FINANCIAL PERFORMANCE ANALYSIS OF NEPALESE COMMERCIAL BANKS

(With Reference to SBI Bank Limited and Everest Bank Limited)

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DECLARATION

I hereby declare that the work done in this thesis entitled "Financial Performance Analysis of Nepalese Commercial Banks: With reference to SBI Bank Ltd. and Everest Bank Ltd." submitted to Birendra Multiple Campus, Faculty of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillments of the requirement of the degree of Master of Business studies (M.B.S.) under the supervision and guidance of Baikuntha Pd. Bhusal, lecturer of Birendra Multiple Campus.

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ABBREVIATIONS

ADBL	:	Agriculture Development Bank Limited
ATM	:	Automated Teller Machine
CFM	:	Cash Flow Margin
CFOA	:	Cash Flow from Operating Activities
CL	:	Current Liabilities
CR	:	Current Ratio
CV	:	Coefficient of Variation
EBL	:	Everest Bank Limited
EPF	:	Employee Provident Fund
FY	:	Fiscal Year
i.e.	:	That is
JVBs	:	Joint Venture Banks
LC	:	Letter of Credit
NRB	:	Nepal Rastra Bank
NSBL	:	Nepal SBI Bank Limited
PE	:	Probable Error
Pvt. Ltd.	:	Private Limited
SBI	:	State Bank of India
SD	:	Standard Deviation

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial performance is the broadest of three areas, the one with the greatest of job opportunities, financial management is important in all types of business, including banks and other financial institutions as well as industrial and retail firms. Financial management is also important in government operation from schools to hospitals to highway department. (Brigham, 2009: 124)

The banking sector is largely responsible for the collecting household saving in term of different types of deposit and regulating them in the society by lending in different sector of economy. The banking sector has now reach to the most remote areas of the countries and has experiences in small scale industries under intensive banking program has enable the bank to share in the economic growth of the economy.

The domestic financial resources which lying as scattered form, can integrate in one place by the financial institutions and mobilizing this for economic development. The financial institution not only builds up the confidence to businessman for promoting their business but also encouraging to new comers for entrepreneurship. It is a resource for economic development; it maintains economic confidence of various segments and extends credit to people.

It is necessary to scaling up the level of investment for the whole economy of the nation. In this context, private sector has motivated in establishing many banks financial institution and industries with foreign collaboration. This has also helped in bringing modern technology in the country. It is believed that these processed in the long run will bring positive changes in the economic scenario of the country.

During the mid 80’s, the joint venture banks also come into the Nepal, namely Nepal Arab Bank Limited, Nepal Grind Lays Bank Limited, and Nepal Indo Suez Bank Limited. The two government bank, Nepal Bank Limited and

Rastriya Banijya Bank had then extended their area of operation to every nook and corner of the country under Banking Development Scheme 1967 of Nepal Rastra Bank, which entitled a scheme of bank's branch expansion.

In Nepalese context, all the joint venture banks are established as commercial bank. They must operate and finance under rules and regulation of Nepal Rastra Bank. Nepal Rastra Bank has fixed minimum percentage of total lending that all commercial banks have to invest under priority sector investment scheme.

1.2 Statement of Problem

Commercial banks have shown their better performance within short span of time. Even after that, finance companies, development banks, rural development banks and co-operatives societies are being operated side by side in a large number due to economic liberalization policies of the government especially after the restoration of democracy. As a consequent, joint venture bank have come very competitive and they have ultimately affected their profitability.

The major problems of commercial banks are their profitability and operation expenses have been found inconsistent and differing according to them. So, "What are the reasons behind this?" and "What are the major affecting factor?" are the main questions of this study. So, this study tries to analyze and examine the financial performance analysis in these banks comparatively.

The study tries to seek the answer to the following questions also.

a. What is the financial performance of sample banks?

b. How sound is the operational result of the concerned bank in relation to the profitability?

c. What is the relation between these two banks in terms of liquidity, profitability, capital structure turnover and cost effectiveness?

1.3 Objectives of the Study

The main objective of this study is to highlight the financial performance of sample banks. The specific objectives of the study can elucidate as follows:

a. To examine the financial performance of sample commercial banks.

b. To evaluate the liquidity, profitability, capital structure, turnover of SBI and EBL.

c. To examine the relationship between total deposits, net profit, performing assets, investment and loans & advances of sample commercial banks.

1.4 Significance of Size Study

The study has multidimensional significance.

1. The study enlightens the shareholders about the financial performance of their respective banks. This allows them to have a comparative retrospect whether fund was better utilized or not.
2. The study 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.
3. 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 banks to deal with in terms of profitability, safety and liquidity.
4. Policy makers at the macro level that is government and Nepal Rastra Bank will also be benefited regarding the formulation of further policies in regard to economic development trough banking institutions.
5. This study will also be useful for researchers who will conduct further research work in this area.

1.5 Limitations of the Study

This study is bounded by the following limitations.

a. Since the study is deals only with two banks viz. SBI and EBL, the result drawn from this study may or may not be applicable to other commercial bank of Nepal.

b. This study was focused on financial performance analysis of both banks not as whole activities of enterprises.

c. The study is based on secondary data i.e. published documents like annual reports, related journals, magazines, booklets etc.

d. This study covers only five fiscal year data from FY 2007/08 to 2011/12.

1.6 Organization of the Study

This study has been defined into five different chapters which are summarized as follows:

Introduction

This is a First Chapter. It includes general background of the study, it also gives a brief description of issued to be studied, objective of the study and drawbacks of the study.

Review of Literature

This second chapter deals with review of literature and review of related study. It includes conceptual review of commercial Bank, conceptual review of financial performance and review of previous thesis.

Research Methodology

This third chapter deals with introduction of research design, nature and sources of data, data collection procedures, population and samples and statically and financial tools.

Presentation and Analysis of Data

The fourth chapter deals with presentation of related data collection from different sources and analysis of them to reach closer to the actual result by using financial and statistical tools and technique. The received data will be analyzed and way of analysis. This chapter mainly deals with the issues in the light of the theoretical prospective and major findings.

Summary, Conclusion and Recommendation

The last chapter provides summary, conclusion and recommendation. The finding will be discussed and conclusion shall be stated suggestions. Besides this bibliography and appendices was attached end of this study.

CHAPTER TWO

REVIEW OF LITERATURE

Review of literature is basically a stock taking of available literature in the field of research. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of study. In the course of research review the existing literature would help to check the chances of duplication in the present study thus one can find what studies have been conducted and what remains to go with. This chapter highlights the literature available related to the present study. This chapter includes review of the following relevant literature to the commercial banks.

2.1 Conceptual Review

Banks plays vital roles to develop and operate the country. It facilitates the growth of trade, industry, infrastructure and other sectors of national economy. Basically banks upgrade national economy and help to make better condition.

Banks are business organizations that accept and hold deposits from the public, transfer funds on order from their depositors and use these funds to make loans or purchase securities. Banks earn profit when the interest earned on investments exceeds both the amount of interest paid out to depositors and other business costs. The term 'Bank' once describe only commercial banks, but now saving banks, saving and loan associations, and credit union provide nearly the same services. These institutions differ in some respects, however. For example, savings and loan associations specialize in housing finance, while credit unions focus primarily on customer credit. Still, every legitimate banking institution operates with the character from either the federal government or a stage government and is subject to a substantial numbers of regulations. These regulations include restrictions on lending and other activities; they also specify the amount of capital, or their own funds, that the owner must invest in the bank. [Encyclopedia, 2011, P-169]

A bank is a business organization that receives and holds deposits of funds from others, marks loans or extends credits and transfer funds by written order of depositors. The business of banking is one of collecting funds from the community and extending credit to people for useful purpose. Banks have played a pivotal role in moving money from lenders to borrowers. Banking is a profit seeking business not a charity organization to community. As a profit seeker, it is expected to pay dividends and otherwise add to the wealth of shareholders. [American Institute of Banking, 2010]

2.1.1 Concept of Commercial Bank

Commercial banks are financial intermediaries that channel funds from savers to borrowers in ways that are more attractive and those available to savers and borrowers who deal with each other directly. Banks thus increase the total amount of funds saved and invested. They encourage savings by providing deposit accounts that are available in almost any size and maturity, and with low credit and interest rate risks. They encourage investment by making loans, similarly of almost any size of maturity, and accepting a variety of risk. To lessen the possibility of loses, banks charges more interest on loans then they pay out in deposit interest. This difference is often referred to as the interest rate spread. [Encyclopedia, 2011, P-176]

Commercial banks are those financial institutions which deal in accepting deposits of person and institutions and extant credit. They provide working capital need of the trade industries and even to agriculture sectors. Moreover commercial bank also provide technical and administrative assistance to the industries, trade and business enterprises. The main purpose of priority sector investment scheme is to uplift the backward sector of the economy.

Commercial bank is a corporation which accepts demand deposits subject to check and makes short-term loan to business enterprises regardless of the scope its other services. [American Institute of Banking, 2010]

Principally, commercial banks accept deposits and provide loans, primary to business firms, there by facilitating the transfer of funds in the economy. [Gupta, 2003, P-110]

Commercial banks are the heart of financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing activities to borrowers, individuals, business firms and services the procedures to customers and the financial activities of the government. They provide a large portion of the medium of exchange and they are media through which monitory policy is affective. These facts show that the commercial banking system of the nation is important to the function of the economy. [Gill/Smith, 2006]

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. [Commercial Bank Act, 2031]

The commercial bank act 2031 B.S. has further pointed out that Commercial bank debt whenever necessary for the trade and commerce. They accept deposits from public and make credit in different forms. They buy and discount the bills of exchange, promissory note and exchange foreign currency. They discharge various functions on behalf of their customers provided that they are paid for their services.

Similarly, commercial banks pool together the saving of the community that seems they help in capital formation. Commercial banks collect deposits from their costumer under different accounts and such saving are distributed to the public in the form of credit for productive use. Commercial banks in developing country like Nepal also finance in small and cottage industries, agriculture under priority sector investment scheme in order to up lift the nation.

However, central bank is the parent bank of the country, they directs and controls to all the banks which exist in the country. In Nepal, "Nepal Rastra

Bank” (NRB) is the central bank of the country. All the commercial banks have to perform their function under the rules, regulation, circular and directives of the NRB.

Nepal is very poor and least developed country having low per capita income and GDP, as a result many economic problems such as inflation, devaluation of money, trade deficit, poor economic growth and budget defeat are created. Unstable economy creates insurgents and violation and stop sound economic development. To overcome such problem, commercial banks are incorporated in Nepal by sharing Nepali and foreign investment to make more profit by using their fund in profitable sectors. As we known, profit is the lifeblood of every business but it does not mean main objectives of commercial banks to making more profit, they should consider about social responsibility towards the society too.

2.1.1.1 Functions of Commercial Banks

The business of banking is board in modern business age. The number and variety of services provided by commercial banks will probably expand. Recent innovations in banking include the introduction of debit - credit cards, accounting services for business firms, e-banking, remittance etc. The major functions of commercial banks are explained in brief are as follows;

a. Creating Money

The major function of commercial banks, which separates it from other financial institution, is the ability to create money which is accomplished by the lending and investing activities. The power of commercial banking system to create money is a great economic significance as it results in the elastic credit system that is necessary for economic progress at a relatively steady rate of growth.

b. Payment Mechanism

Commercial banks make payment by written orders of depositors. Nowadays various payment mechanisms are developed. Bank can pay cash through ATM by using debit/ credit card.

c. Accepting Deposits & Expand Credit

The main and most common function of the commercial banks is accepting deposits from their customers and lending the deposits to their worthy borrower. The deposit pulling the national saving and make capital for investment. The depositors are rewarded by interest in their deposit. The available fund is lending in productive sector so that the entrepreneur, businessman and other related parties are benefited. The performance of the bank is also depends on quality of credit.

d. Facilitating for Foreign Trade

Beside above said the other primary function of commercial banks is providing foreign exchange needed by business organization to pay for foreign trade. Banks also provide different type of guarantee to the business firms and individual. It promoted foreign trade through Letter of Credit (LC) and demand draft.

e. Safekeeping of Values

The safekeeping of values is one of the oldest services provided by commercial banks. The protection of values falls into two areas or department of bank: safe deposit boxes and safekeeping. Safe deposit boxes are made available to customer on rental basis that may be useful provides a place for securities, deeds, insurance policies and personal items of value only to the owner. In other hand, safekeeping differs from safe deposit box services in that the bank has custody of the values and acts as an agent for the customer.

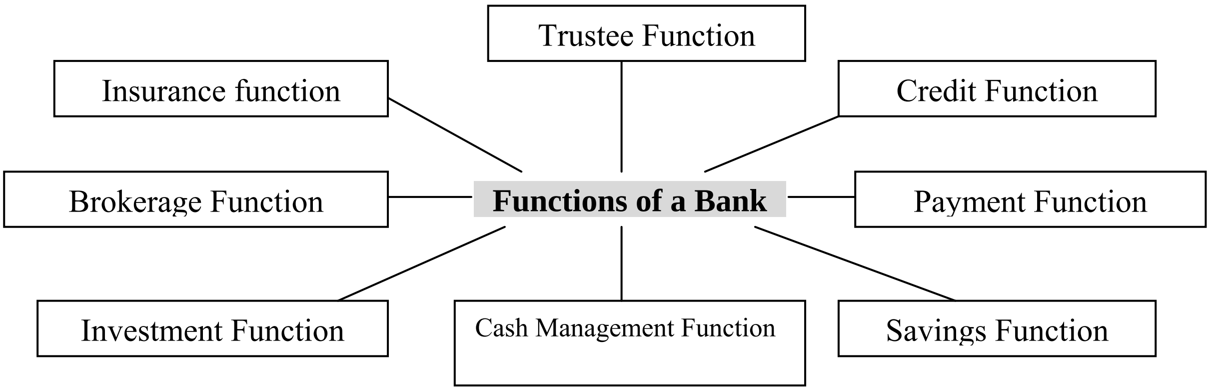
f. Remittance

Nowadays the most common function of the commercial bank is remittance. Commercial banks remit money from one place to another through fax transfer, online money transfer, visa card, master card and demand draft.

g. Trustee Services

In this competitive situation commercial banks provide all kind of services to their customers. Nowadays bank does financial transaction on behalf of their customers such as bill payment, payment to government bodies, securities.

Figure 2.1
Functions of a Bank



(Source: Vaidya, 2009)

2.1.1.2 Commercial Banks in Nepal

Nepal Rastra Bank (NRB) is the central bank in Nepal. NRB formulates policies to control the function carried by the banks NRB has made it mandatory for commercial banks to operate general banking and lending. At present, NRB has introduced some fundamental charges in its interest rate policy. It has allowed the commercial banks to determine interest rate on its deposits as well as credit on the basis of cost and availability of financial resources. This policy framework has introduced and element of competitiveness in the financial sector.

The commercial banks are contributing in the economic development. It is resources and means of economic development and maintains economic confidence of various segments and extends credit to people.

In Nepal "Nepal Bank Limited" was first commercial bank, established in 1994 BS under the Nepal Bank Act 1993. Then after, under the Banijya Bank Act 2021, the government lunched "Rastriya Banijya Bank". It has full investment capital employed by government. Again the government established the third bank "Agriculture Development Bank". This bank is fully owned by government for the purpose of developing agriculture sector and up lift priority sector.

In this present context, the role and importance of the commercial banks loomed larger. In this connection, Nepalese economy has witnessed several changes in the financial system in the last few years so for example financial liberalization. When the government permitted the establishment of foreign banks, three joint venture banks (JVB) that is Nepal Grindlays Bank Limited, Nepal Indosuez Bank Limited and Nepal Arab Bank Limited established by the end of first half of the 1980's. After restoration of democracy, elected government adopted the liberalization and market oriented policy. As a result a number of JVBs increase dramatically via, HBL, NSBL, NBBL, EBL etc. The management of those JVB is mainly held by foreign banks. They are providing modern banking technology, efficient modern services to the country, professional management and trust and prompt services to their customer.

2.1.2 Financial Performance

Profit is one of the indicators of sound financial performance for any types of business. It is usually the result of strong business management, cost control, credit risk management, and general efficiency of operation. Profit is essential for an enterprise for its survival and to maintain capital adequacy by profit retention. Profit is vital for any business concern including banks however profit cannot be the sole objective. Social responsibility and welfare is the crucial part of the business. Bank must be rewarded by the adequate interest to the depositors and charged the reasonable cost for investments. Bank is always dedicated for giving the assurance of best service to their beneficiaries.

Liquidity is one of the major elements belongs to banking. It is needed to honor cheques and lending profitable loans when an opportunity arises. Liquidity management requires the high levels of managerial skill. If having only some liquidity, it may be difficult to cash the cheques and will missed the unforeseen opportunities brings by the market. In other hand maintains excess liquidity is hold the capital in ideal and is the loss of income.

Investors more concerned with firms long term financial strength or solvency. While evaluating the financial performance, business conserving with resource mobilization failure to collect enough deposit and exhibit inefficiency of the bank. In this context some of the research works have been examined.

Banks have to collect sufficient resources to meet the demand of various emerging business and industries. The performance of the banks is depends on the proper credit management and sound relationship to the customers and clients. If the banks perform the effectiveness in loan recovery, overdue and defaulting loans minimization, will generate the high margin between interest income and interest expenses. From this it is possible to distribute significant bonus and dividend.

2.1.2.1 Financial Statement Analysis

The analysis of financial statement is done to obtain a better insight into a firm's position and performance. Analysis of financial statement is a process of evaluating the relationship between the component parts of the financial statements to obtain better understanding of a firm's position and performance.

In order to make financial statement more meaningful, analysis of financial statement is prepared. Analysis of financial statement means a study of relationship among the various financial factors. It is a process of classifying and arranging mass data of financial statement. For obtaining a better understanding of the position of a business and its performance, classifying and arranging are needed. The objective of this process is to understand the financial position, profitability, operational efficiency and growth potential of the business.

A. Ratio Analysis

Ratio analysis is a powerful and the most widely used tool of financial analysis. A ratio is defined as "The indicated quotient of two mathematical expression "and as" the relation between two or more things" (Marrian, 2005).

A ratio is a figure or a percentage representing the comparison of one-dollar amount with some other dollar amount as a base (Roy A.F. 1974). 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 strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of a fir. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance (Pandey 2010).

Ratio is the expression of one figure in terms of another. It is the expression of the relationship between mutually independent figures. It is a simple mathematical expressions of the relation of one item with another independent figure alone convey no meaning unless they are compared each other. Accounting ratios shows the interrelationship existed among various accounting data.

According to Kotler, "A Ratio is the relationship of one amount with another expressed as the ratio of or as a simple fraction, integer, and decimal fraction percentage."

Ratio refers to the numerical or quantitative relationship between two items or variables. In simple language, ratio is one number expressed in terms of another and can be worked out by dividing a number with other. So to speak, it is calculated by dividing by one item of the relationship with other.

Ratio analysis is the numerical relationship between any two variables of financial statements, which should serve some meaningful purpose. Ratios are expressions of logical relationship between items in the financial statements of a single period. Analysts can compute many ratios from the same setup financial statements. A ratio can show relationship between two items on the same financial statement or between two items on different financial statements (e.g. balance sheet and income statement).The only limiting factor in choosing rations is the requirement that the items used to construct a ratio have a logical relationship to one another.

2.2 Review of Policy

The commercial banks are established in Nepal according to the Company Act 2021 BS. The main purpose of commercial banks is to provide trust and prompt services to entrepreneurs, businessman, professionals and other people.

a) Company Act 2021 (Amended to Company Act 2063)

Commercial banks in Nepal can be established only as a company with limited liability under the Company Act 2063, under the recommendation of NRB, the provisions mentioned in the Act: strictly regulate the commercial banks in all the aspects, starting from the incorporation to the winding up of the banks.

b) Commercial Bank Act 2031 (Amended to Commercial Bank Act 2049)

Commercial Banks Act 2031 covers few important clauses for establishment of new bank and their branches.

i) Establishment

1. A bank shall be established under the Company Act, with the recommendation of NRB. For getting such recommendation, an application shall be filled, along with the particulars prescribed by the NRB. Only after getting recommendation from NRB, such banks shall be registered according to the Company Act, for working under this Act.
2. The NRB may prescribed necessary conditions while recommending the establishment of a bank under sub conditions and shall be the duty of the concerned bank to fulfill the conditions so prescribed.
3. The location of the head office of bank is determined with the approval of NRB.
4. The banks shall be an autonomous corporate body with the perpetual succession. It may sue or be sued in its own name.
5. Subject to this Act other current Nepalese law, the bank may acquire, use and sell movable and immovable properties.

6. Any bank may open or shift the location or close branches, extension counter and other offices with the approval of NRB.

ii) Establishment of Branches of Foreign Commercial Bank.

1. In case any foreign commercial bank desire to open branch, representative office, liaison office in Nepal, it may register such branches under the Company Act, with approval of NRB and provisions of this Act.
2. The NRB shall obtain the consent of Government of Nepal before granting approval under sub section.
3. In the time of approval under sub section the NRB prescribed the certain terms and conditions according to the need and the foreign banks shall obey with the conditions, thus prescribed by NRB.

iii) Nepal Rastra Bank Act 2012 (Amended to NRB Act 2059)

As per provisions of the Act 2012 NRB may issue directive and circular from time to time to commercial banks regarding general banking, currency and credit. It shall be duty of commercial banks to company with the following directives.

Development of Banking System and Credit

1. NRB shall make all possible efforts to develop and regulate the banking system in nation.
2. With the consideration to the monetary situation, the NRB may provides loans and refinancing facilities on the conditions prescribed against guarantee, to any commercial bank which applies agricultural or industrial credit.
3. Commercial banks must obtain the permission to accept deposits, grand credit or issue debenture.

Determination of Interest Rate

NRB can determine the interest rate to be charged or paid by the commercial banks on loans and deposits.

a) Liquidity

Commercial banks shall maintain liquid assets (also called cash reserve) in such proportion of their domestic deposits, liabilities as the NRB may prescribe. The cash reserve ratio requirement, after the amendment of NRB policy on 10^{th} April, 1998 is fixed at 6% of fixed deposits and 8% of other deposits which should be balanced with NRB, along with 3% of total lay deposit as the vault cash requirement.

b) Fund to be Maintained with NRB

Commercial banks must maintain funds in NRB according to the percentage of the total deposits liabilities, prescribed by the NRB. "Total deposit liabilities refer to the liabilities of amount covered by the term 'deposits' define in the Commercial Bank Act 2031".

c) Loans to be Supplied to the Prescribed Sectors

The NRB has prescribed the priority and deprived sectors, for commercial banks to provide 3% of its 'total loans and advances' to these sectors, in order to flow the credit in rural areas of the country and up lift these sectors.

2.3 Review of Books

Financial performance analysis is quantitative analysis of firm's efficiency. In other words it is a way of studying financial position or condition of a company. The company's financial plan and policy prepared and implemented by management should be judge on the basis of its financial performance. Conceptually, the financial operation of a firm through profitability liquidity and turnover and their cost volume profit relationship approaches.

Financial managers also have the responsibility for deciding the credit terms under which costumers may buy. How much inventory the firm should carry, how much cash to keep on hand, whether to require other firm (merger analysis).

Financial management is that managerial activity which is concerned with planning and controlling of the firm's financial resources. Through it was a branch of economics till 1890 as a separate activity or discipline it is of recent origin still. It has no unique body of knowledge of its own and draws heavily on economics for its theoretical concept even today. He further says it is of great interest to academician's new manages and practicing manages. [Panday, 2010:95]

"Financial management is defined as the process of financial decision making founded as the principal of maximizing share holder wealth. In broadest terms its scope covers all financial matters that affect the financial outcomes of a firm."

"The secret of success in the competitive world lies in the ability of managers to foresee the direction of changes with respect to consumer preferences and development in technologies". [Pradhan, 2003:85]

"Financial management involves the solutions of three major decisions. Together they determine the value of a company to its shareholders. Assuming that our objectives is to maximize this value, the firm should step for an optimal combination of the three enter related decisions solved joint the decision to invest is a new capital product, for example, necessitates financing the investment". [Van Horne, 2001:115]

The financing decision in tern unbalances and is imbalanced by the divided decision, for retained earnings used in internal financing.

"Financial account is concerned with the recording of financial transaction of the business and provides information in financial terms to parties or people wanting information about the state of the business. It is that part of accounting which is employed to communicate the financial information of a business unit. The object of financial accounting is to find out the profitability and to provide information about the financial position of the business concern". [Munakarmi, 2003:75]

"Financial Management' has said "Anybody wishing to start a business would have to decide (1) the nature of long term investment or lines of business, and sorts of buildings, machinery and equipment (2) the long term financing to pay for investment should be financial with owners' equity or debt and (3) managing everyday financial activities such as collecting from customers and paying to suppliers etc. These are simply the most important question. There are other questions as well financial management is basically concerned with the study of the ways to deal with these decisions". [Pradhan, 2003:2-3]

2.4 Review of Related Article

Reviews of some available related articles are presented in this section. "Monetary Policy and Deposit Mobilization in Nepal" has written that mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal and commercial banks are the most active financial intermediary for generating resources in the form of deposits of private sectors. [Bajracharya, 2007]

Likewise, "Performance of Nepalese Commercial Banks" has concluded that JVBS are successful in not only penetrating the market but also consolidating their position over the year. It is due to its customer's orientations and strong marketing strategy. [Thakur, 2004]

Another article entitled, "Activities of commercial Banks" found by NRB research dept. As the research during fiscal year 2001/2002, total assets and liabilities of commercial banks witnessed a slower growth of 7.2% compared to an increase of 18.7% in the previous year, relatively lower growth of deposits.

The measures are part of the banking sector reforms being introduced by the (NRB), central bank sources said. Earlier, the foreign exchange spread rate, which is the difference between buying and selling rates of foreign currencies, had to be one percent, as the directives of the central bank since 1992.

No longer, commercial banks will now exercise greater autonomy in deciding the foreign exchange spread rate on the basis of market competition. Also, the central bank has accorded greater autonomy to the commercial banks. In a major move to enhance autonomy in commercial banks to make them more competitive, the central bank has lifted with effect from today, the foreign exchange spread rate and waved the interest rate spread restriction on to determine the interest rate spread on borrowing.

It has been mandatory until recently to have an interest rate spread between the parties and the commercial banks to be 0.5% on borrowing. Form now, the banks on the basis of market realities will determine this rate.

However, to protect depositor's interest, the bank will have to continue to abide by the central bank directives on interest rate spread on deposit. [NRB Research Department Kathmandu, 2011]

Similarly, another article entitled "Lending Operation of Commercial Banks of Nepal and its Impacts on GDP" of Sunity Shrestha, by her study found that there had been positive impacts on GDP by the lending of Commercial banks in various sectors of economy except through services sector investment [Shrestha, 2006]

In poor country, both types of banks will coalesce & co-exist complementing each other and contributing to the nation's accelerated development along with the domestic banks and the government. They will eventually crow out the domestic's banks from the more profitable urban areas and lucrative urban sectors, unless remedying by the determination of the government.

Prof. M. K. Shrestha in his article "Commercial Banks Comparative Performance Evaluation" conclude that joint venture banks are new operationally more efficient having superior performance. [Shrestha, 2003]

B. N. Rimal, in his article, entitled "Policy Issues and Development in Nepalese Banking System "concludes that the central bank should instead drive for an approach towards indirect monetary control rather than loan on quantitative individual bank coiling. Indirect monetary policy through open market operation i.e. recent Treasury bill auction and opening up of interbank market and targeting broad financial variables like net foreign assets or for that matter Net Domestic Assets should even out small irritants in the banking system. [Rimal, 2004]

Ratna Bajracharya, in his article entitled "A Comparative Performance Study", concluded that deposit growth of commercial banks was not consistent, low growth in local banks than JVBS. The mobilization of rural saving was better in case of local banks, credit expansion was decreased in local banks than JVBS, credit deposit ratio was better in JVBS. Nonperforming loan was greater in local banks and profitability was greater in JVBS. Local banks were forced to open and continue their branches at the rural areas. Therefore, the competition among the local and JVBS was not healthy. [Bajracharya, 2005]

2.5 Review of Unpublished Thesis

A study undertaken by Amatya (1990) entitled "An Appraisal of Financial Position of Nepal Bank Ltd", had found that the liquidity position was fairly maintained and the bank had been found to have adopted conservative financing policy i.e. low portion of equity capital had been resorted to finance total assets. The bank had operated successfully beyond the breakeven point over the study period.

Gurung (1993) study entitled "A Financial Study of JVBs in Nepal, A comparative Study of NGBL and NIBL" concludes that both the banks have unsatisfactory liquidity position than normal standard. Both the banks have been maintaining sound capital adequacy ratio directed by NRB and have highly leveraged. The research suggests improvement in capital structure by increasing equity base.

A study conclude by Adhikari (1993) entitled, "Evaluating the financial performance of Nepal bank limited" reveals that the bank had been unable its resources (i.e. deposits) on highly yielding investment portfolio to maximize return. Operational efficiency of the bank is indicated by the operation loss and this has been found unsatisfactory. Hence the bank has been suggested to manage its investments portfolio efficiently.

Likewise, Shakya (1995) in his thesis report "Financial Analysis of Joint Venture Banks in Nepal" with special reference to NABIL, and NGBL, had made an attempt to analyze financial health of NABIL and NGBL. The findings he had found were:

There existed highly positive correlation between total deposits, loans and advances of both NABIL and NGBL.

NGBL liquidity and profitability position was comparatively better than that of NABIL. The capital structure position of NGBL was more risky than that OF NABIL in average.

NABIL's capital adequacy position was more satisfactory than that of NGBL in average, but Nail's position was deterioration each year.

In the same way, Acharya (1997), in his thesis report "A Commercial Study of the Financial Performance of JVBs in Nepal" especially on NABIL and NIBL concluded that capital adequacy ratio of NABIL has recorded a describing trend over the study period. It was able to maintain as per the directives issued by the central bank only during the first three year of the study periods. Similarly, NABIL had recorded an increasing trend over the study periods.

Joshi (1998) in his thesis report "A Study on Financial Performance of Commercial Banks" concluded liquidity positing of commercial banks was sound. Their debt to equity ratio was high, which doubt in solvency. Debt to equity ratio of local commercial banks was higher than JVBS conservative credit policy was followed by commercial banks for asserts utilization that's why more investment was done of loans of advances. Assets utilization for earning purpose was two third of the total assets. The main source of income for these banks was interest from loan advances and overall profitability position of NABIL was better than others.

Lamsal (2002) in his thesis entitled "A Comparative Financial Statement Analysis of HBL and NGBL", he concentrated his study on financial performance and found as follows:

Liquidity position of HBL was better than NGBL, utilization of assets of both of the banks were equal, in profitability position of NGBL was better than of HBL when evaluating total interest earned to total outside ratio, return on share holders fund ratio and return on total assets ratio. In long term financial position HBL had higher ratio than NGBL, in capital adequacy position NGBL was higher than HBL since NGBL had been distributing dividend.

Shakya (2002) in her thesis entitled "A Comparative Analysis of Financial Performance of Selected JVBs, A Case Study of NGBL and HBL" has said liquidity ratio (current cash and bank balance to deposit ratios) have been higher for HBL than NGBL. In current ratio HBL lead adequate assets than NGBL. She further says comparatively HBL is more efficient in meeting its short term obligations than NGBL in her review period HBL had more cash and bank balance as per her opinion joint venture banks advantages and highly skilled personal and advanced management skill.

Ghimire (2003) in his thesis entitled "A Study on Financial Performance of Finance Companies in the Context of Nepal" has said finance companies have to canalize the funds by gradually shifting priorities from hire purchase to trading for industry to help in the capital formation within the country. He says, now in Nepal finance companies have not maintained their balanced capital structure coming. People have no faith in finance companies. Therefore, they should create a positive impact to public confidence; chance should be given to small deposits along with regional expansion and continuous improvement in quality of service.

Joshi (2003) In a research entitled "Lending Policy of Commercial Banks in Nepal", writes, "it is well known that commercial banks collect much resources from people but they are far behind in their utilization. Commercial banks in

Nepal are still lazy to play an active role to utilize their resources collected from different sectors in accordance with the need of economy.

Shrestha (2005) in his thesis entitled “Profitability of Joint Venture Banks” has found by examining the ratio of JVBS. He has taken the sample of three banks, HBL, NBBL and NBL. The profitability ratio of Nabil and HBL are more or less same, which is too much satisfactory in the industry environment.

Deoja (2008) has conducted his study entitled “Comparative Study of the Financial Performance between NSBL and NBBL”. His main objective of study was to evaluate the trend deposits, loan and advances of NSBL and NBBL to evaluated liquidity, profitability, capital structure, turnover and adequacy position. In his research he found that the cash and bank balance to current assets, saving deposits to total deposits, cash and bank balance to current deposits of NSBL are higher and NBBL has better turn over than NSBL in terms of loan and advances to total deposits ratio and loans and deposits to fixed deposits ratio.

In the same way, Bohara (2010) in his thesis “A Comparative Study on the Financial Performance of NBL and NIBL” had made endeavor to examine the comparative financial performance of NBL and NIBL in term of their liquidity, activity, profitability along with other parameters. The study concluded that the increasing trend of NBL’s earning per share, cash dividend per share, net profit and market value per share are shown improved than that of NIBL, however the total deposit and loan and advance of NIBL is in increasing trend than that of NBL.

Kandel (2010) in his thesis entitled “Financial Performance of Nepalese Commercial Banks” his study objectives are, to find out the trend analysis of total deposit, loan and advance, total income and expenses, net profit and to evaluate financial performance in terms of statistical and financial tools then examine financial performance of relative commercial banks.

The major findings are:

All four banks except HBL have their mean value of cash and bank balance in respect of total deposit is more than 10%, which is satisfactory level. Going through the mean value, all banks have sufficient cash and bank balance to meet their current deposit. HBL is C.V. is less than others, it shows higher consistency on its cash and bank balance. NBL and NIBL have higher portion of saving deposit where as BOK and HBL has moderate but the NSBL has lower portion of saving deposit in relation with total deposit. NBL has lower portion of fixed deposit to its total deposit, where NSBL has more fixed deposit to its total deposit and rest three banks have moderate rate of fixed deposit to their total deposit. HBL and NSBL have higher portion of current deposit to their total deposit, where as other three banks have same range of current deposit to their total deposit.

Lamichhane (2012) in his thesis entitled “Financial Performance Evaluation of Nepalese Commercial Banks” shows following objectives:

i. To analyze the financial strength and weakness of commercial banks.
ii. To examine financial performance of concerned banks.
iii. To examine the resource mobilization of commercial banks.
iv. To examine the liquidity, profitability and capital structure position of the banks.

The major findings are:

i. NIBL and SCBNL have higher portion of saving deposit where as NBL and HBL has moderate but the NSBL has lower portion of saving deposit in relation with total deposit.
ii. SCBNL has lower portion of fixed deposit to its total deposit, where NSBL has more fixed deposit to its total deposit and rest three banks have moderate rate of fixed deposit to their total deposit.
iii. HBL and NBL have higher portion of current deposit to their total deposit, where as NIBL and NSBL have moderate and the SCBNL have lower portion of current deposit in relation with total deposit.

iv. SCBNL have utilized 54% of their deposit in investment, where HBL, NBL and NSBL have only range of 30% to 35%. Only 21% of total deposit of NIBL is utilized in investment.

v. All banks have high range of debt capital i.e. more than 90% of total assets. NSBL have high value of C.V. which shows more fluctuating and aggressive position of the bank.

vi. NSBL have more interest expenses in respect of their interest income (i,e more than 50%), whereas HBL, NBL and NSBL have moderate interest expenses and SCBNL have lower interest expenses in respect of interest income.

vii. Total Deposit trend values are increasing trend in all banks over the projection and study period.

viii. Net Profit trend values are increasing trend in all banks over the projection and study period.

2.6 Research Gap

There were so many researches who conducted their research on different headings. Previous researcher researched on different headings like: Financial Performance, Lending Policy of different commercial bank and development bank like: NBL, NIBL, ADBL, SCBNL, NGBL etc. However there is no previous research made on comparative analysis of financial performance analysis of two commercial banks i.e. Everest Bank Limited and Nepal SBI Bank Limited. Researcher tries to analyze the relationship between sample banks in different variables and to evaluate the financial performance with using latest data from FY 2007/08 to 2011/12.

CHAPTER THREE

RESEARCH METHODOLOGY

Research Methodology refers to the various sequential steps to be adopted by researcher in studying a problem with certain objective in view.

Basis objectives of this study is to highlight the financial performance of Nepal SBI Bank Limited and Everest Bank Limited comparatively by analyzing financial statements. So this chapter proposes to outline the methods followed to achieve the predetermined objectives. Therefore, the chapter includes the following with regard to the methodology:

3.1 Research Design

The research is based on analysis of the past facts. In the study, researcher has analyzed the financial performance of two joint ventures banks for the past five years period. Thus, to achieve the stated objectives, descriptive and analytical research design have been followed.

3.2 Population and Sample

All the 31 commercial banks functioning in Nepal are the population among them two commercial banks namely SBI Bank Limited and Everest Bank Limited are taken as a sample for the purpose of the research. This study used judgmental sample method. Profiles of the Sample Banks are as follows:

Nepal SBI Bank Limited [SBI]

Nepal SBI bank is the first indo Nepal Joint Venture in the financial sector sponsored by three institutional promoters namely, state bank of India. Karmachari Sanchaya Kosh (Employee Provident Fund) and Agricultural Development Bank through a memorandum of understanding singed on 17th July 1992. The bank came into operation on 8th July 1993 within a period of less than one year.

The bank received registration from Registrar of companies Ministry of Industry HMG on the 25th April 1993 and commence its first board meeting on the may 25th. 1993 to pave the way for operational zing the bank within the quickest possible time. The bank received certificate of commencement of business on the 30th June 1993. Moreover it received its license from NRB for all commercial banking transaction on the 6th July 1993.

The bank hand set up its corporate and banking office at Durbarmarg with computerized operation. However the space available at Durbarmarg was not adequate to facilitate its business. Later the corporate office was shifted to kamalpokhari leaving Durbarmarg office as banking office. Now, this bank has its corporate office at Hattisar.

The Share Holding Pattern of SBI is as under

State Bank of India (SBI)	50.84%
Karmachari Sanchaya Kosh (EPF)	15.25%
Agriculture Development Bank (ADB)	5.08%
General Public (GEN. PUBLIC)	28.83%

Source: SBI Bank Limited

Banking Services and Products

- Conventional deposit scheme like fixed ,saving and current deposit
- Credit by way of term loans as well as working capital
- Retail finance (housing ,educational ,vehicle etc)
- SWIFT transfer facility
- 365 days banking
- ATM cards

Everest Bank Limited [EBL]

This bank was established on 3rd Marg, 2049 (17th Nov.1992) and started its operation from 1st Kartik 2051 (18th Oct. 1994) under the company act 2021

B.S. with an objective of carrying out commercial banking activities under the commercial bank act 2031B.S. From the very beginning of its establishment till Nov. 1996 it was managed by United Bank of India Limited (UBL). Later on UBL handed over the management to the Punjab National Bank (PNB) India. One of the largest commercial bank in India with over 3700 branches and 300 foreign correspondents around the globe. Under technical services agreement signed between the two banks, PNB has been providing top management services and banking expertise to EBL. The bank is currently in its operation with eighteen branches in various parts of the kingdom with the objectives of providing the full range of quality banking service to both business community and the common people.

The Share Holding Pattern of EBL is as under

Nepalese Promoters	50%
General Public	30%
Punjab National Bank	20%

Source: EBL Bank Limited

Banking Product and Services Offered by the Sample Bank

- Cumulative, unfixed, fixed and recurring deposit scheme
- SWIFT transfer facilities
- Merchant bank facilities
- Any branch banking facilities
- 365 banking
- Retail Finance

3.3 Nature and Source of Data

This study based on only secondary data. The secondary data especially published annual reports have been collected directly from concerned banks and other supplementary data and information official records of concerned banks, booklets, magazines, bulletins, internet web-site, security exchange center, Nepal Rastra Bank etc.

3.4 Data Collection Procedures

In course of collecting both the secondary and primary data the researcher made several visit to the concerned banks. In different visits, researcher got permission for conducting the research on their (banks) financial aspects, obtained financial statements (annual reports of the study period) and clarification of the financial items.

Besides these, several visits to central Library of T.U. have also been made to obtain related data regarding the study. Except the stated sources, a detailed review of literature has been carried out to draw the useful information.

3.5 Method of Data Analysis

The gathered data, especially the financial transitions and balance sheet of the banks, have been analyzed to get the desired objectives with the helps of various financial as well as statistical tools. Besides these, some graph charts, and tables have been presented to analyze and interpret the findings of the study.

3.5.1 Financial Tools

Keeping in mind to fulfill the objectives of the present study, some selected financial tools are applied to analysis the relevant data. Ratio is the one of the most common and main indicator to evaluate financial performance. Thus the following ratio is used to evaluate financial performance.

Net Profit Margin (NPM)

This ratio establishes relationship between the net profit and gross earning of banks and indicates managerial efficiency in reducing operating cost. Residual of gross profit after ducting operating expenses, inter and taxes is net profit. For the calculation of this ratio non-operating income is excluding from net profit (profit after tax) with view to examine profitability arising directly from sales .So, this ratio measures the overall ability of the bank to turn each rupee of investment in loans and advanced in to net profit.

$$\text{Net Profit Margin} = \frac{Net\ Income}{Sales}$$

Return on Assets (ROA)

This ratio is a useful measure to examine the effectiveness of the banks total resources. It seeks to measure the profitability of all financial resources invested in the banks assets.

The ratio is computed by dividing Net profit after tax by Total assets and is presented as:

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

Return on Equity/Net Worth (ROE\ RONW)

The return on equity measures the book return to the owners of the firm. It is a bottom line ratio. This ratio is computed as:

$$\text{ROE or RONW} = \frac{Net\ Profit\ After\ Tax}{Share\ Holder's\ Equity\ or\ Net\ Worth}$$

In the above equation, the shareholder's equity/net worth includes common share capital, share premium and reserves and surplus less accumulated losses. It can also be found out by deducting the total external liabilities from total assets. Here, total assets denote all the assets excluding the intangibles assets and accumulated losses.

Interest Earned to Total Assets Ratio:

Interest earning is the major source of earning for a commercial bank. So, this ratio is performed to find out the percentage of the interest earned as compared to the assets of the bank. To get this ratio, interest earned amount is divided by the total assets of the bank, which is presented below:

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

Return on Risk Assets:

This ratio is performed to get the percentage of net profit in comparison to risky assets. This ratio is calculated by dividing the net profit by the amount of net assets as below:

$$\text{Return on Risk Assets} = \frac{Net\,Profit}{Risk\,Assets}$$

Return on Total Deposit (Excluding Fixed Deposit) :

Collected deposit are mobilized to earn profits. so, this ratio shows the earning capacity of the bank as compared to the total deposits accumulated. the ratio is archived by dividing net profit total deposits as follows.

$$\text{Return on Total Deposit} = \frac{Net\,Profit\,After\,Tax}{Total\;Deposit}$$

Marginal Return on Equity

Besides the previously mentioned average relationship of profitability rimes marginal or mere mental relationship (ratio) can also be used as follows. this use of incremental changes will mitigate some of the infirmities. but a problem still remains." under this the ratio is marginal return on equity.

The ratio is derived, by dividing incremental returns by incremental equity as follows:

$$\text{Marginal Return on Equity} = \frac{Change\,in\,NI}{Change\,in\,Equity}$$

Activity or Turnover or Utilization Ratios

Now a day these relation are also known as assets and investment management. "These ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. This ratio is also called turnover ratio because they indicate the speed with which asset are being converted or turned over into sales." "They not only analyze the use of the total resources of the firm but also the use of components of total assets."

Loans and advances to total deposit ratio

This ratio assesses to what extent the banks are able to utilize the depositor's fund to earn profit by providing loans and advances. In other word how quickly total collected deposits are converted into loans and advances given to the client to earn income. It is computed by dividing total amounts of loans and advance by total deposited funds. Formula cab be written as:

$$\text{Loans and Advances to Total Deposits} = \frac{Loan\ and\ Advance}{Total\ Deposit}$$

Loans and advances to fixed deposit ratio :

This ratio tries to seek the number of times the fund (fixed deposit) is used in loans and advances to generate high earnings against fixed deposit that are high interest bearing obligation where as loans and advances are the major source of investment to generate income for commercial banks.

This ratio is determined by dividing total amounts of loans and advances by total amount of fixed deposits as.

$$\text{Loans and advances to fixed deposits ratio} = \frac{Loan\ and\ Advance}{Fixed\ Deposit}$$

Loan and advances to saving deposit ratio.

This ratio depicts how efficiently the saving deposits are used for income generations. In other words, this ratio indicate how many times the short -term and low interest being saving deposits are used in loans and advances. It is derived by dividing the total amount loans and advances by the total amounts of loans and advances by the total amount of saving deposits as follows:

$$\text{Loans and Advances to Saving Deposit} = \frac{Loan\ and\ Advance}{Saving\ Deposit}$$

Investment to Total Deposits Ratio

The ratio derived by dividing investment by the amount of the total deposit in the bank.

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

Investment comprises investment in HMG'S treasury bills, development bonds company shares and other type of investment.

Performing Assets to Total Assets Ratio

This ratio measures the percentage of the assets funded for income generation. The ratio is calculated by dividing performing assets by total assets as:

$$\text{Performing assets to assets ratio} = \frac{Performing\ Assets}{Total\ \ Assets}$$

Performing Assets to Total Debt Ratio:

The ratio shows the pattern of use of the fund collected from the outsiders. It is calculated as:

$$\text{Performing Assets to Total Debt Ratio} = \frac{Performing\ Assets}{Total\ \ Debt}$$

Cost Effectiveness Measure/Ratios

The cost efficient operation of a firm management should focus their critical eyes upon the two main areas. one of them is concerned with the well management of investment and another one is to control cost effectively. The ratio is most important since this ratio measures how individual elements of costs are controlled. Some major ratios regarding commercial banking sectors under this ratio can be examined as follows.

Personnel Expenses to Total Income Ratio

This ratio measured as total personnel expenses divided by total income it is of interest to determine company policies in another important aspect of managing a company's personnel relationship. Calculated is drawn by using the formula as:

$$\text{Personnel expenses to total income} = \frac{Personnel\ Expenses}{Total\ \ Income}$$

Office Operating Expenses to Total Operating Income Ratio

The ratio simply derived by dividing total office operating expenses by total operating income. The ratio can be presented as:

$$\text{OOE to TOI Ratio} = \frac{\textit{Office Operating Expenses}}{\textit{Total Operating Income}}$$

Total Debt Ratio

The ratio of total debt to total assets is simply known as debt ratio. Determines the proportion of amount financed by creditors to the total fund. This ratio is used to analyzed the long-term solvency i.e. ability to pay all the liabilities of the firm. Ratio is as follows:

$$\text{Total Debt Ratio} = \frac{\textit{Total Debt}}{\textit{Total Assets}}$$

Leverage Factor

Leverage factor referred to the ratio of total assets to share holder's equity. This ratio measures the extent to which the shareholder's equity [SHE] invested in magnified by the use of debt in financing total assets. Shareholder's earning and debt (both interest bearing and non-interest bearing) are the two major sources of financing total assets. So, this ratio is computed as follows:

$$\text{Leverage Factor} = \frac{\textit{Total Assets}}{SHE\,(NW)}$$

Coverage Ratio

Coverage ratios are designed to relate the financial charges of a firm to its ability to service them. [45] It measures the relationship between what is normally available from operation of the banks and the claim of the outsiders. Under this following ratios are calculated.

Interest Coverage Ratio

Interest coverage ratio also called times interest earned, is examined by dividing earning before interest and taxes by the interest charges. Since the income taxes are computed after deduction of interest expenses EBIT is used in the formula to calculate this ratio and there is no effect of income taxes ability of the firm to pay current interest.

This ratio predicts the extent to which the firm's earning can be decline with out inability to meet annual interest costs. Ratio can be shown as follows:

$$\text{Interest Coverage Ratio} = \frac{EBIT}{Interest\,Charge}$$

Provision for Possible Losses to Loans and Advances:

Coverage of possible losses on loans and advances is measured by this ratio. This ratio is computed by dividing the amount allocated for possible losses by the amount of loans and advances as:

$$\text{Losses to Loans \& Advances} = \frac{Provision\ for\ Possible\,Losses}{Loans\,\&\,Advance}$$

Cash & Bank Balance to Total Deposit Ratio

This ratio shows the ability of banks immediate funds to cover their deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. It can be calculated by dividing ‘cash and bank balance” by deposit. This ratio can be calculated using the following formula:

$$\text{CBB to TD Ratio} = \frac{Cash\ and\ Bank\ Balance}{Total\ Deposits}$$

Fixed Deposit to Total Deposit Ratio:

Fixed deposit is the long term interest bearing deposit. Of course, it is high interest paid liabilities but increasing fixed deposit prove to be an additional advantages if utilized properly by granting long term loans to their potential clients at higher interest rate. This ratio is tested to determine the proportion of fixed deposit out of the total deposit. The ratio is computed by dividing fixed deposit by total deposit is given below:

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

NRB Balance to Current and Saving Deposit Ratio

Commercial banks are required to hold certain portion of current and saving deposit in Nepal Rastra Bank account. It is to ensure the smooth functioning and sound liquidity position of the bank. The ratio is computed by dividing the balance held with Nepal Rastra Bank by current and saving deposits including call and other deposits.

NRB balance to Current Saving Deposit Ratio = $\frac{NRB\,Balance}{Current\,Saving\,Deposit}$

NRB Balance to Fixed Deposit Ratio

This ratio shows the percentage of amount deposited by the bank in NRB as compared to the fixed deposit. The ratio is achieved with the relationship between the NRB balance and fixed deposit as:

NRB balance to fixed deposit ratio = $\frac{NRB\,Balance}{Fixed\,Deposit}$

3.5.2 Statistical Tools

The relationship between different variables related to study topic would be drawn out using statistical tools. The tools to be used are as follows,

Arithmetic Mean (Average):

"Average are statistical constants which enables us to comprehend in a single effort the significance of the whole (Bowley, A. I. 2000). It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

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

Where;

$\overline{X}$ = Arithmetic Mean

N = Number of observations

$\sum X$ = Sum of Observations

Standard Deviation

The standard deviation is the most important and widely used measure of studying dispersion. It is known as root mean square deviation for the reason that the square root of the mean of the square deviation from the arithmetic mean. The lower standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposite. Hence standard deviation is extremely useful in judging the representatives of the mean.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (x - \bar{x})^2}{N - 1}}$$

Co-efficient of Variation

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

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

Where

C.V = Co-efficient of variation

σ = Standard deviation

$\bar{X}$ = Mean

In the study, C.V. is calculated for liquidity, activity, profitability, return to investor and growth ratio.

Co-efficient of correlation

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation is lf three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear on non-linear. Here we study simple correlation only. In simple correlation the effect of others is not excluded rather these are taken as constant considering them to have no serious effect on the dependent variable. It is calculated as:

$$r = \frac{N\Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{N\sum X^2 - \left(\sum X\right)^2}\sqrt{N\sum Y^2 - \left(\sum Y\right)^2}}$$

Where,

r = Coefficient of correlation

Σx = Sum of the observation in series x.

Σy = Sum of the observation in series y.

Σx^2 = Sum of the square observation in series x.

Σy^2 = Sum of the square observation in series y.

Σxy = Sum of product of observation in two series

N = Total number of observation.

The correlations are calculated between ROA with current ratio, cash and bank balance to current assets, loan and advances to total assets and total investment to total deposit as well as the correlation of total investment is calculated with net profit, total assets, loan & advance and total deposit.

Co-efficient of Determination

The co-efficient of determination is a measure of the degree if linear association of which happens to be independent and other being dependent variables. In other words, co-efficient of determination measures the percentage of total variation in dependent variable explained by independent variable.

Symbolically:

$$R^2 = (r)^2$$

Where,

R^2 = Co-efficient of determination

r = Co-efficient of correlation

Probable Error

The probable error if the correlation coefficient is applicable for the measurement to reliability of the computed value of the correlation coefficient. The probable error (P.E.) is defined by

$$P.E = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

Where,

P.E = Probable error

r = Correlation coefficient

N = Number of pairs of observation

Conclusion:

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

2. If r > 6 P.E. the value of r is significant.

Trend Analysis

Trend analysis or time series analysis enables us to forecast the future behavior of the variables under study, changes in the values of different variables and past behavior of a variable. In the data related to time span, there are three components of time series like secular trend or long term fluctuation, short term or periodic variations and random or irregular fluctuation, in this study, time series of loan disbursement and deposit collection are shown in the figures. The experts to deal with variants, which changes, in value with time are, used time series. Variations of such quantities are analyzed by presenting on the graphs.

$Y = a + bx$

The above trend equation can be calculated using following two normal equations:

$\sum Y = na + b\sum X$……………………… (i)

$\sum XY = a \sum X + b\sum X^2$………….......... (ii)

Where,

Y = Variable

X = Time span

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

The primary purpose of profit planning is to increase the chances of making profit in the enterprises. It involves the central and adjustment of relevant variables controllable and non-controllable and reduces the impact of uncertainty to obtain the desired profit. Performance measures reflect strategic, operating and financing decision. Under this profitability ratios are analyzed.

4.1 Profitability Ratios

Every company should earn profit to survive and grow over a long period of time management of the company, creditors and owners all are interested in the profitability of the firm. So, profitability ratios are used to evaluate the operating efficiency of any organization besides, long term creditors evaluate profitability of the firm take decision whether to retain, enlarge or decrease their investments as well as owners was to get reasonable return on their investment. Management calculates the profitability determine their degree of efficiency, funds available for further growth of the firm and possibility of the investment enlargement. Profitability is the net result of a large number of policies and decisions.

4.1.1 Net Profit Margin (NPM)

This firm prefers high degree of NPM. If the degree of NPM is lower, it will lead the firm towards the failure for achieving satisfactory return on other's equity. So the firm can accelerate their profit according to their NPM proportionately for SBI.

Table 4.1

Net Profit Margin of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	NPAT	Gross Earning	Ratio in %	NPAT	Gross Earning	Ratio in %
2007/08	58974.52	415929.6	14.18	25033.7	139248	16.14
2008/09	16760.4	452415.3	3.7	25230.3	219458	9.69
2009/10	50065.48	495286.2	10.11	41265.4	327241	12.16
2010/11	12490.03	505229.2	2.47	69705.7	465513	14.67
2011/12	40843. 77	508372.7	8.03	85347.5	540931	15.57
Total	**138290.4**	**2377233**	**38.49**	**246583**	**1692390**	**68.2**
Average	**27658.09**	**475446.6**	**7.70**	**49316.5**	**338478**	**13.55**

Source: Annual Report of SBI & EBL

As revealed by the table ratios in SBI remained 14.18%, 3.70%. 10.11%, 2.47% and 8.03% respectively from the year 2007/08 to 2011/12. The ratio in EBL remained 16.14%, 9.69%, 12.16%, 14.67% and 15.57% respectively from the year 2007/08 to 2011/12. Mean of the ratio were 7.70% for SBI and 13.55% for EBL.

The ratio for SBI is highly fluctuating. This is due to the fluctuation in net profit after tax rather than gross earning. In EBL the ratio declined in the year 2008/09 but there after it is in rising trend. Mean of the ratios is greater in EBL. It signifies that profitability position with respect to gross earnings is stronger in EBL than that of SBI.

4.1.2 Return on Assets (ROA)

This ratio is a useful measure to examine the effectiveness of the banks total resources. It seeks to measure the profitability of all financial resources invested in the banks assets.

The ratio is computed by dividing Net profit after tax by Total assets and is presented as:

Table 4.2
Return on Assets of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	NPAT	Total Assets	Ratio in %	NPAT	Total Assets	Ratio in %
2007/08	58976.52	4122576	1.43	25033.7	141998.95	1.76
2008/09	16760.4	4812001	0.35	25230.3	2293136.58	1.10
2009/10	50065.48	516416	0.97	41265.4	3417850.74	1.21
2010/11	12490.03	7385280	0.17	69705.7	5218677.34	1.34
2011/12	40843.77	7021141	0.58	85347.5	6607170.72	1.29
Total	**179136.2**	**23857414**	**3.5**	**246583**	**17678834.3**	**6.7**
Average	**35827.24**	**4771483**	**0.7**	**49316.5**	**3535766.87**	**1.34**

Source: Annual Report of SBI & EBL

The table shows that the ratios appeared 1.43 appeared 1.43%, 0.35%, 0.97%, 0.17%, and 0.58% in SBI and 1.76%, 1.10%, 1.21%, 1.34% and 1.29% for the respective year of studied period. Mean ratio remained and 0.70% and 1.34% for SBI and EBL respectively.

The ratio showed highly fluctuating trend in SBI. The bank was better position only in the year 2007/08 this was due to high NPAT. The NPAT of SBI is highly fluctuating than that of EBL. But the total assets of both the banks are in rising trend. The NPAT of EBL is also in rising trend than that of SBI. The ratios of EBL dip down in the year 2008/09 but is in rising trend thereafter. But in the final year of studied period the ratio slightly went down.

In brief, the analysis lead to conclude that profitability position of the bank regarding this ratio is far better in EBL, since its mean ratio was considerably higher. It indicates the higher utilization of banks assets and the success of management in overall operation in EBL than in SBI.

4.1.3 Return on Equity/Net Worth (ROE\ RONW)

The return on equity measures the book return to the owners of the firm. It is a bottom line ratio. This ratio is computed as the shareholder's equity /net worth includes common share capital, share premium and reserves and surplus less accumulated losses. It can also be found out by deducting the total external liabilities from total assets. Here, total assets denote all the assets excluding the intangibles assets and accumulated losses.

Bedsides, to the management, this ratio is of great interest to the present as well as prospective shareholders, Comparative study of this ratio reveals the relative performance and strengths of the company in attracting future investment. So, higher ratio indicates the higher efficiency of the firm.

Table 4.3
Return on Equity/Net Worth of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	NPAT	**Return on Equity**	**Ratio in %**	**NPAT**	**Return on Equity**	**Ratio in %**
2007/08	58976.52	192708	30.6	25033.7	127435.67	19.64
2008/09	16760.4	196976.1	8.51	25230.3	415157.2	6.07
2009/10	50065.48	224942.2	22.26	41265.4	202843.8	20.34
2010/11	12490.03	238544.7	5.24	69705.7	319393.04	21.82
2011/12	40843.77	560346.6	7.29	85347.5	530909.87	16.08
Total	**179136.2**	**1413518**	**73.9**	**246583**	**1595739.58**	**84**
Average	**35827.24**	**282703.5**	**14.78**	**49316.5**	**319147.916**	**16.79**

Source: Annual Report of SBI & EBL

The above table reveals that the ratios in SBI remained 30.60%, 8.51%, 22.26%, 5.24%, and 7.29% respectively from the year 2007/08 to 2011/12. similarly the ratios in EBL stood 19.64% , 6.07%, 20.34%, 21.82% and 16.08% from 2007/08 to 2011/12 respectively mean of the ratio were 14.78% and 16.79% for SBI and EBL respectively.

In SBI the ratios was very high for the first year of the studied period. Then the ratio drastically went down from 30.60% to 5.24%, the ratio of SBI is highly fluctuating. The ratio in the FY 2010/11 remained least in SBI. But in EBL the ratio is in increasing trend except for the last year of the studied year. There is not so, drastic change in ratio of EBL as of SBI.

Mean of the ratios in EBL registered more, which indicates the earning of EBL with respect to the share holder fund is appreciably high. Contrary to it, return on net worth of SBI appeared fluctuating than that of EBL.

4.1.4 Interest Earned to Total Assets Ratio:

Interest earning is the major source of earning for a commercial bank. So, this ratio is performed to find out the percentage of the interest earned as compared to the assets of the bank. To get this ratio, interest earned amount is divided by the total assets of the bank, which is presented below:

Table 4.4
Interest Earned to Total Assets Ratio of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	Interest Earned	Total Assets	Ratio in %	Interest Earned	Total Assets	Ratio in %
2007/08	365030.30	4122575.70	8.85	104201	1419981.95	7.34
2008/09	403488.62	4812000.97	8.39	175939	2293136.58	7.67
2009/10	437316.00	5164516.02	8.47	267443	3417850.74	7.82
2010/11	444558.76	7385280.31	6.02	385016	5218677.34	7.38
2011/12	399631.30	7021141.41	5.69	443821	6607170.72	6.72
Total	**2050024.98**	**28505514.41**	**37.42**	**1376420**	**18956817.3**	**36.9**
Average	**410005.00**	**5701102.88**	**7.48**	**275284**	**3791363.47**	**7.39**

Source: Annual Report of SBI & EBL

The table highlights that ratios were 8.85%, 8.39%, 8.47%, 6.02%, and 5.69% from 2007/08 to 2011/12 respectively. Mean of the ratio appeared 7.48%. In the similar way, the ratio of EBL for the corresponding year remained 7.34% 7.67%, 7.82%, 7.38% and 6.72%, mean of the ratio stood 7.39%.

In SBI, the ratio showed fluctuation trend up to the year 2011/12 and showed declining trend from the year 2010/11. But in EBL, the ratio increasing trend up to the year 2009/10 and decreasing trend thereafter. Mean of the ratios is higher in SBI than that of EBL, from which we can conclude that SBI has managed the assets more effectively to earn the interest.

4.1.5 Return on Risky Assets

This ratio is performed to get the percentage of net profit in comparison to risky assets. This ratio is calculated by dividing the net profit by the amount of net assets. Assets invested in loans and advances and bills purchased and discouraged are the risk assets of the bank. Higher ratio reflects the better profitability position the bank.

Table 4.5

Return on Risky Assets of SBI & EBL

(Rs. in '000)

Year	**SBI**			**EBL**		
	NPAT	**Risky Assets**	**Ratio in %**	**NPAT**	**Risky Assets**	**Ratio in %**
2007/08	58976.52	2363559	2.5	25033.7	871677.98	2.87
2008/09	16760.4	2963032	0.57	25230.3	1364884.23	1.85
2009/10	50065.48	3559410	1.41	41265.4	2270179.65	1.82
2010/11	12490.03	4188414	0.3	69705.7	3005757.91	2.32
2011/12	40843.77	4299249	0.95	85347.5	3984788.04	2.16
Total	**179136.2**	**17373665**	**5.73**	**246583**	**7910977.81**	**11**
Average	**35827.24**	**3474733**	**1.146**	**49316.5**	**1582195.56**	**2.2**

Source: Annual Report of SBI & EBL

As depicted by the table, the ratios stood 2.50%, 0.57%, 1.41%, 0.30% and 0.95% respectively during the study period in SBI where as it appeared 2.87% 1.85%, 1.28%, 2.32% and 2.16% respectively in EBL. Mean of the ratios were 1.14% and 2.20% for SBI and EBL respectively.

The ratios ranged from 0.30% in fourth year to 2.50% in the base year with highly fluctuating trend. The ratio showed some improvement from the year

2010/11 to 2011/12 but in EBL the ratio were decreasing trend up to the year 2009/10 and rise in the year thereafter. Mean of the ratios were great in EBL. It reveals that EBL has better utilized the risky assets like loans and advances, overdraft, bills purchased and discounted for the profit realization than that of SBI.

4.1.6 Return on Total Deposit (Excluding Fixed Deposit)

Collected deposits are mobilized to earn profits. So, this ratio shows the earning capacity of the bank as compared to the total deposits accumulated. The ratio is archived by dividing net profit total deposits. Higher ratio is preferred since it is the indicator of profitability position of the firm.

Table 4.6

Return on Total Deposit of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	NPAT	Total Deposit	Ratio in %	NPAT	Total Deposit	Ratio in %
2007/08	58976.52	3744507	1.58	25033.7	1124903.12	2.23
2008/09	16760.4	4380019	0.38	25230.3	1948946.58	1.29
2009/10	50065.48	4535734	1.1	41265.4	3057423.95	1.35
2010/11	12490.03	6612290	0.19	69705.7	4574508.95	1.52
2011/12	40843.77	5572470	0.73	85347.5	5466609.8	1.56
Total	**179136.2**	**84355020**	**3.98**	**246583**	**16172392.4**	**7.95**
Average	**35827.24**	**16871004**	**0.796**	**49316.5**	**3234478.48**	**1.59**

Source: Annual Report of SBI & EBL

The table exhibit that the ratios in SBI remained 1.58%, 0.38%, 1.10%, 0.19%, and 0.73% respectively over the study period. In EBL, the ratio were 2.23%, 1.29%, 1.35%, 1.52% and 1.56% respectively over the study period. Mean of the ratio stood 0.796% and 1.59% respectively for SBI and EBL.

The ratio was highly fluctuating in SBI. It is due to fluctuation in net profit rather than that of total deposit. The total deposit is in increasing trend but the

NPAT is very fluctuating over the study period. But in EBL, the ratio decline from the year 2007/08 to 2008/09 due to marginal increase in NPAT than total deposit. Then after it showed steady rise in the ratio. The mean of the ratios showed that the profitability of the EBL seems more satisfactory regarding deposit accumulated that that of SBI.

4.2 Activity or Turnover or Utilization Ratios

Now a day these relations are also known as assets and investment management. These ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. This ratio is also called turnover ratio because they indicate the speed with which asset are being converted or turned over into sales. They not only analyze the use of the total resources of the firm but also the use of components of total assets.

4.2.1 Loans and advances to total deposit ratio

This ratio assesses to what extent the banks are able to utilize the depositor's fund to earn profit by providing loans and advances. In other word how quickly total collected deposits are converted into loans and advances given to the client to earn income. It is computed by dividing total amounts of loans and advance by total deposited funds.

Table 4.7
Loan & Advance to Total Deposit Ratio of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	Loan & Advance	**Total Deposit**	**Ratio in %**	**Loan & Advance**	**Total Deposit**	**Ratio in %**
2007/08	2363559.2	3744506.86	63.12	871677.98	1124903.1	77.49
2008/09	2963032.3	4380018.84	67.65	1364884.2	1948946.6	70.03
2009/10	3559409.7	4535734.17	78.47	2270179.7	3057424	74.25
2010/11	4188414.2	6612290.00	63.44	3005757.9	4574509	65.71
2011/12	4299249.3	5572470.02	77.15	3948478	5466609.8	72.32
Total	**17373665**	**24845019.9**	**350**	**11460978**	**16172392**	**359.8**
Average	**3474733**	**4969003.98**	**69.95**	**2292196**	**3234478**	**71.94**

Source: Annual Report of SBI & EBL

As shown by the table, the ratios of SBI appeared 63.12%, 67.65%, 78.47%, 63.44%, and 77.15% respectively for the study period. In EBL, it appeared 77.49%, 70.03%, 74.25%, 65.71% and 72.23% respectively for the study period. Mean of the ratio stood 69.95% and 71.94% for SBI and EBL respectively.

The ratios in SBI showed increasing trend there after, but the ratio showed highly fluctuation in period and showed fluctuating trend there after. But the ratio showed highly fluctuation in the case of EBL. Mean ratio is marginally higher in EBL than that of SBI. It signifies that EBL is successful in utilizing the depositors fund to earn profit by providing loans and advances than SBI.

4.2.2 Loans and advances to fixed deposit ratio :

This ratio tries to seek the number of times the fund (fixed deposit) is used in loans and advances to generate high earnings against fixed deposit that are high interest bearing obligation where as loans and advances are the major source of investment to generate income for commercial banks. This ratio is determined by dividing total amounts of loans and advances by total amount of fixed deposits as. Lower ratio indicates that firm has not been properly utilizing the fixed deposit and vice versa.

Table 4.8
Loan & Advance to Fixed Deposit Ratio of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	Loan & Advance	Fixed Deposit	Ratio in %	Loan & Advance	Fixed Deposit	Ratio in %
2007/08	2363559.15	2383622.60	99.16	871677.98	721378.91	120.83
2008/09	2963032.29	2100218.55	141.08	1364884.23	1132082.54	120.56
2009/10	3559409.68	2420298.45	147.06	2270179.65	1478888.55	153.51
2010/11	4188414.20	2929350.60	142.98	3005757.91	2284638.28	131.56
2011/12	4299249.27	3132677.40	137.24	3948478.04	2711583.67	145.62
Total	**17373664.59**	**12966167.60**	**667.52**	**11460977.81**	**8328571.95**	**672.08**
Average	**3474732.92**	**2593233.52**	**133.51**	**2292195.56**	**1665714.39**	**134.42**

Source: Annual Report of SBI & EBL

The table depicts that the ratio in SBI for the period beginning from 2007/08 to 2011/12 remained 99.16%, 141.08%, 147.06%, 142.98% and 137.24% respectively. Accordingly the ratios for EBL stood 120.83%, 120.56%, 153.51%, 131.56% and 145.62% over the study period. The mean of the ratio stood 133.51% and 134.42% for SBI and EBL respectively.

The ratios in SBI show increasing trend up to the third year and declining for the rest periods. The ratios show fluctuation in the case of EBL. It ran get between 120.56% in the second year and 153.51% in the third year there is marginal difference. Both banks have properly utilized this high interest bearing fixed deposit for the income generation.

4.2.3 Loan and advances to saving deposit ratio

This ratio depicts how efficiently the saving deposits are used for income generations. In other words, this ratio indicates how many times the short -term and low interest being saving deposits are used in loans and advances. It is derived by dividing the total amount loans and advances by the total amounts of loans and advances by the total amount of saving deposits. High ratio indicates greater utilization of the saving deposits in advancing loans.

Table 4.9
Loan & Advance to Saving Deposit Ratio of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	Loan & Advance	Saving Deposit	Ratio in %	Loan & Advance	Saving Deposit	Ratio in %
2007/08	2363559.15	527237.23	448.29	87166779.98	217839.8	400.15
2008/09	2963032.29	786711.24	376.64	1364884.23	448001.5	304.66
2009/10	3559409.68	902758.6	394.28	2270179.65	891747.92	254.58
2010/11	4188414.2	1060145.99	395.08	3005757.91	1384057.64	217.17
2011/12	4299249.27	1274694.69	337.28	3948478.04	1735372.31	227.53
Total	**17373664.59**	**4551547.75**	**1951.57**	**97756079.81**	**4677019.17**	**1404.09**
Average	**3474732.92**	**910309.55**	**390.31**	**19551215.96**	**935403.83**	**280.82**

Source: Annual Report of SBI & EBL

The tables displays the ratios in SBI stood 448.29%, 376.64%, 394.28%, 395.08% and 337.28% respectively for the study period. In EBL it stood 400.15%, 304.66%, 254.58%, 217.17% and 227.53% respectively for the study period. Mean of the ratio stood 390.31% and 280.82% for SBI and EBL respectively. The ratio depicted fluctuating trend in SBI. It showed decreasing trend up to the fourth year and increased in the final year of the study period. Significant higher mean ratio of SBI suggests that the bank has more successfully utilized the short term interest bearing saving deposits in form of loans and advances. The ratio showed the better turnover position on SBI than the EBL.

4.2.4 Investment to Total Deposits Ratio

The ratio shows the efficiency of mobilization of the major resources of the bank. High ratio indicates managerial efficiency regarding the utilization of deposits. When low ratio is the result of less efficiency in use of funds.

Table 4.10
Total Investment to Total Deposit Ratio of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	Total Investment	**Total Deposit**	**Ratio in %**	**Investment**	**Total Deposit**	**Ratio in %**
2007/08	681589.41	3744506.86	18.2	217954.88	1124903.12	19.38
2008/09	202578.3	4380018.84	4.63	283079.2	1948946.58	14.52
2009/10	321793.78	4535734.17	7.09	670462.83	3057423.95	21.93
2010/11	763631.65	6612290	11.55	1141801.8	4574508.95	24.96
2011/12	599055.94	5572470.02	10.75	1779166.8	5466609.8	32.55
Total	**2568649.08**	**24845019.89**	**52.22**	**4092465.51**	**16172392.40**	**113.34**
Average	**513729.82**	**4969003.98**	**10.44**	**818493.10**	**3234478.48**	**22.67**

Source: Annual Report of SBI & EBL

The table exhibits that the ratio of SBI remained 18.20%, 4.63%, 7.09%, 11.55%, and 10.75% respectively for the review period. Mean of the ratio stood 10.44% accordingly, ratio of EBL appeared 19.38%, 14.52%, 21.93%, 24.96%, and 32.55% in the corresponding year. Mean of the ratios appeared 22.67%.

The ratio showed fluctuating pattern in SBI. It remained least in the second year i.e. 4.63% and increased in next two years. In EBL, it dropped to 14.52% in the second year from 19.38% in the beginning. After this decline, it showed increasing trend from third year to the fifth year of the study period. Remarkably, higher mean ratio of EBL signifies that EBL has more successfully allocated its deposits in vestment portfolio. Conversely, SBI has given less importance in this issue. In other word, it shows the efficiency of EBL in mobilizing the major resources of the bank.

4.2.5 Performing Assets to Total Assets Ratio

Performing assets include those assets, which are invested for income generating purpose. These consist of loans, advances, bills purchase and discounted, investments and money at call or short notice. High ratio indicates greater utilization of assts and hence sound profitability position.

Table 4.11
Performing Assets to Total Assets Ratio of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	Performing Assets	**Total Assets**	**Ratio in %**	**Performing Assets**	**Total Assets**	**Ratio in %**
2007/08	3045148.56	4122575.7	73.87	1089632.86	1419981.95	76.74
2008/09	3165610.59	4812000.97	65.79	1647963.43	2293136.58	71.87
2009/10	3881203.46	516416.02	75.15	2940642.48	3417850.74	86.04
2010/11	4952045.8	7385280.31	67.05	4147559.71	5218677.34	79.48
2011/12	4898305.21	7021141.15	69.77	5727644.84	6607170.72	86.69
Total	**19942313.62**	**23857414.15**	**351.63**	**15553443.32**	**18956817.33**	**400.82**
Average	**3988462.72**	**4771482.83**	**70.33**	**3110688.66**	**3791363.47**	**80.16**

Source: Annual Report of SBI & EBL

As revealed by the table, the ratios in SBI were 73.87%, 65.79%, 75.15%, 67.05%, and 69.77% for the respective years of review period. In the same manner,, ratios were 76.74%, 71.87%, 86.04%, 79.48% and 86.69% from the year 2007/08 to 2011/12 the mean of the ratios stood 70.33% and 80.16% for SBI and EBL respectively.

The ratios in SBI depicted fluctuating trend throughout the review period. In similar way the ratios in EBL also showed fluctuating trend throughout the review period, mean of the ratio appeared greater in EBL than in SBI that signifies the more successful investment decision of the assets in profitable (income generating) sector.

4.2.6 Performing Assets to Total Debt Ratio:

The ratio shows the pattern of use of the fund collected from the outsiders. High ratio represents the success of bank in utilization of creditors "fund" in productive areas where as low ratio symbolized the idleness of the cost bearing resource.

Table 4.12
Performing Assets to Total Debt Ratio of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	Performing Assets	Total Debt	Ratio in %	Performing Assets	Total Debt	Ratio in %
2007/08	3045148.56	2910859.84	104.61	1089632.86	956496.61	113.92
2008/09	3165610.59	2886929.8	109.65	1647963.43	1677375.08	98.25
2009/10	3881203.46	3515185.98	110.41	2940642.48	2697260.04	109.02
2010/11	4952045.8	4188805.68	118.22	4147559.71	4104434033	101.05
2011/12	4898305.21	4433706.91	110.48	5727644.84	4892453.4	117.07
Total	**19942313.62**	**17935488.21**	**553.37**	**15553443.32**	**4114657618.13**	**539.31**
Average	**3988462.72**	**3587097.64**	**110.68**	**3110688.66**	**822931523.63**	**107.86**

Source: Annual Report of SBI & EBL

The table exhibits that 104.61%, 109.65%, 110.41%, 118.22%, and 110.48% remained the ratios for SBI through out the review period. The ratios stood 113.92%, 98.25%, 109.02%, 101.05% and 117.07% for the respective year from 2007/08 to 2011/12 mean of the ratios stood 110.68% and 107.86% for SBI and EBL respectively. The ratios in SBI depicted increasing trend throughout the review period except decline in the final year of the study i.e. 2011/12. The ratios in EBL showed fluctuating trend throughout the review period. But, finally, the ratio for both banks remained very close to each other. Mean of the ratio came greater SBI.

4.3 Cost Effectiveness Measure/Ratios

The cost efficient operation of a firm management should focus their critical eyes upon the two main areas. One of them is concerned with the well management of investment and another one is to control cost effectively. The ratio is most important since this ratio measures how individual elements of costs are controlled. Some major ratios regarding commercial banking sectors under this ratio can be examined.

4.3.1 Personnel Expenses to Total Income Ratio

In the ratio personnel expenses includes expenses related with personnel as salary and allowance, training expenses, uniforms and liveries, contribution to provident fund etc. since this ratio represent the percentage expenses made to personnel out of the firm's. Total income they desire high ratio is unfavorable to the bank through it function as catalyst for employee's working spirit.

Table 4.13
Personnel Expenses to Total Income Ratio of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	Personnel Expenses	Total Income	Ratio in %	Personnel Expenses	Total Income	Ratio in %
2007/08	10231.33	415929.6	2.46	7689.51	139247.6	5.52
2008/09	14123.53	452415.33	3.12	13389	219457.53	6.1
2009/10	17915.02	495286.2	3.62	18632.08	327241.22	5.69
2010/11	23533.52	505229.16	4.66	25999.88	465512.65	5.59
2011/12	26647.69	508372.72	5.24	32186.82	540931.13	5.95
Total	**92451.09**	**2377233.01**	**19.10**	**97897.29**	**1692390.13**	**28.85**
Average	**18490.22**	**475446.60**	**3.82**	**19579.46**	**338478.03**	**5.77**

Source: Annual Report of SBI & EBL

In the table shows that the ratios in SBI appeared 2.46%, 3.12%, 3.62%, 4.66%, and 5.24% correspondingly from the year 2007/08 to 2011/12. Where as ratios for EBL for the same period were 5.52%, 6.10%, 5.69%, 5.59% and 5.95% respectively. Mean of the ratios remained 3.82% and 5.77% in SBI and EBL respectively. Over the study period ratios in SBI depicted increasing lend. It ranged from 2.46%, in the year 2007/08 to 5.24% in the year 2011/12. But in EBL showed fluctuating trend. The ratio reached to 6.10%from 5.52% in the second year. The review period but decreased in third year and remained 5.69%. It decreased slightly in the fourth year and increased in the last year of the study period. Mean ratio appeared higher in EBL. It seems more satisfactory for the employees and success of the organization to contract efficient manpower from outside and utilize their talent. It might have maintained higher ratio to build the well employee-management relationship. Reduce the employees absenteeism and turnover.

4.3.2 Office Operating Expenses to Total Operating Income Ratio

The ratio depicts ratio of office operating expenses regarding total operating income that affects the further cost decision of the firm. High ratio is indicator of higher level of operating expenses. So, low ratio is favorable to the bank, as it reflects the operational efficiency.

Table 4.14
Office Operating Expenses to Total Operating Income Ratio of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	OOE	TOI	Ratio in %	OOE	TOI	Ratio in %
2007/08	40234.46	415929.6	9.67	17481.67	136688.93	12.79
2008/09	44750.13	452415.33	9.89	29145.77	215495.52	13.53
2009/10	49145.46	495286.2	9.92	42099.67	325775.8	12.92
2010/11	59360.82	505229.16	11.75	50451.37	464117.62	10.87
2011/12	60750.35	508372.72	11.95	75426.19	539790.51	13.97
Total	**254241.22**	**2377233.01**	**53.18**	**214604.67**	**1681868.38**	**64.08**
Average	**50848.24**	**475446.60**	**10.64**	**42920.93**	**336373.68**	**12.82**

Source: Annual Report of SBI & EBL

The table demonstrates that the ratio in SBI remained 9.67%, 9.89%, 9.92%, 11.75%, and 11.95% in the respective year of review period. Mean of the ratios was 10.64% whereas ratios of EBL for the same period were 12.79%, 13.53%, 12.92%, 10.87% and 13.97% respectively. Mean of the ratios stood 12.82%.

The ratios in SBI showed increasing trend. It ranged from 9.67% in the first year of the review period to 13.97% in the last year of the review period. The ratios in EBL showed fluctuating trend. There was slight decrease in the ratio in the year 2010/11. The ratio remained in 10.64%. Which lowest of the review period. In the year 2010/11 Lower mean ratio of SBI suggested that the bank be in much better condition regarding the operational efficiency that EBL.

4.4 Financial Policy Measures

Financial policy measures relate to strategic decision as well as investment management and cost management. Under this two major types are analyzed.

4.4.1 Leverage or Capital Structure Ratios

The Long term creditors to judge the long term financial position of the firm use these ratios. These ratios indicate the proportion of funds contributed by owners as compared to creditors. That's why financial risk and the firms ability of using debt for the benefits of shareholders can be measured by calculating these ratios. In practice, leverage is approached in two ways, one approach examines balance sheet ratios and determines the extent to which borrowed funds have been used to finance the firm. The other approach measures the risk of debt by income statement ratios designed to determine the number of times fixed charges are covered by operating profits. These sets of ratios are complementary and most analysts examine both.

4.4.1.1 Total Debt Ratio

The ratio of total debt to total assets is simply known as debt ratio. Determines the proportion of amount financed by creditors to the total fund. This ratio is used to analyzed the long-term solvency i.e. ability to pay all the liabilities of the firm. Creditors prefer moderate debt ratio. In contrast owners enjoy high earning by maintaining their control over the organization in case of high leverage.

Table 4.15
Total Debt Ratio of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	Total Debt	**Total Assets**	**Ratio in %**	**Total Debt**	**Total Assets**	**Ratio in %**
2007/08	2910859.84	4122575.7	70.61	956496.61	1419871.95	67.36
2008/09	2886929.8	4812001	59.99	1677375.08	2293136.58	73.15
2009/10	3515185.98	5164516	68.02	2697260.04	3417850.74	78.92
2010/11	4188805.68	7385280.3	56.72	4104434.33	5218677.34	78.65
2011/12	4433706.91	7021141.4	63.15	4892453.4	6607170.72	74.05
Total	**17935488.21**	**28505514.41**	**318.49**	**14328019.46**	**18956707.33**	**372.13**
Average	**3587097.64**	**5701102.88**	**63.71**	**2865603.89**	**3791341.47**	**74.43**

Source: Annual Report of SBI & EBL

As presented in above table, the ratio in SBI from the year 2007/08 to 2011/12 appeared 70.61%, 59.99%, 68.02%, 56.72% and 63.15% respectively. Mean of the ratio stood 63.71%. In the same way,, these remained 67.36%,73.15%, 78.92%, 78.65% and 74.05% in EBL respectively. Mean of the ratio stood 74.43%.

The ratios showed fluctuating trend in SBI but increasing trend in EBL up to the fourth year but slightly decreased in the final year of the study period. Mean of the ratios appeared grater in EBL as compared to that in SBI, which signifies that former followed more aggressive policy in raising the capital. One other hand, leverage position in SBI seems less risky.

4.4.1.2 Leverage Factor

Leverage factor referred to the ratio of total assets to share holder's equity. This ratio measures the extent to which the shareholder's equity [SHE] invested in magnified by the use of debt in financing total assets. Shareholder's earning and debt (both interest bearing and non-interest bearing) are the two major sources of financing total assets.

Table 4.16
Leverage Factor of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	Total Assets	**Net Worth**	**Ratio in %**	**Total Assets**	**Net Worth**	**Ratio in %**
2007/08	4122575.7	192708.12	21.39	1419871.95	127435.67	11.14
2008/09	4812000.97	196976.05	24.43	2293136.58	145157.2	15.80
2009/10	5164516.02	224942.21	22.96	3417850.74	202843.8	16.85
2010/11	7385280.31	238544.7	30.96	5218677.34	319393.04	16.34
2011/12	7021141.41	560346.5	12.53	6607170.72	530909.87	12.44
Total	**28505514.41**	**1413517.58**	**112.27**	**18956707.33**	**1325739.58**	**72.84**
Average	**5701102.88**	**282703.52**	**22.45**	**3791341.47**	**265147.92**	**14.51**

Source: Annual Report of SBI & EBL

As shown by the table, 21.39%, 24.43%, 22.96%, 30.96%, and 12.53% were the ratio. In EBL, this ratio appeared 11.14%, 15.80%, 16.85%, 16.34% and 12.44% respectively. Mean of the ratios appeared 22.45% and 14.51% for SBI and EBL respectively.

The ratios in SBI showed fluctuating trend. The ratio drastically decreased to 12.53% from 30.96% in the last year of the study period. The ratio in EBL showed increasing trend up to the third year but marginal decrease in the fourth year. But the ratio decrease sharply in the final year of the study period. SBI seems ahead of EBL in raising capital through debt as per the higher mean ratio.

4.5 Coverage Ratio

Coverage ratios are designed to relate the financial charges of a firm to its ability to service them. It measures the relationship between what is normally available from operation of the banks and the claim of the outsiders. Under this following ratios are calculated.

4.5.1 Interest Coverage Ratio

A higher ratio is desirable; but too much high ratio indicates that the firm is very conservative in using debt, and that is not using credit to the best advantage of shareholders. A lower ratio indicates excessive use of debt or in efficient operations.

Table 4.17

Interest Coverage Ratio of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	EBIT	Interest Charge	Ratio in %	EBIT	Interest Charge	Ratio in %
2007/08	324278.84	240745.68	1.35	99938.51	74721.13	1.34
2008/09	335810.49	310794.98	1.08	157395.27	118702.2	1.33
2009/10	369805.53	281657.91	1.31	239148.94	178371.62	1.34
2010/11	322111.02	271798.13	1.19	338764.16	236707.6	1.43
2011/12	345452.15	288579.31	1.2	384435.46	257051.21	1.5
Total	**1697458.03**	**1393576.01**	**6.13**	**1219682.34**	**865553.76**	**6.94**
Average	**339491.61**	**278715.20**	**1.23**	**243936.47**	**173110.75**	**1.39**

Source: Annual Report of SBI & EBL

The table highlight that the ratios appeared 1.35%, 1.08%, 1.31%, 1.91% and 1.20% respectively from the year 2007/08 to 2011/12 in SBI. Mean of the ratios was 1.22%. These remained 1.34%, 1.33%, 1.34%, 1.43% and 1.50% for the same period. Mean of the ratio was calculated as 1.39.

The ratios in SBI showed fluctuating trend. The ratio was highest for the year 2009/10 which was 1.31%. The lowest ratio was in the year 2008/09 which was 1.08%, which signify that the fund available for the payment of interest remained sufficient, however, the margin was not satisfactory. In EBL the ratio was comment up to the third year but showed slightly increasing trend from fourth year of the study period. Higher mean ratio of EBL is symbol of better debt serving capacity of the bank as well as possibility of declining its profit in fewer amounts after meeting the interest cost.

4.5.2 Provision for Possible Losses to Loans and Advances:

Coverage of possible losses on loans and advances is measured by this ratio. This ratio is computed by dividing the amount allocated for possible losses by the amount of loans and advances.

Table 4.18

Provision for Possible Losses to Loans and Advances Ratio of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	Prov. for PL	**Loan & Advance**	**Ratio in %**	**Prov. for PL**	**Loan & Advance**	**Ratio in %**
2007/08	31659.24	2363559.2	1.34	5720.59	871677.98	0.66
2008/09	54521.05	2963032.3	1.84	8333.78	1364884.23	0.61
2009/10	48625.92	3559409.7	1.37	15562.16	2270179.65	0.69
2010/11	94633.45	4188414.2	2.26	33501.76	3005757.9	1.11
2011/12	67550.89	4299249.3	1.57	34728.85	3948478.04	0.88
Total	**296990.55**	**17373664.59**	**8.38**	**97847.14**	**11460977.80**	**3.95**
Average	**59398.11**	**3474732.92**	**1.68**	**19569.43**	**2292195.56**	**0.79**

Source: Annual Report of SBI & EBL

The above table reveals that the ratio of SBI were 1.34%, 1.84%, 1.37%, 2.26%, and 1.57% respectively through the study period. In the same manner, 0.66%, 0.61%, 0.69%, 1.11% and 0.88% were ratios of EBL. Mean of the ratios stood 1.68% and 0.79% for SBI and EBL respectively.

The ratio of both the bank followed fluctuating trend over the period. The ratios was highest in the year 2009/10 in SBI as well as in EBL. Average ratio is very high in SBI than EBL which means SBI has granted greater portion of its loans in riskier sector than that of EBL.

4.6 Liquidity Ratio

Liquidity ratio measures the firms ability to meet their current obligation by making comparisons between short-term obligation and the short-term resource available. Every firm should be able to meet their obligation as they become due especially in case of banks they should ensure that they do not suffer from lack of liquidity position because both the conditions of liquidity are unfavourable. Otherwise their failure to meet obligation lead to poor credit worthiness and loss of creditors confidence. Banks can experience lack of liquidity where cash out flows (due to deposit withdraws, loan and advances etc.) exceed cash inflow new deposits, loan repayments, interest, commission etc. they can resolve any can deficiency be either creating additional liabilities or by selling assets.

4.6.1 Cash & Bank Balance to Total Deposit Ratio

This ratio shows the ability of banks immediate funds to cover their deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa.

Table 4.19
Cash & Bank Balance to Total Deposit Ratio of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	CBB	TD	Ratio in %	CBB	TD	Ratio in %
2007/08	761558.06	1360884.3	55.96	255150.35	403524.21	63.23
2008/09	1357792.2	2279800.3	59.56	460719.04	816864.04	56.04
2009/10	890018.85	2115435.7	42.07	278605.57	1578535.4	17.65
2010/11	1945141.6	3682939.4	52.81	834993.54	2289870.7	36.46
2011/12	1619962	2439792.6	66.4	592757.45	2755026.1	21.52
Total	**6574472.71**	**11878852.27**	**276.80**	**2422225.95**	**7843820.45**	**195.26**
Average	**1314894.54**	**2375770.45**	**55.36**	**484445.19**	**1568764.09**	**39.05**

Source: Annual Report of SBI & EBL

The table shows that the ratios remained 55.96%, 59.56%, 42.07%, 52.81% and 66.40% for the respective year of the study period. Mean of the ratio appeared 55.36%. In similar way, these appeared 63.23%, 56.04%, 17.65%, 36.46% and 21.52% respectively in EBL for same period. Mean of the ratio was calculated 39.05%.

The ratios in SBI showed fluctuating trend. The highest ratio was in the final year of the study period. Which is 66.40% trend up to the third year. It increase in the fourth year and reached to 36.46% and again decreased in the final year mean ratio of SBI appeared greater than that of EBL. It indicates the better liquidity position of SBI.

4.6.2 Fixed Deposit to Total Deposit Ratio:

Fixed deposit is the long term interest bearing deposit. Of course, it is high interest paid liabilities but increasing fixed deposit prove to be an additional advantages if utilized properly by granting long term loans to their potential clients at higher interest rate. The higher the ratio the more the interest bearing income and lowers the proportion of current /short term deposits and vice versa.

Table 4.20
Fixed Deposit to Total Deposit Ratio of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	Fixed Deposit	Total Deposit	Ratio in %	Fixed Deposit	Total Deposit	Ratio in %
2007/08	2383622.6	3744506.9	63.66	721378.91	1124903.12	64.13
2008/09	2100218.55	4380018.8	47.95	1132082.54	1948946.58	58.09
2009/10	2420298.45	4535374.2	53.36	1478888.55	3057423.95	48.37
2010/11	2929350.6	6612290	44.3	2284638.28	4574508.95	49.94
2011/12	3132267.4	5572470.2	56.22	2711583.67	5466609.8	49.6
Total	**41156167.60**	**24844660.06**	**265.49**	**8328571.95**	**16172392.40**	**270.13**
Average	**8231233.52**	**4968932.01**	**53.10**	**1665714.39**	**3234478.48**	**54.03**

Source: Annual Report of SBI & EBL

The table shows ratios in SBI for the respective years of the review period stood 63.66%, 47.95%, 53.36%, 44.30% and 56.22%. Mean of the ratios appeared 53.10% for EBL. These remained 64.13%, 58.09%, 48.37%, 49.94% and 49.60% respectively. Mean of the ratios was 54.03%.

The ratios for SBI showed fluctuating trend. In the first year the ratio was higher than other years of the study period. In EBL the ratios showed decreasing trend up till the third year and slightly rose in the fourth and fifth year of the study period. Mean of the ratio remained slightly grater in EBL than SBI. From the result, it is clear that in both banks FD have occupied grater portion of total deposit. Both banks can experience high profit by investing the fund in long term loans since the fund available from fixed deposit is higher. If the investment decision is not taken properly they may face problem of high interest charge for the fixed deposit.

4.6.3 NRB Balance to Current and Saving Deposit Ratio

Commercial banks are required to hold certain portion of current and saving deposit in Nepal Rastra Bank account. The ratio is computed by dividing the balance held with Nepal Rastra Bank by current and saving deposits including call and other deposits.

Table 4.21
NRB Balance to Current and Saving Deposit Ratio of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	NRB Balance	C & S Deposit	Ratio in %	NRB Balance	C & S Deposit	Ratio in %
2007/08	574125.66	1360884.3	42.19	121474.02	403524.21	30.1
2008/09	693064.21	2279800.3	30.4	168150.35	816864.04	20.58
2009/10	371866.85	2115435.7	17.58	130520.8	1578535.4	8.27
2010/11	302752.29	3682939.4	8.22	385657.22	2289870.7	16.34
2011/12	1177463.61	2439792.6	48.26	357700.22	2755026.1	12.98
Total	**3119272.62**	**11878852.27**	**146.65**	**1163502.61**	**7843820.45**	**88.27**
Average	**623854.52**	**2375770.45**	**29.33**	**232700.52**	**1568764.09**	**17.65**

Source: Annual Report of SBI & EBL

As reveled by the table, the ratio in SBI remained 42.19%, 30.40%, 17.58%, 8.22% and 48.26% in the respectively years from 2007/08 to 2011/12. Mean of the ratios was 29.33%. In EBL, these stood 30.10%, 20.58%, 8.27%, 16.34% and 12.98% for the same period correspondingly. Mean of the ratios appeared 17.65%.

The trend of the ratios showed declining up to the fourth year of the study period in SBI. It rose drastically to 48.26% from 8.22% in the final year of the study period. In EBL the ratio decline up to the third year. It inclined to 16.34% in the fourth year and banks lay at significant level above the standard. Comparatively it is grater in SBI which indicates the better liquidity position of it than EBL. But the higher cash balance in NRB return nothing and it may effects the profitability of the bank adversely.

4.6.4 NRB Balance to Fixed Deposit Ratio

According to the directive of NRB, the ratio should be maintained at 4.5%. hence, the ratio so calculated finds wheatear the banks has obeyed the direction of central bank or not.

Table 4.22
NRB Balance to Fixed Deposit Ratio of SBI & EBL

(Rs. in '000)

Year	SBI			EBL		
	NRB Balance	Fixed Deposit	Ratio in %	NRB Balance	Fixed Deposit	Ratio in %
2007/08	574125.66	238362	24.09	121474.02	721378.9	16.84
2008/09	693064.21	2100218.6	33.00	168150.35	1132082.54	14.85
2009/10	371866.85	2420298.5	15.36	130520.8	1478888.55	8.33
2010/11	302752.29	292938.56	10.34	385657.22	228463.28	16.88
2011/12	1177463.61	313267.67	37.59	357700.22	2711583.67	13.19
Total	**3119272.62**	**5365085.23**	**120.38**	**1163502.61**	**6272396.94**	**70.09**
Average	**623854.52**	**1073017.05**	**24.07**	**232700.52**	**1254479.39**	**14.02**

Source: Annual Report of SBI & EBL

The table shows the ratio of SBI were found 24.09%, 33.00%, 15.36%, 10.34%, and 37.59% respectively form the year 2007/08 to 2011/12. Similarly ratios in EBL appeared 16.84%, 14.85%, 8.33%, 16.88%, and 13.19% respectively. Mean of the ratios were calculated as 24.07% and 14.02% respectively for SBI and EBL.

The ratio in SBI showed incensement in the second year and than decrease up to the third year and reached to 10.34%. But it inclined in the last year of the study period and reached to 37.59%. The ratios are very fluctuating in SBI. The ratios in EBL are in it again decreased in fifth year and reached to 13.19%. Mean ratios of SBI remained higher than that of EBL that reveals the thicker safety margin against the FD from the customer point of view. Form the bank side. Idleness of high interest bearing deposit in such a great extent my have adversely affected the profitability of the bank.

4.7 Income and Expenditure Analysis

The analysis depicts the major sources of income and expenditure of any organization. The analysis guides the analyst to conclude the areas to be focused for investment and the possibilities for control over expenses. It covers the following.

4.7.1 Income Analysis

Commercial banks generate from the investment made in various sectors and service provided by them. The banks, being service oriented organization do not produce physical goods. They produce loans and advances and innovations and sell the same. In the course of carrying out their function. They receive income from various sources. Which have been split up into the following major headings:

A. Interest Income

B. Commission and discount

C. Exchange income

D. Other income

Table 4.23
Income Analysis for SBI

(*Rs. in '000)*

FY	Interest Income	%	Comm. & Disc.	%	Foreign Exchange	%	Other income	%	Total income
07/08	365030.3	87.76	22073.95	5.31	7827.53	1.88	20997.8	5.05	415929.58
08/09	403488.62	89.19	27199.76	6.01	1795.66	0.4	19931.29	4.41	452415.33
09/10	437316	88.3	34175	6.9	23795	4.8	0	0	495286
10/11	444558.76	87.99	32401.61	6.41	28268.79	5.6	0	0	505229.16
11/12	399631.3	78.61	36579.41	7.2	4253.45	8.37	29626.56	5.83	470090.72

Source: Annual Report of SBI & EBL

Table 4.24
Income Analysis for EBL

(*Rs. in '000)*

FY	Interest Income	%	Comm. & Disc.	%	Foreign Exchange	%	Other income	%	Total income
07/08	104200.94	74.83	14733.22	10.58	2389.99	1.72	17923.46	12.87	139247.61
08/09	175938.56	80.17	235661.72	10.74	3176.47	1.45	16780.91	7.65	431557.66
09/10	267443	81.73	25900	7.91	3495.6	1.07	30402	9.29	327240.6
10/11	385015.94	82.71	30556.93	6.56	16501.72	3.54	33438.05	7.19	465512.64
11/12	443820.89	82.05	36772.87	6.8	45413.73	8.4	14923.43	2.76	540930.92

Source: Annual Report of SBI & EBL

Interest Income:

Interest is the main and major resources of income for the commercial banks. They receive interest from various heads of investment title i.e. loans and advances, government securities, debentures, bonds deposits in other banks and inter bank lending.

The table shows that the interest income for SBI registered 87.76%, 89.19%, 88.30%, 87.99% and 78.61% during the study period from 2007/08 to 2011/12 respectively. Interest income ranged from 87.76% (first year) to 89.19% (second year). It showed increasing trend up to second year but decreased form then onwards and reached to 78.60% in the final year of the study period. It is also the prime source of income of EBL.

Average of the interest income appeared 86.37% and 80.30% for SBI and EBL respectively. It indicates that the average interest income coverage slightly greater proportion in SBI. It means, SBI might have focused more of its activities towards the lending and investment in government securities.

Commission and Discount:

Commission and discount includes income received as commission. Commercial banks render various types of service to their customer they provide remittance, guarantees, transfer, standing, instructions, letter of credit, purchase and discount of bill of exchange facilities along with other agency and merchant banking function for making such facilities available of the total income.

The table shows that the income as commission and discount in SBI rescored 5.31%, 6.01%, 6.90%, 6.41% and 7.20% accordingly to the study period. It ranged from 5.31% (first year) to 7.20% (final year). It revealed increasing trend except slight decrease in he fourth year of the study period.

It the same way the table shows the commission and discount earned by EBL in the respective years of the study period stood 10.58%, 10.74%, 6.56% and 6.80%. it ranged form 6.56% (fourth year) to 10.74% (second year). The ratio increase upto the second year but decreased then after and reached to 6.56% in the fourth year of the study period.

On the average, commission income remained 6.37% in SBI and 8.52% in EBL from the result. It can be concluded that commission and discount income occupied comparatively greater portion in EBL.

Foreign Exchange Income:

One of the major function of commercial banks is transaction of foreign currency. Both the banks are authorized by NRB to deals with foreign currencies. Income under this heading encompasses not only gain from sales of foreign currency, but also gain from revaluation of our currency i.e. foreign exchange fluctuation income also.

From the table the income of SBI from foreign exchange appeared 1.88%, 0.40%, 4.80%, 5.60%, and 8.37% respectively for the study period. The ratio decreased in the second year reached to 0.40% but showed increasing trend from then onwards the ratio ranged from 0.40% but showed increasing trend from then onwards. The ratio ranged from 0.40% (second year) to 8.37% (final year).

In the same way, foreign exchange income appeared 1.72%, 1.45%, 1.07%, 3.54% and 8.40% for EBL in the respective year of the study period.

The ratio showed decreasing trend up to third year but increased drastically and reached to 8.40% in the final year of the study period. The ratio ranged from 1.07% to 8.40% over the study period.

Average of the income in SBI and EBL remained 4.21% and 3.23% respectively. This sources of income holds greater portion in SBI

Other income:

Other income included in any of the above heading are the components of this heading. Other income comprises various titles of income viz, revaluation gain, net income from sale of investment and assets, non-banking assets, fixed assets written back and other.

The table highlights that other income of SBI for the respective years of the study period appeared as 5.05%, 4.41% nil, and 5.83%. This income did not contribute anything in the year in 2007/08 and 2008/09. In the same way, the other income for EBL appeared 12.87%, 7.65%, 9.29%, 7.18% and 2.70% respectively during the study period. The ratio showed fluctuating trend. But the ratio sharply decreased and reached to 2.76% in the final year of the study period. This heading of income has also significantly contributed in total income of the bank. Mean of these source of SBI and EBL was calculated 3.06% and 7.95% respectively. Higher percentage guides that this income contributes more in EBL than SBI.

4.7.2 Expenses Analysis:

Expenses are the cost incurred in course of operation of various activities. The bank needs to pay interest in deposit, borrowing and inter batch transaction.

They should pay salaries and other facilities for the actual work performer i.e. team of personnel. Certain portion of their income is spent for the day to day operation. Besides all these expenses they should make provision for bonus, loans less and tax out of their total income. For the study purpose four major categories of expenses has been analyzed.

Table 4.25
Expenses Analysis for SBI

(*Rs. in '000)*

FY	Interest	%	Staff	%	Office	%	Bonus	%	Total Expenses
07/08	240745.68	80.17	10231.33	3.41	40234.46	13.4	9095.06	3.03	300306.53
08/09	310794.98	83.45	14123.53	3.79	44750.13	12.02	2779.5	0.75	372448.14
09/10	281658	78.56	17915	5	49145	13.71	9794.2	2.73	358512.2
10/11	271798.13	75.44	23533.52	6.53	59360.52	16.48	5590.32	1.55	360282.49
11/12	288579.31	75.49	26647.69	6.97	60750.35	15.89	6319.18	1.65	382296.53

Source: Annual Report of SBI & EBL

Table 4.26
Expenses Analysis for EBL

(*Rs. in '000)*

FY	Interest	%	Staff	%	Office	%	Bonus	%	Total Expenses
07/08	74721.13	72.76	7689.51	7.49	17481.87	17.02	2801.93	2.73	102694.44
08/09	118702.2	71.66	13389	8.08	29145.77	17.59	4415.27	2.67	165652.24
09/10	178372	72.55	18632	7.58	42100	17.12	6753	2.75	245857
10/11	236707.6	72.95	25999.88	8.01	50451.37	15.55	11339.62	3.49	324498.47
11/12	257051.21	67.86	32186.82	8.5	75426.19	19.91	14153.81	3.74	378818.03

Source: Annual Report of SBI & EBL

Interest Expenses:

Expenses analysis depicts that payment for both banks occupy the major proportion of operating expenses. Interest expenses are composed with interest paid on various deposits, loan and borrowings and inter branch transaction. Since transfer of the money from surplus spending units to the deficit spending units is the significant function of the commercial banks, interest generally occupies more than half of the total operation expenses.

As observed in table, the interest expenses out of the total expenses in SBI recorded 80.17%, 83.45%, 78.56%, 75.44% and 75.49% respectively during the study period. The ratio depicts the fluctuating trend over the study period. It ranged from 75.44% to 83.45%

Interest expenses from 2007/08 to 2011/12 in EBL were 72.76%, 71.66%, 72.55%, 72.95% and 67.86%. The ratio is quite constant up to the fourth year but decreased in the final year of the study period and reached to 67.86%. Mean of the interest expenses appeared 78.62% and 71.56% in SBI and EBL respectively. From the proportion it can be concluded that interest expenses covered more portions in SBI compared to that in EBL. It may be result of their succeed to attract the depositors due to higher rate of interest during the study period.

Staff Expenses:

Organization itself does nothing but their success or failure is mainly based upon their employees, efficient and well-motivated staffs are the ornaments of any organization. For all these, organization needs to make some expenses in return to the services provided by them. In this way staff expenses include all the expenses made upon their employees such as salary and allowance, training, uniform and liveries, contribution to provident fund, incentives, fringe benefits etc.

The table reveals that the staff expenses in SBI remained 3.40%, 3.79%, 5.00% respectively from the year 2007/08 and 2011/12. It shows increasing trend through out the study period. It ranged from 3.40% to 6.97%.

The staff expenses in EBL were 7.49%, 8.08%, 7.58%, 8.01% and 8.50% respectively during the study period. It showed fluctuating trend up to the third year and showed increasing trend than after. The ratio increased in the second year but decreased in the second year.

Average of the staff expenses was calculated 5.14% for SBI and 7.93% for EBL. From the point of view the staff, EBL seems attractive but SBI seems more efficient in its operations.

Office operation Expenses:

In the context of Nepalese commercial banks, office expenses occupy major portion in the composition of the total expenses. These includes those expenses incurred for the routine operation of the commercial banks, such as house rent, lighting, water/power., building, repair and maintenance, postage/telex, traveling, expenses, banks commission, board meeting fee and expenses audit fee and expenses depreciation amortization expenses for AGM etc.

The table shows that the office operation expenses covered 3.40%, 12.02%, 16.48% and 15.89% respectively during the study period in SBI. The ratio decreased in the second year but increased in the third year and fourth year of the study but again decreased in the final year. It showed fluctuating trend.

The office expenses in EBL remained 17.02%, 17.59%, 17.12%, 15.55% and 19.91% respectively during the study period the ratio appeared in quite constant proportion i.e. around 17% from first year to third year and decrease in the fourth year but increased and reached to 19.90%in the final year of the study period.

Mean of the expenses appeared 14.30% and 17.74% for SBI and EBL respectively. It reveals that SBI is more efficiently performing its operation.

Bonus Facility:

Out of the operating profit of the banks, they need to make some further provisions like provisions for staff bonus, loan losses and income tax. In this way, they distribute certain sum of the their profit to their staff as a bonus on reward for their well performances it plays vital role for motivating their employees in their work and to attract potential outsiders.

The table reveals that proportion of bonus expenses in SBI over the study period were respectively 3.03%, 0.75%, 2.73%, 1.55% and 1.65%. It showed fluctuating trend over the study period. It fall very sharply in second year and again increase in the second year EBL spent 2.73%, 2.67%, 2.75%, 3.49% and 3.74% respectively for the year 2007/08 to 2011/12 for staff bonus. It shows increasing trend during the study period except marginal decreases in the second year. The ratio remained quite constant for the first three years. According to the mean of the expenses 1.94% for SBI and 3.08% for EBL. EBL is more efficient and motivating is staff.

4.8 Statistical Tools

The relationship between different variables related to study topic would be drawn out using statistical tools. The tools to be used are as follows,

4.8.1 Correlation Analysis

Correlation analysis is the statistical tool that can be use to describe the degree to which one variable is linearly related to another. Often correlation analysis is used in conjunction with regression analysis to measure how well the regression line explains the variation of the dependent variable. Correlation can also be used by itself, however, to measure the degree of association between two variables. Coefficient of correlation is the measure that can be use to describe how well one variable is explained by another. Here in the study, to find out the relationship between total deposit, net profit and loan & advances, this analysis have been used Karl Pearson's coefficient of correlation.

The co-efficient of correlation between deposit and net profit is to measure the degree of relationship between two variables. In correlation analysis, deposit is independent variable (x) and net profit and loan and advance dependent variable (y), the purpose of computing co-efficient of correlation is to determine the level of dependency and the direction of the net profit and loan & advance over the deposit.

The following table shows the co-efficient of correlation between total deposits, net profit and loan & advance for SBI and EBL.

Table 4.27

Co-efficient of Correlation of TD with NP and L&A

Variables	SBI	EBL
Total Deposit & Net Profit	-0.71	0.98
Total Deposit and Loan & Advances	0.89	0.99

Source: Appendix V, VI, VII and VIII

From the above table, it is found that the coefficient of correlation between deposit (independent) and net profit (dependent) variables ‘r’ is -0.71 which shows negative correlation for SBI. In case of EBL, coefficient of correlation between deposits and net profit value of 'r' is highly positive correlation i.e. 0.98.

Deposits play a very crucial role in performance of commercial banks and similarly loan and advances are important to mobilize the collected deposits. Coefficient of correlation between deposit and loan & advances measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (x) and loan & advances are taken as dependent variable (y). The following above table shows the coefficient of correlation between deposit and loan and advances of SBI and EBL.

From the above table, it is found that the coefficient of correlation between deposits and loan and advances of SBI is highly positive i.e. 0.89. In case of EBL, the relationship is even more positive having correlation coefficient 0.99.

4.8.2 Trend Analysis

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms.

4.8.2.1 Trend Analysis of Total Deposit of SBI and EBL

Deposits are the important part in banking sector hence its trend for next five years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of SBI and EBL for further five year.

Y= a + bx

Where as

Yc = 4968932.02 + 588819.78X of SBI

Yc = 3234478.48 + 1130897.57X of EBL

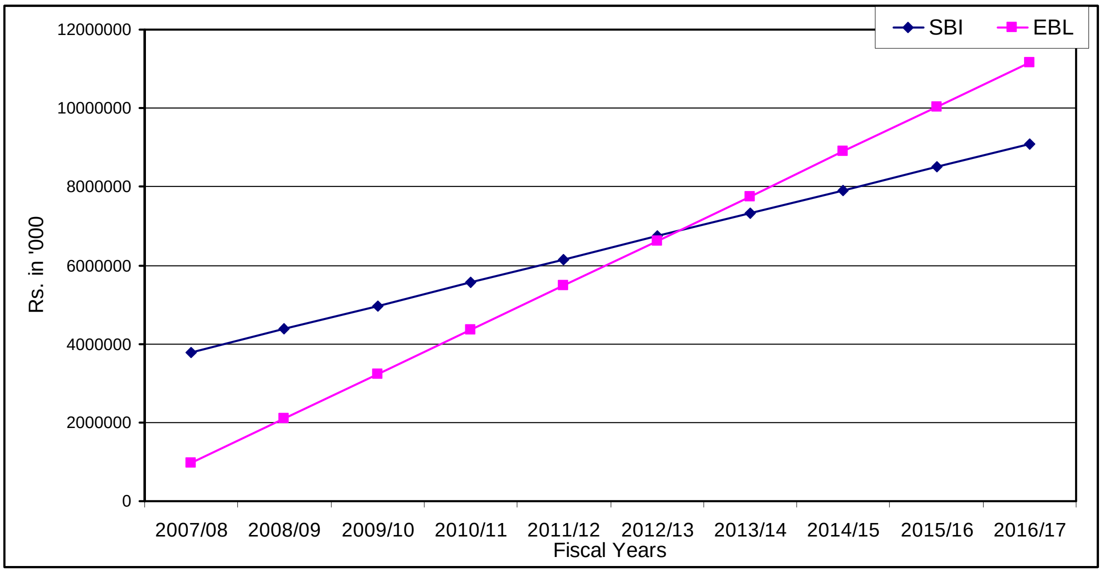
Table 4.28

Trend analysis of Total Deposit of SBI and EBL

Year(x)	Actual Value of SBI	Trend Value of SBI	Actual Value of EBL	Trend Value of EBL
2007/08	3744506.90	3791292.5	1124903.12	972683.33
2008/09	4380018.80	4380112.2	1948946.58	2103580.9
2009/10	4535374.20	4968932	3057423.95	3234478.5
2010/11	6612290.00	5557751.8	4574508.95	4365376.1
2011/12	5572470.20	6146571.6	5466609.8	5496273.6
2012/13		6735391.4		6627171.2
2013/14		7324211.1		7758068.8
2014/15		7913030.9		8888966.3
2015/16		8501850.7		10019864
2016/17		9090670.5		11150761

Source: Annul Report of Concern Bank & Appendix I & II

Figure 4.1
Trend Line of Total Deposit between SBI and EBL



Source: Table No. 4.28

Above table and figure shows that total deposit of SBI and EBL. Both banks is in increasing trend. The rate of increment of total deposit for EBL seems to be higher than that of SBI. The increasing trend of total deposit of SBI is less aggressive and lower rather than EBL. It indicates EBL has more prospect of collecting total deposit. The trend analysis has projected deposit amount in fiscal year 2012/13 to 2016/17. From the above trend analysis it is clear that EBL has higher position in collecting deposit than SBI.

4.8.2.2 Trend Analysis of Loan and Advance of SBI and EBL

Here, the trend values of loan & advances between SBI and EBL have been calculated for further five year. The following table shows the trend values of SBI and EBL. Here the effort has been made to calculate the trend values of loan and advance of SBI and EBL for further five year.

Y= a + bx

Where as

Yc = 3474732.94 + 509676.21X of SBI

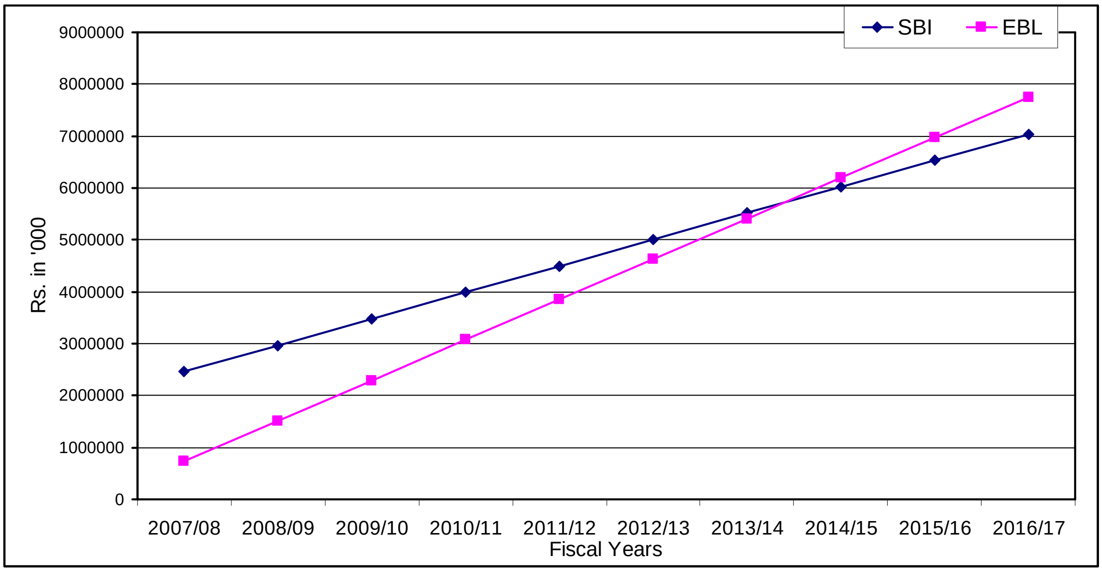
Yc = 2292195.56 + 779447.37X of EBL

Table 4.29
Trend analysis of Loan and Advance of SBI and EBL

Year(x)	Actual Value of SBI	Trend Value of SBI	Actual Value of EBL	Trend Value of EBL
2007/08	2363559.2	2455380.52	871677.98	733300.81
2008/09	2963032.3	2965056.73	1364884.2	1512748.2
2009/10	3559409.7	3474732.94	2270179.7	2292195.6
2010/11	4188414.2	3984409.15	3005757.9	3071642.9
2011/12	4299249.3	4494085.36	3948478	3851090.3
2012/13		5003761.57		4630537.7
2013/14		5513437.78		5409985.1
2014/15		6023113.99		6189432.4
2015/16		6532790.2		6968879.8
2016/17		7042466.41		7748327.2

Source: Annul Report of Concern Bank & Appendix III & IV

Figure 4.2
Trend Line of Loan and Advance between SBI and EBL



Source: Table No. 4.29

Above table and figure shows that total deposit of SBI and EBL. Both banks is in increasing trend. The rate of increment of total deposit for EBL seems to be higher than that of NSBL. The increasing trend of total deposit of SBI is less aggressive and lower rather than EBL. It indicates EBL has more prospect of collecting total deposit. The trend analysis has projected deposit amount in fiscal year 2012/13 to 2016/17. From the above trend analysis it is clear that EBL has higher position in collecting deposit than SBI.

4.9 Major Findings of the Study

The following major findings have been derived from the analysis and interpretation of the data:

1. Average net profit margin remained greater in EBL. It signifies that profitability with respect to the gross earning is stronger in EBL than that of SBI.
2. Average return on assets in EBL was considerably higher than in SBI. It implies that SBI proved to be weaker in utilizing the banks assets for the profit generation.
3. Return on net worth on an average was lower in SBI. It reveals the better earning position of EBL with respect to its shareholder’s fund.
4. Average interest earned to total assets ratio was found marginally higher in SBI than that of EBL. It reveals both bank have managed its assets properly to earn interest.
5. Return on risk assets remained remarkably higher in EBL than SBI. It again reveals the higher rate of profit realization through risk assets, loans and advances and overdrafts’ bill purchased and discounted of EBL. The ratio throughout the study period showed higher fluctuation in SBI.
6. As revealed by higher return on total deposit (excluding fixed deposit)in EBL it seemed to be more successful in utilizing the accumulated deposit (excluding fixed deposit) for profit making.
7. Major return to equity showed that the equity holders of EBL are getting positive and high return from the organization but in contrast the shareholder of SBI are getting negative return. It indicates the equity holders of EBL are getting higher profit than that of SBI. It can be

concluded that EBL has better utilized the incremental equity for the profit generation.

8. Loans and advances to total deposit ratio appeared higher EBL. It indicates that EBL is more successful in utilizing the depositors fund to earn profit.

9. Average of loans and advances to fixed deposit ratio in both banks remained almost the same which showed good performance of the bank in this regard. Both banks have properly utilized this high interest gearing debt in term of loans and advances for income generation.

10. As depicted by significantly higher loans and advances to saving deposit ratio in SBI. It seems more successful in utilizing the short term and interest earning saving deposit in form of loans and advances.

11. Higher ratio of investment to total deposit in EBL showed that it has more successfully allocated its deposits in investment portfolio. The ratio seemed to be very less in SBI.

12. Performing assets to total assets ratio of EBL seemed comparatively greater than that of SBI. It signifies the more successful investment decision of EBL regarding the assets in profitable sectors. The ratio in SBI also seemed satisfactory.

13. Performing assets to total debt ratio of SBI exceeded the same of EBL on an average from this, it can be concluded that SBI allocated the cost bearing fund more successfully than EBL.

14. Personal expenses to total income ratio remained lower in SBI. It indicates that SBI carried out its operation more efficiently with lesser expenses on staff. But, EBL might have maintained higher ratio to build good employees, management relationship, reduce their absenteeism, turnover and to attract potential manpower towards the organization.

15. As revealed by the considerably lower office operation expenses to total operation income ratio, SBI is in much better condition regarding the operational efficiency than EBL.

16. Debt-assets ratio appeared higher in EBL as compared to that of SBI, which suggests the more aggressive policy of the former in raising the capital, on the other hand, leverage position of SBI seemed less risky.

17. As revealed by the leverage factors, both the banks have employed greater extent of debt in their capital structure. Comparatively EBL seemed more levered i.e. more risky than the SBI in this regard.

18. Considerably higher interest coverage ratio in EBL. Revealed the better debt serving capacity of the bank. The ratio in SBI also seemed satisfactory which is more than 1 (one).

19. Provision for possible lossless to loans and advances ratio in SBI exceeded that in EBL which indicates that loans and advances granted by the banks are inferior in contrast to EBL.

20. Average cash and bank balance to total deposit ratio of SBI remained greater than that of EBL, it indicates the better liquidity position of SBI.

21. Average fixed deposit to total deposit ratio appeared slightly higher in EBL. Thus, the bank cab experience high profit by investing fund in long term loans. On the other hand SBI can grapes the opportunity of less cost bearing fund in current assets so as to strengthen the liquidity position.

22. NRB balance to current and saving deposit ratio remained sufficiently higher above the standard set by NRB i.e. 7% in each year of the reviewed period in both of the banks. Comparatively, it is greater in SBI which indicates the better liquidity position than that of EBL.

23. Both the banks have maintained NRB balance to fixed deposit ratio above the standard prescribed by NRB i.e. 4.5% in each year of the study. Mean ratio appeared combatively higher in SBI.

24. Income and expenditure analysis shows that interest remained dominant in total income and expenses of both banks. More than three fourth of the income was occupied by interest commission and discounts occupied second major portion of income in both the banks. Regarding he expenses, in the both banks second proportion was placed by office operation expenses.

25. The greater coefficient of correlation, EBL seems more efficient in utilizing the deposit for income generating purpose.

26. The increasing trend of total deposit and loan and advance of SBI is less aggressive and lower rather than EBL. It indicates EBL has more prospect of collecting total deposit and loan and advance.

CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The role of commercial Bank in the economic growth of the nations can be fairly estimated to be very prominent, by mobilizing the scattered idle resources from the savers. Commercial Bank pools the fund in a sizable volume in order to feed to the fund requirement of productive sectors of the economy, such investment in the productive sectors. Promote trade and Industrialization in the country thereby raising the employment opportunities and earning to the laborers and materials and services providers to such industries and trades which as a chain effective promotes saving into the banks and more saving means more funds available in the bank for future in investment.

In this way as the chain moves rolling on the economy of the nations also grows. They are providing their services on commerce, trade and industry along with general public. But the intense competition and lack of sufficient investment opportunities have created threats to the banks. Therefore, the study has been concluded to evaluated the financial performance of commercial banks with special reference to the Nepal SBI Bank Ltd. And Everest Bank Pvt Ltd i.e. comparative strength and weakness of these banks to check the chance of duplication and follow the principles and doctrines of the research, supportive text and the previous directions have been reviewed. For analyzing the financial data of the sampled bank he financial tools ratio analysis and income and expenditure analysis as well as statistical tools mean correlation,

5.2 Conclusion

Form the analysis and interpretation of the data, the researcher arrives at following conclusion.

With reference to the performing measures profitability position of EBL seems better than SBI. Marginal return to equity is unsatisfactory for SBI but quite good for EBL. Regarding the operation efficiency measures, EBL has shown its better performance.

Turnover of deposits, assets and debt is better in EBL but SBI is successful in cost management. It has showed high performance with the minimum expenditure.

Both banks have used higher proportion of debt in their capital structure over all capital structure of EBL appears more levered than that of SBI. This suggests that EBL has adopted more risk, more profit policy. The policy will be fruitful further to shareholders if the business activities follow smooth operation. Liquidity position of both of the banks seems satisfactory. After all this, all liquidity position on SBI is stronger than that of EBL.

This shows SBI is comparatively efficient to meet its immediate liabilities than EBL however, trying up more funds in form of current assets is also not wise since it yields no more and has inverse impact on profitability.

Income and expenses analysis reveals rising trend in both of the banks. Interest seems to occupy major part of the both income and expenses. Comparatively, interest remained more dominant in total income and expenses of SBI than that of EBL.

Correlation analysis reveals that there exists highly significant correlation between total deposit and net profit in EBL. This signifies there is higher efficiency in utilizing the resources, but SBI showed there is insignificant and negative correlation between total deposit and net profit.

5.3 Recommendation:

Having undertaken the overall analysis of financial performance in both some useful recommendations are purposed is feedback to both the banks as a guideline to device financial performance analysis in the years to come.

1. About all the profitability ratios examined for the study are less in SBI than EBL. It signifies the unsatisfactory profitability position of the SBI than EBL. So, SBI has a challenge to allocate its resources in income generation sectors. It will be better for both the banks. Especially SBI to open the branches in other cities and rural area in order to find profitable opportunities.
2. Turnover of the fund raised from the outsiders appeared less satisfactory in SBI. Investment portfolio followed by the bank may also be the reason for its lower profitability. That's why it is suggestive that it would be better to raise its investments portfolio for the better turnover.
3. Greater portion of the income has been spent for personnel and office operation in EBL. Regarding the cost effectiveness aspect it is suggested that the bank can minimize the office operation expenses by diagnosing the loopholes. It can also enhances the efficiency of the staff through the use of capacity building programmers, seminars, trainings etc.
4. The banks have remarkably higher portion of debt in their capital. Therefore they should be aware of the possible risk and impact upon their liquidity and profitability that may arise due to the slackness in the business activities. They should b adopt precautions actions to check the risk factor in time.
5. Debt serving capacity of SBI appears poor as revealed by the lower interest coverage ratio than that of EBL, EBL has maintained the lesser provision for possible losses against loans and advances. So, it is better to search for the profitable sectors for investment and utilization of the resources.
6. Both the banks maintained NRB balance to deposit ratio considerably higher than the standard set by NRB. The fund thus tied in NRB balance yields no return. So it suggested to lower the ratio and invest the surplus fund in other current assets, loans and advances, bills purchased and discounted money at call and short notice.

7. Both the banks are suggested to raised their net worth to meet the directive of NRB that all CB must raise their paid up capital to (1000 million). They could not meet the requirement in time by following the normal increasing trend of net worth. That’s why, they need to capitalize their profit and issue stock dividend and right share.
8. Both the banks are suggested to review their investment portfolio to see if there is any better mix than the present one. SBI should invest more of its fund in government securities.(Investment)
9. Both the banks are suggested to promote their international banking to increase their remittance and other banking business.
10. In present sluggish economic conditions both the bank are advised to enhance the their purchase and retail finance scheme as housing loan, education loan, high net worth individual loan, consumer durable loan etc. they are also suggested to introduce advanced banking facilities such as credit/debit card. Tele-banking ATM card facilities to cover the large circle of customers.
11. Profit should not be the one and only one goal of the commercial bank although it needs to be earned for survival (smooth running) and growth of any organization. The country has expected supports and services from the financial sectors fro the balanced economics development. Economic level of the country can be enhanced only when the economic status of people below the poverty line incenses. So the banks are suggested to diversify their loans in priority and deprived sectors as more as possible by opening more rural branches.

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Appendix-I

Least Square Linear Trend of Total Deposit of SBI

Year (X)	Total Deposit	X	X^2	XY
2007/08	3744506.90	-2	4	-7489013.80
2008/09	4380018.80	-1	1	-4380018.80
2009/10	4535374.20	0	0	0.00
2010/11	6612290.00	1	1	6612290.00
2011/12	5572470.20	2	4	11144940.40
Total	**24844660.06**		**10**	**5888197.80**

$$b = \frac{\sum xy}{\sum x^2} = 588819.78$$

$$a = \frac{\sum y}{N} = \frac{24844660.06}{5} = 4968932.02$$

$$y = a + bx = 4968932.02 + 588819.78x$$

Appendix-II

Least Square Linear Trend of Total Deposit of EBL

Year (X)	Total Deposit	X	X^2	XY
2007/08	1124903.12	-2	4	-2249806.24
2008/09	1948946.58	-1	1	-1948946.58
2009/10	3057423.95	0	0	0.00
2010/11	4574508.95	1	1	4574508.95
2011/12	5466609.8	2	4	10933219.60
Total	**16172392.40**		**10**	**11308975.73**

$$b = \frac{\sum xy}{\sum x^2} = 1130897.57$$

$$a = \frac{\sum y}{N} = \frac{16172392.40}{5} = 3234478.48$$

$$y = a + bx = 3234478.48 + 1130897.57x$$

Appendix-III

Loan and Advance of SBI

Year (X)	Loan & Advance	X	X^2	XY
2007/08	2363559.2	-2	4	-4727118.40
2008/09	2963032.3	-1	1	-2963032.30
2009/10	3559409.7	0	0	0.00
2010/11	4188414.2	1	1	4188414.20
2011/12	4299249.3	2	4	8598498.60
Total	**17373664.70**		**10**	**5096762.10**

$$b = \frac{\sum xy}{\sum x^2} = 509676.21$$

$$a = \frac{\sum y}{N} = \frac{17373664.70}{5} = 3474732.94$$

$$y = a + bx = 3474732.94 + 509676.21x$$

Appendix-IV

Loan and Advance of EBL

Year (X)	Loan & Advance	X	X^2	XY
2007/08	871677.98	-2	4	-1743355.96
2008/09	1364884.2	-1	1	-1364884.20
2009/10	2270179.7	0	0	0.00
2010/11	3005757.9	1	1	3005757.90
2011/12	3948478	2	4	7896956.00
Total	**11460977.78**		**10**	**7794473.74**

$$b = \frac{\sum xy}{\sum x^2} = 779447.37$$

$$a = \frac{\sum y}{N} = \frac{11460977.78}{5} = 2292195.56$$

$$y = a + bx = 2292195.56 + 779447.37x$$

Appendix-V

Correlation between Total Deposit and Net Profit of SBI

Year (X)	Total Deposit (x)	Net Profit (y)	XY	X^2	Y^2
2007/08	3744507	58977	220837991976	14021332673049	3478229911
2008/09	4380019	16760	73410870448	19184566440361	280911008
2009/10	4535734	50065	227083699862	20572882918756	2506552288
2010/11	6612290	12490	82587700469	43722379044100	156000849
2011/12	5572470	40844	227600683012	31052421900900	1668213548
	24855052	179136	831520945767	128553582977166	8089907604

$$r_{xy} = \frac{N\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{N\Sigma x^2 - (\Sigma x)^2}\sqrt{N\Sigma y^2 - (\Sigma y)^2}}$$

$$= \frac{5\times 831520945767 - (24855052)(179136)}{\sqrt{5\times 128553582977166 - (24855052)^2}\sqrt{5\times 8089907604 - (179136)^2}}$$

$$= -0.73$$

Appendix-VI

Correlation between Total Deposit and Net Profit of EBL

Year (X)	Total Deposit (x)	Net Profit (y)	XY	X^2	Y^2
2007/08	1124903	25034	28160487235	1265407029386	626686136
2008/09	1948947	25230	49172506897	3798392771694	636568038
2009/10	3057424	41265	126165822266	9347841210034	1702833237
2010/11	4574509	69706	318869348516	20926132133630	4858884612
2011/12	5466610	85348	466561479906	29883822705456	7284195756
	16172393	246583	988929644820	65221595850200	15109167779

$$r_{xy} = \frac{N\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{N\Sigma x^2 - (\Sigma x)^2}\sqrt{N\Sigma y^2 - (\Sigma y)^2}}$$

$$= \frac{5 \times 988929644820 - (16172393)(246583)}{\sqrt{5 \times 65221595850200 - (16172393)^2}\sqrt{5 \times 15109167779 - (246583)^2}}$$

$$= 0.98$$

Appendix-VII

Correlation between Total Deposit and Loan and Advance of SBI

Year (X)	Total Deposit (x)	Loan & Advance (y)	XY	X^2	Y^2
2007/08	3744507	2363559	8850363220413	14021332673049	5586411855549
2008/09	4380019	2963032	12978136457608	19184566440361	8779560351583
2009/10	4535734	3559410	16144536956940	20572882918756	12669397270078
2010/11	6612290	4188414	27695008008060	43722379044100	17542813510762
2011/12	5572470	4299249	23957436075030	31052421900900	18483544285596
	24855052	17373665	89625480718051	128553582977166	63061727273566

$$r_{xy} = \frac{N\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{N\Sigma x^2 - (\Sigma x)^2}\sqrt{N\Sigma y^2 - (\Sigma y)^2}}$$

$$= \frac{5 \times 89625480718051 - (24855052)(17373665)}{\sqrt{5 \times 128553582977166 - (24855052)^2}\sqrt{5 \times 63061727273566 - (17373665)^2}}$$

$$= 0.89$$

Appendix-VIII

Correlation between Total Deposit and Loan & Advance of EBL

Year (X)	Total Deposit (x)	Loan & Advance (y)	XY	X^2	Y^2
2007/08	1124903	87166779.98	98054172299842	1265407029386	7598047532081730
2008/09	1948947	1364884.23	2660087025406	3798392771694	1862908961303
2009/10	3057424	2270179.65	6940901746222	9347841210034	5153715643274
2010/11	4574509	3005757.91	13749866611116	20926132133630	9034580613528
2011/12	5466610	3948478.04	21584789538244	29883822705456	15590478832362
	16172393	97756080	142989817220830	65221595850200	7629689216132200

$$r_{xy} = \frac{N\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{N\Sigma x^2 - (\Sigma x)^2}\sqrt{N\Sigma y^2 - (\Sigma y)^2}}$$

$$= \frac{5\times 142989817220830 - (16172393)(97756080)}{\sqrt{5\times 65221595850200 - (16172393)^2}\sqrt{5\times 7629689216132200 - (97756080)^2}}$$

$$= 0.99$$

Appendix-IX

Income and Expenses Analysis of SBI Bank Limited

Rs. in '000

Particular	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**
Interest Income	365030.3	403488.6	437316	444559	399631.3
Interest Expenses	240745.7	310795	281658	271798	288579.3
Net Income	124284.6	92693.64	155658	172761	111052
Commission & Discount	22073.95	27199.76	34175	32401.6	36579.41
Other Operating Income	415929.6	452415.3	495286	505229	508372.7
Exchange Fluctuation income	7827.53	1795.66	23795	28268.8	4253.45
Total Operating Income	445831.1	481410.8	553256	565900	549205.6
Staff expenses	10231.33	14123.53	17915	23533.5	26647.69
Other operating exp.	40234.46	44750.13	49145.5	59360.8	60750.35
Bonus	9095.06	2779.5	9794.2	5590.32	6319.18
Provision for possible loss	31659.24	54521.05	48625.9	94633.5	67550.89
Net Profit	**58974.52**	**16760.4**	**50065.5**	**12490**	**40843.77**

Appendix-X

Income and Expenses Analysis of Everest Bank Limited

Rs. in '000

Particular	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**
Interest Income	104201	175938.6	267443	385015.9	443820.89
Interest Expenses	74721.1	118702.2	178372	236707.6	257051.21
Net Income	29479.8	57236.36	89071	148308.3	186769.68
Commission & Discount	14733.2	235661.7	25900	30556.93	36772.87
Other Operating Income	136689	215495.5	325775.8	464117.6	539790.51
Exchange Fluctuation income	2389.99	3176.47	3495.6	16501.72	45413.73
Total Operating Income	153812	454333.7	355171.4	511176.3	621977.11
Staff expenses	7689.51	13389	18632	25999.88	32186.82
Other operating exp.	17481.7	29145.77	42099.67	50451.37	75426.19
Bonus	2801.93	4415.27	6753	11339.62	14153.81
Provision for possible loss	5720.59	8333.78	15562.16	33501.76	34728.85
Net Profit	**25033.7**	**25230.3**	**41265.4**	**69705.7**	**85347.5**