CHAPTER - I
INTRODUCTION

1.1 Background of the study

Banks are the institutions whose debts are usually referred as 'bank deposit' are commonly accepted in final settlement of people's debt. Bank is also define as an institution for keeping, lending and exchanging money. Thus, a bank is an institutions, which accepts deposits from public and turns into advances and loans by creating credit. It is different from other financial institutions in the sense that they cannot create credit though they may be accepting deposits and moving advances.

"The banking sector is mainly responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending in different sectors of the economy. The banking sector has now reached to the remote areas of the country and has contributed a good deal to the growth of the economy. By lending their resources in small scale industries under intensive banking programme, bank have shared the economic growth of the country." (Shrestha, 1993).

There is for instance, the central bank, which controls the entire currency and credit of the country. It is that organ of government that undertakes the major financial operation of the government and influences the behavior of financial institutions to support the economic policy of the government. Similarly, main function of commercial banks are concentrated in their activities of fulfilling the financial needs of their customers. The nature of the commercial bank is distinguished by different set up like Merchant Banks, Development Banks, Business Banks etc. All these commercial banks perform almost the same function. So, they have become the heart of financial system as they hold the deposits of people, government and business units and make fund available through their lending and investing activities of individuals, business firms and government.

Other financial institutions are financial companies, insurance companies, Employees Provident Fund Corporation, co-operatives and even NGOs which are taking limited banking activities.

The history of organized modern banking system begins in Nepal only after the establishment of a commercial bank namely Nepal Bank Ltd. In 1937 with an authorized capital of Rs. 10 million and paid up capital of Rs. 842 thousand. Nepal Bank Limited was the first commercial bank with 51 % government equity.

In 1956, Nepal Rastra Bank was established as the central bank of Nepal under the Nepal Rastra Bank Act,1955 as a non profit organization fully subscribed by the government with the authorized capital of Rs.10 million and paid up capital of Rs. 205 million. It undertakes the major financial operations of the government and which by its conduct of operation and by other mean, influences the behavior of financial institutions.

1.2. Meaning and Concept of Commercial Bank

Especially, commercial bank deals with the activities of trade, commerce, industry and agriculture. The main objective of commercial bank is to mobilize ideal resources in productive area after collecting them from scattered sources for profit maximization.

Commercial banks help other financial institutions like NIDC, ADB, co-operative society, hire purchase companies and financial companies in various aspects.

"A Commercial bank is a bank which exchanges money, accepts deposits, grant loan and performs commercial banks functions and which is not a bank meant for co-operative agriculture, industries as per such specific functions."(Commercial Bank Act,2031)

The business of commercial bank is primarily to hold deposits and make loan and investments with the objects of security profits for its shareholders. Its

primary motive is profit, other considerations are secondary." (Vaidhyam,1999:27)

Thus, all the above definitions of commercial bank try to introduce on the basis of its functions, so it will be relevant to discuss about the function of commercial banks in the following section.

In 1980, the government introduced 'Financial Sector Reforms of of Nepal' which allowed the entry of the foreign banks as joint venture with up to a maximum of 50% equity participation. The first joint venture bank was Nepal Arab Bank Limited(NABIL). It was established in 1984, later on many joint venture banks were established.

Financial Analysis as a part of finance is also one of the major parts in every type of organization, which is very useful to understand the firm's performance. As the financial service industry becomes more complex, the financial information provided to public becomes more difficult to understand. Quality governance is impossible without effective analysis and evaluation of financial information. Traditional financial ratio analysis has focused on the numbers. The value of this approach is that quantitative relations can be used to diagnose strength and weaknesses in the firm's performances. It provides the framework for financial planning and control. Financial managers need the information provided analysis both to evaluate the firm's past performances and to map future plans. Financial analysis concentrates on financial statement analysis, which highlights the key aspects of firm's operation. After identifying so much scopes and importance of financial analysis, I decided to do research work on it by giving the example of one of the well know bank, SBI Bank Ltd.

1.3. Main roles of Joint Venture Banks in Nepal are as follows

In 1980, the government introduced 'Financial Sector Reforms' Nepal which allowed the entry of foreign banks as Joint Venture with up to maximum of 50% equity participation. A meaningful step toward financial liberalization was undertaken in the FY1987/88, with the objectives of expediting the process of

economic development under structural adjustment programs major reforms including liberalization of interest rates, strengthening of banking operation and a shift from direct to indirect monetary control instruments.

The various roles of the joint venture banks being performed in Nepal can be classified as follows:

a. Health Competition:

The introduction of Joint Venture Banks also brings the benefit of healthy competition. The competition would face domestic banks,Nepal Bank Limited and Rastriya Bank to improve their services and efficiency.

b. Foreign Investment:

Foreign investment is one of the important aspects for the economic development of the country. When looking at the possibility of investing in Nepal, multinational companies are unfamiliar with the local rules, regulations and practices. The joint venture banks help in the multinational companies to build up their confidence for the investment by providing the necessary information and financial support.

c. New Banking Techniques:

Modern banking services being providing Nepalese financial system by new joint venture banks. New banking techniques such as Tele banking, computerization, fee based activities, hypothecation etc are the important contribution of joint venture banks to the gradually changing commercial scenario.

1.4. Introduction to Standard Chartered Bank Nepal Limited

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

The bank has authorized capital of Rs.1000,000,000 and paid capital of Rs. 931,966,400.

With 17 points of representatives, 21 ATMs across the country and with more than 375 local staffs, Standard Chartered Bank Nepal Limited is in a position to serve its customers through an extensive domestic network. In addition, the global.

The main objective of the Bank is to collect deposit and providing loans to agriculture, commerce and industries and provide modern banking services to the people.

This bank offers various types of services to all its customers which promotes bank's competitiveness, credit worthiness etc. Some services and techniques are as follows:

1.Accepting deposits i.e. as current deposits, saving deposits and fixed deposits.2.Granting loan in terms of overdraft, demand loan, time loan and term loan.3.Fund transfer. 4.Safety locker facilities 5. General and trade finance services. 6.Credit card 7.Tele banking .8.Any Branch Banking System. 9.Automatic Teller Machine and many more.

This bank is providing various types of training to its staff on the subject matter of lending, foreign exchange, trade finance, operational technologies and inter alias to promote knowledge, efficiency capabilities similarly to improve its technological capabilities. It is adopting new computer system and other technologies. Some of these are as follows:\

i. Telegraphic Transference of cash through fund transfer system.

ii.Swift System i.e. Society of Worldwide Interbank Financial Telecommunication.

iii. E-mail System

iv. Master card and visa card System

v. Signature upgrade Systems

This bank receives the technological assistance from ANZ Standard Chartered Bank Ltd, Melbourne, Australia. Adopted technologies have been the catalyst to the bank for effective, prompt and simple service. Business volume of this bank is increasing trend and the performance till date is recommendable.

1.5. Introduction to the SBI Bank Ltd.

SBI Bank Nepal Ltd. Is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely state bank of India, employees provident Fund and Agriculture Development Bank of Nepal through a Memorandum of understanding signed on 17th July 1992. Its authorized capital have been increased to Rs.200 crores and issued capital have been increased to Rs87.75 crores. 55perfect of the total share capital of the bank is held by the state Bank of India, 15 percent is held by the Employees Provident Fund and 30 percent is held by the general public of Nepal.

This bank offers various types of services and technologies which are as follows:

1.Deposit acceptance in current, saving, call and fixed deposits.2.Granting loans in terms of overdraft, demand loan, time loan and term loan. 3. Fund transfer 4. Bank guarantee 5. Letter of credit 6. Bill purchase 7. Clearing / Collections 8.Inward and outward remittance 9. Other allied services.

Nepal SBI Bank Ltd. has the broad network all over India, as it is the joint venture with State Bank of India and its parent bank has about 12 thousand branches in India only. Its network is also linked with rest of the world. This bank not only gives service of money transfer to and from India by the means of demand drafts but also issues SBI rupee travelers' cheque. SBI rupee traveler's cheque is as good as cash. The facilities of money transfer which is giving by the bank are as follows:

1.Demand draft 2.Traveler's cheque 3.Fax Transfer 4.Telex Transfer etc. is being provided to its customers by Nepal SBI Bank Limited.

1 . Telegraphic transference of cash through fund transfer system.

2. Swift system i.e. Society of World wide Interbank Financial Telecommunication.
3. E mail system.
4. Master card and visa card system.
5. Signature upgrades system.

1.6. Focus of the Study

The key financial functions are investment, financing and dividing decisions of an organization. Funds are raised from external financing sources and allocated for different uses. The flow of funds within the enterprise is monitored. Benefits to financial sources take the form of return, repayment, products and services; these functions must be performed in business firms, government agencies and non-profit organization alike (Weston and Thomas, 1990).

The development of the country is only a dream without modern banking system. Banking system is regarded as heart of financial system. This thesis is focused on analyzing financial aspects of two joint venture banks, Nepal Standard Chartered Bank and SBI Bank Ltd. by using financial tools and statistical tools like ratio analysis, trend analysis, pie chart, correlation analysis, hypothesis testing. Analysis is focused on fact finding, pin pointing problems and recommending corrective measures.

1.7. Statement of the problem

Banks represent a significant and influencial sector of business worldwide. Most individuals and organizations make use of banks either as depositors or borrowers. Bank plays a major role in maintaining confidence in the monitory system through their close relationship with regulatory , authorities and

government and regulations imposed on them by those governments. Hence, there is considerable and wide spread interest in the well being of banks and in particulars their solvency, liquidity and the relative degree of risk that attaches to the different types of their business. (IAs: 1993)

Profit is one of the indicators of sound financial performance. It is usually the result of sound business management, cost control, credit risk management and general efficiency of operation. Profit is essential for an enterprise for its survival and growth to maintain capital adequacy through profit retention. A bank must maintain adequacy liquidity to a wide range of contingencies. If bank fails to maintain adequacy, it faces obvious difficulties. On the other hand, if it maintain excess liquidity , it may be retained earnings to the point where it can be build up the capital needed to hold its relative position in the banking structure. Excess liquidity is the loss of income. A bank must maintain adequate cash and bank balance to meet day to day operations as well as for remote contingencies.

The user of the financial statement of the banks is interest in its liquidity and solvency and risk related to the assets and liabilities recognized on its balance sheet and to its off balance sheet items. Liquidity refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitment as they fall due. Solvency refers to the excess assets over liabilities and hence to the adequacy of the banks' capital. A bank is exposed to liquidity risks arising from currency fluctuation, interest rate movement, changes in market price from counter part failure. This risk may be reflected in the financial statement but users obtain a better understanding if management provides a commentary on the financial statements which describes the way it manages and controls the risk associated with the operation of the banks.

Today’s context, most of the banks are suffering from the liquidity crisis. Banks are not having adequate deposits. They are providing more loans and advances which exceed deposits. Banks are having liquidity problem due to the following reasons:

- Banks are providing more loans and advances to customers as compared to deposits.
- Losing confidence towards banks, customers are willing to keep money with them.
- Providing more loans and advances to real estate business which is known as unproductive sector.
- Some portion of money is missing from banking sector.

Various studies on the sector's financial performance have been conducted. This study basically concern to analyze the financial performance of two banks namely SCBNL and SBI Bank Ltd. which are operated in Nepal.

To sum up, this study deals with the following issues:

- How the banks have been managing its liquidity position in relation to liquidity?
- How much is the operational results to its profitability?
- How much satisfaction depositors, investors, shareholders are getting with the efficiency of the banks?
- Have the banks been able to raise their productivity to their satisfactory level?
- Have the banks been able to mobilize their resources into investment properly?
- How far the banks been able to accumulate deposits and utilize the deposits so accumulated?

1.8.Objectives of the study

The main objective of this study is to analyze the comparative financial performance of two banks namely Standard Chartered Bank Nepal Limited and SBI Bank Ltd. More specifically:

1.To examine the trend of deposits, loans and advances, net profit, investment and earning of Standard Chartered Bank Limited and SBI Bank Ltd.

2.To evaluate the liquidity, profitability position of Standard Chartered Bank Nepal Limited and SBI Bank Limited.

3.To suggest and recommend on the basis of findings.

1.9. Significance of the study

This study will be helpful to different parties interested in the financial performance of the bank. All the information regarding the banking sector is essential for the depositors, prospective customers, creditors etc. It will be helpful to the management to go deep into the matter as to why the performance of this bank is better or worse than its competitors.

This study will give information about the joint venture banks by analyzing financial tools and will definitely contribute to increase the financial performance of the joint venture bank.

This study will help to persons and parties who are concerned with banking sectors such as shareholders, management of the bank, stock brokers, financial institutions, general public and other policy making bodies.

1.10. Limitation of the study

Despite all possible efforts on the part of the researcher, this study is also not free from limitations. It possesses some limitations of its own kind . The limitations of this present study are as follows:

- There are many commercial and joint venture banks but this study deals with two joint venture banks namely SCBNL and SBI Bank Ltd.
- This research has been conducted to fulfill the requirement of M.B.S. course for a prescribe time. So, time and financial constraints are also the limitations of the study.
- This study examines only the financial performance of SCBNL and SBI Bank Ltd.

- The researcher being a beginner in this area, this report cannot remain without flaws. But effort will be made to make the report with minimum error.
- This study is based on secondary data which are not sufficient for the completion of the study.
- This study has covered only the latest five fiscal years' data.

1.11. Organization of the Study

This study has been broadly divided into five chapters, which are as follows:

Chapter 1: Introduction.

This chapter includes the general introduction, statement of problem, objectives of the study, significance of the study, hypothesis and limitation of the study.

Chapter 2: Review of Literature.

This chapter reviews the existing literature on the concept of banking, concept of commercial banks and joint venture banks , development of banking system in Nepal.

Chapter3: Research Methodology.

This chapter includes the research design, data collection procedure, tools for analysis and method of analysis and presentation of data.

Chapter 4:Presentation and analysis of data.

This is the main part of the research and it includes data presentation, interpretation and analysis. Various financial and statistical tools and techniques have been used to analyze and interpret the data.

Chapter 5: Summary, conclusion and recommendation

This is the finial chapter of the present study that summarizes and concludes the research and offers necessary recommendations for future improvement of the financial performance of Standard Chartered Bank Nepal Limited and SBI Bank Ltd.

At the end of the study, bibliography and appendices have also been incorporated.

CHAPTER - II
REVIEW OF LITERATURE

Literature refer to the detail of any things. It is an analytical expression on concerned topics. In this section relevant content related with the topic of the study are mentioned and arranged like concepts of Bank, commercial bank, concept of financial performance, brief profile of SBI Bank and SCBNL. The materials required for the study have been taken from books, journals, annual reports, publications, unpublished dissertations and objectives given to commercial bank by Nepal Rastra Bank.

2.1 Conceptual framework

2.1.1. Concept of Bank

A bank is a financial institution dealing with monetary transaction. It performs financial, economic of monetary functions.

It is an institution, which deals with the offering of deposits collected in providing the loan for commercial purposes.

The term bank has been derived from the Italian word "Bancus" which all means a bench.

A bank performs mainly following functions.

- Accepting deposits from the public.
- Providing loan and advances to person or organization.

  In simple word, bank is just like an ordinary shop dealing with money instead of commodities.

2.1.2. Functions of Commercial Banks

Generally, commercial banks perform the following functions.

i. To accept deposits

Commercial banks accept deposits of public, organizations and institutions on three different accounts.

a. Current accounts: In this account, money can be deposited and withdrawn by customers at any time. No interest is provided to the customers.

b. Saving accounts: It is the account in which money deposited can be drawn in a limited amount. Customers are provided with nominal interest.

c. Fixed deposit accounts: Account in which money can be deposited for a certain time or the bank provides long duration and interest of certain rate to its customer is fixed deposit accounts.

ii. To provide loan.

Another function of commercial bank is to provide loan to parties' in need of money against the security of parent, gold, silver and fixed properties. Sometimes facilities of overdraft are also provided to honest customers.

iii. Discounting bill.

Commercial banks sometimes purchase bills of 90 days.

iv. Credit creation.

The main function of commercial bank is to create through leveling and investing activities. It is the quality of the commercial banks that make it different from other financial institutions.

v. To transfer money.

Transfer of money is another function of commercial bank. The bank carries money between places and persons and helps them to deal with their accounts.

vi. To serve agency functions.

The bank also serves its customers, persons and organization by doing agent ship function. Collection of money, payment of money, payment of expenditure on behalf of various institutions, for which a certain charge is to be

paid by (those institution to the customers) are some of the functions that fall in this category.

vii. To exchange foreign currency.

With the permission of Central Bank, Nepal Rastra Bank, Commercial banks work for exchange of currency.

viii. To open letter of credit.

Giving guarantee to foreign traders on behalf of local traders for the payment of the value of goods imported along with issuing drafts is its functions.

ix. To help in issuing capital.

"Commercial bank also help industries and organization by assisting in issuing capital through the sale of shares and debentures." (Thapa,1995:114-115)

2.1.3. Concept of Joint Venture Banks.

A joint venture is an association of two or more persons or parties undertaken to make the operation highly effective with their collective efforts. These sort of financial institutions under the combined capital of persons or between organizations are meant to work for the development of trade, commerce and industry.

Joint venture means, "A business contract of management effort between two persons, companies or organization involving risk and benefit sharing." (Ahuja,1994:174)

"When two or more independent firms mutually decide to participate in a business venture, contributed to the total equity or more or less capital and establish a new organization. It is known as joint venture." (Jauch and Glueck, 1988:232)

In developing countries foreign investment plays a significant role for the economic development by following the capital, technology, skills, managerial

efficiency and others so, local foreign joint investments have been considered more important.

2.1.4. Role of joint venture banks in Nepal

Joint venture banks are important for the economic development of mixed economy followers like Nepal. Nepalese economic situation and investment necessity provide a significant weight to joint venture banks, which bring foreign capital, experience, technology, skill and art. Broadly, the role of JVBs in Nepal can be discussed as follows:

a. Modern Management and Banking Techniques:

Modern managerial principles and practices in banking sector have been introducing by joint venture banks in Nepal. New banking techniques such as hypothecation and syndication are also introduces under NRB guidance. Various techniques followed by international banks in deposition, lending exchange and others have been introduced by these banks also in Nepal.

After the establishment of these banks, other banks also begin to use computer system. Some new banks have adopted new techniques such as tele-banking, credit card and master card system in urban areas. Now these banks are oriented to follow up some developing techniques in international banking sector.

b. Information to foreign investors:

The role of JVBs is significant for the collection of fund for mega projects. Before the establishment of JVBs some large projects could not be established. Because of the political instability after the restoration of multiparty democracy, foreign investors have still been hesitating to invest in Nepal. In such a situation, the publication of JVB s have been playing a vital role to introduce the Nepalese financial rules, regulations, polices and practices to the foreign investors.

2.2. Concept of Financial Performance

Financial Performance can be defined as the heart of financial decision. The growth and development of an organization is fully affected by the financial performance and the financial performance of an organization is correct only when the true facts, data and figures are input.

Business organizations are inspired to generate profit. The volume of profit earned is also one of the major indication of good financial performance of a firm. "Profit earned by the firm is the financial performance indicator of a business enterprise." (Robinson, 1951:21-22)

"Profit is essential for every enterprise to survive in the long run as well as to maintain capital adequacy through retained earnings. It is also necessary to accept market for both depts. equity to provide funds for increased assistance to the productive sectors." (IBID:21-22)

Financial performance, as a part of financial management is the main indicator of success and failure of a firm. Financial condition of a firm should be found from view points of shareholders and debenture holders.

A quantitative judgment of the financial performance and financial position of a firm should be made from the view points of the firm's investments. Thus, financial analysis is the main qualitative judgment process of identifying the financial strength and weakness of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account."A ratio is defined as the indicated quotient of two mathematical expressions and relationship between two or more figures." (Webster, 1971:958)

"Financial Management in broad sense provide a conceptual and analytical framework for decision making. They also covers both acquisition of funds as well as the allocation of fund to various uses. Their major decisions are investment decision, financial decisions and dividend policy decisions." (Khan and Jain ; 1999:1.16)

"In financial analysis, ratio analysis is used for evaluating the financial position and performance e of the firm." (Panday 1991:104)

In this study, mainly financial performance of commercial bank is examined for various reasons. "Ratio Analysis is such a powerful tool of financial analysis that through this economic and financial position of a business unit can be fully X-rayed." (Kothari, 1991:48)

A powerful and the most tested tool of financial analysis is the ratio analysis. "It is defined as the systematic use of ratio to interpret the financial statement so that the strength weakness of a firm as well as its historical performance and current financial condition can be determined."(Khan & Jain;1999;5.3)

Traditional financial ratio analysis has focused on the numbers. But the world is becoming more dynamic and subject to rapid changes. It is not enough to analyze operating performance. Financial analysis must include consideration of the strategic and economic developments to which the firm must relate for its long run success. Different sources and different analysis use different lists or combination of financial ratios for analysis. Financial statement reports both on the firm's position at a point in time and its operation over some past period. However, the real value of financial statement lies in the face that they can be used to help predict the firm's future earnings and dividends. From an investor's stand point, predicting the future is what financial analysis is useful both as a way to anticipate future condition and more important, as a starting point of planning actions that will influence the future course event.

Ratio analysis is designed to determine the relative strength and weakness of business operations. It also provides a framework for financial planning and control. Financial managers need the information provided by analysis both to evaluate the firm's past performance and to map future plans. Financial analysis concentrates on financial statement analysis, which highlights the key aspects of firm's operations."

There are many parties involved with the bank (i.e. short term creditors, long term creditors, shareholders, potential investors, management, government, central bank, general public.

Short term creditors are interested in the liquidity of the bank. They examine the ability of the bank to pay the amount of interest. Long term creditors and bondholders are interested in the cash flow ability and profitability of the bank. Over a time period, they analyze the ability of the bank to pay the interest on time and also the capital structure of the bank.

Similarly, shareholders want growth of the retained earnings and at the same time stability in earning. They are concerned with strong financial position of the bank so that it can pay regular dividend to its shareholders with no chances of bankruptcy. Likewise, management of the bank concerned about the overall position of the bank like liquidity, profitability, solvency, growth, goodwill and so. Thus, the management should analyze all types of indicators which will help both internal and external analysis of bank.

Government regulatory is concerned with the rate of return on the assets and also they want to see the proportion of equity and non equity in capital structure of the banks. The general public interested towards the concerned matters.

So, financial performance analysis of a firm consists of different kinds of indicators out of which financial statement analysis, ratio analysis, sources and uses of funds are the major to measure the strength and weaknesses of a firm. But here the study is focused mainly on the ratio analysis and some other financial indicators to analyze the financial position and performance of the bank.

2.3. Investment

Most of the people earn and spend money. Rarely, their current money income exactly balances with their consumption. These imbalances lead either to borrow or to save. When current income exceeds current consumption desires,

people tend to save the excess. They can do any of several things with these savings. One possibility is to put the money under a mattress or bury it in the ground until some future time when consumption desires exceeds current income. When they retrieve their savings from the mattress or ground, they have the same amount they saved because money does not multiple itself. The buried money even fails to preserve its value against the ongoing inflating. Therefore, the saving can be employed in such a way that its value is preserved and some additional income can be generated at a future date. Thus, investment in the current commitment of the savings that compensates for the time involved the expected rate of inflating and uncertainty involved. Investment can also be described as any vehicle into which funds can be placed with the expectation that they will generate positive return and or their value will be preserved or increased.

According to F. Amiling, " investment may be defined as a purchase by and individual institutional investor of financial or real assests that produces a return proportional to the risk assumed over some future investment period."

According to Sharpe, Alxender & Bailey, " Investment in its broad sense means sacrifice of current dollars. Two different attributes are generally involved time and risk. The sacrifice takes place in the present and is certain. Return comes at later, if at all, and the magnitude is generally uncertain."

Investment has the following attributes:

i. **Anticipation of return**
ii. **Involvement of risk**
iii. **Time dimension**

i. Anticipation of return:

An investor is ready to sacrifice his present consumption and put o employ the money only in anticipation of future return or reward. An investor expects from his/her investment that its value is preserved and can be generated more in the future.

ii. Involvement of risk:

Both the timing and magnitude of return from majority of investment cannot be predicted exactly. The investment is made at present and it is obliviously. Certain. However, the return/reward is expected in some future date so, it is uncertain. The uncertainly brings the risk. Therefore, almost every investment entails some degree of risk.

iii. Time dimension

Another inseparable attribute in connection to investment is the time dimension. There is time lapse between investing the money and expecting/generating the return. The expectation of return also depends on the length of time horizon until the investment is tied up.

There are two forms of investment. They are:

i. **Financial investment**
ii. **Real investment**

i. Financial investment

Investment in financial assets like common stocks, bonds etc are called financial investments. Financial assets represent a financial claim, It is an asset that is usually documented bys some forms of legal representation. Although financial assets are typically represented by tangible certificates of ownership, the financial asset itself is intangible. They are also called securities. Financial assets can be viewed as claims to the income generated by real assets. In this context, the value of financial assets is derived from the value of underlying real assests. Financial assets also called ‘paper assets.’

ii. Real investment:

A real asset represents an actual tangible asset that may be seen , felt, held or collected eg. Real estate, gold etc. Investment in such tangible asset is called real investment. Real assets have productive capacity. The capital formation is the direct outcome of this productive investment.

2.3.1. Investment Environment

The investment environment refers to all internal and external forces affecting investment decision. It covers all kind of marketable securities that they are bought and sold through the brokers' network and financial intermediaries. Thus, securities, security markets and financial institution form the scope and coverage of investment environment. Existence of a favorable environment is the medium which direct the pool of saving into the productive sector.

2.4. Securities

A security is a legal document the shows an ownership interest. In other words, security is a piece of parer evidencing the investors' right to the asset. It is the legal representation of the right to receive prospective future benefits under stated condition and to acquire or sell ownership interest. Share, bond, preferred stock, Treasury bill, commercial paper etc are the examples of securities.

2.4.1. Security markets

A market is the means by which products and and services are bought and sold directly or through an agent. A market should provide accurate information on the price and volume of past transactions, and current supply and demand. Adequate liquidity is desirable so that participants may buy and sell their goods services rapidly, at a price reflecting the supply and demand.

A security market is a mechanism of bringing together buyers and sellers of financial assets in order to facilitate trading. Alternatively, security market is a place or places where securities are bought and sold, the facilities and people engaged in such transactions, the demand for and availability of securities to be traded, and the willingness of buyers and sellers to reach agreement on sales. Over the counter markets(OTC), the New York Stock Exchang (NYSE), the

Chicago Board of Trade(CBT), the American Stock Exchange(AMEX) and Nepal Stock Exchange(NEPSE) are the examples of securities markets.

The security markets are classified into"

i. **Money market and capital market.**
ii. **Primary market and Secondary market.**

i. Money market and Capital market:

Money market refers to that financial market in which securities with a short term(one year or less) and highly liquid debt securities are traded. Thus, the money market comprises the securities that have short maturity period(life span), easily marketable, liquid and even lower risk in comparison to other securities.

In contrast to money market, capital market refers to the financial market in which long-term securities are traded. Specifically, securities having the life span of more than one year are traded in the capital market. Long term financial instruments such as stocks issued by corporation are basically traded in this market.

ii. Primary market and Secondary market:

The market through which the funds are transferred from savers to investors is primary market. The transactions of securities issued for the first time takes place in the primary market. Investment bankers help market the new issues of stocks, bonds or other securities to the public.

The market where the existing and pre-determined securities are bought and sold is secondary market. This market provides liquidity to the purchase of the securities. This market can be regarded as the center to convert stocks, bonds and other securities into cash immediately. NEPSE is the only a secondary market in Nepal.

2.5. Valuation

Various mathematical models have been developed to include variable that determines values which over simplify the valuation process. In reality many factors determine the market price of the common stock. These factors may change and the relationship between these factors may change. No models can consider the complexities of the real world process. These models however, can provide a useful framework for the analysis.

Mathematical models imply precision and accuracy and it is essentially a quantitative procedure. However, the common stock valuation is an out. Models are useful to the analyst but are not the substitute for judgment and common sense. Models can be used in making accurate forecast. Therefore. Models should be viewed as tools for decision making. Finance theory indicates that the value of common stock is essentially a function of future income the stock can provide and the riskiness of income stream.

Vn= f (income, risk)

Where, Vn= Intrinsic value of common stock in period n.

Equity management assumes that all historical and current information is not fully and correctly reflected in the current price of every stock. Hence, there exist stocks that are undervalued and overvalued.

2.6. Investment Decision

Investment decision theory analyzes how to get from investors' preferences to the optimal investment decisions. The prime objective of making any investment is to make money and maximize the utility. This can be achieved only by attaining the optimal investment decision. Decision is made after the completion of analysis. The general model of decision making is to compare the estimate expected return and estimate requires holding period return.

Expected return $E(HPR)_t = \frac{EP - BP + DPS}{BP}$

Where,

$E(HPR)_t$ = Expected holding period return

EP = Value at the end over one period

BP = Price at the beginning of the year

DPS = Divided paid at the end of the year

$E(r_j) = r_f + b_i[E(r_m)-r_f)$

where,

$E(r_j)$ = expected required period return

R_f = Risk free return

B_i = beta for the stock

$E(r_m)$ = Expected market return

The analyst should compare E(HPR) and $E(r_j)$. If E(HPR) > $E(r_j)$, the analyst should invest for long term and if E(HPR) < $E(r_j$, the analyst should invest for a short plan.

2.7. Empirical studies on Related Topic

2.7.1. Review of Related Articles

Relevant articles related to the different aspects of commercial bank help to conduct this study smoothly. So, some of the articles relating to banking sectors have been reviewed below.

Sunil Chopra in his article "The Role of Foreign Bank in Nepal" concludes that as JVBs are already playing an increasing, dynamic and vital role in the economic development of the country, this will undoubtedly increase with time (Chopra, 2046).

Another study conducted on "Monetary policy and Deposit Mobilization in Nepal", concludes that mobilization of domestic saving is one of the prime objectives of the most active financial intermediary of generating resources in the form of private sector and providing credit to the investor's in different sectors of the economy.

The Article entitled by R.L. Shrestha on " Capital Adequacy of Bank in the Nepalese context", has suggested that Banks deals with in highly risky transactions to maintain strong capital base. He concluded that capital should be in optimum level, to keep the standard ratio of capital for each individual bank keeping in mind the various factors (Shrestha, 1980).

"When government decided to be established bank with joint venture, two benefits were expected. First, the competition would focus domestic banks, Nepal Bank Limited and Rastriya Banijya Bank to improve their services and efficiency, second the introduction of new banking procedures, methods and technology could occur (Snock, 1998)

An article was published titled "Joint Venture Banks in Nepal". It focused that despite the increase in numbers, the joint venture banks are concentrating only in urban areas, especially in major cities except few banks. This trend has resulted in two ways affect on the operation of the government owned commercial banks in Nepal. First, the comparatively attractive interest rate and service promptness of these private banks have drawn the public deposits to their side by reducing financial liabilities of the former, second, as a result of reduction in financial liabilities, government operated commercial banks have been forced to shut down some of their branches in remote areas of the country. Nevertheless, these joint venture banks have been instrumental in mobilizing capital more efficiently and have been more helpful in funding private sectors.

Likewise, another article entitled, "Lending operation of commercial banks of Nepal and its impact on GDP", by Dr. Sunity Shrestha, has been carried out with the objectives to make an analysis of contribution of commercial banks lending to the Gross Domestic Product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending viz. agriculture, industrial, commercial service and general and social sector as independent variables. A multiple regression technique has been applied to analyze the contribution..

The multiple regression analysis has shown that all the variables except service sector lending have positive impact on GDP. Thus, in conclusion she has accepted the hypothesis i.e. there has been positive impact on GDP by lending of commercial banks in various seeks of economy.

Moreover, Mr. Aswini Kumar Thakur, in his article, " Performance of Nepalese Commercial Banks" has concluded that the joint venture banks are successful in not only penetrating the market but also consolidating their position over the year. It is due to customer orientation and strong marketing strategy.

Professor Dr. Manohar Krishna Shrestha has concluded in his article "Commercial Banks comparative performance evaluation" that the Joint Venture Banks are operationally more efficient than the local commercial banks because Joint Venture Banks generally, used sophisticated technology, skilled man power and provided modern banking facilities. However, local commercial banks have completely out performed the JVBs in terms of granting loans to cottage and small industries, local banks have number of loop holes like absence of modern global balance sheets, absence of precise classification of loans and absence of proper development of computer networks. Moreover, local commercial banks have to face various problems from socio-economic, political system on one hand spectrum and that of issues and challenges from JVBs commanding significant banking business on the other spectrum. (Shrestha: 2047)

Gilles Sarra in his article " The role of commercial banks in Nepalese context", concluded that the five commercial banks are improving their services due to the pressure of comparison for the public benefits. (Sarra, 2047, P.31-36)

Ratna R Bajracharya in his article, "Rastriya Banijya Bank - A comparative Performance Study", concluded that deposit growth of commercial bank is not consistent indigenous banks and better in mobilize, but they are not much efficient in credit expansion. Credit deposit ratio is better in JVBs. Non-performing loan is greater in designers banks but profitability is greater in JVBs. Local Banks are focused to open and continue their branches at the rural

areas but JVBs are relevant and are ready to pay fines for not doing so. (Bajracharya: 2047)

In the journal of Financial Economics, summer 1996, entitled, "Commonality in the Determinants of Expected Stock Returns" by Robert A. Haugen and Nardin L. Baker, they presented with evidence that the determinants of the cross section of expected stock return were stable in their identification and influence from period to period and from country. The determinants were related to risk, liquidity, price level, growth potential and stock price history. Out of sample predications of expected returns, using moving average values for the pay offs to these firm characteristics were strongly and consistently accurate. Two findings, however, distinguished their papers from others in the contemporary literature. First, the stock with higher expected and realized rate of return was unambiguously lower risk than the stock with lower returns. Second, they found that the important determinants of expected stock returns were strikingly common to the major equity markets of the world. Given the nature of the text, it was highly unlikely that those results may be attributed to bias or data snooping. Consequently, the result seems to reveal a major failure in the efficient market hypothesis.

2.7.2 Review of the Books

Various books are written on commercial banks and we will be reviewing few of them.

The book "Modern Banking", written by Sayers (1967), highlights the economic importance of commercial banks and function of 'creation of money' by bank. According to Sayers, " The special interest of economists is in the activities of the deposit liabilities of the banks." There lies the communities' interest in the bank because by their operation, they can affect the monetary situation in the sense of the availability of the purchasing power. The bank in effect exchanges its own promise to pay immediately against the customer's promise to pay off the advance later on the economic importance of this

exchange in that the bank's promise to pay immediately is absolutely effective purchasing power, which plays an instrumental role in increasing the total demand of the goods and services. Here people use banks for the purpose of making payment and as sources of loans; the latter involves society's interest in the distribution between different uses of the resources that can be devoted to adding to the real capital of nature (Sayers, 1967).

Cox (1988) in his book named "Success in Elements of Banking" stresses in their major functions to be performed by the commercial banks.

- To accept and safeguard deposit of money from customers.
- To permit money to be withdrawn or transferred from one account to another.
- To lend the surplus of deposit money to suitable customers.

David Cox, believe that the word 'money' is common to all the basic function of the bank. Money, according to him can be defined as anything, which is generally acceptable in the settlement of the debt and passes freely from hand to hand.

"Commerical Bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope to its other services" (Cox, 1990)

In other words, "A bank is a business organization that receives and hold deposits of funds from others, makes loans or extends credits and transfer fund by written order of deposits" (Principle of operation, 1972:345)

It is a dealer in money and substitutes for money, such as cheque of bill of exchange, It also provides a variety of financial serves.

In the Nepalese Context, Nepal Commercial Bank Act, 2031 defines that " Commercial Banks are one which exchange money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture or for such specific purpose.

"Banking means, "The accepting for the purpose of lending and investing, the deposits of the money from the public, repayable by the cheque, draft, order of otherwise" (Mali Ram, 1967).

A book written by Bhuwan/Sarita Dahal (2056) in their " A hand book of banking", highlights in the function of credit creation, accepting various types of deposits and advancing loan in different fields. According to the authors, the very marketing concept of bank; commercial bank started knocking the doors of customer. They have highlighted on the customer-oriented concept of commercial bank following NRB directives.

2.7.3. Review of relevant thesis

A thesis conducted by Shakya (2000) titled, "Comparative analysis of financial performance of selected JVBs: A case study of SCBNL and HBL". The main objective of this study was to analyze the liquidity ratio, activity ratio and profitability ratio of both banks and to study the comparative financial strength and weaknesses of these two JVBs and their viability. He concluded the following things which are as:

Current ratio of HBL is higher that SCBNL. This shows that HBL had adequate assets ratio than SCBNL. Comparatively, HBL is more efficient in meeting its short term obligations than SCBNL. Similarly, HBL cash and bank balance to deposit ratio stood higher than that of SCBNL.

Among various profitability ratios like return on total assets, return on total deposits, the performances of SCBNL is better than that of HBL. But return on net worth of shareholders fund is higher in case of HBL.

In case of loan and advance to total deposit ratio, HBL has higher percentage than that of the SCBNL.

Total income generating assets to total assets ratio in higher for SCBNL than HBL. Similarly, investment to total deposit ratio of SCBNL is higher than HBL. The capital adequacy position is better in SCBNL than in HBL Dividend

payout ratio of SCBNL is also higher than HBL. Similarly, EPS, BVPS is also higher for SCBNL as compared to HBL.

Trend analysis of loan and advance and total deposits of both banks show positive correlation between total deposits and loan and advances.

Paudel (1997) has conducted study on "A comparative analysis of financial performance between NBL and SCBNL with the main objectives to provide the comparative highlight of SCBNL and NBL and to analyze the comparative financial performance in terms of liquid, profit, DPS, MVPS, EPS and dividend payout ratio. He had concluded the following things.

- Although the liquidity position of these banks are different but on the whole the current assets are adequate to meet the current liabilities. The liquid position of the SCBNL is higher than NBL.
- Profit position of SCBNL is better than that of NBL. But the interest earned to working fund ratio of NBL is higher than SCBNL. NBL has higher expenditure so the profit making capacity is lower than the SCBNL.
- SCBNL has made better utilization of resources in short term investment but NBL has more non-earning ideal assets as cash and bank balance than SCBNL.
- Similarly, SCBNL has better credit position than NBL in terms of short term investment. i.e. investment on government securities to total deposits ratio. The total investment of total deposit ratio is also higher for SCBNL than NBL.
- The NBL is highly levered than the SCBNL since taking the analysis of same period in terms of long term debt to net worth ratio and total depts. to net worth ratio.
- The average DPS of SCBNL is higher than NBL. Similarly, dividend payout ratio is also higher in case of SCBNL.

- JVBs such as SCBNL are fast growing. The overall profitability is higher but government owned commercial bank such as NBL has higher expenditure and profit making capacity is lower than the SCBNL.
- Rabin Subedi (2003) has conducted study on, "Financial Assessment of JVBs in Nepal." He has undertaken five JVBs. They are Nepal SBI Ltd, Nepal Standared Chartered Bank Ltd., Nepal Arab Bank Ltd, Himalayan Bank Ltd and Nepal Bangladesh Bank Ltd. He as conducted the study on the basis of secondary data. He had concluded followings:
- The liquid position of JVBs is not very poor through the rule of thumb the standard ratio should be 2:1. This standard could not be followed by all JVBs but it cannot be said that the JVBs are not able to pay their short term obligation. In this situation, it seems that the JVBs could be able to meet short term obligation through the ratios are below than normal rate.
- In case of profitability, SCBNL has earned more profit in terms of net profit to total assets ratio, net profit to total deposits ratio, return on net worth ratio and return on loan and advance ratio than the other four banks i.e. NSBI, NABIL, HBL and NBB.
- Likewise, SCBNL has stood higher position in case of EPS and market price per share than other four banks. In case of price earnings ratio, NSBI has stood higher position. Similarly, HBL has stood higher position in case of market price to book value per share and in case of market rate of return is higher in NBB.
- The growth ratio of NDBI are relatively high with respect to net profit whereas other four banks, SCBNL, NABIL, HBL and NBB have registered low growth ratios in comparison to NSBI. Though SCBNL has earned more total profit than other four banks in the study.

Dinesh Raj Shakya (1995) in his thesis, "Financial Analysis of Joint Venture Banks in Nepal" has introduced the hypothesis test for evaluation of the financial performance of the joint venture banks. He has set the null hypothesis

as there is no significance difference between mean values of each selected ratios of NABIL and SCBNL. After analyzing various functions of balance sheet, profit and loss account and calculating the correlation between them. He concludes that there is a significant difference between mean values of each selected ratios of NABIL and SCBNL except in the case of Fixed Deposits to Total Deposit Ratio, Loans and Advances to Total Deposits Ratio.

He has out come with various recommendations as follows:

- He recommends NABIL to increase its cash and bank balance as well as money at call for improving its liquidity position.
- Both the banks should open the new branches in non-representing urban areas for more deposit collection and utilization of the same.
- NABIL's profitability ratios are in fluctuation trend as compared to that of SCBNL, hence it is recommended to utilize its risk assets and shareholder.
- Both the joint ventures are suggested to set a more convenient minimum balance requirement to open an account, simplify the present complicated and lengthy depositing process and to provide incentives to attract new fixed deposits.

Ganesh Prasad Avasthi (2003) conducted a stuldy on "A Comparative Studly on Financial Performance between HBL and BOK" with the objective to analyze different ratios of these two banks and to find out their strength and weaknesses in different terms. He had given following findings:

The short term solvency position of both banks is found below than normal standard through the study period. Liquidity in terms of cash and bank balance position in respect to total deposit ratio of HBL is slightly higher than BOKL.

- Cash and bank balance to current asset ratio is also higher in HBL than BOKL,
- HBL has been efficient in utilizing most part of its total assets in profit generating purposes that BOKL during the study period.

- Except the fiscal year 1997/98 of BOKL, both banks are been able to earn profit on shareholder's equity but not to satisfactory level. HBL is more successful to generate more return on its shareholder's funds than that of BOKL.
- HBL seems much better in terms of offering dividend to its shareholders as compared to BOKL.
- Employee expenses of HBL are higher than BOKL, which shows that HBL is providing more facility to its employee than BOKL. But on average operating expenses of BOKL is higher than HBL.

Keshav Raj Joshi, a study conducted on, "Financial Performance of Commercial Banks" He had made an effort t to appraise the financial years (19981/82 to 1986/87) of commercial banks. He had found that the liquidity position of commercial banks are satisfactory, comparatively local commercial banks are highly leveraged than the joint venture commercial banks, loans and advances are the major forms of investment, two third of the assets have been used for earning purpose, profitability position of NABIL bank is stronger than that of the other commercial banks. The debt equity ratio of their commercial banks was higher than that of the joint venture banks.

Sudeep Upadhaya, (2002), had conducted a study on "Risk and Return on Common Stock Investment of Commercial banks in Nepal." In this research paper, he had applied five years data from 1997 to 2002. He had focused on: "In general, most people see stock market investment as a black art that they know little about, About stock market investment or perhaps a fear of the unknown. As overall economy, Nepalese stock market is in emerging state. Its development is accelerating since the political change in 1990 in effect of openness and other part if the stock market is influenced due to the Maoist problem faced by the country. But due to the lack of information and poor knowledge, Nepalese individual investor cannot analyze the securities as well market properly."

In addition, Upadhaya added that the proper analysis of individual security, industry and overall market is always needed. General knowledge about economic, political and technological trend will be advantageous. To win the market, shares should be hold when the market is rising and hold safer investment when it is falling.

Mr. Uttam Raj Pant, in his thesis work entitled, "A study of Commercial Banks Deposits and in Utilization", has made an attempt to highlight the discrepancy between resources collection and resources utilization. He concluded that the commercial banks' failure in resource utilization is due to their lending confined for short term only. So, he recommended that the commercial banks should give emphasis on long term lending for better utilization of the deposits. (Pant, 2033).

A Study undertaken by R.P. Siwakoti, " A study on an appraisal of financial position of Nepal Grindlay's Bank Limited", concludes that the liquidity position of the bank is below the normal. Standard and the average ratio is affected by the large value of deposits, which shows the financial risk of using debts. The capital structure of the bank is extremely leveraged and fund for the capitalization of the banks in by outsider is favorable to he bank because interest payable to long term debt in very low than the earning from shareholders. Coverage ratio is low and fluctuating in nature over the analysis period, this indicates high profitability of the bank being unable to pay debt interest and may ultimately lead the bank to the worth situation. So, the bank is not utilizing its resources in more efficient manner because the major portion of assets is blocked in cash and bank balance and fixed asset, which does not generate income.

Another thesis report entitled, "A brief study on resource utilization by Nepalese Commercial Banks" of Mr. Om Krishna Singh had covered the period of seven years from mod July 1972 to July 1978 concluded that the banks inefficient in deposits utilization during the period under study. (Singh, 2037)

In the study entitled, " A study of Dividend Policy of Joint Venture Banks in Nepal." He concluded that DPS and EPS of the banks are correlated and PE ratios are not consistent. These banks are to be paying higher dividend, which made high the market values of the shares (K.C.1991)

Gyanendar Acharya states on, "A comparative study of the financial performance of JVBs in Nepal especially on NABIL and NIBL concluded that capital adequacy ratio of NABIL has recorded a decreasing trend over the study period. It was able to maintain as per the directives issued by the central bank only during the first three years of the study periods. Similarly, NIBL has recorded an increasing trend over the study periods and it was able to maintain as per directives issued by the central bank.

The study conducted by Jeet Bahadur Sapkota is about, "Risk and Return in Common Stock Investment in Commercial Banks in Nepal" in 2000. The basic aim of this study is to analyze risk and return of securities of listed commercial banks of Nepal. "The main target of this study is potential investor who wants to invest in security but repel by imaginary and an unreal risk. So, the study was supposed to be more significant for exploring and increasing stock investment." The basic objective of this study is to describe risk, return, volatility of stock and some relevant and irrelevant factors, which are very important to make decision in stock investment. It also observes the unseen problems facing by individual investors."

Risk and return analysis is an important concept of investment decision process. It helps to make a good opportunity in stock market as well as new issue market. Basically, this study analyses risk and return of commercial banks in Nepal, which are listed and traded in NEPSE. The study period was 2049/50 to 2055/56. And Ghimire (2008) A thesis entitled 'Financial performance of Joint venture banks(with special reference to SCBNL and NABIL bank); recommended that EPS and DPS should increase by increasing MPS.

Subedi (2009) A thesis entitled "Financial performance analysis of commercial banks of NIBL and SBI"; major findings were liquidity position of NIBL was better than SBI and SBI utilized the debt more t has that of NIBL. He recommended the banks that to review their overall capital structure and investment portfolio tomake better combination of capital structure.

Lama Bijaya (2009) A thesis entitled "An analysis on Financial Performance of Nepal Electricity Authority" found that the leakage of NEA reducing its profitability.

Sangel (2007) A thesis entitled " Comparative Analysis of financial status and performance evaluation of HBL and NABIL bank"); findings were both the banks managerial and operating efficiency since the total expenses to total expenses to total revenue ratio are in decreasing trend. Ghimire (2008) A thesis entitled 'Financial performance of _joint venturc banks (with special reference to SCBNL and NABIL bank"); recommended CPS and DPS should increase by increasing MPS.

Subedi (2009) A thesis tided "Financial performance analysis of commercial banks of NMI_ and SBI"; major findings were Liquidity position of NIBL was haw than SBI and SBI utilized the debt more than NIBL. He recommended the banks that to review their overall capital structure and investment portfolio to make better combination of capital structure.

Shrestha Preeti (2009) A thesis entitled "Financial performance analysis of Nepalese Commercial banks" found that banks are growing uncontrollably and helping to the common people also. The researcher has recommended to maintain its liquidity position of the banks for daily cash transaction.

Shrestha RI.. (2064.) "Capital Adequacy of Bank in the Nepalese context"; Kathmandu Nepal bank patrika

Shrestha (2004) has done research entitled " Study on profit planning and control of public Utility Sector, A comparative Study of Nepal Electricity Authority and Nepal Telecommunication Corporation ." has tried to find out some major problems of NEA and NTC.

Mr. Shrestha has conducted the study covering the time period of five years.

CHAPTER - III
RESEARCH METHODOLOGY

In this chapter, the data collected so far have been presented, analyzed and interpreted. This chapter presents the data, facts, figures relating of different aspects of SCBNL and SBI Bank Ltd. These available data have been tabulated, analyzed and interpreted so that forecast of banks can be done easily. Though there are many ratios but due to the aforementioned limitations, only selected ratios have been taken for analyzing strength and weakness of the sample joint venture banks.

3.1 Research Design

Research design in the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the thesis and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme the paradigm of the operation of the variables. When we draw diagrams that outline the research purposes. Strategy, as used here, is also more specific than plan. In other words, strategy implies how the research objectives will be reach and how the problems encountered in the research will be tackled.

By research design, we mean an overall framework or plan for the collection and analysis of data. The research design serves as a framework for the study, guiding the collection and analysis of data. The research design then focuses on the data collection methods, the research instruments utilized, and the sampling plan to be followed. Specifically speaking, research design describes the general plan for collecting, analyzing and evaluating data after identifying what the researcher wants know and what has to be dealt with in order to obtain the

required information. The research design is an organized approach and not a collection of loose, unrelated parts.

It is an integrated system that guides the researcher in formulating, implementing and controlling the study. Useful research design can produce the answer to the proposed research questions. The research design is thus an integrated frame that guides the researcher in planning and executing the research works.

3.2. Populations and Sample

There are thirty one commercial banks operating in Nepal. That forms the population and the two banks, Standard Chartered Bank Nepal Limited and SBI Bank Ltd. have been selected as a sample. Financial Statements of 5 years data has been selected as sample for the purpose of the study.

3.3. Sources and Types of data

The study is mainly based on secondary data were collected from the respective annual reports of the banks. So, the major sources and types of data were published from such as:

a. Financial Statements of SCBNL and SBI Bank Ltd.
b. Annual reports of these banks.
c. Bulletin and reports periodically published by various bodies.
d. materials i.e. newspapers, journals, magazines, textbooks etc.

Besides, some primary data have also been collected and used whatever possible. i.e. discussion with shareholders, financial experts and personnel of commercial banks.

3.4. Data Collecting Procedure

This study is mainly based on secondary data, obtained from various sources mentioned above. Besides a detailed review of literature has been conducted in order to collect relevant data and information. Such data and information have

mainly collected from central library of Tribhuvan University (T.U.), Kirtipur, and Library of Nepal Commerce Campus, New Baneshwor, Library of Shankar Dev Campus and other public libraries. Apart this, some useful data, facts and figure has also obtained from shareholders, financial experts and bank personnel through a discussion with them. Editing, tabulating, calculating prior to their analysis has processed such data, information, facts and figures in order to obtain proper results that have been shown in the form of percentages, ratios, simple averages, standard deviation, coefficient of variation, graphs charts etc. for clear presentation.

3.5. Tools and Techniques of Analysis

The data thus collected and observed have been tabulated after adjusting necessary amounts of each overhead appeared in annual reports. However, for the analysis of the data, following two tools have been used.

-Financial Tools

-Statistical Tools

Financial Tools:

There are wide varieties of financial tools, which can be applied in order to review the financial performance of a bank. But, this study follows ratio analysis method. Ratios, as tools of measuring financial position of SCBNL and SBI Bank Ltd, the following categories have been taken into consideration.

- **Liquidity Ratio.**
- **Assets Management Ratio.**
- **Profitability Ratio,**

A. Liquidity Ratio:

Liquidity ratios are used to judge the ability of banks to meet its short term liabilities that are likely to mature in the short period. From them, much insight can be obtained into present cash solvency of the bank and its ability to remain

solvent in the event of adversities. It is measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations.

i. **Current Ratios:**

The current ratio is the ratio of total current assets and current liabilities. It shows the relationship between current assets and current liabilities.

Mathematically, it is presented as,

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

Where,

Current assets include cash, cash in foreign currency, cash balances at NRB and other banks and financial institutions, bills purchase, money at call and short notice, 40% of loan and advances, interest receivable and other current assets which include net accured interest on loan, sundry debtors, cash in transit and other receivables.

Similarly. Current Liabilities include 100% of Current Deposit, 60% of Saving Deposit, 60% of Call Deposit, 40% of Fixed Deposit, other deposit margin, expenses payable, income tax payable, proposed dividend and other liabilities including sundry creditors, payables etc.

The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business ratio.

ii. Cash and Bank Balance to Total Deposit:

Cash and bank balance are the most liquid current assets of a firm. Cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed by dividing the amount of cash and bank balance by the total deposits. It can be presented as,

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

Where,

Total Deposits consists of deposits on current account, saving account, fixed account, money at call and other deposits.

iii. Cash and Bank Balance to Current Assets Ratio:

This ratio measures the percentages of liquid assets i.e. cash and bank balance among the current assets of a firm. Higher ratio shows the higher capacity of firms to meet the cash demand.

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

iv. Loan and advances to Current Assets Ratio:

Bank's major earning source is loan. Loans are also taken as current assests as most of them are maturing within a period of one year and represent short term disbursement. A bank should not allocate all funds on loan and advances so it must maintain in an appropriate level. In order to calculate the proportion of loan and advances to current assets, the ratio is obtained by dividing loan and advances by current assets.

$$\text{Loan and advances to Current Assets Ratio} = \frac{\text{Total Loan and Advances}}{\text{Current Assets}}$$

B. Assets Management Ratio (Activity Ratios):

Assets management ratio is used to indicate how efficiently the selected banks have arranged and invested their limited resources. The following financial ratios related to investment policy are calculated under asset management ratio and interpretations are made by these calculations.

i. Loan and Advances to Total Deposit Ratio:

This ration is calculated to find out how successfully the selected banks and finance companies are utilizing their total collections/deposits on loan and advances for the purpose of earning profit.

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

ii. Total Investment to Total Deposit Ratio:

Investment is one of the major sources of earning money. This ratio includes how properly firms' deposits have been invested on government securities and shares and debentures of other companies. This ratio can be computed dividing total amount of investment by total amount of deposit collection, which can be shown as,

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

iii. Loan and Advances to Total Working Fund Ratio:

The main element of total working fund is loan and advances. This ratio indicates the ability of selected banks and finance companies in terms of earning high profit from loan and advances. This ratio can be computed by dividing loan and advances by total working fund, which can be summarized as,

$$\text{Loan and Advances to Total Working Fund} = \frac{\text{Total loan and advances}}{\text{Total Working Fund}}$$

Where,

Total working fund include total amount of assets given in balance sheet which refers to current assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items i.e. letter of credit, letter of guarantee etc.

iv. Loan and advances to Fixed Deposit

A commercial bank's fixed deposit play a significant role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their fixed deposit on loan and advances for the purpose of income generation. A high ratio indicates a better mobilization of fund as loan and advances and vice-versa.

This ratio can be calculated by dividing loan and advances by fixed deposit as below:

$$\text{Loan and advances to Fixed Deposit ratio} = \frac{\text{Loan and advances}}{\text{Fixed Deposit}}$$

C. Profitability Ratios:

Profitability ratios are calculated to measure the efficiency of operation of a firm in terms of profit. It is the indicator of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of the bank and vice-versa. Profitability position can be evaluated through following different ways,

i. Return on Total Assets :

This ratio establishes the relationship between net profit and total assets. This ratio is also called as 'profit to asset ratio. It is calculated dividing net profit/loss by total working fund and can be expressed as,

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

ii. Return on Loan and Advances Ratio:

Return on loan and advances ratios shows how efficiently the banks and finance companies have utilized their resources to earn good return from provided loan and advances. This ratio is computed by dividing net profit/ loss by the total amount of loan and advances.

It is expressed as,

$$\text{Return on Loan and Advances} = \frac{\text{Net Profit after Tax}}{\text{Loan and Advances}}$$

ii. Total Interest Earned to Total Working Fund Ratio:

Total Interest Earned to Total Working Fund is calculated to find out the percentage of interest earned to total assets. Higher the ratio indicates the better performance of financial institutions in the form of interest earning on better working fund.

This ratio is calculated dividing total interest earned from investment by total working fund and is mentioned as below,

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

iii. Total Interest Paid to Total Working Fund Ratio:

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice-versa. This ratio is calculated by dividing total interest paid by total working fund.

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

iv. Return on Net Worth:

This ratio measures how much profit is earned by utilizing funds of total equity by the firm. As the commercial bank, the objectives of joint venture banks are to earn profit so as to provide a reasonable return to the owners. Total shareholders' equity consists of preference share capital, ordinary shareholder equity consisting of equity share capital, share premium, reserve and surplus

less accumulated losses. This ratio can be calculated as Net Profit After Taxes divided by average total shareholders' equity.

$$\text{Return on net worth} = \frac{\text{Net Profit after Tax}}{\text{Net Worth}}$$

Higher ratio indicates the sound management and efficiency of a firm and vice-versa.

3.6. Statistical Tools

Statistical Tools help to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan and advances or investment on other companies. The trend analysis of ratios indicates the direction of change. This kind of analysis is particularly applicable to the items of profit and loss account. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical tools such as standard deviation, Karl Pearson's Coefficient of Correlation, trend analysis adopted which are as follows:

3.7. Coefficient of Correlation (r)

Correlation analysis contributes to the understanding of economic behavior, aids in locating the critically important variables on which others depend, may reveal to the economist the connections by which disturbances spread and suggest to him the paths through which stabilizing forces may become effective. (W.A. Neiswanger). The dir of correlation measures the direction of relationship between the two sets of figures. It is the square root of the coefficient of determination. Two variables are said to be correlated, the change in one variable results in a corresponding change in the other variable. There is positive and negative correlation. If the values of the two variables deviate in

the same direction i.e. the increase in the values of one variable results, on an average, in a corresponding increase in the value of the other value or if a decrease in the values of one variable results, on an average, in a corresponding decrease in the values of the other variable, correlation is said to be positive or direct.

On the other hand, correlation is said to be negative or inverse if the variables deviate in the opposite direction i.e. if the increase (decrease) in the values of one variable results, on the average, in a corresponding decrease (increase) in the values of the other variable. The degree of association between the two variables, say x and y and is defined by coefficient of correlation (r).

$$r = \frac{N\sum xy - (\sum x)(\sum y)}{\sqrt{N\sum x^2 - (\sum x)^2}\,\sqrt{N\sum y^2 - (\sum y)^2}}$$

r= Coefficient of correlation betwee variable x and y

$\sum x$= Sum of the x

$\sum y$= Sum of the y

N= no. of pair of observation.

x=Dependent variable.

y=Independent variable.

The value of 'r' lies between -1 to +1. If r=+1, there is perfect positive relationship. If r=-1, there is perfect negative relationship. If r=0 , there is no correlation at all.

3.8. Coefficient of Determination (r^2)

The coefficient of determination is the measure of the degree of linear association or correlation between two variables, one of which happens to be independent and the other dependent variable. It measures the percentage of total variation in dependent variable explained by independent variables. The coefficient of determination can have value ranging from 0 to 1.

$$R^2 = \frac{\text{Explained variation}}{\text{Total variation}}$$

3.9. Probable Error (PE)

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 values of the coefficient in so far it depends on the condition of random sampling. The probable error of the coefficient of correlation is obtained as follows:

$PE=0.67451-r^2$

Where, r^2 = coefficient of determination.

N = no. of pair of observation.

If the value of r is less than probable error there is no evidence of correlation i.e. value of r is not at all significant.

If the value of r is more than six times the probable error, coefficient of correlation is practically certain. i.e. the value of r is significant.

3.10. Trend Analysis

Under this topic, we analyze and interpret the trend of deposits, loan and advances, investment and net profit of SCBNL and SBI Bank Ltd. That helps to make forecasting for next five years. The following trend value analyses have been used in this study.

Trend analysis of total deposit, loan and advances, total investment and net profit.

The trends of related variables can be calculated as, Y = a+bx.

CHAPTER - IV

In this chapter, the data collected so far have been presented, analyzed and interpreted. This chapter presents the data, facts, figures relating of different aspects of SCBNL and SBI Bank Ltd. These available data have been tabulated, analyzed and interpreted so that financial forecast of banks can be done easily. Hence, the financial ratios have been used for this purpose. Though there are many ratios but due to the aforementioned limitations, only selected ratios have been taken for analyzing the strengths and weaknesses of the sample joint venture banks.

4.1. Financial Ratio Analysis

Financial Ratio analysis is the most widely used financial tool. Financial analysis is the process of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. Various financial ratios related to the financial management and the fund mobilization are presented and discussed to evaluate and analyze the performance of two banks SCBNL and SBI Bank Ltd. Financial ratios are calculated and data will be analyzed with the help of those ratios. Some important financial ratios are only calculated from the point of view of the fund mobilization and financial analysis. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another. All these calculations are based on financial statements of concerned banks. The important and needed financial ratios, which are to be calculated for the purpose of these studies are mentioned below.

Liquidity Ratio, Asset Management Ratio, Profitability Ratio, Risk Ratio , Growth Ratio.

4.1.1. Liquidity Ratio

Ratio analysis express quantitative relation of two mathematical variables as it is a financial tool. Ratio is taken to judge an accounting figure in relation to the other accounting balances. There are different types of ratios used to measure a firm's financial position. Liquidity ratio presents liquidity position of a firm. Liquidity position is calculated taking relation to the different portfolio of the firm. It may vary based on nature of business. In this study, following ratios are mentioned of the concerned financial institutions.

i. Current Ratio:

Current Ratio measures short term liabilities maturing before one year. This is a broad measurement tool to analyze liquidity position of a financial institution. It indicates Bank's ability to discharge current obligations. The ratio is obtained by dividing current assets by current liabilities.

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

Table No.4.1

Current Ratio (Times)

Fiscal Year	SCBNL	SBI
2004/ 05	1.0226	1.042
2005/ 06	0.981	0.665
2006/ 07	0.946	0.878
2007/ 08	0.455	0.951
2008/ 09	0.3673	1.127
Mean	0.7544	0.9326
S.D.1	0.1413	0.177
C.V.	1.77	18.98%

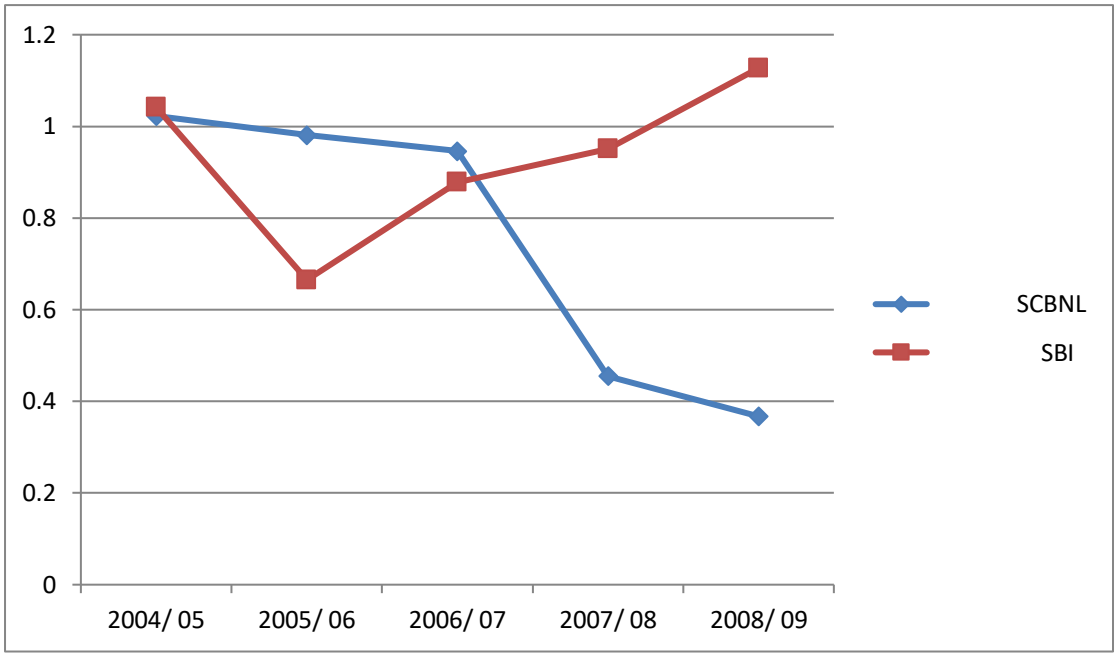
Souurce:Annual Report of respctive banks (2008/09) and Annex 1

It is clear from the above that both SCBNL have not maintain current assists less than their current liabilities SBI have maintained current assets more than

their current liabilities. This is a sign that SBI bank is capable enough to pay their current obligations. SBI has the highest current ration if F/Y 2008/09 i.e 1.1269 and the lowest in Y/Y 2005/06 i.e. 0.6646.

Fig No. 4.1

Current Ratio (Times)



Similarly SCBNL has a high current ratio of 1.0226 in F/ Y 2004/05 and a lowest of 0.367 in F/Y 2008/09. The averages mean ration of SBI is higher than SCBNL; i.e. 0.9326>0.7544. This shows that SBI liquidity position is better than that of SCBNL. The lower degree of standard deviation and coefficient of variation suggest that both the banks have maintained consistency in their ratios. Though as per the conventional rule current ratio should be 2:1 but for banks any current ratio above 1 also considered healthy and sound.

ii) Cash And Bank Balance to Total Deposit Ratio

Cash and Bank Balance consists of cash on hand, foreign currencies, cheques as well as other cash items and balance with the domestic banks. This ratio measures the availability of banks highly liquid or immediate funds to meet it unanticipated calls on all types of deposits. This ratio is calculated as:

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

As higher ratio indicates the higher ability to meet their deposits and vice versa. The following tables shows the cash and bank balance to total deposit ratio of two banks during the study period.

Table No.4.2

Cash and Bank Balance to Total Deposit Ratio

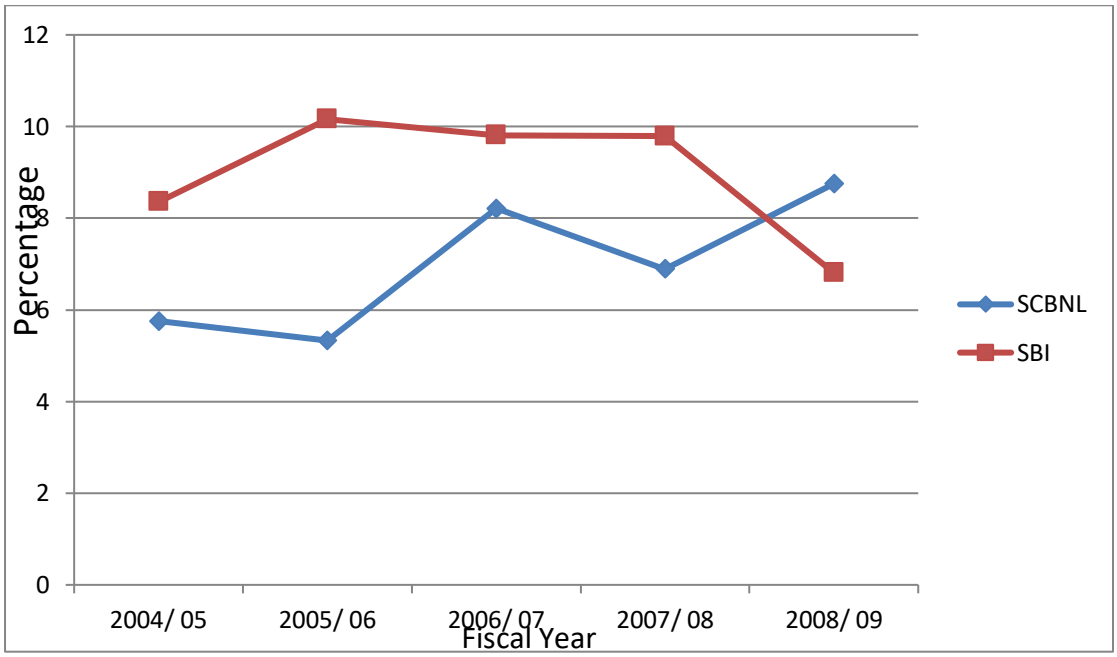
Fiscal Year	**SCBNL**	**SBI**
2004/ 05	5.75	8.36
2005/ 06	5.33	10.16
2006/ 07	8.21	9.81
2007/ 08	6.89	9.79
2008/ 09	8.75	6.81
Mean	6.99	8.99
S.D.1	1.49	1.40
C.V.	21.32%	15.57%

Souurce:Annual Report of respctive banks (2008/09) and Annex 1

The above tables shows that cash and balance to total deposit of SCBNL is in fluctuating trend and SBI has decreasing trend during the study period. SCBNL had a high ratio of 8.75% in F/Y 2008/09 and a low ratio of 5.33% in F/Y 2005/ 06. Similarly, SBI has a high of 10.16% in F/Y 2005/ 06 and a low of 6.81% in F/Y 2008/ 09. The averages mean ratio of SBI is slightly higher SCBNL i.e. 8.99%. Greater than 6.99%. This shows SBI readiness to meet customer requirements better than SCBNL. The C.V. of SBI is slightly lower than that of SCBNL i.e. 15.57% is less than 21.32%. On it's basis, it can be concluded that SCBNL ratios are more consistent than that of SBI…

Fig. No.4.2

Cash and Bank Balance Total Deposit



Although the above ratio implies slightly better liquidity position of SBI, a high ratio of non-earning cash and bank balance indicates the bank unavailability to invest its fund in income generation areas that might have helped it to improve its profitability.

iii). Cash and Bank Balance to Current Assets Ratio

This ratio examines the bank's liquidity capacity ion the basis of it's most liquid assets i.e. cash and balance. This ratio reveals the availability to make the quick payment to customer's deposit. A high ratio indicates the sound ability their daily cash requirements of their customers deposit and vice versa. In this ratio, both higher and lower ratio are not desirable because if a bank maintains higher ratio of cash, it has to pay interest on deposit and some earnings may be lost and if a bank maintains lower ratio of cash, it may fail to make the payment for presented cherubs by its customers. So, sufficient and appropriate cash reserves should be maintained properly.

This ratio is calculated by dividing cash and bank balance to current assets

$$\text{Cash and Bank Balance to Current Assets ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current assets}}$$

Table No. 4.3.

Cash and Bank Balance to Current Assets ratio

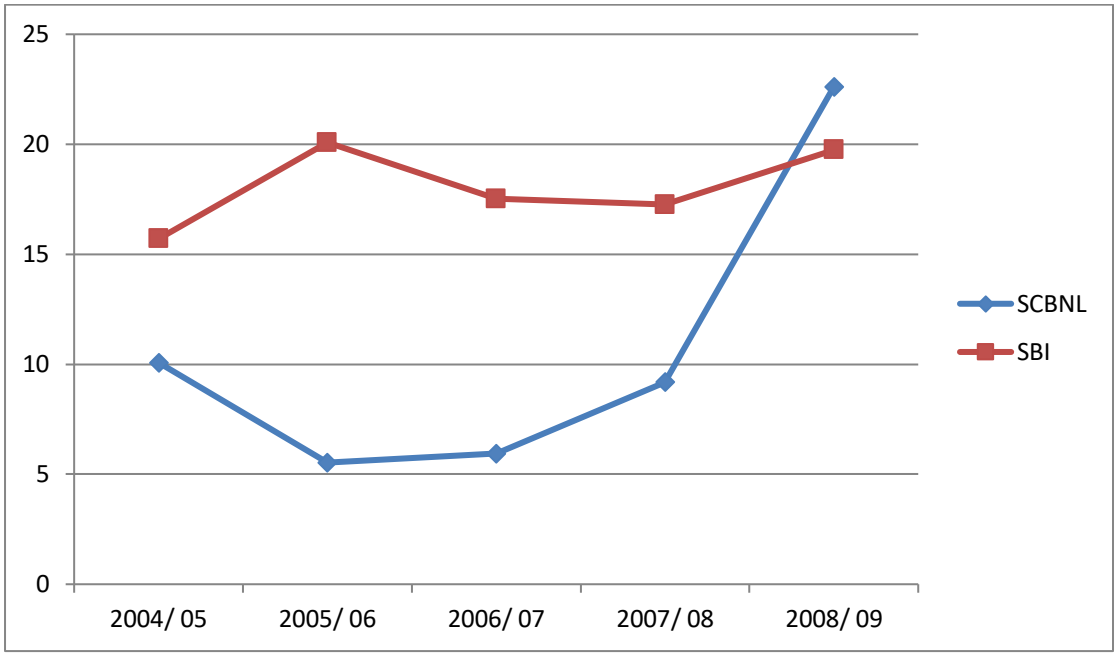
Fiscal Year	**SCBNL**	**SBI**
2004/ 05	10.07	15.70
2005/ 06	5.53	20.08
2006/ 07	5.94	17.52
2007/ 08	9.18	17.26
2008/ 09	22.61	19.74
Mean	10.67	18.06
S.D.	3.114	1.83
C.V.	29.18	10.14%

Souurce:Annual Report of respctive banks (2008/09) and Annex 1

The above table shows that the cash and bank balance to Current Assets of SCBNL is in fluctuating trend and SBI has decreasing trend during the study period. SCBNL has maintained the ratio of and SBI has maintained the high ratio of 20.08% in F/Y 2005/06.

Fig No. 4.3

Cash and Bank Balance to Current Assets ratio



The Average Mean Ratio of SBI is slightly higher than SCBNL. Above table does not show any significant differences between CVs with regards to meeting customer's daily cash requirement. Both have fared well in meeting their depositor's daily cash requirement and investing the surplus fund in other productive areas.

4.1.2 Asset Management ratio

Asset management ratio measures how effectively a firm is managing its assets. These ratio are designed to answered this question :"Does the total amount of each type of asset as regard on the balance sheet seem reasonable, too high or too low , in the view of current assets and operating levels?"Either a company or a Bank must borrow or obtain fund from other sources to acquire assets. If it has too many assets , its interest expenses will be too high and hence its profit s will be depressed and on the other hand , if assets are too low , profitable sales may be lost. Following ratio need to be calculated under this study.

i) Loan and Advances to Total deposited ratio

This ratio helps us showing the relationship between loans and advances which are granted and the total deposited collected by the bank. A high ratio indicates better mobilization of collected deposit and vice-versa. It should be noted to that too high ratio may not be better from liquidity point of view. This ratio is calculated dividing loan and advances by total deposits.

$$\text{Loan and advance to total deposit ratio} = \frac{\text{Loan and advance}}{\text{Total deposits}}$$

Table No.4.5

Loan and advance to Total Deposit Ratio

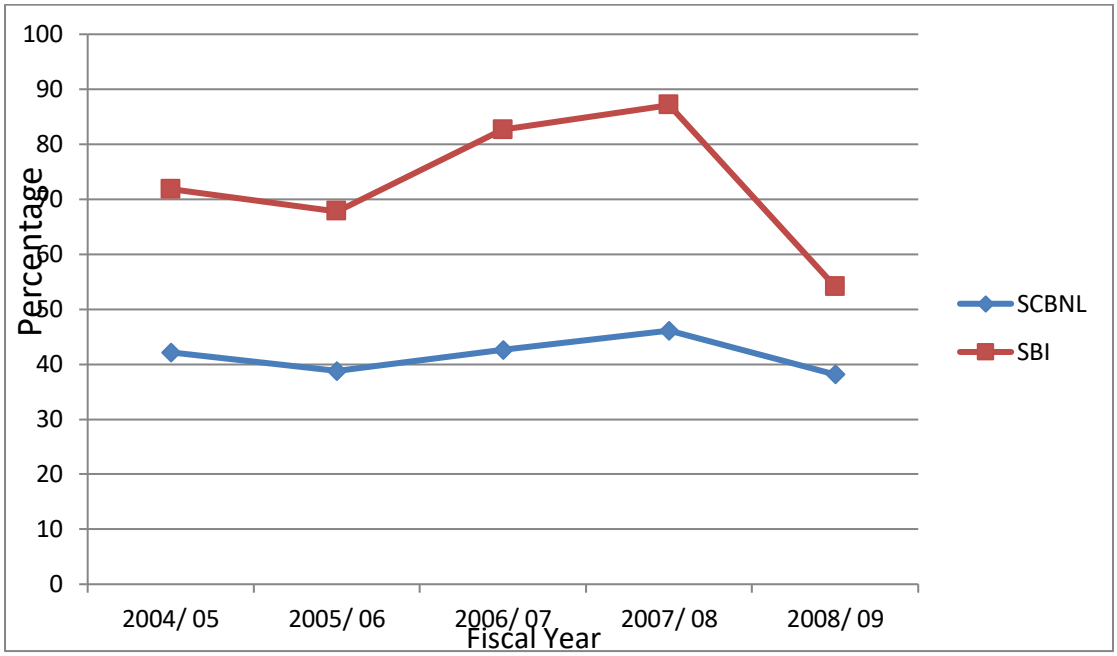
Fiscal Year	**SCBNL**	**SBI**
2004/ 05	42.12	71.80
2005/ 06	38.75	67.78
2006/ 07	42.61	82.66
2007/ 08	46.12	87.11
2008/ 09	38.13	54.12
Mean	38.38	72.69
S.D.	4.80	5.82
C.V.	12.51%	8.00%

Souurce:Annual Report of respctive banks (2008/09) and Annex 1

The above table shows that the loan and advances to total deposit of both the banks have a fluctuating trend SCBNL, had a high ratio of a 46.12% in F/Y 2007/ 08 and a low ratio of 38.13% in F/Y 2008/ 09. Accordingly, SBI had a high ratio of 87.11% in F/Y 2007/ 08 and a low ratio of 54.12% F/Y 2008/ 09. The mean ratio of SBI Is higher than that of SCBNL i.e. 72.69% greater than 38.38%. SBI seems to be strong in terms of mobilization of it's total deposits as loan and advances when compared to SCBNL.

Figure No.4.5

Loan and advances to Total Deposit



In terms of C.V., both seems to be nearly consistent. It can be concluded that SBI has been more successful in mobilizing it's total deposits as loan and advances than SCBNL. On the contrary, a ratio should not be perceived as a better state of affairs from the point of view of liquidity, as a loan and advances are not as liquid as cash and bank balance and other investments. In port folio management of bank various factors such as availability of funds, liquidity requirements, central norms, etc. needs to be taken into account.

ii). Total Investment to Total Deposit:

A commercial bank may mobilized it's deposit by investing it's fund in different securities issued by the government and other financial or non-financial companies. Now efforts has been made to measure the extend, of which the bank are successful in mobilizing the total deposit in investment. In the process of portfolio management of banks, various factors such as availability of fund, liquidity requirements, central bank norms, etc. are to be considered in general. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice-versa. Total investment includes

investment on governments securities, priority deprive sector, loan to industries and business houses, personal loans, etc.

Table No. 4.6

Total Investment to Total Deposit Ratio:

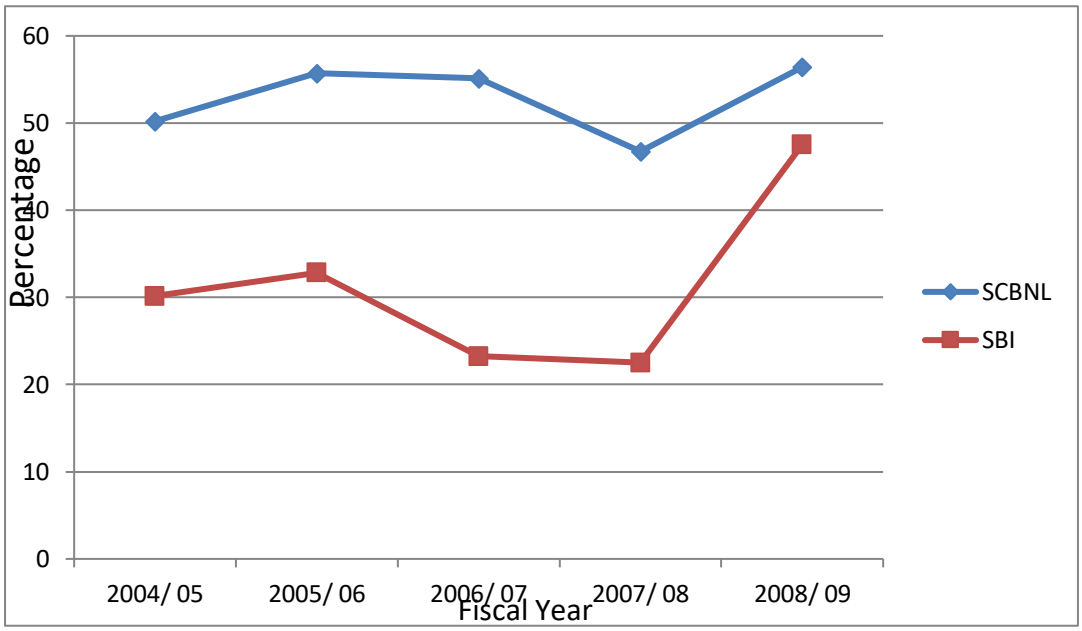
Fiscal Year	**SCBNL**	**SBI**
2004/ 05	50.18	30.13
2005/ 06	55.71	32.82
2006/ 07	55.10	23.24
2007/ 08	46.74	22.52
2008/ 09	56.41	47.52
Mean	54.23	31.25
S.D.	4.48	10.11
C.V.	8.26%	32.35%

Souurce:Annual Report of respctive banks (2008/09) and Annex 1

The table shows that both the banks have fluctuating trend in total Investment to Total Deposit. SCBNL has a high ratio of 56.41% in F/Y 2008/09 and a low ratio of 46.74% in F/Y 2007/08. Similarly, SBI had a high ratio of 47.52% in F/Y 2008/09 and a low ratio of 22.52% in F/Y 2007/08 respectively.

Figure No.4.6

Total Investment to Total Deposit



SCBNL has a high mean ratio than SBI i.e.54.23%>31.25%. From mean ratio prospective, SCBNL has been more successful in mobilizing deposits on various forms of investment.

From C.V. viewpoint, both the banks have been inconsistent, with SCBNL being little better in terms of consistency than SBI on various forms of investment. What is worth mentioning is that Interest on Treasury Bills, Intr bank lending and placements are at all time low level, so SCBNL has done itself justice by investing in low yield less risky and risk free assets.

iii. Loan and Advances to Fixed Deposit Ratio:

A Commercial bank's fixed deposit play significant role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their fixed deposit on loan and advances for the purpose of income generation. A high ratio indicates a better mobilization of fund as loan and advances and vice-versa.

To see the relationship between loan and advances to fixed deposit, this ratio is computed by dividing loan and advances by fixed deposit using the following formula,

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

Table No. 4.7.
Loan & Advances to Fixed Deposit Ratio:

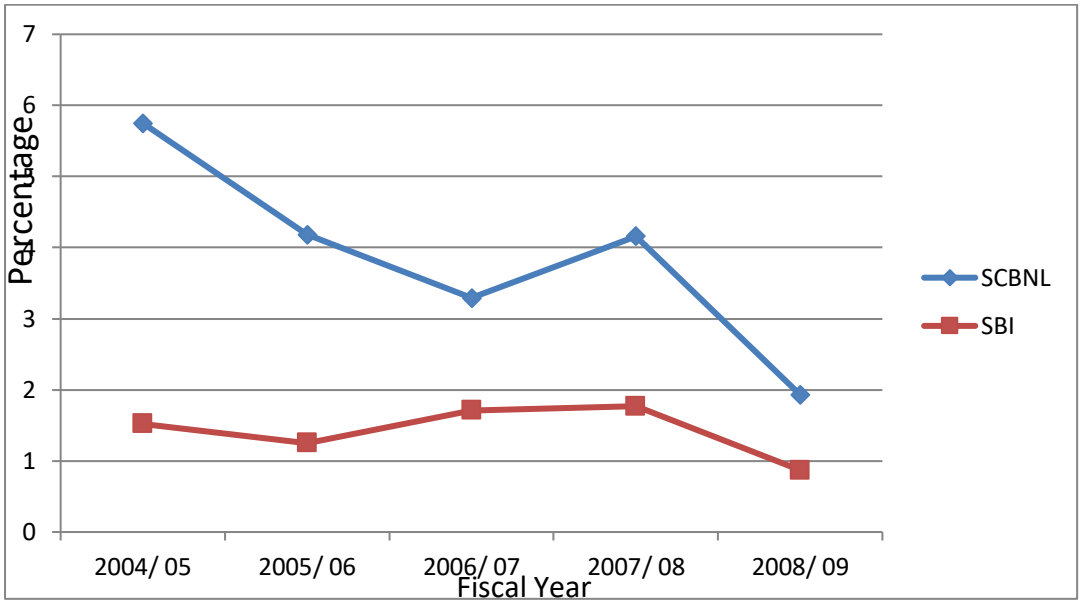
Fiscal Year	**SCBNL**	**SBI**
2004/ 05	5.75	1.52
2005/ 06	4.18	1.25
2006/ 07	3.29	1.71
2007/ 08	4.16	1.77
2008/ 09	1.93	0.87
Mean	3.86	1.42
S.D.	1.40	0.37
C.V.	36.27%	25.87%

Souurce:Annual Report of respctive banks (2008/09) and Annex 1

The above table shows a fluctuating trend of loan and advances to fixed deposit of SCBNL and SBI. SCBNL has maintained highest ratio of 5.75% in F/Y 2004/05 and the lowest ratio of 1.93% in F/Y 2008/09. Similarly, SBI has maintained a high ratio of 1.77% in F/Y 2007/08 and a low ratio of 0.87% in F/Y 2008/09.

Figure No. 4.7

Loan and Advances to Fixed Deposit



SCBNL also has a high average ratio of loan and advances to Fixed Deposit than SBI i.e. 3.86%>1.42%. It reveals the strength of SCBNL in mobilizing its total assets as loan and advances.

v. Loan and Advances to Saving Deposit Ratio:

Loan and advances are also included in the current assets of commercial bank because generally they provide short term loan, advances, overdraft and cash credit. The ratio can be computed in the following way:

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

In the present study, loan and advance represent to local and foreign bills, discounted purchase and loan, cash credit and overdraft in local currency as well as inconvertible foreign currency. To make high profit by mobilizing 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 advance to the customers. If sufficient loan and advances cannot be granted, it should pay interest on those unutilized deposit funds and may lose some earning. But high loan and advances may also be harmful to keep the bank in most liquid position because they can only be collected at the time of maturity only.

Table No. 4.8

Loan and Advances to Saving Deposit Ratio:

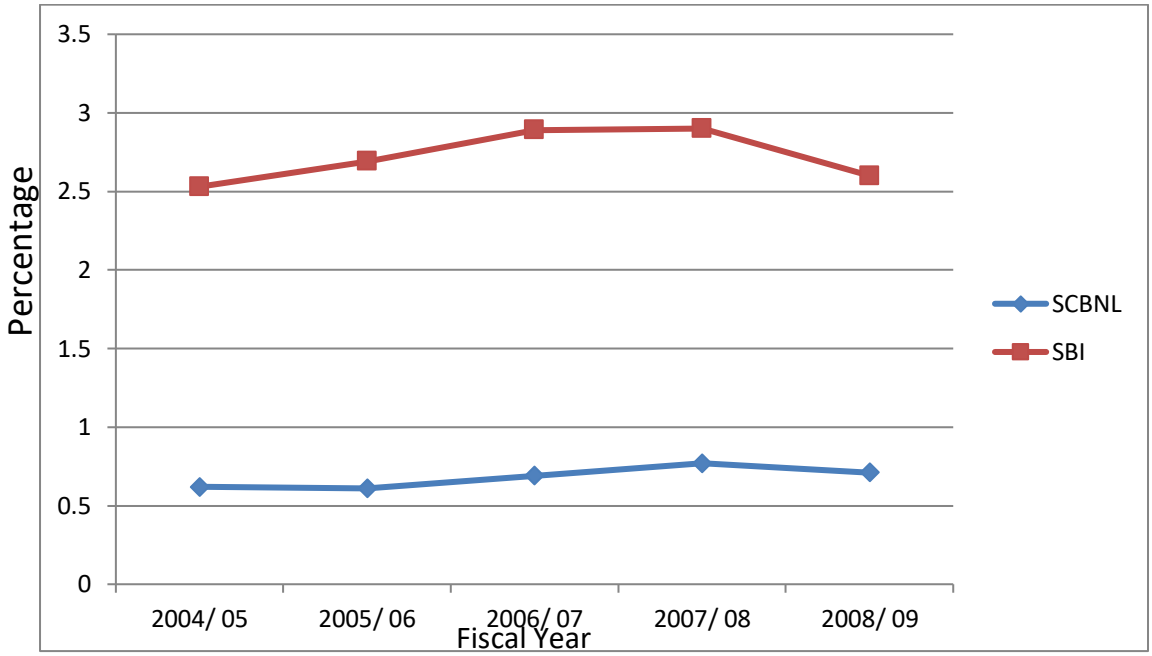
Fiscal Year	**SCBNL**	**SBI**
2004/ 05	0.62	2.53
2005/ 06	0.61	2.69
2006/ 07	0.69	2.89
2007/ 08	0.77	2.90
2008/ 09	0.71	2.60
Mean	0.68	2.72
S.D.	0.07	0.17
C.V.	9.75%	6.25%

Souurce:Annual Report of respctive banks (2008/09) and Annex 1

The above table shows clearly both the banks have fluctuating trend of loan and advances during the study period. The average mean ratio of SBI i.e. 2.72% > 0.68%. SBI has experienced an increasing trend of loan and advances upto F/Y 2007/ 08. SCBNL had a high ratio of 0.77% in 2007/ 08 and a low ratio of 0.61% in F/Y 2005/ 06. Similarly, SBI had experienced a high ratio of 2.9% in F/Y 2007/ 08 and a low ratio of 2.53% in F/Y 20004/ 05.

Figure No. 4.8.

Loan and Advance to Saving Deposit



The above analysis reveals that SBI has more successful in identifying profitable investments sectors and increasing its orbits earning. The same doesn't hold for true for SCBNL, whose efforts seems to be more focused on investing its risk free assets, rather than increasing its loan and advances, volume and subsequent earnings from it.

v). Fixed Deposit to Total Deposit Ratio

It is the ratio which shows the percentage of fixed deposit on total deposit. Fixed deposit is on of the major sources of fund, which bears cost at a certain rate and has certain maturity. Hence, this ratio shows the percentage on total deposit, which bears cost at a fixed rate and calculated by dividing fixed deposit by total deposit for the entire period of the study.

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

Table No. 4.9

Fixed Deposit to Total Deposit Ratio

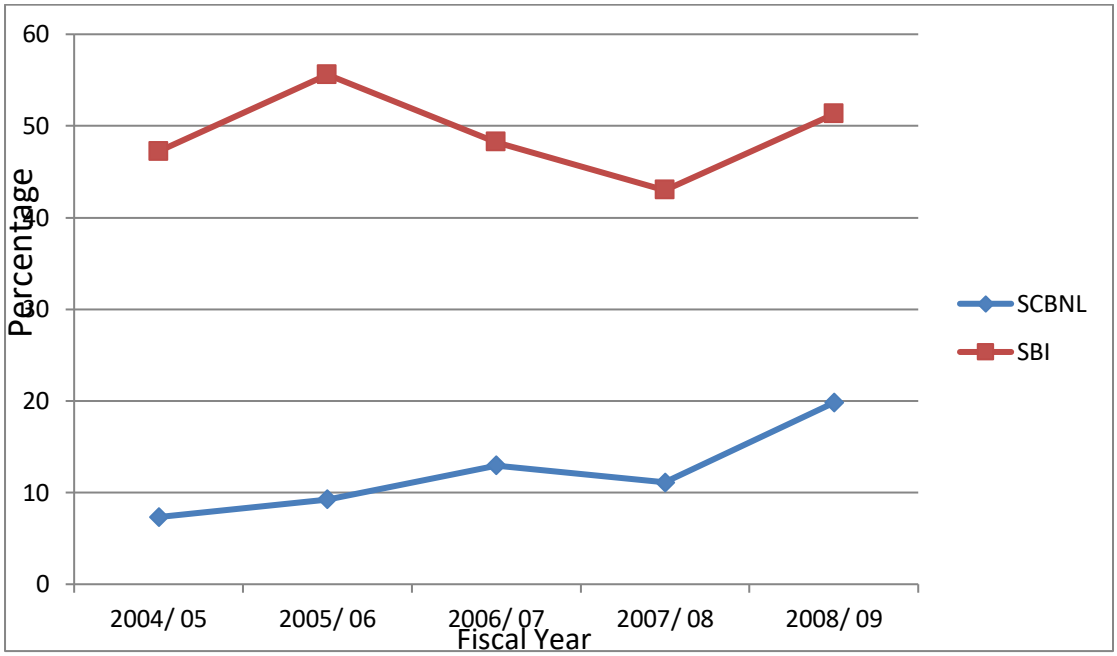
Fiscal Year	SCBNL	SBI
2004/ 05	7.33	47.22
2005/ 06	9.26	55.59
2006/ 07	12.97	48.21
2007/ 08	11.09	42.98
2008/ 09	19.80	51.28
Mean	12.09	62.38
S.D.	4.79	7.69
C.V.	39.62%	14.99%

Souurce:Annual Report of respctive banks (2008/09) and Annex 1

The above table shows that the amount of fixed deposit to total deposit and their ratios of SCBNL and SBI along with their average S.D. and C.V of ratios.SBI has a higher fixed deposit to Total deposit ratio than SCBNL. The average fixed deposit to Total deposit ratio of SBI and SCBNL are 62.38 and 12.09 respectively. It clearly shows that SBI has the maximum fixed charge bearing deposits than SCBNL. From view point of cost minimizing more is not favorable and other hand, from viewpoint of liquidity greater portion of fixed deposit may be termed as favorable one.

Figure No.4.9

Fixed Deposit to Total Deposit Ratio



vi). Saving Deposit Total to Total Deposit Ratio

It is the ratio which shows the proportion of saving deposit on total deposit. Saving deposit is one of the measure sources of fund which bears cost at a certain rate and has no certain maturity. Though termed as current liabilities, it shouldn't be paid back anytime. Hence, this ratio shows the proportion of total deposit which bears cost at a saving rate and calculated by dividing saving deposit by total deposit for the entire period of the study.

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

Table No. 4.10.

Saving Deposit to Total Deposit Ratio

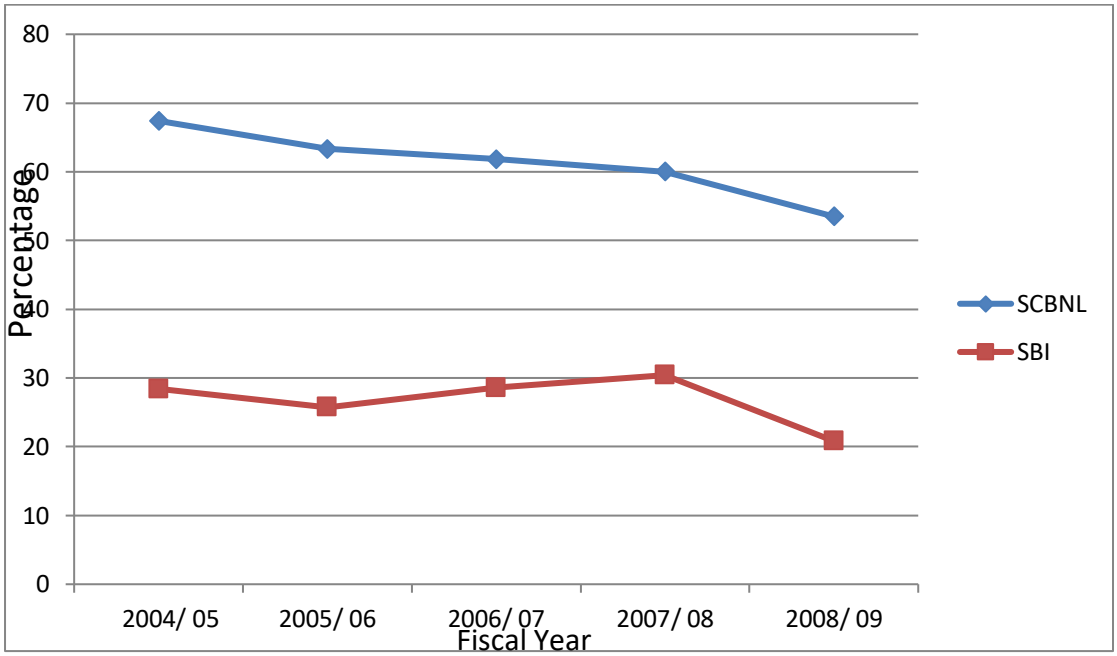
Fiscal Year	**SCBNL**	**SBI**
2004/ 05	67.40	28.41
2005/ 06	63.30	25.75
2006/ 07	61.85	28.61
2007/ 08	60.03	30.41
2008/ 09	53.49	20.83
Mean	61.21	26.80
S.D.	2.28	3.73
C.V.	3.73%	13.92%

Souurce:Annual Report of respctive banks (2008/09) and Annex 1

The above table shows the amount of saving deposit to total deposit and their ratios of SCBNL and SBI along with their average S.D. and C.V. of ratio. SBI has a higher saving deposit to total deposit ratio than SCBNL. The average saving deposit to total deposit ratio of SCBNL and SBI are 61.21 and 26.80 respectively. It clearly shows that SBI has the maximum saving charge bearing deposit than SCBNL. From the view point of cost minimizing more is not favorable on the other hand, from view point of liquidity greater portion of saving deposit may return as favorable one.

Figure No. 4.10.

Saving Deposit to Total Deposit Ratio



4.1.3. Profitability Ratios

The main objective of commercial bank is to earn by providing different types of banking services to its customer to make various objectives like maintaining good position, meet fixed internal obligations, overcome the future contingencies, grab hidden investments in need of development funds, etc... In conclusion, commercial banks have to earn sufficient profit. Of course, The profitability are the best indicators of overall efficiencies. Here, mainly those ratios are presented and analyzed through which the effort has been made to measure the profit earning capacity.

i). Return on Total Working Fund Ratio

This ratio establishes the relationship between net profit and total assets. This ratio is also called as profit to assets ratio. It is calculated dividing return on net profit/ loss by total working fund and can be expressed as:

$$\text{Return on Total Working Ratio} = \frac{\text{Net profit}}{\text{Total working fund}}$$

Table No. 4.11

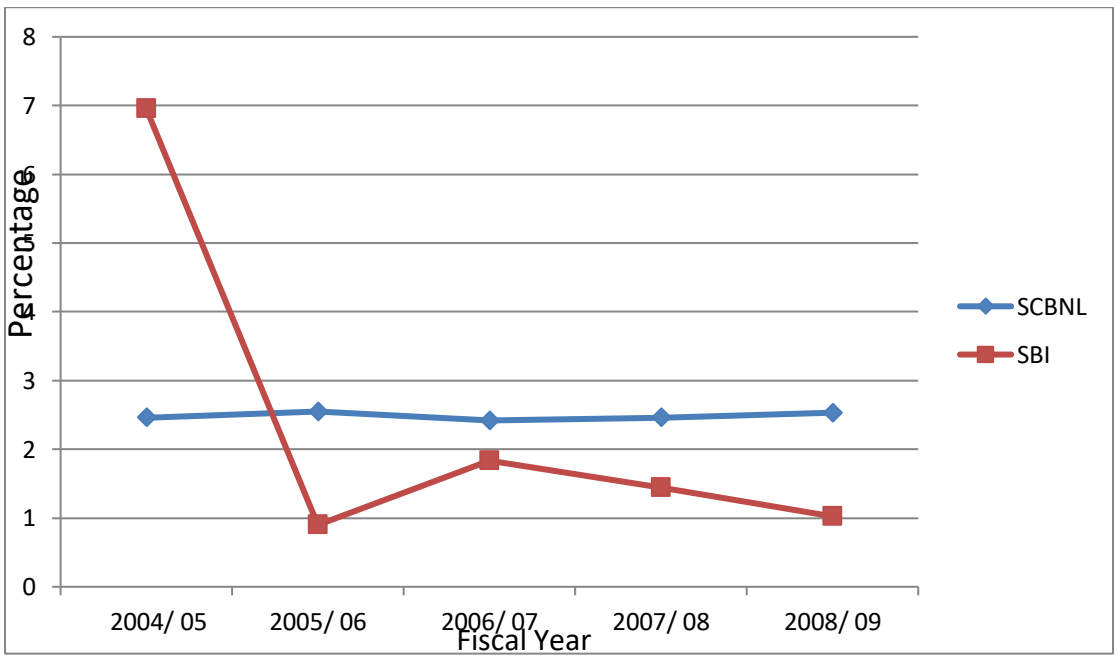
Return on Total Working Ratio

Fiscal Year	SCBNL	SBI
2004/ 05	2.46	6.95
2005/ 06	2.55	0.90
2006/ 07	2.42	1.83
2007/ 08	2.46	1.44
2008/ 09	2.53	1.02
Mean	2.48	2.43
S.D.	0.054	2.55
C.V.	2.19	104.94

Souurce:Annual Report of respctive banks (2008/09) and Annex 1

The above reveals that the ratio of return on total working fund is fluctuated in case of SBI and in increasing trend in case of SCBNL during the study period. SBI had a ratio of 6.95 in F/Y 2004/05 and a low ratio of 1.02 in F/Y 2008/09. Similarly, SCBNL had a high ratio of 2.55% in F/Y2005/06 and a low ratio of 2.42% in F/Y 2006/07.

Figure No.4.11
Return on Total Working Fund



SCBNL had a slightly high mean ratio than SBI i.e. 2.48>2.43. It reveals that SCBNL has been able to earn high profit on Total working fund in comparison to SBI. From the viewpoint of C.V, SCBNL ratios are less consistence than SBI. Both banks need to exert more effort in mobilizing its working assets more efficiently.

ii). Total Interest Earned to Total Working Fund

Total Interest Earned is the amount which is earned by investing in different sectors in an accounting year. Whereas Total Working Fund is the total assets. This ratio shows the relationship between interest on amount and total working fund borrowed by the bank.

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

Table No. 4.12

Total Interest Earned to Total Working Fund

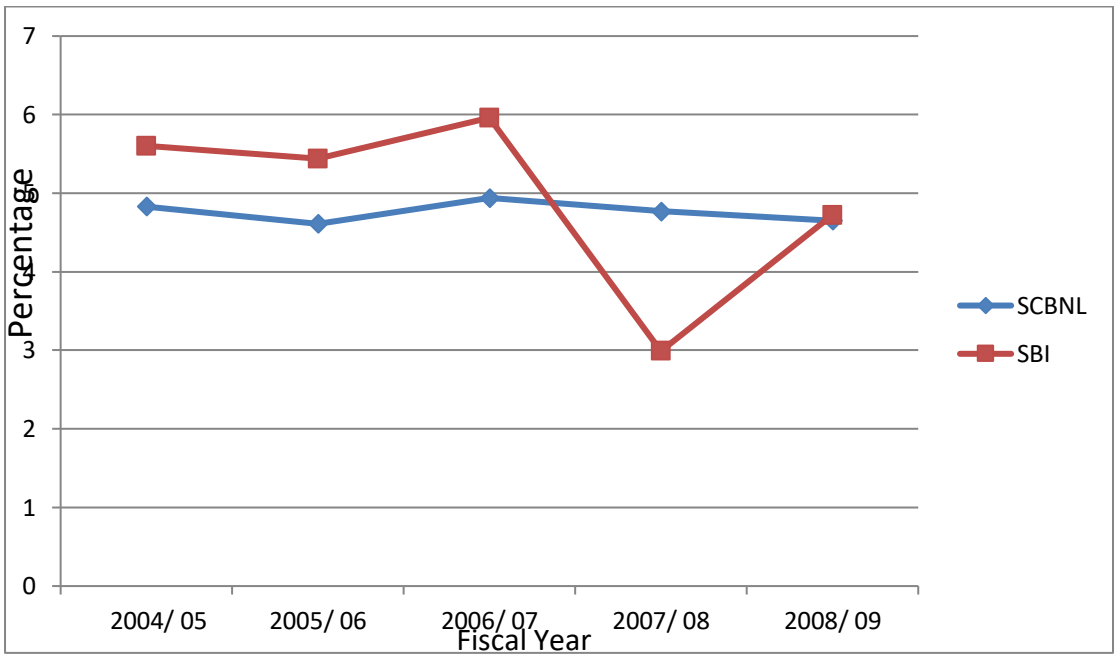
Fiscal Year	SCBNL	SBI
2004/ 05	4.83	5.60
2005/ 06	4.61	5.44
2006/ 07	4.94	5.96
2007/ 08	4.77	2.99
2008/ 09	4.65	4.72
Mean	4.76	4.94
S.D.	0.134	1.269
C.V.	2.82	25.68

Souurce:Annual Report of respctive banks (2008/09) and Annex 1

The above table reflects a fluctuating trend in interest on total working fund in case of SCBNL and SBI in the entire period of the study.

Figure No. 4.12

Total Interest Earned to Total Working Fund



SCBNL has recorded a high ratio of 4.94 % in F/Y 2006/ 07 and a low ratio of 4.61 % in F/Y 2005/ 06. SBI had a high ratio of 5.96% in F/Y 2006/ 07 and a low ratio of 2.99% in F/Y 2007/ 08. In case of mean ratio, SCBNL had a lower ratio than SBI i.e. 4.76%<4.94%. It is clear that SBI has earned higher amount of interest on its total assets in comparison to SCBNL. The C.V. of SCBNL is lower than SBI i.e. 2.82%>25.86%. This indicates that SCBNL ratios are more stable than SBI. From the above analysis, it can be concluded that, SBI seems to be more successful earning high interest on its total assists than SCBNL.

iii). Total Interest Paid to Total Working Ratio

Total Interest Paid is that amount which is paid to the lenders as well as bond holder's. To operate the business a bank rages the fund through the different source, they are by issuing share and deventure, taking loan, etc. It is called capital gearing i.e. higher the capital gearing, the larger the interest paid amount and vice versa. Generally, this ratio is considering good as lower. This

ratio reveals the relationship between total interest paid amount and total working fund. The formula is as follows:

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

Table No. 4.13

Total Interest Paid to Total Working Fund Ratio

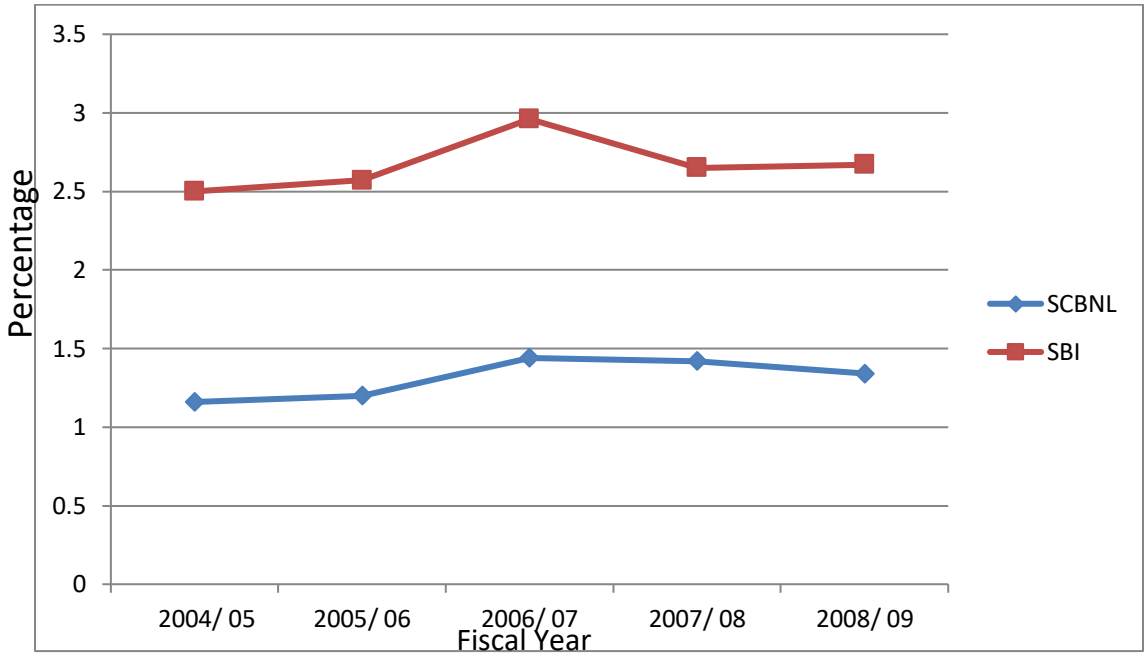
Fiscal Year	**SCBNL**	**SBI**
2004/ 05	1.16	2.50
2005/ 06	1.2	2.57
2006/ 07	1.44	2.96
2007/ 08	1.42	2.65
2008/ 09	1.34	2.67
Mean	1.312	2.67
S.D.	0.127	0.176
C.V.	9.70%	6.59%

Souurce:Annual Report of respctive banks (2008/09) and Annex 1

The above table shows a fluctuated trend in total interest paid to total working fund ratio of SCBNL and SBI. The decrease in interest expenses can be attributed to an all time low interest rate afford by banks on deposits, lower interest rates on inter bank taking and bank borrowing.

Figure No.4.13

Total Interest Paid to Total Working Fund Ratio



The average ratio of SCBNL with regards to total interest paid to total working fund ratio is slightly lower than that of SBI i.e. 1.312%<2.67%. In terms of C.V, SCBNL ratios are more stable than that of SBI.

Overall, we can say that SBI in a better position from interest payment point of view than that of SCBNL. SBI seems to have collected its funds from cheaper sources than SCBNL.

4.2 Trend Analysis and Projection for next five years

Trend Analysis is also one of the statistical tools used for the study forecasting. Various methods are used for trend analysis, out of which least square method is one of the popular method used in this study.

Trend analysis very effectively informs various personnel, directly or indirectly, related to JVBs. For shareholders of the banks, it informs about the expected future returns, which helps them to decide whether to stick in present investment or to search for the alternative investment opportunities. For professional bankers, it indicates the future achievement of the bank. For depositors, it provides degree of safety in the form of financial credit

worthiness of the banking future. For the borrowers it assures about the financial capabilities of the bank to furnish their loan and advances in future provided that the present trend will continue. Last but not the least for academicians they can relate their theoretical growth rate factor with the financial results of the selected JVBs in different trends.

In this section, the researchers analyzed trends of the five basic financial indicators i.e. loan and advances, total deposit, total investment, net profit and earning per share.

Since for any bank these indicators are very crucial financial variables with which we can relate the financial performances, these indicators have been chosen. The trend of previous five years period and the expected future results for the period of five years have been calculated and analyzed which we'll be helpful to the various parties concerned with the bank. Lastly, the summary of the comparative financial trends of all the two selected banks have been presented in such a manner, so as the reader's which of the bank is expected to perform better in the coming year.

The projection are based on the following assumptions:

a. The main assumption is that other things will remain unchanged.

b. The forecast will be true only when the limitations of least square method is carried out.

c. The bank will running present position.

d. The economy will remain in the present stairs.

e. Nepal Rastrya Bank will not change its guidelines to commercial banks.

4.2.1. Trend Analysis of Loan and Advances

The following table no.4.14 shows the trend values of 10 years from mid 2004 to 2013 of SCBNL and SBI.

Trend values of loan and advances of SCBNL and SBI(2004-2013)

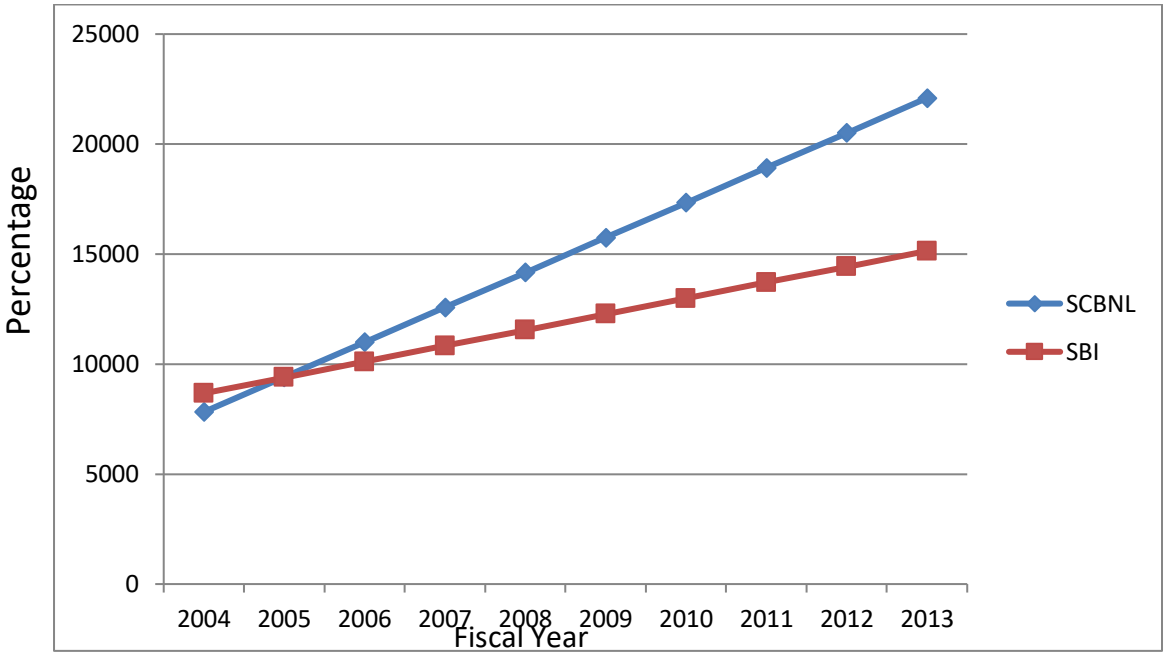
Table No. 4.14
Trend Analysis of Loan and Advances(Rupees in Million)

Fiscal Year	SCBNL	SBI
2004	7824.67	8671.12
2005	9410.30	9390.21
2006	10995.93	10109.30
2007	12581.56	10828.40
2008	14167.19	11547.49
2009	15752.82	12266.58
2010	17338.45	12985.68
2011	18924.08	13704.77
2012	20509.71	14423.87
2013	22095.34	15142.96

The above comparative table no. 4.15 makes clear that the loan and advances of both banks SCBNL and SBI are in increasing trend. Other things remaining the same, the loan and advances of SCBNL in mid

Figure No. 4.14

Trend value of loan and advance of SCBNL and SBI



4.2.2. Trend Analysis of Total deposit

Here the trend values of loan and advances of SCBNL and SBI have been calculated for five years for mid 2004 to 2008. The forecast for next five years till 2014 have been done. The following table number 4.15 shows the trend values of 10 years from mid 2004-2013 of SCBNL and SBI.

TableNo.4.15

Trend value of total deposit of SCBNL and SBI (2004-2013) in Million

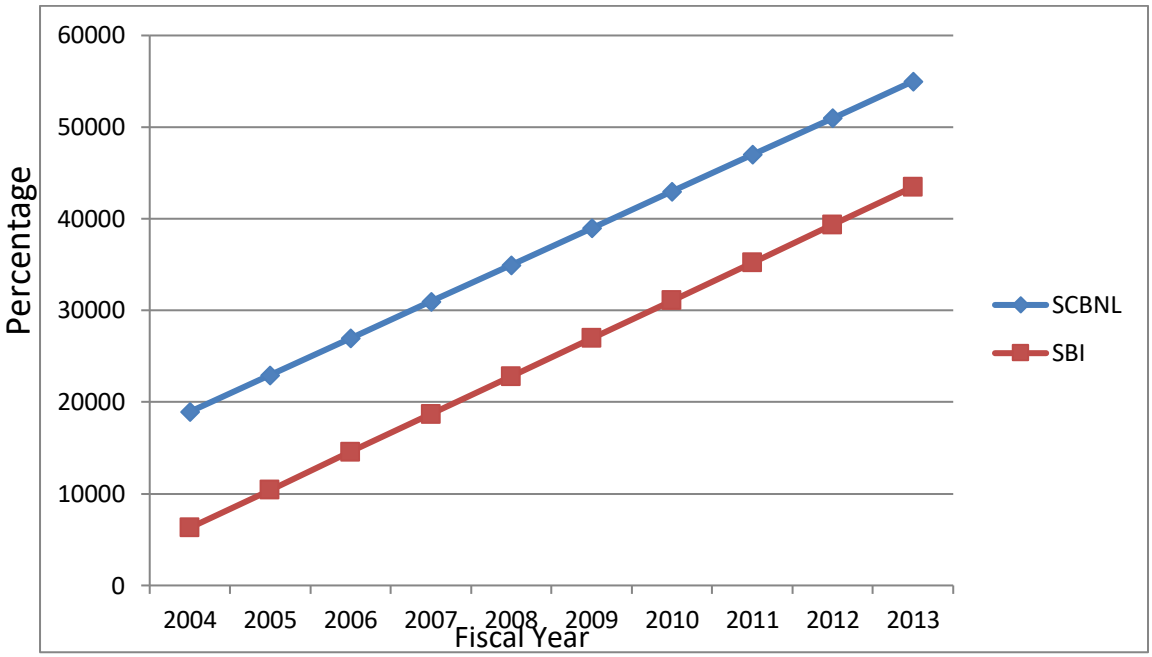
Fiscal Year	SCBNL	SBI
2004	18949.13	6291.28
2005	22955.15	10423.05
2006	26961.17	14554.94
2007	30967.19	18686.83
2008	34973.21	22818.72
2009	38979.23	26950.61
2010	42985.25	31082.50
2011	46991.27	35214.39
2012	50997.29	39346.28
2013	55003.31	43478.17

The above comparative table shows that SCBNL and SBI's total deposit has been in increasing trend. Other things remaining the same, the total deposit in mid 2013 will be 55003.31 million which is the highest amount during the study period of SCBNL. Similarly, the highest amount of total deposit will be 43378.17 million during the study period of SBI.

From the above trend analysis, it is clear that SCBNL's collection of deposit in terms of total deposit is better than that of SBI during trend forecasting period.

The above calculated trend values of total deposit of SCBNL and SBI are fitted in the trend lines , which is given below:

Figure No.4.15



4.2.3. Total Investment Trend

The researcher now starts the trend analysis by analyzing the total investment trend of SCBNL and SBI.

Trend values of total investment of SCBNL and SBI (2004-2013)

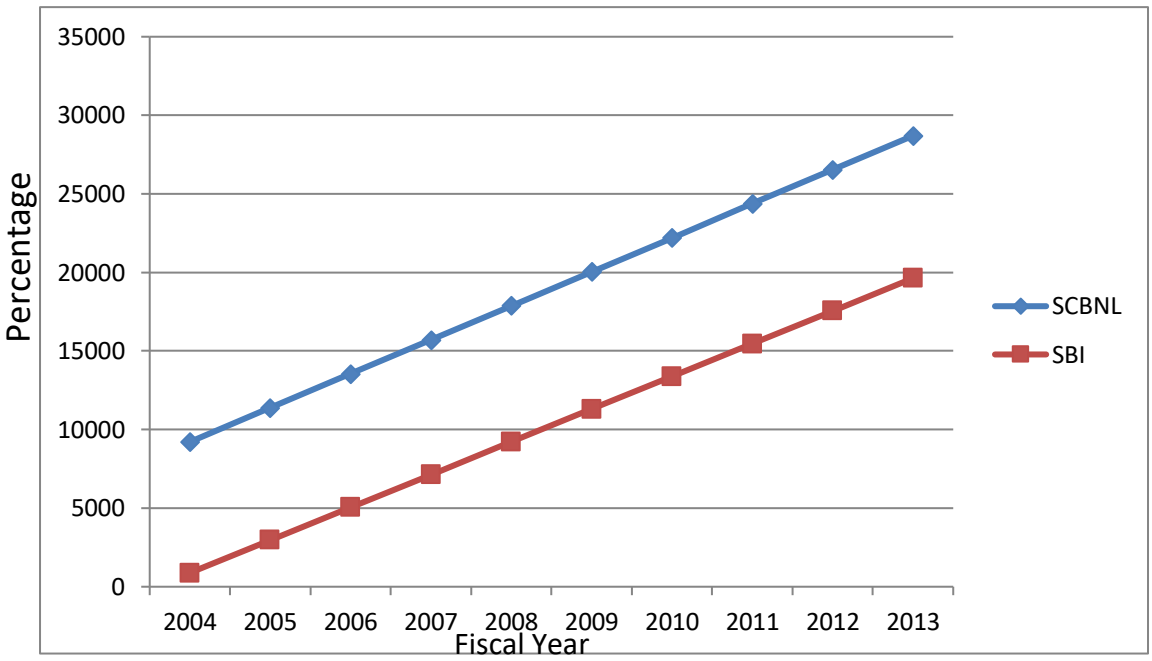
Table No.4.16.

Total Investment Trend of SCBNL and SBI (2004-2013) in Million

Fiscal Year	SCBNL	SBI
2004	9214.63	883.58
2005	11379.73	2967.09
2006	13544.83	5050.60
2007	15709.93	7134.11
2008	17875.03	9217.62
2009	20040.13	11301.13
2010	22205.23	13384.64
2011	24370.33	15468.15
2012	26535.43	17551.66
2013	28700.53	19635.17

The above comparative table no. 4.17 shows that SCBNL and SBI total investment has been in increasing trend. Other things remaining the same, the total investments in mid 2013 will be Rs. 19635.17 million which is the highest amount during the study period of SBI Bank. Similarly, the same of SCBNL will be Rs. 28700.53 million. Thus from the above trend analysis, it is clear that SCBNL's investment in terms of total investment is better than that of SBI during trend forecasting period. The above calculated trend value of total investment of SCBNL and SBI are fitted in the trend lines, which is given below.

Figure No.4.16



.

4.2.4. Trend Value of Net Profit

The researcher now starts the trend analysis by analyzing the net profit trend of SCBNL and SBI.

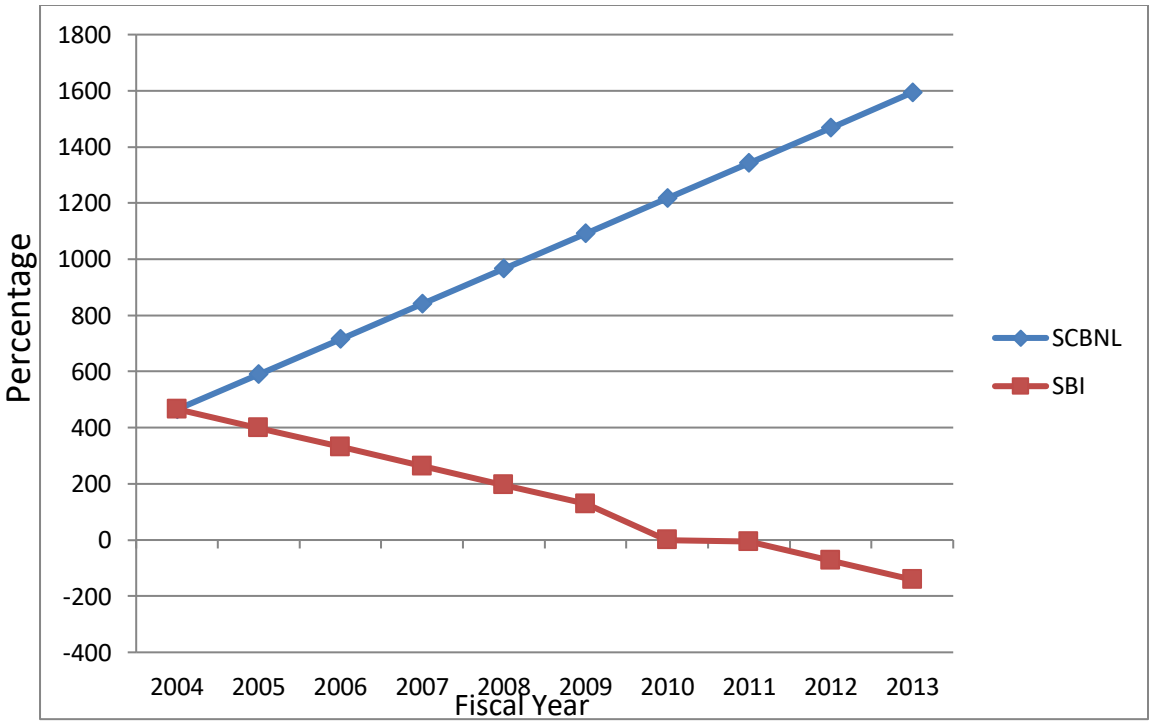
Table No.4.17.

Trend values of Net Profit of SCBNL and SBI (2004-2013) in Million

Fiscal Year	SCBNL	SBI
2004	465.10	465.91
2005	590.53	398.46
2006	715.96	331.01
2007	841.39	263.56
2008	966.82	196.11
2009	1092.25	128.66
2010	1217.68	61.21`
2011	1343.11	-6.24
2012	1468.54	-73.69
2013	1593.97	-141.14

Figure no.4.17.

Trend values of net profit of SCBNL and SBI (2004-2013)



The above table shows that SCBNL has increasing trend lines of Net Profit whereas SBI has decreasing trend line of Net Profit. The highest net profit of

SCBNL will be 1593.97 in FY 2013 and SBI had the highest net profit of 465.95 in FY 2004.The above table clearly shows that SCBNL has better net profit trend lines than that of SBI Bank.

4.2.5. Trend lines of Earning Per Share

Here the trend lines of Earning Per Share of SCBNL and SBI have been calculated for 5 years from 2004 to 2008. The forecast of next 5 years till 2013 also has been done.

The following table no.4.19 shows that trend values of SCBNL and SBI from 2004 till 2013.

Table No. 4.18

Trend lines of Earning Per Share of SCBNL and SBI(2004-2013)in Million

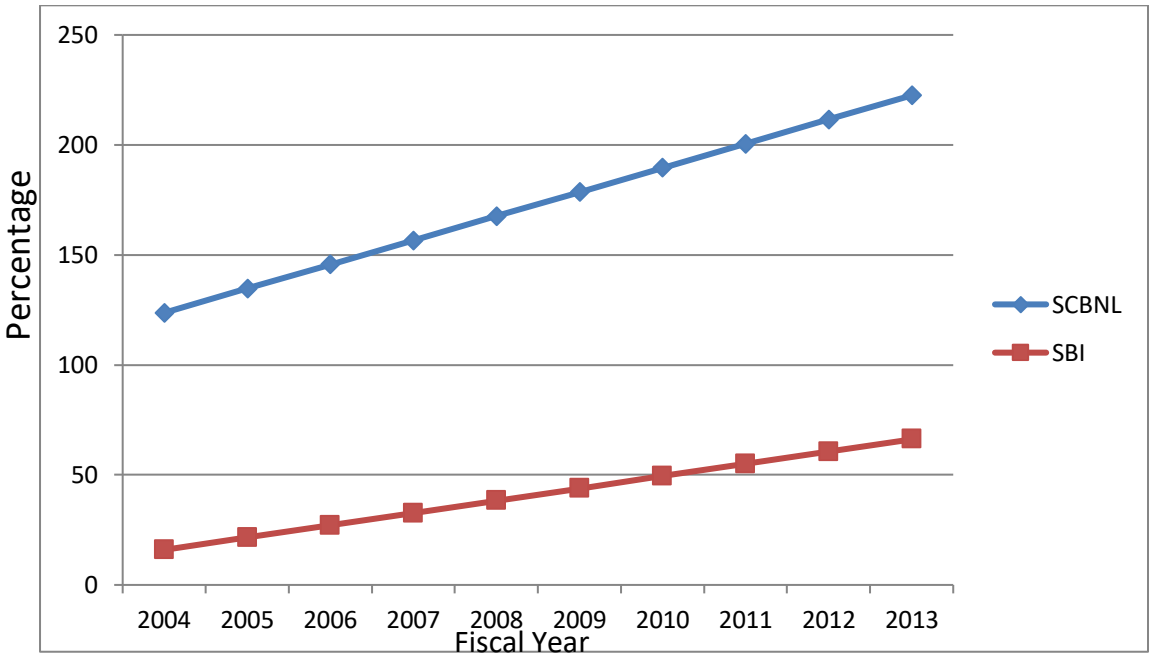
Fiscal Year	SCBNL	SBI
2004	123.69	15.93
2005	134.67	21.51
2006	145.65	27.09
2007	156.63	32.67
2008	167.61	38.25
2009	178.59	43.83
2010	189.57	49.41
2011	200.55	54.99
2012	211.53	60.57
2013	222.51	66.15

We will now analyze the Earning Per Share trend value of SCBNL and SBI banks. The above table shows that both banks' earning per share has been in increasing trend. Other things remaining the same, the earning per share will be 222.51 which is the highest amount during the study period of SCBNL. Other things remaining the same, the earning per share will be 66.15 which is the highest amount during the study period of SBI.

From the above table, it can be concluded that there is a positive growth in earning per share of both the banks. EPS depends on many factors like bonus shares, dividend, retained earnings etc. Therefore, the policy of banks may affect the EPS largely.

The above calculated trend values of earning per share of SCBNL and SBI are fitted in the trend lines shown below:

Figure No.4.18.



4.3. Coefficient of Correlation Analysis

Correlation coefficient is the analysis, which reflects that the variables of the two different data are related of we can say that correlation is the analysis of relation between more than one variable. In other words, correlation is a statistical tool which measures the relationship between/ among variables. It shows the degree and direction of such relationship. In this analysis, we examine that the data are mutually or not. "When the relationship is of quantitative nature, the appropriate statistical tools for discovering and

measuring the relationship and expressing it in a belief formula is known as correlation." (Gupta,1997/98).

The relation between the data may be either positive or negative. It can be determined by different ways such as graphical representation, formula method etc. When both variables are moving upwards or downwards in the same proportion, it is said to be the condition of positive correlation and if the condition is vice versa then the condition is said to be negative correlation. The main purpose of this study is to find out the correlation between selected ratios with each other. The correlation coefficient is denoted by the symbol "r". To calculate correlation between variables, we use the following formula,

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

4.3.1. Coefficient of Correlation between Total Deposit and Total Investment

Table No. 4.19.

Correlation between Total Deposit and Total Investment

Banks	Coefficient of Correlation (r)	Coefficient of determination (r^2)	Probable Error (P. Er)	6 P.Er.
SCBNL	0.84574	0.71527	0.0859	0.5153p
SBI	0.9759	0.9523	0.0144	0.0863

Table 4.19 shows the degree of relationship between Total Deposit and Total Investment . The independent variable i.e total deposit (x) and the dependent variable i.e. total investment (y). The purpose of computing the coefficient of correlation is to observe to what extent and in which the total investment (y) is affected by a unit change in total deposit (x). In case of SCBNL, the coefficient of correlation is 0/84575 and in case of SBI , the coefficient of correlation is 0.9759, which is more than 0.5 and the coefficient of correlation is significant. In other words, the total deposit is significantly correlated to the total investment, in the study period of FY.2004/05 till 2008/09.

The coefficient of determination (r^2) of SCBNL is 0.71527 which indicates that 71.52% of the variation in the dependent variable (Total Investment) has been explained by the independent variable (Deposit). Moreover, by considering the probable errors, the value of r^2 is greater than 6 P.E.so, we can say that there is significant relationship between deposits and total investment. Similarly, the coefficient of determination (r^2) of SBI is 0.9759 which indicates that 97.59% variation in the dependent variable. The variable of r^2 is greater than the 6 P.E., which shows the significant relationship between total deposit and total investment.

4.3.2. Coefficient of Correlation between Total Deposit and Loan and Advances:

Table No.4.20.

Banks	Coefficient of Correlation (r)	Coefficient of determination (r^2)	Probable Error (P. Er)	6 P.Er.
SCBNL	0.9312	0.86713	0.0401	0.2405
SBI	0.9038	0.8168	0.0553	0.3318

Tab le No.4.20 shows the degree of relationship between total deposit and total investment , the independent variable (x) (i.e. Total Deposit) and the independent variable (y) (i.e. Loan and Advances). The purpose of computing the coefficient of correlation is to observe to what extent and in which direction the loan and advances is associated with total deposit. In other words, to what degree, loan and advances (y) is affected by a unit change in total deposit(x). In case of SCBNL, the coefficient of correlation is 0.9312, which is more than 0.5 and the coefficient of correlation is significant. In other words, the total deposit is significantly correlated to loan and advances of SCBNL, in the study period of FY.2004/05 to 2008/09. In case of SBI, the coefficient of correlation is 0.9038, which is more than 0.5 and the coefficient of correlation

is significant . In other words, the total deposit is significantly correlated to the loan and advances of SBI, in the study period of FY. 2004/04 to 2008/09.

The coefficient of determination (r^2) of SCBNL and SBI is 0.86713 and 0.8168 respectively, which indicates than 86.71% and 81.68% variation n the dependent variable (loan and advances) of SCBNL and SBI have been explained by the independent variable (deposit). In the study of probable error, the value of r^2 of SCBNL and SBI are greater than the 6 PEr, which shows the significant relationship between total deposit and loan and advances.

From the above detail analysis, we can draw a conclusion that in both banks, there is positive relationship between deposit and loan and advances, the relationship is significant and the value of r^2 shows high percent in the dependent variable has been explained by the independent variable. This indicates that SCBNL and SBI are successful to mobilize their deposits in proper way as loan and advances.

4.3.3. Coefficient of Correlation between Total Assets and Net Profit

Table No.4.21.

Banks	Coefficient of Correlation (r)	Coefficient of determination (r^2)	Probable Error (P. Er)	6 P.Er.
SCBNL	0.8464	0.7164	0.0856	0.5136
SBI	0.2314	0.0536	0.2855	1.713

Table No.4.21 shows the degree of relationship between total assets and net profit , the independent variable (x) (i.e. Total Assets) and the dependent variable (y) (i.e. Net Profit). The purpose of computing the coefficient of correlation is to observe to what extent and in which direction the net profit after tax is associated with total assets. In other words, to what degree, net profit after tax (y) is affected by a unit change in total assets(x).

In case of SCBNL, the coefficient of correlation is 0.8464, which is more than 0.5 and the coefficient of correlation is significant. It shows the positive relationship between assets and net profit. By considering the coefficient of determination, the value of $r^2$is o.7164 which indicates that 71.64% of the variation in the dependent variable has been explained by the independent variable. By considering probable error, the value of r^2 is greater than 6 P.Er, which shows the value of r is significant. i.e. there is significant relationship between assets and net profit. In case of SBI, the table shows that the value of correlation coefficient between total assets and net profit is 0.2314 which is less than 0.5 and the coefficient of correlation is insignificant. The. value of r^2 is 0.0536 which is less than 6 P.Er. which shows the insignificant relationship between assets and net profit of SBI Bank.

4.4 Major Findings of the Study

Having completed the basic analysis required for this study, the final and the most important task of the researcher is to enlist the findings. This will give meaning to the desired result. A comprehensive summary of the major findings of this study is presented below:

The main findings of the study derived from the analysis of financial data of SCBNL and SBI are given below:

Liquidity Ratio:

The liquidity position of SCBNL and SBI reveals that:

- From the analysis of current ratio it is found that the mean ratio of both SBI and SCBNL are consistent. Current ratio more than 2 is consider as favorable one.

- The mean ratio of cash and bank balance to current assets of SBI is slightly higher than SCBNL. This shows SBI greater capacity to meet its customer's daily cash requirement than SCBNL. The ratios of SCBNL are less variable and more consistent than SBI.

- The mean ratio of cash and bank balance to total deposits of SBI is slightly higher than SCBNL. SBI has better liquidity position than SCBNL because of high percentage of liquid assets. This shows SBI readiness to meet its customer requirement. On the country, a high liquidity also indicates the ability of the bank to mobilize its current asses. The ratios of SCBNL are more consistent than SBI.
- The mean ratio of investment in government securities to current assets of SCBNL is higher than SBI> This shows that SCBNL has invested more of its fund in government securities than SBI. The ratios of SCBNL are less variable and more consistent than SBI.

Assets Management Ratio:

The asset management ratio of SCBNL and SBI reveals that:

The mean ratio of loan and advances to total deposit ratio of SBI is higher than that of SCBNL. In terms of consistency both have been stable in their.

The mean ratio of total investment to total deposit of SCBNL is higher than SBI. The ratios of SCBNL are more consistent and less variable than SBI.

The mean ratio of loan and advances to fixed deposit ratio of SCBNL is higher than SBI. The ratios of SCBNL are more consistent and less variable than SBI.

SBI has a higher fixed deposit to total deposit ratio than that of SCBNL. SBI has maximum fixed charge bearing deposit than SCBNL. From viewpoint of cost minimizing more is not favorable other hand, from viewpoint of liquidity greater portion of fixed deposit may be termed as favorable one.

SCBNL has a higher saving to total deposit ratios than that of SBI. The average saving deposit of SCBNL and SBI are 61.21 and 26.80 respectively. It clearly shows that SCBNL has the maximum saving charge bearing deposit than SBI. From view point of cost minimizing more is not favorable other hand, from viewpoint of liquidity, greater portion of saving deposit may be termed as favorable one.

From the above findings we can conclude that SBI has been more successful in mobilization of its investment to total deposits, saving deposit to total deposit ratio. On the other hand, SCBNL appears to be stronger in mobilization of total investment to total deposits. Both the banks have successfully managed their assets towards different income generating activities.

Profitability Ratios:

The mean ratio of return on total working fund of SCBNL is slighter higher than SBI. The ratios of SBI are more variable than SCBNL.

The mean ratio of total interest earned to total working fund of SBI is slightly higher than that of SCBNL. SCBNL ratios are more stable and less variable than that of SBI.

The mean ratio of total interest paid to total working fund of SBI is higher than SCBNL. However, SCBNL ratios are more stable and less variable than that of SBI.

The mean ratio of return on net worth of SCBNL is higher than that of SBI. The ratios of SCBNL are more consistent than that of SBI.

On the basis of above, we can conclude that SCBNL has been more successful in maintaining its higher return on loan and advances and total working fund. On the other hand, SBI is in better position than SCBNL from interest payment point of view.SBI has paid higher interest than SCBNL.

CHAPTER - IV

SUMMARY, CONCLUSION AND RECOMMENDATIOS

The proceeding chapters have discussed and explored the facts and matters required for the various parts of the study. Analytical part, which is the heart of the study, made a comparative analysis of various aspects of the financial performance of commercial banks by using some important financial as well as statistical tool (least square method). Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist findings and give recommendation for further improvement. This would be meaningful to top management of the bank to initiate action and achieve the desired result. The objective of the researcher is not only to point out errors and mistakes but also to correct them and give directions for futher growth and improvement.

5.1. Summary

The development of any country largely depends upon its economic development. Capital formation is prerequisite in setting the overall pace of the economic development of a country. Well- organized financial system contributes a lot to the process of capital formation by converting scattered saving into meaningful capital investment on order to aid industry, trade, commerce and agriculture for the economic development of the nation. The financial institutions play dominate role in the process of economic development. Banks are indispensable elements in these systems. Commercial banks furnish necessary capital needed for trade and commerce for mobilizing the dispersed saving of the individuals and institutions. They provide the bank of the money supply as well as the primary means of facilitating the flow of credit. Apart from these the basic objectives of commercial and JVBs in Nepal are:

- To welcome foreign investment in the country in the form of JVB's capital

- To develop the capital market in the country, with the expectation, that these JVBs and commercial banks invest in the shares of other companies.
- To mobilize the idle resources for income generating purposes in a most effective way.
  To develop the Nepalese banking sector in order to make it proficient with the help of sharing technical foreign service agreement and ultimately expertise the Nepalese personnel to make them capable of operating these banks efficiently.

5.2 Conclusions

Nepal is a developing country. It needs to strengthen its economic structure. to achieve rapid overall nation development. Commercial banks play vital role in the economic growth of any country. And in Nepal too, they have proved as prime mover of the economic development. The number of commercial bank branches operating in the country reached to 552 including 45 commercial bank branches and 102 other non commercial bank branched of ADB/N in mid July2007. Of the total bank branches more than 46 percent bank branches are concentrated in the central region. By the end of mid July 2007, 254 branches are beinᵍ operated in this region. In the eastern, western, mid-western and far-western region 119, 114, 36, 29 bank branches arc in operation respectively. By the end of mid July 2007 the total number of development banks, reached to 38 from l 8 in the last year. Out of them, 7 are national level and rest district level development banks. The market seems over crowed and the banks are now finding a tough competition among themselves.

The increasing trend of the six important variable of the financial performance like net profit, loan and advance, total deposit, net interest earned, dividend per share and earning per share

Performance of SBI and SCBNL. Both banks indicate towards the better financial performance in coming years.

A bank's performance cannot be judge solely interns of the profit it has earned by maintaining adequate liquidity and safely, but it should also be evaluated on the ground of the contribution it has made to the community, to the government as well as national economy. It means the banks should conic forwarded with the national priorities like more fund mobilization and service to maximum customers, developing skill and expertise in the local staffs, earning satisfactory profit and discharging their accountability towards the government These hanks should have a satisfactory profit goal, but not maximum one.

5.3 Recommendations

From the summary of the main findings of the analysis of financial performance of the selected banks following recommendations can be advanced to overcome the weakness, inefficienc[y] and to improve present financial performance position of SBI and SCBNL.

- SBI and SCBNL must identify the quality of current assets and current liabilities to develop their own standard current ratio. The fluctuation of ratio mum be stabilized after proper diagnosis of the quality, such as the prevailing, interest rates, supply and demand position of loans, saving[\] and investment situations. The proposed recommendation for these banks is to reduce- its excessive non-performing assets (cash and bank balance) and invest on the income generating current assets (treasury bills) and strengthen the liquidity position.
- It is recommended for these banks excessive use of debt capital, enhance the rate of return on its shareholder's fund. High leverage cost of capital can be considered as positive

development if the increased debt can be invested on income generating performing assets. Failure of advancing loans and advances and high cost hearing debt may lead ultimately to liquidity or bankruptcy. Therefore, it is recommended to increase their equity capital by issue of shorts, expending general reserve..s and retaining more earning. Furthermore, the SBI and SCBNL must identify the investment opportunity and assort the risk assets portfolio carefully before accepting hi[g]her volume of deposits. especially high cost bearing fixed deposit.

- It has been found SBI and SCBNL have preferred to pay penalty for the non compliance with mandatory credit requirements rather than allocate priority sector credit. Therefore, they should change their attitude. They should also make efforts to contribute towards uplifting the economic conditional of the managerial derived sector.

- In order to mobilize the deposits in the productive sectors, they have to set accordin2 the plans and the policy of the government. They should come forward to generate new service ideas to run income-generating programmes, to bring women development programmes, to take part in the priority sector development programmes and poverty alleviation programmes.

- Profit is essential for the survival and growth of banks. It should be careful in increasing profit in real sense to maintain the confidence of shareholders. depositors and its customers. Comparatively SCBNL 's profit ability position is better than that of SBI. Therefore X13L is recommended to utilize its risky assets and shareholders funds to gain highest profit margin, Likewise SCBNL, should also reduce its expenses for being more profitable. The profit earned by these banks constitute The second

biggest portion of foreign exchange fluctuation gain, which *is* the temporary source of income and *is* non operational, so the banks should come forward to earn operational profits by increasing their operational efficiency.

- It is recommended to SBI and SCBNL the excessive loan loss provision to evaluated the financial of their borrowers more meticulously to identify the possibility if risk before granting the loans, which will help in decreasing the volume of downgraded bans and hence the provision will go down hence increasing the profit to be distributed. It seems that especially SCBNL should be careful over the study period and mobilize their staff for quick collection from the debtors.

- SBI and SCBNL are using high cost bearing deposits therefore, they must try to decrease them and increase the non interest bearing deposits for the reduction of its operational expenses. Without planning and control mechanism, such types of expenses are increa.sin,2. every year, so it is recommended to control and reduce various cost in order to boost up profit. Moreover, cost control measures should also be effectively implemented in SBI and SCBNL. They should find out for loopholes in their operations and eliminate the unnecessary costs.

The banks in Nepal should come forward to show what they can contribute for the development of this country. One of the present national priorities is small entrepreneurs' development. There JVBs are at present concentrating their business with big clients, like big groups in trade and industry, manufacturers, exporters of garments, carpets and pashminas industries and services related to tourism industries,

subsidiaries of multinational Companies operating in the country etc. Their depositors are mainly provident fund. Insurance companies, individual and foreign subsidiaries. Actually the banks should come forward to increase the number of clients, develop entrepreneurship, diversify their business with large number of small investors and come forward to meet the national objective of privatization by mobilizing more entrepreneurs.

They should promote and mobilize small investors by making a small investors development units, such can fund and advice the investors, The unit can create innovation upon them, The advice and innovation given will help the investors to tackle the operational problems. In this way, the whole nation will be benefited.

ANNEX-1

i. Current Ratio Times

SCBNL

(Rs. in '000)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Current Assets	19322679	21472350	22025802	9890052	9181172
Current Liabilities	18895638	21888227	23283089	21691873	24996658
Ratio	1.0226	0.981	0.946	0.45	0.36

SBI

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Current Assets	4610851	5568163	6407197	7780032	9845537
Current Liabilities	4422890	8378673	7295919	8177800	8736779
Ratio	1.042	0.664	0.878	0.951	1.13

ii Cash and bank balance to Total Deposit Ratio(%)

SCBNL

(Rs. in '000)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Cash and Bank Balance	1111117	1276241	2021021	2050243	3137163
Total Deposit	1933505	23061032	24647021	29743998	35871721
Ratio	5.75	5.33	8.21	6.89	8.75

SBI

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Cash and Bank Balance	723745	1118158	1122690	1342960	1903906
Total Deposit	8654774	11002040	11445286	13715394	27957220
Ratio	8.36	10.16	9.81	9.79	6.81

iii. Cash and Bank Balance to Current Assets Ratio (%)

SCBNL

(Rs. in '000)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Cash and Bank Balance	1111117	1276241	2021021	2050243	3137163
Current Assets	19322679	21472350	22025802	21691873	9181172
Ratio	5.53	5.94	9.18	9.45	3.42

SBI

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Cash and Bank Balance	723745	1118158	1122690	1342960	1903906
Current Assets	4610851	5568163	6407197	7780032	9845537
Ratio	15.70	20.08	17.52	17.26	19.34

iv. Loan and Advances to Total Deposit Ratio (%)

SCBNL

(Rs. in '000)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Loan and Advances	8143208	8935418	10502637	13718597	13679756
Total Deposit	19335095	23061032	24647021	29743998	35871721
Ratio	42.12	38.75	42.61	46.12	38.14

SBI

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Loan and Advances	6213878	7457252	9460450	11948028	15131747
Total Deposit	8654774	11002040	11445286	13715394	27957220
Ratio	71.80	67.78	82.66	87.11	54.12

v. Total Investment to Total Deposit Ratio (%)

SCBNL

(Rs. in '000)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Loan and Advances	9702553	12847536	13553233	13902819	20236121
Total Deposit	19335095	23061032	24647021	29743998	35871721
Ratio	50.18	55.71	55.10	46.74	56.41

SBI

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Loan and Advances	2607680	3610775	2659452	3088886	13286181
Total Deposit	8654774	11002040	11445286	13715394	27957220
Ratio	30.13	32.82	23.24	22.52	47.52

vi. Loan and Advances to Fixed Deposit Ratio.

SCBNL

(Rs. in '000)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Loan and Advances	9702553	12847536	13553233	13902819	20236121
Fixed Deposit	1416383	2136307	3196490	3301013	7101697
Ratio	5.75	4.18	3.29	4.16	1.93

SBI

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Loan and Advances	6213878	7626736	9460450	12113698	15131747
Fixed Deposit	4086358	6116172	5517466	6854884	17438404

Ratio	1.521	1.25	1.71	1.77	0.87

vii. Loan and Advance to Saving Deposit Ratio (Rs. in 000)

SCBNL

(Rs. in '000)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Loan and Advances	6213878	7626736	9460450	12113698	15131747
Saving Deposit	13030929	14597674	15244585	17856134	19187636
Ratio	0.62	0.61	0.69	0.76	0.71

SBI

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Loan and Advances	6213878	7626736	9460450	12113698	15131747
Saving Deposit	2458800	2832639	3274690	4171175	5822293
Ratio	2.527	2.69	2.89	2.90	2.59

viii. Fixed Deposit to Total Deposit Ratio (%)

SCBNL

(Rs. in '000)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Fixed Deposit	1416383	2136307	3196490	3301013	7101697
Total Deposit	19335095	23061032	24647021	29743998	35871721
Ratio	7.33	9.26	12.97	11.09	19.80

SBI

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Fixed Deposit	4086358	6116172	5517466	6854884	17438404
Total Deposit	8654774	11002040	11445286	13715394	27957220

Ratio	47.22	55.59	48.21	49.98	62.37

ix. Saving Deposit to Total Deposit

SCBNL

(Rs. in '000)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Saving Deposit	13030929	14597674	15244585	17856134	19187636
Total Deposit	19335095	23061032	24647021	29743998	35871721
Ratio	67.40	63.30	61.85	60.03	53.49

SBI

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Saving Deposit	2458800	2832639	3274690	4171175	5822293
Total Deposit	8654774	11002040	11445286	13715394	27957220
Ratio	28.41	25.75	28.61	30.41	20.83

x. Return on Total Working Fund Ratio (%) SCBNL

SCBNL

(Rs. in '000)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Net Profit	539204	658756	691668	818921	1025114
Total Working Fund	19335095	23061032	24647021	29743998	35871721
Ratio	2.46	2.55	2.42	2.46	2.53

SBI

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09

Net Profit	718988	117001	254909	247770	316373
Total Working Fund	10345373	13035839	13909200	17187446	30916681
Ratio	6.95	0.90	1.83	1.44	1.023

xii. Total Interest Earned to Total Working Fund Ratio (%)

SCBNL

(Rs. in '000)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Total Interest Earned	1058677	1189603	1411942	1591195	1887221
Total Working Fund	19335095	23061032	24647021	29743998	35871721
Ratio	4.83	4.61	4.94	4.77	4.65

SBI

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Total Interest Earned	578372	708718	831117	515594	1460445
Total Working Fund	10345373	13035839	13909200	17187446	30916681
Ratio	5.60	5.44	5.96	2.99	4.72

xiii. Total Working Fund Ratio

SCBNL

(Rs. in '000)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Total Interest Paid	254127	303198	413055	471729	543786
Total Working Fund	19335095	23061032	24647021	29743998	35871721
Ratio	1.16	1.20	1.44	1.42	1.34

SBI

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Total Interest Paid	258430	334770	412262	454917	824700
Total Working Fund	10345373	13035839	13909200	17187446	30916681
Ratio	2.50	2.57	2.96	2.65	2.67

ANNEX-2

Calculation of trend line of loan & advance of SBI Bank:

FY	L&Adv.(y)	X=(t-2007)	X^2	xy	Yc=a+bx
2004/05	6223.88	-2	4	-12427.76	8,671.62
2005/06	7626.74	-1	1	-7626.74	9,390.21
2006/07	9460.45	0	0	0	10,109.30
2007/08	12113.69	1	1	12113.69	10,828.40
2008/09	15131.75	2	4	15131.75	11,547.49
	$\sum y$=50,546.51	$\sum x$=0	$\sum x^2$=10	$\sum xy$=7190.94	

$a = \frac{\sum y}{N} = \frac{50,546.51}{5} = 10,109.302$

$b = \frac{\sum xy}{\sum x2} = \frac{50,7,190.94}{10} = 719.094$

The Equation of the Straight Line Trend is:

Yc=a+bx

Trend Values of Loan & Advances of SBI(2009-2013)

Fiscal Year(t)	X=(t-2007)	Trend Values Yc=a+bx
2009/10	3	12,266.58
2010/11	4	12,985.68
2011/12	5	13,704,77
2012/13	6	14,423.87
2013/14	7	15,142.96

Calculation of trend line of loan & advances of SCBNL (in mill.)

FY	L&Adv.(y)	X=(t-2007)	X^2	xy	Yc=a+bx
04/05	8143.21	-2	4	-16286.42	6,154.40
05/06	8935.42	-1	1	-8935.42	9,410.30
06/07	10502.64	0	0	0	10,995.93
07/08	13718.60	1	1	13718.60	12,581.56
08/09	13679.76	2	4	27353.52	14,167.19
0	∑y=54979.63	∑x=0	$\sum x^2=10$	∑xy=15856.28	

$a = \frac{\sum y}{N} = \frac{54,979.63}{5} = 10,995.93$

$b = \frac{\sum xy}{\sum x2} = \frac{15,856.284}{10} = 1585.63$

The Equation of the Straight Line Trend is:

Yc=a+bx

Trend Values of Loan & Advances of SCBNL(2009-2013)

Fiscal Year(t)	X=(t-2007)	Trend Values Yc=a+bx
2009/10	3	15,752.82
2010/11	4	17,338.45
2011/12	5	18,924.08
2012/13	6	20,509.71
2013/14	7	22,095.34

Calculation of trend lines of Total Deposit of SBI: (in mill.)

FY	L&Adv.(y)	X=(t-2007)	X^2	xy	Yc=a+bx
04/05	8654.77	-2	4	-17309.54	6,291.28
05/06	11002.04	-1	1	-11002.04	10,423.05
06/07	11445.29	0	0	0	14,554.94
07/08	13715.39	1	1	13715.39	18,686.83
08/09	27957.22	2	4	55914.44	22,818.72

0	∑y=72774.71	∑x=0	$\sum x^2=10$	∑xy=41328.25	

$a = \frac{\sum y}{N} = \frac{72,774.71}{5} = 14,554.94$

$b = \frac{\sum xy}{\sum x2} = \frac{41,318.25}{10} = 4,131.83$

The Equation of the Straight Line Trend is:

Yc=a+bx

Trend Values of Total Deposit of SBI(2009-2013)

Fiscal Year(t)	X=(t-2007)	Trend Values Yc=a+bx
2009/10	3	26,950.61
2010/11	4	31,082.50
2011/12	5	35,214.39
2012/13	6	39,346.28
2013/14	7	43,478.17

Calculation of Trend Line of Total Deposit SCBNL(in mill)

FY	T.D..(y)	X=(t-2007)	X^2	xy	Yc=a+bx

04/05	19335.09	-2	4	-38670.18	18,949.13
05/06	23061.03	-1	1	-23061.03	22,955.15
06/07	26490.02	0	0	0	26,961.17
07/08	30048.00	1	1	30048	30,967.19
08/09	35871.72	2	4	71742	34,973.21
0	∑y=134805.86	∑x=0	$\sum x^2=10$	∑xy=32956	

$a = \frac{\sum y}{N} = \frac{134805.85}{5} = 26{,}961.17$

$b = \frac{\sum xy}{\sum x2} = \frac{41318.3}{10} = 4{,}131.83$

The Equation of the Straight Line Trend is:

Yc=a+bx

Trend Values of Total Deposit of SCBNL(2009-2013)

yr	X=(t-2007)	Yc=a+bx
09/10	3	37,733.40
10/11	4	41.029.00
11/12	5	44,324.60
12/13	6	47,620.20
13/14	7	50,915.80

Calculation of Trend Line of Total Investment of SBI: (in mill)

FY	T.D..(y)	X=(t-2007)	X^2	xy	Yc=a+bx
04/05	2607.68	-2	4	-5215.36	883.58
05/06	3610.78	-1	1	-3610.78	2,967.09
06/07	2659.45	0	0	0	5,050.60
07/08	3088.89	1	1	3088.89	7,134.11
08/09	13286.18	2	4	26572.36	9.217.62
	$\sum y=25252.98$	$\sum x=0$	$\sum x^2=10$	$\sum xy=20835.11$	

$a = \frac{\sum y}{N} = \frac{25,252.98}{5} = 5,050.60$

$b = \frac{\sum xy}{\sum x2} = \frac{20,835.11}{10} = 2,083.51$

The Equation of the Straight Line Trend is:

Yc=a+bx

Trend Values of Total Investment of SBI(2009-2013)

yr	X=(t-2007)	Yc=a+bx
09/10	3	11,301.13

10/11	4	13,384.64
11/12	5	15,468.15
12/13	6	17,551.66
13/14	7	19,635.17

Trend value of Total Investment of SCBNL.(in mill.)

FY	T.Inv.y)	X=(t-2007)	X^2	xy	Yc=a+bx
04/05	11360.33	-2	4	-22720.66	9214.63
05/06	9702.55	-1	1	-9702.55	11379.73
06/07	12847.54	0	0	0	13544.83
07/08	13553.23	1	1	13553.23	15709.33
08/09	20236.12	2	4	40520.98	17875.03
0	∑y=67.724.14	∑x=0	$\sum x^2=10$	∑xy=21651	

$a = \frac{\sum y}{N} = \frac{67,724.14}{5} = 13,544.83$

$b = \frac{\sum xy}{\sum x2} = \frac{21,651}{10} = 2165.10$

The Equation of the Straight Line Trend is:

Yc=a+bx

Trend Values of Total Investment of SCBNL(2009-2013)

yr	X=(t-2007)	Yc=a+bx
09/10	3	20,040.13
10/11	4	22,205.23
11/12	5	24,370.33
12/13	6	26,535.43
13/14	7	28,700.53

Calculation of trend line of Net profit of SBI:(in mill.)

FY	N. profit(.y)	X=(t-2007)	X^2	xy	Yc=a+bx
04/05	718.99	-2	4	-1437.98	465.91
05/06	117.01	-1	1	-117.01	398.46
06/07	254.91	0	0	0	331.01
07/08	247.77	1	1	247.77	263.56
08/09	316.37	2	4	632.74	196.11
0	$\sum y=1655.05$	$\sum x=0$	$\sum x^2=10$	$\sum xy=-674.48$	

$a = \frac{\sum y}{N} = \frac{1655.05}{5} = 331.01$

$b = \frac{\sum xy}{\sum x2} = \frac{-674.48}{10} = -67.45$

The Equation of the Straight Line Trend is:

Yc=a+bx

Trend Values of Net profit of SBI (2009-2013)

yr	X=(t-2007)	Yc=a+bx
09/10	3	128.66
10/11	4	61.21
11/12	5	-6.24
12/13	6	-73.69
13/14	7	-141.14

Calculation of trend value of Net profit of SCBNL.(in mill)

FY	N. profit(.y)	X=(t-2007)	X^2	xy	Yc=a+bx
04/05	537.80	-2	4	-1075.6	465.10
05/06	539.20	-1	1	-539.20	590.53

06/07	658.76	0	0	0	715.96
07/08	818.92	1	1	818.92	841.39
08/09	1025.11	2	4	2050.22	966.82
0	∑y=3579.79	∑x=0	$\sum x^2=10$	∑xy=1254.34	

$$a = \frac{\sum y}{N} = \frac{3579.79}{5} = 715.96$$

$$b = \frac{\sum xy}{\sum x2} = \frac{1254.34}{10} = 125.43$$

The Equation of the Straight Line Trend is:

Yc=a+bx

Trend value of Net profit of SCBNL (2009-2013)

yr	X=(t-2007)	Yc=a+bx
09/10	3	1,092.25
10/11	4	1,217.68
11/12	5	1,343.11
12/13	6	1,468.54
13/14	7	1,593.97

Calculation of trend value of EPS of SCBNL:

FY	EPS(.y)	X=(t-2007)	X^2	xy	Yc=a+bx
04/05	143.14	-2	4	-286.28	123.69
05/06	175.84	-1	1	-175.84	134.67
06/07	167.37	0	0	0	145.65
07/08	131.92	1	1	131.92	156.63
08/09	109.99	2	4	439.96	167.61
0	∑y=728.26	∑x=0	$\sum x^2=10$	∑xy=109.76	

$a = \frac{\sum y}{N} = \frac{728.26}{5} = 145.65$

$b = \frac{\sum xy}{\sum x2} = \frac{109.76}{10} = 10.98$

The Equation of the Straight Line Trend is:

Yc=a+bx

Trend value of EPS of SCBNL (2009-2013)

yr	X=(t-2007)	Yc=a+bx
09/10	3	178.59
10/11	4	189.57
11/12	5	200.55
12/13	6	211.53
13/14	7	222.51

Calculation of trend value of EPS of SBI:

FY	EPS(.y)	X=(t-2007)	X^2	xy	Yc=a+bx
04/05	13.29	-2	4	-26.58	15.93
05/06	18.27	-1	1	-18.27	21.51
06/07	39.35	0	0	0	27.09
07/08	28.33	1	1	28.33	32.67
08/09	36.18	2	4	72.36	38.25
0	∑y=135.42	∑x=0	$\sum x^2=10$	∑xy=55.84	

$a = \frac{\sum y}{N} = \frac{135.42}{5} = 27.09$

$b = \frac{\sum xy}{\sum x2} = \frac{109.76}{10} = 5.58$

The Equation of the Straight Line Trend is:

Yc=a+bx

Trend value of EPS of SBI (2009-2013)

yr	X=(t-2007)	Yc=a+bx

09/10	3	43.83
10/11	4	49.41
11/12	5	54.99
12/13	6	60.57
13/14	7	66.15

ANNEX - 3

Calculation of correlation between Total Deposit & Total Investment of SBI Bank(in mill)

FY	T.D.(x)	T&(y)	X^2	Y^2	xy
04/05	8654.77	2607.68	74905043.75	6799994.98	22568870.63
05/06	11002.04	3610.78	121.44884.20	13037732.21	39725945.99
06/07	11445.29	2659.45	130994663.20	7072674.30	30438176.49
07/08	13715.39	3088.89	188111922.90	9541241.43	42365331.02
08/09	27957.22	13286.18	781606150.10	176522579	371444657.20
0	$\sum y$=72774.71	$\sum x$=25252.98	$\sum x^2$=1296662664	$\sum y^2$=212974221.90	$\sum xy$=506542981.30

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

$$= \frac{5x506,542,981.30-72,774.71\times25,252.98}{\sqrt{5\times1296662664-(72774.71)^2}\sqrt{5\times212974221.90-(25252.98)^2}}$$

$$= \frac{694,936,611}{\sqrt{1,187,154,904}\ \times\sqrt{427,158,111.10}}$$

$$= \frac{694,936,611}{34,455.11434\times20667.8037}$$

= 0.9759

r^2= 0.9759

Calculation of probable error (P.E)

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

$$= \frac{0.6745(1-0.9523)}{\sqrt{5}}$$

$$= \frac{0.032174}{\sqrt{5}}$$

=0.0144

6PE = 0.0863

Coefficient of correlation between Total Deposit & Total Investment Of SCBNL.

FY	T.D.(x)	T.In.(y)	X^2	Y^2	xy
04/05	19335.09	9702.55	373845.71	94139476.50	222187529967 7.502
05/06	23061.03	12838.56	531811104.7	164828622.90	296070417.30

06/07	24647.02	13553.23	607475594.90	183690043.40	334046730.90
07/08	29743.99	13902.82	884704941.10	193288404	413525339.10
08/09	35871.72	20236.12	1286780296	409500552.70	725904430.50
0	∑x=132658.85	∑y=70233.28	$\sum x^2$=3311145782	$\sum y^2$=1045447100	∑xy=1957146595

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

$$= \frac{5x1957146,595-132658.85\times70233.28}{\sqrt{5\times3311145782-(132658.85)^2}\sqrt{5\times1045447,100-(70,233.28)^2}}$$

$$= \frac{468666818}{32289.96\times17161.64}$$

$$= \frac{468666818}{554148669.13}$$

= 0.84574

r^2= 0.71527

Calculation of probable error (P.E)

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

$$= \frac{0.6745(1-0.71527)}{\sqrt{5}}$$

$$= \frac{0.192050}{2.2361}$$

=0.0859

6PE = 0.5153

Calculate of correlation Between Total Deposit & Loan and Advance Of SBI.

FY	T.D.(x)	L& Adv(y)	X^2	Y^2	xy
04/05	8654.77	6213.88	74905043.75	38612304.65	53779702.21
05/06	11002.04	7626.74	121044884.20	58167163.03	83909698.55
06/07	11445.29	9460.45	130994663.20	89500114.20	108277593.80
07/08	13715.39	12113.69	188111922.90	146741485.40	166143982.70
08/09	27957.22	15131.75	781606150.10	228969858.10	423041663.70
0	∑x=72774.71	∑y=50546.51	$\sum x^2$=1296662664	$\sum y^2$=561990925.40	∑xy=835152641

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

$$= \frac{5\times 835152641 - 72774.71\times 50546.51}{\sqrt{5\times 1296662664 - (72774.71)^2}\sqrt{5\times 561990925.40 - (50546.51)^2}}$$

$$= \frac{497,255,598}{34,455.11\times 15968.87}$$

$$= \frac{497,255,598}{550,209,328.80}$$

= 0.9038

r^2= 0.8168

Calculation of probable error (P.E)

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

$$= \frac{0.6745(1-0.8168)}{\sqrt{5}}$$

$$= \frac{0.12357}{2.2361}$$

=0.0553

6PE = 0.3318

Calculation of correlation Between Total Deposit & Loan& advance Of SCBNL.

FY	T.D.(x)	L& Adv(y)	X^2	Y^2	xy
04/05	19335.09	8143.21	373845705.30	66311869.10	157449698.20
05/06	23061.03	8935.42	531811104.70	79841730.58	206059988.70
06/07	29647.02	10502.64	607475594.49	110305447	258858778.10
07/08	29743.99	13718.60	884704941.10	188199986	408045901.20
08/09	35871.72	13679.76	1286780296	187135833.70	490716520.40
0	∑x=132658.85	∑y=54979.63	$\sum x^2$=3684617641	$\sum y^2$=631794866.30	∑xy=1521130887.00

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

$$= \frac{5\times1521130887-132658.85\times54979.63}{\sqrt{5\times3684617641-(132658.85)^2}\sqrt{5\times631794866.30-(54979.63)^2}}$$

$$= \frac{312,119,946}{28717.90\times11671.10}$$

$$= \frac{312,119,946}{335169482.69}$$

= 0.9312

r^2= 0.86713

Calculation of probable error (P.E)

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

$$= \frac{0.6745(1-0.86713)}{\sqrt{5}}$$

$$= \frac{0.08962}{2.2361}$$

=0.0401

6PE = 0.2405

Coefficient Of correlation Between Total Assests(TA) & Net profit of SBI:

FY	T.A.(x)	N. profit(y)	X^2	Y^2	xy
04/05	10345.37	718.99	107026680.40	516946.62	7438217.58
05/06	13035.84	117.00	169933124.50	13689	1525193.28
06/07	13909.20	254.91	193465844.60	64979.11	3545594.17
07/08	17187.45	247.77	295408437.50	61389.97	4258534.49
08/09	30916.68	316.37	955841102.20	100089.98	9781110.05
0	∑x=85394.54	∑y=1655.04	$\sum x^2$=1721675189	$\sum y^2$=757094.68	∑xy=26548649.57

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

$$= \frac{5 \times 26548{,}649.57 - 85394.54 \times 1655.04}{\sqrt{5 \times 1721675189 - (85334.54)^2}\sqrt{5 \times 757694.68 - (1655.04)^2}}$$

$$= \frac{-8{,}588{,}131.60}{\sqrt{36{,}278.76 \times 1022.90}}$$

$$= \frac{-8{,}588{,}131.60}{37{,}109{,}394.47}$$

= - 0.2314

r^2= 0.0536

Calculation of probable error (P.E)

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

$$= \frac{0.6745 \times 0.9464}{\sqrt{5}}$$

= 0.2855

6PE = 1.713

Calculate of Coefficient of correlation Between Total Asset(TA) & Net profit Of SCBNL.

FY	T.A.(x)	N. profit(y)	X^2	Y^2	xy
04/05	21893.58	756.79	479328845.20	572731.10	16568842.41
05/06	25767.35	658.76	663956326	433964.74	16974499.49
06/07	28596.69	691.67	817770679	478407.39	19779472.57
07/08	33335.79	818.92	1111274895	670629.97	27299345.15
08/09	40587.47	1025.11	1645719622	1050850.51	41586119.17
0	∑x=15016	∑y=3951.25	$\sum x^2$=4718050	$\sum y^2$=3206583	∑xy=122208

	0.88		367	.71	278.80

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

$$= \frac{5\times 122{,}208278.80 - 150{,}160.88\times 3951.25}{\sqrt{5\times 4718{,}050{,}367 - (150{,}160.88)^2}\sqrt{5\times 3206{,}583.71 - (3951.25)^2}}$$

$$= \frac{17{,}718{,}216.90}{\sqrt{23{,}590{,}231{,}835 - 22548289882}\sqrt{16{,}032{,}918.55 - 15612376.36}}$$

$$= \frac{17{,}718{,}216.90}{20932961.49}$$

$= 0.8464$

$r^2 = 0.7164$

Calculation of probable error (P.E)

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

$$= \frac{0.6745\times(1 - 0.7164)}{\sqrt{5}}$$

$= 0.0856$

$6PE = 0.5136$

BIBLOGRAPHY

Avasthi (2003), Ganesh Prasad "A comparative Study of Financial Performance between HBL and BOK".

Bajracharya, Ratna R " Rastriya Banijya Bank- A comparative Performance Study."

Bnalla, V. K. (2001). Investment Management. New Delhi: S, Chand & Company Limited.

Chtney, John M. and Mosses, Edward A. (1993), Fundamentals of Investments, New York: West Publishing, Company,

Chopra, Sunil, (2046) The Role of Forgeign Banks in Nepal".

Francis,. J. C. (l90), Investmeny; Analysis and Management. New York: McGraw Hill 1 P u b l i c a t i o n .

Gitrnan L.J. & Joelink (1990), .Fundamentais of investing, New York: Harper & Row Publishers.

Gupta, S. P. (2000). Siatistical Methods. New Delhi: Sultan Chand & Sons Publishers, Khan, M and Jain., 1^3X. (1999). Financial Management. Third Edition, New Dalhi: Tata McGraw Hill Publishing Co. Ltd

K.C, Raj Kumar (2003), Financial Sector reforms-still a long way to go The Rising Nepal.

Kothari, C. R. (1994), Ouatitative Techniques, New Delhi: Vikas PubEishing House Pvt. Ltd.

Koihari, C. R. (1999). Research Methodology; Method and Techniques.

KC Roshan (2010), ' Financial Performace of Commpercial Banks in Nepal.'New Delhi; Vishwa Pro kashan.

Pant, Uttam Raj, "A study of Commercial Banks Deposits in utilizations."

Regmi, Ganesh(2001), " A comparative Study of Financial Performance of Himalayan Bank Ltd. And Nepal Bangladesh Bank Ltd. An unpublished Master's Thesis, Central Department of Management, T.U

Sargel(2007). " Comparative Analysis of Financial Status and performance evaluation of HBL & NABIL Bank.

Shakya, Dinesh Raj, (1995) " Financial Analysis of Joint Venture Banks in Nepal."

Sharpe, William F.; AIexanda, Gordon .1; and Bailey, Jell-ery V. (2002). investments. New Delhi: Prentice Hall of India,

Shrestha, Birendra. (2003). A comparative analysis of financial performance of the selected joint-venture Banks. A Unpublished Master Degree Thesis, shankar Dev Campus.

Shrestha, Dr. Manohar Krishna, " Commercial Banks Comparative Performance Evaluation".

Shrestha, K. N. and Manandliar, K. I). (t 994), Siatistics and 0.Hantitafive Technique for 1140nagement. Kathmandu: Valley Publishers.

Shrestha Preeti(2009) A thesis entitled, " Financial Performance analysis of Nepalese Commercial".

Shrestha, R.L.(1980), "Capital Adequacy of Bak in the Nepalese context.

Shrestha SR (2055) Nepal Bank Patrika

Shrestha Sunity, " Lending operation of Commercial Bank of Nepal and its impact on GDP."

Subedi(2009). "Financial Performace Analysis of Comm. Banks of BIBL & SBI.

Subedi, Rabin (2003), " Financial Assessment of JVBs in Nepal".

Thapa, Sumitra(2009), " A comparative Analysis of Financial Performace of Standard Chartered Bank Nepal and Himalayan Bank Ltd.

Upadhaya, Sudeep (2002), " Risk and Return on common Stock Investment of Commercial Banks in Nepal."

Van Home, James C. (2002). Financial _Management and Po/icy. New Delhi: Prentice Hall of India.

Annual Report

Nepal SBI Bank Ltd. (2004-2009)
SCBNL 2004-2009
Nepal Rastra Bank(2005/06) Report of Fiscal Year

Websites

www.business.com
www.nrb.org.com
www.nepalstock.com.np
www.teachmefinance.com