EBL indicate that the loans and advances made by SCBNL are 2.59 times of its fixed deposits. Similarly EBL has been able to invest up to 2.67 times of its fixed deposits as loans and advances.

GRAPHIC PRESENTATION: 4.9



The loans and advances to fixed deposit ratio of both the banks are satisfactory in terms of the ratio. Although the total amount of Loans and Advances was increased but the ratio was decreasing. It is due to more loan and advance issue then fixed deposit.

4.2.3 Loans & advances to Saving Deposit Ratio

In order to calculate the loans and advances to saving deposit ratio for SCBNL and EBL from 2006-07 to 2010-2011, the researcher collected the required data and presented it in the table below. The amount of loans and advances, saving deposit, and the calculated values of loans and advances to saving deposit ratio, its standard deviation, coefficient of variation have also been present in the table.

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

Table 4.10 Loans & Advances to Saving Deposit Ratio

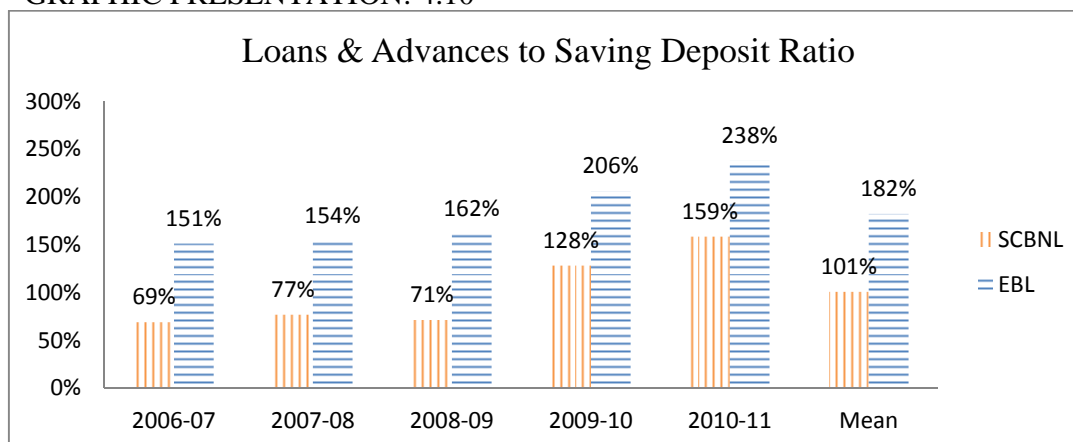
Rs. in (000,000)

YEAR	SCBNL			AVERAGE	EBL		
	LOANS & ADVANCES	SAVING DEPOSIT	RATIO		LOANS & ADVANCES	SAVING DEPOSIT	RATIO
2006-07	10,502.64	15,244.30	69%	110.11%	13,664.08	9,029.26	151%
2007-08	13,718.60	17,856.10	77%	115.57%	18,339.09	11,883.86	154%
2008-09	13,679.76	19,187.60	71%	116.44%	23,884.67	14,782.33	162%
2009-10	15,956.96	12,430.00	128%	167.32%	27,556.36	13,360.04	206%
2010-11	18,427.27	11,619.80	159%	198.39%	31,057.69	13,039.11	238%
		Mean	101%			Mean	182%
		S.D.	0.41			S.D.	0.38
		C.V.	40%			C.V.	21%

Saving deposits are interest bearing deposits and the transaction in this type of deposits is relatively higher compared to fixed deposits. The table above shows that the amount of loans and advances and saving deposit of both the banks has increased through the years. The loans and advances of SCBNL increased from Rs. 10,502.64 million in 2006-07 to Rs. 18,427.27 million in 2010-11. Its saving deposit decreased from Rs. 15,244.30 million in 2006-07 to Rs. 11,619.80 million in 2010-11. EBL's loans and advances increased from Rs. 13,664.08 million in 2006-07 to Rs. 31,039.11 million in 2010-11. A substantial growth in EBL's loans and advances was in the year 2010-11. The mean loans and advances to saving deposit of SCBNL and EBL is 101 Percent and 182 Percent respectively. The standard deviation of the two banks is 0.41 (SCBNL) and 0.38 (EBL).

The mean loans and advances to saving deposit ratio for SCBNL and EBL is 101 Percent and 182 respectively indicating that while SCBNL has been able to utilize only 1.01 times of its saving deposit as loans and advances, EBL's utilization is 1.82 times on average. In conclusion, the loans and advances to saving deposit ratio have increased for both the banks.

GRAPHIC PRESENTATION: 4.10



Considering the mean loans and advances to saving deposit of SCBNL (1.01) and EBL (1.82), it is noticed that the difference in ratios between the two banks is significant. This again represents EBL's aggressiveness in extending loans and advances compared to SCBNL. While more loans and advances is good, effective monitoring of the quality of credit is suggested. Since the coefficient of variation of SCBNL and EBL is 40 Percent and 21 Percent respectively suggests that the Loan & Advance to Saving Deposit for EBL has been more uniform than that of SCBNL.

4.2.4 Operating Profit to Net Worth Ratio

Operating Profit to Net worth Ratio for both the banks for the years from 2006-07 to 2010-11 is presented below. In order to calculate the ratio, the amount of operating profit and net worth have been collected and tabulated below.

$$\text{Operating Profit to Net worth Ratio} = \frac{\text{Operating Profit}}{\text{Net Worth}}$$

(Net worth= Paid up capital+ Reserve funds)

Table 4.11 Operating Profit to Net worth Ratio

Rs. in (000,000)

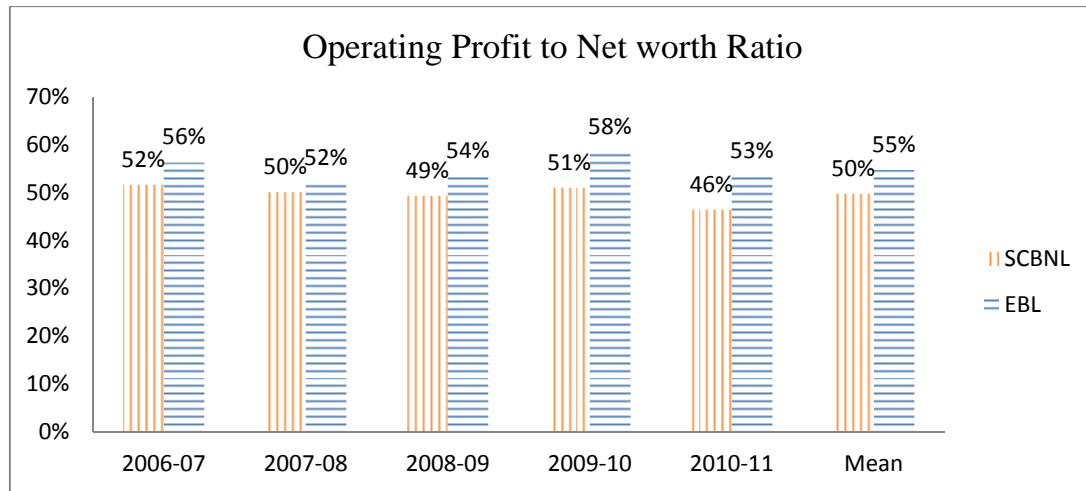
YEAR	SCBNL			AVERAGE	EBL		
	OPERATING PROFIT	NET WORTH	RATIO		OPERATING PROFIT	NET WORTH	RATIO
2006-07	1,092.90	2,116.35	52%	53.98%	597.90	1,061.52	56%
2007-08	1,248.40	2,492.55	50%	51.10%	823.90	1,581.24	52%
2008-09	1,506.10	3,052.47	49%	51.46%	1,073.50	2,003.60	54%
2009-10	1,612.40	3,159.94	51%	54.71%	1,349.10	2,310.03	58%
2010-11	1,707.30	3,677.78	46%	49.90%	1,516.70	2,841.58	53%
		Mean	50%			Mean	55%
		S.D.	0.02			S.D.	0.03
		C.V.	4%			C.V.	5%

In the table 4.11 above, it is seen that the operating profit of SCBNL has increased from Rs. 1,092.90 million in 2006-07 to Rs1, 707.30 million in 2010-11. Similarly, its net worth has also increased from Rs. 2,116.35 million in 2006-07 to Rs. 3,677.78 million in 2010-11. The growth of EBL in terms of operating profit is also noticeable. It increased from Rs. 597.90 million in 2006-07 to Rs. 1,516.70 million in 2010-11. Its net worth also increased from Rs. 1,061.52 million in 2006-07 to Rs. 2,841.58 million in 2010-11. However, the operating profit to net worth ratio of both the banks says otherwise. The ratio has witnessed increasing and decreasing trend during the period of the study. The ratio of SCBNL was 52 Percent in 2006-07 and

decline to 49 Percent in 2008-09. It then increased to 51 Percent in 2009-10. It again declined to 46 Percent in the year of 2010-11. In the case of EBL's ratio as well, it was 56 Percent in 2006-07 which increased to 58 Percent in 2009-10 and declined to 53 Percent in 2010-11. Though the volume of operating profit and net worth is increasing in between this study period but the ratio between it is increasing and decreasing.

The mean of the operating profit to net worth ratio for SCBNL and EBL are 50 Percent and 55 Percent respectively indicating that while SCBNL was able to generate operating profit equaling more than half of its total net worth. On the other hand, EBL was able to generate operating profit equaling 55 Percent of its total net worth. Although both the banks have been able to increase their operating profit through the years, the operating profit to net worth ratio reflects otherwise. The ratio has been increasing and decreasing every year due to the disproportionate increase in operating profit and net worth of the banks. The coefficient of variation of SCBNL is 4 Percent while EBL's coefficient of variation is 5 Percent indicating that the operating profit to net worth ratio of SCBNL stood more uniform than that of EBL. The increasing and decreasing trend of operating profit to net worth ratio of both the banks have also been depicted in the graph below.

GRAPHIC PRESENTATION: 4.11



The operating profit to net worth ratio of SCBNL (0.50) and EBL (0.55) does not vary significantly from each other. And the coefficient of variation is 4 Percent of SCBNL where 5 Percent of EBL. So the operating profit and net worth fluctuation of SCBNL is less than EBL.

4.2.5 Total Investment to Total Deposit

Investment function is gaining a widespread importance in the banking sector. Treasury of the bank is involved in investing the surplus fund in the income generating investment. Banks cannot utilize whole of its fund, raised through deposits and borrowing into loan and advances. In order to fill this gap between borrowings and lending, bank rather goes for investment such as government securities, development bonds, shares and debenture and inter-bank lending.

These investments earn a lower rate of return in comparison of loans and advances, but under most of the circumstances they generate higher return than their cost of funds. Investment to total deposit ratio is calculated by dividing Total Investment by Total Deposits.

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

Table 4.12 Total Investment to Total Deposit Ratio

Rs. in (000,000)

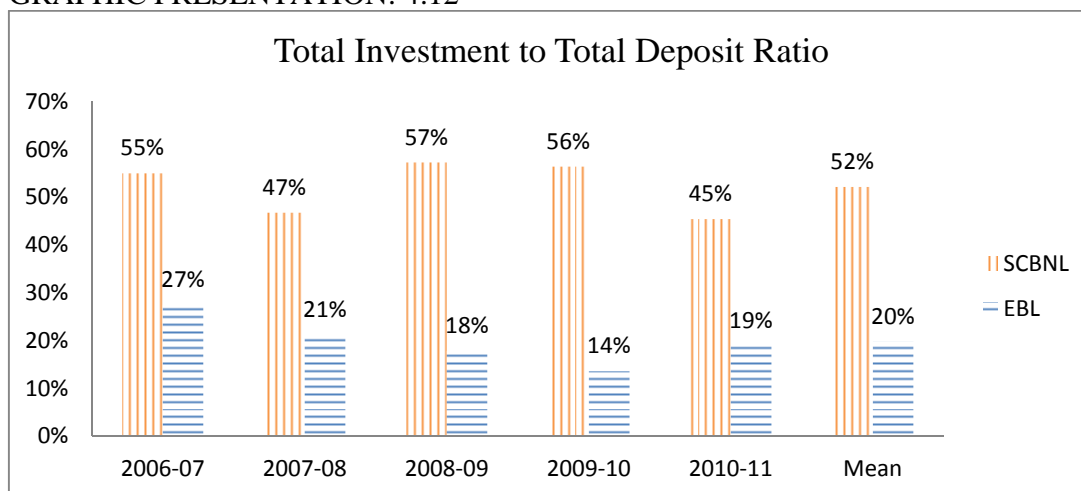
YEAR	SCBNL			AVERAGE	EBL		
	TOTAL INVESTMENT	TOTAL DEPOSIT	RATIO		TOTAL INVESTMENT	TOTAL DEPOSIT	RATIO
2006-07	13,553.23	24,647.02	55%	41.20%	4,984.31	18,186.25	27%
2007-08	13,902.82	29,744.00	47%	33.92%	5,059.56	23,976.30	21%
2008-09	20,236.12	35,350.82	57%	37.55%	5,948.48	33,322.95	18%
2009-10	19,847.51	35,182.72	56%	34.99%	5,008.31	36,932.31	14%
2010-11	17,258.68	37,999.24	45%	32.12%	7,743.93	41,127.91	19%
		Mean	52%			Mean	20%
		S.D.	0.06			S.D.	0.05
		C.V.	11%			C.V.	26%

In the table 4.12 above, it seems that the Total investment to Total Deposit Ratio of SCBNL pointed highest in the year 2008-09 whereas EBL pointed only 27 Percent in the year 2006-07. If we compare between these two banks SCBNL has invested more of its Total deposit than EBL. The mean ratio of SCBNL is 52 Percent which is higher than of EBL 20 Percent.

Since the CV of SCBNL shows 11 Percent which is less than of EBL 26 Percent this indicates that the data of SCBNL has more uniform than of EBL.

Therefore, according to Table 4.12 analysis it may conclude that SCBNL has performed very well ratio than EBL. It means SCBNL capacity to mobilize its deposits on total investment is preferable and achieved better position. Similarly, EBL has average ratio therefore EBL is also performing well.

GRAPHIC PRESENTATION: 4.12



Based on the above graphical presentation it is observed that the ratio of SCBNL is more than of EBL in respect of Total Investment to Total Deposit ratio.

4.3 Capital Adequacy Ratios:

Capital Adequacy ratio shows whether 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 principal, safety and stability of the fragile financial system ultimately rest upon the confidence of the depositors and creditors. NRB has directed all banks to keep Capital Adequacy ratio of at least 10 Percent of total weighted risk assets.

4.3.1 Shareholder's Fund to Total Deposit Ratio:

This ratio shows whether commercial banks are maintaining sufficient amount as capital fund or shareholder's fund in comparison to the amount of their total deposits. It is calculated by dividing total shareholder' fund by deposits:

$$\text{Shareholder's Fund to Total Deposit Ratio} = \frac{\text{Shareholder's Fund}}{\text{Total Deposit}}$$

Shareholder's fund= Paid up Capital +Reserve Fund+ Net Profit (Loss)

Table 4.13 Shareholder's Fund to Total Deposit Ratio

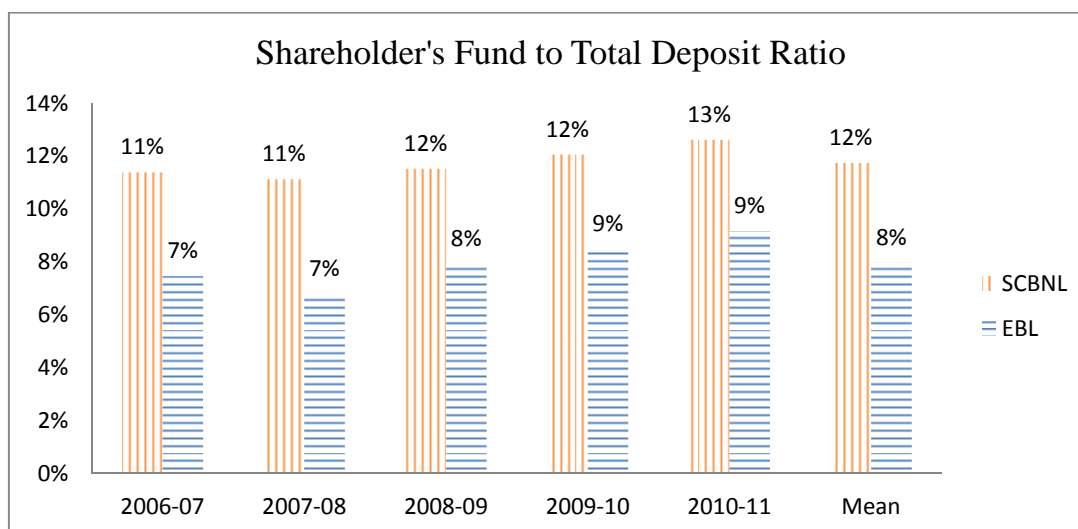
Rs. in (000,000)

YEAR	SCBNL			AVERAGE	EBL		
	SHAREHOLD ER'S FUND	TOTAL DEPOSIT	RATIO		SHAREHOL DER'S FUND	TOTAL DEPOSIT	RATIO
2006-07	2,807.95	24,647.02	11%	9.43%	1,357.92	18,186.25	7%
2007-08	3,311.45	29,744.00	11%	8.96%	1,626.36	23,976.30	7%
2008-09	4,076.57	35,350.82	12%	9.73%	2,642.30	33,322.95	8%
2009-10	4,245.74	35,182.72	12%	10.29%	3,141.83	36,932.31	9%
2010-11	4,796.88	37,999.24	13%	10.90%	3,772.88	41,127.91	9%
	Mean		12%			Mean	8%
	S.D.		0.01			S.D.	0.01
	C.V.		5%			C.V.	12%

Table 4.13 shows the ratios of shareholder's fund to total deposit ratio of these two banks somehow constant. EBL has recorded the highest ratio i.e. 9 Percent in the fiscal year 2009/10 & 2010-11 and has the lowest ratio i.e. 7 Percent in the fiscal year 2006/07 & 2007-08. Such a way the highest ratio is 13 Percent in the fiscal year 2010-11 and lowest is 11 Percent in 2006-07 & 2007-08 of SCBNL.

The ratio of mean under SCBNL is 12 Percent whereas 8 Percent of EBL as well coefficient of variation of SCBNL is 5 Percent and 12 Percent of EBL suggests that the Shareholder's fund to Total Deposit of SCBNL has been more uniform than that of EBL. SCBNL has met the minimum requirement of NRB since it has mean ratio of 12 Percent where EBL has under the limit i.e.8 Percent.

GRAPHIC PRESENTATION: 4.13



Graphical presentation of these two banks shows that the average of shareholder's fund to total deposit is no more fluctuation. The value of shareholders'

fund and total deposit is increasing by from the period of study and increasing ratio 1 Percent each year and sometimes constant.

4.3.2 Shareholder's Fund to Total Assets Ratio:

This ratio is very essential for every financial institution have a balance of required Percentage of total assets as shareholder' fund i.e. Capital fund, shareholder' fund to assets ratio measures the relative claims of owners of the bank over the bank's asset. It is calculated by dividing total shareholders' fund by total assets ratio:

$$\text{Shareholder's Fund to Total Assets Ratio} = \frac{\text{Shareholder's Fund}}{\text{Total Assets}}$$

Table 4.14 Shareholder's Fund to Total Assets Ratio

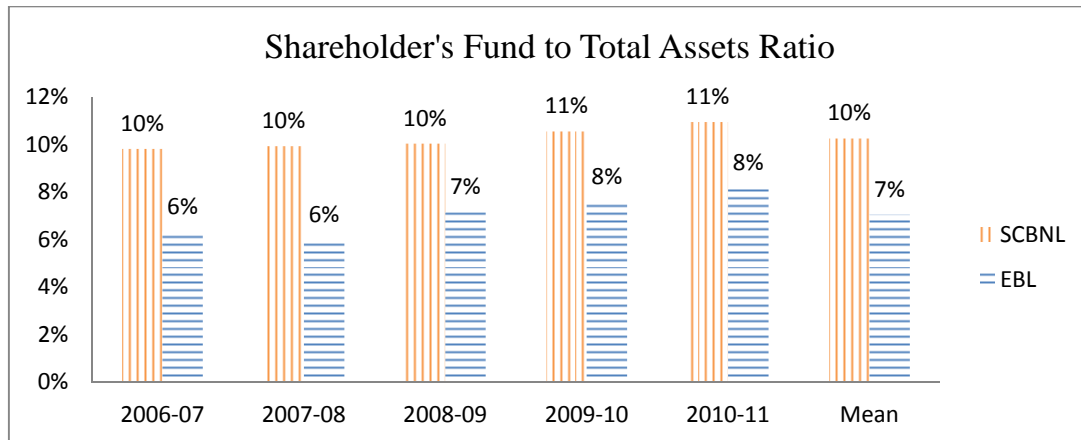
Rs. in (000,000)

YEAR	SCBNL			AVERAGE	EBL		
	SHAREHOLD ER'S FUND	TOTAL ASSETS	RATIO		SHAREHOL DER'S FUND	TOTAL ASSETS	RATIO
2006-07	2,807.95	28,596.69	10%	8.08%	1,357.92	21,432.57	6%
2007-08	3,311.45	33,335.79	10%	7.96%	1,626.36	27,149.34	6%
2008-09	4,076.57	40,587.47	10%	8.60%	2,642.30	36,916.85	7%
2009-10	4,245.74	40,213.32	11%	9.08%	3,141.83	41,382.76	8%
2010-11	4,796.88	43,810.52	11%	9.55%	3,772.88	46,236.21	8%
	Mean	10%			Mean	7%	
	S.D.	0.00			S.D.	0.01	
	C.V.	5%			C.V.	13%	

Table 4.14 shows that the ratios of shareholder's fund to total assets of these two banks are not fluctuating trend. EBL has recorded the highest and lowest ratio i.e. 8 Percent in the fiscal year 2009-10 & 2010/11 and 6 Percent in the fiscal year 2006/07 & 2007-08. During the fiscal year 2006/07 to 2010/11 only EBL is below the average comparing with SCBNL. SCBNL has recorded the highest and lowest ratio i.e.11 Percent in year 2009-10 to 2010-11 & 10 Percent in year remaining years.

Based on the analysis it may conclude that SCBNL needs to add more shareholders' funds for maintaining sufficient amount of shareholder's fund. By comparing to these banks under shareholder to assets ratio only EBL is better than SCBNL. So it is concluded that SCBNL needs more shareholder's funds.

GRAPHIC PRESENTATION: 4.14



Graphical presentation of these two banks show average of shareholder's funds to total assets ratio are in constant because from the year 2009/10 to 2010/11 it is same from 11 Percent to 11 Percent of SCBNL and 8 Percent to 8 Percent of EBL. The Coefficient of variation of the SCBNL is 5 Percent which is uniform than EBL 9 Percent.

4.4 Profitability Ratio

Profitability ratios measure overall performance and effectiveness of the firm. Besides management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and payment of principal regularly. Owners want to get a required rate of return on their investment. This is possible only when the company earns enough profits.

4.4.1 Interest Earned to Working Fund Ratio

The interest earned to working fund ratio measures the amount of interest earned against the working fund employed. In order to calculate the interest earned to working fund ratio, the researcher collected the required data and the calculated results have been presented in the table below. Table 4.15 contains the amount of interest earned and working fund, interest earned to working fund ratio, standard deviation, coefficient of variation of SCBNL and EBL for the years from 2006-07 to 2010-11.

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

Working Fund= Current Assets –Current Liabilities

Table 4.15 Interest Earned to Working Fund Ratio

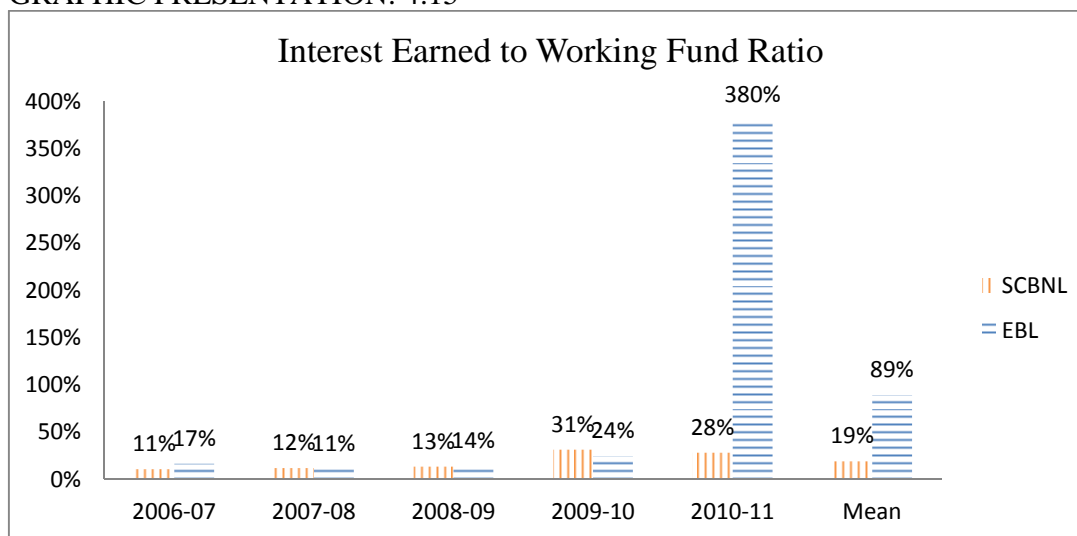
Rs. in (000,000)

YEAR	SCBNL			AVERAGE	EBL		
	INTEREST EARNED	WORKING FUND	RATIO %		INTEREST EARNED	WORKING FUND	RATIO %
2006-07	1,411.90	13,075.00	11%	13.74%	1,144.40	6,864.00	17%
2007-08	1,591.10	13,278.00	12%	11.69%	1,548.60	13,591.00	11%
2008-09	1,887.20	14,025.00	13%	13.96%	2,188.80	15,137.00	14%
2009-10	2,042.10	6,486.00	31%	27.85%	3,102.40	12,813.00	24%
2010-11	2,718.60	9,611.00	28%	204.10%	4,331.00	1,140.00	380%
		Mean	19%			Mean	89%
		S.D.	0.10			S.D.	1.63
		C.V.	51%			C.V.	182%

Interest earned is the income generated through loans and advances. This income constitutes a major portion of the banks' earnings. In the graph presented below, it seems that SCBNL and EBL trend of interest earned to working fund ratio is fluctuating through the years under study. Although ratio is fluctuating but the volume of interest earned and working fund has increasing trend. The amount of interest earned by SCBNL was Rs. 1,411.90 million in 2006-07 which increased to Rs. 2,718.60 million in 2010-11 and. On the other hand, the amount of interest earned by EBL was Rs. 1,144.40 million in 2006-07 which increased to Rs. 4,331.00 million in 2010-11. The mean interest earned to working fund ratio of SCBNL and EBL is 19 Percent and 89 Percent respectively. The coefficient of variation of SCBNL and EBL is 51 Percent and 182 Percent respectively.

It is observed that the amount of interest earned by both the banks witnessed an increase through the year of study 2006-07 to 2010-11. The decrease in the interest earned to working fund ratio is due the disproportionate increase the amount of interest earned and working fund. The coefficient of variation of SCBNL and EBL is 51 Percent and 182 Percent indicating that the ratio of EBL has varied less in comparison to the ratio of SCBNL.

GRAPHIC PRESENTATION: 4.15



Although the interest earned to working fund ratio has been fluctuating for both the banks, there is an increase in the volume of interest earned. EBL’s amount of interest earned has increased in better trend than the SCBNL.

4.4.2 Interest Paid to Working Fund Ratio

The interest paid to working fund ratio for SCBNL and EBL for the years from 2006-07 to 2010-2011 is presented in the table below. In order to calculate the ratio, the amount of interest paid and working fund was collected from the banks’ financial statements. The calculated interests paid to working fund ratio, their mean, standard deviation, coefficient of variation have also been presented in the table.

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

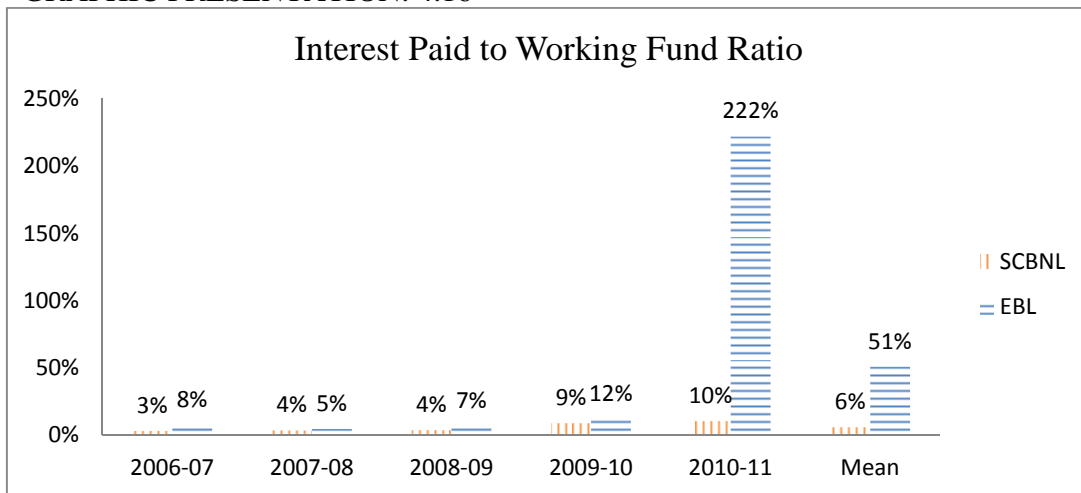
Table 4.16 Interest Paid to Working Fund Ratio

Rs. in (000,000)

YEAR	SCBNL			AVERAGE	EBL		
	INTEREST PAID	WORKING FUND	RATIO %		INTEREST PAID	WORKING FUND	RATIO %
2006-07	413.00	13,075.00	3%	5.35%	517.20	6,864.00	8%
2007-08	471.70	13,278.00	4%	4.10%	632.60	13,591.00	5%
2008-09	543.70	14,025.00	4%	5.28%	1,012.90	15,137.00	7%
2009-10	575.70	6,486.00	9%	10.58%	1,572.80	12,813.00	12%
2010-11	1,003.10	9,611.00	10%	116.44%	2,535.90	1,140.00	222%
	Mean		6%			Mean	51%
	S.D.		0.03			S.D.	0.96
	C.V.		57%			C.V.	189%

The amount of interest paid for SCBNL has increased through the years under study. The amount of interest paid by SCBNL was Rs. 413.00 million in 2006-07 which increased to Rs. 1,003.10 million in 2010-11. Similarly to this, EBL's amount of interest paid increased from Rs. 517.20 million in 2006-07 to Rs. 2,535.90 million in 2010-11. However, the interest paid to working fund ratio for both the banks fluctuating. The ratio of SCBNL increased from 3 Percent in 2006-07 to 10 Percent in 2010-11. Similarly, EBL's ratio increased from 8 Percent in 2006-07 to 222 Percent in 2010-11. The mean interest paid to working fund ratio of SCBNL and EBL is 6 Percent and 51 Percent respectively. The standard deviation of SCBNL and EBL is 0.03 and 0.96 respectively. And the coefficient of variation of SCBNL and EBL is 57 Percent and 189 Percent respectively.

GRAPHIC PRESENTATION: 4.16



In the above 4.16 graph, it seems that the decreasing pattern of interest paid to working fund ratio. The decrease in the amount of interest paid is certainly good for the banks as it will ultimately affect their profits.

4.4.3 Net Profit to Working Fund Ratio

This ratio measures the Percentage of net profit against the company's total working fund. This ratio is calculated by dividing working fund by net profit. In order to calculate the net profit to working fund ratio the required data; the amount of net profit and working fund have been collected and presented in the table below;

$$\text{Net Profit to Working Fund Ratio} = \frac{\text{Net Profit}}{\text{Working Fund}}$$

Table 4.17 Net Profit to Working Fund Ratio

Rs. In (000,000)

YEAR	SCBNL			AVERAGE	EBL		
	NET PROFIT	WORKING FUND	RATIO %		NET PROFIT	WORKING FUND	RATIO %
2006-07	691.60	13,075.00	5%	4.80%	296.40	6,864.00	4%
2007-08	818.90	13,278.00	6%	4.74%	451.22	13,591.00	3%
2008-09	1,025.10	14,025.00	7%	5.76%	638.70	15,137.00	4%
2009-10	1,085.80	6,486.00	17%	11.62%	831.80	12,813.00	6%
2010-11	1,119.10	9,611.00	12%	46.67%	931.30	1,140.00	82%
		Mean	9%			Mean	20%
		S.D.	0.05			S.D.	0.35
		C.V.	50%			C.V.	172%

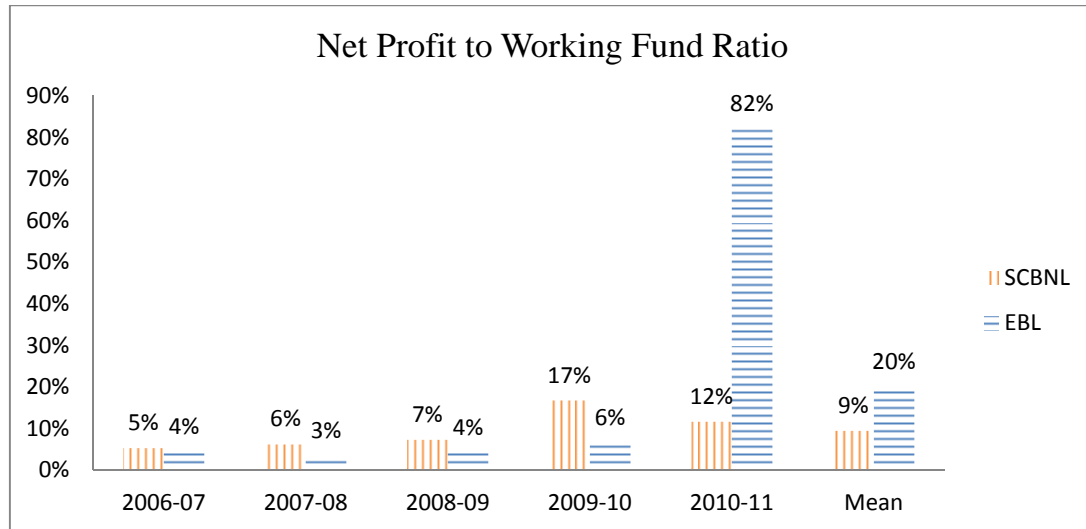
Net profit is the net amount available to the company after deducting all its expenses. Generally, the net profit represents the bank's capacity to earn. While larger companies tend to generate huge amounts of net profit, they do not actually reflect a true picture of the company's profitability. The net profit to working fund ratio measures the amount of net profit earned against its working fund in terms of Percentage.

In the above 4.17 table, it seems that the net profit has increased for both the banks. The amount of net profit of SCBNL was Rs. 691.60 million in 2006-07 and it increased to Rs. 1,119.10 million in 2010-11. Similarly, EBL's net profit increased from Rs 296.40 million in 2006-07 to Rs. 931.30 million in 2010-11. The net profit to working fund ratio of both the banks has witnessed an increasing and decreasing trend. SCBNL's net profit to working fund ratio has increased from 5 Percent in 2006-07 to 12 Percent in 2010-11. On the other hand, EBL's net profit to working fund ratio also increased from 4 Percent in 2006-07 to 82 Percent in 2010-11. The mean net profit to working fund ratio of SCBNL and EBL is 9 Percent and 20 Percent respectively. The standard deviation of SCBNL and EBL is 0.05 and 0.35 respectively.

The mean net profit to working fund ratio of SCBNL and EBL are 9 Percent and 20 Percent respectively implying that while SCBNL was able to generate net profit equaling 9 Percent of its working fund, EBL was able to generate net profit equaling only 20 Percent of its working fund. The ratios also reveal that SCBNL is more capable of generating income compared to EBL. The increase in net profit of both the banks reveals their competency in generating profits. The degree of variability of the ratios is measured by coefficient of variation which is 50 Percent for

SCBNL and 172 Percent for EBL. The coefficient of variation indicates that the net profit to working fund ratio of EBL varied less compared to SCBNL. A graphical representation of the net profit to working fund ratio is given below;

GRAPHIC PRESENTATION: 4.17



The fluctuating trend of net profit to working fund ratio can be accounted for the political instability faced by the Nepalese economy in the recent years. But the amount of net profit earned is satisfactory compared to its working funds.

4.4.4 Net Profit to Total Deposit Ratio

The net profit to total deposit ratio measures the Percentage of net profit earned against its total deposit. In order to calculate the net profit to total deposit ratio of SCBNL and EBL for the years from 2006-07 to 2010-11, the required data have been collected and presented below. The table contains the amount of net profit and total deposit of both the banks for the study period. Net profit to total deposit ratio, its standard deviation, coefficient of variation have also been presented in the table below;

$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net Profit}}{\text{Total Deposit}}$$

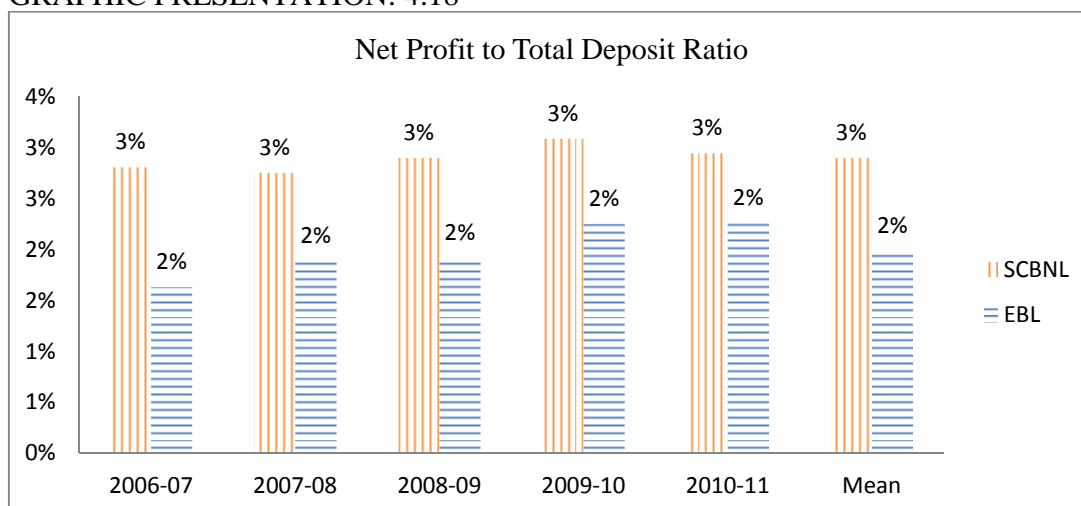
Table 4.18 Net Profit to Total Deposit Ratio

Rs. in (000,000)

YEAR	SCBNL			AVERAGE	EBL		
	NET PROFIT	TOTAL DEPOSIT	RATIO %		NET PROFIT	TOTAL DEPOSIT	RATIO %
2006-07	691.60	24,647.02	3%	2.22%	296.40	18,186.25	2%
2007-08	818.90	29,744.00	3%	2.32%	451.22	23,976.30	2%
2008-09	1,025.10	35,350.82	3%	2.41%	638.70	33,322.95	2%
2009-10	1,085.80	35,182.72	3%	2.67%	831.80	36,932.31	2%
2010-11	1,119.10	37,999.24	3%	2.60%	931.30	41,127.91	2%
		Mean	3%			Mean	2%
		S.D.	0.00			S.D.	0.00
		C.V.	4%			C.V.	14%

While net profit is the amount earned by an organization after deducting all its expenses, total deposit is the total of all types of deposit collected by a bank. The types of deposit are; saving deposit, fixed deposit, current deposit etc. The amounts of net profit as well as total deposit for both the banks have witnessed an increase through the period of the study. The amount of total deposit of SCBNL increased from Rs. 24,647.02 million in 2006-07 to Rs 37,999.24 million in 2010-11. Similarly, EBL's total deposit increased from Rs. 18,186.25 million in 2006-07 to Rs. 41,127.91 million in 2010-11. The net profit to total deposit ratio of both the banks have a constant trend. SCBNL's ratio has constant 3 Percent from 2006-07 to 2010-11. EBL's ratio has also the same ratio 2 Percent in 2006-07 to 2010-11. The mean net profit to total deposit ratio of SCBNL and EBL is 3 Percent and 2 Percent respectively. The standard deviation of SCBNL and EBL is 0.00. A graphical representation of the net profit to total deposit ratio is given below;

GRAPHIC PRESENTATION: 4.18



The mean ratio indicates that SCBNL's profitability is quite higher than EBL's profitability. SCBNL has the capacity to earn more than EBL. While EBL was able to earn net profit equaling only 2 Percent of its total deposit, SCBNL was able to earn net profit equaling 3 Percent of its total deposit. The coefficient of variation for SCBNL and EBL is 4 Percent and 14 Percent respectively which shows that the degree of variability of SCBNL is lower than the EBL.

Although the amount of both net profit and total deposit increased during the period of the study the net profit to total deposit ratio constant. This is because there was a proportionate increase in the net profit and total deposit.

4.4.5 Return on Total Assets Ratio

The return on total assets ratio is calculated by dividing profit by the total assets. This ratio measures the profitability of all resources invested in the bank's assets. Higher the ratio, higher the efficiency of the banks in utilizing its overall resources and lower the volume of non-performing assets Non-performing assets reduce the profit because it returns nothing.

$$\text{Return on Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

Table 4.19 Return on Total Assets Ratio

Rs. in (000,000)

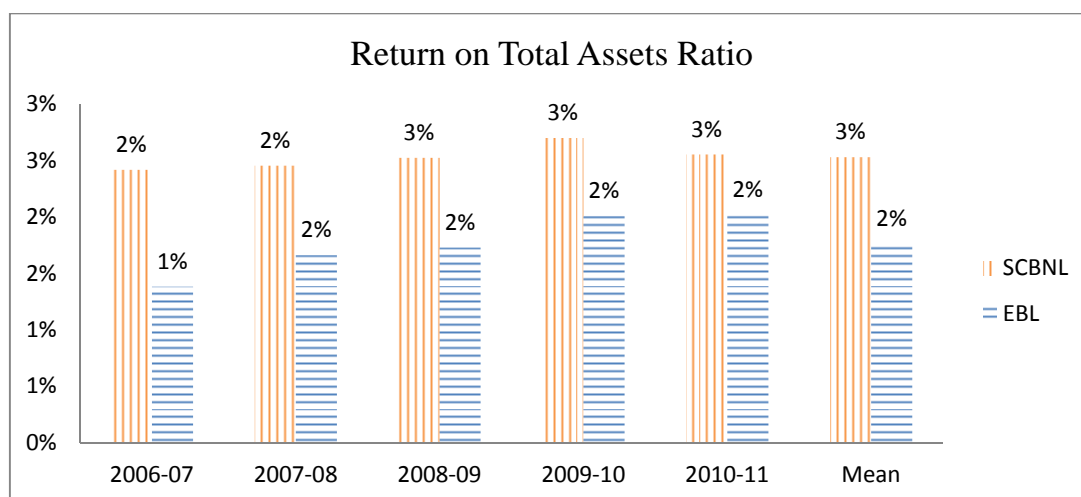
YEAR	SCBNL			AVERAGE	EBL		
	NET PROFIT	TOTAL ASSETS	RATIO %		NET PROFIT	TOTAL ASSETS	RATIO %
2006-07	691.60	28,596.69	2%	1.90%	296.40	21,432.57	1%
2007-08	818.90	33,335.79	2%	2.06%	451.22	27,149.34	2%
2008-09	1,025.10	40,587.47	3%	2.13%	638.70	36,916.85	2%
2009-10	1,085.80	40,213.32	3%	2.36%	831.80	41,382.76	2%
2010-11	1,119.10	43,810.52	3%	2.28%	931.30	46,236.21	2%
		Mean	3%			Mean	2%
		S.D.	0.00			S.D.	0.00
		C.V.	4%			C.V.	15%

The total asset of SCBNL is Rs. 28,596.69 million in fiscal year 2006-07 which is increased to Rs.43, 810.52 million in fiscal year 2010-11. Similarly the total asset of EBL has been increased from Rs.21, 432.57 million in year 2006-07 to Rs. 46,236.21 million in year 2010-11. The mean ratios of both banks are 3 Percent and 2 Percent respectively. The coefficient of variation for SCBNL and EBL is 4 Percent and 15 Percent respectively which shows that the degree of variability of SCBNL is lower than the EBL.

Table 4.19 shows the ratios of return on total assets of both banks are in constant trend. SCBNL has recorded highest ratio i.e. 3 Percent in the fiscal year 2008-09 to 2010/11 and EBL has recorded the lowest ratio i.e. 1 Percent in the same year 2006/07.

According to Table 4.19 analysis it indicates that both banks follow the constant trend, this is because of its moderate lending procedure. Therefore, both the banks need to change its portfolio in order to increase return on assets ratio and they must increase their performing assets to generate income and this helps to earn proportionately in order to achieve a healthy return on assets ratio.

GRAPHIC PRESENTATION: 4.19



Graphical presentation of these two banks shows that an average of return on total assets is constant trend because during the year 2006/07 to 2010-11 the ratio is almost same.

4.4.6 Interest Earned to Total Assets ratio

Banks main sources of income are interest earned from loans, advances and investment. Hence, higher the proportion of risk assets and investment in total assets, higher the interest earned to total assets ratio. Interest earned to total assets ratio measures the Percentage of interest earned in relation to total assets of the banks and shows the efficiency of banks in earning assets.

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

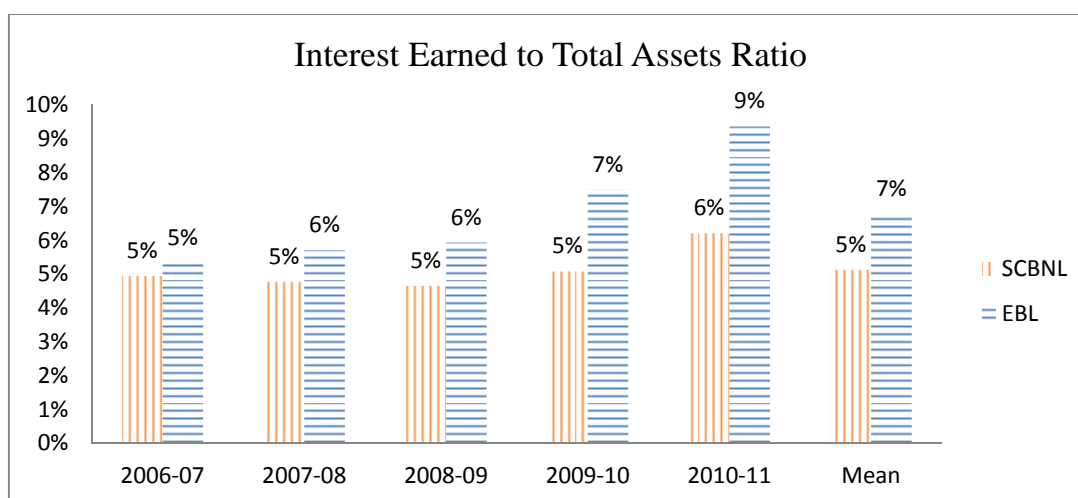
Table 4.20 Interest Earned to Total Assets Ratio

YEAR	SCBNL			AVERAGE	EBL		
	INEREST EARNED	TOTAL ASSETS	RATIO %		INEREST EARNED	TOTAL ASSETS	RATIO %
2006-07	1,411.90	28,596.69	5%	5.14%	1,144.40	21,432.57	5%
2007-08	1,591.10	33,335.79	5%	5.24%	1,548.60	27,149.34	6%
2008-09	1,887.20	40,587.47	5%	5.29%	2,188.80	36,916.85	6%
2009-10	2,042.10	40,213.32	5%	6.29%	3,102.40	41,382.76	7%
2010-11	2,718.60	43,810.52	6%	7.79%	4,331.00	46,236.21	9%
		Mean	5%			Mean	7%
		S.D.	0.01			S.D.	0.02
		C.V.	12%			C.V.	25%

Table 4.20 shows that the ratios of interest earned on total assets ratio of these two banks almost constant trend. EBL has recorded the highest ratio i.e. 9 Percent in the fiscal year 2010/11 and SCBNL has recorded the lowest ratio i.e. 6 Percent in the fiscal year 2006-07 to 2009-10.

In the Table 4.20 analysis it indicates that only EBL is in increasing trend. Although, SCBNL is also in increasing trend but it is in slightly manner. Therefore, it is concluded that EBL has better performance in earning interest as well as utilizing the resources in interest generating sectors comparing with SCBNL bank.

GRAPHIC PRESENTATION: 4.20



Graphical presented of these two banks show that average of return on total assets is constant growth trend from the fiscal year 2006/07 to 2009/10. The mean ratio of SCBNL is 5 Percent lower than the EBL 7 Percent. But the coefficient of

variation is 12 Percent of SCBNL and 25 Percent of EBL which shows that the degree of variability of SCBNL is lower than the EBL.

4.4.7 Return on Shareholder's Equity Ratio

This profitability ratio carries the relationship of return to the sources of fund yet another step further. While, the ROCE expresses the profitability of a firm in relation to the funds supplied by the creditors and owners take together, the return on shareholders' equity measures exclusively the return on the owners' funds. The profitability ratios based on shareholders equity are termed as shareholders equity.

$$\text{Return on shareholder's equity ratio} = \frac{\text{Net Profit}}{\text{Shareholder's Equity}}$$

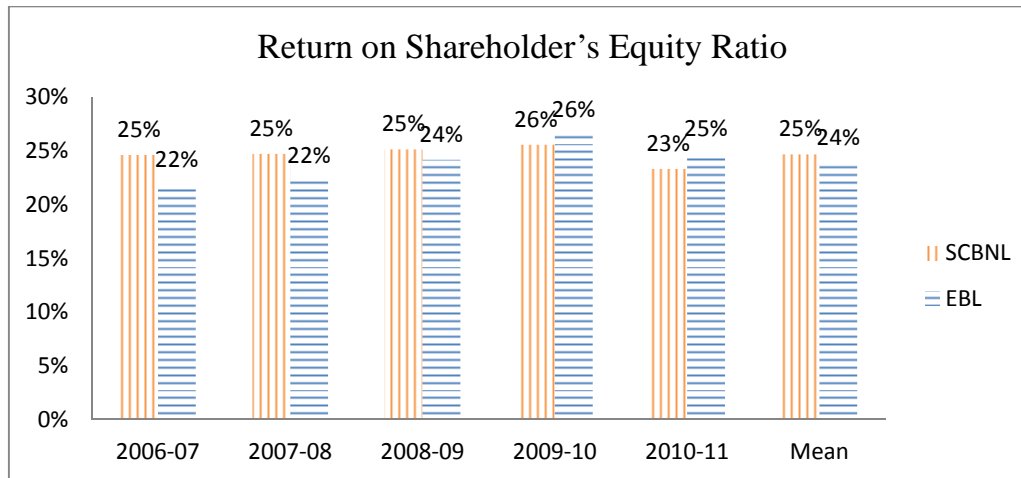
Table 4.21 Return on Shareholder's Equity Ratio

Rs. in (000,000)

YEAR	SCBNL			AVERAGE	EBL		
	NET PROFIT	SHAREHOLDER'S EQUITY	RATIO %		NET PROFIT	SHAREHOLDER'S EQUITY	RATIO %
2006-07	691.60	2,807.95	25%	23.23%	296.40	1,357.92	22%
2007-08	818.90	3,311.45	25%	23.47%	451.22	2,032.46	22%
2008-09	1,025.10	4,076.57	25%	24.66%	638.70	2,642.30	24%
2009-10	1,085.80	4,245.74	26%	26.02%	831.80	3,141.83	26%
2010-11	1,119.10	4,796.88	23%	24.01%	931.30	3,772.88	25%
		Mean	25%			Mean	24%
		S.D.	0.01			S.D.	0.02
		C.V.	3%			C.V.	8%

In the above table no.4.21, the volume of total profit and shareholder's equity increasing each year of both the banks though it is in fluctuating manner in ratio. The net profit of SCBNL is Rs.691.60 million in year 2006-07 which increased to Rs.1,119.10 million in year 2010-11. Similarly the net profit of EBL is 296.40 million in year 2006-07 which increased to Rs. 931.30 million in year 2010-11. The mean ratio is 25 Percent and 24 Percent of SCBNL & EBL respectively. Based on the Coefficient of variation of SCBNL 3 Percent and 8 Percent of EBL indicates that there is more variability in EBL than SCBNL.

GRAPHIC PRESENTATION: 4.21



Graphical presentation of return on shareholder's equity ratio of two banks shows fluctuation in the ratio. But somehow the trend of increasing is more of SCBNL than EBL. EBL ratio is fluctuating which is also seen in the CV.

4.5 Capital Structure/Leverage Ratios

Leverage ratios show the proportions of debt and equity in financing the firm's assets. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. Leverage ratios may be calculated from the balance sheet items to determine the proportion of debt in total financing. Many variations of these ratios exist; but all these ratios indicate the same thing- the extent to which the firm has relied on debt in financing assets. Leverage ratios are also computed from the profit and loss items by determining the extent to which operating profits are sufficient to cover the fixed charges.

“The leverage or capital structure ratio may be defined as financial ratio which throw light on the long term solvency of a firm as reflected in its ability to assure the long term creditors which regards to; i) Periodic payment of interest during the period of the loan and, ii) Repayment of principal on maturing or predetermined installment at due dates.”

“The short term creditors, like bankers and suppliers of raw materials are more concerned with the firm's current debt paying bill. On the other hand, long term creditors, like debenture holders, financial institutions, etc. are more concerned with the firm's long term financial strength. In fact, a firm should have a strong short as well as long term financial position. To judge the long term financial position of the firm, financial leverage or capital structure ratios are calculated. These ratios indicate

mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets."

There are two different, but mutually dependent and inter related, types of leverage ratios. The first type of capital structure ratios are based on the relationship between borrowed funds and owner's capital. These ratios are computed from the balance sheet and have many variations such as; a) Debt equity ratio, b) Debt – assets ratio, c) Equity assets ratio and so on. The second type of capital structure ratios, popularly called coverage ratios, is calculated from the profit and loss account. Included in this category are: a) Interest coverage ratio b) Dividend coverage ratio c) Total fixed charge ratio d) Cash coverage ratio and, e) Debt service coverage ratio.

4.5.1 Long Term Debt to Net Worth Ratio

Long term debts are term loans taken by an institution for the operation of its business. While it is common for most institutions to finance its equity through term loans, banks perform otherwise. Almost all of the banks in Nepal are operated without debt to maximize its profits and since there are no debts, leverage ratios and long term debt to net worth ratio could not be calculated for this study.

4.5.2 Net Fixed Assets to Long Term Debt Ratio

Similarly, the net fixed assets to long term debt ratio could not be calculated as both the banks do not have any long term liability.

4.5.3 Total Debt to Net Worth Ratio

As SCBNL and EBL do not have any long term obligation such as term loans to finance its capital, the total debt to net worth ratio could not be calculated for this study.

4.6 Other Financial Indicators

Other financial indicators such as price earnings ratio, earnings per share, and dividend per share reveal the potentiality of an institution to earn in the future. Investors contemplating to invest in the common stocks would be keen to know the investment potentiality of a company which is revealed by these indicators.

4.6.1 Price Earnings (P/E) Ratio:

The price earnings ratio is used as a going concern method of valuing stock. As long as the company is a viable business entity, its real value is reflected in its

profits. A low P/E ratio of the stock is the indicator of under valuation of the stock and vice-versa.

This ratio is the most important measure of value used by investors in the market place. The market price of an equity share is influenced by many factors like the dividend and earnings rate record, stability and rate of growth of earnings and services, credit rating and financial strength, management competitiveness and efficiency, competitive position of the bank etc. P/E ratio expresses the relationship between market price of a share of the stock and the stock's current earnings per share. Thus, it is calculated by dividing market price of share (MPS) by earnings per share (EPS). In order to calculate the price earnings ratio of SCBNL and EBL, the required data has been collected and presented in the table below;

$$\text{Price Earnings ratio} = \frac{\text{Closing Value of Share}}{\text{Earnings per Share}}$$

Table 4.22 Price Earnings Ratio

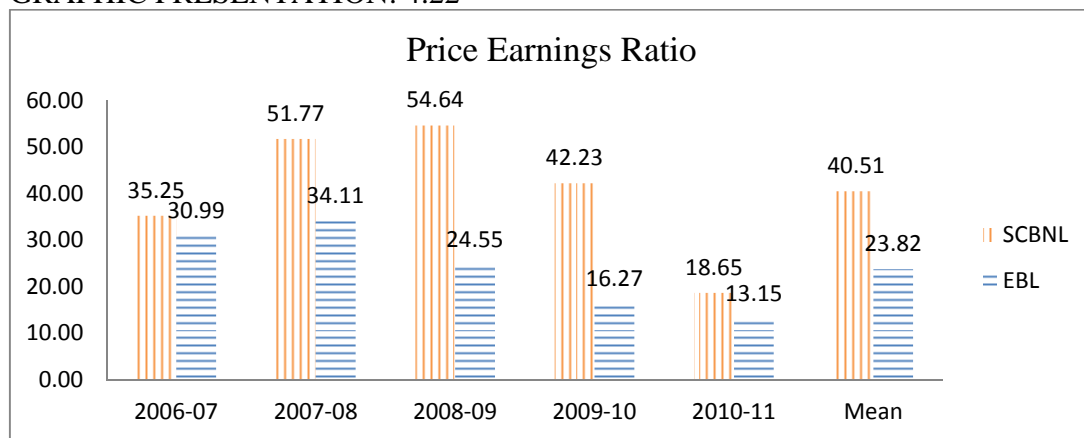
SCBNL			Average	EBL		
CLOSING VALUE OF SHARE	EARNINGS PER SHARE	P/E RATIO (TIMES)		CLOSING VALUE OF SHARE	EARNINGS PER SHARE	P/E RATIO (TIMES)
5,900.00	167.37	35.25	33.12	2,430.00	78.42	30.99
6,830.00	131.92	51.77	42.94	3,132.00	91.82	34.11
6,010.00	109.99	54.64	39.60	2,455.00	99.99	24.55
3,279.00	77.65	42.23	29.25	1,630.00	100.16	16.27
1,800.00	96.51	18.65	15.90	1,094.00	83.18	13.15
	Mean	40.51			Mean	23.82
	S.D.	14.45			S.D.	9.0628
	C.V.	36%			C.V.	38%

In the 4.22 table, it seems that the closing value or market price of the shares of SCBNL and EBL has fluctuated through the period of the study. The market price of each of the shares of SCBNL was Rs. 5,900/- in 2006-07 and increased to Rs. 6,830/- in 2007-08. It then decreased to Rs. 6,010/- in 2008-09. At the end of 2010-11, the market price of SCBNL's shares was Rs. 1,800/- Similarly, EBL's market price of shares increased from Rs. 2,430/- in 2006-07 to Rs. 1,094/- in 2010-11. There was decreased in the market price of EBL's shares & SCBNL. The price earnings ratios of both the banks have also fluctuated. SCBNL's P/E ratio increased from 35.25 in 2006-07 to 51.77 in 2007-08. It then started decreasing and at the end of 2010-11, SCBNL's P/E ratio was 18.65. EBL's P/E ratio has witnessed a decreasing trend. From P/E ratio of 30.99 in 2006-07, EBL witnessed decrease in the year 2010-11 (13.15). The mean

P/E ratio of SCBNL and EBL was 40.51 and 23.82. The standard deviation was 14.45 for SCBNL and 9.06 for EBL.

The mean price earnings ratio of SCBNL and EBL respectively indicate that on an average, SCBNL has had higher price earnings ratio compared to EBL. SCBNL witnessed the highest market price of its share in 2007-08 at Rs. 6,830/-. Similarly, EBL had the highest market price of its shares in 2007-08 at Rs. 3,132/-. The coefficient of variation between the ratios of SCBNL is slightly less (36 Percent) than that of EBL (38 Percent) indicating that the variability or the ratios of SCBNL is more uniform than the variability of the ratios of EBL.

GRAPHIC PRESENTATION: 4.22



In the graph presented above, a fluctuating trend of price earnings ratio is observed for both the banks. The level of price earnings ratio indicates the degree of confidence or certainty that investors have in the bank's future performance. The higher the price earnings ratio, the greater will be the investors' confidence in the bank's future. Decreasing market prices of the shares imply that the organization has no prospective future and investors are not willing to invest on it.

4.6.2 Earnings Per Share (EPS):

Shareholders pay special heed to the EPS of their company because it expresses the ratio of return on their share. It is calculated by dividing the closing value of share by its P/E ratio. In order to calculate the EPS of SCBNL and EBL, the researcher collected the required data for the years from 2006-07 to 2010-11. The closing value of shares, P/E ratio, calculated EPS have been presented in the table below. The mean earnings per share, their standard deviation, and coefficient of variation have also been calculated and their results presented in the table below.

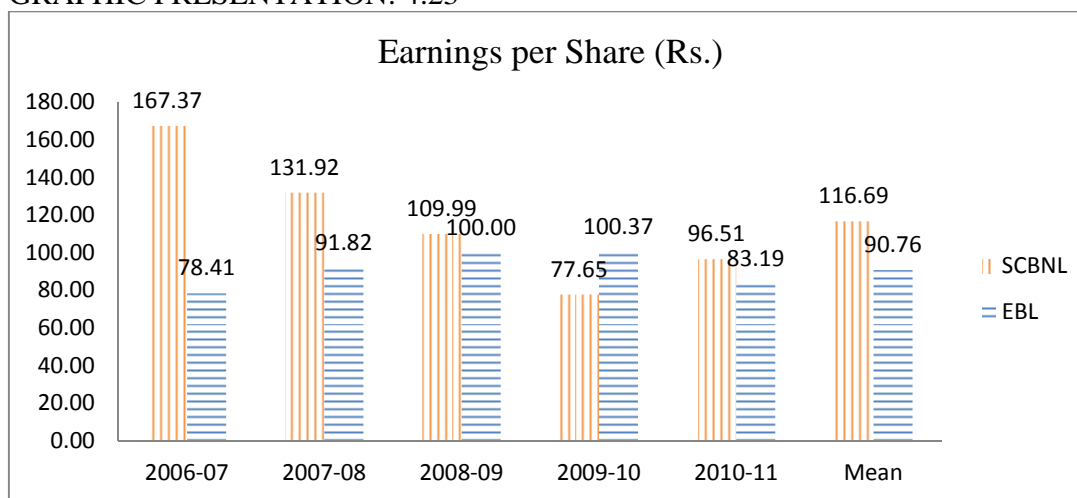
$$\text{Earning per ratio} = \frac{\text{Closing Value of Share}}{P / E \text{ Ratio}}$$

Table 4.23 Earnings per Share

SCBNL			Average	EBL		
CLOSING VALUE OF SHARE	P/E RATIO (TIMES)	EPS (Rs.)		CLOSING VALUE OF SHARE	P/E RATIO (TIMES)	EPS (Rs.)
5,900.00	35.25	167.37	122.89	2,430.00	30.99	78.41
6,830.00	51.77	131.92	111.87	3,132.00	34.11	91.82
6,010.00	54.64	109.99	105.00	2,455.00	24.55	100.00
3,279.00	42.23	77.65	89.01	1,630.00	16.24	100.37
1,800.00	18.65	96.51	89.85	1,094.00	13.15	83.19
Mean		116.69		Mean		90.76
S.D.		34.5567		S.D.		9.8559
C.V.		30%		C.V.		11%

In the 4.23 table, it seems that while EPS of SCBNL has decreased over the years, the same has been fluctuating in the case of EBL. SCBNL's EPS decreased from Rs. 167.37 in 2006-07 to Rs. 96.51 in 2010-11. On the other hand, the EPS of EBL had also increased from Rs. 78.41 in 2006-07 to Rs. 91.82, 100.00 & 100.37 in 2007-08, 2008-09 & 2009-10 respectively then it was decreased to Rs.83.19 in 2010-11. The mean EPS of SCBNL and EBL is Rs. 116.69 and Rs. 90.76 respectively. The increasing and decreasing trend of EPS can be clearly seen in the graph below;

GRAPHIC PRESENTATION: 4.23



On a share to share basis, SCBNL has been able to earn more than EBL. While each of SCBNL's shares earned Rs. 116.69, each share of EBL was able to earn only Rs. 90.76. This indicates SCBNL's high capacity to earn profits compared to EBL. The coefficient of variation of SCBNL is more (30 Percent) than that of EBL (11

Percent) indicating that the EPS of EBL has more uniform than that of SCBNL during the period under study.

Every company would prefer the income on every share to be high. As EPS tend to reveal an organization's profit making capacity, the higher it is the better for the company's image. However, companies normally do not distribute all of its earning to shareholders. A part of it is retained to make future expansion. How much of it is retained depends on the policy of the individual companies.

4.6.3 Dividends Per Share (DPS):

DPS is also one of the methods of valuing stock. It is the amount that is paid out to shareholders. Usually, the amount of dividend that is paid out to its shareholders is from the organization's earnings after deducting all its expenses and retaining a portion of it for future investments. The amount of dividends also depends on the various dividend policy adopted by organizations.

In order to calculate the DPS of SCBNL and EBL, required data was collected for the years 2006-07 to 2010-11. The amount of dividend paid by the banks each year have been collected and tabulated. The dividends per share, its mean, standard deviation, and coefficient of variation have also been presented in the table below;

$$\text{Dividend per share} = \frac{\text{Dividend Declared}}{\text{No. of share O/S}}$$

Table 4.24 Dividend per Share

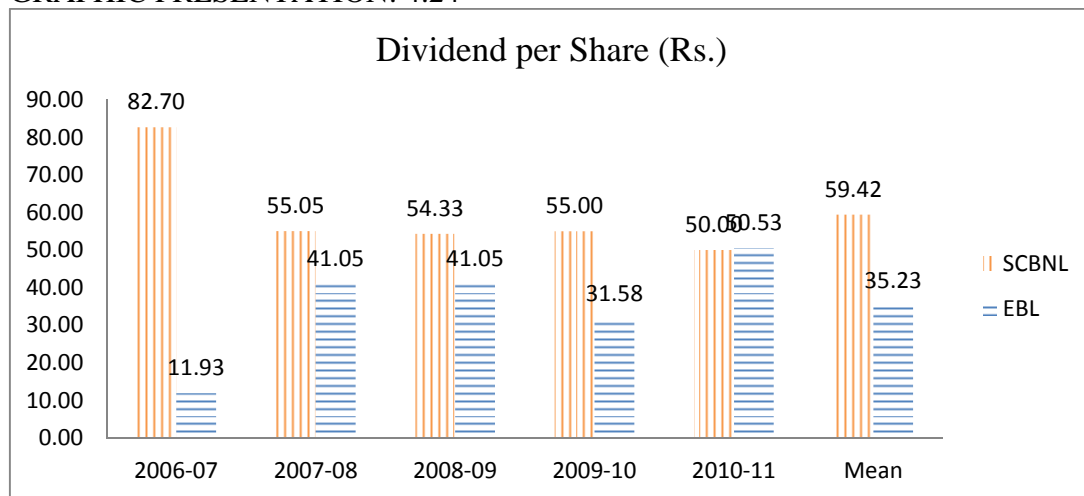
YEAR	SCBNL			Average	EBL		
	Dividend Declared	No. of Share O/S	DPS (Rs.)		Dividend Declared	No. of Share O/S	DPS (Rs.)
2006-07	341,744,048	4,132,548	82.70	47.31	45,102,316	3,780,000	11.93
2007-08	341,744,048	6,207,840	55.05	48.05	201,732,948	4,914,000	41.05
2008-09	506,366,940	9,319,664	54.33	47.69	262,252,832	6,388,000	41.05
2009-10	769,165,980	13,984,836	55.00	43.29	262,252,832	8,305,000	31.58
2010-11	805,084,000	16,101,680	50.00	50.26	565,697,427	11,196,000	50.53
		Mean	59.42			Mean	35.23
		S.D.	13.1814			S.D.	14.6455
		C.V.	22%			C.V.	42%

It seems in the 4.24 table that SCBNL & EBL have constantly paid out dividends every during 2006-07 and 2010-11 though there is fluctuation on payment of dividend ratio. SCBNL declared dividends Rs. 82.72 of the face value of the shares during 2006-07. Then it started to decrease each year. It was decreased to Rs.50.00 in 2010-11 of SCBNL. EBL on the other hand declare Rs.11.93 dividend for the year

2006-07 and then the dividend were increased to Rs.50.53 in year 2010-11. The Mean DPS of SCBNL is Rs.59.42 whereas the mean DPS of EBL is Rs.35.00. Since the face value of the shares of both the banks is Rs.100/-, it sees that while SCBNL paid dividends equaling Rs.59.42, EBL was able to pay only Rs.35.23 of the face value of its shares as dividend. The standard deviation of SCBNL and EBL is 13.18 and 14.64 respectively.

While it is a normal practice for all organization to declare a portion of its year end profits as dividends, some retain all the profits for future investment. The coefficient of variation of SCBNL and EBL is 22 Percent and 42 Percent indicating that the DPS of EBL has highly varied during the period under study. The DPS of SCBNL and EBL for the years from 2006-07 to 2010-11 has been depicted in the graph below.

GRAPHIC PRESENTATION: 4.24



The graph portraying the DPS of SCBNL and EBL shows that DPS of SCBNL was somewhat stable than that of EBL. A high level of DPS indicates the degree of investors' confidence in the bank's future and vice-versa. Since the DPS of SCBNL is higher than that of EBL, it is concluded that the common stock of SCBNL is less risky compared to the common stock of EBL.

4.7 Major Findings

- ❖ The idle standard of the *Current Ratio* is 2:1 but both banks under study could not perform that standard each FY. The banks contain more current assets than current liabilities. Thus banks are willingness to serve its consumers deposits. Moreover, from the liquidity point of view, SCBNL seems better which the result of higher portion of fixed deposit is possibly from FY 2006-07 to 2010/11.

- ❖ EBL has better performance in the case of Loans & Advances to Current Assets Ratio which has mean ratio of 95 Percent whereas SCBNL has 52 Percent only but the data has more uniform of SCBNL 12 Percent then EBL 35 Percent which is almost double.
- ❖ EBL has also maintained better performance in the Fixed Deposits to Total Deposit Ratio. It has mean ratio of 29 Percent which is greater than SCBNL 19 Percent. It shows that it can invest its capital in the long term project with high return. EBL has somehow maintained the ratio above the average ratio.
- ❖ In respect to the Investment on Govt. Securities to Current Assets Ratio SCBNL has maintained 31 Percent in average better standard than EBL 23 Percent. SCBNL has almost maintained above the average ratio in most of the FY.
- ❖ EBL has better performance in the case of *Cash and Bank Balance to Current Ratio* than SCBNL. During 2007/08 to 2010/11 EBL is above the average. But SCBNL become unable to cross the average ratio under the study period. Finally, it can be concluded that the position of EBL is better than SCBNL in respect to above ratio
- ❖ EBL has better performance in the case of *Cash and Bank Balance to Total Deposit* due to readiness to serve the deposits to its consumers than SCBNL. During 2006/07 to 2010/11 EBL is above the average whereas SCBNL has under the average ratio. Finally, it can be concluded that the position of EBL is better than SCBNL in respect to above ratio
- ❖ EBL seems to be successful to maintain highest *Loan & Advance to Total Deposit Ratio* in the all FY since it has mean ratio of 75 Percent whereas SCBNL has 44 Percent.
- ❖ In case of *Total Investment to Total Deposit Ratio* SCBNL has very good ratio comparing to EBL. It means SCBNL has capacity to mobilize its deposits on total investment is preferable and performed better. The mean ratio of SCBNL is 52 Percent whereas EBL has only 20 Percent.
- ❖ In case of Shareholder's Fund to Total Assets Ratio SCBNL has almost constant which is always more than average ratio. In the other hand EBL has also constant ratio but it has less than SCBNL and average ratio.
- ❖ Comparing both the banks SCBNL is able to maintain high in *Return on Total Deposit* i.e. 3 Percent in all the fiscal year constantly. It means SCBNL is capable to mobilize the total deposit properly in the productive sectors. EBL perform better also which has 2 Percent during the study period.

- ❖ Regarding the *Shareholder's Funds to Total Deposit* both banks performed satisfactory results. Thus both banks are sufficient amount of shareholder's funds in comparison to the amount of total deposits. But SCBNL has better ratio which is 12 Percent than EBL mean ratio 8 Percent. The analysis also says that SCBNL has above the average ratio where EBL has under the average ratio.
- ❖ The Earning per Share of SCBNL has higher Rs. 116.69 than EBL Rs. 90.76.
- ❖ As above Dividend per Share of SCBNL has also higher Rs.59.42 than EBL Rs.35.23.

CHAPTER—V

SUMMARY, CONSLUSIONS AND RECOMMENDATIONS

A summary of the study is presented in this chapter outlining the study's introduction, purpose, objectives, and methodology. The findings of the study are also presented in a summarized form and recommendations are made where possible.

5.1 Summary

Financial information is required for financial planning, analysis and decision making. The financial statements- Balance Sheet and Profit & Loss a/c are the basic instrument of an accounting system to communicate financial information to users. Balance Sheet shows the financial condition of the state of affairs of the firm at a particular point of time while the Profit & Loss a/c shows the profitability of the firm by giving details about revenues and expenses.

The financial statements serve as a means to the various stakeholders of the firm to analyze the organization's financial strengths, weaknesses, and performance. There are various ways to conduct a financial performance study. One of them is the financial ratio analysis. A financial ratio is a relationship between two financial variables. It helps to ascertain the financial condition of a firm. Ratio analysis is a process of identifying the financial strengths and weaknesses of the firm. This may be accomplished either through a trend analysis of the firm's ratios over a period of time or through a comparison of the firm's ratios with its nearest competitors and with the industry average.

Ratio is a popular and widely used tool for the analysis of financial performance. It is used for the analysis of stock, creditors and so on. But ratio is not free from limitations. Although, ratio can be used it for the prediction purpose and to some extent the prediction is correct also. Financial institution includes banks, finance companies, co-operative organizations and insurance companies. All of them do contribute something to the economy of the country. Financial institutions play a vital role in the proper functioning of an economy. Among them, banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals in the process of channelizing the available resources in the needed sectors. It is the intermediary between the deficit and surpluses of financial resource.

Banks play a vital role in the economy of most of the countries in the world. They are the backbone of a country's financial system. Although banking is a

relatively new concept in Nepal compared to its centuries old traditional cultural existence, this sector has witnessed a phenomenal growth in the last two decades. With the entry of joint-venture banks, customers have been receiving specialized and efficient services. Competitive interest rates, customer-focused services, extra benefits are what customers look in order to choose the institution they want to bank with. This has certainly led to throat-cut competition among the various national and joint-venture-banks operating in Nepal. While nature of service and rate of interest attract customers to a great extent, the nature and state of the bank's financial performance also play a vital role.

In order to fulfill the partial requirement for the Degree of Masters in Business Studies, a study titled “**Financial Performance Analysis of Joint-Venture Banks in Nepal (With special reference to SCBNL and EBL)**” was undertaken. Two joint-venture banks currently operating in Nepal, viz. Standard Chartered Bank Nepal Limited (SCBNL) and Everest Bank Limited (EBL) were chosen for the study.

The study seeks to assess the financial performance of the two banks with the help of ratio analysis for the period starting from 2006-07 to 2010-11 (5 years). As the study is analytical-cum-descriptive in nature, research is based on the historical data of the banks available in the annual reports of the banks. The annual reports were collected from the respective banks as well as from internet (www.nepalstock.com), (www.standardchartered.com/np/investor-relations/annual-reports), www.eblbank.com.np & Books, periodicals, journals, articles on the related subject as well as thesis were extensively reviewed in the library. Quotations from various authors on the related topic have been placed throughout the chapters. Reviews of the previously undertaken research studies have also been made in order to highlight the difference and significance of this study.

Financial as well as statistical tools have been used to determine the financial performance of the two banks. While ratio analysis is used to assess the liquidity, profitability of the banks, statistical tools such as; mean, standard deviation, coefficient of variation, have been used to determine the extent of variability and similarity between the ratios of the banks. The findings of the study have been presented in tables and graphs. Analysis and interpretation of the findings are also presented for each of the ratios.

Financial analysis is the proper identification of the financial strengths and weakness of the firm by establishing correct relationships between the items of balance sheet and profit and loss account. Ratio analysis is a powerful tool of financial analysis. Some statistical and financial tools have been applied to examine the facts

and descriptive techniques have been adopted to evaluate the structure of commercial banks. After completion of the basic analysis required for the study, the final and most important task of the researcher is to enlist findings issue and gaps of the study and give suggestions for further improvement. The main objective of this research is not only pointed out faults and errors but also to provide sound directions for further improvement.

5.2 Conclusions

The following conclusions are derived from the study. The findings of the study have been summarized and presented below;

1. Liquidity Position:

- (i) The mean Current Ratio of SCBNL has 1.83 .whereas EBL has 1.73.
- (ii) The mean Loans & Advances to Current Assets ratio of SCBNL has 52 Percent whereas EBL has 95 Percent
- (iii) The mean of Fixed Deposit to Total Deposit ratio of SCBNL has 19 Percent and EBL has 29 Percent.
- (iv) The mean of Saving Deposit to Total Deposit ratio of SCBNL has 48 Percent whereas EBL has 42 Percent
- (v) The mean of Investment on Govt. Securities to Current Assets Ratio of SCBNL has 31 Percent whereas EBL has 23 Percent.
- (vi) The mean Cash & Bank balance to Current Assets ratio of SCBNL has 9 Percent and EBL has 20 Percent
- (vii) The mean Cash & Bank balance to Total Deposit ratio of SCBNL has 7 Percent and EBL has 16 Percent

2. Activity/Turnover Position:

- (i) The Loans & Advances to Total Deposit ratio of SCBNL has 44 Percent whereas EBL has 75 Percent.
- (ii) The mean Loans & Advances to Fixed Deposit ratio of SCBNL has 259 Percent whereas EBL has 267 Percent
- (iii) The mean Loans & Advances to Saving Deposit ratio of SCBNL has 101 Percent and EBL has 182 Percent.
- (iv) The mean Operating Profit to Net Worth ratio of SCBNL has 50 Percent and EBL has 55 Percent.

- (v) The mean Total Investment to Total Deposit ratio of SCBNL has 52 Percent and EBL has 20 Percent.

3. Capital Adequacy Position:

- (i) The mean Shareholder's Fund to Total Deposit Ratio of SCBNL has 12 Percent whereas EBL has 8 Percent.
- (ii) The mean Shareholder's Fund to Total Assets Ratio of SCBNL has 10 Percent and EBL has 7 Percent.

4. Profitability Position:

- (i) The mean Interest Earned to Working Fund Ratio of SCBNL has 19 Percent whereas EBL has 89 Percent.
- (ii) The mean Interest Paid to Working Fund Ratio of SCBNL has 6 Percent whereas EBL has 51 Percent.
- (iii) The mean Net Profit to Working Fund ratio of SCBNL and EBL are 9 Percent and 20 Percent.
- (iv) The mean Net Profit to Total Deposit ratio of SCBNL and EBL are 3 Percent and 2 Percent.
- (v) The mean Return on Total Assets Ratio of SCBNL and EBL are 3 Percent and 2 Percent.
- (vi) The Interest Earned to Total Assets Ratio of SCBNL and EBL are 5 Percent and 7 Percent.
- (vii) The mean Return on Shareholder's Equity Ratio of SCBNL and EBL are 25 Percent and 24 Percent.

5. Other Financial Indicators Position:

- (i) The mean Price Earnings ratio of SCBNL and EBL are 40.51 and 23.82 times.
- (ii) The mean Earnings per Share (EPS) of SCBNL and EBL Rs. 116.69 and Rs.90.76.
- (iii) The Mean Dividends per Share (DPS) of SCBNL and Rs. 59.42 and Rs. 35.23.

✎ The analysis reveals that EBL has highest ratio comparing to SCBNL. Therefore EBL seems to be successful to maintain highest credit ratio. Similarly, deposit utilization ratio of SCBNL is slightly weak to mobilize its total deposit as loan and advances. Therefore, hence SCBNL need to mobilize their deposit in most secure loans. EBL has capacity to mobilize its deposits on total investment is preferable and performed better.

- ✎ From the liquidity point of view, SCBNL seems better which the result of higher portion of Current Assets has been kept to meet the current obligation of the organization.
- ✎ It can be concluded that SCBNL is failed to utilize the funds in loan and advances but get success in utilizing their funds in investment and performing assets to maximize the returns and may lag behind the competitive market of banking.
- ✎ It can be concluded that the case of cash and bank balance to total deposit position of EBL is better than SCBNL.
- ✎ The banks are in better position because of higher utilization of resources in relation to the total assets which yield higher return for the banks which is almost constant in the each year.
- ✎ Comparing both the banks SCBNL is able to maintain high in *Return on Total Deposit* mean ratio is 3 Percent in the study period. It means SCBNL is capable to mobilize the total deposit properly in the productive sectors. EBL also perform better with average 2 Percent ratio.
- ✎ Regarding the *Shareholder's Funds to Total Deposit* both banks performed satisfactory results. Thus both banks are sufficient amount of shareholder's funds in comparison to the amount of total deposits.
- ✎ It can be concluded that Capital Adequacy position of SCBNL and EBL seem to be better.
- ✎ EBL is able to maintain highest ratio in *Interest Earned to Total Assets Ratio* i.e. 9 Percent during the year 2010/11. This shows that EBL is efficient in earning interest or utilizing the resources in interest generating sectors. During 2006/07 to 2010/11 EBL is above the average. Finally, it can be concluded that the position of EBL is better than SCBNL.
- ✎ Commercial banks play an important role in the economic development of the country. Being a soul of the economic development, Nepalese commercial banks face several problems related to maintain efficient capital and assets structure management. They are still working with traditional approach. They need to achieve innovative approach of banking, thereby bringing professionalism in their business. At the same time it should target not only the urban sector, it should go to the rural sector also. They have to explore all the potential sectors like tourism etc. in order to generate high rate of profits.

✎ The expected *Total Deposit* of both Banks is in increasing trend. Thus it can be concluded that both banks will enjoy for deposit collection.

✎ Commercial Banks are one of the vital aspects of this sector, which deals in the process of channelizing the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. It is the pillar of the economic system of the country. They utilize the idle resources to the market, returns back to the shareholder by the way of dividend, returns back to the depositors by way of interest and returns back to the country by way of corporate tax.

5.3 Recommendations

After going over the analysis and finding, following recommendations are made in order to overcome the weaknesses and inefficiency and make better policy on utilization and investment.

✎ EBL is very less in Return on Total Assets thus the bank has to concentrate little bit in performing assets. EBL is also less in Return on Total Deposits therefore bank should improve its lending management and utilize the deposits properly. The ratio of Interest Earned to Total Assets of EBL is satisfactory. Therefore, EBL should be improve by exploiting a credit market and have to generate more profit.

✎ EBL is satisfactory in also Shareholder's Fund to Total Deposit Ratio as well as in Shareholder's Fund to Total Assets therefore bank needs to add more funds for shareholder's and try to generate more profit.

✎ The performance of Current Ratio of EBL also in better position but the bank should try to meet the standard of current ratio. In the case of EBL Cash and Bank Balance of the company is also relatively higher which need to be investment for more return.

✎ EBL is good in Total Credit to Total Deposit Ratio but it has lowest ratio in Total Investment and Total Deposit therefore it shows that EBL seems to be quite successful in utilizing the funds in loans and advances but fails to utilize the funds in investment.

✎ From the Deposit Analysis it can be concluded that SCBNL perform good in collecting the Total Deposits thus it could make more profit by mobilizing their deposits properly in productive sector.

✎ According to Liquidity position, Current Ratio of SCBNL is good but this ratio must increase in order to back its short-term obligations. SCBNL has to

increase Cash and Bank Balance in order to prepare for high amount of withdrawals.

- ✎ Activity Ratios shows that the Total Credit to Total Deposit Ratio of SCBNL is satisfactory and the ratio of Total Investment and Total Deposit is good therefore there should be proper balance between credit sector and investment sector in order to boost the profit. Hence, this bank is in better position because of higher utilization of resources in relation to the total assets which yield higher return for the bank.
- ✎ According to Profitability Ratios, SCBNL is quite good in Return on Total Assets as well as in Return on Total Deposits as compare to EBL but the bank has to concentrate little bit on performing assets and utilization of deposits.
- ✎ The trend values of Net profit, Total Deposit and Total Credit of EBL are increasing but the ratio is not increasing as it should be. So EBL is recommended to eliminate the holding loss by reducing extra expanses to adopting the competitor's strategy.
- ✎ In Capital Adequacy Ratios, SCBNL is good in Shareholder's Fund to Total Deposit Ratio. Hence, bank needs to add more funds for maintaining sufficient amount of shareholder's funds in comparison to the amount of total deposits. Shareholder's Fund to Total Assets of SCBNL is also better but bank should to generate more profit.

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Balance Sheet
As on 32 Ashadh 2064 (16th July, 2007)

Share Capital and Liabilities	Sche.	This Year Amount Rs.	Previous Year Amount Rs.
1. Share Capital	4.1	518,000,000	518,000,000
2. Reserve and Surplus	4.2	683,515,266	444,808,301
3. Debenture and Bonds	4.3	300,000,000	300,000,000
4. Loan and Borrowings	4.4	-	-
5. Deposit Liabilities	4.5	18,186,253,541	13,802,444,988
6. Bills Payable	4.6	26,776,480	15,805,995
7. Proposed and un paid dividend		68,146,323	114,666,758
8. Income Tax Liabilities		15,278,110	-
9. Other Liabilities	4.7	1,634,604,580	763,558,645
Total Liabilities		21,432,574,300	15,959,284,687

Assets	Sche.	This Year Amount Rs.	Previous Year Amount Rs.
1. Cash in hand	4.8	534,996,791	259,347,645
2. Balance with Nepal Rastra Bank	4.9	1,178,198,197	1,139,514,873
3. Balance with other banks & financial institutions	4.10	678,225,606	154,104,976
4. Money at Call and Short Notice	4.11	-	66,960,000
5. Investments	4.12	4,984,314,586	4,200,515,220
6. Loan, Advances and Bills Purchased	4.13	13,664,081,664	9,801,307,676
7. Fixed Assets	4.14	170,097,452	152,089,805
8. Non-Banking Assets	4.15	-	7,436,642
9. Other Assets	4.16	222,660,004	178,007,850
Total Assets		21,432,574,300	15,959,284,687

Contingent Liabilities	4.17
Directors' Declaration	4.29
Table of Capital Adequacy Ratio	4.30
Table of Risk Weighted Assets	4.30 (Ka)
Main Indicators	4.31
Significant Accounting Policy	4.32
Notes to Accounts	4.33

(Schedules 4.1 to 4.17 are integral part of the Balance Sheet)

Auditor

Hum Nath Gurung
Asst. General Manager

Jaspal Singh Jass
C.E.O.

Directors
Ved Krishna Shrestha
Nabin Bhakta Shrestha
Shiva Sharan K.C.
Arun Man Sherchan
Ratna Sansar Shrestha, F.C.A
Dr. Bal Gopal Vaidya
I.D. Singh

Bishnu Krishna Shrestha
Chairman

Sundar Man Shrestha, F.C.A
Sundar & Company
 Chartered Accountants
 as per our report of even date
 Date: Sept. 18, 2007

Appendix A-2

BALANCE SHEET

As on end of Ashad 2065 (15 July 2008)

	Schedule	This Year	Previous Year
		Amount Rs.	Amount Rs.
Share Capital and Liabilities			
1 Share Capital	4.1	831,400,000	518,000,000
2 Reserve and Surplus	4.2	1,089,837,580	683,515,266
3 Debenture and Bonds	4.3	300,000,000	300,000,000
4 Loan and Borrowings	4.4	-	
5 Deposit Liabilities	4.5	23,976,298,535	18,186,253,541
6 Bills Payable	4.6	49,429,700	26,776,480
7 Proposed and un paid dividend		140,790,370	68,146,323
8 Income Tax Liabilities		41,143,107	15,278,110
9 Other Liabilities	4.7	720,443,592	1,634,604,580
TOTAL LIABILITIES		27,149,342,884	21,432,574,300
ASSETS			
1 Cash in hand	4.8	822,989,425	534,996,791
2 Balance with Nepal Rastra Bank	4.9	1,080,914,554	1,178,198,197
3 Balance with other banks & financial institutions	4.10	764,067,851	678,225,606
4 Money at Call and Short Notice	4.11	346,000,000	
5 Investments	4.12	5,059,557,544	4,984,314,586
6 Loan, Advances and Bills Purchased	4.13	18,339,085,562	13,664,081,664
7 Fixed Assets	4.14	• 360,512,480	170,097,452
8 Non-Banking Assets	4.15		-
9 Other Assets	4.16	376,215,468	222,660,004
TOTAL ASSETS		27,149,342,884	21,432,574,300

Contingent Liabilities	4.17
Directors' Declaration	4.29
Table of Capital Adequacy Ratio	4.30
Table of Risk Weighted Assets	4.30(ka)
Main Indicators	4.31
Significant Accounting Policy	4.32
Notes to Accounts	4.33

(Schedules 4.1 to 4.17 are integral part of the Balance Sheet)

Balance Sheet

As on 31 Ashadh 2066 (15th July, 2009)

Capital and Liabilities	Sche.	This Year Amount Rs.	Previous Year Amount Rs.
1. Share Capital	4.1	838,821,000	831,400,000
2. Reserve and Surplus	4.2	1,364,804,055	1,089,837,580
3. Debenture and Bonds	4.3	300,000,000	300,000,000
4. Loan and Borrowings	4.4	312,000,000	-
5. Deposit Liabilities	4.5	33,322,946,246	23,976,298,535
6. Bills Payable	4.6	148,655,592	49,429,700
7. Proposed and Unpaid Dividend		230,524,766	140,790,370
8. Income Tax Liabilities		20,522,280	41,143,107
9. Other Liabilities	4.7	378,574,715	720,443,592
Total Liabilities		36,916,848,654	27,149,342,884

Assets	Sche.	This Year Amount Rs.	Previous Year Amount Rs.
1. Cash in hand	4.8	944,695,793	822,989,425
2. Balance with Nepal Rastra Bank	4.9	4,787,163,541	1,080,914,554
3. Balance with other Banks & Financial Institutions	4.10	432,511,829	764,067,851
4. Money at Call and Short Notice	4.11	-	346,000,000
5. Investments	4.12	5,948,480,273	5,059,557,544
6. Loan, Advances and Bills Purchased	4.13	23,884,673,616	18,339,085,562
7. Fixed Assets	4.14	427,157,451	360,512,480
8. Non-Banking Assets	4.15	-	-
9. Other Assets	4.16	492,166,151	376,215,468
Total Assets		36,916,848,654	27,149,342,884

Contingent Liabilities	4.17
Directors' Declaration	4.29
Table of Capital Adequacy Ratio	4.30(A1)
Table of Risk Weighted Assets	4.30 (B, C, D, E)
Main Indicators	4.31
Unaudited Financial Result	4.32
Comparison of Unaudited and Audited Financial Result	4.33
Details of Loans taken by Promoters against Promoter Share	4.34
Significant Accounting Policy	4.35
Notes to Accounts	4.36

(Schedules 4.1 to 4.17 & 4.35 & 4.36 are integral part of the Balance Sheet)

Hum Nath Gurung
Asst. General Manager

R.K. Ummat
C.E.O.

Directors
Ved Krishna Shrestha
Muskan Shrestha
Shiva Sharan K.C.
Arun Man Sherchan
Ratna Sansar Shrestha, F.C.A.
Dr. Bal Gopal Vaidya
Jagat Ram

Bishnu Krishna Shrestha
Chairman

Auditor

N.L. Amatya, F.C.A.
N. Amatya & Company
Chartered Accountants
as per our report of even date
Date: Sep. 10, 2009

Balance Sheet

As on 32 Ashadh 2067 (16th July, 2010)

S.No.	Capital and Liabilities	Schedule	This Year Amount Rs.	Previous Year Amount Rs.
1	Share Capital	4.1	1,279,607,490	1,030,467,300
2	Reserve and Surplus	4.2	1,479,530,365	1,173,157,755
3	Debenture and Bonds	4.3	300,000,000	300,000,000
4	Loans and Borrowings	4.4	404,600,000	312,000,000
5	Deposit Liabilities	4.5	36,932,310,008	33,322,946,246
6	Bills Payable	4.6	145,514,679	148,655,592
7	Proposed Dividend		276,252,832	218,080,345
8	Income Tax Liabilities		(1,136,458)	20,522,280
9	Other Liabilities	4.7	566,081,795	391,019,136
	Total Capital and Liabilities		41,382,760,711	36,916,848,654

S.No.	Assets	Schedule	This Year Amount Rs.	Previous Year Amount Rs.
1	Cash in hand	4.8	1,091,500,407	944,695,793
2	Balance with Nepal Rastra Bank	4.9	5,625,113,849	4,787,163,541
3	Balance with other Banks & Financial Institutions	4.10	1,102,200,747	432,511,829
4	Money at Call and Short Notice	4.11	-	-
5	Investments	4.12	5,008,307,589	5,948,480,273
6	Loan, Advances and Bills Purchased	4.13	27,556,356,032	23,884,673,616
7	Fixed Assets	4.14	463,094,391	427,157,451
8	Non-Banking Assets	4.15	-	-
9	Other Assets	4.16	536,187,696	492,166,151
	Total Assets		41,382,760,711	36,916,848,654

Contingent Liabilities	4.17
Directors' Declaration	4.29
Table of Capital Adequacy Ratio	4.30 (A1)
Table of Risk Weighted Assets	4.30 (B,C,D,E,F)
Main Indicators	4.31
Significant Accounting Policies	4.32
Notes to Accounts	4.33
Details of Loans taken by Promoters against Promoter Share	4.34
Comparison of Unaudited and Audited Financial Result	4.35
Unaudited Financial Result	4.A

Schedules 4.1 to 4.17, 4.32 and 4.33 are integral part of the Balance Sheet

Hum Nath Gurung
Asst. General Manager

P.K. Mohapatra
C.E.O.

Directors
Ved Krishna Shrestha
Muskan Shrestha
Shiva Sharan K.C.
Arun Man Sherchan
C. P. Swarnkar
Dr. Bal Gopal Vaidya
Jagat Ram

Bishnu Krishna Shrestha
Chairman

Auditor

N.L. Amatya, F.C.A
N. Amatya & Company
 Chartered Accountants
 as per our report of even date
 Date: 7 Aug. 2010

Balance Sheet

As on 32 Ashadh 2068 (16th July, 2011)

S.No.	Capital and Liabilities	Schedule	This Year Amount Rs.	Previous Year Amount Rs.
1	Share Capital	4.1	1,391,570,439	1,279,607,490
2	Reserve and Surplus	4.2	1,721,975,617	1,479,530,365
3	Debenture and Bonds	4.3	300,000,000	300,000,000
4	Loans and Borrowings	4.4	482,000,000	404,600,000
5	Deposit Liabilities	4.5	41,127,914,339	36,932,310,008
6	Bills Payable	4.6	49,716,572	145,514,679
7	Proposed Dividend		576,897,427	276,252,832
8	Income Tax Liabilities		26,900,414	(1,136,458)
9	Other Liabilities	4.7	559,237,454	566,081,795
	Total Capital and Liabilities		46,236,212,262	41,382,760,711

S.No.	Assets	Schedule	This Year Amount Rs.	Previous Year Amount Rs.
1	Cash in Hand	4.8	1,048,998,721	1,091,500,407
2	Balance with Nepal Rastra Bank	4.9	4,706,320,590	5,625,113,849
3	Balance with other Banks & Financial Institutions	4.10	367,543,641	1,102,200,747
4	Money at Call and Short Notice	4.11		
5	Investments	4.12	7,743,928,321	5,008,307,589
6	Loan, Advances and Bills Purchased	4.13	31,057,691,462	27,556,356,032
7	Fixed Assets	4.14	460,258,735	463,094,391
8	Non-Banking Assets	4.15	-	
9	Other Assets	4.16	851,470,792	536,187,696
	Total Assets		46,236,212,262	41,382,760,711

Contingent Liabilities	4.17
Directors' Declaration	4.29
Table of Capital Adequacy Ratio	4.30 (A1)
Table of Risk Weighted Assets	4.30 (B,C,D,E,F)
Main Indicators	4.31
Significant Accounting Policies	4.32
Notes to Accounts	4.33
Details of Loans Taken by Promoters against Promoter Share	4.34
Comparison of Unaudited and Audited Financial Result	4.35
Unaudited Financial Result	-4.A

Schedules 4.1 to 4.17, 4.32 and 4.33 are integral part of the Balance Sheet

Hum Nath Gurung
Dy. General Manager

P.K. Mohapatra
C.E.O.

Directors
Ved Krishna Shrestha
Muskan Shrestha
Shiva Sharan K.C.
Arun Man Sherchan
Dr. Bal Gopal Vaidya
K. Ram Mohan

Bishnu Krishna Shrestha
Chairman

As per our report even date

C.A. **N.L. Amatya**
Partner
M. Amatya & Company
Chartered Accountants
as per our report of even date
Date: Aug 22, 2011

17th Annual Report |

Standard Chartered Bank Nepal Limited

Balance Sheet

as at 16 July 2007 (32 Ashad 2064)

CAPITAL & LIABILITIES		Schedule	This Year Rs.	Previous Year Rs.
1.	Share Capital	4.1	413,254,800	374,640,400
2.	Reserves and Funds	4.2	1,703,098,561	1,379,498,377
3.	Debentures and Bonds	4.3	–	–
4.	Loans and Borrowings	4.4	400,000,000	–
5.	Deposit Liability	4.5	24,647,020,755	23,061,032,081
6.	Bills Payables	4.6	36,168,332	55,750,837
7.	Proposed and Unpaid Dividend		341,744,048	499,979,726
8.	Income Tax Liability		5,598,588	–
9.	Other Liabilities	4.7	1,049,804,367	396,450,647
TOTAL LIABILITIES			28,596,689,451	25,767,352,068

ASSETS		Schedule	This Year Rs.	Previous Year Rs.
1.	Cash Balance	4.8	378,422,542	279,511,285
2.	Balance with Nepal Rastra Bank	4.9	1,613,757,788	749,740,866
3.	Balance with Banks/Financial Institutions	4.10	28,840,738	246,989,272
4.	Money at Call and Short Notice	4.11	1,761,151,500	1,977,271,000
5.	Investments	4.12	13,553,233,464	12,838,555,440
6.	Loans, Advances and Bills Purchased	4.13	10,502,637,135	8,935,417,810
7.	Fixed Assets	4.14	125,590,978	101,301,932
8.	Non-Banking Assets	4.15	–	–
9.	Other Assets	4.16	633,055,306	638,564,463
TOTAL ASSETS			28,596,689,451	25,767,352,068

Contingent Liabilities	Schedule 4.17
Declaration of Directors	Schedule 4.29
Statement of Capital Fund	Schedule 4.30
Statement of Risk Weighted Assets	Schedule 4.30(A)
Key Indicators	Schedule 4.31
Significant Accounting Policies	Schedule 4.32
Notes to Accounts	Schedule 4.33

Schedules 4.1 to 4.17 form an integral part of the Balance Sheet.

Niranjan K. Tibrewala
Director

Sujit Mundul
CEO & Director

Neeraj Swaroop
Director

Rakhi Singh
Chief Financial Officer

Ram B. Aryal
Director

As per our report of even date

Madan Krishna Sharma
Partner
for and on behalf of CSC & Co.
Chartered Accountants

Kathmandu
Date: 17th September, 2007

Financial Statements and Notes to Accounts continued

*Standard Chartered Bank Nepal Limited***Balance Sheet**

as at 15 July 2008 (31 Ashad 2065)

Capital & Liabilities	Schedule	This Year		Previous Year	
		Rs.	Rs.	Rs.	Rs.
1. Share Capital	4.1	620,784,000		413,254,800	
2. Reserves and Funds	4.2	1,871,763,996		1,703,098,561	
3. Debentures and Bonds	4.3				
4. Loans and Borrowings	4.4			400,000,000	
5. Deposit Liability	4.5	29,743,998,794		24,647,020,755	
6. Bills Payables	4.6	87,397,021		36,168,332	
7. Proposed and Unpaid Dividend		506,366,940		341,744,048	
8. Income Tax Liability		2,051,550		5,598,588	
9. Other Liabilities	4.7	503,426,025		1,049,804,367	
Total Liabilities		33,335,788,326		28,596,689,451	
Assets		This Year		Previous Year	
		Rs.	Rs.	Rs.	Rs.
1. Cash Balance	4.8	414,875,467		378,422,542	
2. Balance with Nepal Rastra Bank	4.9	1,266,273,524		1,613,757,788	
3. Balance with Banks/Financial Institutions	4.10	369,094,223		28,840,738	
4. Money at Call and Short Notice	4.11	2,197,537,600		1,761,151,500	
5. Investments	4.12	13,902,819,011		13,553,233,464	
6. Loans, Advances and Bills Purchased	4.13	13,718,597,132		10,502,637,135	
7. Fixed Assets	4.14	117,272,258		125,590,978	
8. Non-Banking Assets	4.15				
9. Other Assets	4.16	1,349,319,111		633,055,306	
Total Assets		33,335,788,326		28,596,689,451	

Contingent Liabilities	Schedule 4.17
Declaration of Directors	Schedule 4.29
Statement of Capital Fund	Schedule 4.30
Statement of Risk Weighted Assets	Schedule 4.30(A)
Key Indicators	Schedule 4.31
Significant Accounting Policies	Schedule 4.32
Notes to Accounts	Schedule 4.33

Schedules 4.1 to 4.17 form integral part of the Balance Sheet

As per our report of even date

Rakhi Singh
Chief Financial OfficerSujit Mundul
CEO & DirectorNeeraj Swaroop
DirectorArjun Bandhu Regmi
DirectorSushen Jhingan
DirectorAnurag Adlakha
DirectorRam Bahadur Aryal
DirectorMadan Krishna Sharma
Partner
for and on behalf of CSC & Co.
Chartered AccountantsKathmandu
Date : 18.08.2008

Financial Statements and Notes to Accounts continued

Standard Chartered Bank Nepal Limited

Balance Sheet

as at 15 July 2009 (31 Ashad 2066)

Capital & Liabilities	Schedule	This Year	Previous Year
		Rs.	Rs.
1. Share Capital	4.1	931,966,400	620,784,000
2. Reserves and Funds	4.2	2,120,503,331	1,871,763,996
3. Debentures and Bonds	4.3	-	-
4. Loans and Borrowings	4.4	300,000,000	-
5. Deposit Liability	4.5	35,871,721,127	29,743,998,794
6. Bills Payables	4.6	72,941,748	87,397,021
7. Proposed and Unpaid Dividend		476,296,048	506,366,940
8. Income Tax Liability		4,262,601	2,051,550
9. Other Liabilities	4.7	809,776,754	503,426,025
Total Liabilities		40,587,468,009	33,335,788,326

Assets	Schedule	This Year	Previous Year
		Rs.	Rs.
1. Cash Balance	4.8	463,345,996	414,875,467
2. Balance with Nepal Rastra Bank	4.9	1,851,132,637	1,266,273,524
3. Balance with Banks/Financial Institutions	4.10	822,684,902	369,094,223
4. Money at Call and Short Notice	4.11	2,055,549,000	2,197,537,600
5. Investments	4.12	20,236,121,082	13,902,819,011
6. Loans, Advances and Bills Purchased	4.13	13,679,756,990	13,718,597,132
7. Fixed Assets	4.14	137,292,540	117,272,258
8. Non-Banking Assets	4.15	-	-
9. Other Assets	4.16	1,341,584,862	1,349,319,111
Total Assets		40,587,468,009	33,335,788,326

Contingent Liabilities	Schedule 4.17
Declaration of Directors	Schedule 4.29
Capital Adequacy Table	Schedule 4.30 (Ka 1)
Statement of Credit Risk	Schedule 4.30 (Kha)
Statement of Eligible Credit Risk Mitigation	Schedule 4.30 (Ga)
Statement of Operational Risk	Schedule 4.30 (Gha)
Statement of Market Risk	Schedule 4.30 (Nga)
Key Indicators	Schedule 4.31
Significant Accounting Policies	Schedule 4.32
Notes to Accounts	Schedule 4.33
Statement of Loan Availed by Promoter Shareholders from Other Bank and Fls by Pledging Their Shares	Schedule 4.34
Unaudited Financial Results (4th Quarter)	Schedule 4.35
Comparison of Unaudited and Audited Financial Statements	Schedule 4.36

Schedules 4.1 to 4.17 form integral part of the Balance Sheet

As per our report of even date

Rakhi Singh
Chief Financial OfficerSujit Mundul
CEO & DirectorNeeraj Swaroop
DirectorArjun Bandhu Regmi
DirectorAnurag Adlakha
DirectorRam Bahadur Aryal
DirectorMadan Krishna Sharma
Partner
for and on behalf of CSC & Co.
Chartered AccountantsKathmandu
Date : 12.08.2009

Standard Chartered Bank Nepal Limited.

Balance Sheet

As at 16 July, 2010 (32 Ashad 2067)

Capital & Liabilities	Schedule	Rs.	
		This Year	Previous Year
1. Share Capital	4.1	1,608,256,140	1,397,949,600
2. Reserves and Funds	4.2	1,761,453,304	1,654,520,131
3. Debentures and Bonds	4.3	-	-
4. Loans and Borrowings	4.4	-	300,000,000
5. Deposit Liability	4.5	35,182,721,454	35,350,823,711
6. Bills Payables	4.6	89,219,655	72,941,748
7. Proposed Dividend		769,165,980	465,983,200
8. Income Tax Liability		-	4,262,601
9. Other Liabilities	4.7	802,503,393	820,089,602
Total Liabilities		40,213,319,926	40,066,570,593

Assets	Schedule	Rs.	
		This Year	Previous Year
1. Cash Balance	4.8	509,031,174	463,345,996
2. Balance with Nepal Rastra Bank	4.9	819,508,706	1,851,132,637
3. Balance with Banks/Financial Institutions	4.10	600,766,640	822,684,902
4. Money at Call and Short Notice	4.11	1,669,460,000	2,055,549,000
5. Investments	4.12	19,847,511,025	20,236,121,082
6. Loans, Advances and Bills Purchased	4.13	15,956,955,268	13,679,756,990
7. Fixed Assets	4.14	118,539,974	137,292,540
8. Non-Banking Assets	4.15	-	-
9. Other Assets	4.16	691,547,139	820,687,446
Total Assets		40,213,319,926	40,066,570,593

Contingent Liabilities	Schedule 4.17
Declaration of Directors	Schedule 4.29
Capital Adequacy Table	Schedule 4.30 (Ka 1)
Statement of Credit Risk	Schedule 4.30 (Kha)
Statement of Eligible Credit Risk Mitigation	Schedule 4.30 (Ga)
Statement of Operational Risk	Schedule 4.30 (Gha)
Statement of Market Risk	Schedule 4.30 (Nga)
Key Indicators	Schedule 4.31
Significant Accounting Policies	Schedule 4.32
Notes to Accounts	Schedule 4.33
Statement of Loan Availed by Promoter Shareholders from Other Bank and Fis by Pledging Their Shares	Schedule 4.34
Comparison of Unaudited and Audited Financial Statements	Schedule 4.35

Schedules 4.1 to 4.17 form integral part of the Balance Sheet

Rakhi Singh
Chief Financial OfficerSujit Mundul
CEO & DirectorSushen Jhingan
Director

As per our report of even date

Sudarshan Raj Pandey
Partner
for and on behalf of S.R. Pandey & Co.
Chartered AccountantsRam Bahadur Aryal
DirectorKathmandu
Date :2nd September, 2010

Balance Sheet

As at 16 July, 2011 (32 Ashad 2068)

Appendix A-10

Capital & Liabilities	Schedule	This Year Rs.	Previous Year Rs.
1. Share Capital	4.1	1,610,168,000	1,608,256,140
2. Reserves and Funds	4.2	2,067,609,062	1,761,453,304
3. Debentures and Bonds	4.3	-	-
4. Loans and Borrowings	4.4	350,000,000	-
5. Deposit Liability	4.5	37,999,242,310	35,182,721,454
6. Bills Payables	4.6	65,966,151	89,219,655
7. Proposed Dividend		805,084,000	769,165,980
8. Income Tax Liability		-	-
9. Other Liabilities	4.7	912,450,141	802,503,393
Total Liabilities		43,810,519,664	40,213,319,926

Assets	Schedule	This Year Rs.	Previous Year Rs.
1. Cash Balance	4.8	610,690,895	509,031,174
2. Balance with Nepal Rastra Bank	4.9	1,638,276,594	819,508,706
3. Balance with Banks/Financial Institutions	4.10	726,827,789	600,766,640
4. Money at Call and Short Notice	4.11	4,280,888,000	1,669,460,000
5. Investments	4.12	17,258,682,472	19,847,511,025
6. Loans, Advances and Bills Purchased	4.13	18,427,270,491	15,956,955,268
7. Fixed Assets	4.14	106,071,182	118,539,974
8. Non-Banking Assets	4.15		
9. Other Assets	4.16	761,812,241	691,547,139
Total Assets		43,810,519,664	40,213,319,926

Contingent Liabilities	Schedule 4.17
Declaration of Directors	Schedule 4.29
Capital Adequacy Table	Schedule 4.30 (Ka 1)
Statement of Credit Risk	Schedule 4.30 (Kha)
Statement of Eligible Credit Risk Mitigation	Schedule 4.30 (Ga)
Statement of Operational Risk	Schedule 4.30 (Gha)
Statement of Market Risk	Schedule 4.30 (Nga)
Key Indicators	Schedule 4.31
Significant Accounting Policies	Schedule 4.32
Notes to Accounts	Schedule 4.33
Statement of Loan Availed by Promoter Shareholders from Other Bank and FIs by Pledging Their Shares	Schedule 4.34
Comparison of Unaudited and Audited Financial Statements	Schedule 4.35

Schedules 4.1 to 4.17 form integral part of the Balance Sheet

Suraj Lamichhane
Acting - Chief Financial Officer

Joseph Silvanus
CEO & Director

Neeraj Swaroop
Director

Madan K. Sharma
Partner
for and on behalf of CSC & Co.
Chartered Accountants

Anurag Adlakha
Director

Sujit Mundul
Director

Ram Bahadur Aryal
Director

Pramila Singh
Director

Date: 12 September, 2011

Profit and Loss Account
From 1st Shrawan 2063 to 32 Ashadh 2064 (17th July 2006 to 16th July 2007)

Particulars	Sche.	This Year Amount Rs.	Previous Year Amount Rs.
1. Interest Income	4.18	1,144,408,308	903,411,137
2. Interest Expenses	4.19	(517,166,241)	(401,397,351)
Net Interest Income		627,242,067	502,013,786
3. Commission and Discount	4.20	117,718,162	88,163,454
4. Other Operating Income	4.21	67,967,525	48,902,381
5. Exchange Income	4.22	28,404,544	23,073,780
Total Operating Income		841,332,298	662,153,401
6. Staff Expenses	4.23	(86,118,226)	(70,924,675)
7. Other Operating Expenses	4.24	(177,545,649)	(143,562,167)
8. Exchange Loss	4.22	-	-
Operating Profit Before Provision for possible Loss		577,668,423	447,666,559
9. Provision for possible losses	4.25	(89,695,764)	(70,465,665)
Operating Profit		487,972,659	377,200,894
10. Non-operating Income/Loss	4.26	1,315,211	2,959,467
11. Write-back from Loan Loss Provision	4.27	11,686,657	-
Profit from regular activities		500,974,527	380,160,361
12. Profit/Loss from transaction of extraordinary nature	4.28	(795,224)	-
Profit after inclusion of all types of transaction		500,179,303	380,160,361
13. Provision for Staff Bonus		(45,470,846)	(34,560,033)
14. Provision for Income Tax			
- This Year		(144,368,164)	(106,753,311)
- Upto Last Year		(13,931,012)	(1,556,081)
Net Profit		296,409,281	237,290,936

(Schedules 4.18 to 4.28 are integral part of the Profit & Loss Account)

Auditor

Hum Nath Gurung
Asst. General Manager

Jaspal Signh Jass
C.E.O.

Directors
Ved Krishna Shrestha
Nabin Bhakta Shrestha
Shiva Sharan K.C.
Arun Man Sherchan
Ratna Sansar Shrestha, F.C.A
Dr. Bal Gopal Vaidya
I.D. Singh

Bishnu Krishna Shrestha
Chairman

Sundar Man Shrestha, F.C.A
Sundar & Company
Chartered Accountants
 as per our report of even date
 Date: Sept. 18, 2007

PROFIT AND LOSS ACCOUNT**From 1st Shrawan 2064 to 31 Ashadh 2065 (17 th July 2007 to 15th July 2008)**

	Particulars	Schedule	This Year Rs	Previous Year Rs
1	Interest Income	4.18	1,548,657,132	1,144,408,308
2	Interest Expenses	4.19	632,609,264	517,166,241
	Net Interest Income		916,047,868	627,242,067
3	Commission and Discounts	4.20	150,264,074	117,718,162
4	Other Operating Income	4.21	79,133,767	67,967,525
5	Exchange Income	4.22	64,452,378	28,404,544
	TOTAL OPERATING INCOME		1,209,898,087	841,332,298
6	Staff Expenses	4.23	157,957,084	86,118,226
7	Other Operating Expenses	4.24	233,766,645	177,545,649
8	Exchange Loss	4.22	-	
	Operating Profit Before Provision for possible Loss		818,174,358	577,668,423
9	Provision for possible losses	4.25	99,340,505	89,695,764
	Operating Profit		718,833,853	487,972,659
10	Non-operating Income/Loss	4.26	4,519,287	1,315,211
11	Write-back from Loan Loss Provision	4.27	20,201,067	11,686,657
	Profit from regular activities		743,554,207	500,974,527
12	Profit /Loss from transaction of extraordinary nature	4.28	(18,998,727)	(795,224)
	Profit after inclusion of all types of transaction		724,555,480	500,179,303
13	Provision for Staff Bonus		65,868,680	(45,470,846)
14	Provision for Income Tax			
	- This year		216,913,302	158,299,176
	Less : Deferred Tax Assets		(9,445,115)	
	Net after deferred Tax		207,468,187	
	Net Profit		451,218,613	296,409,281

Profit and Loss Account
From 1st Shrawan 2065 to 31 Ashadh 2066 (16th July 2008 to 15th July 2009)

	Particulars		This Year Amount Rs.	Previous Year Amount Rs.
1.	Interest Income	4.18	2,186,814,992	1,548,657,132
2.	Interest Expenses	4.19	1,012,874,353	632,609,264
	Net Interest Income		1,173,940,639	916,047,868
3.	Commission and Discount	4.20	202,094,446	150,264,074
4.	Other Operating Income	4.21	106,403,694	79,133,767
5.	Exchange Income	4.22	62,526,819	64,452,378
	Total Operating Income		1,544,965,598	1,209,898,087
6.	Staff Expenses	4.23	186,919,870	157,957,084
7.	Other Operating Expenses	4.24	292,010,522	233,766,645
8.	Exchange Loss	4.22	-	-
	Operating Profit Before Provision for possible Loss		1,066,035,206	818,174,358
9.	Provision for possible losses	4.25	(93,084,880)	(99,340,505)
	Operating Profit		972,950,326	718,833,853
10.	Non-operating Income/Loss	4.26	5,005,256	4,519,287
11.	Write-back from Loan Loss Provision	4.27	8,044,170	20,201,067
	Profit from regular activities		985,999,752	743,554,208
12.	Profit/Loss from transaction of extraordinary nature	4.28	(5,549,170)	(18,998,727)
	Profit after inclusion of all transaction		980,450,582	724,555,481
13.	Provision for Staff Bonus		89,131,871	65,868,681
14.	Provision for Income Tax			
	• Current Tax for the year		276,864,301	216,913,302
	Deferred Tax		(24,278,347)	(9,445,115)
	• For Previous Year		-	-
	Net Profit/Loss		638,732,757	451,218,613

(Schedules 4.18 to 4.28 & 4.35 & 4.36 are integral part of the Profit & Loss Account)

Hum Nath Gurung
Asst. General Manager

R.K. Ummat
C.E.O.

Directors
Ved Krishna Shrestha
Muskan Shrestha
Shiva Sharan K.C.
Arun Man Sherchan
Ratna Sansar Shrestha, F.C.A.
Dr. Bal Gopal Vaidya
Jagat Ram

Bishnu Krishna Shrestha
Chairman

Auditor

N.L. Amatya, F.C.A.
N. Amatya & Company
 Chartered Accountants
 as per our report of even date
 Date: Sep. 10, 2009

Profit and Loss Account

From Shrawan 1st, 2066 to Ashadh 32, 2067 (July 16, 2009 to July 16, 2010)

S.No.	Particulars	Schedule	This Year Amount Rs.	Previous Year Amount Rs.
1	Interest Income	4.18	3,102,451,484	2,186,814,992
2	Interest Expenses	4.19	1,572,790,306	1,012,874,353
	Net Interest Income		1,529,661,178	1,173,940,639
3	Commission and Discounts	4.20	208,123,481	202,094,446
4	Other Operating Income	4.21	142,311,427	106,403,694
5	Exchange Income	4.22	47,879,967	62,526,819
	Total Operating Income		1,927,976,053	1,544,965,598
6	Staff Expenses	4.23	226,364,009	186,919,870
7	Other Operating Expenses	4.24	352,511,231	292,010,522
8	Exchange Loss	4.22	-	-
	Operating Profit Before Provision for Possible Loss		1,349,100,813	1,066,035,206
9	Provision for possible losses	4.25	77,010,625	93,084,880
	Operating Profit		1,272,090,188	972,950,326
10	Non-operating Income/Loss	4.26	12,338,972	5,005,256
11	Write-back of Loan Loss Provision	4.27	83,553,461	8,044,170
	Profit from Regular Activities		1,367,982,621	985,999,752
12	Profit /Loss from transaction of extraordinary nature	4.28	(61,192,476)	(5,549,170)
	Profit after Inclusion of all Transaction		1,306,790,145	980,450,582
13	Provision for Staff Bonus		118,799,104	89,131,871
14	Provision for Income Tax			
	Tax for the year		357,020,130	276,864,301
	Tax for earlier Year		-	-
	Current Year Deferred Tax (Income)/Expense		(794,721)	(24,278,347)
	NET PROFIT		831,765,632	638,732,757

Schedules 4.18 to 4.28, 4.32 and 4.33 are integral part of the Profit & Loss Account

Hum Nath Gurung
Asst. General Manager

P.K. Mohapatra
C.E.O.

Directors
Ved Krishna Shrestha
 Muskan Shrestha
 Shiva Sharan K.C.
 Arun Man Sherchan
 C. P. Swarnkar
 Dr. Bal Gopal Vaidya
 Jagat Ram

Bishnu Krishna Shrestha
Chairman

Auditor

N.L. Amatya, F.C.A
 N. Amatya & Company
 Chartered Accountants
 as per our report of even date
 Date: 7 Aug. 2010

Profit and Loss Account

From Shrawan 1st, 2067 to Ashadh 32, 2068 (July 17, 2010 to July 16, 2011)

S.No.	Particulars	Schedule	This Year Amount Rs.	Previous Year Amount Rs.
1	Interest Income	4.18	4,331,026,087	3,102,451,484
2	Interest Expenses	4.19	2,535,875,552	1,572,790,306
	Net Interest Income		1,795,150,535	1,529,661,178
3	Commission and Discounts	4.20	203,468,424	208,123,481
4	Other Operating Income	4.21	148,061,979	142,311,427
5	Exchange Income	4.22	46,259,065	47,879,967
	Total Operating Income		2,192,940,003	1,927,976,053
6	Staff Expenses	4.23	293,130,567	226,364,009
7	Other Operating Expenses	4.24	383,112,054	352,511,231
8	Exchange Loss	4.22		
	Operating Profit Before Provision for Possible Loss		1,516,697,382	1,349,100,814
9	Provision for Possible Losses	4.25	(98,299,482)	(77,010,625)
	Operating Profit		1,418,397,900	1,272,090,189
10	Non-operating Income/Loss	4.26	1,433,385	12,338,972
11	Write-back of Loan Loss Provision	4.27	56,337,478	83,553,461
	Profit from Regular Activities		1,476,168,763	1,367,982,622
12	Profit/Loss from Transaction of Extraordinary Nature	4.28	(12,051,522)	(61,192,476)
	Profit after Inclusion of all Transaction		1,464,117,241	1,306,790,146
13	Provision for Staff Bonus		133,101,567	118,799,104
14	Provision for Income Tax			
	Tax for the year		427,531,909	357,020,130
	Tax for Earlier Year		560,247	
	Current Year Deferred Tax (Income)/Expense		(28,380,110)	(794,721)
	NET PROFIT		931,303,628	831,765,632

Schedules 4.18 to 4.28, 4.32 and 4.33 are integral part of the Profit & Loss Account

Hum Nath Gurung
Ev. General Manager

P.K. Mohapatra
C.E.O.

Directors
Ved Krishna Shrestha
Muskan Shrestha
Shiva Sharan K.C.
Arun Man Sherchan
Dr. Bal Gopal Vaidya
K. Ram Mohan

Bishnu Krishna Shrestha
Chairman

As per our report even date

C.A., N.L. Amatya
Partner
N. Amatya & Company
Chartered Accountants
as per our report of even date
Date: Aug 22, 2011

Standard Chartered Bank Nepal Limited *Appendix B-6*
Profit and Loss Account

for the period 17 July 2006 to 16 July 2007 (1 Shrawan 2063 to 32 Ashad 2064)

PARTICULARS	Schedule	This Year Rs.	Previous Year Rs.
1. Interest Income	4.18	1,411,981,867	1,189,602,957
2. Interest Expenses	4.19	413,055,152	303,198,419
Net Interest Income		998,926,715	886,404,538
3. Commission and Discount	4.20	221,207,433	222,928,812
4. Other Operating Incomes	4.21	28,784,880	25,442,174
5. Exchange Fluctuation Income	4.22	309,086,504	283,471,852
Total Operating Income		1,558,005,532	1,418,247,376
6. Staff Expenses	4.23	199,778,473	168,230,682
7. Other Operating Expenses	4.24	228,450,604	221,086,673
8. Exchange Fluctuation Loss	4.22	-	-
Operating Profit Before Provision for Possible Loss		1,129,776,455	1,028,930,021
9. Provision for Possible Losses	4.25	36,808,665	47,729,780
Operating Profit		1,092,967,790	981,200,241
10. Non-Operating Income/(Loss)	4.26	9,492,080	1,432,691
11. Provision for Possible Loss Written Back	4.27	20,159,844	53,090,276
Profit from Ordinary Activities		1,122,619,714	1,035,723,208
12. Income/(Expenses) from Extra Ordinary Activities	4.28	(4,914,979)	(2,411,224)
Net Profit after considering all Activities		1,117,704,735	1,033,311,984
13. Provision for Staff Bonus		101,609,521	93,937,453
14. Provision for Income Tax		324,427,150	280,618,650
Current Year's		315,427,150	274,504,897
Upto Previous Year		9,000,000	6,113,753
Net Profit/Loss		691,668,064	658,755,881

Schedule 4.18 to 4.28 from integral part of this Profit and Loss Account.

Niranjan K. Tibrewala
Director

Sujit Mundul
CEO & Director

Neeraj Swaroop
Director

As per our report of even date

Rakhi Singh
Chief Financial Officer

Ram B. Aryal
Director

Madan Krishna Sharma
Partner
for and on behalf of CSC & Co.
Chartered Accountants

Kathmandu
Date: 17th September, 2007

Appendix B-7

Standard Chartered Bank Nepal Limited

Profit and Loss Account

for the period 17 July 2007 to 15 July 2008 (1 Shrawan 2064 to 31 Ashad 2065)

Particulars	Schedule	This Year	Previous Year
		Rs.	Rs.
1. Interest Income	4.18	1,591,195,526	1,411,981,867
2. Interest Expenses	4.19	471,729,700	413,055,152
Net Interest Income		1,119,465,826	998,926,715
3. Commission and Discount	4.20	276,432,255	221,207,433
4. Other Operating Incomes	4.21	32,594,085	28,784,880
5. Exchange Fluctuation Income	4.22	345,653,020	309,086,504
Total Operating Income		1,774,145,186	1,558,005,532
6. Staff Expenses	4.23	225,256,195	199,778,473
7. Other Operating Expenses	4.24	230,571,409	228,450,604
8. Exchange Fluctuation Loss	4.22	-	-
Operating Profit Before Provision for Possible Loss		1,318,317,582	1,129,776,455
9. Provision for Possible Losses	4.25	69,885,338	36,808,665
Operating Profit		1,248,432,244	1,092,967,790
10. Non-Operating Income/ (Loss)	4.26	1,682,509	9,492,080
11. Provision for Possible Loss Written Back	4.27	90,634,940	20,159,844
Profit from Ordinary Activities		1,340,749,693	1,122,619,714
12. Income/(Expenses) from Extra Ordinary Activities	4.28	(28,039,437)	(4,914,979)
Net Profit after considering all Activities		1,312,710,256	1,117,704,735
13. Provision for Staff Bonus		119,337,296	101,609,521
14. Provision for Income Tax		374,451,952	324,427,150
• Current Year's		381,493,368	315,427,150
• Upto Previous Year		-	9,000,000
• Deferred Tax		(7,041,416)	-
Net Profit/Loss		818,921,008	691,668,064

Schedules 4.18 to 4.28 form integral part of this Profit and Loss Account

As per our report of even date

Rakhi Singh
Chief Financial Officer

Sujit Mundul
CEO & Director

Neeraj Swaroop
Director

Arjun Bandhu Regmi
Director

Sushen Jhingan
Director

Anurag Adlakha
Director

Ram Bahadur Aryal
Director

Madan Krishna Sharma
Partner
for and on behalf of CSC & Co.
Chartered Accountants

Kathmandu
Date : 18.08.2008

Appendix B-8

Standard Chartered Bank Nepal Limited.

Profit and Loss Account

for the period 16 July 2009 to 15 July 2009 (1 Shrawan 2065 to 31 Ashadh 2066)

Particulars	Schedule	This Year	Previous Year
		Rs.	Rs.
1. Interest Income	4.18	1,887,221,257	1,591,195,526
2. Interest Expenses	4.19	543,786,600	471,729,700
Net Interest Income		1,343,434,657	1,119,465,826
3. Commission and Discount	4.20	235,468,846	276,432,255
4. Other Operating Incomes	4.21	33,191,251	32,594,085
5. Exchange Fluctuation Income	4.22	480,030,913	345,653,020
Total Operating Income		2,092,125,667	1,774,145,186
6. Staff Expenses	4.23	253,055,504	225,256,195
7. Other Operating Expenses	4.24	276,326,674	230,571,409
8. Exchange Fluctuation Loss	4.22	-	-
Operating Profit Before Provision for Possible Loss		1,562,743,489	1,318,317,582
9. Provision for Possible Losses	4.25	56,634,631	69,885,338
Operating Profit		1,506,108,858	1,248,432,244
10. Non-Operating Income/ (Loss)	4.26	22,098,317	1,682,509
11. Provision for Possible Loss Written Back	4.27	101,075,167	90,634,940
Profit from Ordinary Activities		1,629,282,342	1,340,749,693
12. Income/(Expenses) from Extra Ordinary Activities	4.28	(15,356,059)	(28,039,437)
Net Profit after considering all Activities		1,613,926,283	1,312,710,256
13. Provision for Staff Bonus		146,720,571	119,337,296
14. Provision for Income Tax		442,091,176	374,451,952
• Current Year's		443,119,138	381,493,368
• Upto Previous Year		-	-
• Deferred Tax		(1,027,962)	(7,041,416)
Net Profit/Loss		1,025,114,536	818,921,008

Schedules 4.18 to 4.28 form integral part of this Profit and Loss Account

As per our report of even date

Rakhi Singh
Chief Financial Officer

Sujit Mundul
CEO & Director

Neeraj Swaroop
Director

Arjun Bandhu Regmi
Director

Anurag Adlakha
Director

Ram Bahadur Aryal
Director

Madan Krishna Sharma
Partner
for and on behalf of CSC & Co.
Chartered Accountants

Kathmandu
Date : 12.08.2009

Standard Chartered Bank Nepal Limited

Profit and Loss Account

for the period 16 July 2009 to 16 July 2010 (1 Shrawan 2066 to 32 Ashadh 2067)

Particulars	Schedule	Rs.	
		This Year	Previous Year
1. Interest Income	4.18	2,042,109,322	1,887,221,257
2. Interest Expenses	4.19	575,740,660	543,786,600
Net Interest Income		1,466,368,662	1,343,434,657
3. Commission and Discount	4.20	338,298,109	288,031,446
4. Other Operating Incomes	4.21	34,479,473	33,191,251
5. Exchange Fluctuation Income	4.22	458,564,032	427,468,313
Total Operating Income		2,297,710,276	2,092,125,667
6. Staff Expenses	4.23	312,964,286	253,055,504
7. Other Operating Expenses	4.24	295,304,522	276,326,674
8. Exchange Fluctuation Loss	4.22	-	-
Operating Profit Before Provision for Possible Loss		1,689,441,468	1,562,743,489
9. Provision for Possible Losses	4.25	76,974,254	56,634,631
Operating Profit		1,612,467,214	1,506,108,858
10. Non-Operating Income/ (Loss)	4.26	36,268,280	22,098,317
11. Provision for Possible Loss Written Back	4.27	58,292,849	101,075,167
Profit from Ordinary Activities		1,707,028,343	1,629,282,342
12. Income/(Expenses) from Extra Ordinary Activities	4.28	(17,024,392)	(15,356,059)
Net Profit after considering all Activities		1,690,003,951	1,613,926,283
13. Provision for Staff Bonus		153,636,723	146,720,571
14. Provision for Income Tax		450,495,534	442,091,176
Current Year's Tax Provision		465,685,661	443,119,138
Upto Previous Year's Tax Provision		22,675	-
Current Year's Deferred Tax Income/Expenses		(15,212,802)	(1,027,962)
Net Profit/Loss		1,085,871,694	1,025,114,536

Schedules 4.18 to 4.28 form integral part of this Profit and Loss Account

Rakhi Singh
Chief Financial OfficerSujit Mundul
CEO & DirectorSushen Jhingan
Director

As per our report of even date

Sudarshan Raj Pandey
Partner
for and on behalf of S.R. Pandey & Co.
Chartered AccountantsRam Bahadur Aryal
DirectorKathmandu
Date :2nd September, 2010

Standard Chartered Bank Nepal Limited.

Profit and Loss Account

for the period 17 July 2010 to 16 July 2011 (1 Shrawan 2067 to 32 Ashadh 2068)

Particulars	Schedule	This Year Rs.	Previous Year Rs.
1. Interest Income	4.18	2,718,698,856	2,042,109,322
2. Interest Expenses	4.19	1,003,100,293	575,740,660
Net Interest Income		1,715,598,563	1,466,368,662
3. Commission and Discount	4.20	321,771,318	338,298,109
4. Other Operating Incomes	4.21	36,753,257	34,479,473
5. Exchange Fluctuation Income	4.22	387,133,774	458,564,032
Total Operating Income		2,461,256,912	2,297,710,276
6. Staff Expenses	4.23	365,986,423	312,964,286
7. Other Operating Expenses	4.24	305,215,112	295,304,522
8. Exchange Fluctuation Loss	4.22	-	-
Operating Profit Before Provision for Possible Loss		1,790,055,377	1,689,441,468
9. Provision for Possible Losses	4.25	82,739,161	76,974,254
Operating Profit		1,707,316,216	1,612,467,214
10. Non-Operating Income/ (Loss)	4.26	6,445,465	36,268,280
11. Provision for Possible Loss Written Back	4.27	67,159,308	58,292,849
Profit from Ordinary Activities		1,780,920,989	1,707,028,343
12. Income/(Expenses) from Extra Ordinary Activities	4.28	(22,764,594)	(17,024,392)
Net Profit after considering all Activities		1,758,156,395	1,690,003,951
13. Provision for Staff Bonus		159,832,400	153,636,723
14. Provision for Income Tax		479,152,709	450,495,534
Current Year's Tax Provision		485,713,290	465,685,661
Upto Previous Year's Tax Provision		-	22,675
Current Year's Deferred Tax Income/Expenses		(6,560,581)	(15,212,802)
Net Profit/Loss		1,119,171,286	1,085,871,694

Schedules 4.18 to 4.28 form integral part of this Profit and Loss Account

Suraj Lamichhane
Acting - Chief Financial Officer

Joseph Silvanus
CEO & Director

Neeraj Swaroop
Director

Madan K. Sharma
Partner
for and on behalf of CSC & Co.
Chartered Accountants

Anurag Adlakha
Director

Sujit Mundul
Director

Ram Bahadur Aryal
Director

Pramila Singh
Director

Date: 12 September, 2011

Table No. 4
Some Ratios of COMMERCIAL BANKS

	Mid July										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<u>A. GDP, DEPOSITS, CREDIT & INVESTMENT</u>											
1. Deposit / GDP	44.25	43.85	41.42	43.56	42.82	44.53	46.91	51.91	58.71	53.88	51.09
2. Credit / GDP	26.56	26.80	25.30	26.09	27.78	27.03	32.22	36.90	41.47	39.89	39.24
3. Investment / GDP	6.19	8.10	9.22	9.25	10.21	12.56	13.00	13.27	13.63	11.45	3.49
4. Credit & Investment / GDP	32.76	34.91	34.52	35.34	37.99	39.60	45.22	50.18	55.10	51.34	42.72
5. Time Deposit / GDP	35.62	35.06	32.61	33.40	33.48	34.89	36.41	38.53	14.71	17.08	18.84
6. Current Deposit / GDP	8.63	8.79	5.86	6.28	5.88	5.72	6.26	6.83	7.46	6.88	5.87
7. Credit / Total Deposit	60.03	61.13	61.08	59.89	64.86	60.71	68.69	71.09	70.64	74.04	76.79
8. Investment / Total Deposit	14.00	18.48	22.26	21.24	23.84	28.21	27.71	25.57	23.22	21.25	6.82
9. Credit & Investment / Total Deposit	74.03	79.60	83.34	81.13	88.70	88.93	96.40	96.66	93.86	95.29	83.61
10. Fixed Deposit / Total Deposit	35.94	34.66	31.04	27.86	26.67	26.29	25.84	25.06	25.06	31.71	36.88
11. Current Deposit / Total Deposit	19.51	20.05	14.16	14.43	13.73	12.84	13.34	13.16	12.71	12.78	14.96
12. Credit to Govt. Entp. / Total Credit	2.67	2.34	2.30	1.80	1.49	2.82	2.36	0.66	0.66	1.34	1.47
13. Credit to Pvt.Sector / Total Credit	97.33	97.66	97.70	98.20	98.51	97.18	95.53	95.16	99.34	98.66	98.53
<u>B. LIQUIDITY</u>											
1. NRB Balance / Total Deposit	12.51	13.44	8.91	9.72	7.08	7.23	6.88	7.23	9.85	7.85	7.09
2. Vault / Total Deposit	2.79	3.19	2.87	1.83	1.89	2.17	2.32	2.97	2.81	2.79	2.95
3. Total Liquid Fund / Total Deposit	32.43	28.97	20.15	19.78	15.20	13.34	13.06	15.70	18.81	16.29	14.26
<u>C. CAPITAL ADEQUACY</u>											
1. Capital / Total Deposit	4.53	5.51	5.79	(4.36)	(7.58)	(6.09)	(1.23)	2.34	5.39	7.39	12.16
2. Capital / Total Credit	7.54	9.01	9.49	(7.29)	(10.82)	(10.03)	(1.79)	3.29	7.64	9.98	15.83
3. Capital / Total Assets	3.27	3.71	3.87	(3.00)	(4.65)	(4.14)	(0.85)	1.76	3.74	5.92	9.52
4. Capital Fund / Risk weighted Assets	(5.49)	(9.88)	(12.04)	(9.07)	(6.33)	(5.30)	(1.71)	4.04	7.22	6.58	10.59

Appendix C-2

Table No.11
Statement of Assets & Liabilities of STANDARD CHARTERED BANK NEPAL LTD.

		(Rs. In million)									
		Mid-July									
Liabilities	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1 CAPITAL FUND	920.3	1012.3	1119.0	1527.9	1278.2	1576.3	1755.3	2117.2	2493.4	3053.0	3371.6
a. Paid-up Capital	339.5	339.5	339.5	374.6	374.6	374.6	413.3	620.8	932.0	1398.5	1610.2
b. Calls in Advance										0.0	0.0
c. Statutory Reserves	508.9	595.0	679.1	679.1	749.3	749.3	749.3	826.5	990.3	1195.3	1412.5
d. Share Premium						0.0	0.0	0.0	0.0	0.0	0.0
e. Retained Earning		0.0	0.0	99.6	37.5	245.2	370.6	504.7	383.3	239.5	30.0
f. Others Reserves	71.9	77.8	100.4	374.6	116.8	132.2	147.2	165.2	0.0	0.0	77.9
g. Exchange Fluctuation Fund										187.8	241.1
2 BORROWINGS	1590.0	671.5	79.1	78.3	43.8	10.2	1190.9	0.0	300.0	0.0	350.0
a. NRB	0.0	0.0	0.0	0.0	0.0	0.0	400.0	0.0	0.0	0.0	0.0
b. "A" Class Licensed Institution	1590.0	671.5	28.1	64.7	16.2	10.2	6.5	0.0	300.0	0.0	350.0
c. Foreign Banks and Fin. Ins	0.0	0.0	51.0	13.6	27.6	0.0	784.4	0.0	0.0	0.0	0.0
d. Other Financial Ins.		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
e. Bonds and Securities										0.0	0.0
3 DEPOSITS	15430.1	15835.7	18755.5	21161.4	19344.0	23050.5	24640.3	29743.9	35871.8	35182.7	37999.2
a. Current	3279.4	3808.4	5768.6	5816.9	4356.3	4681.8	4794.5	6174.6	6202.8	9763.2	11545.6
Domestic					2360.6	3071.6	2806.9	3855.5	3582.9	4942.5	6114.3
Foreign					1995.7	1610.2	1987.6	2319.1	2619.9	4820.7	5431.3
b. Savings	8404.6	9441.8	10633.1	12771.8	13027.7	14597.5	15244.2	17856.0	19187.7	12430.0	11619.8
Domestic					10733.3	12078.9	12685.8	14580.4	15389.2	10561.3	9669.9
Foreign					2294.4	2518.6	2558.4	3275.6	3798.5	1868.7	1949.9
c. Fixed	3471.7	2264.9	1948.5	1428.5	1416.4	2136.3	3196.5	3301.1	7101.7	9175.1	10136.2
Domestic					631.9	386.5	413.2	478.5	791.9	3603.1	5491.7
Foreign					784.5	1749.8	2783.3	2822.6	6309.8	5572.0	4644.6
d. Call Deposits	0.0	101.1	185.2	941.0	294.9	1125.5	919.0	1938.2	3001.6	3563.2	4405.9
e. Others	274.4	219.5	220.1	203.2	248.7	509.4	486.1	474.0	378.0	251.2	291.7
4 Bills Payable					55.0	55.8	36.2	87.4	72.9	89.2	66.0
5 Other Liabilities	3477.7	2156.1	2355.5	1691.5	1279.9	1442.5	1622.6	1550.0	1912.4	2113.5	2319.4
1. Sundry Creditors					116.8	192.6	259.3	253.9	358.4	476.7	479.5
2. Loan Loss Provision					277.7	270.4	287.5	245.4	200.9	217.9	234.0
3. Interest Suspense a/c					133.5	160.1	240.6	115.5	117.6	136.2	188.2
4. Others	3477.7	2156.1	2355.5	1691.5	751.9	819.4	835.2	935.2	1235.5	1282.7	1418.2
6 Reconciliation A/c					0.0	0.0	0.0	0.0	0.0	0.0	0.0
7 Profit & Loss A/c					757.9	662.5	692.1	814.4	1028.3	1086.8	1120.5
Total	21418.1	19675.6	22309.1	24459.1	22758.8	26797.8	29937.4	34312.9	41678.8	41525.2	45227.2
Assets											
1 LIQUID FUNDS	8086.5	2890.6	3170.0	4241.8	3370.8	3253.5	3996.1	4247.7	6788.5	3598.8	7256.7
a. Cash Balance	187.6	257.8	198.7	187.7	195.4	279.4	378.4	414.9	463.4	509.1	610.7
Nepalese Notes & Coins	169.9	224.0	153.2	154.2	162.1	243.3	336.4	382.8	416.8	471.6	570.9
Foreign Currency	17.7	33.8	45.5	33.5	33.3	36.1	42.0	32.1	46.6	37.5	39.8
b. Bank Balance	7898.9	570.8	1313.4	1835.5	915.7	996.8	1856.5	1635.3	2673.9	1420.2	2365.1
1. In Nepal Rastra Bank	659.5	369.8	1141.1	1534.2	692.2	749.8	1613.7	1266.2	1851.2	819.5	1638.3
Domestic Currency					681.0	731.8	1592.3	1232.6	1832.8	669.4	1615.0
Foreign Currency					11.2	18.0	21.4	33.6	18.4	150.1	23.3
2. "A" Class Licensed Institution	1.4	16.7	112.3	165.1	15.5	18.6	28.8	49.6	51.3	28.6	75.5
Domestic Currency					15.5	18.6	28.8	49.6	51.3	28.6	75.5
Foreign Currency					0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Other Financial Ins.					0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. In Foreign banks	7238.0	184.3	60.0	136.2	208.0	228.4	214.0	319.5	771.4	572.1	651.3
c. Money at Call	0.0	2062.0	1657.9	2218.6	2259.7	1977.3	1761.2	2197.5	3651.2	1669.5	4280.9
Domestic Currency									0.0	0.0	0.0
Foreign Currency					2259.7	1977.3	1761.2	2197.5	3651.2	1669.5	4280.9
2 INVESTMENTS	4811.0	5784.8	6722.8	7948.2	7204.6	8644.9	7115.7	8146.1	10007.3	8540.0	9965.8
a. Govt. Securities	4811.0	5784.8	6722.8	7948.2	7204.6	8644.9	7115.7	8137.6	9998.8	8531.5	9957.3
b. NRB Bond								0.0	0.0	0.0	0.0
c. Govt. Non-Fin. Ins.								8.5	8.5	8.5	8.5
d. Other Non-Fin. Ins.								0.0	0.0	0.0	0.0
e. Non Residents								0.0	0.0	0.0	0.0
3 SHARE & OTHER INVESTMENT	11.2	3491.2	3634.9	3412.1	2499.5	4205.7	6448.3	5756.7	8633.2	11307.5	7292.9
1. Non Residents					2486.1	4190.3	6403.4	5756.7	8300.1	10844.9	7207.9
2. Others					13.4	15.4	44.9		333.1	462.6	85.1
4 LOANS & ADVANCES	5838.7	5675.6	6028.5	6662.0	8213.5	8905.1	10538.1	13355.0	13118.6	15932.2	17698.2
a. Private Sector	5478.8	5389.4	5977.0	6655.3	7898.3	8821.9	9596.3	12599.0	12722.4	15593.5	16064.7
b. Financial Institutions							566.6	357.3	252.1	244.6	1487.7
c. Government Organizations	359.9	286.2	51.5	6.7	315.2	83.2	375.2	398.7	144.1	94.1	145.9
5 BILL PURCHASED	85.4	112.3	52.2	67.6	313.6	301.2	251.9	609.4	762.1	244.5	964.2
a. Domestic Bills Purchased					3.0	4.5	2.6	1.8	4.9	59.0	0.1
b. Foreign Bills Purchased	85.4	112.3	52.2	67.6	235.9	296.7	249.3	607.6	757.2	185.5	964.1
c. Import Bills & Imports					74.7	0.0	0.0	0.0	0.0	0.0	0.0
6 LOANS AGAINST COLLECTED BILLS					0.0	0.0	0.0	0.0	0.0	0.0	0.0
a. Against Domestic Bills											
b. Against Foreign Bills											
7 FIXED ASSETS	2585.3	1721.1	2700.7	2127.4	394.4	390.7	427.4	440.5	471.5	480.4	493.1
8 OTHER ASSETS	186.6	216.0	167.6	290.7	266.6	378.4	441.9	293.5	337.6	251.3	402.6
a. Accrued Interest											
Financial Institution											
Govt. Entp	0.0	0.0	2.5	0.0		14.2	0.6	0.0	12.7	9.4	15.1
Private Sector	186.6	216.0	165.1	290.7	266.6	364.2	441.3	293.5	324.9	241.9	355.8
b. Staff Loans / Adv.						122.9	146.1	161.8	182.5	185.3	204.3
c. Sundry Debtor					94.1	59.5	109.0	87.6	143.8	310.5	271.5
d. Cash In Transit					0.0	0.0	0.0	0.0	0.0	0.0	0.0
e. Others	2398.7	1505.1	2533.1	1836.7	393.4	534.6	461.3	1213.0	1197.3	643.2	650.1
9 Expenses not Written off					8.3	1.3	1.6	1.6	36.4	31.5	27.7
10 Non Banking Assets					0.0	0.0	0.0	0.0	0.0	0.0	0.0
11 Reconciliation Account					0.0	0.0	0.0	0.0	0.0	0.0	0.0
12 Profit & Loss A/c					0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	21418.1	19675.6	22309.1	24459.1	22758.8	26797.8	29937.4	34312.9	41678.8	41525.2	45227.2

Appendix C-3

Table No. 15
Statement of Assets & Liabilities of EVEREST BANK LTD.

(Rs. in million)

		Mid-July										
Liabilities		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1	CAPITAL FUND	249.4	497.8	587.1	665.8	980.3	832.5	963.6	1601.5	2066.5	2203.6	2759.1
	a. Paid-up Capital	197.0	399.3	455.0	455.0	755.0	518.0	518.0	831.4	838.8	1030.5	1279.6
	b. Calls in Advance										0.0	0.0
	c. Statutory Reserves	13.4	27.3	44.9	64.5	93.2	127.3	180.8	232.8	447.9	450.8	617.2
	d. Share Premium					6.4	6.4	6.4	206.4	206.4	14.8	14.8
	e. Retained Earning		62.5	72.9	62.5	46.9	70.5	108.6	130.5	83.8	82.4	72.6
	f. Others Reserves	39.0	8.7	14.3	83.8	63.0	94.5	133.1	183.3	467.5	603.0	752.9
	g. Exchange Fluctuation Fund					15.8	15.8	16.7	17.0	22.0	22.0	22.0
2	BORROWINGS	80.0	310.3	83.2	433.3	0.0	300.0	300.0	300.0	612.0	704.6	782.8
	a. NRB	0.0	81.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	404.6	482.0
	b. "A" Class Licensed Institution	80.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	c. Foreign Banks and Fin. Ins.	0.0	228.5	83.2	433.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	d. Other Financial Ins.		0.0	0.0	0.0	0.0	300.0	300.0	0.0	312.0	0.0	0.0
	e. Bonds and Securities								300.0	300.0	300.0	300.0
3	DEPOSITS	4574.5	5461.1	6694.9	8064.0	10097.8	13802.5	19097.7	23976.3	33322.9	36932.3	41127.9
	a. Current	399.7	489.6	562.4	719.8	1025.2	1155.2	2620.0	2492.3	4859.9	4173.3	4791.2
	Domestic					997.8	1128.5	2585.2	2443.0	4840.1	4074.3	4741.4
	Foreign					27.4	26.7	34.8	49.3	19.8	99.1	49.8
	b. Savings	1384.1	1733.3	2758.0	3730.7	4806.9	6929.2	9018.0	11883.9	14782.3	13360.0	13039.1
	Domestic					4767.5	6815.0	8887.7	11724.2	14623.8	13217.7	12926.5
	Foreign					39.4	114.2	130.3	159.7	158.5	142.3	112.6
	c. Fixed	2470.2	2694.6	2803.4	2914.1	3444.5	4298.2	5658.7	6598.0	7094.7	10440.3	15061.9
	Domestic					3418.0	3758.1	5368.4	6406.0	6630.4	9873.9	14724.0
	Foreign					26.5	540.1	290.3	192.0	464.2	566.4	338.0
	d. Call Deposits	225.6	439.4	428.0	565.6	704.4	1293.3	1578.9	2780.6	6294.0	8412.8	7550.0
	e. Others	94.9	104.2	143.1	133.8	116.8	126.6	222.1	221.4	292.0	545.9	685.6
4	Bills Payable					17.6	11.1	26.8	49.4	148.7	145.5	49.7
5	Other Liabilities	336.3	505.0	895.0	804.1	782.1	1176.5	1398.8	1491.5	1213.6	1222.1	1235.1
	1. Sundry Creditors					231.9	29.4	44.5	78.7	93.0	77.6	75.7
	2. Loan Loss Provision					317.7	356.1	418.6	497.3	584.9	600.0	604.2
	3. Interest Suspense a/c					57.8	61.6	83.1	92.2	81.1	68.6	55.2
	4. Others	336.3	505.0	895.0	804.1	174.7	729.4	852.6	823.2	454.6	475.9	500.1
6	Reconciliation A/c					2915.4	211.4	1247.8	424.4	12.6	13.1	10.4
7	Profit & Loss A/c					275.8	380.5	300.6	722.8	624.1	831.8	931.3
	Total	5240.2	6774.2	8260.2	9967.2	15069.0	16714.5	23335.3	28565.9	38000.3	42053.0	46895.6
	Assets											
1	LIQUID FUNDS	824.1	809.2	1156.1	869.7	1624.2	1619.6	3329.7	3198.4	6164.4	7818.8	6122.9
	a. Cash Balance	108.0	169.9	136.6	128.7	192.6	259.4	535.0	823.0	944.7	1091.5	1049.0
	Nepalese Notes & Coins	92.9	146.3	109.8	117.8	180.6	246.1	512.3	809.2	927.3	1072.6	1036.6
	Foreign Currency	15.1	23.6	26.8	10.9	12.0	3.3	22.7	13.8	17.4	18.9	12.4
	b. Bank Balance	716.1	502.3	982.0	508.9	861.6	1360.2	2794.7	2029.4	5219.7	6727.3	5073.9
	1. In Nepal Rastra Bank	385.6	357.7	724.8	441.9	774.5	1139.5	1846.8	1080.9	4787.2	5625.1	4706.3
	Domestic Currency					757.1	1136.5	1841.7	1063.2	4342.3	5606.0	4685.1
	Foreign Currency					17.4	3.0	5.1	17.7	444.9	19.1	21.2
	2. "A" Class Licensed Institution	2.3	3.1	5.9	4.2	13.4	6.1	36.3	47.8	26.0	118.1	134.1
	Domestic Currency					12.5	6.1	32.6	38.0	24.0	116.0	134.1
	Foreign Currency					0.9	0.0	3.7	9.8	2.0	2.1	0.0
	3. Other Financial Ins.					0.0	0.0	0.0	0.0	0.0	0.0	0.0
	4. In Foreign banks	328.2	141.5	251.3	62.8	73.7	214.6	911.6	900.7	406.5	984.1	233.4
	c. Money at Call	0.0	137.0	37.5	232.1	570.0	0.0	0.0	346.0	0.0	0.0	0.0
	Domestic Currency					570.0	0.0	0.0	0.0	0.0	0.0	0.0
	Foreign Currency					0.0	0.0	0.0	346.0	0.0	0.0	0.0
2	INVESTMENTS	823.0	1538.9	1599.4	2466.4	2100.3	3548.6	4704.6	4906.5	5146.0	4354.4	7145.0
	a. Govt. Securities	823.0	1538.9	1599.4	2466.4	2100.3	3548.6	4704.6	4906.5	5146.0	4354.4	7145.0
	b. NRB Bond								0.0	0.0	0.0	0.0
	c. Govt. Non-Fin. Ins.								0.0	0.0	0.0	0.0
	d. Other Non-Fin. Ins.								0.0	0.0	0.0	0.0
	e. Non Residents								0.0	0.0	0.0	0.0
3	SHARE & OTHER INVESTMENT	3.7	89.7	17.1	17.1	19.4	652.7	280.5	154.6	804.0	655.6	600.5
	1. Non Residents						646.2	274.0	138.4	702.0	291.7	313.1
	2. Others					19.4	6.5	6.5	16.2	102.0	363.8	287.5
4	LOANS & ADVANCES	2963.7	3969.6	5030.9	6116.6	7914.4	10124.2	14059.2	18814.3	24366.2	28129.7	31534.7
	a. Private Sector	2963.7	3969.6	4970.9	6047.4	7914.4	9630.6	13027.4	17718.2	22025.8	24002.0	26578.2
	b. Financial Institutions							388.9	572.9	1632.9	3063.0	2671.6
	c. Government Organizations	0.0	0.0	60.0	69.2	0.0	493.6	642.9	523.2	707.5	1064.6	2284.9
5	BILL PURCHASED					29.7	30.7	40.8	22.1	103.4	26.7	127.1
	a. Domestic Bills Purchase					16.4	21.7	28.8	16.3	99.9	18.5	23.1
	b. Foreign Bills Purchase					13.3	9.0	12.0	5.8	3.5	8.2	104.0
	c. Import Bills & Imports					0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	LOANS AGAINST COLLECTED BILLS					0.0	0.0	0.0	0.0	0.0	0.0	0.0
	a. Against Domestic Bills					0.0	0.0	0.0	0.0	0.0	0.0	0.0
	b. Against Foreign Bills					0.0	0.0	0.0	0.0	0.0	0.0	0.0
7	FIXED ASSETS	582.8	353.7	438.0	482.9	133.7	152.0	170.3	314.9	427.2	463.1	460.3
8	OTHER ASSETS	94.3	99.8	147.6	176.6	180.6	110.2	72.2	127.5	140.5	108.1	146.4
	a. Accrued Interest											
	Financial Institution											
	Govt. Emp	0.0	0.0	0.9	0.2		0.0	0.5	35.3	23.6	0.0	0.0
	Private Sector	94.3	99.8	146.7	176.4	180.6	110.2	71.7	92.2	116.9	108.1	69.9
	b. Staff Loans / Adv						72.8	102.6	156.6	306.0	424.8	649.1
	c. Sundry Debtors					20.9	9.7	56.9	168.7	75.3	17.4	20.1
	d. Cash In Transit					3.3	0.0	0.0	0.0	0.0	0.0	0.0
	e. Others	531.4	267.0	309.1	320.8	245.1	384.1	518.5	702.1	467.4	54.4	89.5
9	Expenses not Written off					0.0	0.0	0.0	0.0	0.0	0.0	0.0
10	Non Banking Assets					48.7	9.9	0.0	0.0	0.0	0.0	0.0
11	Reconciliation Account					2748.7	0.0	0.0	0.0	0.0	0.0	0.0
12	Profit & Loss A/c					0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Total	5240.2	6774.2	8260.2	9967.2	15069.0	16714.5	23335.3	28565.9	38000.3	42053.0	46895.6

List of Licensed Commercial Banks

1. Nepal Bank Limited
2. Rastriya Banijya Bank
3. NABIL Bank Ltd.
4. Nepal Investment Bank Ltd.
5. Standard Chartered Bank Nepal Ltd.
6. Himalayan Bank Ltd.
7. Nepal SBI Bank Ltd.
8. Nepal Bangladesh Bank Ltd.
9. Everest Bank Ltd.
10. Bank of Kathmandu Ltd.
11. Nepal Credit and Commerce Bank Ltd.
12. Lumbini Bank Ltd.
13. Nepal Industrial & Commercial Bank Ltd.
14. Machhapuchhre Bank Ltd.
15. Kumari Bank Ltd.
16. Laxmi Bank Ltd.
17. Siddhartha Bank Ltd.
18. Agriculture Development Bank Ltd.
19. Global Bank Ltd.
20. Citizens Bank International Ltd.
21. Prime Commercial Bank Ltd.
22. Bank of Asia Nepal Ltd.
23. Sunrise Bank Ltd.
24. Grand Bank Nepal Ltd.
25. NMB Bank Ltd.
26. KIST Bank Ltd.
27. Janata Bank Nepal Limited
28. Mega Bank Nepal Ltd.
29. Commerz & Trust Bank Nepal Ltd.
30. Civil Bank Ltd.
31. Century Commercial Bank Ltd.
32. Sanima Bank Ltd.

Source-Nepal Rastra Bank's website.

Appendix D-1

Working Note for this Study

Standard Chartered Bank Nepal Limited (In Millions)

Year	Cash and Bank balance	Loan & Advances	Fixed Deposit	Total Deposit	Saving Deposit	Investment in Govt. Securities	Operating Profit	Net Worth	Interest Earned	Working Fund	Interest Paid	Net Profit	Current Liabilities	Current Assets	Closing Value of Share	Earning Per Share	Face Value of Share	P/E Ratio	Paid Up Capital	Reserve & Funds	Shareholder's Fund	CR
2006-07	2,021.02	10,502.64	3,196.40	24,647.02	15,244.30	6,166.40	1,092.90	2,116.35	1,411.90	13,075.00	413.00	691.60	9,468.00	22,543.00	5,900.00	167.37	100.00	35.25	413.25	1,703.10	2,807.95	2.38
2007-08	2,050.24	13,718.60	3,301.00	29,744.00	17,856.10	8,137.60	1,248.40	2,492.55	1,591.10	13,278.00	471.70	818.90	10,272.00	23,550.00	6,830.00	131.92	100.00	52.77	620.78	1,871.76	3,311.45	2.29
2008-09	3,137.16	13,679.76	7,101.60	35,350.82	19,187.60	9,998.70	1,506.10	3,052.47	1,887.20	14,025.00	543.70	1,024.10	17,419.00	31,444.00	6,010.00	109.99	100.00	54.64	931.97	2,120.50	4,076.57	1.81
2009-10	1,929.31	15,956.96	9,175.00	35,182.72	12,430.00	9,998.70	1,612.40	3,159.94	2,042.10	6,486.00	575.70	1,085.80	22,746.00	29,232.00	3,279.00	77.65	100.00	42.23	1,398.48	1,761.45	4,245.74	1.29
2010-11	2,975.80	18,427.27	10,136.20	37,999.24	11,619.80	9,957.20	1,707.30	3,677.78	2,718.60	9,611.00	1,003.10	1,119.10	24,147.00	33,758.00	1,800.00	96.51	100.00	25.90	1,610.17	2,067.61	4,796.88	1.40

Appendix D-2

Working Note for this Study Everest Bank Limited (in Millions)																						
Year	Cash and Bank balance	Loan & Advances	Fixed Deposit	Total Deposit	Saving Deposit	Investment in Govt. Securities	Operating Profit	Net Worth	Interest Earned	Working Fund	Interest Paid	Net Profit	Current Liabilities	Current Assets	Closing Value of Share	Earning Per Share	Face Value of Share	P/E Ratio	Paid Up Capital	Reserve & Fund	Shareholder's Fund	CR
2006-07	2,391.42	13,664.08	5,626.66	18,186.25	9,029.26	4,704.60	597.90	1,061.52	1,144.40	6,864.00	517.20	296.40	7,361.00	14,225.00	2,430.00	78.42	100.00	30.99	378.00	683.52	1,357.92	1.93
2007-08	3,013.97	18,339.09	6,446.18	23,976.30	11,883.86	4,821.60	823.90	1,581.24	1,548.60	13,591.00	632.60	451.22	11,353.00	24,944.00	3,132.00	91.82	100.00	34.11	491.40	1,089.84	2,032.46	2.20
2008-09	6,164.37	23,884.67	7,049.98	33,322.95	14,782.33	5,146.00	1,073.50	2,003.60	2,188.80	15,137.00	1,012.90	638.70	17,286.00	32,423.00	2,455.00	99.99	100.00	24.55	638.80	1,364.80	2,642.30	1.88
2009-10	7,818.82	27,556.36	10,440.28	36,932.31	13,360.04	4,354.30	1,349.10	2,310.03	3,102.40	12,813.00	1,572.80	831.80	22,236.00	35,049.00	1,630.00	100.16	100.00	16.24	830.50	1,479.53	3,141.83	1.58
2010-11	6,122.86	31,057.69	15,061.94	41,127.91	13,039.11	7,145.00	1,516.70	2,841.58	4,331.00	1,140.00	2,535.90	931.30	19,412.00	20,552.00	1,094.00	83.18	100.00	13.15	1,119.60	1,721.98	3,772.88	1.06

Net Worth = Paid up Capital + Reserve Fund
 Total debt = Long-term debts Current liabilities.

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SCBNL				
Year	Current Assets	Current Liabilities	Ratio	Working Fund
2006-07	22,543.00	9,468.00	2.38	13,075.00
2007-08	23,550.00	10,272.00	2.29	13,278.00
2008-09	31,444.00	17,419.00	1.81	14,025.00
2009-10	29,232.00	22,746.00	1.29	6,486.00
2010-11	33,758.00	24,147.00	1.40	9,611.00
EBL				
Year	Current Assets	Current Liabilities	Ratio	Working Fund
2006-07	14,225.00	7,361.00	1.93	6,864.00
2007-08	24,944.00	11,353.00	2.20	13,591.00
2008-09	32,423.00	17,286.00	1.88	15,137.00
2009-10	35,049.00	22,236.00	1.58	12,813.00
2010-11	20,552.00	19,412.00	1.06	1,140.00
At FY 2010/11-Less: S.No.12	.	4,676.40		
At FY 2010/11-Less: S.No.20, 21 & 22	Liabilities	7,859.20		

13. Liquidity Risk

The liquidity risk as on Ashad 32, 2068 (July 16, 2011) is set out in the Table of Liquidity Statement (Format No. 5.1) as prescribed by the Directives of Nepal Rastra Bank is given as under:

(Rs. in Lacs)

S.N.	Particulars	1-7 Days	8-30 Days	31-90 Days	91-180 Days	181-270 Days	271-365 Days	More than 1 year	Total
Assets									
1.	Cash Balance	10,490	-	-	-	-	-	-	10,490
2.	Balance with Banks & FIs	50,738	-	-	-	-	-	-	50,738
3.	Investment in Foreign Banks	712	-	-	2,846	-	1,352	-	4,909
4.	Call Money	-	-	-	-	-	-	-	-
5.	Government Securities	-	190	11,671	15,177	-	20,417	-	47,455
6.	Nepal Rastra Bank Bonds	-	-	-	-	-	-	23,995	23,995
7.	Inter Bank & FI Lending	-	-	-	-	-	-	-	-
8.	Loans & Advances	25,745	6,052	30,986	8,606	14,803	4,268	226,158	316,618
9.	Interest Receivable	3	3	637	321	-	236	264	1,464
10.	Reverse Repo	-	-	-	-	-	-	-	-
11.	Acceptance Receivable	-	-	-	-	-	-	-	-
12.	Payments under S.No. 20,21 & 22	10,310	3,002	15,092	11,040	5,087	2,233	5,278	52,042
13.	Others	246	2	5	6	10	5	6,217	6,490
	Total (A)	98,243	9,250	58,391	37,995	19,900	28,510	261,912	514,202
Liabilities									
14.	Current Deposits	5,201	2,601	2,601	-	-	-	41,610	52,012
15.	Saving Deposits (including call)	10,295	10,295	10,295	-	-	-	175,008	205,892
16.	Fixed Deposits	10,131	9,791	31,004	21,365	36,621	37,050	7,413	153,375
17.	Debentures/Bonds	-	-	-	-	-	-	3,000	3,000
18.	Borrowings	-	-	-	4,820	-	-	-	4,820
	Call/Short Notice	-	-	-	-	-	-	-	-
	Inter-bank/Financial Institutions	-	-	-	-	-	-	-	-
	Refinance	-	-	-	4,820	-	-	-	4,820
	Others	-	-	-	-	-	-	-	-
19.	Other Liabilities and Provisions	876	1,032	166	-	-	-	7,390	9,464
	Sundry Creditors	236	1,032	-	-	-	-	-	1,267
	Bills Payable	497	-	-	-	-	-	-	497
	Interest Payable	144	-	166	-	-	-	-	310
	Provisions	-	-	-	-	-	-	7,390	7,390
	Others	-	-	-	-	-	-	-	-
20.	Acceptance Liabilities	570	977	2,803	411	-	-	-	4,761
21.	Irrevocable Loan Commitment	31,829	-	-	-	-	-	-	31,829
22.	Letter of Credit/Guarantee	9,740	2,025	12,289	10,629	5,087	2,233	5,278	47,280
23.	Repo	-	-	-	-	-	-	-	-
24.	Payable under s.no.11	-	-	-	-	-	-	-	-
25.	Others	-	-	-	-	-	-	-	-
	Total (B)	68,643	26,721	59,157	37,225	41,708	39,282	239,698	512,434
	Net Financial Assets (A-B)	29,601	(17,471)	(766)	770	(21,808)	(10,772)	22,214	1,768
	Cumulative Net Financial Assets	29,601	12,130	11,364	12,134	(9,674)	(20,446)	1,768	(0)

14. Deferred Tax

The component of deferred tax assets as on Ashad 32, 2068 (July 16, 2011) is as follows:

Deferred Tax Asset	As at Ashad 32, 2068 (Rs.)	As at Ashad 32, 2067 (Rs.)
On Employees' Gratuity	40,442,461	25,207,284
On Provision for Investment	480,000	480,000
On Provision for Non Banking Assets	15,535,976	2,993,720
On Fixed Assets	6,439,856	5,837,179
Total	62,898,293	34,518,183

13. Liquidity Risk

The liquidity risk as on Ashad 32, 2067 (July 16, 2010) is set out in the Table of Liquidity Statement (Format No.5.1) as prescribed by the Directives of Nepal Rastra Bank is given as under:

Assets	0-90 Days	91-180 Days	181-270 Days	271-365 Days	Over 1 Year	Total
Cash Balance	10,915	-	-	-	-	10,915
Balance with Banks	67,273	-	-	-	-	-
Investment in Foreign Banks	-	1,870	2,244	1,421	-	5,535
Nepal Government Securities	2,970	6,856	6,989	10,636	-	27,453
Foreign Currency Placement in Foreign Banks						
/Local Banks	-	-	-	-	16,940	16,940
Inter-Bank Lending	-	-	-	-	-	-
Loans and Advances	166,640	29,452	21,714	21,540	42,218	281,564
Total Assets	247,798	38,178	30,947	33,599	59,158	409,680
Liabilities						
Borrowings	-	4,046	-	-	-	4,046
Current Deposit/Call Deposit	110,177	-	-	-	19,443	129,620
Saving Deposits	13,360	-	-	-	120,240	133,600
Fixed Deposits	17,234	22,809	25,555	29,194	11,310	106,102
Debentures	-	-	-	-	3,000	3,000
Total Liabilities	140,771	26,855	25,555	29,194	153,993	376,368
Net Financial Assets	107,027	11,323	5,392	4,405	(94,835)	33,312
Cumulative Net Financial Assets	107,027	118,350	123,742	128,147	33,312	-

14. Deferred Tax

The component of deferred tax assets as on Ashad 32, 2067 (July 16, 2010) is as follows:

Deferred Tax Asset	As at Ashad 32, 2067 (Rs.)	As at Ashad 31, 2066 (Rs.)
On Employees' Gratuity	25,207,284	20,976,718
On Provision for Investment	480,000	480,000
On Provision for Non Banking Assets	2,993,720	9,505,142
On Fixed Assets	5,837,179	2,761,602
Total	34,518,183	33,723,462

In accordance with Nepal Accounting Standard (NAS) – 09 Income Taxes, Rs. 794,721 (Previous year Rs. 24,278,347) has been credited to profit on account of deferred tax. As per the circular issued NRB, the amount credited to profit & loss account of Rs. 794,721 (Previous year Rs. 24,278,347) has been transferred to Deferred Tax Reserve and the balance in this reserve as on Ashad 32, 2067 (July 16, 2010) is Rs. 34,518,183 (Previous year Rs. 33,723,462). This reserve is not a free reserve and is not available for distribution as dividend or bonus shares.

Explanation of the relationship between tax expenses and accounting profit

(Rs in Lacs)

Maturity Bucket	0-90 Days	91-180 Days	181-270 Days	271-365 Days	Above 1 Year	Total
Assets:						
Cash Balance	9,447	-	-	-	-	9,447
Balance with Banks	52,197	-	-	-	-	52,197
Investment in Foreign Banks	-	3,120	1,950	1,950	-	7,020
HMG Securities	-	9,898	3,693	20,124	-	33,714
Nepal Rastra Bank Bonds/Other Bond	-	-	-	-	18,595	18,595
Inter-Bank Lending	-	-	-	-	-	-
Loans and Advances	127,214	13,058	35,740	45,864	22,819	244,696
Total Assets	188,858	26,076	41,383	67,938	41,415	365,669
Liabilities:						
Borrowings	-	3,120	-	-	-	3,120
Current Deposit	97,290	-	-	-	17,169	114,459
Saving Deposits	14,782	-	-	-	133,041	147,823
Fixed Deposits/Call Deposit	14,782	11,153	18,479	13,273	13,260	70,947
Debentures	-	-	-	-	3,000	3,000
Total Liabilities	126,854	14,273	18,479	13,273	166,470	339,349
Net Financial Assets	62,003	11,803	22,904	54,665	(125,055)	26,320
Cumulative Net Financial Assets	62,003	73,806	96,710	151,375	26,320	

14. Deferred Tax

The component of deferred tax assets as on Ashad 31, 2066 (July 15, 2009) is as follows:

Particulars	Ashad 31, 2066 (Rs.)	Ashad 31, 2065 (Rs.)
Deferred Tax Asset		
On Employees' Gratuity	20,976,718	9,445,115
On Provision for Investment	480,000	-
On Provision for Non Banking Assets	9,505,142	
On Fixed Assets	2,761,602	
Total	33,723,462	9,445,115

In accordance with Nepal Accounting Standard (NAS) – 09 Income Taxes, Rs. 24,278,347 (Previous year Rs. 9,445,115) has been credited to profit & account of deferred tax. As per the circular issued NRB, the amount credited to profit & loss account of Rs. 24,278,347 (Previous year Rs. 9,445,115) has been transferred to Deferred Tax Reserve and the balance in this reserve as on Ashad 31, 2066 (July 15, 2009) is Rs. 33,723,462 (Previous year Rs. 9,445,115). This reserve is not a free reserve and is not available for distribution as dividend or bonus shares.

Explanation of the relationship between tax expenses and accounting profit

	Current Year (Rs.)
Accounting Profit	891,318,711
Income tax at the applicable tax rate of 30%	267,395,613
Tax effect of expenses/income that are not deductible/included in determining taxable profit	
Donation	109,879
Prior Period	101,648
Dividend Income	44,460
	255,987
Tax effect on deferred tax asset due to reduction in rate of income tax	449,767
Adjustment for change in other timing difference	(15,515,413)
Total Tax Expenses (including deferred tax)	252,585,954

15. Related Party Disclosure

Following are the related party as defined in Nepal Accounting Standard (NAS 16)

Change in Deposit Liabilities

Types of deposit	(Rs. in lacs)		
	16 July 2007	15 July 2008	Change %
a) Current	16740	24923	48.9
b) Margin	2221	2214	-0.31
c) Saving	90293	118839	31.6
d) Fixed	56267	64462	14.6
e) Call	15734	27806	76.7
f) Others	608	1518	149.7
TOTAL	181863	239762	31.8

Average Interest Spread Rate

In the financial year 2007/08 the average yield rate on interest bearing assets works out to 7.22% (previous year 6.98%). The average cost of deposit for the year works out to 2.82% (previous year 3.07%). The average spread for the financial year stands at 4.4% (previous year 3.91%).

Details of amount to be amortized**Leasehold Assets**

Expenses incurred for renovation and modification of the leased properties have been booked in Lease Development Expenses. The same is amortized in equal installment over a period of five years or the lease period which ever is longer. The balance in above account is as under-

Particulars	Amount Rs.
Balance upto last year	17,674,052
Addition during this year	22,286,382
Total :-	39,960,434
Amortized in this year	7,224,161
Balance yet to be Amortized	32,736,273

Software (Finacle)

Particulars	Amount Rs.
Balance upto last year	
Addition during this year	44,894,118
Total :-	44,894,118
Amortized in this year	2,244,706
Balance yet to be Amortized	42,649,412

There is no over concentration of Assets and Liabilities of the Bank to an individual, a firm, a company or in a particular sector as specified by Nepal Rastra Bank (31.13% of total loan in single sector of economy and 9.89% of total deposit in single institution).

Loan Write off

Rs. 18,998,727 has been written off in the books as per the provision of NRB directives as 100% provision were made on these loans and remained outstanding for a period of more than 5 years.

Table of the Liquidity Risks as on 15th July 2008, in the format prescribed by the Nepal Rastra Bank vide their Directive No.4, (as provided by the management) is as under

	(Rs. in Lacs)					
	0-90 days	91-180 days	181-270 days	271-365 days	Over 1 Year	Total
Assets:						
Cash Balance	8,230	-	-	-	-	8230
Balance with Banks	20,294	-	-	-	-	20294
Investment in Foreign Banks	4,844	-	-	-	-	4844
HMG Securities	6,158	6,871	6,101	13,249	-	32379
Nepal Rastra Bank Bonds/Other Bond	-	-	-	-	16,685	16685
Inter-Bank Lending	-	-	-	-	-	0
Loans and Advances	115,549	26,012	23,532	18,620	4,652	188365
Total Assets	155,075	32,883	29,633	31,869	21,337	270797
Liabilities:						
Borrowings	-	-	-	-	-	-
Current Deposit	24,358	-	-	-	4,298	28656
Saving Deposits	11,884	-	-	-	106,955	118839
Fixed Deposits/Call Deposit	17,783	29,115	16,888	13,520	14,962	92268
Debentures	-	-	-	-	3,000	3000
Total Liabilities	54,025	29,115	16,888	13,520	129,215	242763
Net Financial Assets	101,050	3,768	12,745	18,349	(107,878)	28034
Cumulative Net Financial Assets	101,050	104,818	117,563	135,912	28,034	

8. **Table of the Liquidity Risks as on 16th July 2007, in the format prescribed by the Nepal Rastra Bank vide their Directive No. 4, (as provided by the management) is as under:**

(Rs in Lacs)

Maturity Bucket	0-90 Days	91-180 Days	181-270 Days	271-365 Days	Above 1 Year	Total
Assets:						
Cash Balance	5,350	-	-	-	-	5,350
Balance with Banks	18,564	-	-	-	-	18,564
Investment in Foreign Banks	-	1,303	-	1,303	-	2,606
HMG Securities	11,426	4,655	10,631	9,433	-	36,145
Nepal Rastra Bank Bonds	-	-	-	-	10,901	10,901
Inter-Bank Lending	-	-	-	-	-	-
Loans & Advances	32,822	17,482	6,218	23,081	61,224	140,827
Total Assets	68,162	23,440	16,849	33,817	72,125	214,393
Liabilities:						
Borrowings	-	-	-	-	3,000	3,000
Current Deposits	16,633	-	-	-	2,935	19,568
Call Deposits	15,735	-	-	-	-	15,735
Saving Deposits	9,029	-	-	-	81,263	90,292
Fixed Deposits	8,992	4,106	5,058	14,089	24,023	56,268
Total Liabilities	50,389	4,106	5,058	14,089	111,221	184,863
Net Financial Assets	17,773	19,334	11,791	19,728	(39,096)	29,530
Cumulative Net Financial Assets	17,773	37,107	48,898	68,626	29,530	

9. **Bank has not availed any loan against encumbrance of its' properties.**

10. **Others :**

- a) The Bank is providing Housing Loan to the staff members. Hence, no provision for "Housing Funds" as prescribed by the Labor Act , 2048 has been made.
- b) Gratuity Payable to employees as per the Bank's Rules has been computed for the employees who have completed (as on 16th July 2007) the service for entitlement of the gratuity. Out of the additional liability created due to change in gratuity rate in 2006/07 with retrospective effect, Rs. 55 Lacs has been deferred to future year for adjustment.
- c) Gratuity expense include Rs. 875,150 paid to staff retired during the year.
- d) Dividends : The amount of dividend proposed by Board of Directors for the year covered by the financial statements are as under :
 - i. On ordinary shares :

Proposed Bonus Share @ 30%	Rs. 113,400,000
Cash Dividend@ 10%	Rs. 37,800,000
 - ii. On preference shares : Rs. 9.00 per share (as per the terms of preference share issue).

Distribution of proposed dividend is subject to obtainment of NRB's approval.

Appendix E-6

18 Classification of Assets and Liabilities based on Maturity:

Particulars						Rs. in Mn	
	1-90 Days	91-180 Days	181-270 Days	271 Days - 1 Year	Over 1 Year	Total	
Assets							
Cash Balance	611	-	-	-	-	611	
Balance with Banks & FIs	2,365	-	-	-	-	2,365	
Investment in Foreign Banks	999	3,949	1,369	356	535	7,208	
Call Money	4,281	-	-	-	-	4,281	
Government Securities	2,462	2,762	284	3,801	648	9,957	
Nepal Rastra Bank Bonds	-	-	-	-	-	-	
Inter Bank & FI Lending	-	-	-	-	-	-	
Loans, Advances & Bills Purchased	6,128	1,124	1,614	812	8,984	18,662	
Interest Receivable	39	129	14	26	6	214	
Reverse Repo	-	-	-	-	-	-	
Receivables from other Institutions under Commitment	-	-	-	-	-	-	
Payments under S.No. 20,21 & 22	-	-	-	-	-	-	
Other Assets	119	-	-	514	115	748	
Total Assets	17,004	7,964	3,281	5,509	10,288	44,046	
Liabilities							
Current Deposits	3,353	-	-	-	8,193	11,546	
Saving Deposits (Including call)	3,615	-	-	-	12,411	16,026	
Fixed Deposits	1,552	3,587	879	1,759	2,359	10,136	
Debentures and Bonds	-	-	-	-	-	-	
Borrowings	350	-	-	-	-	350	
Call/Short Notice	-	-	-	-	-	-	
Inter-bank/Financial Institutions	350	-	-	-	-	350	
Refinance	-	-	-	-	-	-	
Others	-	-	-	-	-	-	
Other Liabilities and Provisions	502	160	-	198	235	1,095	
Sundry Creditors	260	-	-	-	-	260	
Bills Payable	66	-	-	-	-	66	
Interest Payable	176	-	-	-	-	176	
Provisions	-	160	-	-	235	395	
Others	-	-	-	198	-	198	
Payable to other institutions under Commitment	-	-	-	-	-	-	
Irrevocable Loan Commitment	2,089	-	-	-	-	2,089	
Letter of Credit/Guarantee (Net of Margin)	2,798	1,451	276	503	708	5,736	
Repo	-	-	-	-	-	-	
Payable under s.no.11	-	-	-	-	-	-	
Others	270	805	-	-	3,678	4,753	
Total Liabilities	14,529	6,003	1,155	2,460	27,584	51,731	
Net Financial Assets	2,475	1,961	2,126	3,049	(17,296)	(7,685)	
Cumulative Net Financial Assets	2,475	4,436	6,562	9,611	(7,685)		

19 Statement of age-wise agency account reconciliation pending items

Particulars	Rs. in '000			
	Total Amount	Upto 1 year	1 to 3 years	Above 3 years
Agency Accounts				

20 Borrowing by Bank against the collateral of own assets is Nil.

Appendix E-7

20 Classification of Assets and Liabilities based on Maturity:

Particulars						Rs. in '000	
	1-90 Days	91-180 Days	181-270 Days	271 Days - 1 Year	Over 1 Year	Total	
Assets							
Cash Balance	509						509
Balance with Banks	1,420						1,420
Investment in Foreign Banks	4,486	4,657	1,243	1,530	599		12,515
Government Securities	4,362	2,376	-	1,145	648		8,531
Nepal Rastra Bank Bonds							-
Inter Bank Lending	380						380
Loans, Advances & Bills Purchased	3,961	873	861	721	9,541		15,957
Other Assets	57	31	12	8	793		901
Total Assets	15,175	7,937	2,116	3,404	11,581		40,213
Liabilities							
Loans and Borrowings							-
Current Deposits	2,930				7,084		10,014
Saving Deposits	7,160				5,270		12,430
Fixed Deposits	5,943	3,006	288	1,758	1,743		12,738
Debentures							-
Other Liabilities, Capital & Reserves	1,661				3,370		5,031
Total Liabilities	17,694	3,006	288	1,758	17,467		40,213
Net Financial Assets	(2,519)	4,931	1,828	1,646	(5,886)		
Cumulative Net Financial Assets	(2,519)	2,412	4,240	5,886	-		

21 Statement of age-wise agency account reconciliation pending items

Particulars	Total Amount	Upto 1 year	1 to 3 years	Rs. in '000
				Above 3 years
Agency Accounts				

22 Borrowing by Bank against the collateral of own assets is Nil.

Schedule 4.34: Statement of loan availed by bank's promoter/promoters' group from other bank and financial institutions by pledging their shares.

as on 16th July 2010 (32 Ashad 2067)

S.No.	Name of Promoter/Shareholders under Promoters' Group	Shares under the ownership		Description of Loan of Promoter			
		Total no. of shares	Percentage of paid up capital	Name of other bank/financial institution from which loan has been taken	Loan amount Rs.	No. of shares pledged	Remarks
1							
2							
3							
4							
5							

20 Classification of Assets and Liabilities based on Maturity:

Particulars						Rs. in Million	
	1-90 Days	91-180 Days	181-270 Days	271 Days -1 Year	Over 1 Year	Total	
Assets							
Cash Balance	463					463	
Balance with Banks	2,674					2,674	
Investment in Foreign Banks	7,272	2,968	699	389	623	11,951	
Government Securities	3,948	2,224	744	2,429	653	9,998	
Nepal Rastra Bank Bonds						-	
Inter Bank Lending	251					251	
Loans, Advances & Bills Purchased	4,032	564	817	546	7,721	13,680	
Other Assets	1,424				146	1,570	
Total Assets	20,064	5,756	2,260	3,364	9,143	40,587	
Liabilities							
Loans and Borrowings	300					300	
Current Deposits	2,106				4,475	6,581	
Saving Deposits	4,222				14,966	19,188	
Fixed Deposits	7,977	763	100	588	675	10,103	
Debentures						-	
Other Liabilities, Capital & Reserves	1,363				3,052	4,415	
Total Liabilities	15,968	763	100	588	23,168	40,587	
Net Financial Assets	4,096	4,993	2,160	2,776	(14,025)	-	
Cumulative Net Financial Assets	4,096	9,089	11,249	14,025			

21 Statement of age-wise agency account reconciliation pending items

Rs. in '000

Particulars	Total Amount	Upto 1 year	1 to 3 years	Above 3 years
Agency Accounts	-	-	-	-

22 Borrowing by Bank against the collateral of own assets is Nil.

Schedule 4.34: Statement of loan availed by bank's promoter/promoters' group from other bank and financial institutions by pledging their shares.

As at 15th July 2009 (31st Ashad 2066)

S.No.	Name of Promoter/ Shareholders under Promoters' Group	Shares under the ownership of Promoter		Description of Loan			Remarks
		Total no. of shares	Percentage of paid up capital	Name of other bank/financial institution from which loan has been taken	Loan amount Rs.	No. of shares pledged	
1							
2							
3							
4							
5							

19 Classification of Assets and Liabilities based on Maturity:

Particulars	Rs. in Million					
	1-90 Days	91-180 Days	181-270 Days	271 Days - 1 Year	Over 1 Year	Total
Assets						
Cash Balance	415	-	-	-	-	415
Balance with Banks	1,635	-	-	-	-	1,635
Investment in Foreign Banks	2,912	-	1,412	2,193	1,356	7,873
Government Securities	1,617	3,248	1,029	1,327	917	8,138
Nepal Rastra Bank Bonds	-	-	-	-	-	-
Inter Bank Lending	-	-	-	-	-	-
Loans, Advances & Bills Purchased	3,587	1,467	756	603	7,306	13,719
Other Assets	1,349	-	-	-	207	1,556
Total Assets	11,515	4,715	3,197	4,123	9,786	33,336
Liabilities						
Loans and Borrowings	-	-	-	-	-	-
Current Deposits	1,189	-	-	-	5,460	6,649
Saving Deposits	3,348	-	-	-	14,508	17,856
Fixed Deposits	3,563	260	207	606	603	5,239
Debentures	-	-	-	-	-	-
Other Liabilities, Capital & Reserves	1,099	-	-	-	2,493	3,592
Total Liabilities	9,199	260	207	606	23,064	33,336
Net Financial Assets	2,316	4,455	2,990	3,517	(13,278)	-
Cumulative Net Financial Assets	2,316	6,771	9,761	13,278	-	-

20 Statement of age-wise agency account reconciliation pending items

Particulars	Rs. in '000			
	Total Amount	Upto 1 year	1 to 3 years	Above 3 years
Agency Accounts				

21 Borrowing by Bank against the collateral of own assets is Nil.

14. Classification of Assets and Liabilities based on Maturity

Figures in Million Rs.

PARTICULARS	1-90 Days	91-180 Days	181-270 Days	271 Days - 1 Year	Over 1 Year	Total
a) Assets						
1. Cash Balance	378	-	-	-	-	378
2. Balance with Banks	1,642	-	-	-	-	1,642
3. Investment in Foreign Banks	1,953	566	2,607	3,039	-	8,165
4. Government Securities	790	2,193	1,255	2,034	836	7,108
5. Nepal Rastra Bank Bonds	-	-	-	-	-	-
6. Inter Bank Lending	-	-	-	-	-	-
7. Loans, Advances & Bills Purchased	3,290	697	852	614	5,050	10,503
8. Other Assets	633	-	-	-	168	801
Total Assets	8,686	3,456	4,714	5,687	6,054	28,597
b) Liabilities						
1. Loans and Borrowings	400	-	-	-	-	400
2. Current Deposits	1,109	-	-	-	4,172	5,281
3. Saving Deposits	3,354	-	-	-	11,890	15,244
4. Fixed Deposits	1,236	539	845	552	950	4,122
5. Debentures	-	-	-	-	-	-
6. Other Liabilities, Capital & Reserves	1,433	-	-	-	2,117	3,550
Total Liabilities	7,532	539	845	552	19,129	28,597
Net Financial Assets	1,154	2,917	3,869	5,135	(13,075)	
Cumulative Net Financial Assets	1,154	4,071	7,940	13,075	-	

15. Statement of Age-wise Agency Account Reconciliation Pending Items

Rs. in '000

PARTICULARS	Total Amount	Upto 1 Year	1 to 3 Years	Above 3 Years
Agency Accounts	-	-	-	-

16. Borrowing by Bank against the collateral of own assets is Nil.