CHAPTER – I
INTRODUCTION

1.1 Background of Study

A bank is a financial institution, which can play significant role in the upliftment of the economic situation of the developing country like Nepal. Bank plays a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. They peruse economic growth rapidly, developing the banking habit among the people by collecting small scattered resources in one bulk, using them in further productive purpose and rendering the valuable services to the country. Commercial bank deals with the offer of collected deposits and provides the loan for commercial purpose. Commercial Bank Act (2031BS) states, “Accepting deposits granting loan and performing commercial banking functions are the main motto of commercial bank”. In the other words, commercial bank’s facilities also become right hand for the growth of trade and industry of national economy of developing country like Nepal.

In case of the history of bank, an institutional banking system came in to existence in Nepal only in the 19th century. Nepal Bank Limited was the first financial institutional of Nepal established on the 30th of Kartik 1994 B.S. Being a commercial bank, it focuses on income generating and profit maximization. As it was only one commercial bank has to look the economic condition of the country. Only one Nepal bank Limited was not sufficient to look all the sector of country. So in 2013 BS another bank names “Nepal Rastra Bank” was established as the central bank of Nepal to regulate and control banking management system of country. Then in 2022 B.S. “Rastriya Banijya Bank” was established under Rastrya Banijya Bank Act 2021. This act is now revised as commercial bank act 2031B.S. For the development of industry, commerce and trade, Nepal Industrial Development Corporation was established under Industrial Development Corporation act 2016. For the development of agricultural sector, Agricultural Development Bank was established on Magh 7th 2024 B.S., under Agricultural Bank Act 2024.

The joint venture bank was introduced in Nepal (2041 B.S.) with the establishment of Nabil Bank Ltd. Nepalese government kept on liberalizing the economic policies and improving the infrastructure. As a result, Nepal Indosuez Bank Limited and Nepal Grindlays Bank Limited were established in 6th Magh 2042 B.S. and 16th Marga 2043B.S. respectively. Nepal Grindlays bank Limited is now being operated with new ownership and name, Standard Chartered Bank Nepal Limited. After restoration of democracy in Nepal in 2046B.S government adopted liberalized and market oriented economic policies that created conductive environment for the development of banking sector. As a result various joint venture commercial banks are established one after another. Up to FY2006/2007 there are twenty commercial banks are operating their banking activities.

Commercial banks are major financial institution, which occupy quite an important place in the framework of every economy because they provide capital for the development of industry, trade and business and other resources deficit sectors by investing the saving collected as deposit. Beside the, commercial banks render numerous services to their customers in view of facilitating their economic and social life. Commercial banks, by playing active roles, have changed the economic structure of the world. Thus commercial bank became the heart of financial system.

The role of commercial banks in economy is obviously prime requisite in the formulation of bank's policy. A key factor in the development of the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective commercial banks formulate sound investment policies, which eventually contribute to the economy of a country. The sound investment policies help commercial banks to maximize quality and quantity of investment and thereby, achieve the own objectives of profit maximization and social welfare. The banking sector has to play development role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development. Formulation of sound investment policies and coordinated and planned effort forward the forces of economic development because it ensures efficient allocation of funds to achieve the material and economic well being of the society as a whole. In this regard, commercial banks investment policy is also a push drive to achieve priority of industries in the context of Nepal's economic development. Investment policy is one fact of the overall spectrum of policies that guide banks investment operation. A healthy development of any bank depends upon its investment policy.

A good investment can be effective on for the economy to attain the economic objective directed towards the acceleration of the pace of development. A good investment pattern attracts both borrowers and lenders, which helps to increase the volume and quality of deposit, loan and investment. The load provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial banks investment are considered while making investment policy. Nepalese commercial banks lag far behind fulfilling the responsibilities to invest in the crucial sector of the economy for the enlistment of the national economy. Thus the problem has become very serious one in developing countries like Nepal, which can be solved through formulation of sound investment policy. Sound investment policy can minimize interest rate spread and non-performing assets, which cause the tank failure. Good investment policy ensures maximum amount of investment to all sectors with proper utilization. Formulation amount of investment policies and co-ordinate and planned efforts depends upon the growth of not only a particular bank but also of a society.

1.1.1 Commercial Banking in Nepal

The history of commercial banks in Nepal starts from the establishment of Nepal Bank ltd .in 1994B.S Nepal Bank Limited was first bank to establish in Nepal and prior to this. There was no such organized banking system in the country. The bank was started with a paid up capital of Rs 845000. It started its operation by accepting deposits from the public. Later on, Nepal Rastria Bank was established in 2013, which helped to make banking system more systematic and dynamic during that time.

As the time passed, there need for more commercial banks arose. At that time NBL was just doing sample banking by collecting deposits from local public. To cater to those needs, Rastriya Banijya Bank was established in 2022 B.S in order to play a major role not only in domestic banking services but also in the foreign trade. It was established under its own act, Rastriya Banijya Bank act 2022. With the established of Rastriya Banijya bank, a notable progress could be seen in banking industry in Nepal. It brought a revolution in the banking industry. People could easily make business transactions with other countries .Both the banks have majority of shares owned by the government of Nepal. Rastriya Banijya Bank is fully owned by government.

Today Nepal can take legitimate pride in remarkable growth and progress in the banking industry Nepal opened its door to foreign commercial banks to operate in Nepal .Consequently. Nabil Bank was established in 2041 under the commercial bank act of 2031 .Slowly and slowly new banks started to in Nepal for doing business. At present, the number of commercial banks in the country has reached to 25 including NBL & RBB.

Today the banking industry can be compared with the international standards in terms of their functioning and operations. The legitimate entry of foreign commercial banks with full fledged banking functions led to rapid growth of the banking system, accompanied by greater sophistication due to diversity of instruments and institutions handling different modes of raising funds and deployment of funds.

Some of the important changes in the recent past, which have profoundly reshaped the financial landscape, include.

- Liberalization of exchange controls.
- Gradual privatization of state owned enterprise.
- Opening up of commercial and investment banking to the private sector.
- Establishment of large number of companies, multinational companies.
- Insurance companies.
- Development of capital market and stock exchange.
- Auctioning of government securities.
- Market based rate of return.

- Other liberal banking regulations.

These development present strong challenges and opportunists to commercial banks, especially as these are taking place faster than what the commercial banks have been used in terms of responding to changes.

Current the economy of Nepal is witnessing historic changes in its structure, both positively and negatively, and almost all sectors for the economy are facing new issue and confronting new challenge of transformation by the introduction of market economy in the country.

1.2 Profile of sample Bank

A. Everest Bank limited

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

Its present capital structure is as follows:

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

B. Standard Chartered Bank Nepal Limited (SCBNL)

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

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

1.3. Statement of Problems

Various numbers of commercial banks are increasing in Nepal day by day. There is high flow of money in the market but less viable and investable projects. In the current situation there is mismatch of deposit and investable funds of banks. Therefore, the introduction of a new bank is just sharing a cake rather than pumping new capital or new technology, as Nepalese market is almost felt safeguarded. Few commercial banks are continuously making profit and satisfying their shareholders and returning them adequate profit. This has attracted the potential customers to power their money into banks, as there are very few sectors to make profitable investment and the investors are always reluctant to risk. They do not take initiation to invest in other sectors. Therefore, commercial banks have a lot of deposits but a very little investment opportunity. They are even discouraging people by offering very low interest rate and high minimum threshold balance. This will definitely make adverse impact on the economic development of a country. This has decelerated the pace of economy development. Lack of sound investment policy is another reason for commercial banks not to proper utilizing its deposit.

There are 25 commercial banks operating in Nepal. They collected adequate amount from the mass, however they could not find or locate new investment sectors required to mobilize their funds on the changing context of Nepal. Many banks are increasing liquidity, has caused a downward trend in investment sectors.

It has ensued bad impacts on interest rate to the depositors, lower dividend to the shareholders, lower contribution to national revenues market value of shares etc. For the assessment of such adverse impact, this study has liquidity position of commercial banks.

Thus, the present study will make an attempt to analyze comparative study on financial performance of Everest bank ltd and Standard charter bank ltd. Special problem related to investment function of the commercial banks in Nepal have been presented briefly as follows:

- What factors are affecting to investment of commercial bank?
- What is the liquidity, efficiency of assets management, profitability and risk position of concerned commercial banks?
- What is the empirical relationship between the variables that affect financial performance of banks?
- What are the views and ideas of the financial executives and customers regarding the knowledge on the various aspect of the investment policy adopted by commercial banks?
- What is the comparative position of commercial banks on fund mobilization and investment policy?

1.4 Objectives of the Study

The basic objective of this study is the comparative evaluation of the financial performance adopted by EBL and SCBNL. The specific objectives of this study are as follows:

- To find out the empirical relationship between total investments, deposits, loans and advances net profit and asset and compare them
- To compare various ratio between EBL and SCBNL
- To make a comparative study on fund mobilization and investment patterns of the selected banks.
- To see the trend and its projection of total deposit and loan and advance for five years of EBL & SCBNL.
- To recommend suggestions for the better performance of the banks based on the findings of the analysis.

1.5 Significant of the study

The scope of this study mainly in filling gap in the study of financial performance of concerned banks. Especially, this study deals with comparative study of investment policy of Everest bank ltd and standard charter bank ltd. The study is basically confined to review the investment polices of the banks during the five years period. This study is expected to provide a useful feedback to the policy maker of banks and also to the government and central bank (NRB) to formulate the appropriate strategies for improvement in the performance of banks. Moreover, this study can also be used as reference point by the international organization like ADB, world bank etc.

1.6 Limitation of the Study

This study is about the financial performance of Everest bank and standard charter bank ltd. Every research has its own limitation, which are as follows: this research done for Partial Fulfillment of the Requirements for the Degree of Masters of Business Studies (M. B. S). The main limitations are as follows

1. Although some primary data are included, but the study is mainly based on secondary data collected from the banks. Research based on secondary data may be far from accuracy due to inherent character.
2. A whole study is based on the data of five years period i.e. from fiscal year 2003 to 2007 and hence the conclusion drawn confines only to the above period.

3. Only two banks are taken for the study i.e. EBL and SCBNL.
4. This study concentrates on Deposit, Loan and Advances, Investment on Securities, Total Assets, Equity Capital, Net Profit and Market Price per Share related to investment.

1.7. Organization of the Study

The present study is organized in such way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are as follows:

Chapter-I: Introduction

This chapter describes the basic concept and background of the study, commercial bank in Nepal, introduction of sample bank. Similarly, various problems of the study, objectives of the study and need or significance of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter-II: Review of literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It includes review of books, review of related articles and studies and previous thesis as well.

Chapter-III: Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various source of data related with study and various tools and techniques employed for presenting the data.

Chapter-IV: Presentation and Analysis of data

This chapter analysis the data related with study and presents the finding of the study and also comments briefly on them.

Chapter-V: Summary, Conclusion and Recommendation

On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization for better improvement.

CHAPTER - II
REVIEW OF LITERATURE

In this part, focus has been made on the conceptual framework and the review of literature that is relevant to the financial performance of commercial banks. This chapter is basically concerned with review of literature relevant to the comparative study of financial performance of Everest bank and Standard charter bank ltd. So, every possible effort has been made to grasp knowledge and information that is available from libraries, document collection centers, magazines and concerned commercial banks.

Reviewing and studying process has helped to take adequate feedback to broaden the information bases and inputs to this study. Here mainly two parts conceptual framework & review of related research work are included for the bases and to make the study more purposive.

I) Conceptual review

II) Review of related studies

2.1 Conceptual Review

2.1.1 Concept of Banking

Bank plays a significant role in the development of country. It facilitates the growth of trade and industry of the national economy. However, bank is a resource for economic development, which maintains the self- confidence of various segments of society and extends credit to people.

According to Encyclopedia (1984), “A bank is a business organization that receives and holds deposits of funds from others makes loan or extends credits and transfers funds by written orders 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 vital role in moving money from lenders to borrowers. Banking is a profit seeking business not a community charity. As a profit motive, it is expected to pay dividends and otherwise add to the wealth of its shareholders.

In Nepalese context, there are three types of banks, operated by performing their activities in different sectors, such as, Central Bank (Nepal Rastra Bank), Commercial banks and Development banks.

2.1.2 Concept of Commercial Bank

Commercial banks are that financial institutions which deal in accepting deposits of persons and institutions and giving loans against securities. They provide working capital needs of trade, industry even to agriculture sectors. Moreover, commercial banks also provide technical and administrative assistance to industries, trades and business enterprises.

The American Institute of banking has laid down the four major function of the commercial bank such as receiving and handing deposits, handling payments for its clients, making loans and investments and creating money by extension of credit. A commercial bank is one, which exchanges money deposit, accepts deposit, grants loan and performs commercial banking functions.

Under the Nepal Commercial Bank Act (2031 BS) that has been defined and emphasized about commercial banks they provide short term and long term loan whenever necessary for trade and commerce. They accept deposit from the public and provide loans in different forms. They purchase and discount the bills of exchange, promissory notes and exchange foreign currency.

American Institute of Banking (1972) states that "Commercial bank is a corporation, which accepts demand deposits subject to cheques and makes short-term loans to business enterprises, regardless of the scope of its other services." A commercial banker is a dealer in money and substitute for money such as cheques, bills of exchange. It also provides variety of financial services. Principally, commercial banks accept deposits and provide loans, primary to business firms. Commercial banks pool together the savings of the community under different account that seems they help in capital formation.

2.1.3 Concept of joint Venture Bank

A joint venture is an association of to or more people or parties undertaken to make the operation highly effective with their collective efforts. Joint venture bank plays an important role in the economic development of the country. Joint venture means the joining of forces between two or more enterprise for the purpose of carrying out a specific operation (Gupta, 1994:56).

In Nepal, the history of joint venture bank is not very old. About the history of foreign joint venture banks in Nepal, Nabil Bank Ltd. was established on July12, 1984 under a technical services agreement with Dubai Bank Limited, Dubai, which was later merged with Emirates Bank Ltd., Dubai. Joint venture banks are working under commercial Bank Act 2031B.S, which are backbones for the economic development of the country. Beside this, joint venture banks have been also creating completion for venture banks of Nepal are in a better position than local commercial banks in terms of profit making and services providing. Joint venture banks play vital roles in attracting foreign investment by familiarizing the foreign investors.

2.1.4 Concept of Investment

The banks are such types of institutions, which deal in money and substitute for money. They deal with deposit, credit and credit instrument. Good circulation of credit is very much important for financial institution and bank Unsteady and unevenly flow of credit harms the economy and profitability of commercial banks. Thus to collect fund and utilize it in good investment is the prime objective of commercial banks.

Investment is any vehicle into which funds can be place with the expectation that will preserve or increase in value and generate positive returns (Gitman and Joehank, 1999:201).

Investment is the employment of funds with the aim of achieving additional income for the growth in value. As per the investment is the key factor to achieve additional income for the growth of banks (Singh, 1992:121).

Investment, in its broadest sense, means the sacrifice of certain present value for (Possible uncertain) future value (Sharpe and Gordon, 1999:88). In the view of Sharpe and Garden the investment is the venture that the return is uncertain. So, they have presented their view in the books that bank should look for the safe and less risky investment.

An investment is the current commitment of funds for a period of time to derive a further flow of funds that will compensate the investing unit for the time the funds are committed, for the expended rate of inflation and also for the uncertainty involved in the future flow of funds (Frank and Reilly, 1990:109).

From the above definitions, it is clean that an investment means to trade current funds for some expected stream of payment or benefits, which will exceed the current outlay by an amount of return or interest that will compensate the investor. The return or interest is expected because of uncertainty involved in expected future cash flow. The investment (credit or other investment) is the most important function of commercial banks. It is long-term commitment of bank in the uncertain and risky environment. Investment is a very challenging task of commercial banks. So a bank has to be very careful while investing their funds in various sectors. The success of bank heavily depends upon the proper management of funds.

2.1.5 Meaning of Investment Policy

Investment management of a bank is guided by the investment policy adopted by the bank. Investment policies can be varied in bank to bank. Few banks accept higher risk on investment and other is more conservative for their investment decision. The investment policy of the bank helps the investment function of the bank, which makes the investment efficient and profitable by minimizing the inherent risk.

Investment policies of banks are conditioned, to great extent by the national policy framework; every banker has to apply his own judgment for arriving at credit decision, keeping of course, his banker's credit policy also in mind (Singh and Singh, 1983:203). According to the above definition, government and central bank have to make a sound policy about the investment of commercial banks. They further state, the field of investment is more challenging as is offers relatively greater scope to banker for judgment and discretion in selecting their loan portfolio. But his higher degree of freedom in the field of credit management is also accompanied by greater risk. Particularly during recent years, the credit function has become more complex.

Investment policy fixes responsibilities for the investment disposition of the banks assets in terms of allocating funds for invest and loan, and establishing responsibility for day to day management of these assets. It is assumed the management should be responsible for the investment decision of banks (Baxley, 1987:228).

Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies are careful lending practice is essential in a bank to perform its credit creating function effectively and minimizing the risk inherent in any extension of credit (Crosse, 1963:98).

A commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a generous profit as well as it should be secured and can be converted in to cash whenever needed. Obviously, a firm that is being considered for commercial loan must be analyzed to find out why the firm need money, how much money the firm need and when and how it will be able to repay the loan. Project or business proposal must be carefully scrutinized. Investment policy provides several inputs to the bank through which they can handle their investment operation efficiently ensuring the maximum exposure to risk, which ultimately leads the bank to provide secured loans and investment.

2.1.6 Characteristics of Sound Investment Policy

Income and profit of the bank depends upon its lending procedure and investment of funds on different securities. The greater the credit by a bank, the greater will be profitability. A sound lending policy is not only prerequisite for banks profitability, but also crucially significant for the promotion of commercial saving of a backward country like Nepal. Some main characteristics of sound lending and investment policies are given below.

a) Safety and Security

The bank should invest its funds in those securities, which are subject to too much depreciation and fluctuation because little difference may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once or who may earn million in a minute also. The bank should accept that type of securities, which are commercial, durable, and marketable and have high marketable price.

b) Liquidity

People deposit money at bank in different account with confidence that the bank will repay their money when they are in need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess funds in different securities or at the same time of lending, So that it can meet current short-term obligation, when they become due for payment.

c) Profitability

Commercial banks can minimize its volume of wealth through maximization of return on their investment and lending. So, they must invest their funds where they gain maximum profit. The profit of commercial banks mainly depends on interest rate, volume of loan, its time period and nature of investment in different securities.

d) Purpose of Loan

The loan should be utilized in purposed plan. Every thing related with the customer should be examined before lending. If borrower misuses the loan granted by the bank they can never repay and bank will poses heavy bad debts. Detailed information about the scheme of the project activities should be examined before lending.

e) Tangibility

Though it may be considered that tangible property does not yield income apart from direct satisfaction of possession of property, many times intangible securities lost their value due to price level inflation. So commercial banks should prefer tangible security to intangible one.

f) Legality

Every financial institution must follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of finance and other while issuing securities and mobilizing funds illegal securities will bring out many problems to the investors that may lose reputation and goodwill of the bank.

g) Diversification

The bank should be careful that while granting loan, it should not be always in one sector. To minimize risk and minimize profit, a bank must diversify its investment on different sectors or make portfolio investment. Diversification of loans helps to sustain loss as, if securities of some companies deprived then there may be appreciation in the securities of other companies.

2.1.7 Some important terms

The study in this section comprises of some important banking terms for which efforts have been made to clarify the meaning, which are frequently used in this study, which are given below.

a) Deposits:

Deposit means the amounts deposited in different accounts such as fixed account, saving account, current accounts etc. of a bank or financial institution deposit is the main source of fund of the financial institution.

For a commercial bank, deposit is the most important source of the liquidity. For bank's financial strength, it is treated as a barometer. In the word of Eugene, "A Bank's deposits are the amount that it owes to its customers". Deposits are the lifeblood of the commercial bank. Though they constitute the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract mort and more deposits. For accounting and analyzing purpose, deposits are categorized in three headings. (Limbu, 2008:59)

1. Current deposits
2. Saving deposits and
3. Fixed deposits

b) Loan and advances:

This is the primary source of income and most profitable asset to a bank. A bank is always willing to lend as more as possible since they constitute the larger part of revenue. But bank has to be more careful while providing loans and advances since they may must be realized at short period of time. And sometimes they may turn into bad debt. Therefore it is wise not to rely on them. At the time of emergency for all banks. A commercial bank hardly lends money for along period of time. It lends money for a short period of time that can be collected at a short period of time. The commercial banks are never bounded to provide long term loan because it has to synchronize the loans and advances with the nature of deposits they receive loans and advances are provided against the security of the immovable and movable properties. Banks provide the loans in the various overdraft cash credit, direct loans and discounting bills of exchange.

c) Investment on government securities, shares and debentures

Though a commercial bank can earn some interest and dividend from the investment on government securities, shares and debentures, it is not the major portion of income, but it is treated as a second source of banking business. A commercial bank may extend credit by purchasing government securities, bond and shares for several reasons.

Some of them are given as:

i) It may want to space its maturates so that the inflow of cash coincide with expected withdrawals by depositors or large loan demands of its customers.

ii) It may wish to have high-grade marketable securities to liquidate if its primary reserve becomes inadequate.

iii) It may also be forced to invest because the demand for loans has decreased or is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities that is since depositors' may demand funds in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value. (Khadka, 1998:20)

d) Investment on Other Company's Share and Debentures

Most of commercial banks invest their excess fund to the share and debenture of the other financial and non-financial companies. Due to excess funds but least opportunity to invest those funds in much more profitable sector and to meet the requirement of Nepal Rastra Bank (NRB) directives. Now a day the commercial banks have purchased share and debenture of regional development bank, NIDC'S and other development banks. (Limbu, 2008:61).

e) Other Use of Fund

A commercial bank must maintain the must minimum bank balance with NRB i.e. 6% for fixed deposits and 8% for each of current and saving deposit account in local currency. Similarly 3%cash balance of local cash balance, in local currency, accounts must be maintained in the vault of the bank .Again a part of the fund should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationary etc. (Limbu, 2008:61)

f) Off-balance Sheet Activities

Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some example of these items is letter of credit, letter of guarantee, bills of collection etc. These activities are very important; as they are the good source of profit of bank through they have risk. Nowadays, some economists and finance specialists to expand the modern transactions of a bank stressfully highlight such activities. (Limbu, 2008:61)

2.2 Review of Related Studies

2.2.1 Review of Related Articles/ Journals

In this section, efforts have been made to examine and review of some related articles in different economics journals, World Bank discussion papers, magazines, newspapers and other related books.

Morris (1990) in the research paper on "Latin America's banking system in the 1980's" concluded that most of the banks concentrated on compliance with central bank rules on reserve requirements, credit allocation (investment decision) and interest rates. While analyzing loan portfolio, quality, operating efficiency and soundness of banks investment management has largely been overlooked.

He further added that mismanagement in financial institutions has involved in adequate and overoptimistic loan appraisal, higher risk diversification of loan portfolio and investments, high- risk concentration, related parties lending, etc are major cause of the investment and loan that has gone bad.

Similarly, Bista (2048, BS) in the research paper, "*Nepalma Adhunik Banking Byabasta*" made an attempt to highlight some of the important indicators, which have contributed to the efficiency and performance of joint venture banks in the field of commercial banks. At the end of the paper the researcher has concluded that the establishment of joint venture banks a decade ago marks beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, hypothecation consortium investment in loan and modern fee based activities into the economy. These are indeed significant milestone in the financial development process to the economy.

Similarly, Shrestha (2055, BS) in the article, "*lending operation of commercial banks of Nepal and its impact on GDP*" presented with the objectives to make an analysis of contribution of commercial bank's lending to the gross domestic product (GDP) of Nepal. The researcher set hypothesis that there has been positive impact of lending of commercial banks to GDP. In research methodology, the researcher considered GDP as the dependent variable and various sectors of lending like agriculture, industrial, commercial, service and social sectors as independent variables. A multiple regression technique had been applied to analyze the contribution.

The multiple analyses had shown that all the variables except service sectors lending has positive impact on GDP. Thus, in conclusion the researcher accepted the hypothesis i.e. there had been positive impact by the lending of commercial banks in various sectors of economy except service sector investment.

Pyakuryal (1987), in the article, "*Workshop on Banking and National Development*" writes, "the present changing context of the economy calls for a substantial revitalization of the resources. How much they have gained over the years depends chiefly on how far they have been able to utilize of resources is as much crucial as the mobilization. The under utilization of resources not only results in loss of income but also goes further to discourage the collection of deposits."

Thus is his paper, he has emphasize on proper utilization of mobilization resources and profitability increment. The researcher further indicates that under utilization of resources in an opportunity loss of the banks and commercial bank will not be motivated to collect public deposit.

Kishi (1996), in the article states, concludes that following an introduction of the reform in the banking sectors as an integrate parts of the liberal economic policy, more banks and finance companies have come up as a welcome measure competition.

However, because of poor investment polices and lack of internal control the two governments controlled banks. Nepal Bank limited and Rastriya Banijya Bank's non-performing assets have increased substantially. Now, Nepal Rastra Bank has awarded the management contract to foreign companies to improve the conditions of non-performing assets. The policy of giving management to professional consultant is a part of the financial sector reform policy of NRB.

Bajracharya (2047, BS) in the article, "*Monetary policy and deposit mobilization in Nepal*" has concluded that mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal. Commercial Banks and financial intermediary for a accepting deposit of private sector and providing credit to the investor in different sectors of the economy. The writer added that the public deposit is the major resources of credit and investment of the commercial banks in Nepal.

Shrestha (2055, BS), has given a short glimpse on the "*Portfolio Management in Commercial Bank, Theory and Practice,*" The portfolio management becomes very important for both individual as well as institutional investors. Investors would like to select best mix of investment assets subject to following aspects.

1. Higher return which is comparable with alternative opportunities available according to the risk class of investors.
2. Good liquidity with adequate safety of investment.
3. Certain capital gains.
4. Maximum tax concession.
5. Flexible investment.
6. Economic, efficient and effective investment mix.

In view of above aspects, following strategies should be adopted.

7. Do not hold any single security i.e. try to have a portfolio of different securities.

8. Do not pull all the eggs in the one basket i.e. to have a diversified investment.
9. Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower of return but with added objective of wealth maximization.

The writer presented two types of investment analysis technique i.e. fundamental analysis and technical analysis to consider any securities such as equity, debentures or bonds and other money and capital market instrument. The writer suggested that banks having international network can also offer access to global financial markets. The writer pointed out the requirements of skilled Manpower, research and analysis team and proper management information system (MIS) in any commercial bank to get success in any portfolio management and customer confidence.

According to the writer, the portfolio management activities of Nepalese commercial banks at preset art in growing stage. However, on the other hand, most of banks are not doing such activities so far because of following reasons.

1. Unawareness the clients about the service available.
2. Hesitation of taking risk by the clients to use such fatalities.
3. Lack of proper technique to run such activities in the best and successful manner.
4. Less developed capital market and availability of few financial instruments in the financial market.

Regarding the joint venture commercial banks, they are very eager to provide such service but because of above-mentioned problems, very limited opportunities are available to the banks for exercising the portfolio management. Mr. Shrestha has also explained and recommends the banks the following order to get success in portfolio management and customer's confidence.

1. Should have skilled personnel.
2. Should do strong and deep research and analysis.
3. Should have proper management information system.

4. Should make portfolio investment for their excess, funds or deposit collection or surplus money.

Similarly, Sharma (2000) found same result that all the commercial bank are establishing and operating in urban areas. In this study, “*Banking the future of competition*”, the writer's achievements is:

1. Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the branch of Nepal Bank Limited and Rastrya Banijya Bank Ltd. are running in these sectors.
2. Commercial banks are charging higher interest credit lending.
3. They have maximum tax concession.
4. They do not properly analyze the credit the credit system.

According to the writer, due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and on personal guarantee, whose negative side effect would show colors only after four or five years. He has further included that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

Thapa (1994) expresses his views in a research paper, “*Financial system of Nepal*” that the commercial banks including foreign joining venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds.

Out of all commercial banks (excluding two newly opened commercial banks), Nepal Bank limited and Rastriya Banijya Bank are operating with nominal profit or loss, the later turning towards negative from time to time. Because of non-recovery of accrued interest, the margin between interest income and interest expenses is declining. Because of these two local banks, in traditional off-balance sheet operation, these banks have not able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overhead. Similarly, due to accumulated overdue and defaulting loans Profit positions of these banks have been seriously affected. On the other hand, the foreign venture banks have been functioning in all efficient way. They are making profit year after year and have been distributing bonus to their employees and dividends to their shareholders.

At the end of his article, he concludes that by its very nature of public sector, the domestic banks couldn't compete with the private sector banks, as the government decided. to hand over the ownership as well as the management of these banks to private sector.

2.2.2 Review of Thesis

Under the topic of Investment Policy, students have conducted several thesis works. Some of them, which are relevant for this thesis, are presented below.

Mr. Ojha (1997) has given conclusion in the thesis, "*A study on priority sector investment of commercial banks (with reference to Rastriya Banijya Bank)*" that bank was unable to meet the 12% of required lending in the priority sector as set under NRB directives. During the five years study period, the researcher further found that low interest rate in priority sector but increasing trend of overdue and miss-utilization. The researcher recommended in improving supervision and evaluation of borrowers paying capacity and reducing the overdue through integrated program of priority sector loan.

The researcher studied about investment on priority sector of RBB and showed that the bank is unable to invest as NRB directive percentage on priority sector. But is should be kept mind that commercial banks are profit oriented organization and they invest more on highly return sector to long life banking business and are responsible to develop economy. So they must invest on other sectors too.

Mr. Shahi (1999) conducted a study entitled "*Investment Policy of commercial banks of Nepal.*" The researcher's main objectives of the study was to study the fund mobilization and investment policy with respect to fee based off-balance sheet transaction and funds based on-balance sheet transaction and to evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit. Through is research, the researcher found that the liquidity position of Nepal Bank Ltd. is comparatively high than the of joint venture banks. NBL is comparatively less successful in on balance sheet as well as off balance sheet operation than that of other joint venture banks. It has not followed any definite policy with regard to the management of its assets. Similarly profitability position of NBL is comparatively not better than that of other joint venture banks. Growth ratio of NBL is also lower than other banks.

The study recommended that to get success itself and to encourage financial and economic development of the country through industrialization and commercialization. Commercial bank must mobilize its funds in different sectors such as purchasing of shares and debentures of other financial and non-financial companies. The researcher recommended that banks should make continuous effort to explore new competitive and high yielding investment opportunities to optimize its investment portfolio. The study pointed out the loan default in commercial bank is a result of the necessary skill of project appraisal, improper collateral evaluation, irregular supervision and lack of entrepreneurship attitude. The researcher also recommended to formulate a policy enhances its income from off balance sheet as well as on-balance sheet operation. The researcher also suggested enacting loan recovery act to enhance the recovery loan.

This study is based on investment policy of Nepal Bank Limited with other joint venture banks (NABIL, NGBL and NIBL). It would not be responsible to quote good or bad about investment policy of NRB only by comparing it with other three banks. Since NBL is a semi government bank with huge branches, this bank is obviously different from other joint venture banks as it is some how affected by government interference.

Ms. Thapa (1999) has conducted a study entitled *"A comparative study on investment policy of Nepal Bangladesh Bank Ltd. and other joint venture banks (Nepal Arab Bank Ltd. and Grindlays Bank Ltd.*)".The researcher's main objective of study was to examine the fund mobilization and investment policy of NB Bank Ltd. through off balance sheet and on balance sheet activities in comparison to other two banks and to evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit.

Ms. Thapa has found that NBBL is not in better position regarding its on balance sheet as well as off balance sheet activities in compare to NABIL and NGBL and its does not seem to follow any definite policy regarding the management the management of its assets. The researcher has stated that NBBL has maintained high growth rates on comparison to other banks though it is not successful to make enough investment and NBBL is success in increasing its sources of funds and its mobilization.

The researcher has concluded that the position of NBBL in regards to utilization of the funds to earn profits is not better in comparison to NABIL and NGBL, NBBL has collected funds in comparatively higher cost and playing 6% to 7.75% interest rate in various deposits. Further NBBL does not seem to have adequate recovery rate.

The researcher has compared Nepal Bangladesh Bank Ltd. with other joint venture banks (NABIL & NGBL). Her study is based on five years period from 1994/95 to 1998/99. It would not be responsible to analyze investment policy of any bank as success or unsuccessful by study of only five years data.

Mr. Tuladhar (1999) has conducted a study entitled "*A Study Investment Policy of Nepal Grindlays Bank Ltd. in comparison to other join venture banks (NABIL and HBL)*." The researcher's main objectives of study was to evaluate liquidity, assets management, efficiency, profitability, and risk position of NGBL in comparison to NABIL and HBL and to examine the fund mobilization and investment policy of NGBL through off balance sheet and on balance sheet activities in comparison to the other two banks.

Through his research, Mr. Tuladhar found that NGBL had been successful to maintain in the best way both liquidity position and their consistency among three banks. NGBL had successful to maintain and manages assets towards different income generating activities. Income from loan and advance and total investment is the main income source of NGBL and it can affect the bank's net profit. Profitability position of NGBL is better than NABIL and HBL.

The researcher concluded that joint venture banks of Nepal are not effectively informative to their clients. These banks have given first priority on education sectors while making investment. The poverty stricken and deprived sectors are given second priority. The study found that the reason behind not providing banking facilities to the rural areas is that these banks are profit oriented only.

He has performed a comparison on investment policy of NGBL with NABIL and HBL NABIL and HBL both are successfully operating from more than ten years. So it would not be reasonable to make decision about the condition of investment policy of NGBL only by comparing it's with two successful banks.

Mr. Khadka (2000) conducted a study entitled "*A study on Investment policy of NABIL in comparison to other joint venture banks of Nepal*" The main objective of the study was to evaluate the liquidity, assets management, efficiency, profitability and risk position of NABIL in comparison to other JVBs and to study the fund mobilization and investment policy with respect to fee based off-balance sheet transaction and fund based on-balance sheet transaction.

The researcher found that liquidity position of NABIL is worse than that of Nepal Grindlays Bank Ltd. and Nepal Indosuez Bank Ltd. NABIL has more portions of current assets as loan and advances but less portion as investment on government securities. NABIL is comparatively less successful in on-balance sheet operation as well as off-balance sheet operation than that of other JVBs. NABIL is more successful in deposit mobilization but failure to maintain high growth rate of profit in compare to NGBL and NIBL.

The researcher has suggested the joint venture banks to be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors and customers. The researcher has strongly recommended NABIL to utilize its risky assets and shareholders fund to gain highest profit margin and reduce its expense and collect cheaper fund for more profitability. The researcher has recommended investing its funds in different sectors of investment and administering various deposit scheme, price bond scheme, gift cheque scheme, house building deposit scheme etc. The researcher has recommended following liberal lending policy and investment more percentage of total deposit as loan and advances.

This study is based on five years period 1992 to 1996. He has taken only two banks to compare the investment policy of NABIL with NGBL and NIBL among thirteen commercial banks of Nepal. It would not be to quote investment policy of NABIL as good or bad by only five years data.

Ms. Gautam (2001) conducted a study entitled "*Investment analysis of the finance companies in context of Nepal.*" The researcher has found the investment in government securities of finance companies is decreasing Major source of finance company is utilized as loan and advances. Use of fund towards the hire purchase loan is decreasing in finance companies and investment on housing loan is more.

The researcher has recommended that the overall investment policy of the finance companies should be concentrated on productive sector such as business and industry loan rather than consumer goods such as hire purchase and housing plan. This would contribute on the capital formulation for overall national development. Further, she said that the credit monitoring wind should be strong enough to ensure timely cash inflow from credit generated.

Ms. Gautam has tried to analyze the investment policy of finance companies. He study does not cover the investment analysis of commercial bank and other institution. Her study also analyzes the comparative study of the commercial banks and finance companies.

Mr. Shrestha (2004) on his thesis entitled **"***Role of Rastriya Banijya Bank in priority sector credit & its recovery***"** has tried to reveal the following objectives:

- To identified the compliance of the target loan limit to be invested in priority sector credit as prescribed by NRB.
- To analyze the relationship of credit (loan & advances) with total deposit & also with PSC of RBB.
- To examine the situation of deprived sector credit (DSC) of RBB.
- To analyze the disbursement, recovery status & NPA position under Priority Sector Credit (PSC) of RBB.(Purpose wise)

The major findings made by the researcher are as follows:
Bank's total no of borrowers in PSC about 76 % to 78 % of borrowers lie under DSC & out of the total loan outstanding of RBB invested on PSC about 28 % to 29 % has been invested under DSC. RBB is very much success in complying the NRB policy. Bank was not able to fully utilize the collected deposits in a proper way. The study reveals that the disbursement & recovery under DSC is in decreasing trend; however the ratio of repayment to disbursement is in increasing trend. Loan repayment under DSC was more satisfactory from industry sector that the agriculture sector & services sector. The trend valves of recovery of RBB under PSC shows that the recovery position of the bank is in downward sloping whereas its overdue loan under PSC is in increasing trend which brings no return to the bank.

Mr. Gurung (2006) explored in his research "*Lending policy and recovery management of Standard Chartered Bank Nepal ltd and Nabil bank ltd*" has found out the following result.
The deposit collection by the banks shows that increasing but in a fluctuating trend. The trend analysis of deposit collection the increase in deposit collection in the forthcoming years will continue. Out of different types of deposit collection account, higher account has been collected in saving deposit account. Out of the total deposit collection, SCBNL has disbursed 36% of average as a loan and Nabil has disbursed 52% of its deposit

collection as a loan disbursement to deposit collection ratio of commercial banks, it is around 60%. This ratio is quite low incasing of sample bank especially of SCBNL. It is further proved by the calculation of correlation coefficient, which is 0.75 and 0.23 of SCBNL and Nabil respectively.

In order to analyze the recovery management of these banks, their loan loss provision and NPL were analyzed. While looking at the loan loss provision of SCBNL it is in decreasing trend from 2002. The correlation coefficient of loan loss provision and loan disbursement of SCBNL is 0.36. While looking at he future trend of loan loss provision its shows the increasing trend in case of SCBNL and the trend of Loan loss provision is decreasing every year in case of Nabil, which is proved by the trend analysis. The correlation of loan loss provision and loan disbursement of Nabil is negative.

The main statement of his problem is there many banks are mushrooming although banks are not interested to expand their branch in remote rural area. There are difficulty and length formality of procedure for long term and medium term as well as short-term loan, Low deposit habit of Nepalese people and lack of strong recovery act of lending and bad debt. The main objectives of the dissertation are loan and advance providing procedure of bank, lending and investment sector of bank, recovery condition of both SCBNL and NABIL bank.

Mr. Rana (2007) conducted a research entitled *"A Comparative Financial Performance Analysis of Nabil and Himalayan Bank Limited*". The objective of the research study was to evaluate liquidity position activity and operating ratio and earning price per share, book value per share, dividend per share and to show relationship among these variables of Nabil Bank Limited and Himalayan Bank Limited.

The researcher concluded that NABIL had better current ratio then HBL but the HBL had very much cash and bank balance to total deposit ratio and cash and bank balance to current assets ratio than that of HBL. So, HBL had found to have better liquidity position. The researcher further concluded that both the banks were utilizing most of their assets efficiently in order generate profit. But both the bank did not earn satisfactory profit during the research period. Though the net profit of these banks were not satisfactory they earned high return on 'shareholders' equity because they had used more debt in the capital structures of other banks

Mr. Gupta (2007) conducted a research study entitled *"Comparative Analysis of Financial Performance of Commercial Banks in Nepal"*. The researcher had taken Everest Bank Limited, Bank of Kathmandu and Nepal Standard Chartered Bank Limited as sample. The major objective of the study was to evaluate Liquidity Ratio, Activity Ratio, Profitability Ratio and other market related ratios of these sample banks. The researcher had used descriptive and analytical research design in writing the research study. The research had also used F-Test in testing the hypothesis.

The researcher study concluded that among three sample bank BOK maintained the highest liquidity position during the research period in comparisons to other two banks. The study further added that SCBNL had the excellent assets utilization in order achieve the goal of maximizing the shareholder's wealth. In the same way SCBNL generated the highest net profit and paid the highest dividend per share to shareholders.

The study further stated that there is no significance difference among the commercial banks in terms of net profit of total assets ratio, and dividend payout ratio. The review of above relevant thesis has not doubt enhanced the fundamental understanding and foundation knowledge base, which is prerequisite to make this study meaningful and purposive.

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

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

The main objective of the research study are to evaluate various financial ration of the Nabil Bank, To analyze the portfolio of lending of selected sector of banks, To determine the impact of deposit in liquidity and its effect on lending practices and To offer suitable suggestions based on findings of this study.

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

Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. Trend analyses for loan & an advance is done to see future loan & advances. Trend analyses for Total asset is calculate to see future total asset.

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. In the study every aspect of banks seems to be better and steady in every year. Its all analysis indicates better future of concern bank.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction

In this chapter research methodology is presented for achieving the predetermined objective which is already stated. One various statically and financial instrument will be used for the required purpose. It counts on the resources and techniques available and to the extent of their reliability and validity in this chapter. This research methodology has done to fulfill the objective of comparative study of financial performance of bank i.e. Everest Bank Ltd and standard charter bank ltd. The research methodology adopted in this chapter follows some limited but crucial steps aimed to achieve the objective of the research. Research methodology refer to the various sequential steps (along with a rationale of each such steps) to be adopted by researcher in studying a problem with certain objective in view.

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

3.2 Research Design

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

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

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

3.3 Population and Sample

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

3.4 Nature and Sources of data

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

3.5 Data Collecting Procedures

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

3.6 Tools and Techniques used

"The analysis of data consists of organizing, tabulating, and performing statistical analysis" (Wolf and Pant, 1998:201)

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

3.6.1 Financial Tools

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

3.7 Analysis of Financial Rations

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

3.7.1 Liquidity Ratio

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

The following ratios are evaluated and interpreted under liquidity ratios:

i) Current Ratio

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

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

Where, current assets = cash in hand, cash at bank, bills receivable, sundry debtors or account receivable, short term loan & advances, inventories , prepaid expenses etc.
Current Liabilities = Bills Payable, Sundry Creditor, Accrued expenses, Bank overdraft, short term loan, provision for taxation, etc.

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

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

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

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

iii) Investment of Government Securities to Current Assets Ratio

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

Investment of Government Securities to Current Assets Ratio

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

iv) Loan and Advances to Current Assets Ratio

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

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

v) Cash and Bank Balance to Total Deposit Ratio

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

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

3.7.2ActiviRatio

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

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

i) Loan and Advance to Total Deposit Ratio

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

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

ii) Total Investment to Total Deposit Ratio.

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

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

iii) Loan and Advances to working Fund Ratio

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

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

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

3.7.3 Profitability Ratio

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

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

i) Return on Equity (ROE)

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

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

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

ii) Interest Earned to Working Fund Ratio

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

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

iii) Interest Paid to Total Assets Ratio

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

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

iv) Interest Earned to Operating Income Ratio

This ratio reflects the extent to which the banks have successfully mobilized its fund in interest bearing assets. It measures the magnitude of interest income in total income. Where, Total operating income includes the interest income, commission & discount, income from dividend, foreign exchange income and others.

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

v) Return on Total Assets Ratio

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

Where,

Net profit includes the profit that is left to the internal equities after all costs, charges and expenses.

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

vi) Return on Loan and Advances Ratio

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

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

vii) Earning per Share (EPS)

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

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

3.7.4 Lending Efficiency Ratio

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

i) Loan Loss Provision to Total Loan and Advances ratio

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

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

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

ii) Non-Performing Loan to Total Loan and Advances

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

$$\text{Non-performing loan to total loan and advances} = \frac{\text{Non-performing loan}}{\text{Total Loan and advances}}$$

iii) Interest Expenses to Total Deposit Ratio

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

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

3.8 Statistical Tools

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

3.8.1 Arithmetic Mean

An average is a single value related from a group of values to represent them in someway, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. There are various types of averages. Arithmetic mean (AM, Simple & Weighted), median, mode, geometric mean, harmonic mean are the major types of averages. The most popular and widely used measure representing the entire data by one value is the AM

Mathematically:

Arithmetic Mean (AM) is given by,

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

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

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

n = Number of observations

3.8.2 Correlation Coefficient (r):

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 categorized three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non- linear. Here, we study simple correlation only." In simple correlation the effect of others is not included rather these are taken as constant considering them to have no serious effect on the dependent.

Formula

$$r_{x1x2} = \frac{N\Sigma X_1X_2 - (\Sigma X_1)(\Sigma X_2)}{\sqrt{[N\Sigma X_1^2 - (\Sigma X_1)^2]}\sqrt{[N\Sigma X_2^2 - (\Sigma X_2)^2]}}$$

Whereas,

r_{x1x2} = Correlation between X_1 and X_2

$N\Sigma X_1X_2$ = No. of Product observation and Sum of product $X_1$and X_2

$\Sigma X_1\Sigma X_2$ = Sum of Product $X_1$and sum of Product X_2

3.8.3 Coefficient of variation (c.v.):

The coefficient of variation is measures the relative measures of dispersion , hence capable to compare two variables independently in term of variability**.**

$$\text{c.v.} = \frac{\acute{o}}{x} * 100$$

σ = Standard deviation

x = sum of the observation

3.8.4 Probable Error:

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

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

Here, r = Correlation coefficient

N = Number of pairs of observations

If the value of ‘r’ is less than the probable error, there is no evidence of correlation, i.e., the value of ‘r’ is not at all significant. Then, if the value of ‘r’ is more than six times of the probable error, the coefficient of correlation is practically certain, i.e., the value of ‘r’ is significant.

3.8.5 Trend Analysis

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

Y= a + bx

Here,

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

Where,

y= Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

CHAPTER - IV

PRESENTATIONS AND ANALYSIS OF DATA

This chapter deals with the analysis, presentation, interpretation and major finding of relevant data of concern commercial Bank in order to fulfill the objectives of research study. To obtain better result, the data have been analyzed according to the research methodology as mentioned in third chapter. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation. With the help of this analysis, efforts have been made to highlight "comparative study on financial performance of Everest bank and Standard charter Bank" as well as other cases or problems also. For analysis, different types of analytical methods and tools such as financial ratio analysis as well as statistical analysis are used. This chapter deals with the various aspects of credit management such as financial ratios, impact of deposit in liquidity, priority sector lending, lending efficiency, correlation and trend analysis.

4.1 Financial Statement Analysis

Financial analysis is done by applying various financial tools in order to clear picture on the viability of the project. The financial analysis is done to ascertain the liquidity, profitability, leverage, debt servicing and interest servicing ability of the firm. The concept of financial statement analysis has been already discussed in previous chapter. Here, we study and analyze the data by using accounting tools.

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

i) Analysis of financial ratios

ii) Statistical tools

4.1.1 Liquidity Ratio

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

The following ratios are evaluated and interpreted under liquidity ratios:

i) Current Ratio

Current ratio indicates whether the concern has instant ability to payout the current liabilities as they mature. The ratio is the yardstick t judge the soundness of the short term financial position of the business unit or industry. High ratio indicates sound liquidity position of the bank and vice-versa. But too high ratio is not good for bank since it reveals the under utilization of fund. Standard of current ratio is 2:1.

In the following table, we can see the data relating to Current Ratio of EBL.

Table No 4.1

Current ratio of EBL and SCBNL

(RS IN MILLION)

Year	EBL			SCBNL		
	Current Assets (Rs)	Current Liabilities (Rs)	Current Ratio (Times)	Current Assets (Rs)	Current Liabilities (Rs)	Current Ratio (Times)
2002/2003	7942.62	6717.06	1.18	11134.34	20734.38	0.54

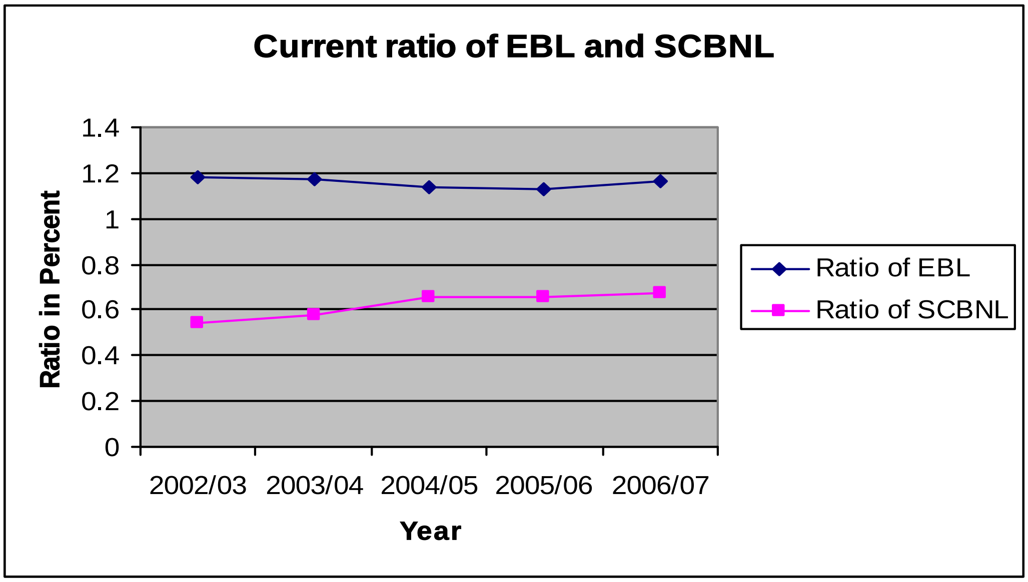
2003/2004	9490.20	8085.94	1.17	13540.69	23349.48	0.58
2004/2005	11598.45	10138.99	1.14	14345.56	21795.58	0.66
2005/2006	15807.2	13932.91	1.13	17245.92	25946.61	0.66
2006/2007	21262.48	18296.45	1.16	19678.85	28976.62	0.67
Mean			1.16			0.63

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

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

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

Figure No 4.1



ii) Cash and Bank balance to Current Assets Ratio

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

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

Table No 4.2

Cash and Bank balance to Current Assets Ratio

(RS IN MILLION)

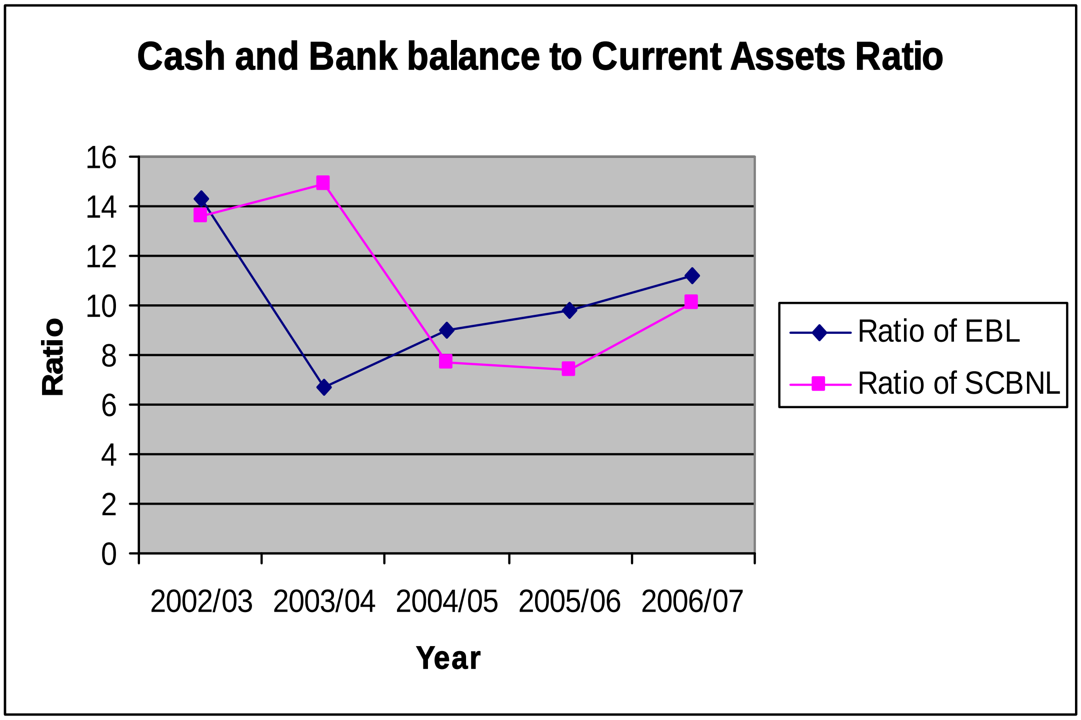
Year	EBL			SCBNL		
	Cash and Bank Balance(	Current Assets (Rs)	Rat io (%)	Cash and Bank	Curren t Assets	Rat io (%)

	Rs)			Balance (Rs)	(Rs)	
2002/2003	1139.57	7942.62	14.35	1512.31	11134.34	13.58
2003/2004	631.80	9490.20	6.66	2023.16	13540.69	14.94
2004/2005	1050.00	11598.45	9.05	1111.12	14345.56	7.75
2005/2006	1553.00	15807.2	9.82	1276.24	17245.92	7.40
2006/2007	2391.42	21262.48	11.25	1992.18	19678.85	10.12
Mean			10.23			10.76

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

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

Figure No 4.2



iii) Investment of Government treasury bills to Current Assets Ratio

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

The following table shows the figure of this ratio

Table No 4.3

Investment on Government treasury bills to Current Assets

(RS IN MILLION)

Year	EBL			SCBNL		
	inveset ment on Gvt. Tresuar y bills	Curren t asset	Rat io (%)	investm ent on Gvt. Tresuar y Bills	Curre nt Assets	Rat io (%)
2002/2 003	1537.30	7942.6 2	19. 36	4438.5 2	11134 .34	39. 86
2003/2 004	2392.10	9490.2 0	25. 21	6130.4 5	13540 .69	45. 27
2004/2 005	1873.71	11598. 45	16. 15	5089.3 7	14345 .56	35. 48
2005/2 006	3322.44	15807. 2	21. 02	7210.5 0	17245 .92	41. 81
2006/2 007	3614.54	21262. 48	17. 00	8136.2 1	19678 .85	41. 34
Mean			19. 75			40. 76

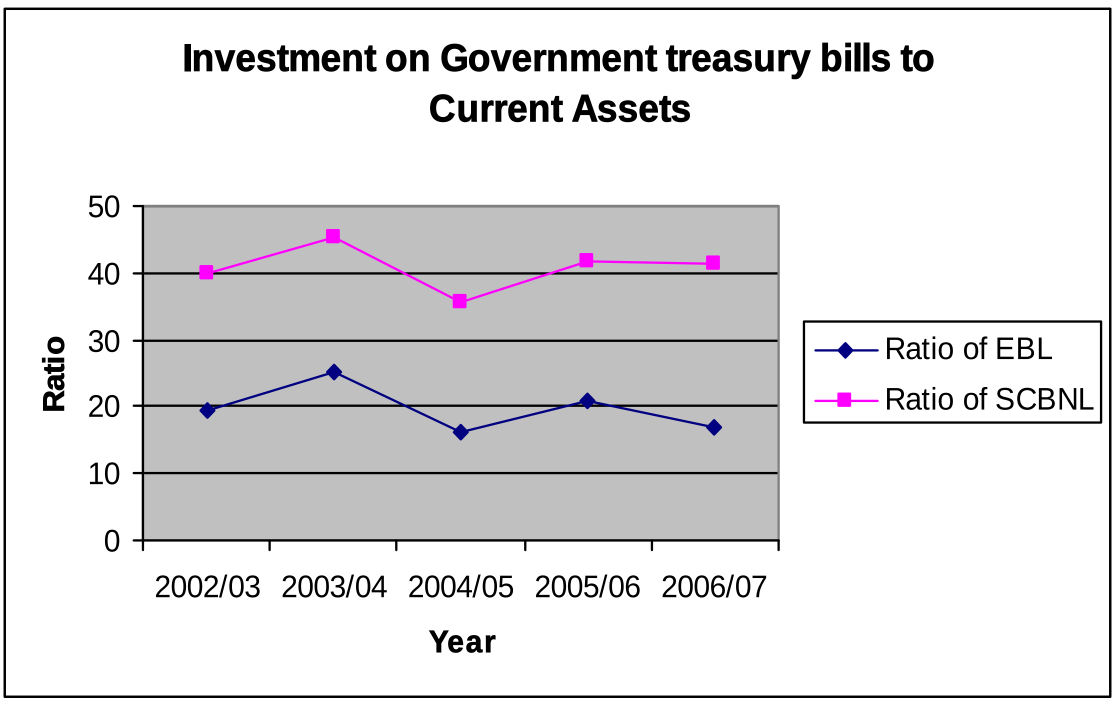
Source: Financial statement of Bank 2002/03 to 2006/07

Above table shows that the investment on government treasury bills to current assets of EBL and SCBNL are in fluctuating trend. The highest ratio of EBL is 25.21% and

SCBNL is 45.27% in 2003/04. and the lowest ratio of EBL and SCBNL are 16.15% and 35..48% in 2004/05 respectively.

From the table we notice that mean ratio of EBL and SCBNL are 19.75% and 40.76% respectively. SCBNL has higher ratio in every year and mean too. It means SCBNL has invested more money in risk free assets than that of EBL. In another words EBL has emphasized on more loan and advances and other short term investment than investment in govt. securities. For minimization of investment risk, EBL should divert its investment in govt. securities. Investment on Gvt securities to current asset Ratio is represented in figure as follow.

Figure No 4.3



iv) Loan and Advances to Current Assets Ratio

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

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

Table No 4. 4

Loan and Advance to Current Assets Ratio.

(RS IN MILLION)

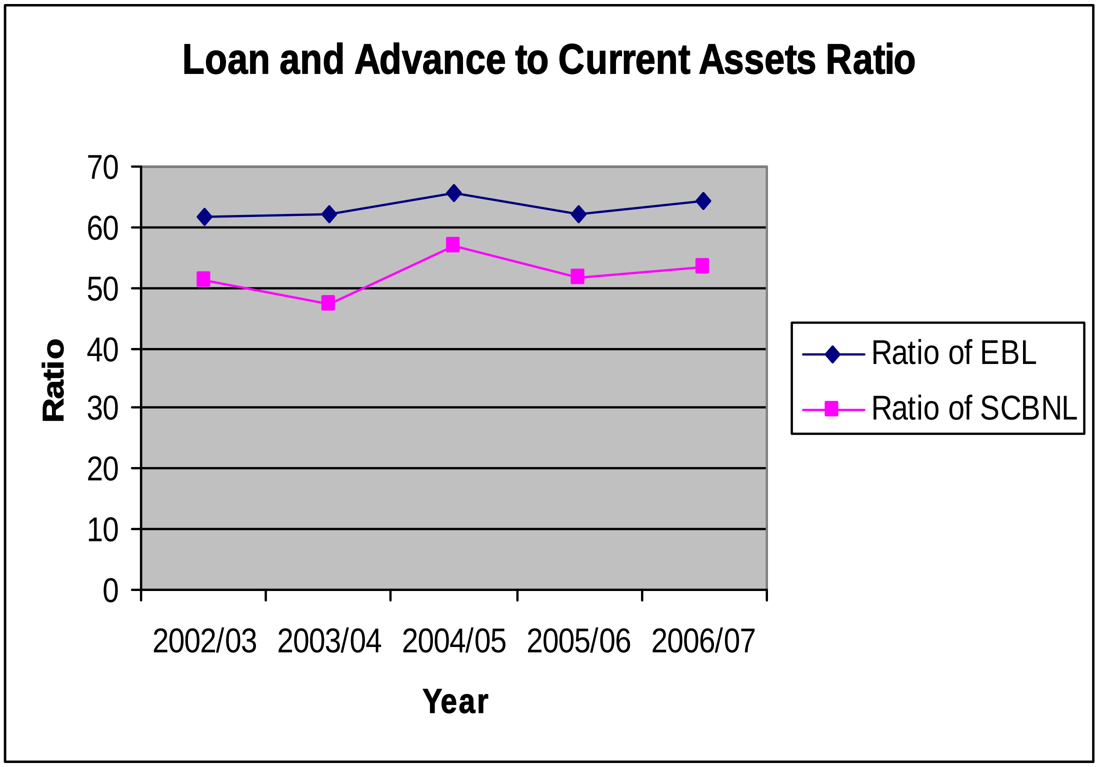
Year	EBL			SCBNL		
	Loan & Advances	Current Assets	Ratio (%)	Loan & Advances	Current Assets	Ratio (%)
2002/2003	4908.46	7942.62	61.80	5695.82	11134.34	51.16
2003/2004	5884.12	9490.20	62.00	6410.24	13540.69	47.34
2004/2005	7618.67	11598.45	65.69	8143.21	14345.56	56.76
2005/2006	9801.30	15807.2	62.00	8935.42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

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

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

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

Figure No 4.4



V) Cash and Bank Balance to Total Deposit Ratio

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

The following table shows the ratio measurement of the years.

Table No 4.5

Cash and Bank Balance to Total Deposit Ratio

(RS IN MILLION)

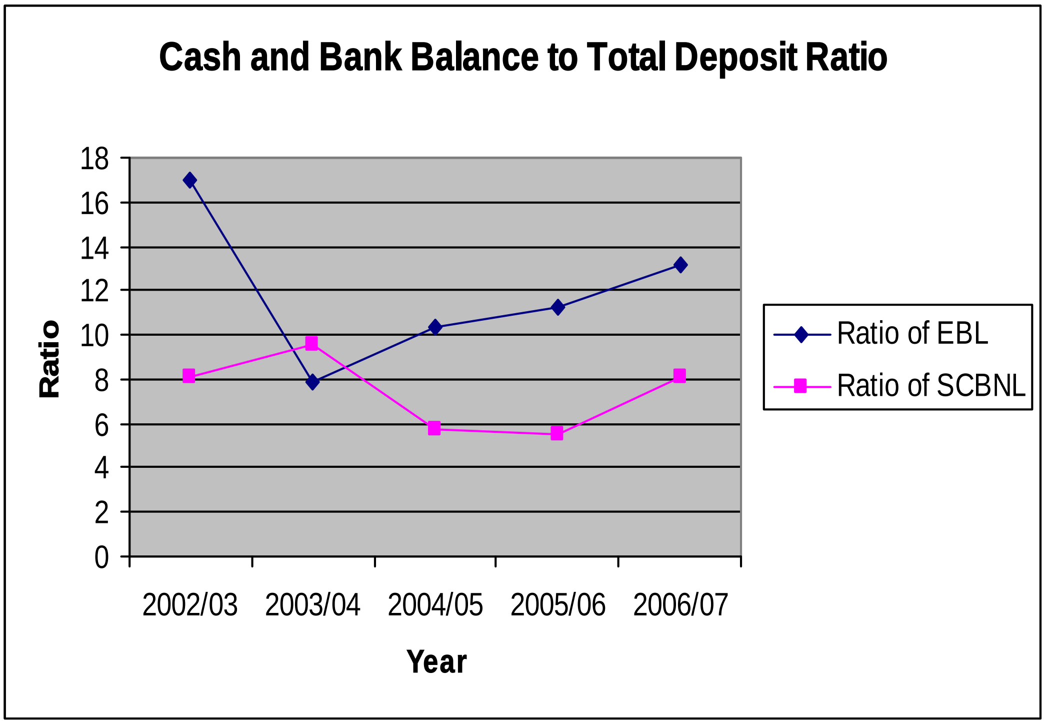
Year	EBL			SCBNL		
	Cash & Bank Balance (Rs)	Total Deposit (Rs)	Ratio (%)	Cash & Bank Balance (Rs)	Total Deposit (Rs)	Ratio (%)
2002/2003	1139.57	6695.00	17.02	1512.31	18755.63	8.06
2003/2004	631.80	8063.90	7.83	2023.16	21161.44	9.56
2004/2005	1050.00	10097.70	10.40	1111.12	19363.47	5.74
2005/2006	1553.00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

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

Above table shows that total deposit of SCBNL is higher than that of EBL. Similarly in first 3-years cash and bank balance in SCBNL is higher and in last 2-years cash and bank balance in EBL is higher. Both the bank have fluctuating trend of ratio. The mean ratio of EBL and SCBNL are 11.93% and 7.40% respectively. EBL has higher ratio than that of

SCBNL. It signifies that EBL has sound liquid fund to make immediate payment to the depositors but EBL has excess liquidity rather than that of SCBNL because of poor investment opportunities. Cash and Bank balance to Total deposit ratio is represented in figure as follow.

Figure No 4.5



4.1.2 Activity Ratio

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

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

i) Loan and Advance to Total Deposit Ratio

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

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

Table No 4.6

Loan and Advance to Total Deposit Ratio

(RS IN MILLION)

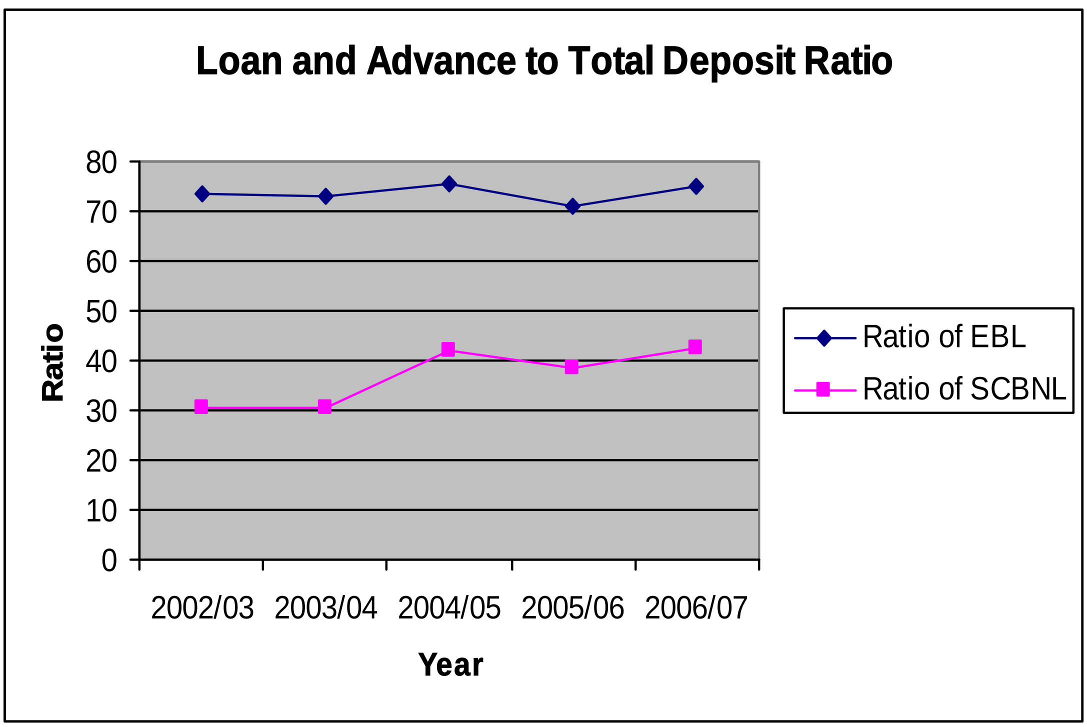
Year	EBL			SCBNL		
	Loan & Advances (Rs)	Total Deposit (Rs)	Ratio (%)	Loan & Advances (Rs)	Total Deposit (Rs)	Ratio (%)
2002/2003	4908.46	6695	73.32	5695.82	18755.63	30.37
2003/2004	5884.12	8063.90	72.97	6410.24	21161.44	30.29
2004/2005	7618.67	10097.7	75.45	8143.21	19363.47	42.05
2005/2006	9801.30	13802.44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

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

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

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

Figure No 4.6



ii) Total Investment to Total Deposit Ratio

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

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

Table No 4.7

Total Investment to Total Deposit Ratio

(RS IN MILLION)

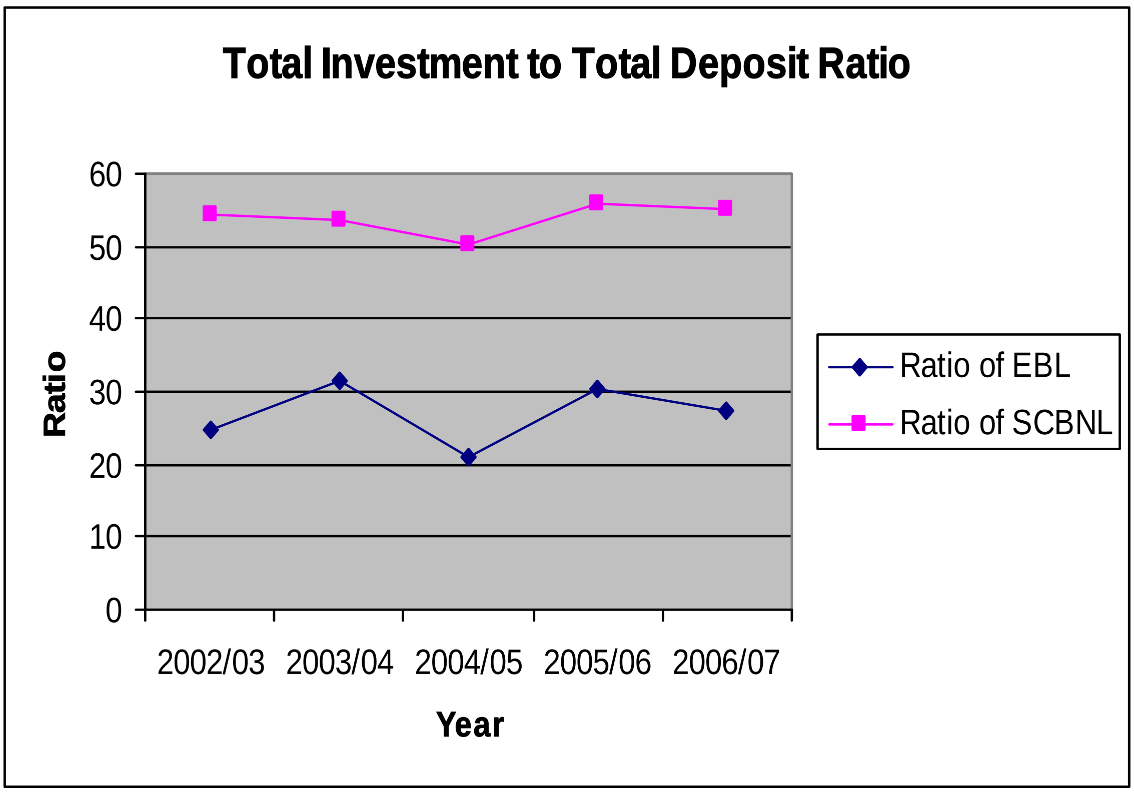
Year	EBL			SCBNL		
	Total Investment (Rs)	Total Deposit (Rs)	Ratio (%)	Total Investment (Rs)	Total Deposit (Rs)	Ratio (%)
2002/2003	1653.98	6695	24.70	10216.20	18755.63	54.47
2003/2004	2535.65	8063.90	31.45	11360.33	21161.44	53.68
2004/2005	2128.93	10097.7	21.08	9702.55	19363.47	50.12
2005/2006	4200.52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

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

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

The mean of the ratio of EBL and SCBNL are 27.01% and 53.79% respectively so SCBNL has higher ratio. It signifies SCBNL has successfully allocated its deposit in investment portfolio. Total Investment to Total Deposit Ratio is represented in figure as follow.

Figure No 4.7



iii) Loan and Advances to working Fund Ratio

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

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

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

Table No 4.8

Loan and Advances to Total Working Fund

(RS IN MILLION)

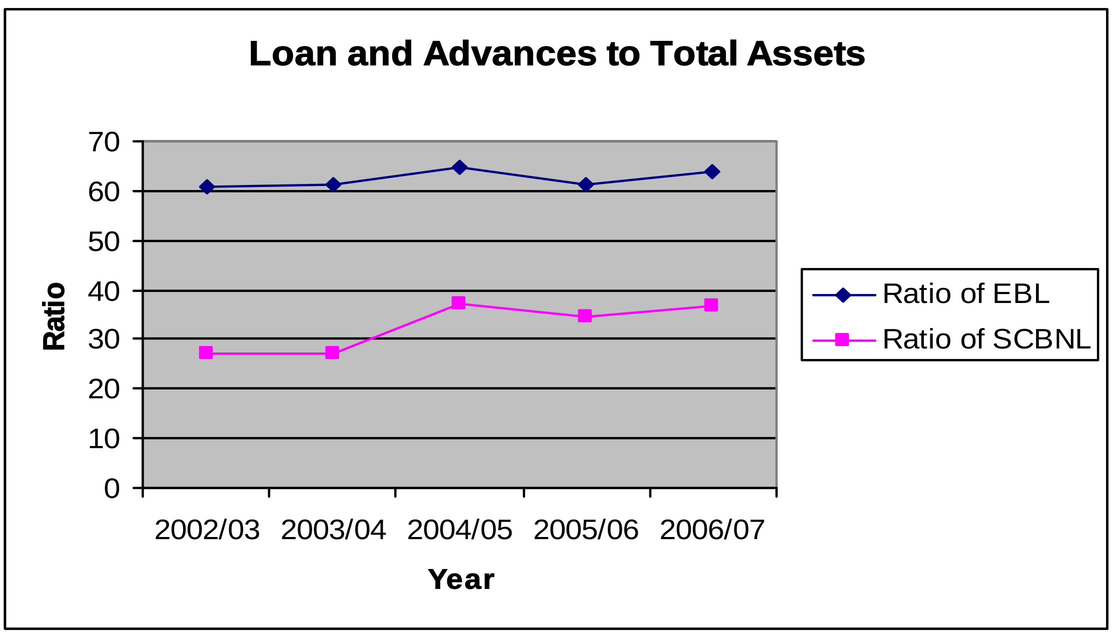
Year	EBL			SCBNL		
	Loan & Advances (Rs)	Total Assets (Rs)	Ratio (%)	Loan & Advances (Rs)	Total Assets (Rs)	Ratio (%)
2002/2003	4908.46	8052.20	60.96	5695.82	20910.97	27.24
2003/2004	5884.12	9608.57	61.24	6410.24	23642.06	27.11
2004/2005	7618.67	11732.51	64.93	8143.21	21781.68	37.39
2005/2006	9801.30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

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

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

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

Figure No 4.8



4.1.3 Profitability Ratio

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

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

i) Return on Equity (ROE)

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

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

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

Table No 4.9

Return on Equity Ratio (ROE)

(RS IN MILLION)

Year	EBL			SCBNL		
	Net Profit (Rs)	Total Equity Capital (Rs)	Ratio (%)	Net Profit (Rs)	Total Equity Capital (Rs)	Ratio (%)
2002/2003	94.18	612.82	15.37	506.93	1368.91	37.03
2003/2004	143.66	710.31	20.22	537.80	1495.74	35.96
2004/20	170.8	832.61	20.5	536.2	1582.4	33.8

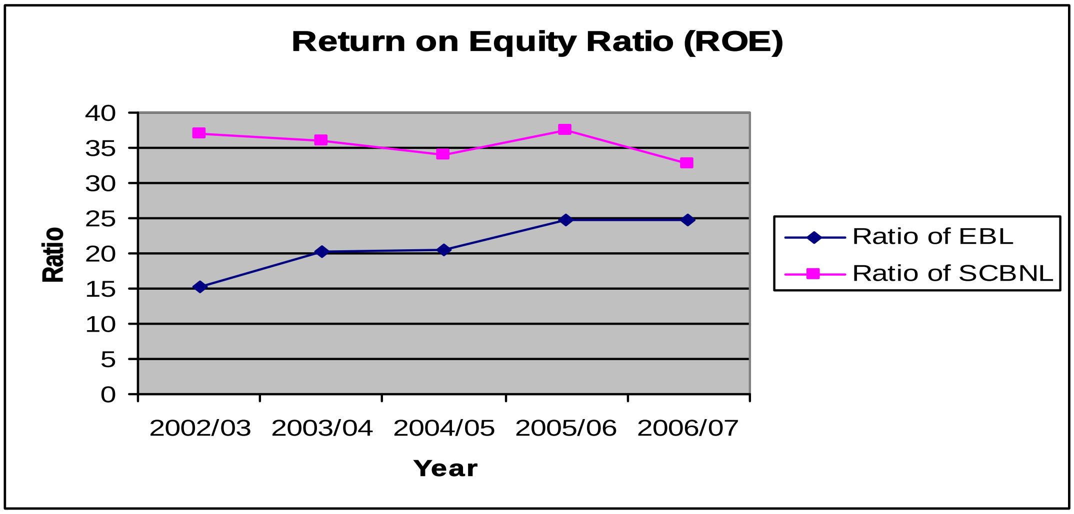
05			1	4	2	9
2005/2006	237.30	962.8	24.65	658.76	1754.14	37.55
2006/2007	296.41	1201.51	24.67	691.67	2116.35	32.68
Mean			21.08			35.42

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

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

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

Figure No 4.9



ii) Interest Earned to Total Assets Ratio

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

Table No 4.10

Interest Earned to Total Assets Ratio

(RS IN MILLION)

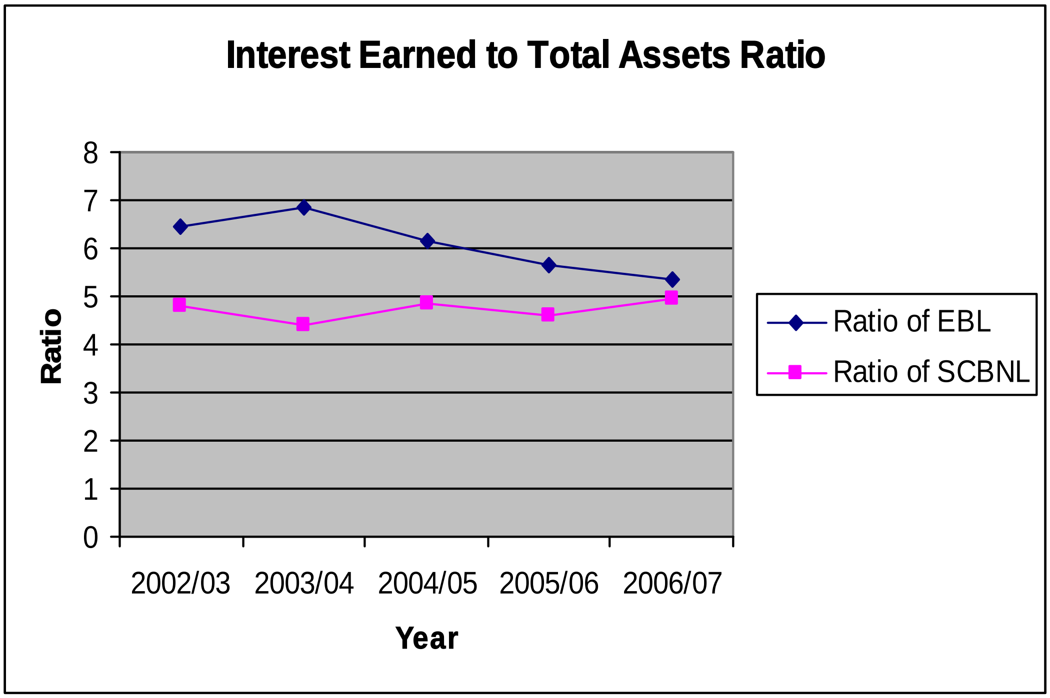
Year	EBL			SCBNL		
	Total Interest Earned (Rs)	Total Assets (Rs)	Ratio (%)	Total Interest Earned (Rs)	Total Assets (Rs)	Ratio (%)
2002/2003	520.17	8052.20	6.46	1001.36	20910.97	4.79
2003/2004	657.25	9608.57	6.84	1042.18	23642.06	4.41

2004/2005	719.29	11732.51	6.13	1058.68	21781.68	4.86
2005/2006	903.41	15959.28	5.66	1189.60	25767.35	4.62
2006/2007	1144.41	21432.57	5.34	1411.98	28596.69	4.94
Mean			6.09			4.72

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

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

Figure No 4.10



iii) Interest Paid to Total Assets Ratio

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

The following table shows the figures of this ratio

Table No 4.11

Interest Paid to Working Fund Ratio

(RS IN MILLION)

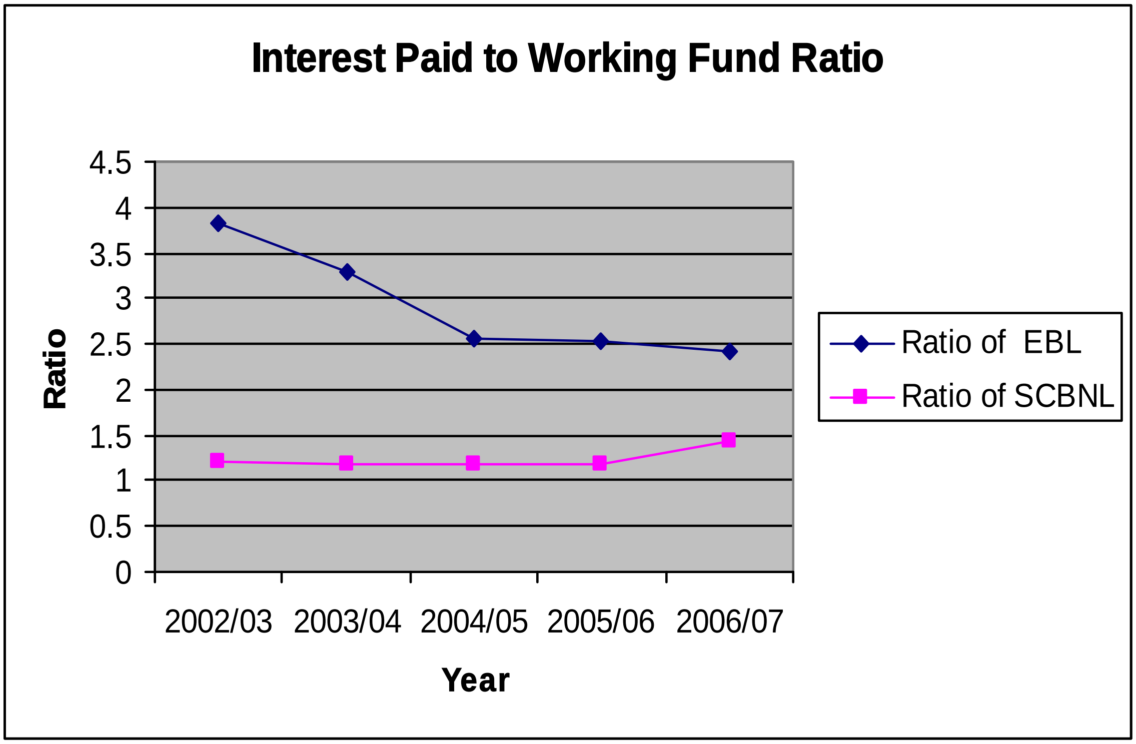
Year	EBL			SCBNL		
	Total Interest Paid(Rs)	Total Assets(Rs)	Ratio (%)	Total Interest Paid (Rs)	Total Assets (Rs)	Ratio (%)

2002/2003	307.63	8052.20	3.82	255.15	20910.97	1.22
2003/2004	316.36	9608.57	3.29	275.81	23642.06	1.17
2004/2005	299.57	11732.51	2.55	254.13	21781.68	1.17
2005/2006	401.39	15959.28	2.52	303.20	25767.35	1.18
2006/2007	517.17	21432.57	2.41	413.06	28596.69	1.44
Mean			2.92			1.23

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

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

Figure No 4.11



iv). Interest Earned to Operating Income Ratio

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

The following table shows the figure of this ratio

Table No 4.12

Interest Earned to Operating Income Ratio

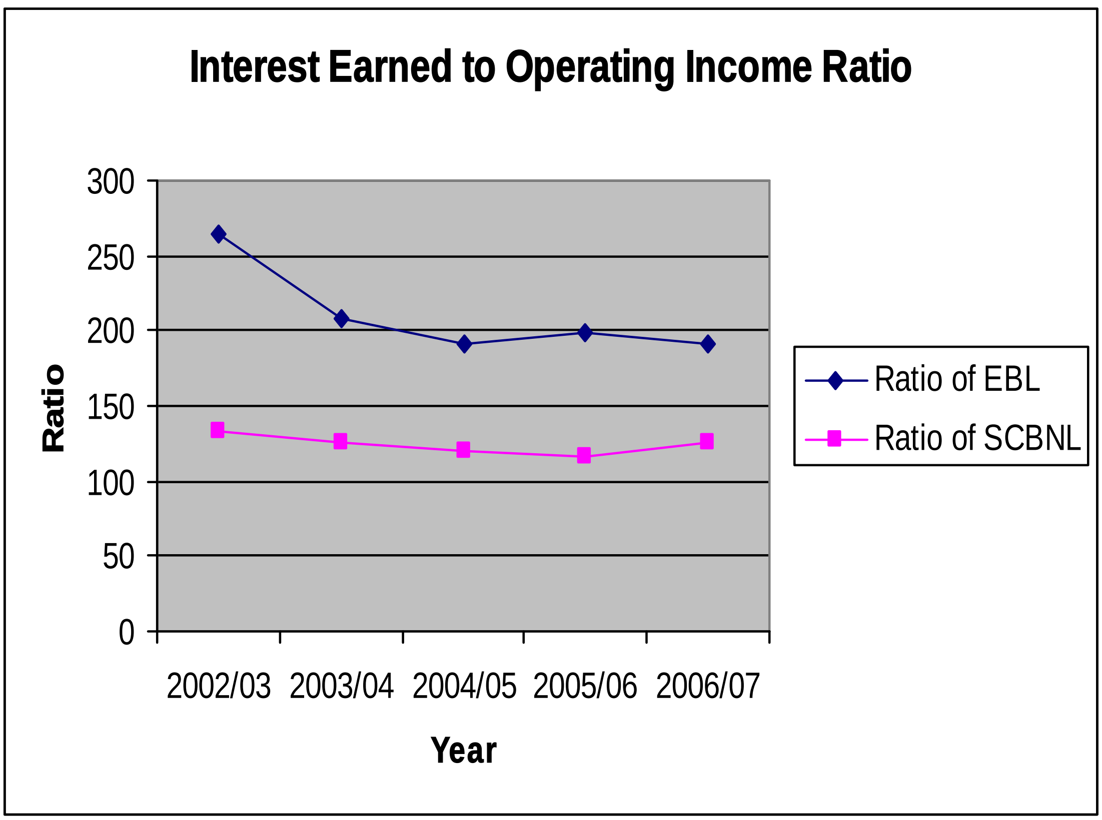
(RS IN MILLION)

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

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

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

Figure No 4.12



v) Return on Total Assets Ratio

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

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

Table No 4. 13

Return on Total Assets Ratio

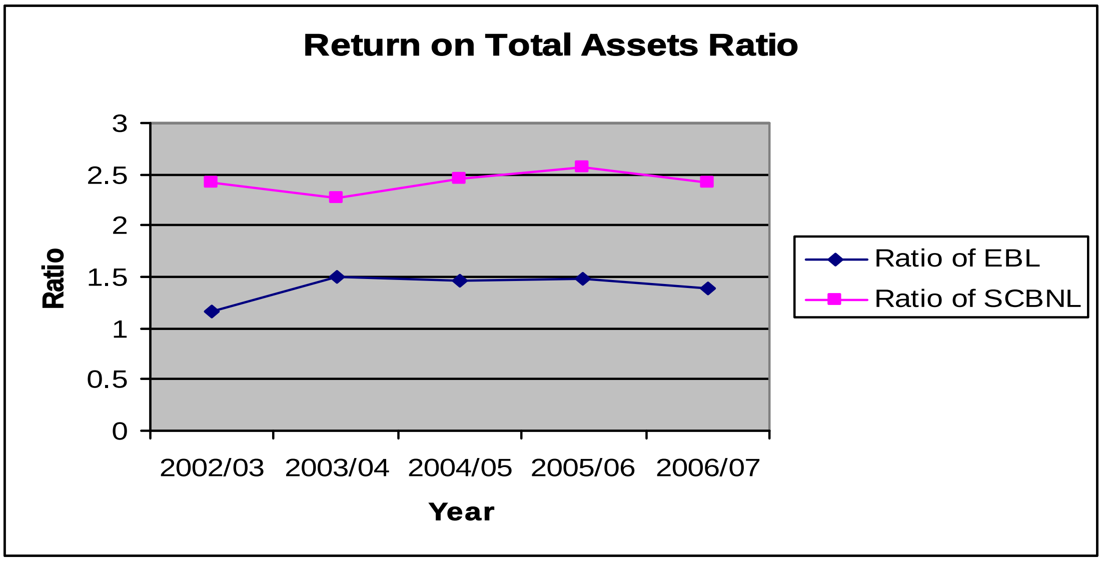
(RS IN MILLION)

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

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

From the above table, we notice that net profit and total assets of both banks are in increasing trend except total assets of SCBNL in 2004/05. The ROA of both banks are in fluctuating trend however, SCBNL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 2.43% of total assets in an average. Return on Total Assets Ratio is represented in figure as follow.

Figure No 4.13



vi) Return on Loan and Advances Ratio

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

The following table shows the figure of this ratio

Table No 4.14

Return on Loan and Advances Ratio

(RS IN MILLION)

Year	EBL			SCBNL		
	Net Profit	Loan & Advanc	Rati o	Net Profit	Loan & Advanc	Rati o

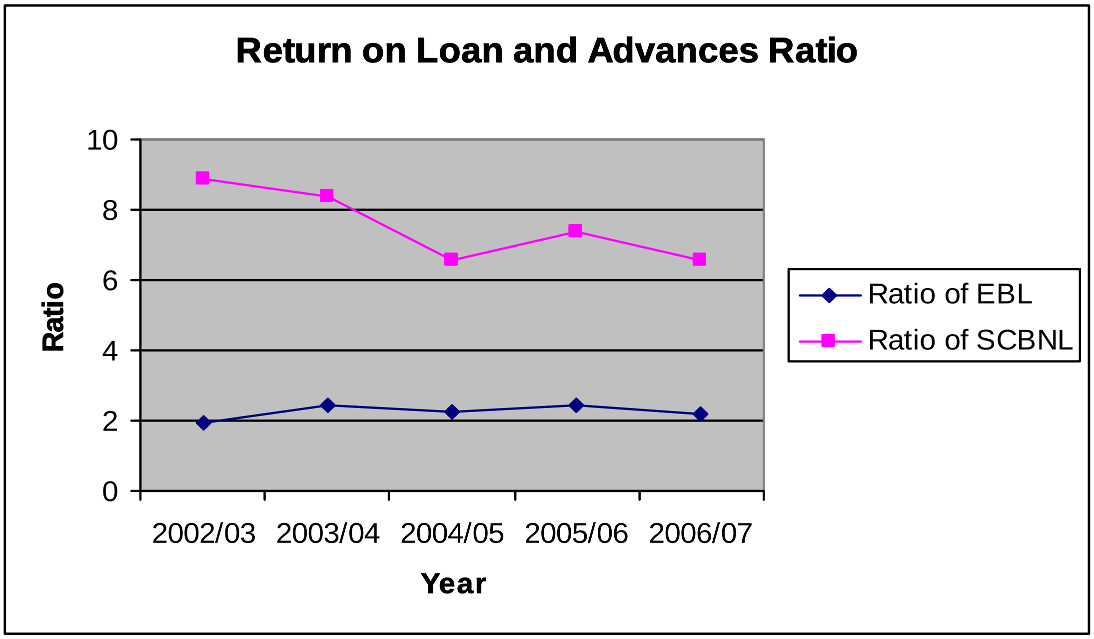
	(Rs)	es	(%)	(Rs)	es	(%)
2002/2003	94.18	4908.46	1.92	506.93	5695.82	8.90
2003/2004	143.66	5884.12	2.44	537.80	6410.24	8.39
2004/2005	170.80	7618.67	2.24	536.24	8143.21	6.59
2005/2006	237.30	9801.30	2.42	658.76	8935.42	7.37
2006/2007	296.41	13664.08	2.17	691.67	10502.64	6.59
Mean			2.24			7.57

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

Above table shows that return on loan and advances ratio of EBL and SCBNL are in fluctuating trend. The highest ratio of EBL is 2.44% in the year 2003/ 2004 and lowest ratio 1.87% in year 2002/2003. The mean ratio is 2.24%. This shows the normal earning capacity of EBL in loan and advances. Whereas highest ratio of SCBNL is 8.90% in year 2002/2003 and lowest ratio is 6.59 in 2004/2005 and 2006/07. The mean ratio is 7.57% of SCBNL.

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

Figure No 4.14



vii) Earning per Share (EPS)

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

Table No 4.15

Earning Per Share

(RS IN MILLION)

Year	EBL			SCBNL		
	Net Profit(Rs)	No. of Share	Rupees Per Share	Net Profit (Rs)	No. of Share	Rupees Per Share
2002/2003	94.18	4.55	20.70	506.93	3.40	149.10
2003/2004	143.66	4.55	31.57	537.80	3.75	143.41
2004/200	170.8	5.18	32.97	536.2	3.75	143.0

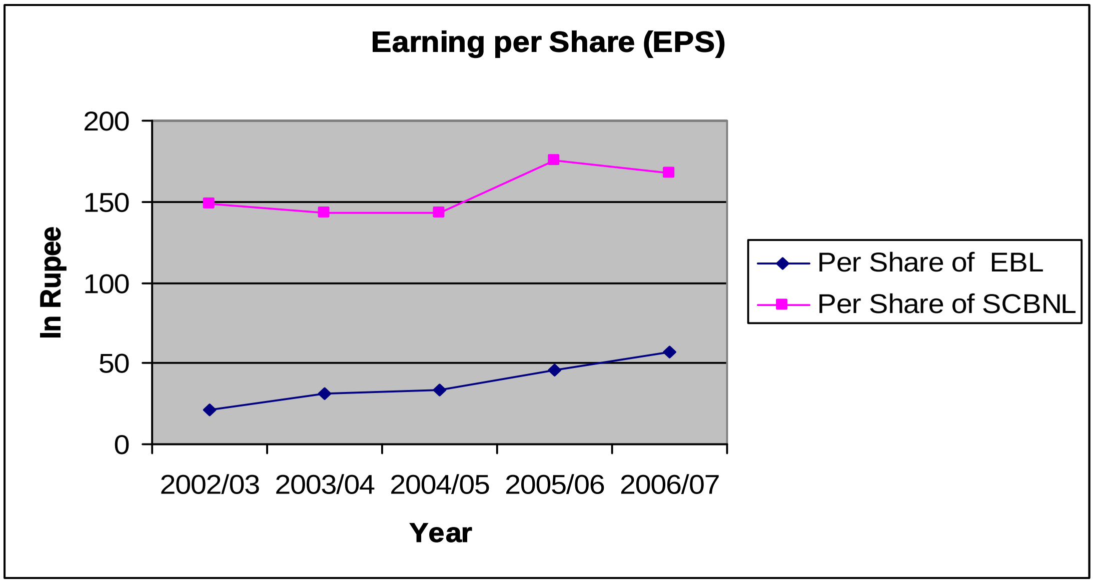
5				4		0
2005/2006	237.30	5.18	45.81	658.76	3.75	175.67
2006/2007	296.41	5.18	57.22	691.67	4.13	167.47
Mean			37.66			155.73

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

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

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

Figure No 4.15



viii) Price Earning Ratio

This ratio shows the relationship between earning per share and market value per share. This ratio measures the profitability of the firm. In the short run, higher ratio shows the higher efficiency of the management and lower ratio shows the lower efficiency of the management. But for the sustainable fair market price, lower ratio is useful and vice versa.

Table No 4.16

Price Earning Ratio

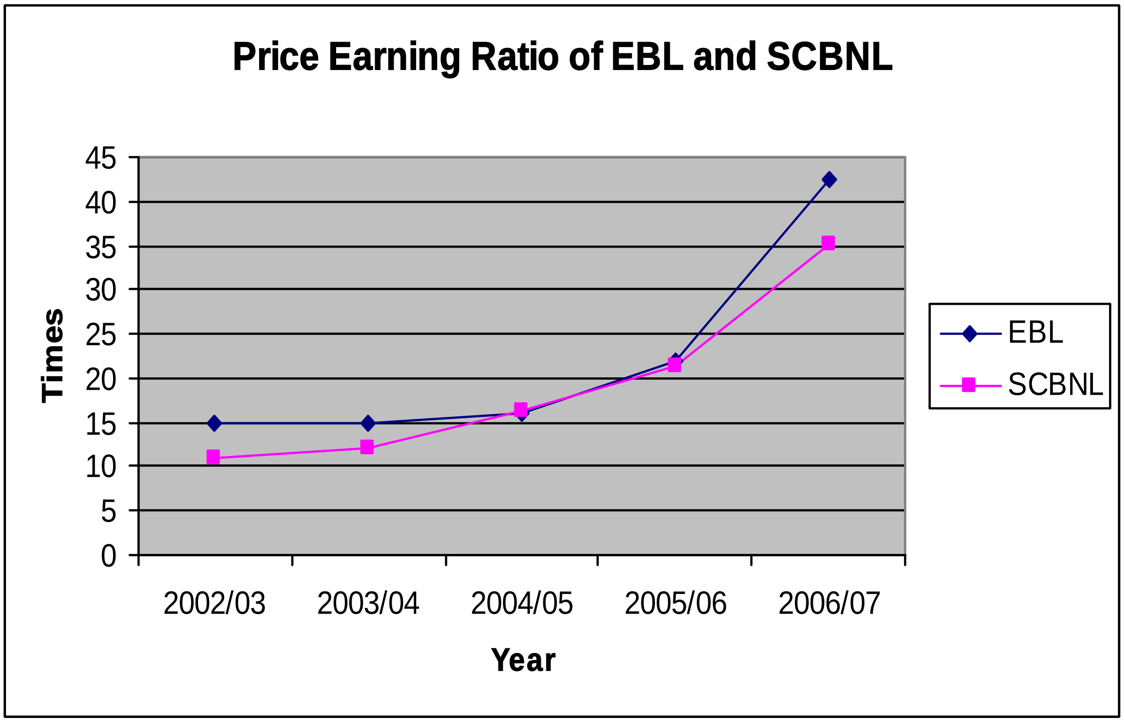
Year	EBL			SCBNL		
	MPS	EPS	Times	MPS	EPS	TIMES
2002/2003	445	29.90	14.88	149.30	1640	10.98
2003/2004	680	45.58	14.92	143.55	1745	12.16
2004/2005	870	54.22	16.05	143.14	2345	16.38

2005/2006	1379	62.78	21.97	175.84	3775	21.47
2006/2007	2430	57.22	42.47	167.37	5900	35.25
Mean			22.06			19.25

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

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

Figure No 4.16



4.1.4 Lending Efficiency Ratio

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

i) Loan Loss Provision to Total Loan and Advances Ratio

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

Table No 4.17

Loan Loss Provision to Total Loan and Advances

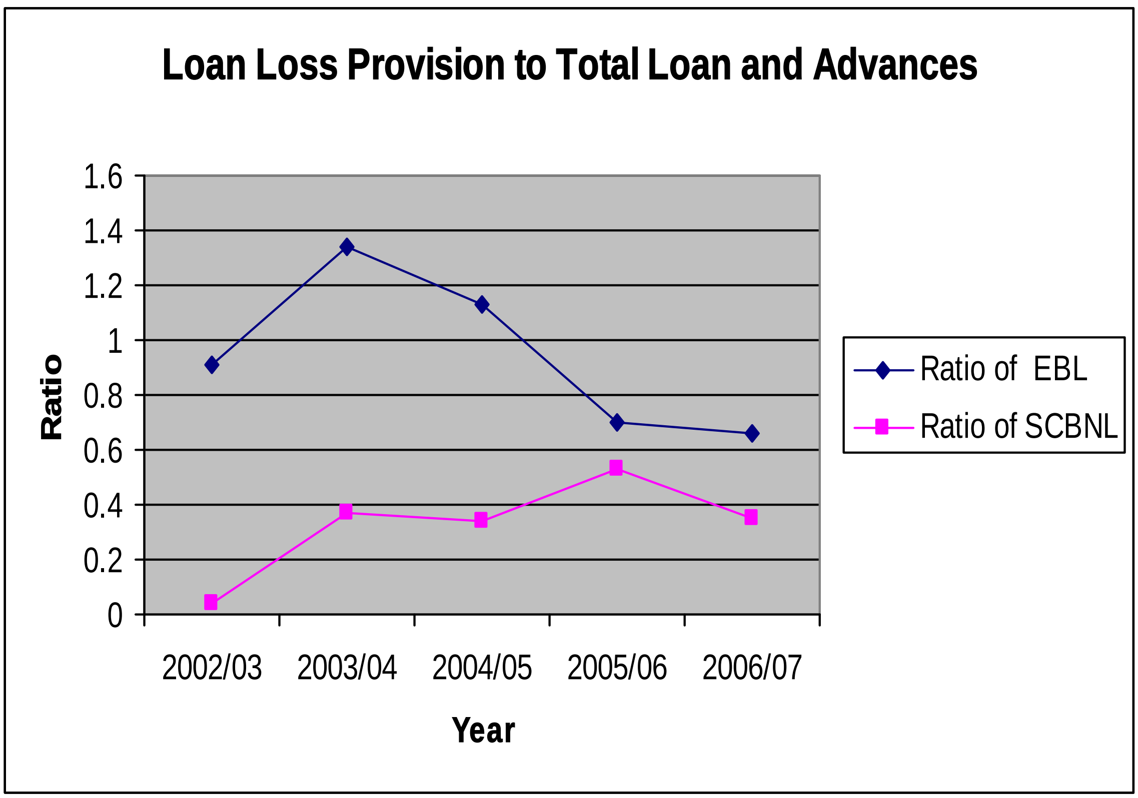
Year	EBL			SCBNL		
	Loan loss provision	Loan and advances	Loan loss provision to Loan and advances ratio (%)	Loan loss provision	Loan and advances	Loan loss provision to Loan and advances ratio (%)
2002/2003	45.7	5049.5	0.91	2.34	5695.82	0.04
2003/2004	81.8	6095.8	1.34	23.52	6410.24	0.37
2004/2005	88.9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

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

Above table shows that loan loss provision to total loan and advances ratio of EBL and SCBNL are in decreasing trend except in 2003/04 of EBL and in 2004/05 of SCBNL. The mean ratio of EBL and SCBNL are 0.90% and 0.33% respectively.

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

Figure No 4.17



ii) Interest Expenses to Total Deposit Ratio

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

Table 4.18

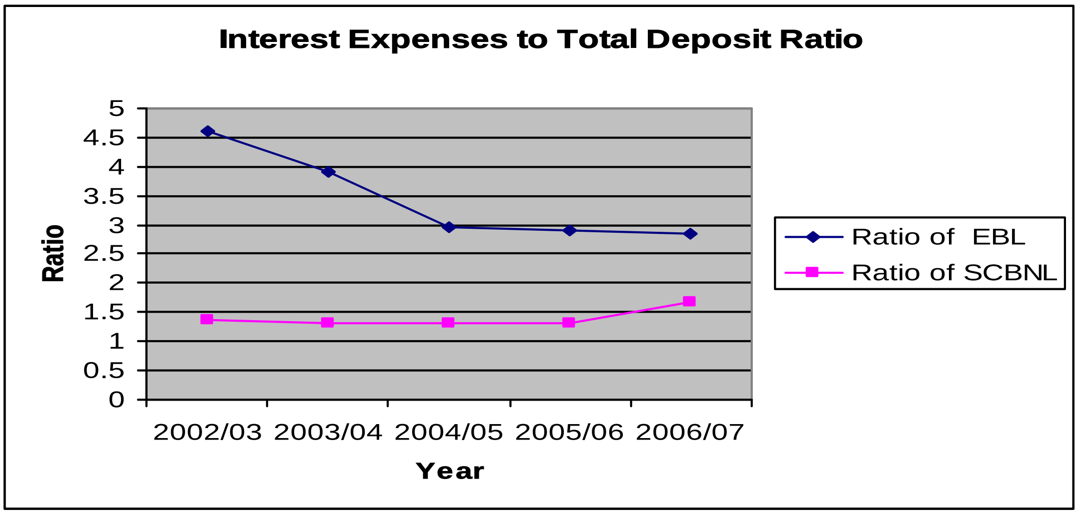
Interest Expenses to Total Deposit Ratio

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

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

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

Figure No 4.18



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

It is known as unproductive loan. Non-performing loan is also known as doubtful loan. Higher ratio shows the low efficient operating of the management and lower ratio shows the more efficient operating of credit management.

Table 4.19

Non-Performing Loan to Total Loan and Advances

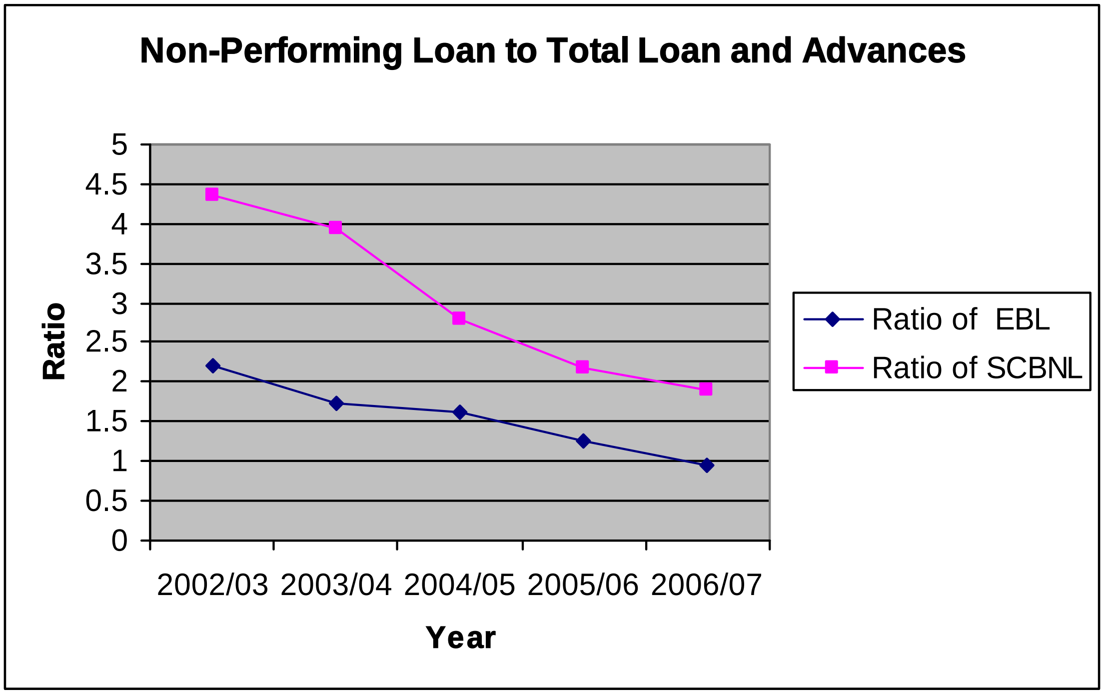
Year	EBL			SCBNL		
	Non-performing	Loan and advances	Non-performing loan to loan and advance	Non-performing loa	Loan and advances	Non-performing loan to loan and advances

	loa n		s (%)	n		(%)
2002/2 003	11 1.2	504 9.5	2.20	247 .95	5695. 82	4.35
2003/2 004	10 4.7	609 5.8	1.72	252 .20	6410. 24	3.93
2004/2 005	12 8.8	790 0.0	1.63	226 .31	8143. 21	2.78
2005/2 006	12 9.2	101 36.2	1.27	195 .93	8935. 42	2.19
2006/2 007	12 8.2	136 64.1	0.94	197 .46	10502 .64	1.89
Mean			1.55			3.03

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

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

Figure No 4.19



4.2 Statistical tools

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

4.2.1Correlation Coefficient(r):

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 categorized three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non- linear. Here, we study simple correlation only." In simple correlation the effect of others is not included rather these are taken as constant considering them to have no serious effect on the dependent.

Formula

$$r_{x1x2} = \frac{N\Sigma X_1X_2 - (\Sigma X_1)(\Sigma X_2)}{\sqrt{[N\Sigma X_1^2 - (\Sigma X_1)^2]}\sqrt{[N\Sigma X_2^2 - (\Sigma X_2)^2]}}$$

Whereas,

r_{x1x2} = Correlation between X_1 and X_2

$N\Sigma X_1X_2$ = No. of Product observation and Sum of product $X_1$and X_2

$\Sigma X_1 \Sigma X_2$ = Sum of Product $X_1$and sum of Product X_2

The probable error can be calculated as below:

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

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

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

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

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

(I) **Coefficient of correlation between deposit, loan and advances.**

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

Table No 4.20

Coefficient of Correlation between Deposit and Loan and Advance

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

Source: Appendix 1 & 2

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

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

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

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

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

Coefficient of correlation between deposit and investment

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

Table No 4.21

Coefficient of Correlation Between deposit and investment

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

Source: Appendix 3 & 4

From the above table, in case of EBL, it is found that coefficient of correlation between deposit and investment is 0.957. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination(r^2), it is 0.916 and it means 91.60% of the variation in the dependent variable (Investment) has been explained by the independent variable (deposit).

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

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

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

(I) **Coefficient of correlation between total assets and net profit**

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

Table No 4.22

Coefficient of Correlation Between total assets and net profit

Banks	Evaluation Criterions

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

Source: Appendix 5 & 6

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

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

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

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

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

Coefficient of correlation between net profit and total deposit

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

Table No 4.23

Coefficient of Correlation Between net profit and total deposit

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

Source: Appendix 7 & 8

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

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

Like wise, in case of SCBNL, it is found that coefficient of correlation between deposit and net profit is 0.957 it shows positive relationship between these two variables.

Moreover, when we consider the value of coefficient of determination(r^2), it is 0.916 and it means 91.6% of the variation in the dependent variable (net profit) has been explained by the independent variable (deposit)

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

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

4.2.2 Trend Analysis:

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

- Total Deposit

-Total Loan and Advance

a) Trend Analysis of Total Deposit:

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

$Y = a + bx$

Where,

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

X = deviation from some convenient time periods.

Calculation of EBL

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

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

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

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

Yc = 11369 + 3872x

Calculation of SCBNL

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

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

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

= 21397.72 = 1368.24

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

Yc = 21397.718 + 1368.24x

Table No 4.24

Trend of total Deposit of EBL and SCBNL

(Amount in million)

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

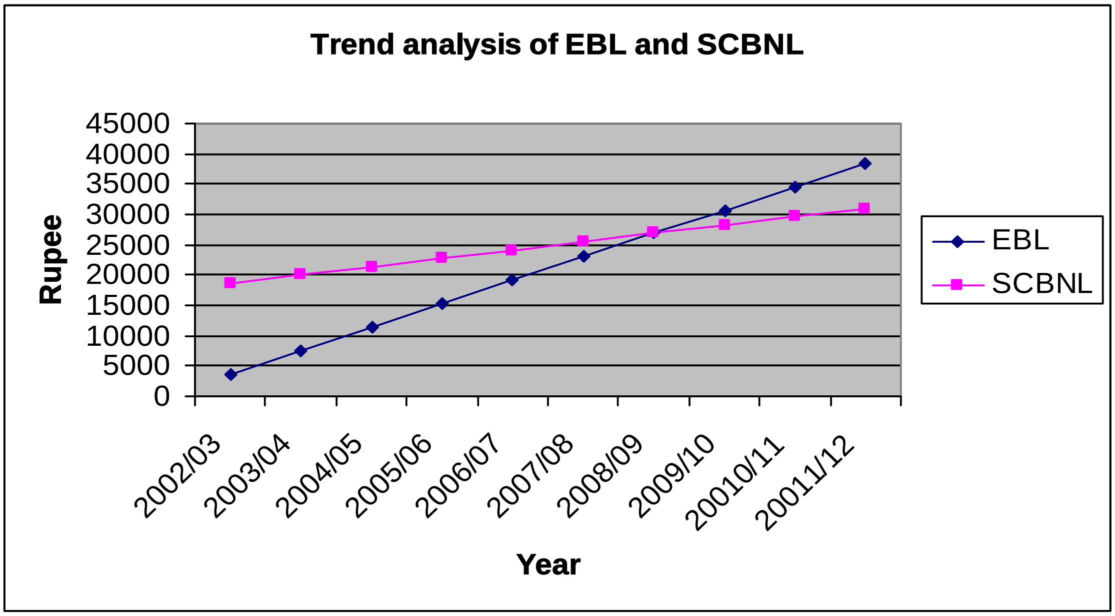
Source annul report of EBL & SCBNL

The above chart presents the trend of total deposit of EBL and SCBNL. The following graph helps to show the trend lines of total deposit for the projected five years. The equations are

$$Yc = 11369 + 3872x \text{ of EBL}$$

$$Yc = 21397.718 + 1368.24x \text{ of SCBNL}$$

Figure No 4.20



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

b)Trend Analysis of total Loan and Advance:

Calculation of EBL

Let trend line be

Y = a + b x…………………….. (I)

Where x = X - Middle year

Here,

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

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

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

Yc = 8375.3 +2142.8x

Calculation of SCBNL

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

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

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

Yc = 7937.4 + 1213.9

Table No 4.25

Trend Analysis of total Loan and Advance

Year	EBL	SCBNL
2002/03	4089.7	5509.6
2003/04	6232.5	6723.5
2004/05	8375.3	7937.4

2005/06	10518.1	9151.3
2006/07	12660.9	10365.2
2007/08	14803.7	11579.1
2008/09	16946.5	12793
2009/10	19089.3	14006.9
20010/11	21232.1	15220.8
20011/12	23374.9	16434.7

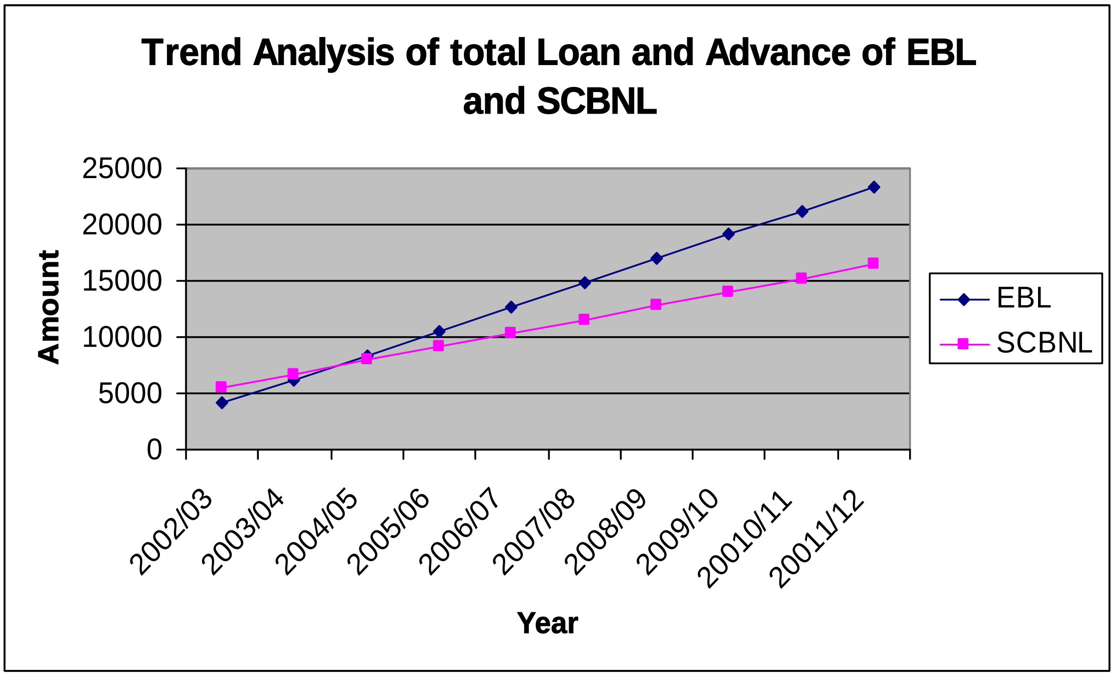
Source: Annul report of EBL & SCBNL

The above chart presents the trend of total loan of EBL and SCBNL. The following graph helps to show the trend lines of total deposit for the projected five years. The equations are

Yc = 8375.3 +2142.8x of EBL

Yc = 7937.4 + 1213.9 of SCBNL

Figure No 4.21



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

4.2.3Major Findings of the Study

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

Liquidity Ratio

Current ratio of EBL is ranging from 1.18 to 1.16 and SCBNL is ranging from0.54 to 0.67 over the study period. The mean ratio of EBL and SCBNL are 1.16 and 0.63 respectively. While observing the data, we notice that both the banks have not met the standard ratio. How ever, in comparison EBL has sound ability to meet its short term obligation than that of SCBNL

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

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

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

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

Assets Management Ratio

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

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

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

Profitability Ratio

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

Total interest income to total working fund ratio of EBL is in between 6.46% and 5.34% where as the ratio of SCBNL is in between 4.79% and 4.94%.The mean ratio of EBL and SCBNL are 6.09% and 4.72% respectively. The mean ratio of EBL is more than that of SCBNL. In comparison, EBL seems effective in earning interest to some extent although it has lower earning of interest income.

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

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

Thus, from short term view, EBL is in good condition but from long term view, SCBNL is in good condition. In overall, SCBNL has managed sound interest earned to operating income ratio.

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

Return on loans & advances ratio of EBL is in between 1.92% and 2.17% but in case of SCBNL the ratio is in between 8.90% and 6.59%. We notice that SCBNL has higher Ratios in each year and mean ratio is also higher. So it seems successful by generating higher ratio. It can be concluded that SCBNL has better utilized the loan and advance for the profit generation.

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

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

Lending efficiency ratio

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

An interest expense to total deposit of EBL is in between 2.84% to 4.60% whereas ratio of SCBNL is in between 1.30% to 1.67%. From mean point of view, interest expenses to total deposit ratio of EBL and SCBNL are 3.45% and 1.39% respectively. It indicates that both the bank do not have higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. So, in comparison, SCBNL does not have higher interest expenses on total deposit than that of EBL.

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

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

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATION

The research is about the comparative study on financial performances of Everest bank and standard chartered bank ltd. In this chapter, summary conclusion and recommendation are included. All the summary and conclusion are made according to obtained data from analysis. Recommendation has made which would be beneficial for the management of the bank and other stakeholder.

5.1 Summary

Banking sector plays an important role in the economic development of the country. It provides an effective payment and credit system, which facilitates the channeling of funds from the surplus and deficit in the economy. Investment operation of commercial banks is a very risky one. For this, financial performance of commercial banks have to pay due consideration while investment, mobilization of fund and use of resources. A healthy development of any commercial bank depends upon its financial performance. A good financial performance of a bank attracts both the borrowers and the lenders, which helps to increase the volume of quality deposits and investment.

A bank always puts in effort to maximize its profitability. The profit is excess of income over expenses. To maximize profit, income should be reasonably excess over expenses. The major source of income of a bank is interest income from loans, investments and fee based income. As loan and advances dominate the asset side of the balance sheet of any bank; similarly, earnings from such loan and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the shrinkage in the value of loan and advances. Hence, loan is known as risky asset and investment operation of commercial banks, is a very risky one. Risk of non-performing loans erodes even existing capital. Considering the importance of lending to the individual banks and also to the society it serves, it is imperative that the bank meticulously plans its credit operations.

The main goal of the bank as a commercial organization is to maximize the surplus by the efficient use of its funds and resources. In spite of being a commercial institution, it has a responsibility (obligation) to provide social service oriented contribution for the social economic upliftment of the country by providing specially considered loans and advances towards less privileged sectors.

Commercial Banks offer various products for deposit mobilization and disburse the credit products as per the portfolio management. Customers as per their need purchase different types of product offered in the market. Deposit products offered to the customers are categorized into general products and special products, and credit products can be bifurcated into fund based products and non-fund based products. The fund based products in practice are developed from the credit products generally known as overdraft, working capital loan, Term loan, bills purchase or negotiation, export and import bills, import/trust receipt loan, export credit, loan against fixed deposit receipt, loan against shares, loan against securities, and loan against bank guarantee and deprived sector loan. The term loan used in practice generally addresses short term loam medium term loan and long term loan to be advanced in various forms such as housing loan, hire purchase loan and bridge financing. The non-fund based product is composed of letter of credit (LC) and bank guarantees with different forms (bid bonds, performance bonds, etc.)

Among the different banking products available in the market, the product with high demand are consumer credit, export and import credit, term loan, Project loan and syndicate loan. All banks and financial institution on the basis of their capital base and liquidity position offer these credit products but none of them so far have been found to have expertise in any one of them for marketing. Relying on any one of the product by portfolio seems more risky. Banks in foreign countries are known to bring out numerous products. As an example, the bank of America has a vast range of banking business serving individuals and small firms and a big share of the loan syndicate market. Banks in Nepal are weak in locating the existing market and in creating new markets too.

Loan disbursement is a trade of win game lenders and borrowers both get benefited out of it. Customers are the ultimate source of income not products. For the analysis of customers several questions need to be answered. These include questions such as which customer buys the product and how do they use it? Where do customers buy the product, when do customer buy, how do customers choose, why do they preferred that product, how do they respond, and will they buy it again. All these data available in the respective files of the customer make the marketing activities quite easier and effective.

5.2 Conclusions

On the basis of financial performance of two sampled commercial banks, using various statistical as well as financial tools following inferences had been drawn:

The liquidity positions of all the banks were strong and enough to meet their immediate needs of cash and short-term obligations. EBL and SCBNL had been found to hold short liquidity than other banks in the whole industry. However, HBL held excess amount of liquidity in assets than other similar banks in the commercial banking industry. Current assets to current liabilities ratio of EBL is in decreasing trend whereas this ratio of SCBNL is in increasing trend. While observing the data, we notice that both the banks have not met the standard ratio. How ever, in comparison EBL has sound ability to meet its short term obligation than that of SCBNL.

Cash and bank balance to current assets ratio of EBL and SCBNL are in fluctuating trend. It indicates that SCBNL has the slightly higher portion of cash and bank balance over current assets. it means SCBNL has slightly sound liquid assets than that of EBL.

The investment on government treasury bills, SCBNL has invested more money in risk free assets than that of EBL. In other words EBL has emphases on more loan and advances and other short term investment than investment in govt. securities. Similarly Total deposit of SCBNL is higher than that of EBL. The loan and advances and total deposit in both banks have increased. We notice that EBL has successfully increased the loans and advances throughout the studied period. However deposit collection of SCBNL is satisfactory in comparison. While observing their ratios; EBL seems quite successful in generating higher ratio in each year.

Loan and advances to total assets ratio of EBL and SCBNL are in fluctuating trend. However total assets of SCBNL is satisfactory in comparison. While observing their ratios; EBL is better mobilizing of fund as loan and advances and it seems quite successful in generating higher ratio in each year. EBL has higher ratio than that of SCBNL. It reveals that in total assets, EBL has high proportion of loan and advances.
Both banks have increased total assets and total interest earned during studied period. Despite the higher Total assets and interest earned in SCBNL. EBL shows the decreasing trend of the interest earned ratio.

Both EBL and SCBNL banks have increased operating income and interest earned during studied period. Net profit and total assets of both banks are in increasing trend except total assets of SCBNL. The ROA of both banks are in fluctuating trend how ever SCBNL seems successful in managing and utilizing the available assets in order to generate revenue but return on loan and advances ratio of EBL and SCBNL are in fluctuating trend.

Earning per share of EBL is in slow increasing trend. EBL has increased its EPS in each year drastically. From the above table we notice that EBL is doing progress in each year whereas result of SCBNL is not in satisfactory condition, as it couldn’t maintain the increasing trend in comparison with EBL. While observing their ratios in overall; SCBNL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful and strongest in the banking sector by generating higher EPS in each year and in average too. It is quite satisfying to state that SCBNL has been able to maximizing share holder wealth.

Price earning ratio earning of EBL and SCBNL are in increasing trend. Looking the mean ratio we conclude that in short run, investor of EBL are getting better profitability because they are selling their shares in high price although EPS of EBL is lower in comparison than that of SCBNL. But from the long term view and sustainable fair price, investor of SCBNL will get better profitability and they will be in safe side. Loan loss provision to total loan and advances ratio of EBL and SCBNL are in decreasing trend. Similarly Interest expenses to total deposit ratio of EBL is in decreasing trend. Whereas, interest expenses to total deposit of SCBNL is in fluctuating trend. It indicates that both the bank do not have higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. So, in comparison, SCBNL does not have higher interest expenses on total deposit than that of EBL. NPL to total loan and advances of EBL and SCBNL are in decreasing trend. Decreasing trend is the good sign of the efficient credit management. These ratios indicate the more efficient operating of credit management of both banks according to NRB directives. However, in comparison, EBL has efficient operating of credit management than that of SCBNL.

In the calculation of the correlation coefficient between deposit and loan and advances of EBL is 0.998 and of SCBNL is 0.828 this means the loans & advances is perfectly positively correlated. The correlation coefficient between total deposits and total investment describes the degree of relationship between these two items. How a unit increases in deposits impact in the volume of investment is measured by this correlation. Here, deposit is the independent variable and the investment is the dependent variable.

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

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

5.3 Recommendations

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

- EBL and SCBNL should minimize their existing level of excess liquidity by investing in more profitable sectors. Idle assets of theirs in form of excess cash or equivalents should be diverted in various investment opportunities available in the market. Those less risky investment sectors should be identified.
- EBL and SCBNL need to bring in newer schemes to mobilize their higher amount of deposits in extending credit.
- All the banks should have to make effort in order to minimize their non-performing credits. EBL and SCBNL also maintaining the same level
- EBL and SCBNL banks should try to increase their profitability by investing in more profitable sectors, and by increasing the quality of their extended credits. They should have to investigate thoroughly the wide range of investment opportunities in the market in order to improve their profitability situation. Especially, As formation of price is a very complex

process, some extremely outstanding sectors such as management efficiency, profitability status, future perspective, bank's investment strategy, etc should be improved

- NRB recommended following the NRB directives which will helps to reduce credit risk arising from defaulter, lack of proper credit appraisal, defaulter by blacklisted borrowers and professional defaulter. Government has established credit information bureau, which will provide suggestion to commercial bank. So EBL and SCBNL are suggested to collect as much information about borrowers and only lend to non-risky area and to non-defaulter.
- According to NRB directives, all the commercial bank should increase the capital up to Rs 2000 million by 2070 B.S EBL and SCBNL are increasing the paid up capita to meet NRB directive. The increment in capital can be made either by capitalization of profit, declaration of Bonus share or right share issue.

Keeping all these in consideration, the EBL has less performance than that of SCBNL. However, in this short span of time the EBL has earned the good reputation in the market. Another point is that SCBNL is an international bank. So, in the future ahead, the EBL should improve its weaknesses by adopting the innovative approach to marketing. In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool to attract and retain the customers. For the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices.

In this way the entitled thesis comparative study of on financial performances of Everest bank and standard chartered bank is very use full to every person who concern to those company and research worker as well.

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Appendix -1

Total Deposit and Loan and Advance

Calculation between correlation of Total Deposit and Loan and Advance of EBL

Year	Total Deposit(X	Loan & Advances(Y)	X2	Y2	XY
2002/03	6695	4908.46	44823025	24092979.57	32862139.7
2003/04	8063.9	5884.12	65026483.21	34622868.17	47448955.27
2004/05	10097.7	7618.67	101963545.3	58044132.57	76931044.06
2005/06	13802.44	9801.3	190507350	96065481.69	135281855.2
2006/07	18186.25	13664.08	330739689.1	186707082.2	248498374.9
	X X	Y X	$\mathbf{X^2}$ X	$\mathbf{Y^2}$ X	$\mathbf{XY}$ X
Total(N)=5	56845.29	41876.63	733060092.5	399532544.3	541022369.1

$\overline{X}$ Mean = 11369.058

$\overline{Y}$ Mean = 8375.326

Correlation (r) = $\dfrac{\mathbf{N \quad XY}\ Z \quad \mathbf{X} \mid \quad \mathbf{Y}}{\sqrt{\mathbf{N} \quad \mathbf{X^2}\ Z(\quad \mathbf{X})^2}\ \sqrt{\mathbf{N} \quad \mathbf{Y^2}\ Z(\quad \mathbf{Y})^2}}$

= $\dfrac{\mathbf{5 \mid 541022369.1}\ Z\mathbf{56845.29 \mid 41876.63}}{\sqrt{\mathbf{5 \mid 733060092.5}\ Z\mathbf{(56845.29)^2}}\sqrt{\mathbf{5 \mid 541022369.1}\ Z\mathbf{(41876.63)^2}}}$

= 0.998

Coefficient of determination (r^2) = $(0.998)^2$ = 0.996

P.Er. = $0.6745 \times \dfrac{1 Z r^2}{\sqrt{N}}$

= $0.6745 \times \dfrac{\mathbf{1}\ Z\mathbf{0.996}}{\sqrt{\mathbf{5}}}$

= 0.0018

6P.Er = 6*0.0018

= 0.0108

Appendix - 2

Calculation between correlation of Total Deposit and Loan and Advance of SCBNL

Year	Total Deposit (X)	Loan & Advances (Y)	X2	Y2	XY
2002/03	18755.6	5695.82	351772531.4	32442365.47	106828521.6
2003/04	21161.44	6410.24	447806542.9	41091176.86	135649909.1
2004/05	19363.47	8143.21	374943970.4	66311869.1	157680802.5
2005/06	23061.03	8935.42	531811104.7	79841730.58	206059988.7
2006/07	24647.02	10502.6	607475594.9	110304606.8	258857792.3
Total	X X 106988.56	Y X 39687.29	$\mathbf{X}^2$ X 2313809744	$\mathbf{Y}^2$ X 329991748.8	**XY** X 865077014.2

$\overline{X}$ Mean = 21397.712

$\overline{Y}$ Mean = 7937.458

$$\text{Correlation (r)} = \frac{N \quad XY \; \mathrm{Z} \quad X \; | \quad Y}{\sqrt{N \quad X2\,\mathrm{Z}(\quad X)2} \quad \sqrt{N \quad Y2\,\mathrm{Z}(\quad Y)2}}$$

= 0.828

Coefficient of determination (r^2) = $(0.828)^2$

= 0.686

$$\text{P.Er.} = 0.6745 \times \frac{1\,\mathrm{Z}r^2}{\sqrt{N}}$$

=0.1404

6P.Er = 6*0.1404

= 0.842

Appendix - 3

Total Deposit and Investment

Calculation between correlation of Total Deposit and Investment of EBL

Year	Total Deposit (X)	Total Investment (Y)	X2	Y2	XY
2002/03	6695	1653.98	44823025	2735649.84	11073396.1
2003/04	8063.9	2535.65	65026483.21	6429520.923	20447228.04
2004/05	10097.7	2128.93	101963545.3	4532342.945	21497296.46
2005/06	13802.44	4200.52	190507350	17644368.27	57977425.27
2006/07	18186.25	4984.31	330739689.1	24843346.18	90645907.74
Total	$\sum X$ 56845.29	$\sum Y$ 15503.39	$\sum X^2$ 733060092.5	$\sum Y^2$ 56185228.15	$\sum XY$ 201641253.6

$\bar{X}$ Mean = 11369.058

$\bar{Y}$ Mean = 3100.678

$$\text{Correlation (r)} = \frac{N\sum XY - \sum X \cdot \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\ \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

= 0.957

Coefficient of determination (r^2) = $(0.957)^2$

= 0.916

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

= 0.0376

6P.Er = 6 * 0.0376

= 0.2256

Appendix – 4

Calculation between correlation of Total Deposit and Investment of SCBNL

Year	Total Deposit (Rs)	Total Investment (Rs)	X2	Y2	XY
2002/03	18755.63	10216.2	351773656.7	104370742.4	191611267.2
2003/04	21161.44	11360.33	447806542.9	129057097.7	240400941.7
2004/05	19363.47	9702.55	374943970.4	94139476.5	187875035.8
2005/06	23061.03	12847.54	531811104.7	165059284.1	296277505.4
2006/07	24647.02	13553.23	607475594.9	183690043.4	334046730.9
Total	*X* X 106988.59	*Y* X 57679.85	**X²** X 2313810870	**Y²** X 676316644.1	**XY** X 1250211481

$\overline{X}$ Mean = 21397.718

$\overline{Y}$ Mean = 11535.97

Correlation (r) = $\frac{N \quad XY\,Z \quad X \,|\, \quad Y}{\sqrt{N \quad X2\,Z(\quad X)2}\ \sqrt{N \quad Y2\,Z(\quad Y)2}}$

= 0.978

Coefficient of determination (r^2) = $(0.978)^2$

= 0.956

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

= 0.0197

6P.Er = 6 * 0.0197

= 0.1182

Appendix - 5

Total Asset and Net Profit

Calculation between correlation of Total Asset and Net Profit of EBL

Year	Total Assets (X)	Net Profit(Y)	X2	Y2	XY
2002/03	8052.2	94.18	64837924.84	8869.8724	758356.196
2003/04	9608.57	143.66	92324617.44	20638.1956	1380367.166
2004/05	11732.51	170.8	137651790.9	29172.64	2003912.708
2005/06	15959.28	237.3	254698618.1	56311.29	3787137.144
2006/07	21432.57	296.41	459355056.8	87858.8881	6352828.074
Total	$\sum X$ 66785.13	$\sum Y$ 942.35	$\sum X^2$ 1008868008	$\sum Y^2$ 202850.8861	$\sum XY$ 14282601.29

$\overline{X}$ Mean = 13357.026

$\overline{Y}$ Mean = 188.47

Correlation (r) = $\dfrac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\ \sqrt{N\sum Y^2 - (\sum Y)^2}}$

= 0.987

Coefficient of determination (r^2) = $(0.987)^2$ = 0.974

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

= 0.0116

6P.Er = 6 * 0.0116

= 0.0696

Appendix - 6

Calculation between correlation of Total Asset and Net Profit of SCBNL

Year	Total Assets (X)	Net Profit(Y)	X2	Y2	XY
2002/03	20910.97	506.93	437268666.3	256978.0249	10600398.02
2003/04	23642.06	537.8	558947001	289228.84	12714699.87
2004/05	21781.68	536.24	474441583.6	287553.3376	11680208.08
2005/06	25767.35	658.76	663956326	433964.7376	16974499.49
2006/07	28596.69	691.67	817770679	478407.3889	19779472.57
Total	$\sum X$ 120698.75	$\sum Y$ 2931.4	$\sum X^2$ 2952384256	$\sum Y^2$ 1746132.329	$\sum XY$ 71749278.03

$\overline{X}$ Mean = 24139.75

$\overline{Y}$ Mean = 586.28

Correlation (r) = $\dfrac{N\sum XY - \sum X \times \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$

= 0.955

Coefficient of determination (r^2) = $(0.955)^2$

= 0.912

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

= 0.0394

6P.Er = 6 * 0.0394

= 0.2364

Appendix -7

Net Profit and Total Deposit

Calculation between correlation of Net Profit and Total Deposit of EBL

Year	Net Profit(Rs)	Total Deposit(Y)	X2	Y2	XY
2002/03	94.18	6695	8869.8724	44823025	630535.1
2003/04	143.66	8063.9	20638.1956	65026483.21	1158459.874
2004/05	170.8	10097.7	29172.64	101963545.3	1724687.16
2005/06	237.3	13802.44	56311.29	190507350	3275319.012
2006/07	296.41	18186.25	87858.8881	330739689.1	5390586.363
Total	$\sum X$ 942.35	$\sum Y$ 56845.29	$\sum X^2$ 202850.8861	$\sum Y^2$ 733060092.5	$\sum XY$ 12179587.51

$\overline{X}$ Mean = 188.47

$\overline{Y}$ Mean = 11369.058

$$\text{Correlation (r)} = \frac{N\sum XY - \sum X \times \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\ \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

= 0.990

Coefficient of determination (r^2) = $(0.9990)^2$

= 0.980

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

= 0.0089

6P.Er = 6 * 0.0089

= 0.0534

Appendix - 8

Calculation between correlation of Net Profit and Total Deposit of SCBNL

Year	Net Profit(X)	Total Deposit (Y)	X2	Y2	XY
2002/03	506.93	18755.6	256978.0249	351772531.4	9507776.308
2003/04	537.8	21161.44	289228.84	447806542.9	11380622.43
2004/05	536.24	19363.47	287553.3376	374943970.4	10383467.15
2005/06	658.76	23061.03	433964.7376	531811104.7	15191684.12
2006/07	691.67	24647.02	478407.3889	607475594.9	17047604.32
Total	$\sum X$ 2931.4	$\sum Y$ 106988.56	$\sum X^2$ 1746132.329	$\sum Y^2$ 2313809744	$\sum XY$ 63511154.34

$\overline{X}$ Mean = 586.28

$\overline{Y}$ Mean = 21397.712

$$\text{Correlation (r)} = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\ \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

= 0.957

Coefficient of determination (r^2) = $(0.957)^2$

= 0.916

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

= 0.0376

6P.Er = 6 * 0.0376

= 0.2256

Appendix - 9

Trend Analysis of Total Deposit:

Calculation of EBL

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

Source: Annul report of EBL

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$

$= \frac{56845.29}{5} = 11369$

$b = \frac{SXY}{SX^2}$

$= \frac{38721.04}{10} = 3872$

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

Yc = 11369 + 3872x

Calculation of SCBNL

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

Source: Annul report of SCBNL

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$

$= \frac{106989}{5}$

= 21397.72

$b = \frac{SXY}{SX^2}$

$= \frac{3682.4}{10}$

= 1368.24

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

Yc = 21397.718 + 1368.24x

Appendix - 10

Trend Analysis of total Loan and Advance

Calculation of EBL

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

Source: Annul report of EBL

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

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

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

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

Yc = 8375.3 +2142.8x

Calculation of SCBNL

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

Source: Annul report of SCBNL

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$

$= \frac{39687.2}{5} = 7937.4$

$b = \frac{SXY}{SX^2}$

$= \frac{12138.8}{10} = 1213.9$

Yc = 7937.4 + 1213.9