CHAPTER- I

INTRODUCTION

1.1 Background

Nepal is one of the least developed countries of the world. Nepal's economy is characterized by a combination of rapid population growth and inadequate economic growth that has led to widespread, chronic poverty. Overall, weak reform efforts have failed to stimulate broad-based economic growth. The state continues to hamper private-sector development, and political instability weakens the country's ability to implement economic reform or create a stable environment for development. About 85.8% of its population is still in the rural area and most of them are not yet getting minimum physical facilities that are necessary for human being because of under development of those areas and their poverty. Recently, Nepal poverty is decreased to 24.6% published by CIB in FY 2009/10.

The role of money in an economy is very important. Proper and well-planned management of money directs, determines and enhances the health and productivity of total financial sector and the performance of financial sector affect the growth of economy. The economy of a country indicates the development of the country. The financial sector plays an important role in the development of the country and mobilization of financial resources. Hence, money is a subject to manage, and banks are the manager. Therefore, bank as manager collects, disperse and controls the flow of money. Banks collect funds from financial sector organizes the scattered domestic financial resources and invests them in different sectors. Economic development depends upon various factors however, the major are capital formation and proper utilization of the capital. The organized financial sector collects the fund, mobilize and invest the fund in the best possible manner.

Banks play very important role in the economic life of the nation. The health of the economy is closely related to the soundness of its banking system. Although banks create no new wealth but their borrowing, lending and related activities facilitate the process of

production, distribution, exchange and consumption of wealth.

A bank is an institution that exists legally and under the separate and distinct act. In this regards, Walter leaf defines bank, as "a bank is that institution or a person, which is always ready to receive or deposit money to return against the cheque of their depositors".

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

1.2 Evolution of Banking System

The origin of commercial banking can be traceable in the ancient era of Greeks and Mesopotamians as well as Romans, when the practice of storing precious metals and coins at safe places and loaning out money to the people on interest was prevalent. The traces of rudimentary banking are found in Chaldeanc Egyptain and phoencian history.

The concept of modern commercial bank came into existence by the emergence of bank of England in 1694 with a capital of $1.2 million by a group of wealthy London merchants and financiers. At that time, there was no concept of Joint stock Company, it was necessary to obtain a special charter from the crown to pool their money in common venture. King William III was too pleased to grant a royal character Bank of England. Because in return a capital subscribed of $1.2 million was lent to him to finance his war against France the charter also gave the new bank the right to issue notes, payable on demand up to the amount of loan to the king.

The scope of development of commercial banks was in the 19th century. According to M.C. Vaish the 19th century witnessed the phenomenal development of modern problems enabling turn their attention away from old money changing business to many new important jobs that comes in the awake of the new industrial progress. The 20th century

observed development of various banking institutions highly specialized sophisticated particularly in advanced countries like the U.S.A, U.K., France, Japan and others. Today various international organizations like I.F.C., I.M.F., A.D.B., World Bank etc have developed which are influencing the whole business of the global world.

In the context of India, the British established the commercial banks in the colonial age, which was called as "Exchange Banks". So, the tern banking system is different in various countries. Similarly in the context of Nepal the first step towards the establishment of a modern bank was taken only in 1973 A.D. However it does not mean that the banking in Nepal is of recent origin. In Nepal, modern starts from the establishment of Nepal Bank Limited.

1.3 Evolution of Banking in Nepalese Context:

The growth of banking in Nepal is not so long. In comparison with other developing or developed country, the institutional development in banking system of Nepal is far behind. Like other countries goldsmiths, merchants and money lenders were the ancient bankers of Nepal. Tejarath Adda established during the tenture of then Prime Minister Ranoddip Singh (B.S. 1933) was the first step towards the institutional development of banking in Nepal. Tejarath Adda did not collect deposits from the public but gave loans to employees and public against the bullion.

Later "Tejartha Adda" was replaced by commercial bank 'Nepal bank Ltd', at the time of Rana Prime Minister "Juddha Shumser". In this way Nepal's banking history began with establishment of Nepal Bank Ltd on November 1937 A.D. under Nepal bank Act 1973 under 49 percent ownerships of public and remaining part under the ownership of government. Later with the growing necessity of the commercial banks in the world, the Nepal Bank Limited, the first commercial bank of Nepal in 1937 A.D replacing the older system of banking. In the present scenario different type of banks are being practiced in Nepal, but among them commercial bank play a vital role in the economic development of the country. Commercial bank called Nepal Bank Limited was established in 1937A.D. it was established under the Nepal Bank Act of 1936 A.D and the late King

Tribhuvan Bir Bikram Shah Dev inaugurated this bank. At that time the authorized capital of Nepal Bank Limited (NBL) was 1crore dividend into 100000 shares Rs100 each. Nepal Bank Limited had a responsibility of attracting people towards banking sector from predominant sahu- mahajan's transaction and of introducing other banking services as well. Being a commercial bank, it was natural that Nepal Bank Limited paid more attention to profit generating business. But, it is the duty of the government to look into the neglected sector therefore Nepal Bank Limited was established with 51% ownership of His Majesty' Government (HMG) and 49% of the equity participation from private sector. With the development of banking sector and to help the government formulate monetary policies, Nepal Rastra Bank Act 201 the central bank of the country. After it's established it issued the Nepali notes. The first five year plan was introduced in the country. NRB helped to make banking system more systematic and dynamic. However, as the central bank it was not logical for Nepal Bank Limited to go to unprofitable sectors, So to catch up with these Problems, the government established established Rastiya Banjaya Bank in 2002 B.S (1965 A.D), under Banijya Bank Act 1965 A.D as a fully state owned commercial bank.

When the government adopted liberal market oriented economic policy since mid – 1980's, Nepal allowed foreign banks on joint Venture basis to operate in the country after getting the approval from Nepal Rastra Bank. These foreign joint venture banks are allowed maximum or 50% foreign equity participation. As a result Nepal Arab Bank was introduced, the first joint venture bank of Nepal was established in 1984 A.D (2041 B.S) The Bank was outcome of joint venture with Dubai Bank Ltd of United Arab Emirates. Then after, Nepal Indosuez Bank, a joint venture bank with a Paris in 1986 A.D (2041 B.S) was established and later Nepal Standard Chartered Bank, a joint venture bank with a bank of United Kingdom was established in 1978 A.D.(2042 B.S). The commercial banks including joint venture banks are all together 17 in number which are Nepal bank Ltd, Rastrya Banijya Bank, Himalayan Bank, Nabil Bank, Nepal Investment Bank, Standard Chartered Bank, SBI Bank, Nepal Credit and Commerce Bank, Everest Bank, Lumbini Bank,, NIC Bank, Bank of Kathmandu, Nepal Bangladesh Bank, Kumari Bank, Laxmi Bank, Siddrartha Bank and Machhapuchhre Bank Ltd.

One of the most important achievements of the growth of commercial banks is domestic saving, awareness of public towards banking system, increase of industry and remittance from foreign countries. JVBs gave a new horizon to the financial Sector of the Country. They were expected to bring the foreign capital, technology, experience, healthy competition, expertise and skills in Nepal.

Nepal's financial institutions and commercial banks are listed below:

Table 1.1: List of Financial Institutions in Nepal

S.N	**List of Financial Institutions**	**Numbers**
1	Nepal Rastra Bank	1
2	Commercial Bank	28
3	Development Bank	68
4	Finance companies	78
5	Micro- finance Institutions	12
6	Co-operatives (License by NRB)	17
7	NGO(License by NRB)	47
8	Insurance companies	21
9	Employee Provident Fund	1
10	Citizen Investment Trust	1
Total		**263**

(Source: www.nrb.org.np)

1.4 Introduction of Bank:

A bank is an institution which deals with money. It means that a bank receives money in the form of deposit from public and lends money for the development of trade and commerce. Banks plays important role in the economic development of the country. The entire commercial bank industrial activities are well knitted with the banks. Banks creates money in the economy by making loans. The amount of money that banks can lend is directly affected by reserve requirement set by the Nepal Rastra Bank. The reserve (CRR) requirement is currently 5.5% of banks total deposits. This amount can be held either in cash on hand or in the banks reserve account with the NRB.

According to Prof Hart "A banker is one who in the ordinary course of his business receives money which he repays by honouring the cheques of persons from whom or on whose account he receives it."

According to Banking Regulation Act of India, "Banking means the accepting for the purpose of lending or investment of deposit of money from the public repayable on demand or otherwise, and withdraw able by cheque, draft or otherwise."

From the above several definitions, the term bank in the modern times refers to an institution having the following features:

- It deals with money; accepts deposits and advances loans.
- It deals with credit; it has ability to create credit. i.e., the ability to expand its liabilities as a multiple of its reserves.
- It is commercial institution; it aims at earning profit.
- It is unique financial institution that creates demand deposits which serve as medium of exchange and, as a result, manage the payment system of the country.

1.5 Introduction of Commercial Banks:

Commercial banks perform all kinds of banking business and generally finance trade and commerce. In addition to the primary function of receiving deposit and lending to others, these banks undertake a wide variety of functions to assist their customers by performing agency services and general utility services. Deposit of commercial banks generally are for short period of time, hence they involve in the short period of lending activities. However, recently the commercial banks have also extended their areas of operation to medium term and long term finance. Functions of the commercial banks are; accepting deposits; advancing loan, letter of credit; guarantee, remittance, e-banking, bills, foreign exchange etc. A modern commercial bank is expected to go beyond the conventional banking functions and to take up challenging task of achieving economic growth, combined with stability and social justice. Nepal Bank Ltd. was established in 15

November 1931 as the first commercial bank. Rastriya Banijya bank is the second commercial bank which was established in 23th January 1966.

1.6 A Brief Profile of Sample Banks:

1.6.1 Standard Chartered Bank Nepal Limited (SCBNL)

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.

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1750 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of the world's most international banks, Standard Chartered employs almost 75,000 people, representing over 115 nationalities, worldwide. This diversity lies at the heart of the Bank's values and supports the Bank's growth as the world increasingly becomes one market.

With 18 points of representation, 23 ATMs across the country and with more than 350 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

Standard Chartered Bank Nepal Limited offers a full range of banking products and services in Consumer banking, Wholesale and SME Banking catering to a wide range of customers encompassing individuals, mid-market local corporate, multinationals, large

public sector companies, government corporations, airlines, hotels as well as the DO segment comprising of embassies, aid agencies, NGOs and INGOs.

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

Corporate Social Responsibility is an integral part of Standard Chartered's ambition to become the world's best international bank and is the mainstay of the Bank's values. The Bank believes in delivering shareholder value in a socially, ethically an environmentally responsible manner. Standard Chartered throughout its long history has played an active role in supporting those communities in which its customers and staff live. It concentrates on projects that assist children, particularly in the areas of health and education. Environmental projects are also occasionally considered. It supports non-governmental organizations involving charitable community activities The Group launched two major initiatives in 2003 under its 'Believing in Life' campaign- 'living with HIV/AIDS' and 'Seeing believes'

Banker magazine has awarded Standard Chartered Bank (SCB) the prestigious 'Bank of the Year 2009' award for Nepal. The award reflects Standard Chartered's growth in Nepal, as a key part of its long-term strategic commitment to Asia.

1.6.2 Himalayan Bank Limited (HBL)

Himalayan Bank Limited was established in 1992 by the distinguished business personalities of Nepal in partnership with Habib Bank Limited, one of the largest commercial banks of Pakistan. Banks operations were commenced form January 1993. It is the first commercial bank of Nepal with maximum shareholding by Nepalese Private Sector. Besides commercial activities, the bank also offers industrial and merchant

banking facilities. The bank at present has twenty three branches in Kathmandu valley and outside the valley. The bank is also operating a counter in the premise of the Royal Palace. The bank has a very aggressive plan of establishing more branches in different parts of the kingdom in near future. The bank policy is to extend quality and personalized service to its customers as promptly as possible. The bank, as far as possible, offers tailor made facilities to its clients, based on the unique needs and requirements, to extend more efficient services to its customers. Himalayan Bank has been adopting innovative and latest banking technology. This has not only helped the bank to constantly improve its service level but has also kept it prepared for future adoption of new technology. HBL has listed on Nepal stock exchange in July 5, 1993. The share participation of the bank is 51% Nepalese Promoters, 14% employment provident fund, 15% general public and 20% Habib Bank of Pakistan.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- HimalRemitTM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.

Awards and Recognitions received by Himalayan Bank Limited in the last five years

- Best Presented Accounts and Corporate Governance Disclosure Award - 2008 awarded by South Asian Federation of Accountants
- Best Presented Accounts Award - 2008 awarded by The Institute of Chartered Accountants of Nepal
- Number 1 Bank of Nepal- 2006 awarded by The Bankers' Almanac, Britain
- Number 1 Bank of Nepal- 2003 awarded by The Bankers' Almanac, Britain
- National Excellence Award- 2003 awarded by Federation of Nepal Chambers of Commerce and Industry

1.7 Statement of the Problem

Financial Performance Analysis or Financial Management is the main indicator of the success or failure of any financial institution and commercial banks. Financial condition of the business firm should be sound from the viewpoint of shareholders, debenture holders, financial institution and nation as a whole. The survival of the existing commercial bank and other financial institutions depend upon how they manage their assets and liabilities to maximize their profits with the minimum exposure of assets to risk, and are guided by three important conflicting criteria of solvency, liquidity and profitability. Commercial banks deal with other people's deposits, adequate cash flow, liquidity, and better utilization of assets.

Joint venture Banks and Nepalese Promoters bank are being increased in response to the economic liberalization policies of government. Besides joint venture banks, Nepalese promoters are also registering numbers of commercial banks. Other institutes offering similar services are finance company, saving & co-operative societies and development banks. These institutions have the tendency to centralize in major cities focusing the activities among the industrialists, traders & entrepreneurs. Because of number of banks & financial institutions are come into existence, in the recent years that creates intense competition in the banking sectors. Banks have been facing the considerable pressure to lower the lending rates, which has been adversely affecting

the profitability of banks. The commercial banks are competing with limited opportunity, narrow clientele base and barring investment in the economic activities in the country, the demand for credit has not picked up. Besides, competition in the banking sectors has turned intense and lending opportunity in the good projects is very limited. Government policies on economic liberalization have further intensified the competition. Every banks shows their huge amount of profit & high technology, however, the profit is not the instrument to measure good health of that institution. There should also be the proper examination of their performance in term of overall management of the banks. Financial plans may take many forms, but any good plan must be related to the firms exciting strength & weakness. The strength must be understood if they are to be used to proper advantage & the weakness must be recognized if effective action is to be taken. Saving mobilization and effective credit management system is must for economic development especially for a country like Nepal where the economic growth rate is very low. In this regard, the good banking system can play a vital role in accelerating the pace of economic development through the mobilization of scattered savings and channeling it in the productive sector of the economy. The adaptation of open and free marker economic and financial policies is believed to generate more savings as well as improve investment opportunities. Adequate infrastructure development in saving mobilization and investment is therefore the demand of the day. Therefore the bank can contribute a lot by savings and investing it in the productive and development sector of the economy of Nepal through bringing in appropriate and new innovative banking technologies. Keeping in pace with the development in the banking industry, the leading commercial banks SCBNL & HBL have been regularly coming up with new and innovative service to attract customers as well as doing its level best to satisfy the existing customers. They have been able to maintain the position as the market leaders in the banking industry. In compare to other commercial banks, they are getting success in terms of recognize and profitability.

Nepal has become 147th member of World Trade Organization (WTO) in 2004. In general, there is much curiosity in people about the opportunities and threats after the

accession of membership of WTO. Many questions may arise at once. It is crystal clear that Nepal as to face various challenges in different aspects in coming days. Liberalization in services sector is inevitable. We cannot escape from the ground reality of globalization, widespread acceptance of WTO and necessity of membership in this international trade institution. It should not be opposed to hide our inefficiencies or governance problems. Rather it is right time to find out the impacts, continue and finish the reform process making the service sector really competitive. Otherwise, we lose the opportunities. Transparency and disclosure practices are must for the sustainable liberalization process and for the growth and development of financial services sector especially commercial banks. In short, SWOT analysis is necessary in this sector.

There are altogether 28 commercial banks among them two banks are state owned and remaining 26 are in private sectors. Recently others new banks are in pipeline to operate in the country like Commerz and Trust Bank Nepal, Century Bank, Civil Bank etc. They had used customers' oriented marketing concepts as well as modern technology as required by the present competitive environments. The problem of the study on the issues related to the comparative strength & weakness of Standard Chartered Bank Nepal Limited and Himalayan Bank Limited. Thus, this study is strived to find the answer of the following question:

- What is the comparative position of two Banks in term of liquidity, profitability, turnover, leverage and capital adequacy?
- Is there any difference in financial performance between these two banks?
- What is the relation between the major financial indicators and the future trend of them in two banks?
- How sound is the operational result in relation to their profitability?
- What was the overall financial status of SCBNL and HBL running their business?

1.8 Objectives of the study

The main objectives of this study are to analyse the financial performance of two JVBs. Beside this other objectives are as follows:-

- To evaluate the financial strength and weakness of HBL and SCBNL
- To compare financial performance of HBL and SCBL.
- To analyze liquidity, profitability, and activity ratio of the two banks.
- To examine the trend of financial performance of two banks.
- To give recommendation based on findings.

1.9 Importance of the Study

A comparative financial analysis of SCBNL and HBL has multidimensional significance. Major findings and recommendation of this study give new idea of their management to improve their performance. They also know their position with competition with regards profit, capital, loan and investment etc. Mainly the study enlightens the shareholders about the financial performance of their respective banks. This allows them to have a comparative their fund was better utilized or not. The study also compels the management of respective banks for self-assessment of what they have done in the past and guides them in their future plan and programs.

The financial agencies, stock exchange and stock traders are also interested in the performance of the banks as well as the customers' depositors and debtors, who can objectively identify the better bank to deal them in their terms of profitability, safety and liquidity, policy maker at the macro level that is government and Nepal Rastra Bank will also benefit regarding the formulation of further policies in regard to economy development through banking institutions.

1.10 Limitation of the Study

The limitations of the study are as follows:-

- The financial performance analysis covers the analysis of current five years of HBL and SCBL.
- The study is based on secondary data i.e. Financial Statement (B/s, P/L A/c) collected form concern Banks.
- Due to limited time and resources constraint, this study is neither comprehensive nor extensive.
- Financial performance only cannot establish the position of the banks. Other non-monetary factors like market status, goodwill etc also play major decision from overall status of any entity.

1.11 Organization of the Study

This study has been organized into five different chapters. They are as follows:

Chapter 1: Introduction

The introduction chapter briefly explains about the meaning and historical background of commercial banks in Nepal and also the joint venture banks. It describes the introduction of research study, which explains the focus of the study, statement of problem, objective of the study, significance of the study and limitation of the study.

Chapter 2: Review of Literature

This chapter deals with conceptual framework/ theoretical review, review of books, journals and articles and research gap/ justification. A literature review is a body of text that aims to review the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to a particular topic.

Chapter 3: Research Methodology

The third chapter briefly explains about the research methodology that has been used to evaluate the financial performance of the banks under consideration. This chapter consists of research design, sample and population, source of data and financial tools and techniques to measure the financial performance of HBL and SCBNL.

Chapter 4: Presentation and Analysis of Data

In this fourth chapter, the data required for the study has been presented, analyzed and interpreted by using various tools and techniques of financial management, accounts and statistics to present the result relating to the study and major findings of the study are also included.

Chapter 5: Summary, Conclusion and Recommendation

The fifth chapter is the final chapter of the study, which consists of the summary of the four earlier chapters. This chapter tries to find out a conclusion of the study and attempts to offer various suggestion and recommendations for the improvement of the future performances of the two banks under review.

CHAPTER II

REVIEW OF LITERATURE

"Review of literature refers the survey of materials which means reviewing research studies or other relevant propositions in the related area of the study. So that all past studies, their conclusion and deficiencies may be known and the further research can be conducted. It is an integral and mandatory process in research work." (Joshi, 2003:107)

In other words, review of literature is finding the pertinent fact with the available literature in ones fields of research. The study of the material available on research topics is called review of literature. Review of literature not only provides solid information on the topic but also guides along the future stream of action. The textual constraints would help it to support area of research in order to explore the relevant and true facts for the reporting purpose.

The study aims to analyze and compare the financial performance of Standard Chartered Bank and Himalayan Bank for the purpose it needs to review of literatures on the concern area. There are several studies have been already done from which the researches can make clear ideas and concepts. What is other opinion and concepts? What is the outcome of others researches? What has done and written? These all and other related questions are reviewed in this chapter, which is the guideline and inputs of the study. This chapter has been organized into three headings i.e. conceptual framework, review of related articles and review of different masters' theses.

2.1 Conceptual Framework (*Review of Books*)

The concept of derived from the review of text books have presented in this section. It gives an overview of the concept of joint venture banks and commercial bank. In

addition, concept of financial analysis & its methods and steps have been described in this section.

Banks are financial institutions and play significant role in the development of country. Bank is an intermediary of lender and borrower. It collects funds from surplus unit of the society and provides to deficit unit. A bank is a business organization that receives and holds deposits of funds from others, makes loans or intends credit and transfers fund by written orders of deposit. (Encyclopedia, 1984:Vol 3)

Traditionally, banks act as financial intermediaries to channel funds from surplus units to deficits units. Unlike other non-banking financial companies, commercial banks do not produce loans and financial innovations to facilitate trade transactions, because of especial role they play in the economy concerned authorities have regulate them. Analysis of banks' financial statement is different from threat of other companies due to especial nature of assets and liabilities.

2.1.1 Meaning of Bank

Banks are the financial institution where the money is deposited and the needy people come in the bank for the loans to fulfill their requirement of cash. Therefore, we can say the main game of the bank is to play with money and through it generates profit. Actually, the bank called money from public by attracting them with sound interest rate in their deposit. Through the money they have collected from the public they provides loan to the business house, industry and needy people with some interest, which is higher than the interest rate they provide in the deposit. Just by collecting cash from saver and providing loans to the investors, we can say that the bank actually acts as an agent between the saver and investors.

In the word of Prof. Sayre, "Banks are institutions whose debts usually referred to as bank deposits – are commonly accepted in final settlement of other people's debt." As per banking regulation act of India, "Banking means the accepting for the purpose of lending

of investment of deposits of money from the public repayable on demand or otherwise, and withdraw able by cheque, draft or otherwise". Therefore, a bank is any institution that has dealing with especially accepting deposits and making loans, side by side rendering verities of financial services.

2.1.2 Origin of Banking System:

According to a French Writer Revil Povt, Bank notes were in practice in Babylonia around 600 B.C. This could be considered as the first ever step to the inception of banking system. It has been assumed that the practice of modern banking functions such as Exchange of money, transfer of funds, note issue accepting deposits, lending money etc already began in Rome around the late 4th Century. However, the banking development collapsed with the Roman Civilization.

The banking business revived in the 12th century as Jews conducted functions such as safe keeping of valuables, lending money at interest and similar other functions. Being lured by the good profit, Italians too extensively followed suit. As a result bank of Venice, the first bank in the world come into existence in 1157 A.D. prior to the development of modern banking system, the rate of merchant, moneylenders and gold smith was dominant in the society. Therefore, they can consider as the three ancestors of modern banking. The three ancestors of bank were performing the work i.e. accepting deposits; keep valuable things in the custody and granting loans those who needed. This was all their individual effort.

Gradually the function of accepting deposits and granting loans were handed over from individual to the joint stock company. Subsequently ' Bank of Amsterdam' Hooland and 'Bank of Hamberg' Germany were established in 1607 A.D and in 1619 A.D. respectively. The modern bank undertook the function of issuing notes, credit creations, accepting bill of Exchange etc. Later only the central bank authorized to issue the notes

The European Industrial revaluation of the 17th century brought about drastic increase in production there by lending to rise in marine transportation and overseas trade. Most of the European countries rushed for seeking new colonies. In the ground of favorable Economic Environment, "Bank of England" in 1833 A.D., the prominence of joint stock bank was further enhanced. From 1844 A.D., Bank of England was allowed to functions as the central bank.

Around 1850, the 'Credit Mobilizes' was established many ventures banks facilitated industrialization in Europe. In the 19th Century, commercial banks were opened in almost all countries in the world. Thus, development of the modern banking system gains full momentum and various monitory problems. Now banks have been the vital part of Economic and business life of each economy.

2.1.3 Commercial Banks

The concept of bank was developed in western countries many years ago. But in context of Nepal, it has very short history. The first commercial bank i.e. Nepal Bank Limited was established in 1937 A.D.

Commercial banks are also financial intermediaries they mediate people who save money and who want to secure the use of money by accepting the deposits, borrowing funds and advancing loans. In addition to these primary functions, commercial banks, collect checks and bills, open letter of the credit, guarantee on behalf of customers, undertake capital and other many activities, exchange foreign currencies etc. "The commercial bank has its own rate and contribution in the Economic development. It is a source for economic development; maintains economic confidence to various segments and extends credit to people". (Grywinski ; 1991:51)

"Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through lending and investing action to borrowers, individuals, business firms and services; form

the producers to consumers and for the government too. These facts show that the commercial banking system of the nation is important to the functioning of the economy." (Reed, Cotter, Gills and Smith: 1976: 62)

In the content of Nepal, Commercial banks perform their functions under the rules and regulations of Nepal Rastra Bank as the Central Bank of Nepal.

2.1.3.1 Functions of Commercial Banks

The Commercial Act 2031 B.S. defines " A commercial bank is that which exchanges money, accepts deposits, loans and performs banking functions and which is not a bank meant for co- operative agriculture, industries or for such specific purposes". A commercial bank is a dealer in money and its substitute for money such as checks of bill of exchanges. Commercial banks work for overall development of industry, trade and commerce, service and agriculture. Major functions of commercial banks of Nepal are as follows:-

(a) Accepting deposits:

Commercial bank accepts deposits from customers in the forms of current, saving and fixed deposits. These deposits are repayable on demand. The depositors other than current account are paid interest.

(b) Agency services:

On this ground commercial banks perform following services:

- Dealing with the transactions of foreign exchanges business.
- Service as agent of correspondent on behalf of the clients.
- Issuing the letter of credit, bank drafts, travel cheque etc.
- Purchase and sales of different types of securities, remittance of funds.
- Collection and payment of cheque, bills, promising notes, coupons, and other bonds.
- Keeping valuable articles in safe custody.

(c) Loan Services:

- Overdraft.
- Short term loans.
- Direct loans i.e. with collateral
- Financial advisory service to loan holder.

2.1.4 Concept of Joint Venture Banks

Joint venture means two or more persons or parties or organization carried out their business or work for specific objectives. They use and do work by using each other's resources, technologies or services etc. Joint venture is a single deal, which is jointly undertaken by two or more person to fulfill their objectives such as profit or wealth maximization by optimum use of resources etc. It takes place at that time when they have exceptional profit or advantages in relation to business deal.

Joint venture is a general model for direct foreign investment. A joint venture bank is the joining of forces between for the purpose of carrying out a specific operation (Gupta, 1984:15). Joint venture is a new organization two or more independent firms mutually decide to participate in a business by contribution their resources, capital establishes.

Their objectives is fulfilling the shortage of funds required to investment in development works and to make competence in the field of resources, they share new methods, new technology and services of management and get advantages from foreign investors.

To establish a new bank requires capital, technology, experience and new market etc. For the purpose, a new bank and an established bank enters into technical services agreement in which old bank provides channel of global network disputes its experts to help the new bank in technical aspects. Sometimes old bank provides management services and investment also.

The joint venture banks are playing, increasing dynamic and vital role in the economic development of the country that will undoubtedly increase with time.

2.1.4.1 Role of Joint Venture Banks in Nepal

Introduction of JVB in Nepal has change the scenario of banking sector in Nepal. The joint venture banks have invited a new era of banking in this one of the least developed country by introduction of high and efficient methods in the banking sectors. The banking facilities are access to only few finger counted people in the country. This sector basically helps to promote other infrastructure of the country, on which the base of the development of can be set. Other areas of expertise are forward cover for foreign exchange transaction by importers and exporter, merchant banking inter-banking market for money and securities, arranging foreign currency loans etc

Joint venture banks are important for the economic development to mixed economy follower like Nepal. Nepalese economic situation and investment necessity experiences short of such institutions which can serve such problems. The role of joint venture banks can be presented as follows: (*Pandey; 1997:341*)

a. Creation of Competitive Environment

Clients are beneficial either by higher rate of interest in their deposition or by lower rate of interest on credit. It is possible only under competitive environment. After the arrival of JVB, old banks are also been competitive. Fair competition among banks not only beneficial for bank themselves and economy too. Fair personnel management efficient financial performance, quality services and research oriented development is possible only in the competitive environment.

b. Introducing new method and Technology in Banking Services 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 follow by international banks in deposition, lending, exchange and they have been introducing by these banks in Nepal.

After the establishment of these banks, other new and old banks began to computerize the banking system. Some new banks have adopted new techniques such as Tele-banking, credit, debit card system, twenty four hour services, ATM service. These banks are seeking to follow up some developing techniques in international banking sectors.

c. Providing more Resource for Investment

The joint venture banks have played a significant in canalizing the additional resources for investment for the development of the country. Although it is argued by many that resources raised to locally in the prevailing market those resources would have been mobilized by any other domestic institution, it is assumed that the JVBs have mobilized net additional resources if they tap so far untapped resources in the local market.

d. Information to Foreign Investors

The role of joint venture banks is significant for the collection of fund for mega projects. The various type of publications to be acquainting with Nepalese rules, regulations and practices of concerned sector. Before the establishment of JVBs, some large projects should be established through two or three local banks but mega projects could not be established. Because of the political instability, offer the restoration of multiparty democracy also the foreign investors have still been hesitating to invest in Nepal. In such a situation, the publication of JVBs has been playing a vital role to introduce the Nepalese financial rules, regulation, policies and practices to the foreign investors.

e. Contribution to National Economy

Joint venture banks, comparatively are adopting new banking systems. They are already established in financial, garments, agricultural and housing needs and playing a significant role to contribute in national economy form own sector. Thus, through such banks managerial and banking techniques, new ideas and philosophy, foreign investment and capital, healthy, competitive atmosphere and diversified market concepts transfer to other companies.

But here is a remarkable point that joint investments should be directed by economic need and not by political interest. Financial & legal rules, regulations and practices should be clear and convenient to foreign investors.

2.1.5 Review of Policies Related to Commercial Banks

Nepal Rastra Bank is the apex authority responsible for financial stability of the country. NRB is authorized and also responsible for the supervision of commercial banks and similar financial institutions. For the establishment and operation of commercial banks, smoothly legal provisions for commercial banks at the country should be reviewed.

1) Review of Nepal Rastra Bank Act 2058

All the financial institutions undertaking banking activities are licensed and supervised by NRB. Among the financial intermediaries; commercial banks, development banks, finance companies, micro-finance development banks and other micro-finance institutions that are licensed to perform limited banking activities are under the supervision of NRB. To ensure that the overall financial system in the country is safe and sound and threats to financial stability are identified and reduced, NRB is currently using CAMELS based approach for supervision. Similarly, CAMELS based offsite surveillance with early warning measures are also adopted to meet the supervisory objectives. NRB is conducting risk assessment and risk reduction approaches to ensure financial stability. NRB is gradually moving towards risk-based approach for supervision. NRB has initiated the implementation of Basel II.

All these plans and programs are initiated by the NRB falls under the objectives of the Nepal Rastra bank Act, 2002. The act has specified the objectives of NRB as: to formulate necessary monetary and foreign exchange policies in order to maintain the stability of price and balance of payment for sustainable development of economy, and manage it; to promote stability and

liquidity required in banking and financial sector; to develop a secure, healthy and efficient system of payment; to regulate, inspect, supervise and monitor the banking and financial system; and to promote entire banking and financial system of Nepal and to enhance its public credibility.

NRB act, 2002, chapter-9, has specified the regulation, inspectors and supervisory role for the Nepal Rastra Bank. It consists that the commercial banks must obtain a license from NRB in order to conduct banking and financial transaction while issuing license the NRB may fix necessary terms and conditions. NRB‘s approval is required for commercial banks to accept deposits or giving credits.

In the regulatory part the NRB have full powers to regulate the functions and activities of commercial banks and financial institutions. For the purpose of the regulation the NRB may frame rules and bye-laws on the matters which the NRB deems appropriate and issue necessary order, directives and circular and it shall be the duty of the concerned commercial bank and financial institution to obey by such rules, bye-laws, order, directives and circular. The NRB can issue appropriate directives to commercial banks and require them to submit the following particulars: its balance sheet accounts, off balance sheet commitments, statements of income and expenditures and their ratio among accounts or items; prohibitions, restriction or conditions concerning specific types or forms of credit or investments, or of credit or investments, form of commitments of risk bearing nature which are not matching as to maturity of assets and liabilities and off-balance-sheet items, foreign currency, spot or advance, swap, option or similar instruments or access to the payments system through electronic or other means; other particulars and documents prescribed by the NRB. In addition, NRB may issue necessary directives to commercial banks on the following subjects and require to submit particulars on the following subjects: books and accounts, profit and loss account, balance sheet and off-balance-sheet transaction and commitments, statements of income and expenses and their accounts ratio; prohibitions, restriction or conditions concerning specific types or forms of credit or investments, loan and investment in

excess of the ceiling prescribed by the bank, risk bearing commitment, position of foreign exchange, payment and electronic payment and other process; other statement and documents prescribed by the NRB.

While such foreign commercial bank or financial institution is in insolvent or liquidator is appointed for the liquidation or the license of such commercial bank or financial institution is terminated under the provision of the law of respective country or transaction is banned either full or partial or in case of operation of banking transaction is unable being involved with such commercial bank or if NRB is convinced that commercial bank or financial institution, to pay it's due or can make negative effect in its liability or duties, which it has to perform. Moreover, the NRB can take action against problematic commercial bank or financial institution. Whatever may be mentioned in the Companies Act or other prevailing law, NRB can take any or all of the actions specified in section 47 against the commercial bank or financial institution, which is declared problematic under the provision of section 86B. Furthermore, for the problematic commercial banks, the act has provided NRB the official appointed by NRB can use the reformative measures and rights; right for NRB for corrective action authority to application for the dissolution, authority to decrease of the capital of problematic commercial bank or financial institution, authority to transfer the assets and liabilities of the problematic commercial bank or financial institutions.

NRB has also authority to application for the dissolution in case NRB is convinced that any problematic commercial bank or financial institution even after the action under section 86C, reformative action under section 86E or corrective action under section 86F, such commercial bank or Financial institution is unable to discharge its liabilities or there is no possibility to operate in healthy way, can apply to the Appellate Court for the dissolution of such commercial bank or financial institution. However, there is a provision. However, the commercial banks and financial institutions have a right to appeal against the order of NRB, under the given conditions.

2) Review of NRB Directives

Among NRB directives to bank and financial institutions major directives are as follows: The new licensing policy in place requires having paid-up capital of Rs.2 billion to open new commercial banks (Class A finance institutions). The concept of regional banks has been eliminated. Paid-up capital base for development banks and finance companies has also been raised. Such capital requirement for micro-finance companies to open, however, has not been changed with a view to encourage micro finance companies to expand. Minimum paid up capital requirement for new bank and financial institutions has been shown below:

Table 2.1: Minimum paid up Capital requirement

NRs in Million

Grade	National Level	Regional * Level	4-10* District	1-3* District
A	2000	-	-	-
B	640	-300	300	300
		-	200	100
C	300	-	-	300
		-	-	100
D	100	60	20	10

** Except Kathmandu valley*

According to the new licensing policy, providing proof of mandatory paid-up capital base by June/July 2010 is a pre-condition for those that have submitted proposals to open new finance institutions. In case of operating financial institutions, they are required to comply with this provision by June/July 2013. Provisions such as, individual intending to invest in these institutions requires producing proof of tax clearance, and they are not blacklisted by the Credit Information Center have also been made effective. Accordingly, the banks and finance institutions are required to maintain capital adequacy at 11.0 percent starting from FY 2005/06.

The licensed banks and financial institutions deal with the financial statement. Starting from FY 2005/06, they are required to open capital adjustment fund to meet mandatory minimum paid-up capital by allocating a minimum of 10 percent of paid-up capital from their profit. For financial institutions not earning profit, they are required to comply with this provision by managing resources from whatsoever sources at their disposal.

To open a new branch in the Kathmandu Valley is required to add Rs.20 million/branch and Rs.5 million/branch to open two branches outside the Valley. Furthermore, the directive include the provision of amount so required to be added not to be counted towards capital adjustment fund, amount so added is to be counted for branch opening purpose only after the paid-up capital reaches the minimum of Rs50 million, and that the inactive loan ratio to be maintained at less than 5 percent level.

Based on the aging of overdue loan of commercial banks, loan has been classified into four groups and according to loan classification, necessary provisions is required to maintain annually as in the following percentage.

Table 2.2:
Loan Classifications and Provision for Doubtful Loan

Loan Classification	Basis of Classification	Provision required Percentage of the loan
Pass	No overdue and overdue by 3	1
Sub-standard	Above 3 months to 1 year	25
Doubtful	Above 6 months to 1 year	50
Loss	Overdue by above 1 year	100

Source: NRB Directives

3) Review of Bank and Financial Institution Act 2063

Bank and Financial Institution act, 2063, which is popularly known as Umbrella Act, has recently been enacted. The act governs the functional aspect of banks and financial

institutions. Some of the important provisions in the act regarding the banking sector have been analyzed in this chapter as follows.

Any person wishing to incorporate a bank or financial institution to carry on financial transactions should incorporate a bank or financial institution as a registered public limited company under the prevailing law of Nepal with prior approval of NRB by fulfilling the conditions prescribed in section 4 of the act. The individual desiring for the incorporation of such entity is required to submit an application to NRB for prior approval with the prescribed documents. The NRB is required to conduct necessary examination and grant permission to establish a bank or financial institution with or without terms or conditions if all the criteria are met and information of disapproval with reason is also to be given to the concerned person in case the application is denied. Similarly, any foreign bank or financial institution wishing to establish a bank or financial institution by making joint venture investment with a corporate body incorporated in Nepal or with a Nepali citizen or as a subsidiary company with 100% share is eligible to furnish the application to establish a bank or financial institution.

However, the act is silent about the percentage of equity investment in joint venture; such foreign corporate body can invest. It has been regulated by regulation till now as 75%. The prohibits anybody to conduct financial transaction except an established bank or financial institution and no bank or financial institution can use the proposed name for the purpose of carrying financial transaction without obtaining license from NRB. The bank or financial institution desiring to conduct financial transaction must submit an application for license to the NRB in the prescribed form including the prescribed fees, documents and description. NRB will grant license if it is satisfied with the basic physical infrastructure of the bank or financial institution; if the issuance of license for operating financial transaction will promote healthy and competitive financial intermediary and protect the interest of the depositors, the applicant is competent to operate financial transaction in accordance with the provision of this and its regulation, directives, order or provisions of

Memorandum and Article of Association and there are sufficient grounds to believe that the entity is competent to operate financial transaction.

NRB will classify the institutions into "A" "B" "C" "D" groups on the basis of the minimum paid-up capital and provide the suitable license to the bank or financial institution. The authorized, issued and paid up capital of license holder institution will be as prescribed by NRB from time to time. NRB can issue directives to the license holder entity to increase its authorized, issued and paid-up capital if it deems necessary. Similarly, the license holder entity must maintain a capital fund according to ratio prescribed by NRB based on the basis of its total asset or risk weighted Assets, and other transactions. At the same time, the license holder entity must maintain a risk fund according to ratio prescribed by NRB based on the basis of liability relating to its total asset and the other risk to be borne from of balance sheet transaction. The license holder entity must maintain general reserve fund regularly every year till the amount becomes double of the paid up capital of such entity. The bank or financial institution can be upgraded if the authorized capital is enough for upper class, the institution has been able to make profit for last five years and the non-performing asset is within the prescribed limit. Similarly, the bank or financial institution can be degraded if it fails to meet prescribed capital within the time period, it has been making loss for last five years, it has violated the directives of Rastra Bank time and again and it fails to maintain Risk Management Fund as prescribed by it. NRB will make necessary investigation and avail opportunity to clarify before taking such decisions. NRB is in full power to deny license for financial transaction if the conditions stipulated in are not met and it is also authorized to impose necessary conditions taking into account the existing financial position of the bank or financial institution, the interest of depositors and healthy operation of financial transaction. Similarly, it may increase decrease or modify terms and conditions time to time. NRB can suspend the license of the license holder for a specific period of time issued for the purpose of carrying financial activities or it may order the bank or financial institution to close the operation of their office partially or fully if such a license holder acts against the provisions of the Nepal Rastra Bank

Act, 2002, or the regulation made there under or fails to act in accordance with the order or directives issued by it or fails to act for the welfare and in the interest of the depositors. The NRB may cancel the license issued under this to carry on the financial transactions of the license holder under the certain circumstances as stipulated in the act.

A foreign bank or financial institution desiring to open its office within Nepal must submit an application to NRB in the form as prescribed along with the fees and particulars as prescribed. NRB may issue a license to foreign bank or financial institution to carry on financial transaction by allowing them to open a office within boundary of Nepal taking into account situation of competition existing in the banking sector, the contribution that could be rendered in the Nepalese banking sector and the reputation of such foreign bank or financial institution. NRB may specify necessary terms and conditions in the course of granting transaction license and it shall be the duty of the foreign bank or financial institution to comply with such terms and conditions. The section 34(4) of the reiterates that the provisions of to be complied by such foreign bank or financial institution. The foreign bank or financial institution, which has been issued license to operate financial transaction by opening its office within the Kingdom of Nepal, cannot open another bank or financial institution in joint venture within the Kingdom of Nepal. However, the provision for the contact or representative office of any foreign bank or financial institution will be as prescribed by NRB. Some of the important issues such as relationship with parent bank in case of liquidation and supervisory role of the different institutions (parent bank and parent bank's supervisory authority) have not been adequately addressed in this. Provisions relating to capital requirement are also silent. As per Nepal's commitments foreign bank branches are only allowed for wholesale banking functions. So all of the provisions stipulated in subsection (1) will not be relevant to the foreign bank branches. According to the, NRB has authority to make necessary regulation in this aspect.

4) Review of Company Act 2063

Commercial banks including JVBs in Nepal can be established only as a company with limited liability under the company act 2063. The provisions existed in the act regulate the commercial banks in all aspects. The section 3 of the act explains about establishment of company as follows:

- Any person who wants to undertake any enterprise with the motive of earning profits may establish a company with one or more objectives as mentioned in the memorandum of association, personally or along with others.

- Any foreigner who has obtained permission according to current law to undertake any enterprise with the motive of earning profits by making investment within Nepal may also establish a company as mentioned in sub section (1).
- There must be at least seven promoters for the establishment of public company.
- The commercial banks have to register in company's registrar office as per the section of the act. If promoters are Nepali they have to submit citizenship, for company; certificate of registration and for foreigner; produce their proof of citizenship be acquainted with country from where they are. Application should submit to registrar‘s office enclosing proposed company‘s memorandum, by laws, and agreement of promoters if they have done for public company.

2.1.6 Concept of Financial Performance

Financial analysis is concerned with analyzing the financial statement of an organization in difference aspect. The term indicates the real picture of an organization by interpreting financial ratios and analysis, which enables to evaluate and disclose the conditions of an organization. Every stakeholder such as share holders trade creditors, long term investors or debtor, customers, employees, tax

authorities, managements etc wants to know about the position or condition of an organization before or after their involvement to the organization. By financial statement analysis they are able to take corrective actions to introduce new policies or to correct their old policies, to know about their strength weakness etc. By analyzing financial statements someone can predict or know the financial performance of that organization. "Financial performance as a part of financial management is the main indicator of the success or failure of the enterprises. Financial performance analysis can be considered as a heart of the financial decisions (Clark John, Chicago)."

"Financial analysis is the process of determining financial strength and weakness of a company by establishing strategic relationship between the components of a balance sheet and other operative data (Pandey I.M., 1993:94)." Therefore, the analysis of financial statement consists of a study of relationship and trends to determine whether or not the financial position and results operations and financial progress of the company are satisfactory.

"It is the process of determining the significant operating and financial statements.The goal of such analysis is to determine the efficiency and performance of the firm's management reflected in the financial records and reports (Hampton, J.J. (1998:98)."

2.1.6.1 Tools & Techniques of Financial Performance Analysis

To evaluate the financial condition & performance of a company, the financial analyst needs certain yardsticks. The yardstick frequently used is a ratio or index relating two pieces of financial data to each other. Analysis & interpretation of various ratios should give experienced and skilled analyst a better understanding of the financial condition & performance of the firm, than they will obtain from analysis of the financial data alone (Vanhorn, J.C., 1999: 691-692). The techniques of analysis are employed to ascertain or measure the relationship among the financial statement items of a single set of statement and changes that have taken place in these items as

reflected in successive financial statement. The fundament of the analytical technique is to simplify or reduce the data under review to the understandable terms. Out of the various techniques, selection of a technique or combination of the techniques depends on the purpose of analysis. Different techniques reveal different facts associated with the business, so some or all of the following major techniques can be used for the analysis depending on the purpose and availability of the materials demanded by the technique.

1) Cash Flow Analysis

This statement is prepared to know clearly the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital. It summarizes the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash receipts from debtor against credit sales are recognized as the source of cash. Similarly, cash purchases and cash payment to suppliers for credit purpose is regarded as the use of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

This type of analysis is useful for short-run planning of firm. The firm needs sufficient cash to pay debt maturing in near future, to pay interest and other expenses and to pay dividend to shareholders. The projection of cash flow for near future can be made to determine the availability of cash. This cash balance can be matched with the firm's need for cash during the period and accordingly, arrangement can be made to meet the deficit or invest the surplus cash temporarily.

Though it is more confidential than funds flow analysis for the decisions related to the near future, it is also not free from drawbacks. Its drawbacks can be listed as:

- It is not perfect evident as it depends on conventional statements.

- It is historical in nature.
- It does not reflect structural and policy changes.

2) Trend Analysis

In finance analysis the direction of change over a period of years is crucial importance. Trend analysis of the ratio indicates the direction of change. The kind of analysis is particularly applicable to the items of profit and loss account. It is advisable that trend of sale and net income may be studies in the light of two factors. The rate of fixed companion secular trend in the growth of business and general price level; it might be found in practice that a number of firms would show a persistence growth over a period of years. But get a true trend of growth; sales figure should be adjusted by suitable index of general prices. In other words, sales figures should be deflected for raising price level, which the resulting figures are, graphed us will get a trend of growth devoid a price change. Another method of securing trend of growth and one which can use instead of the adjusted sales figures or as check on them is to tabulated and plot the output or physical volume of sale expressed in suitable units of measure. If the general price level is not considered while analyzing trend of growth, it can mislead management. They may because unduly optimistic period of prosperity and pessimistic in dull period. This method is immensely helpful in making comparatively study of financial statements of several years. This method of analysis involves the computation of percentage relationship that each statement item bears to the same item in the base year. Base year for the purpose of comparison may be earliest year, the latest year or any intervening year under the study. This exhibits the direction to which the concern is proceeding.

Trend analysis facilities the horizontal study of the data. But trend ratios are generally not computed for all of items in the statement, as the fundamental objective is to make comparison between items having same logical relationship to one another. Trend analyst reveals whether the current financial position of the company has improved over the past years or not. It shows which of the items have moved in a

favorable direction and which of them in unfavorable direction. Though it is the important tool of analysis, it is bound by certain limitation. They are:

- Trend for a single balance sheet or income statement is seldom very informative
- It does not give accurate result if accounting principles followed by accountants is not consistent over the period of study.
- Price level change adversely affects the comparison.
- Selected base year for some of the items in the statement may not be typical.

3) Ratio Analysis

An arithmetic relationship between two figures is known as ratio. Two number used in the ratio are called the term of ratio. The first term is the antecedent and is the divided; the second is the second is the consequent and is the divider. Ratio is computed by dividing one item of relationship with the other. Ratio simply means the relation of one quantity to another of the same kind is defined to be that pure (abstract) number, integral, or fractional, which express the number of times the later is contained in the former. Ratio analysis is a technique of analysis and interpretation of financial statement to evaluate the performance of an organization by creating ratios from the figure of different accounts consisting in balance sheet and income statement (P/L Account) is known as ratio analysis (Pandey,1994:436-437). Financial ratios are the basic tools of financial analysis. The operational and financial problem of a corporation can be ascertained by examining the behavior of these ratios. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of an enterprise. A financial ratio is a relationship between two financial variables and a process of identifying the financial strength and weakness of an enterprise. The liquidity ratio measures the corporations overall efficiency of operation. Similarly, leverage ratio measures the extent to which the corporation has

been finance by debt, and turnover ratios measure the utilization of the corporation's resources. These financial ratios help us to find symptoms of problems. The cause of any problem may be determined only after locating the symptoms. Hence, the study of financial ratios behavior of the corporations assumes great significant. Ratio Analysis is carried out to develop meaning relationship between individual items or group of items usually shown in the periodical financial statements. An accounting ratio shows the relationship between the two inter-related accounting figures. Ratios are guides or shortcuts that are useful in evaluating the financial position and operations of a company. When the relationship between two figures in the balance sheet is established, the ratio so calculated is called 'balance sheet ratio'. Ratio may be expressed in the form of quotient, percentage or proportion. Ratio analysis involves two types of comparison for the useful interpretation of the financial statement. A ratio itself does not indicate the favorable or unfavorable position. Most commonly used standards to evaluate the ratio are:

- Comparison of present ratio with past or expected future ratio.
- Comparison of the ratio of the firm with those of similar firms over the period of time or with industry average at the same point of time.

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

In view of the requirement of the various users of ratios, they can be classified into four major categories. They are: - liquidity ratio, leverage ratio, activity ratio and profitability ratio.

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

Through ratio analysis is powerful technique of financial analysis; it should be used with extreme care and considered judgment because it suffers from certain drawbacks. The drawbacks of the ratio analysis are listed below:

- It is difficult to decide the proper basis of comparison.
- It calls interpretation to certain aspects of the business, which needs detailed investigation before arriving at any final conclusion.
- Unless there is a consistency in adoption of accounting methods, ratios may not prove of greater use in case of inter-firm comparison.
- The price level changes make the interpretation of ratios invalid.
- The ratios are generally calculated from past financial statements and thus, are no indicators of future.

2.1.6.2 Purpose of Financial Performance Analysis

Financial performance analysis is a study of relationship among the various financial factors and pinpointing the strength and weakness of a firm so that forecast may be made of the prospects for future earnings. In the recent time financial performance analysis has played an increasing important role as a tool of examining the real worth of going concern which is one of the important assumptions of fundamental accounting assumption. Financial statements are usually analyzed with the help of financial tools and financial ratios are out of the primary tools. The term ratio refers to the numerical and quantities relationship between two variables. Important ratios can be calculated from the

balance sheet and profit & loss account. Ratio analysis is relevant in assessing the performance and position of firms. Various ratios are used for this purpose. The profit earned by the firm is the main financial performance indicator of business enterprises. Profits results mainly from successful business management, cost control, credit risk management and successful efficiency of operation." (*Robbinson; 1957:21*)

- In short the main purpose/ objectives of analysis of financial statement are to access; The present and future earning capacity or profitability of the concern.
- The operational efficiency of the concern as a whole and of its various parts and departments.
- The short term and long term solvency of the concern for the benefit of the debenture holders and trade creditors.
- The comparative study in regard to one firm with another firm or one department to another department and financial stability of a business concern.
- The possibility of the development in the future by making forecast and preparing budgets.

2.1.6.3 Limitations of Financial Performance Analysis

From the above discussion, it has been evident that financial performance analysis of great significance for investor, creditors, management, economist and other parties having interest in business. It helps management to evaluate its efficiency in past performance and take decisions relating to future. However, it is not free from drawbacks. Its limitations are listed below (Jain and Narang 1989:B23-B25):

- Historical Nature of Financial Statements: - The basic nature of statements is historical. Past can never be a precise and infallible index of the future and can never be perfectly helpful for the future forecast and planning.

- No Substitute for Judgment:- Analysis of financial analysis is a tool to be used by expert analyst to evaluate the financial performance of a firm. That's why; it

may lead to faculty conclusion if used by unskilled analyst.

- Reliability of Figures:- Reliability of analysis depends on reliability of figures of the financial statements under scrutiny. The entire working of analysis will be vitiated by manipulation in the income statement, window dressing in the balance sheet, questionable producers adopted by the accountant for the valuation of fixed assets and such other facts.

- Single year Analysis is not much valuable: - The analysis of these statements relating to single year only will have limited use and value. From this, one cannot draw meaningful conclusion.

- Result may have different Interpretation: - Different users may differently interpret the result derived from the analysis. For example, a high current ratio may suit the banker but it may be the index of sufficiency of the management due to under-utilization of fund.

- Changes in Accounting Methods: - Analysis will be effective if the figures derived from the financial statements are comparable. Due to change in accounting methods, the figures of current period may have no comparable base, and then the whole exercise of analysis will become futile.

- Pitfall in inter-firm Comparison: - When different firms are adopting different procedures, records, objectives, policies and different items under similar heading, comparison will be more difficult. If done, it will not provide reliable basis to assess the performance, efficiency, profitability and financial condition of firm as compared to whole industry.

- Price level change reduces the validity of analysis: - The continuous and rapid changes in value of money, in the present day, economically also reduces the validity of the analysis. Acquisition of assets at different levels of prices makes

comparison useless as no meaningful conclusion can be drawn from a comparative analysis of such items relating to several accounting period.

2.2 Review of Related Articles:

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

Bajracharya, (1990), in his article title "*A Comparative Performance Study of Rastriya Banijya Bankl*" conculed that deposits growth of commercial bank is not so consistent; there is low growth in local/ non-joint venture banks than that in joint venture banks. It is better on credit deposit ratio in joint venture banks than the non-joint venture banks/ local banks. Non-performing loan was greater in non-joint venture banks and profitability was greater in joint venture bank. Local banks were forced to open there branches at the rural areas but joint venture banks were not forced in this rule. Therefore, the competition among the local banks and joint venture banks is not healthy.

Chopra, (1992), in his article "*Role of Foreign Banks in Nepal*" concluded that the joint venture banks are playing an increasingly dynamic and vital role in the economic development of country. That will undoubtedly increase with time.

Thakur, (1995), on "*Performance of Nepalese Commercial Banks*", stated that the joint venture banks are successful not in only penetrating the market but also consolidating their position over the year. It is due to its customer orientation and strong marketing strategy.

Poudel, (1998), in his article, *"Banking Challenges Ahead"* focuses in the potential areas where banks should invest to fight the prevailing economic recession. Currently, growth in the profitability of JVBs has been mainly due to external factors such as foreign exchange rate but not to the growth in the real sector of the economy. Therefore, tosustain the current financial position in the long-run, banks should enter new areas by marking

their credit in important sub-sectors such as Hydro-electricity, tourism, irrigation Poudel further writes that "Saving collection is another factor which is necessary for banks to balance their operations and generate sufficient surplus in their cash-flows. In recent years, growth rate of bank deposits has declined comparatively. Mobilization internal resources in the country demands that banks attract more financial resources from the public."

Mahat,(2004) in his article, "*Should NRB Encourage Establishment of More Banks?*" gives short glimpse of the banking performance of Nepal Rastra Bank (NRB), as a central bank of Nepal, has the ultimate authority of granting approval for the establishment of the bank or financial institution. NRB has, therefore, the power of increasing or limiting the number of players in the banking and financial service industry through licensing. NRB also has a role in creating a conductive atmosphere for efficient functioning of the banking and financial institutions. Allowing the entry of sufficient number of players in the banking and financial services industry creates the environment of healthy competition and promotes efficiency in the banking system.

Mahat thinks that, establishment of new banks not only introduced advanced technology in banking industry but also offered a host of innovative products and superior services to the customers as affordable cost. Therefore, NRB should encourage more new private sector banks which will make modern banking available to a larger section of the economy. But on the other hand, he is afraid that Nepal could be over banked on the basis of the number of players in the industry but it is still under-serviced in reality. Establishment of new banks will increase the intensity of competition in the banking industry. This will force the poorly managed and poorly capitalized banks to upgrade their efficiency. Otherwise, customers will shift their business with the better capitalized and more professionally managed banks. The principle of survival of the fittest" will hold well under such a scenario. Therefore, there is still a room for more banks so far as it paves the way towards sound and strong banking system.

2.3 Review of Previous Thesis

Upadhaya, Sudeep (2004), in the title of "Risk and Return on common stock investment of commercial bank in Nepal". In his research paper he would apply the five-year data from 1999 to 2003.

Upadhaya focused on; In general, most people see stock market investment as a black art that they know little about. Many people have unrealistically optimistic a pessimistic expectations. Nepalese stock market is in emerging state. Its development is accelerating since the political charge in 1990 in effect of openness and other part if the stock market is influence due to the Mousiest problem faced by the county. And other But due to the lack of information and poor knowledge, Nepalese individual investor can't analyze the securities as well as market properly." Upadhaya, Sudeep, risk return on common stock investment of commercial bank in Nepal.

In addition, Upadhaya added that: 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.

Birendra Shrestha (2005), has made a study on "A Comparative Analysis of Financial performance of selected Joint Venture Banks". The selected banks are NABIL, HBL and NB Bank. The basic objectives are as follows:

- To examine the comparative financial strength and weakness of the selected JVBs
- To analyze different financial ratios of these banks etc.

The study of major findings are as follows:

- Analysis of liquidity ratio indicates better liquidity position of NB Bank.
- NB Bank is efficiently utilizing its deposit or loans and advances however total investment of NABIL is better than that of NB Bank and HBL.
- Capital adequacy ratio of NABIL is better than the other two JVB's.

- NABIL is paying higher proportion of its earnings as dividend and retaining least proportion of its earning.
- Operating profit of NABIL is higher than that of HBL and NB Bank.

Joshi, (2004) has made a study on "Financial analysis of Nepalese Commercial Banks". The main objective of the study is to find the comparative financial strength and weakness of various commercial banks. The other specific objectives are:-

- To trace out the credit position of the commercial banks.
- To analyze the earning capacity of the banks.
- To measure the investors degree of satisfaction on the banks.

His major findings are as follows:-

The lending condition of commercial banks is in decreasing trend. However the outstanding loan is in increasing trend.

- Strong banks are holding good customers and disbursing low rated and less amounted loans. Instead of that they are initiates toward remittance, bank guarantees and other commission generating activities.
- Many banks are showing aggressive and are spontaneously increasing loan loss provision. Deposit in the bank is also decreasing while some banks are holding enough funds.
- The Earning Capacity of SCBNL and NABIL is comparatively higher than that of other banks. Also, the dividend payout ratio of these banks is higher than other banks.

Saud, Gokul Bahadur (2006), conducted his master thesis on " A Study of financial performance of selected Commercial Bank in Nepal (Himalayan, NB and Everest Bank)" had a main objectives to evaluate the trends and growth of loan, investment and total deposit pattern and he find out that banks has gain normal position of different financial ratios.

- Due to lower liquidity position and highly leveraged capital structure and lower liquidity position as profitability as long as mare risky.

- In case of earning capital and utilization of profit researcher come in to the following conclusion.
- Himalayan Bank has performed better in term of net profit during the study period. All of these three bank are able to earn above 1% on total asset and to mobilize deposit properly.
- In case of dividend all banks aren't able to pay regular dividend to its stakeholder. However they are maintaining its EPS on its previous level. The researcher concluded that during the study period trend line shows the decreasing pattern of net income after tax.

Joshi, Archana (2008), conducted a study on ***"A Comparative Study on Financial Performance of Nepal SBI bank ltd & Nepal Bangladesh bank Ltd."*** with the following objectives:

- to highlight various aspects of relating to financial performance of Nepal Bangladesh bank and Nepal SBI bank ltd for a period of 1996/97 to 2000/01
- to analyze financial performance through the use of appropriate financial tools
- to show the cause of change in cash position of the two banks

Through her research she has presented the following findings of the study:

- The analysis of liquidity position of these commercial banks shows different position here, the average current ratio of NSBI is great than that of NBB. Therefore, the liquidity position of SBI is in normal position.
- The turnover of the commercial banks is the main indication of income generating activities. These ratios are used to judge how efficiently the firm is using its resources. From the analysis of turnover of these two banks, NBB has better turnover than SBI in terms of loans and advances to total deposit ratio. Thus NBB has better utilization of resources income generating activities than SBI bank; which definitely lead the bank to increase income and thus making an increment profit for the organization. Despite the fluctuating trend in the ratio of cash and bank balance to total deposit SBI bank is more efficient than NBB in cash

management i.e. it is more able to keep more cash balance against its various deposits.

- The analysis of profitability of these two commercial banks is also different. The overall calculation seems to be better for NBB. Though certain ratios like dividend per share, dividend payout ratio etc are better for SBI bank. From the calculation, NBB seems to tackle their investors more efficiently.
- Going through net profit to total deposit ratio, it can be said that NBB seems to be more successful in mobilizing its customers saving in much more productive sectors. NBB has slightly riskier debt financing position in comparison to SBI bank.

CHAPTER – III

RESEARCH METHODOLOGY

Research means to research the problems again and again to find out something more about the problem. Methodology refers the various steps that are generally adopted by a researcher in studying research problem along with the logic behind it. Research Methodology is systematic way of solving research problem. Research Methodology refers to the overall research process, which a researcher conducts during the study. The Research Methodology, which is used to analyze for collection of data, are mentioned in this chapter. To achieve these objectives, the study requires an appropriate research methodology.

"Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well-thought activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answer to the problem. Thus entire process by which we accept to solve the problems or to research the answer to question is called research." (Wolf and Panta; 2002:4)

An appropriate choice of research methodology is a difficult task, which is, must necessary to support the study in realistic term with sound empirical analysis. So that, the study uses the following research methodology like research design, population and sample, data collection procedure, methods of data analysis, methods of presentation, etc. Detail explanations of the above points are given which seems appropriate to understand methodology in detail. So, it is the methods steps and guidelines which are to be followed in analysis, and it is a way presenting the collected data with meaningful analysis.

3.1 Research Design

A research design is the arrangement of conditions for collection analysis of data in a manner that aims to combine relevance to the research purchase with economy in procedure. Research design is the main part of the thesis or any research work.

"Research design is the plan structure and strategy of investigations conceived so as to obtain answer of research question and control variance. The plan is the overall scheme of program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the financial analysis of data." (Kothari; 1990:390)

In order to make any types of research a well set of research design is necessary, which fulfills the objective of the research study. The research design of this study is descriptive as well as analytical. This research design is an examination of evaluation of efficiency of bank for providing services and finding strength and weakness of Standard Chartered Bank Nepal Limited and Himalayan Bank Limited. This study is closely related with the various functional and accounting statements as well actual result of these banks. This study covers the five years period from the fiscal year 2004/2005 to 2008/2009.

3.2 Population and Sample

A population usually consists of large group because of its large size it is fairly difficult to collect detailed information from each member of population. Rather than collecting information from each member, a sub group is chosen which is believed to be representative of population. This sub-group is called a sample, allows the researcher more choosing this sub-group is done by sampling. The sampling allows the researcher more time to make an intensive study of a research problem. At present, there are 28 commercial banks operating in Nepal. All the commercial bank that are operating in Nepal is considered as the population and two banks, Standard Chartered Bank Nepal Limited and Himalayan Bank Limited have been considered as a sample. A list of population banks are presented in the table below:

Table 3.1

Total Commercial Banks Operating in Nepal (As Population)

S.N	Banks	Operation Year in A.D
1	Nepal Bank Ltd.	1937
2	Rastriya Banijaya Bank Ltd.	1966
3	Agriculture Development Bank Ltd.	1968
4	Nabil Bank Ltd	1984
5	Nepal Investment Bank Ltd.	1986
6	Standard Chartered Bank Ltd.	1987
7	Himalayan Bank Ltd.	1993
8	Nepal SBI Bank Ltd.	1993
9	Nepal Bangladesh Bank Ltd.	1993
10	Everest Bank Ltd	1994
11	Bank of Kathmandu Ltd.	1994
12	Nepal Credit & Commercial Bank Ltd.	1996
13	Lumbini Bank Ltd	1998
14	Nepal Industrial and Commercial Bank Ltd.	1998
15	Machhapuchhre Bank Ltd.	2000
16	Kumari Bank Ltd	2001
17	Laxmi Bank Ltd	2002
18	Siddhartha Bank Ltd.	2007
19	Global bank Ltd.	2007
20	Citizen Bank Ltd.	2007
21	Prime Commercial Bank Ltd.	2007
22	Bank f Asia Nepal Ltd.	2007
23	Sunrise Bank Ltd.	2007
24	NMB Bank Ltd.	2008
25	Development Credit Bank	2008
26	Kist Bank	2009
27	Janata Bank Ltd.	2010
28	Mega Bank Ltd	2010

(Source: Banking & Financial Statistics, NRB, Mid-July 2009)

Name of Sampled Joint Venture Banks

- Standard Chartered Bank Nepal Limited
- Himalayan Bank Limited

3.3 Nature and Sources of Data

This study is mainly based on secondary data of the concerned banks, Nepal Rastra Bank, SEBO, and different library are the providers of the data. The review of literature of the proposed study was based on the textbooks, official publications, journals, unpublished thesis, web site etc. The necessary data and information at macro level have been collected from relevant institutions and authorities such as NRB Ministry of Finance, NEPSE, SEBO and their respective publications similarly the required micro level data derived from annual reports of selected banks, SEBO and NEPSE. In addition to above, supplementary data and information were collected from different library such as library of Shankar Dev Campus, T.U. Central library, SEBO etc. The major sources of data and information are as follows:

- NRB Economic Report, NRB
- Non-Banking Financial Statistics, NRB
- Banking and Financial Statistics, NRB
- Economic Survey, Ministry of Finance
- Annual Reports of Concern Commercial Banks
- Annual Report of SEBO Nepal
- Trading Report of NEPSE
- Journal of Finance
- Journal of Business
- Previous Research Studies, Dissertation and Articles on the Subject
- Various Text Books
- Different Library
- Different Website Related to study

3.4 Methods of Analysis

To achieve the objective of the study, various financial and statistical tools have been used. The analysis of data will be done according to the pattern of data available. Due to limited time and resources, simple analytical statistical tools such as Karl Pearson's coefficient of correlation have been used in this study. Likewise, some financial tools such as ratio analysis and regression have also been used for financial analysis.

The various calculated results obtained through financial and statistical tools are tabulated under the different headings. Then, they are compared with each other to interpret the results.

3.5 Tools and Techniques of Analysis

On the basis of historical data financial and statistical tools are used to analysis of different variables.

3.5.1 Financial Tools

Financial tools are used to examine the strength and weakness of banks. In this study financial tools like ratio analysis and financial statement analysis have been used.

Ratio Analysis

Financial ratio is the mathematical relationship between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions. Thus ratio analysis is used to compare a firm's financial performance and status to that of other firm's to it overtime. The qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis.

A. Liquidity Ratios

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 Ratio

The current ratio is a financial ratio that measures whether or not a firm has enough resources to pay its debts over the next 12 months. It compares a firm's current assets to its current liabilities.

Mathematically it is represented as:

$$\text{Current ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

Where,

Current assets include cash and bank balance, money at call or short-term notice, loans and advances, investment in government securities and other interest receivable and miscellaneous current assets where as current liabilities include deposits and other accounts of short-term loan, bills payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

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

ii) Quick Ratio

Quick ratio established a relationship between quick asset and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonable soon without a loss of value. Cash is the most liquid asset. Other assets which are considered to be relatively liquid are included in quick assets are book debts and marketable securities. Quick assets can be obtained by subtracting Inventories from current assets. This quick ratio can be calculated by dividing the total of quick assets by total current liabilities.

$$\text{Quick Ratio} = \frac{Current\ Assets - Inventory}{Current\ Liabilities}$$

iii) Cash and Bank Balance to Total Deposit Ratio

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 dividing the amount of cash and bank balance by the total deposits. It can be presented as,

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

Where, total deposits consist of deposits on current account; saving account; fixed account, money at call and other deposits.

iv) 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.

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

Hence, cash and banks balance includes cash in hand, foreign cash and foreign banks.

v) Investment on Government Securities to Current Asset Ratio

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds. This ratio can be calculated dividing the amount of investment on government securities by the total amount of current assets and can be stated as follows,

$$\text{Investment of Government Securities to Current Asset Ratio} = \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

vi) Loan and Advances to Current Assets Ratio

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

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

(vii) NRB Balance to Current, Saving Deposit

The ratio shows the percentage of amount deposits by the banks in Nepal Rastra Bank (NRB) as compare to the current and saving deposits. Commercial banks required holding certain position of current and saving deposits in NRB account. It is computed by dividing the NRB balance by current and saving deposits.

$$\text{NRB Balance to Current and Saving Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Current \& Saving Deposits}}$$

(viii) NRB Balance to Fixed Deposit Ratio

The ratio shows the proportion of cash balance at Nepal Rastra Bank's current account as compare to the commercial banks' fixed deposits amount. The ratio is calculated as using the following formula:

$$\text{NRB Balance to Fixed Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Fixed Deposits}}$$

B. Assets Management Ratios (Activity Ratios)

Asset management ratio is here used to indicate how efficiently the selected banks have arranged and invested their limited resources. Asset Management Ratios attempt to measure the firm's success in managing its assets to generate sales. For example, these ratios can provide insight into the success of the firm's credit policy and inventory management. These ratios are also known as Activity or Turnover Ratios.

The following financial ratios related to investment policy is calculated under asset management ratio and interpretations are made by these calculations.

i) Loan and Advances to Total Deposit Ratio

This ratio 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.

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

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 diving total amount of investment by total amount 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. Loan and advances amount by total working fund. That is formulizing as;

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

Where, total working fund include total amount of assets given 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) Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage. It can be obtained by;

$$\text{Investment on Government Securities} = \frac{\text{Investment on Govt. Securities}}{\text{Total Working Fund}}$$

v) Investment on Shares and Debentures to Total Working Fund Ratio

Investment on shares and debentures to total working fund ratio shows the investment of Banks and finance companies on the shares and debentures of obtained dividing on shares and debentures by total working fund. That can be calculated as;

$$\text{Investment on Shares and Debentures toTotal Working Fund Ratio} = \frac{\text{Investment on Share \& Debenture}}{\text{Total Working Fund}}$$

(vi) Performing Assets to Total Assets Ratio

Performing assets include those assets that are invested for income generating purpose. It consists of loan and advances; bill purchased and discounted investment and money at call and short notice. This ratio measures what percentage of assets has been funded for income generation or it measures how efficiently the bankuses investment and economic resources at its demand. It is calculated as:

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

C. Profitability Ratios

Profitability ratios measure the company's use of its assets and control of its expenses to generate an acceptable rate of return Profitability ratios are calculated to measure the efficiency of operation of a firm on term 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 way.

(i) Return on Total Working Fund Ratio

It measures the profit earning capacity by utilizing available resources i.e., total assets measure the profit earning capacity of return will be higher if the banks working fund is well managed and are efficiently utilized, maximizing taxes with in legal options available will also improve the return.

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

Where,

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

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 the better working fund. This ratio is calculated diving 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 Loan and Advances Ratio

Return on loan and advances ratio shows how efficiency of the Banks and finance companies have utilized their resources to earn good return from provided loan and advances. This ratio is computed to divide net profit/loss by the total amount of loan and advances. It can be mentioned as;

$$\text{Return on Loan \& Advances Ratio} = \frac{\text{Net Profit or Loss}}{\text{Total Loan \& Advances}}$$

v) Return on Equity Ratio (ROE)

The ratio measures how efficiently the banks have used the funds of the owners. The ratio is calculated by dividing net profit by total equity capital (net worth). This can be started as,

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit}}{\text{Total Equity Capital}}$$

(vi) Total Interest Expense to Total Interest Income Ratio

Interest income is received from loan and advance whereas interest is paid to depositors. This is the ratio that shows the relationship of interest and expenses of SCBNL and HBL

for FY 2004/05 to 2008/09. Higher the ratio leads to higher efficiency and vice versa. It can be calculated from this formula:

$$\text{Total interest exp to total interest income ratio} = \frac{\text{Total interest Expenses}}{\text{Total interest Income}}$$

D. Capital Structure/ Leverage/ Solvency Ratios

Leverage refers to the ratio of debt to total equity in the capital structure of the firm. Debt and equity are long- term obligation and remaining part of the liabilities side of Balance Sheet are term as short-term obligation. Both types of obligations are required in forming capital structure of firm. The appropriate mixed of all types of structure in capital structure result sound position of firm. Therefore a firm has strong short-term liabilities as well as long-term financial position. Long- term financial position of the firm is determined by leverage or capital structure. So, leverage ratios have been analyzed and interpreted to judge the long-term financial health of the sampled banks. These include debt-equity ratio, debt-assets ratio, debt to total capital ratio and interest coverage ratio.

(i) Debt-Equity Ratio

The ratio shows the mixed of debt & equity in capital. It measures creditors' claim against owners'. It is computed as:

$$\text{Debt-Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Shareholders}' \text{Equity}}$$

(ii) Debt Assets Ratio

The ratio shows the contribution of creditors in financing the assets of the bank. It is calculated as;

$$\text{Debt-Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

(iii) Interest Coverage Ratio

The ratio is known as time interest earned ratio is used to test the debt servicing capacity of bank. It shows the number of times the interest charged are covered by fund

that ordinary available for their payment. It is calculated by dividing the EBIT by interest charged.

$$\text{Interest Coverage Ratio}=\frac{\text{Earning Befor interest \& Tax(EBIT)}}{\text{Interet Charged}}$$

3.5.2 Return to Investor

Return to investor is another tool of analysis the performance of the commercial banks. Higher the return to the investor, better the performance of the company. Higher dividends and the stock price increase the increase return to investors. Investor thus gets returns to their investment in the form of dividend yield. This study tries to analysis the rate of return to the investors as MPS, EPS, DPS, NWPS and P/E Ratio

3.5.2.1 Market Price Per Share (MPS)

Market price per share is the price at which shares are traded in the stock market. Those shares are transacted in the secondary markets, which are already issued to the public. Organized stock exchange centers are known as secondary market where trading of the stocks are conducted. Market value in the secondary market is determined by supply and demand factors and reflects the consensus opinion of investors and traders concerning the value of the stock. In an efficient market a set of information is fully and immediately reflected in market price. Market price per share of a company reflects the performance of the company. Performance evaluation thus could be defined as analysis of common stock. The demand of the stocks of better companies will be higher and market price per share of those companies also will be higher in the stock market.

The market price per share of listed companies is a good measure of performance. A higher market price per share indicates the better performance of the company and vice versa. Whether a market price per share is high or low is difficult to determine. For this, the financial analysis has to compare it with the book value per shares and also with the market prices per share of other companies.

3.5.2.2 Net Worth Per Share (NWPS)

Net worth is the owner's equity in the company. It is also known as book value of the company. The book value per share is computed by dividing the amount of total shareholder's equity, which is called net worth, by the number of shares outstanding (Weston and Brigham, 1996:675). This figure represents the asset value per share after deducting liabilities and preferred stock (Cheney and Moses, 1993:417). Book value is a historical cost amount. It represents the real or actual value of the common stock. Generally, market price of stock is greater than book value of the stock. This clearly indicates that higher net worth per share is the signal of better companies. Therefore, the net worth per share is a good measure of performance of joint venture banks.

3.5.2.3 Earning Per Share (EPS)

Profit is the lifeblood of any company. Although the company can run without profit in short period, it cannot run and exist over the long period. Therefore, sufficient earning is necessary for the company to satisfy its owners. Earnings of the shareholders are the residual amount that remains after deducting all the expenses, interest, taxes and dividends to preferred shareholders from the revenue. Earning per share is the amount available to the holders of each share. It is calculated by dividing the total earnings available to common shareholders by the total number of shares outstanding.

EPS is a good measure of performance because it integrates all the major financial ratios and provides holistic information.

EPS is the overall result of turnover, profitability, leverage and book value per share. It provides combined result of total assets turnover, return on sales debt and equity position in the capital structure, and the book value per share of the company. Higher EPS shows the better earning capacity of the company. The EPS is thus a good measure of performance of companies. A company with higher earning per share not only can satisfy its existing shareholders and attract potential investors but also contribute to government, society and ultimately to the nation

3.5.2.4 Dividend per Share (DPS)

Investors on the common stocks are attracted to the dividends because it is the return on their investment. Not all companies can provide higher dividends to the common stockholders. For this, they need larger amount of profit. From the total earnings available to common stockholders, the company may retain some earnings for planned investment and distribute remaining amount to common stock holders, or the company may distribute dividends at fixed amount or constant pay out ratio as per its dividend policy. Dividend per share is the regular amount availed to the holders of each common stock by the company. Evaluation of performance of listed companies in terms of dividend per share (DPS) is considered as an appropriate measure, which shows the companies' earnings and dividend paying capacity.

Dividend Per Share includes dividend decision in earning per share. Although the behavior of companies towards dividend payment is disappointing in Nepal, the joint venture banks, other financial institutions, and some other companies have brought greater revolution in this trend. They are competing for paying larger amount of dividends in recent years.

3.5.2.5 Price Earning Ratio (P/E Ratio)

The price-earning ratio is widely used by the security analysts to value the firm's performance as expected by investors. It indicates investors' expectations about the firm's performance. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the P/E ratio declines. P/E ratio reflects investor's expectations about the growth in the firm's earnings. Industries differ in their growth prospects accordingly, the P/E ratios fore industries vary widely.

Price- earning ratio is the ratio between market price per share and earning per share. It is also called earning multiplier.

3.5.3 Statistical Tools

Various statistical tools can be used to analyze it. These tools are used in order to draw the reliable conclusion through the analysis of financial data. Following tools are used for this purpose.

3.5.3.1 Arithmetic Mean

An average is a single value selected from a group of values to represent them in same way, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group (Waugh A.E). Out of various measures of the central tendency, arithmetic mean is one of the useful tools applicable here. It is easy to calculate and understand and understand and based on all observations. Arithmetic mean of a given set of observations is their sum divided by the number of observation. In general, if X1, X2, X3----------Xn are the given observations,

Where, n = number of observation.

Then arithmetic mean usually denoted by X is given by: $X = \frac{X1+X2+X3+\cdots\ldots\ldots Xn.}{n}$

3.5.3.2 Standard Deviation

Average like other mean, mode and medium gives us the idea of concentration of the items around the central part of distribution. But average do not gives clear picture about the distribution because two distributions with same average may differ in the scatter ness of the items from the central value. To remove this drawback, dispersion is used. Dispersion is defined as the measure of variation I the item from the central value. Among various measure of dispersion, standard deviation is widely used. Standard deviation is absolute measure of dispersion, which defined as the positive square root of the mean of the square of deviation taken from the arithmetic means, if X1, X2, X3------Xn are the given observations,

then standard deviation denoted by σ is given by;

Standard deviation (σ) = $\sqrt{\frac{\Sigma(x-\bar{x})^2}{n-1}}$

where, n-1= number of observation in series X

ΣX =Sum of observation in series X

ΣX^2 = Sum of squared observations in series X

The standard deviation is absolute measures of dispersion but the coefficient of variation is a relative measure. To compare the variability between two or more series, CV is more appropriate statistical tool. In other words, CV is the ratio of standard deviation of return to the mean of that distribution. It is a measure of relative risk. The higher the coefficient of variation, the higher the relative risk of the investment. Symbolically, it is presented below:

CV = $\frac{\sigma}{\bar{R}} x100$ or CV = $\frac{\sigma}{\bar{R}} x100$

According to Prof. Karl Pearson, coefficient of variation is the percentage variation in mean, standard deviation being considered as the total variation in the mean. It is one of the relative measures of dispersion that is useful in comparing the amount of variation in data groups with different mean.

For comparing the variability of two distributions, we compute the coefficient of variation for each distribution. A distribution with smaller CV is said to be more homogeneous or uniform or less variable than other. Conversely, a series with greater CV is said to be more variable or heterogeneous than the other (Gupta, S.C. 2000:769).

3.5.3.3 Coefficient of Correlation (r)

Coefficient 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 if 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. In this study coefficient of correlation is calculated between a MVPS and NWPS, and DPS. The degree of association between the two variables, say x and y and is defined by correlation coefficient (r).

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

Where,

N=the no. of pair of observation

X= Dependent Variable

Y= Independent Variable

The value of 'r' lies between -1 to +1 and 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.

3.5.3.4 Coefficient of Determination (r2)

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 a value ranging from 0 to 1.

$R^2=r\times r$

3.5.3.5 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.

$$PE = 0.6745\frac{1-r^2}{\sqrt{N}}$$

Where, r2 = Coefficient of Determination

N = the no. of pair of observation

1. 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.
2. 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.

3.5.3.6 Trend Analysis

Trend analysis is a very useful and commonly applied tool to forecast the future event in quantitative term, on the basis of the tendencies in the dependent variable in the past period.

The straight-line trend implies that irrespective or decrease by absolute amount per unit of time. The linear trend values form a series in arithmetic progression.

The tools that are used to show gradually increase or a decrease of variable over a period of time is known as trend analysis. With the help of trend analysis the tendency of variables over the period can be seen clearly.

Mathematically, Y= a + bx

Where,

Y = the value of dependent variable

a = Y-intercept, b = slope of the trend line

X = value of the independent variable i.e. time = Year-2006/07 (with regard to the data used in the study)

Normal equation fitting above equation is;

Y=a+bx

Where,

A=$\frac{\sum y}{n}$, b=$\frac{\sum xy}{\sum x^2}$

For this study, the following variables are used: Total Deposits, Loans and Advance, , Net Profit, MPS, EPS, NWPS and DPS.

3.6 Diagrammatic & Graphical Representation

Diagrams and graphs are visual aids that give a bird's eye view of a given set numerical data. They present the data in simple and readily comprehensive form. Diagrams are primarily used for comparative studies and can't be used to study the relationship between the variables under study. This is done through line charts.

3.7 Period Covered

This study covers a period of five years from FY 2004/05 to 2008/09 of the two commercial banks. They analysis is done on the basis of data covering five years.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

The basic objective of analyzing the financial performance & return to investor and interpretation is to highlight the strength and weakness of the business. Therefore, this chapter includes the analysis and result of gathered data with a view to assessing financial performance of the bank for the period of five years. Consequently, this analysis help the management to take benefits of strategic management technique by providing the information regarding the strength and weaknesses of the two commercial banks, to exploit the opportunities lying in the environment and management threat posed by the environment.

In this chapter, the data have been presented, calculated and analyzed. The secondary data have also been used for the purpose and the data represents the duration of five years (2004/05 to 2008/09). The details of calculation have been shown in the respective appendix.

4.1 Financial Tools

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet for the purpose of this study, ratio analysis has been mainly used and with the help of it data have been analyzed. Various financial ratios related to the investment management and the fund mobilization are presented and discussed to evaluate and analyze the performance of SCBNL and HBL. 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 this study as mention in objective, are mentioned below:

a) Liquidity Ratio

b) Assets management Ratio(Activity Ratio)

c) Profitability Ratio

d) Capital Structure/leverage/Solvency

4.1.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Demand for the deposits, withdraws, pay maturity in time and convert non-cash assets into cash to satisfy immediate need without loss to bank and consequent impact or long run profit.

The following ratios are evaluated and interpreted under liquidity ratios.

(i) Current Ratio

Current ratio indicates the ability of a bank to meet its current obligation. This is the broad measure of liquidity position of the financial institution. Current ratio is derived by dividing current assets by current liabilities.

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

Where,

Current assets consist of cash and bank balance, money at call or short-term notice, loan and advances, investment in government securities and other interest receivable and other miscellaneous current assets.

Current liabilities consist of deposits, loan and advances, bills payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

Table 4.1

Current Ratio (Times)

(In million)

	SCBNL			HBL		
FY	CA	CL	CR	CA	CL	CR
2004/05	19210	20088	0.96	21326	26575	0.80
2005/06	21472	23896	0.90	24109	27616	0.87
2006/07	22025	26559	0.83	27564	31298	0.88
2007/08	27453	30828	0.89	29501	33191	0.89
2008/09	30212	37642	0.80	33847	36110	0.94
Mean			0.87			0.88
S.d.			0.06			0.05
cv			6.90%			5.70%

Source: Appendix – 1(A) and 1(B)

The above table 4.1 shows that current ratio of SCBNL is fluctuating in all Fiscal year from 2004/09 where as HBL has increasing trend of current ratio. In all FY year 2004 to 2009, both bank HBL and SCBNL has higher current liabilities than current assets.

In average, liquidity position of HBL is higher than SCBNL i.e 0.88>0.87. So, the average of these banks is less than 1.50, both banks has not good liquidity position. But banks liquidity is highly demandable in market. So, it is sustainable.

Likewise, the C.V. of SCBNL is more than HBL. i.e. 6.90%>5.70%. It can be said that current ratio of SCBNL is less consistent than HBL. Thus, it can be concluded that HBL is capable to pay their current obligations in comparison to SCBNL.

(ii) Quick Ratio

An indicator of a company's short-term liquidity is quick ratio or acid test ratio. The quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets. The higher the quick ratio is the better the position of the company. The quick ratio is calculated as:

$$\text{Quick Ratio} = \frac{\text{Total Current Assets - Inventories}}{\text{Total Current Liabilities}}$$

Table 4.2

Quick Ratio (Times)

(In million)

	SCBNL			HBL		
FY	QA	CL	QR	QA	CL	QR
2004/05	10572	20088	0.53	7923	26575	0.31
2005/06	11896	23896	0.50	8822	27616	0.33
2006/07	10888	26559	0.41	9921	31298	0.31
2007/08	12383	30828	0.40	9436	33191	0.28
2008/09	15189	37642	0.40	8429	36110	0.23
Mean			0.45			0.29
S.d.			0.06			0.04
cv			13.33%			13.45%

Source: Appendix – 2(A)&2(B)

The above table no.4.2 shows that SCBNL has highly liquid asset than HBL. Both bank has decreasing rate of quick ratio. In FY 2008/09, SCBNL has 0.40 times quick ratio whereas HBL has 0.23 times quick ratio. It clearly shows that for liquidity management SCBNL can maintain fast rather than HBL.

In average, liquidity position of HBL is lower than SCBNL i.e 0.29<0.45. Quick ratio shows different result as per time and situation. So we can say that both bank are maintaining their liquidity position as per NRB directives.

Likewise, the C.V. of SCBNL is less than HBL. i.e. 13.33%<13.45%. It can be said that quick ratio of SCBNL is more consistent than HBL. Thus, it can be concluded that SCBNL is capable to pay their quick obligations in comparison to HBL.

(iii) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance is said to be the first defense of every banks. The ratio between the cash and bank balance and total deposit measures the ability of the bank to meet the unanticipated cash and all types of deposits. Higher the ratio, the greater will be the ability to meet sudden demand of deposit and vice versa. But every high ratio is not desirable since bank has to pay interest on deposits. This will also maximize the cost of fund to the bank.

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

Where,

Cash and bank balance is composed of cash on hand including foreign cheques, other cash items; balance with domestic banks and abroad. Deposit includes current deposits, saving, deposits, fixed deposits, money at call or short notice and other types of deposits.

Table 4.3

Cash and Bank Balance to Total Deposit

(In million)

	SCBNL			HBL		
FY	Cash & Bank Balance	Total Deposit	Ratio(%)	Cash & Bank Balanc	Toatl Deposit	Ratio(%)
2004/05	3370	19363	0.17	2455	24814	0.10
2005/06	3253	23061	0.14	2722	26490	0.10
2006/07	3782	24647	0.15	3467	30048	0.12
2007/08	4247	29743	0.14	1966	31842	0.06
2008/09	5192	35871	0.14	4218	34681	0.12
Mean			0.15			0.10
S.D			0.02			0.02
C.V			13.33%			20%

Source : Appendix 3(A)&3(B)

The above table shows that the cash and bank balance to total deposit ratio of SCBNL has adopted fluctuation trend from FY 2004/05 to 2008 /09. In the case of HBL, it has adopted decreasing trend except FY 2008/09. In FY 2007/08, HBL has decreased its ratio to 6%.

In average, HBL has maintained lower cash and bank balance to total deposit ratio than SCBNL i.e. 0.10< 0.15. It states that cash and bank balance in liquidity position of HBL is lower than SCBNL. The C.V. of HBL is 20% which is comparatively higher than that of SCBNL 13.33%. So SCBNL is more consistent than HBL.

Comparatively, HBL has maintained low ratio than SCBNL. So, it shows some difficulties to meet the demand of its customers on their deposit to pay any time but it

may be earning more by investing cash to different sectors. But it should ensure to have enough liquid funds to serve its customer.

(iv) Cash and Bank Balance to Current Assets Ratio

This ratio shows the bank liquidity capacity on the basis of cash and bank balance that is the most liquid asset. Higher ratio indicates the bank ability to meet the daily cash requirement of their customer deposit and vice versa. But higher ratio is not preferred, as the bank has to pay more interest on deposit and will increase the cost of fund. Lower ratio is also very dangerous, as the bank may not be able to make the payment against the cheques presented by the customers. Therefore, bank has to balance the cash and bank balance to current assets ratio in such a manner that it should have the adequate cash for the customers demand against deposit when required and less interest is required to be paid against the cash deposit.

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

Table No. 4.4

Cash and Bank Balance to Current Assets Ratio

(In million)

	SCBNL			HBL		
FY	Cash & Bank Bal	Current assets	Ratio	Cash & Bank Bal	Current assets	Ratio
2004/05	3370	19210	0.18	2455	21326	0.12
2005/06	3253	21472	0.15	2722	24109	0.11
2006/07	3782	22025	0.17	3467	27564	0.13
2007/08	4247	27453	0.15	1966	29501	0.07
2008/09	5192	30212	0.17	4218	33847	0.12
Mean			0.17			0.11
S.D.			0.02			0.03
C.V			11.76%			27.27%

Source : Appendix 4(A)&4(B)

Above table 4.4 shows that cash and bank balance to current assets ratio of SCBNL and HBL both have slightly fluctuating ratio but SCBNL has maintained higher ratio than that of HBL. In FY 2008/09, SCBNL has 0.17 and HBL 0.12.

While examining the mean ratio, HBL has maintained 0.11 which is less than SCBNL i.e. 0.17. It states that liquidity position of HBL is slightly lower than SCBNL. In this regard, the coefficient of variation of HBL is 11.76% which is comparatively lower than SCBNL i.e 27.27%. So SCBNL shows more consistency than HBL.

Thus, it can be concluded that HBL is less capable to maintain cash and balance in comparison to SCBNL.

(v) Investment on Government Securities to Current Assets Ratio

The commercial banks are interested to invest their collected funds in various government securities issued by government. Though government securities are not so much liquid as cash & bank balance, they can be easily sold in the market or they can be converted into cash in other ways. The main purpose of this ratio is to examine the portion of commercial banks current assets that is invested on different government securities.

Investment on Government Securities to Current Assets Ratio

$$= \frac{Investment\ in\ Government\ Securities}{Current\ Asset}$$

Table No. 4.5

Investment on Government Securities to current Asset Ratio

(In million)

	SCBNL			HBL		
FY	Investment on govt Securities	Current assets	Ratio	Investment on govt Securities	Current assets	Ratio
2004/05	7203	19210	0.37	5469	21326	0.26
2005/06	8644	21472	0.40	5144	24109	0.21
2006/07	7107	22025	0.32	6454	27564	0.23
2007/08	8137	27453	0.30	7471	29501	0.25
2008/09	9998	30212	0.33	4212	33847	0.12
Mean			0.35			0.22
S.D.			0.04			0.06

Source : Appendix 5(A)&5(B)

The above table 4.5 shows that the ratio of SCBNL has adopted fluctuating trend. In case of HBL, it has also adopted fluctuation trend over the study period.

The mean ratio of investment in government securities to current assets ratio of SCBNL is higher than HBL, i.e. 0.35> 0.22.This indicates that SCBNL had invested its higher portion of current assets on government securities than HBL. It means that SCBNL can maintain its liquidity position at the time of crisis by selling securities to government, NRB. On the other hand, C.V. of HBL is greater than SCBNL. i.e 27.23% >11.43% which means the variability's of ratio of HBL is less consistent than SCBNL.

In conclusion, SCBNL has invested its more part of current assets in government securities than that of HBL. SCBNL liquidity position from the point of view of investment of government securities is better than HBL.

(vi) Loan and Advances to Current Assets Ratio

Loan and advances are also included is the current assets of commercial banks because generally it provides short-term loan, advances/overdraft/ cash-credit, local and foreign bill purchased and discounted.

To make a 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 advances to the customers. If sufficient loan and advances cannot be granted, it should pay interest on those unutilized deposit funds and may lose some earnings, but high loan and advances may also be harmful to keep the bank is most liquid position because they can only be collected at the time of maturity only. Thus, the bank must maintain its loan and advances in appropriate level to find out portion of current asset, which is granted as loan and advances.

$$\text{Loan \& Advances to Current Assets Ratio (\%)} = \frac{Loan\ and\ Advance}{Current\ Assets}$$

Table No. 4.6

Loan and Advances to Current Assets Ratio

(In million)

FY	Loan & Advance	CA	Ratio	Loan & Advance	CA	Ratio
2004/05	8143	19210	0.42	12424	21326	0.58
2005/06	8935	21472	0.42	14642	24109	0.61
2006/07	10502	22025	0.48	16997	27564	0.62
2007/08	13718	27453	0.50	19497	29501	0.66
2008/09	13679	30212	0.45	24793	33847	0.73
Mean			0.45			0.64
S.D.			0.04			0.06
C.V			8.49			9.38

Source : Appendix 6(A)&6(B)

Above table shows that loan and advances to current assets ratio of SCBNL has adopted a fluctuating trend over the study period. In case of HBL, it has adopted increasing trend.

While examining the mean ratio, HBL has maintained 0.64 which is higher than SCBNL i.e. 0.45. On the other side, coefficient of variation of HBL 9.38% is slightly higher than SCBNL i.e 8.49%.It indicates that HBL is less consistent than SCBNL. So, there is less variation in SCBNL than that of HBL.

From the above table it can be concluded than SCBNL has succeeded to invest its fund in loan and advances in comparison to HBL.

(vii) NRB Balance to Current, Saving Deposit

The ratio shows the percentage of amount deposits by the banks in Nepal Rastra Bank (NRB) as compare to the current and saving deposits. Commercial banks required holding certain position of current and saving deposits in NRB account. It is computed by dividing the NRB balance by current and saving deposits.

$$\text{NRB Balance to Current and Saving Deposit Ratio} = \frac{NRB\ Balance}{Current\ \&\ Saving\ Deposits}$$

Table No. 4.7

NRB Balance to Current, Saving Deposit

(In million)

FY	SCBNL			HBL		
	NRB Bal	C&S dep.	Ratio	NRB Bal	C&S dep.	Ratio
2004/05	692	17387	0.04	1604	17897	0.09
2005/06	749	19279	0.04	1096	19611	0.06
2006/07	1613	20038	0.08	1272	21374	0.06
2007/08	1266	24030	0.05	935	22756	0.04
2008/09	1851	25390	0.07	2328	23279	0.10
Mean			0.06			0.07
S.D.			0.02			0.02
C.V			33.33%			28.57%

Source :(Annual report of related bank)&Appendix7(A&B)

The above table shows both banks SCBNL and HBL are not maintaining same level of ratio. SCBNL has slightly fluctuating ratio than HBL. In FY 2008/09, SCBNL is maintaining 0.07 which is lower than HBL i.e.0.10. In 2008/09 both bank increase their balance in NRB due to increase in cash reserve ratio to 6%.

While examining mean, HBL is maintaining higher ratio i.e 0.07 than SCBNL i.e.0.06. it shows that HBL is maintaining high deposit in NRB than SCBNL to maintain its liquidity position. C.V of SCBNL is 33.33% which is higher than the C.V of HBL which is only 28.57%. so, it shows that there is more variation in SCBNL than in HBL. So, SCBNL is less consistent in comparison to HBL.

(viii) NRB Balance to Fixed Deposit Ratio

The ratio shows the proportion of cash balance at Nepal Rastra Bank's current account as compare to the commercial banks' fixed deposits amount. The ratio is calculated as using the following formula;

NRB Balance to Fixed Deposit Ratio = $\frac{NRB\ Balance}{Fixed\ Deposits}$

Table No. 4.8

NRB Balance to Fixed Deposit Ratio

(In million)

FY	SCBNL			HBL		
	NRB Bal	Fixed dep.	Ratio	NRB Bal	Fixed dep.	Ratio
2004/05	692	1416	0.49	1604	6107	0.26
2005/06	749	2136	0.35	1096	6350	0.17
2006/07	1613	3196	0.50	1272	8201	0.16
2007/08	1266	3301	0.38	935	6423	0.15
2008/09	1851	7101	0.26	2328	6377	0.37
Mean			0.40			0.22
S.D			0.1			0.09
C.V			25			40.91

Source : (Annual report of related bank and Appendix 8(A&B)

The above table- shows that SCBNL is maintaining higher deposit in NRB with comparing fixed deposit than HBL. In FY 2008/09 SCBNL decreased its deposit to 0.26 whereas HBL increased to 0.37.

As analysis of mean value, SCBNL maintain higher deposit i.e.0.40 in NRB than HBL i.e.0.22. Depositing more balance than required in NRB without interest decrease profit, increase security and make strong liquidity position. It also shows that fixed deposit is decreasing in HBL and increasing in SCBNL. While comparing the C.V, we can find that C.V of SCBNL is 25% which is lower than the C.V of HBL which is 40.91%. So, we can say that SCBNL has less variation and more consistency as compared to HBL.

4.1.2 Assets Management Ratio (Activity Ratio)

Assets management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner.

(i) Loan and Advances to Total Deposit Ratio.

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances. High ratio shows high utilized of deposit and high liquidity position. Recently, NRB prescribes to maintain 80% CD ratio to commercial banks for safe position of depositors.

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

Table No 4.9

Loan and advance to Total Deposit Ratio

(In million)

FY	SCBNL			HBL		
	Loan & Advance	Total dep	Ratio	Loan & Advance	Total dep	Ratio
2004/05	8143	19363	0.42	12424	24814	0.50
2005/06	8935	23061	0.39	14642	26490	0.55
2006/07	10502	24647	0.43	16997	30048	0.57
2007/08	13718	29743	0.46	19497	31842	0.61
2008/09	13679	35871	0.38	24793	34681	0.71
Mean			0.42			0.59
S.D.			0.03			0.08
C.V			7.14%			13.56%

Source: Appendix 9(A&B)

In the table 4.9, the ratio of SCBNL has adopted a fluctuating trend. In case of HBL, it has adopted an increasing trend over the study period.

Mean ratio of Loan and advances to total deposit of HBL is higher than SCBNL. HBL has mean ratio of 0.59 while SCBNL has 0.42 which is lower than that of HBL. This indicates that HBL has been mobilizing its deposits in loan and advances and has better position than SCBNL. On the other side, C.V of SCBNL is lower than HBL i.e.7.14%<13.56%. So, SCBNL is more consistent than HBL. There is less variation.

In conclusion, HBL has better position regarding the mobilization of total deposit on loan and advances and acquiring higher profit in compare to SCBNL.

ii) Total Investment to Total Deposit Ratio

A commercial bank mobilizes its deposits by investing its fund is different securities issued by government and other financial or non financial institutions. Now, effort has been made to measure the extent to which the banks are successful in mobilizing the total deposits on investment. Mobilizing higher amount in Investment means higher profit to the bank but if too much Investment is done then it can lower the liquidity of the bank as there will be less cash in hand. So, bank should search for the reliable point of investment where it can maximize profit but there may also be enough liquid assets in the hand. Investment can be either on Government securities or others. Government securities are not risky but there is very low return. But Investment on other securities involve some risk and return is also higher. So, Investment should be done considering all these factors.

In the process of portfolio management of bank assets, various factors such as availability of fund, liquidity requirement Central banks 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 to Total Deposit Ratio = $\frac{Total\ Investment}{Total\ Deposit}$

Table No. 4.10

Total Investment to Total Deposit Ratio

(In million)

	SCBNL			HBL		
FY	Total Invest	Total dep	Ratio	Total Invest	Total dep	Ratio
2004/05	9702	19363	0.50	11692	24814	0.47
2005/06	12847	23061	0.56	10889	26490	0.41
2006/07	13553	24647	0.55	11822	30048	0.39
2007/08	13902	29743	0.47	13340	31842	0.42
2008/09	20236	35871	0.56	8710	34681	0.25
Mean			0.53			0.39
S.D.			0.04			0.08
C.V			7.55%			20.51%

Source: Appendix 10(A&B)

The above table exhibits that the ratio of SCBNL has adopted a fluctuating trend. In case of HBL, it has also adopted decreasing trend except FY 2007/08.

In average, SCBNL has maintained the higher mean value than HBL i.e. 0.53> 0.39. The CV ratio of SCBNL is lower than HBL. i.e.7.55<20.51%. S0, SCBNL is more consistent than HBL.

In conclusion, HBL is in weak condition to mobilize its deposits by investing in different sectors in comparison to SCBNL.

(iii) Loan & Advances to Total Working Fund Ratio

Loan & advances is an important part of total assets (total working fund). Commercial bank must be very careful in mobilizing it total assets. As loan and advances in appropriate level to generate profit this ratio reflects the extent to which the commercial banks are success is mobilizing their assets, loan & advances for the purpose of income generation. A high ratio indicates better is mobilization of funds as loan and advances and vice versa.

Loan & Advances to Total Working Fund Ratio = $\frac{Loan\,and\,Advances}{Total\,Working\,Fund}$

Where, total working fund is the total assets. It is composed up of current assets, fixed assets, miscellaneous assets and investment: loans for development bank etc.

Table 4.11

Loan Advance to Total working Fund Ratio

(In million)

	SCBNL			HBL		
FY	Loan & Adv	Total work Fund	Ratio	Loan & Adv	Total work Fund	Ratio
2004/05	8143	21781	0.37	12424	27844	0.45
2005/06	8935	25776	0.35	14642	29460	0.50
2006/07	10502	28596	0.37	16997	33519	0.51
2007/08	13718	33335	0.41	19497	36175	0.54
2008/09	13679	40587	0.34	24793	39320	0.63
Mean			0.37			0.52
S.D.			0.03			0.07
C.V			8.11%			13.46%

Source : Appendix 11(A&B)

The above table shows that the ratio of SCBNL has adopted a fluctuating trend over the study period. In case of HBL, ratios are in increasing trend over the study period.

On the basis of mean ratios, HBL has maintained the higher ratio than SCBNL. i.e. 0.52>0.37. So, HBL is in good condition to mobilize its working fund as loan and advances than SCBNL. Co-efficient of variation of SCBNL is less than HBL i.e. 8.11% < 13.46%. It indicates SCBNL is more consistent than HBL as there is less variation in the reading.

So that, HBL fund mobilization in terms of loan and advances with respect of total working fund is more satisfactory than SCBNL.

(iv) Investment on Government Securities to Total Working Fund Ratio

All the resources of a bank are not used as loan and advances. A bank mobilize its fund is various ways. To some extent commercial bank seems to utilize its fund by purchasing government securities. A government security is a safe medium of investment though it is not liquid as cash and bank balance. This ratio is very important to know the extent to which the banks are successful in mobilizing their total fund or different types of government securities to maximize its income. A high ratio indicates better mobilization of funds as investment on government securities is a current asset which is invested by external parties. These types of securities can be sold in the market.

Investment an Government Securities to Total Working Fund Ratio

$$= \frac{Investment on Govt. Securities}{Total Working Fund}$$

Table No.4.12

Investment of Government Securities to Total Working Fund Ratio

(In million)

	SCBNL			HBL		
FY	Inv on Gov Sec	Total Work Fund	Ratio	Inv on Gov Sec	Total Work Fund	Ratio
2004/05	7203	21781	0.33	5469	27844	0.20
2005/06	8644	25776	0.34	5144	29460	0.17
2006/07	7107	28596	0.25	6454	33519	0.19
2007/08	8137	33335	0.24	7471	36175	0.21
2008/09	9998	40587	0.25	4212	39320	0.11
Mean			0.28			0.18
S.D.			0.05			0.04
C.V			5.60%			22.22%

Sources: Appendix 12(A&B)

From the above table it is clearly seen that investment on government securities to total working fund ratio to SCBNL has adopted a slightly fluctuating trend. In case of HBL, it has adopted fluctuating trend over the study period.

On the basis of mean, SCBNL has maintained higher ratio than HBL i.e. 0.28> 0.18. This indicates that SCBNL is successful in mobilizing total fund in term government securities to maximize its income. The coefficient of variation of SCBNL is lower than HBL i.e. 5.60% < 22.22%. So, SCBNL is more consistent with less variation.

From the above analysis, it can be concluded that fund mobilization in term of government securities with respect to total working fund of SCBNL is more satisfactory and consistent than HBL.

(v) Investment on shares and Debentures to Total Working Fund Ratio

To study the investment management of SCBNL & HBL, total investment has been separated into two parts i.e. Investment on government securities and investment on shares and debentures. Now a day a commercial bank is interested to invest its funds not only on government securities but also in shares & debentures of other different companies and regional development banks.

Investment on shares and debentures to total assets ratio reflects the extent to which the banks are successful to mobilize their assets on purchase of shares and debentures of other companies to generate incomes and utilize their excess fund. A high ratio indicates more portion of investment on share and debentures out of total working fund and vice versa.

Investment on Shares and Debentures to Total Working Fund Ratio

$$= \frac{Investment\ on\ Shares\ and\ Debentures}{Total\ Working\ Fund}$$

Table No.4.13

Investment on shares and Debentures to Total working fund

(In million)

FY	SCBNL			HBL		
	Inv on share & Deb	Total work fund	Ratio	Inv on share & Deb	Total work fund	Ratio
2004/05	13	21781	0.00060	39	27844	0.00140
2005/06	15	25776	0.00058	39	29460	0.00132
2006/07	44	28596	0.00154	73	33519	0.00218
2007/08	114	33335	0.00342	89	36175	0.00246
2008/09	115	40587	0.00283	93	39320	0.00237
Mean			0.18%			0.20%
S.D.			0.16%			0.05%
C.V			0.88%			0.28%

Source: Appendix 13(A&B)

The above table shows that the ratio of SCBNL has adopted a slightly fluctuating trend over the study period. In case of HBL, the ratio has adopted a slightly increasing trend over the study period except for the FY 2005/06.where the ratio is lower than the ratio of FY 2004/05. In all the FY there is increasing trend of the ratio with highest ratio reached in the year 2007/08.

On the basis of mean ratios, HBL is slightly higher than SCBNL. i.e. 0.20> 0.18.This indicates that HBL has invested more portion of investment on shares and debentures out of total working fund. On the other side, CV of HBL is less than SCBNL i.e. 0.28< 0.88%, which states that HBL is more consistent. It means HBL ratios are more homogenous and less variation.

It can be conducted that HBL has invested more portion of its total working fund on shares and debentures than SCBNL. And also, HBL is more consistent than SCBNL. So, while considering investment on shares and debentures, HBL position is better than HBL and also there is less variation in the ratios.

(vi) Performing assets to Total assets Ratio

Performing assets include those assets that are invested for income generating

purpose. It consists of loan and advances; bill purchased and discounted investment and money at call and short notice. Fixed assets could not be considered as performing assets as they are not used to generate income. They do not have direct link with the income. This ratio measures what percentage of assets has been funded for income generation or it measures how efficiently the bank uses its total assets for the income generation purpose. The more the performing assets, the more income it generates. It is calculated as;

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

Table No.4.14

Performing Assets to Total Assets Ratio

(In million)

FY	SCBNL			HBL		
	Performing assets	Total assets	Ratio	Performing assets	Total assets	Ratio
2004/05	20328	21781	0.93	24681	27844	0.89
2005/06	24007	25776	0.93	26852	29460	0.91
2006/07	25845	28596	0.90	30838	33519	0.92
2007/08	30188	33335	0.91	33590	36175	0.93
2008/09	36794	40587	0.91	34921	39320	0.89
Mean			0.92			0.91
S.D.			0.02			0.02
C.V			2.17%			2.20%

Source: Annual report of related bank & Appendix 14 (A&B)

In SCBNL, the ratio depicts decreasing trend up to 3rd year and then after it start to rise. It is highest till FY 2005/06 i.e. 0.93 & lowest in FY 2006/07 i.e.0.90. In HBL, it also shows increasing trend except in FY 2008/09. It was highest ratio in FY 2007/08 i.e.0.93 & lowest in FY 2008/09 i.e. 0.89.

Mean of ratios appeared slightly greater in SCBNL, which means it has used more proportion of assets for income generating purpose. Throughout the study period, SCBNL utilized its assets in terms of loan and advances, investment and bill

discounting and purchasing more effectively than HBL. CV of the ratios in HBL is higher than SCBNL, which clarifies that the ratios remained less consistent. There is more variation in ratio of HBL as compared to that of SCBNL.

4.1.3 Profitability Ratio

Profit is the backbone of the financial institutions and commercial banks. The main objective of a commercial bank is to earn profit providing different types of banking services to its customers. To meet various objectives like to have a good liquidity position, meet fixed internal obligation, overcome the future contingencies, grab hidden investment opportunities, expend banking transitions in different places and finance government in need of development funds etc, a commercial bank must earn sufficient profit.

Profitability ratios are the best indicators of overall efficiency. Here mainly those ratios has been presented and analyzed which are related with profit as well as investments. An effort has been made to SCBNL and HBL through the following ratios.

(i) Return on Total Working Fund Ratio

It measures the profit earning capacity by utilizing available resources i.e., total assets Return will be higher if the banks working fund is well managed and are efficiently utilized, maximizing taxes with in legal options available will also improve the return.

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

Where,

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

Table 4.15

Return on Total Working Fund Ratio

(In million)

FY	SCBNL			HBL		
	Net Profit	Total Work Fund	Ratio	Net Profit	Total Work Fund	Ratio
2004/05	536	21781	0.02	308	27844	0.01
2005/06	658	25776	0.03	457	29460	0.02
2006/07	691	28596	0.02	491	33519	0.01
2007/08	818	33335	0.02	635	36175	0.02
2008/09	1025	40587	0.03	752	39320	0.02
Mean			0.02			0.02
S.D.			0.71%			0.71%
C.V			2.17%			2.17%

Source: Appendix 15(A&B)

The above table 4.15 exhibits that the ratio of SCBNL has adopted almost fluctuating trend. In case of HBL the ratio has adopted almost constant trend.

In the mean ratio, it is observed that the SCBNL and HBL both have equal mean value i.e. 0.02=0.02. Also, while comparing the C.V, it is found that both the banks have equal C.V that is, both have C.V of 2.17%. So, we can see that both have same consistency and deviation. Thus both the banks are utilizing total assets in the same capacity.

(ii) Total Interest Earned to Total Working Fund Ratio

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

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

Table 4.16

Total Interest Earned to Total Working Fund Ratio

(In million)

FY	SCBNL			HBL		
	Total Int Earn	TWF	Ratio	Total Int Earn	TWF	Ratio
2004/05	1058	21781	4.9	1446	27844	5.2
2005/06	1189	25776	4.6	1626	29460	5.5
2006/07	1411	28596	4.9	1775	33519	5.3
2007/08	1591	33335	4.8	1963	36175	5.4
2008/09	1887	40587	4.7	2342	39320	6.0
Mean			4.8			5.5
S.D.			0.13			0.3
C.V			2.71%			5.64%

Sources: Appendix 16(A&B)

The above comparative table reveals that SCBNL has adopted slightly constant trend but in case of HBL, it has adopting a slightly fluctuating trend over the study period.

Mean ratio of HBL is greater than SCBNL. i.e. 5.5 > 4.8. So, we can say that HBL is in better position to generate interest income from the total working fund than SCBNL. On the other hand, C.V. of SCBNL is lower than HBL i.e. 2.71% < 5.64%. It means SCBNL is more consistent than HBL. There is less deviation in the values of SCBNL as compared with that of HBL.

(iii) Total Interest Paid to Total Working Fund Ratio

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

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

Table 4.17

Total Interest Paid to Total Working Fund Ratio

(In million)

FY	SCBNL			HBL		
	Total Int Paid	TWF	Ratio	Total Int Paid	TWF	Ratio
2004/05	254	21781	1.2	561	27844	2.0
2005/06	303	25776	1.2	648	29460	2.2
2006/07	413	28596	1.4	767	33519	2.3
2007/08	471	33335	1.4	823	36175	2.3
2008/09	543	40587	1.3	934	39320	2.4
Mean			1.3			2.2
S.D.			0.1			0.16
C.V			7.7			7.27

Sources: Appendix 17(A&B)

The above comparative table reveals that total interest paid to total working fund ratio of SCBNL has adopted almost constant trend. In case of HBL, its has adopting almost constant trend over the study period.

Mean ratio of HBL i.e. 2.2 is higher than SCBNL i.e. 1.3. It means HBL pay higher interest than SCBNL during the study period. On the other hand, HBL coefficient of variable is slightly less i.e. 7.27% in comparison to SCBNL i.e. 7.7%. It indicates that HBL is more consistent than SCBNL.

In conclusion, we can say that HBL is in better position from payment of interest point of view less expenses generate the high income generate theory. It seems to be successful to collect its working fund from less expensive sources in comparison to SCBNL.

(iv) Return on Loan & Advances Ratio

Return on loan & advances ratio measures the earning capacity of a commercial bank on its mobilized fund based loan and advances. A high ratio indicates a greater success to mobilize fund and vice versa.

$$\text{Return on Loan \& Advances Ratio} = \frac{Net\ Profit}{Toal\ Loan\ \&\ Advance}$$

Table 4.18

Return on Loan and Advance Ratio

(In million)

	SCBNL			HBL		
FY	Net Profit	Loan & Adv	Ratio(%)	Net Profit	Loan & Adv	Ratio(%)
2004/05	536	8143	6.58	308	12424	2.48
2005/06	658	8935	7.36	457	14642	3.12
2006/07	691	10502	6.58	491	16997	2.89
2007/08	818	13718	5.96	635	19497	3.26
2008/09	1025	13679	7.49	752	24793	3.03
Mean			6.80			2.96
S.D.			0.63			0.3
C.V			9.23			10.14

Sources: Appendix 18(A&B)

The above table exhibits that the ratio of SCBNL has adopted slightly fluctuating trend. In case of HBL, its has adopted slightly fluctuating trend over the study period.

Mean ratio of SCBNL is higher than HBL i.e. 6.80> 2.96 in respect to return on loan and advance ratio. On the other hand, C.V. of SCBNL is less than HBL i.e.9.23% < 10.14%. So, SCBNL has maintained high return with less variability ratios.

From the above analysis, it can be concluded that SCBNL is in better position to earn high return on its loan and advances in comparison of HBL.

(v) Return on Equity

Equity capital of any banks is its owned capital. The prime objective of any banks is wealth maximization or in other words to earn high profit and maximizing return to its shareholders. ROE is the measuring rod of the profitability of banks. It reflects the extent to which the banks have been successful to mobilize its equity capital. A high ratio indicates higher success to mobilize its owned capital and vice versa.

Return on Equity = $\frac{Net\ Profit}{Total\ Equity\ Capital}$

Table 4.19

Return on Equity Ratio

(In million)

FY	SCBNL			HBL		
	Net Profit	Total Equity	Ratio(%)	Net Profit	Total Equity	Ratio(%)
2004/05	536	1582	33.88	308	1541	19.99
2005/06	658	1754	37.51	457	1766	25.88
2006/07	691	2116	32.66	491	2146	22.88
2007/08	818	2492	32.83	635	2512	25.28
2008/09	1025	3052	33.58	752	3119	24.11
Mean			34.10			23.63
S.D.			1.98			2.34
C.V			5.81			9.9

Sources: Appendix 19(A&B)

The above table exhibits that ratios of SCBNL has adopted slightly fluctuating trend. In case of HBL, it has adopted fluctuating trend over the study period.

In the mean ratios, it is observed that SCBNL has higher average mean value than HBL i.e. 34.10>23.63. The coefficient of variation of SCBNL is less than HBL i.e. 5.81 %< 9.9%. In the point of view of average mean and C.V, it can be concluded that SCBNL has mobilized its equity capital more efficiently than HBL. So, SCBNL has sound investment policy on equity capital moreover its lower C.V. shows it is more homogeneous over the study period.

(vi) Total Interest Expense to Total Interest Income Ratio

Interest income is received from loan and advance whereas interest is paid to depositors. This is the ratio that shows the relationship of interest and expenses of SCBNL and HBL for FY 2004/05 to 2008/09. Higher the ratio leads to higher efficiency and vice versa. It can be calculated from this formula:

Total interest exp to total interest income ratio=$\frac{Total\ interest\ Expenses}{Total\ interest\ Income}$

Table 4.20

Total Interest Expense to Total Interest Income Ratio

(In million)

FY	SCBNL			HBL		
	Total Int Exp	Total Int Inc	Ratio(%)	Total Int Exp	Total Int Inc	Ratio(%)
2004/05	254	1058	24.01	561	1446	38.80
2005/06	303	1189	25.48	648	1626	39.85
2006/07	413	1411	29.27	767	1775	43.21
2007/08	471	1591	29.60	823	1963	41.93
2008/09	543	1887	28.78	934	2342	39.88
Mean			27.43			40.73
S.D.			2.52			1.79
C.V			9.19			4.39

Source: Annual report of related bank & Appendix 20 (A&B)

The above table exhibits that ratios of SCBNL has adopted increasing trend except in FY 2008/09. In case of HBL, it has adopted increasing trend till FY 2006/07 and decreasing trend thereafter.

In the mean ratios, it is observed that HBL has higher average mean value than SCBNL i.e. 40.73>27.43. The coefficient of variation of HBL is less than SCBNL i.e. 4.39 %< 9.19%.

In the point of view of average mean and C.V, it can be concluded that HBL has generated more interest earnings than it has paid as an interest. So, it has efficiently utilized its liabilities and invested in assets.

4.1.4 Capital Structure/ Leverage/ Solvency Ratios

Leverage refers to the ratio of debt to total equity in the capital structure of the firm. Debt and equity are long- term obligation and remaining part of the liabilities side of Balance Sheet are term as short-term obligation. Both types of obligations are required in forming capital structure of firm. The appropriate mixed of all types of structure in capital structure result sound position of firm. Therefore a firm has strong short-term liabilities as well as long-term financial position. Long- term financial position of

the firm is determined by leverage or capital structure. So, leverage ratios have been analyzed and interpreted to judge the long-term financial health of the sampled banks. These include debt-equity ratio, debt-assets ratio, debt to total capital ratio and interest coverage ratio.

(i) Debt-Equity Ratio

The ratio shows the mixed of debt & equity in capital. It measures creditors' claim against owners'. It is computed as;

$$\text{Debt-Equity Ratio} = \frac{Total\ Debt}{Total\ Shareholders' Equity}$$

Table 4.21

Debt- Equity Ratio

(In million)

FY	SCBNL			HBL		
	Debt	Equity	Ratio	Debt	Equity	Ratio
2004/05	20199	1582	12.77	26302	1541	17.07
2005/06	24022	1754	13.70	27694	1766	15.68
2006/07	26480	2116	12.51	31372	2146	14.62
2007/08	30843	2492	12.38	33662	2512	13.40
2008/09	37534	3052	12.30	36200	3119	11.61
MeaN			12.73			14.48
S.D.			0.6			2.1
C.V			4.71			14.5

Source: Annual report of related bank & Appendix 21(A&B)

In above figure, the ratios in SCBNL showed almost constant trend except in 2nd year. The ratio of HBL revealed decreasing trend. It ranged from maximum FY 2004/05 i.e. 17.07 times to minimum in FY 2008/09 i.e.11.61 times. Average of the ratios appeared significantly greater in HBL as compared to that of SCBNL. Such situation introduces in flexibility in the bank's operation due to the increasing interference and pressure from creditors. Higher debt of HBL as compared to SCBNL indicates that HBL is in riskier position than that of SCBNL. Also C.V of HBL is more than that of SCBNL which shows that the ratio is less consistent and there is more variation.

(ii) Debt Assets Ratio

The ratio shows the contribution of creditors in financing the assets of the bank. It is calculated as;

Debt-Asset Ratio $= \frac{Total\ Debt}{Total\ Assets}$

Table 4.22

Debt Assets Ratio

(In million)

FY	SCBNL			HBL		
	Debt	Assets	Ratio	Debt	Assets	Ratio
2004/05	20199	21781	92.74	26302	27844	94.46
2005/06	24022	25776	93.20	27694	29460	94.01
2006/07	26480	28596	92.60	31372	33519	93.59
2007/08	30843	33335	92.52	33662	36175	93.05
2008/09	37534	40587	92.48	36200	39320	92.07
Mean			92.71			93.44
S.D.			0.29			0.92
C.V			0.31			0.98

Source: Annual report of related bank & Appendix 22(A&B)

In above table 4.22, the ratios in SCBNL showed almost constant trend except in 2nd year. The ratio of HBL revealed decreasing trend. It ranged from maximum FY 2004/05 i.e. 94.46 times to minimum in FY 2008/09 i.e.9207 times. Average of the ratios appeared significantly greater in HBL as compared to that of SCBNL. Such situation introduces in flexibility in the bank's operation due to the increasing interference and pressure from creditors. Higher debt of HBL as compared to SCBNL indicates that HBL is in riskier position than that of SCBNL. Also C.V of HBL is more than that of SCBNL which shows that the ratio is less consistent and there is more variation.

(iii)Interest Coverage Ratio

The ratio is known as time interest earned ratio is used to test the debt servicing

capacity of bank. It shows the number of times the interest charged are covered by fund that ordinary available for their payment. It is calculated by dividing the EBIT by interest charged.

Interest Coverage Ratio=$\frac{Earning\ Befor\ interest\ \&\ Tax(EBIT)}{Interet\ Charged}$

Table 4.23

Interest Coverage Ratio

(In million)

	SCBNL			HBL		
FY	EBIT	Int Chg	Ratio	EBIT	Int Chg	Ratio
2004/05	886	254	3.49	35	561	0.06
2005/06	1033	303	3.41	739	648	1.14
2006/07	1117	413	2.70	789	767	1.03
2007/08	1312	471	2.79	1043	823	1.27
2008/09	1613	543	2.97	1173	934	1.26
Mean			3.07			0.95
S.D.			0.34			0.51
C.V			11.07			53.68

Source: Annual report of related bank & Appendix 23(A&B)

Table 4.23 reveals that the ratios of SCBNL were remained 3.49, 3.41, 2.70, 2.79 &2.97 times in the review period. Mean and CV of the ratios seemed 3.07 times and11.07% respectively. Accordingly, the ratios in HBL were maintained 0.06, 1.14, 1.03, 1.27 & 1.26 times in the corresponding years. Mean of the ratios in the bank was 0.95 times whereas CV was 53.68%. The ratio in SCBNL depicted decreasing trend. It was highest in FY 2004/05 i.e.3.49 times and lowest in FY 2008/09 i.e. 2.97 times. In HBL the ratios showed the increasing trend. The highest ratio appeared in FY 2007/08 i.e.1.27times and lowest ratio in FY 2004/05 i.e.0.06 times. Mean ratio of SCBNL is higher than that of HBL, which reveals the better debt servicing capacity of SCBNL. By comparing the CV of the ratios, HBL has more varied ratios than SCBNL. So, SCBNL is more consistent as compared to HBL.

4.2 Return to Investor

Return to investor is another tool of analysis of the performance of the commercial banks. Higher the return to the investor, better the performance of the company. Higher dividends and the stock price increase the return to investors. Investor thus gets returns to their investment in the form of dividend yield. This study tries to analysis the rate of return to the investors as MPS, EPS, DPS, NWPS and P/E Ratio. Investors are the stakeholders of the bank and they also need some return for their investment. Thus to make them happy we have to look after their return.

4.2.1 Market Price per Share (MPS)

Market price per share is the price at which shares are traded in the stock market. Those shares are transacted in the secondary markets, which are already issued to the public. Organized stock exchange centers are known as secondary market where trading of the stocks are conducted. Market value in the secondary market is determined by supply and demand factors and reflects the consensus opinion of investors and traders concerning the value of the stock. In an efficient market a set of information is fully and immediately reflected in market price. Market price per share of a company reflects the performance of the company. Performance evaluation thus could be defined as analysis of common stock. The demand of the stocks of better companies will be higher and market price per share of those companies also will be higher in the stock market.

The market price per share of listed companies is a good measure of performance. A higher market price per share indicates the better performance of the company and vice versa. Whether a market price per share is high or low is difficult to determine. For this, the financial analysis has to compare it with the book value per shares and also with the market prices per share of other companies. So, Market price per share is also the good indicator of the performance of the company as well as the return to the investors. Thus stakeholders are happy if the MPS is high in comparison to other banks in the market. Also, bank with high MPS are preferred by the customers as well.

Table 4.24

Market Price per share

FY	SCBNL	HBL
2004/05	2345	920
2005/06	3775	1100
2006/07	5900	1740
2007/08	6830	1980
2008/09	6010	1760
Mean	4972	1500
S.D.	1852.35	461.52
C.V	37.26	30.77

Source: Annual Report of concern Bank

The above table shows that the MPS of both banks are in increasing trend except FY 2008/09. Mean ratio of MPS of SCBNL is three times higher than HBL. i.e Rs 4972>1500.This indicates that value of stock of SCBNL is more than HBL. On the other side, C.V of HBL is less than SCBNL or 30.77% < 37.26% So, HBL is more consistent than SCBNL..

4.2.2 Net Worth Per Share (NWPS)

Net worth is the owner's equity in the company. It is also known as book value of the company. The book value per share is computed by dividing the amount of total shareholder's equity, which is called net worth, by the number of shares outstanding (Weston and Brigham, 1996:675). This figure represents the asset value per share after deducting liabilities and preferred stock (Cheney and Moses, 1993:417). Book value is a historical cost amount. It represents the real or actual value of the common stock. Generally, market price of stock is greater than book value of the stock. This clearly indicates that higher net worth per share is the signal of better companies. Therefore, the net worth per share is a good measure of performance of joint venture banks.

Table 4.25

Net Worth per Share (NWPS)

FY	SCBNL	HBL
2004/05	422.38	239.59
2005/06	468.22	228.72
2006/07	512.12	264.74
2007/08	401.52	247.95
2008/09	327.53	256.52
Mean	426.35	247.5
S.D.	69.83	14.09
C.V	16.38	5.69

Source: Annual Report of Concern Bank

From the above table, SCBNL has adopted increasing trend for first half and decreasing trend for second half Fiscal year. In case of HBL, it has adopted a fluctuating trend over the study period. Mean ratio of NWPS of SCBNL is greater than HBL. So, SCBNL has the signal of better performance. On the other side, C.V of HBL is less than SCBNL. So, HBL is more consistent than SCBNL.

4.2.3 Earning Per Share (EPS)

Profit is the lifeblood of any company. Although the company can run without profit in short period, it cannot run and exist over the long period. Therefore, sufficient earning is necessary for the company to satisfy its owners. Earnings of the shareholders are the residual amount that remains after deducting all the expenses, interest, taxes and dividends to preferred shareholders from the revenue. Earning per share is the amount available to the holders of each share. It is calculated by dividing the total earnings available to common shareholders by the total number of shares outstanding.

EPS is a good measure of performance because it integrates all the major financial ratios and provides holistic information.

EPS is the overall result of turnover, profitability, leverage and book value per share. It provides combined result of total assets turnover, return on sales debt and equity position in the capital structure, and the book value per share of the company. Higher EPS shows the better earning capacity of the company. The EPS is thus a good measure of performance of companies. A company with higher earning per share not only can satisfy its existing shareholders and attract potential investors but also contribute to government, society and ultimately to the nation

Table 4.26

Earning Per share

FY	SCBNL	HBL
2004/05	143.14	47.91
2005/06	175.84	59.24
2006/07	167.37	60.66
2007/08	131.92	62.74
2008/09	109.99	61.9
Mean	145.65	58.49
S.D.	26.69	6.06
C.V	18.32	10.36

Source : Annual Report of Concern Bank

From the above table, SCBNL has adopted decreasing trend except 2005/06. In case of HBL, it has adopted increasing trend except 2008/09 over the study period.

Mean ratio of EPS of SCBNL is two times higher than HBL. i.e. Rs 145.65>58.49.This indicates that SCBNL has better earning capacity than HBL. On the other side, C.V of HBL is less than SCBNL. i.e. 10.36%<18.32% .So, HBL is more consistent than SCBNL.

4.2.4 Dividend per Share (DPS)

Investors on the common stocks are attracted to the dividends because it is the return on their investment. Not all companies can provide higher dividends to the common stockholders. For this, they need larger amount of profit. From the total earnings

available to common stockholders, the company may retain some earnings for planned investment and distribute remaining amount to common stock holders, or the company may distribute dividends at fixed amount or constant pay out ratio as per its dividend policy. Dividend per share is the regular amount availed to the holders of each common stock by the company. Evaluation of performance of listed companies in terms of dividend per share (DPS) is considered as an appropriate measure, which shows the companies' earnings and dividend paying capacity.

Dividend per Share includes dividend decision in earning per share. Although the behavior of companies towards dividend payment is disappointing in Nepal, the joint venture banks, other financial institutions, and some other companies have brought greater revolution in this trend. They are competing for paying larger amount of dividends in recent years.

Table 4.27

Dividend per Share

FY	SCBNL	HBL
2004/05	120	31.58
2005/06	140	35
2006/07	130	40
2007/08	130	45
2008/09	100	43.56
Mean	124	39.03
S.D.	15.17	5.68
C.V	12.23	14.55

Source: Annual Report concern Bank.

From the above table, SCBNL has adopted decreasing trend except 2005/06. In case of HBL, it has adopted increasing trend & remain constant last FY 2008/09.

Mean ratio of DPS of SCBNL is three times higher than HBL. i.e.. Rs 124>39. This indicates that SCBNL has paid more dividend than HBL. On the other side, C.V of

SCBNL is less than HBL. i.e. 12.23%<14.55% .So, SCBNL is more consistent than HBL.

4.2.5 Price Earnings Ratio (P/E Ratio)

The price-earnings ratio is widely used by the security analysts to value the firm's performance as expected by investors. It indicates investors' expectations about the firm's performance. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the P/E ratio declines. P/E ratio reflects investor's expectations about the growth in the firm's earnings. Industries differ in their growth prospects accordingly, the P/E ratios for industries vary widely.

Price- earnings ratio is the ratio between market price per share and earnings per share. It is also called earning multiplier. The price-earnings ratios of the banks under study are presented in table as follows.

Table 4.28

Price - Earnings Ratio

FY	SCBNL	HBL
2004/05	16.38	19.2
2005/06	21.47	18.57
2006/07	35.25	28.69
2007/08	51.77	31.56
2008/09	54.64	28.43
Mean	35.9	25.29
S.D.	17.27	5.98
C.V	48.11	23.65

Source : Annual Report of Concern Bank

From the above table, SCBNL has adopted increasing trend. In case of HBL, it has adopted a fluctuating trend over the study period. Mean ratio of P/E of SCBNL is higher than HBL i.e. Rs 35.9>25.29.This indicates that the growth rate of SCBNL is better than

HBL. On the other side, C.V of HBL is less than SCBNL. i.e. 23.65%<48.11% .So, HBL is more consistent than SCBNL.

4.3 Statistical Tools

Under this heading some statistical tools such as co-efficient of correlation analysis between different variables, trend analysis is used.

4.3.1 Standard Deviation (s.d):

The measurement of the scatterings of the mass of figures in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater the amount of dispersion greater is the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity if a series, a large standard deviation means just opposite. In this way standard deviation is calculated for selected dependent and independent variables specified in the models presented above.

4.3.2 Coefficient of Variation(C.V):

C.V is the qualitative measure of the dispersion to compare more than two assets; coefficient of frequency variation is used. It is relative measurement of dispersion based on standard deviation coefficient of variation is given by following formula,

C.V = $\frac{s.d}{x}$ x 100%

Where,

s.d = Standard Deviation

x= Arithmetic Mean

It represent the ratio of the standard deviation to the mean and it is a useful statistic for comparing the degree of variation from one data series to another, even if the means are drastically different from each other.

4.3.3 Coefficient of Correlation (r):

Correlation coefficient is the statistical tools that can be describe to which one variable is linearly related to another the coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's Method is applied in the study. It is the most common and useful tool to measure the relationship between two variables in the bank. The correlation coefficient(r) between two variables X and Y can be obtained by using following formula:

$$\mathbf{r}=\frac{n\sum XY-\sum X.\sum Y}{\sqrt{n\sum X^2-(\sum X)^2}\sqrt{n\sum Y^2-(\sum Y)^2}}$$

Where,

n = number of observation in series X and Y

ΣX= Sum of observations in series X

ΣY= Sum of observation in series Y

ΣX^2= Sum of squared observations in series X

ΣY^2= Sum of squared observations in series Y

ΣXY= Sum of the product of observations in series X and Y Here,

r = +1 implies that two variables are positively and perfectly correlated.

r = -1 implies that two variables are negatively perfectly correlated.

r = 0, does not necessarily mean that the variables are independent. They may, however be related, in some other form such as quadratic, logarithm or exponential. Under the correlation analysis, the intensity of linear relation between the following variables has been measured:

- MPS and EPS
- MPS and NWPS
- MPS and DPS

4.3.4 Coefficient of Multiple Determinations (r^2):

The coefficient of determination is a measure of the degree linear association or correlation between two variable one of which happens to be independent and other being dependent variable. In other words, r… measures the percentage total variation in dependent variable explained by independent variables. The coefficient of determination value can have ranging from zero to one. A value of one can occur only if the unexplained variation is zero which simply means that all the data points in the scatter diagram fall exactly on the regression line. It is more appropriate while verifying the results than the correlation coefficient and computed by square of the correlations coefficient as mentioned above.

R^2= r x r

4.3.5 Probable Error

The probable error of the coefficient of correlation denoted by P.E is the measure of testing the reliability of the calculated value of r. If the calculated value of r from a sample of n pair of observations, then P.E is defined by:

P.E. = $0.6745 \frac{1-r2}{\sqrt{n}}$

It is used in interpretation whether calculated value of r his significant or not.

- If r< P.E., it is significant. So, perhaps there is no evidence of correlation.
- If r>6P.E., it is significant.

In other cases, nothing can be concluded. The probable error of correlation coefficient may be used to determine the limits within the population correlation coefficient are

r ± P.E.

Where,

P.E. = Probable Error

r = Coefficient of correlation

n = number of pairs observation

Results:

1 If r < 6 P.E, then the value of 'r' is not significant.

2 If r > 6 P.E, then the value of 'r' is definitely significant.

3 If the other situations happen, nothing can be concluded with certainty.

4.3.3.1 Coefficient of Correlation Between MPS and EPS

This table is present to show the relationship between MPS and EPS. It is know that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient.

Table No. 4.29

Coefficient correlation, coefficient of Determination & Probable Error

Between MPS and EPS

From FY 2004/05 to 2008/09

Banks	r	r^2	Probable Error(PE)	6.PE	Remark
SCBNL	0.36	0.1296	0.26	1.56	Insignificant
HBL	0.83	0.6889	0.09	0.54	Significant

Source: Appendix 23 (A&B)

The statistical table 4.22 shows the degree of relationship between MPS and EPS. In case of HBL, we can clearly see that the correlation of MPS with EPS 0.83 which shows that the increase in the value of EPS by 0.83 unit respectively causes to increase 1 unit value of MPS. Thus, there exists high degree of positive correlation in HBL. In case of SCBNL, the degree of relationship between MPS and EPS is no significant. We can clearly see that the correlation of MPS with EPS 0.364 which shows that the increase in the value of EPS by 0.364 unit respectively causes to increase 1 unit value of MPS. Thus, there exists low degree of positive correlation in SCBNL.

But the value of 'r' is less than six times P.E. in case of SCBNL. This states that this is not significant but in case of HBL the value of 'r' is greater than six times P.E. which shows that the correlation coefficient of HBL is significant.

In other words, if independent variables (EPS) increase then it causes to increase dependent variable (MPS) by 1 unit and vice verse in case of positive correlation. Again if independent variable (EPS) decreases than it causes to increase dependent variable (MPS) by 1 unit and vice-versa in case of negative correlation.

4.3.3.2 Coefficient of Correlation between MPS and NWPS

This table is present to show the relationship between MPS and NWPS. It is known that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient.

Table 4.30

Coefficient correlation, coefficient of Determination & Probable Error

Between MPS and NWPS

From FY 2004/05 to 2008/09

Banks	r	r^2	Probable Error(PE)	6.PE	Remark
SCBNL	-0.21	0.0441	0.29	1.74	Insignificant
HBL	0.72	0.5184	0.15	0.9	Insignificant

Source: Appendix 24(A&B)

The statistical table 4.23 shows the degree of relationship between MPS and NWPS. In case of HBL, we can clearly see that the correlation of MPS with NWPS is 0.72 which shows that the increase in the value of NWPS by 0.72 unit respectively causes to increase 1 unit value of MPS. Thus, there exists high degree of positive correlation in HBL. In case of SCBNL, the degree of relationship between MPS and NWPS is no significant. We can clearly see that the correlation of MPS with NWPS is -0.21 which shows that the increase in the value of NWPS by 0.21 unit respectively causes to decrease 1 unit value of MPS. Thus, there exists low degree of negative correlation in SCBNL.

But the value of 'r' is less than six times P.E. in case of SCBNL. This states that this is not significant and also in case of HBL the value of 'r' is less than six times P.E. which shows that the correlation coefficient of HBL is also insignificant.

In other words, if independent variables (NWPS) increase then it causes to increase dependent variable (MPS) by 1 unit and vice verse in case of positive correlation. Again if independent variable (NWPS) decreases than it causes to increase dependent variable (MPS) by 1 unit and vice-versa in case of negative correlation.

4.3.3.3 Coefficient of Correlation between MPS and DPS

This table is present to show the relationship between MPS and DPS. It is known that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient.

Table 4.31

Coefficient correlation, coefficient of Determination & Probable Error

Between MPS and DPS

From FY 2004/05 to 2008/09

Banks	r	r^2	Probable Error(PE)	6.PE	Remark
SCBNL	-0.15	0.0225	0.29	1.74	Insignificant
HBL	0.97	0.941	0.018	0.11	Significant

Source: Appendix 25(A&B)

The Statistical table 4.25 shows the degree of relationship between MPS and DPS. In case of HBL, we can clearly see that the correlation of MPS with DPS is 0.97 which means that increase in the value of DPS by 0.97 units causes to increase 1 unit value of MPS. Thus, there exists high degree of positive correlation in HBL. In case of SCBNL we can see that the correlation of MPS with DPS -0.15 which shows that the decrease in the value of DPS by 0.15 units causes to increase 1 unit value of MPS. Thus, there exists low degree of negative correlation.

In SCBNL the value of 'r' is less than 6 P.E which shows that the correlation coefficient is insignificant. But in case of HBL ‘r’ is greater than 6 P.E which shows that the correlation coefficient is significant.

In other words, if independent variables (DPS) increase then it causes to increase dependent variable (MPS) by unit and vice-versa in case of the positive correlation.

Again if independent variable (DPS) decreases than it causes to increase dependent variable (MPS) by 1 unit and vice-versa in case of negative correlation.

4.4 Trend Analysis:

Here, in this study, the trend analysis of the financial condition is presented which is objected to provide the insight of the bank position. In this study, the method of least square is used for the analysis of the SCBNL and HBL, total deposit trend, net profit trend, loan & advances trend, MPS trend, DPS trend, P/E ratio trend and NWPS trend.

4.4..1 Trend Analysis of Total Deposit

Under this, an effort has been made to calculate the trend value of total deposit for five years from the year 2004/05 to 2008/09 for the both banks and forecast of next five years.

Table No.4.32

The Actual and Trend Value of Total Deposit of SCBNL

For The FY 2004/05 to 2008/09

(In million)

FY	Actual Value	Trend Value
2004/05	19363	18597.4
2005/06	23061	22568
2006/07	24647	26537
2007/08	29743	30506.8
2008/09	35871	34476.6

Source:Appendix 26(A)

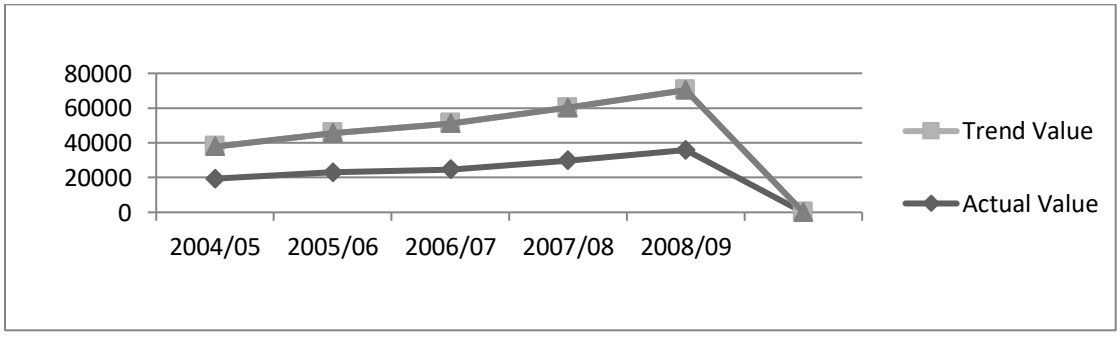

Figure-4.1 The Actual and Trend Value of Total Deposit of SCBNL

Table No.4.33

The Actual and Trend Value of Total Deposit of HBL

For The FY 2004/05 to 2008/09

FY	Actual Value	Trend Value
2004/05	24814	24557.8
2005/06	26490	27066.4
2006/07	30048	29575
2007/08	31842	32083.6
2008/09	34681	34592.2

Source: Appendix 26(B)

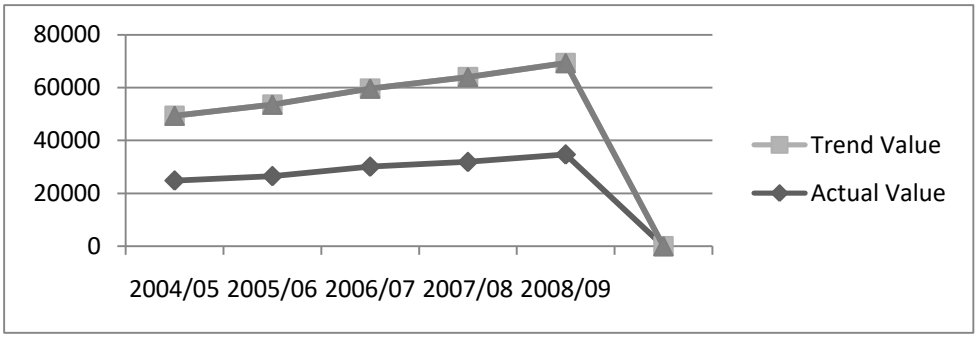

Figure-4.2

The Actual and Trend Value of Total Deposit of HBL

The trend equation of Total Deposit of SCBNL is Y = 26537+3969.8x, HBL is Y = 29575+2408.6x where,Y and x are denoted for Total Deposit and time variable respectively. The Y intercept is the average amount of Total Deposit of five year period. Y intercept of SCBNL and HBL are 26537 and 29575 respectively. Slope trend of SCBNL and HBL were 3969.8 and 2408.6 respectively. The slope trend of SCBNL's Total deposit for Fiscal Year 2004/05 to Fiscal Year 2008/09 is in increasing ratio and also is the slope trend of HBL Total Deposit in increasing ratio. The table clearly reveals that the actual amount of SCBNL's Total deposit in the year 2004/05 was 19363 million and then it reached to 35871 million in the year 2008/09. Similarly the trend value of Total deposit was 18597.4 million and had amount to 34476.6 million with annual increase of 3969.8 million. Same as, the table defined that the actual amount of HBL's Total deposit in the year 2004/05 was 24814 million and then it reached to 34681 million in the year 2008/09. Similarly, the trend value of Total deposit of HBL was 24557.8 million and had amount to 34592.2 million with an annual increase of 2408.6 million.

4.4.2 Trend Analysis of Loan & Advance

Under this, an effort has been made to calculate the trend value of Loan & Advance for five years from the year 2004/05 to 2008/09 for the both banks and forecast of next five years.

Table No.4.34

The Actual and Trend Value of Loan & Advance of SCBNL

For The FY 2004/05 to 2008/09

FY	Actual Value	Trend Value
2004/05	8143	7824.4
2005/06	8935	9409.9
2006/07	10502	10995.4
2007/08	13718	12580.9
2008/09	13679	14166.4

Source: Appendix 27(A)

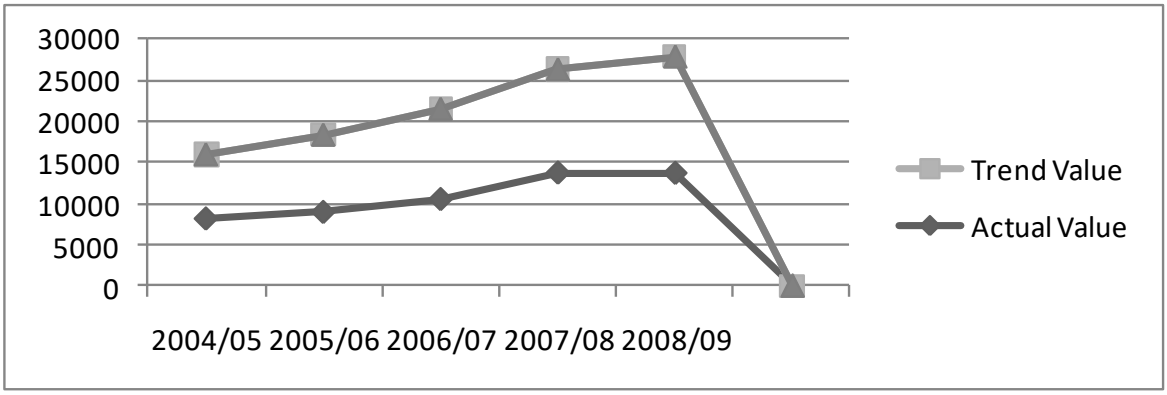

Figure-4.3 The Actual and Trend Value of Loan & Advance of SCBNL

Table No. 4.35

The Actual and Trend Value of Loan & Advance of HBL

For The FY 2004/05 to 2008/09

FY	Actual Value	Trend Value
2004/05	12424	11752
2005/06	14642	14711.3
2006/07	16997	17670.6
2007/08	19497	20629.9
2008/09	24793	23589.2

Source: Appendix 27(B)

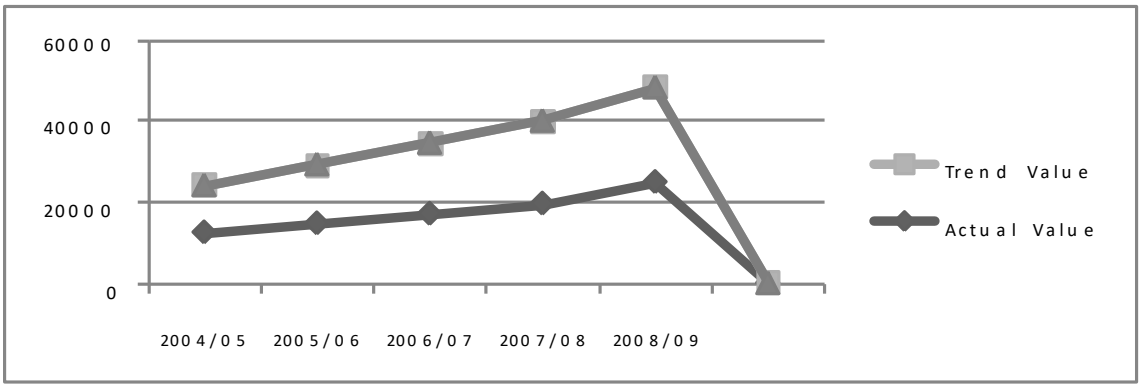

Figure-4.4 The Actual and Trend Value of Loan & Advance of HBL

The trend equation of Loan & Advance of SCBNL is Y = 10995.4+1585.5x, HBL is Y = 17670.6+2959.3x where, Y and x are denoted for Loan & Advance and time variable respectively. The Y intercept is the average amount of Loan & Advance of five year period. Y intercept of SCBNL and HBL are 10995.4 and 17670.6 respectively. Slope trend of SCBNL and HBL were 1585.5 and 2959.3 respectively. The slope trend of SCBNL Bank's Loan & Advance for Fiscal Year 2004/05 to Fiscal Year 2008/09 is in increasing ratio. Also, the slope trend of HBL Loan & advance NWPS is in increasing ratio. The table clearly reveals that the actual amount of SCBNL's Loan & Advance in the year 2004/05 was 8143 million and then it reached to 13679 million in the year 2008/09. Similarly the trend value of Loan & Advance was 7824.4 million and had amount to 14166.4 million with annual increase of 1585.5 million. Same as, the table defined that the actual amount of HBL's Loan & advance in the year 2004/05 was 12424 million then it reached to 24793 million in the year 2008/09. Similarly, the trend value of Loan & Advance of HBL was 11752 million and had amount to 23589.2 million with an annual increase of 2959.3 million.

4.4.3 Trend Analysis of Net Profit:

Under this trend analysis of Net Profit is done. Net profit of two banks are compared with regards to their actual net profit and their trend value. Net profit is the profit obtained by deducting all the expenses as well as tax and interest.

Table No. 4.36

The Actual and Trend Value of Net Profit of SCBNL

For The FY 2004/05 to 2008/09

FY	Actual Value	Trend Value
2004/05	536	518
2005/06	658	631.8
2006/07	691	745.6
2007/08	818	859.4
2008/09	1025	973.2

Source: Appendix 28(A)

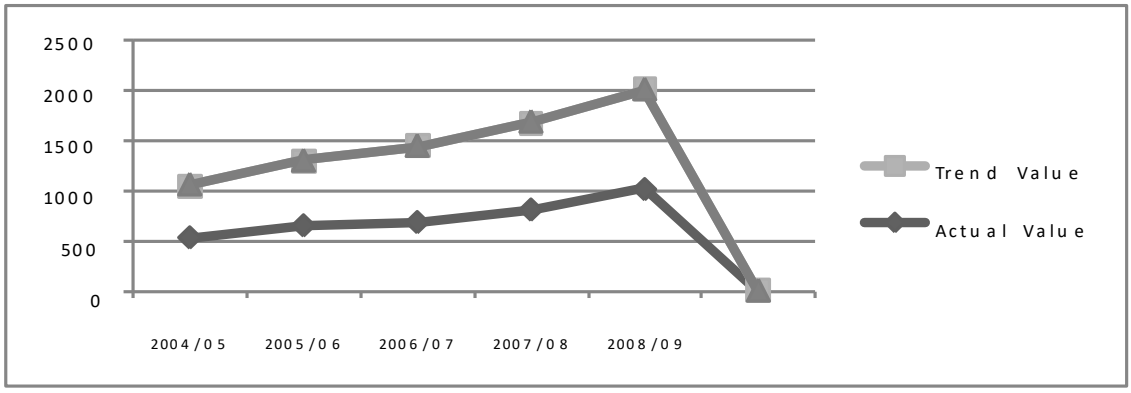

Figure-4.5 The Actual and Trend Value of Net Profit of SCBNL

Table No. 4.37

The Actual and Trend Value of Net Profit of HBL

For The FY 2004/05 to 2008/09

FY	Actual Value	Trend Value
2004/05	308	315.4
2005/06	457	422
2006/07	491	528.6
2007/08	635	635.2
2008/09	752	741.8

Source: Appendix 28(B)

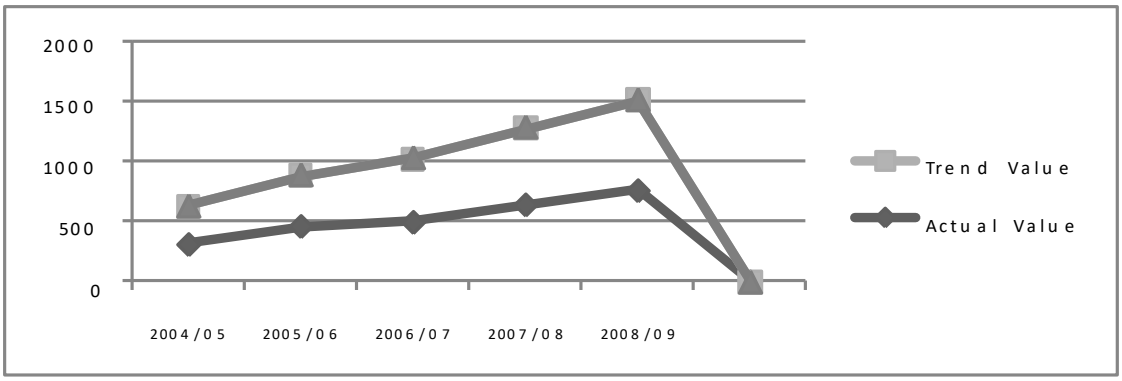

Figure-4.6 The Actual and Trend Value of Net Profit of HBL

The trend equation of Net Profit of SCBNL is Y = 745.6+113.8x , HBL is Y = 528.6+106.6x where, Y and x are denoted for Net Profit and time variable respectively. The Y intercept is the average amount of Net Profit of five year period. Y intercept of SCBNL and HBL are 745.6 and 528.6 respectively. Slope trend of SCBNL and HBL were 113.8 and 106.6 respectively. The slope trend of SCBNL Bank's Net Profit for Fiscal Year 2004/05 to Fiscal Year 2008/09 is in increasing ratio. Also, the slope trend of HBL Net profit is in increasing ratio. The table clearly reveals that the actual amount of SCBNL's Net Profit in the year 2004/05 was 536 million and then it reached to 1025 million in the year 2008/09. Similarly the trend value of Net Profit was 518 million and had amount to 973.2 million with annual increase of 113.8 million. Same as, the table defined that the actual amount of HBL's Net Profit in the year 2004/05 was 308 million then it reached to 752 million in the year 2008/09. Similarly, the trend value of Net Profit of HBL was 315.40 million and had amount to 741,82 million with an annual increase of 106.6 million.

4.4.4 Trend Analysis of MPS:

Under this trend value of MPS of two banks are compared and also the trend value is compared with the actual value to find whether the trend value is increasing or decreasing.

Table No. 4.38

The Actual and Trend Value of MPS of SCBNL

For The FY 2004/05 to 2008/09

FY	Actual Value	Trend Value
2004/05	2345	2895
2005/06	3775	3933.5
2006/07	5900	4972
2007/08	6830	6010.5
2008/09	6010	7049

Source: Appendix 29(A)

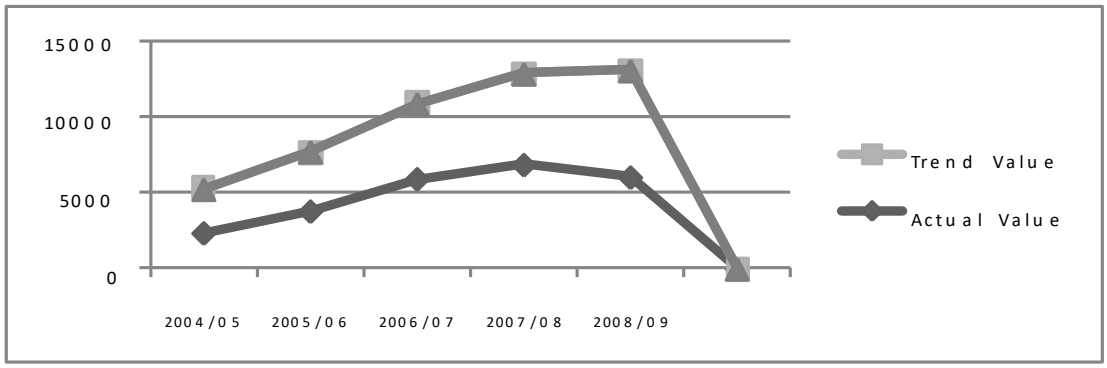

Figure-4.7 The Actual and Trend Value of MPS of SCBNL

Table No. 4.39

The Actual and Trend Value of MPS of HBL

For The FY 2004/05 to 2008/09

FY	Actual Value	Trend Value
2004/05	920	988
2005/06	1100	1244
2006/07	1740	1500
2007/08	1980	1756
2008/09	1760	2012

Source: Appendix 29(B)

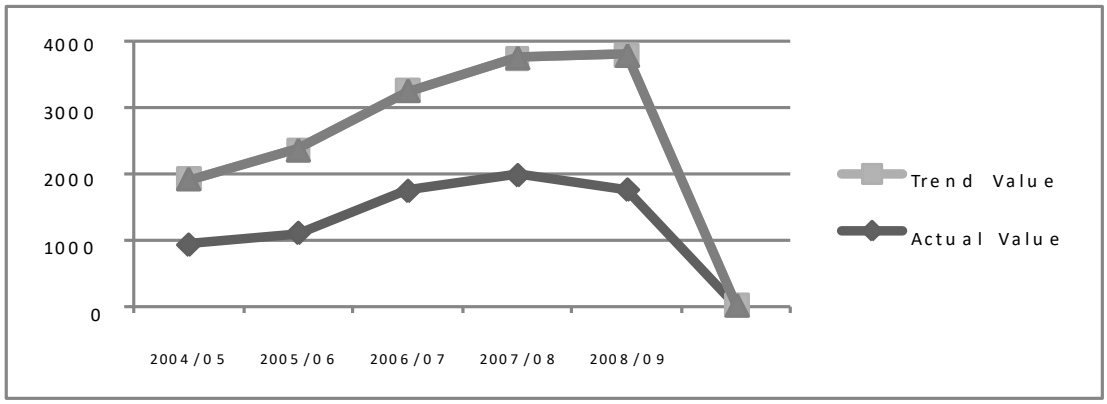

Figure-4.8 The Actual and Trend Value of MPS of HBL

The trend equation of MPS of SCBNL is Y = 4972+1038.5x , HBL is Y = 1500 +256x where, Y and x are denoted for MPS and time variable respectively. The Y intercept is the average amount of MPS of five year period. Y intercept of SCBNL and HBL are 4972 and 1500 respectively. Slope trend of SCBNL and HBL were 1038.5x and 256 respectively. The slope trend of SCBNL Bank's MPS for Fiscal Year 2004/05 to Fiscal Year 2008/09 is in increasing ratio. Also, the slope trend of HBL MPS is in increasing ratio. The table clearly reveals that the actual amount of SCBNL's MPS in the year 2004/05 was 2345 million then it reached to 6010 million in the year 2008/09. Similarly the trend value of MPS was 2895 million and had amount to 7049 million with annual increase of 1038.5 million. Similarly, the actual amount of HBL's MPS in the year 2004/05 was 920 million then it reached to 1760 million in the year 2008/09. Similarly, the trend value of MPS of HBL was 988 million and had amount to 2012 million with an annual increase of 256 million.

4.4.5 Trend Analysis of EPS:

Under this the trend value of EPS of two banks are compared and also the trend value of EPS is compared with the actual value of EPS to find whether the trend is in increasing or decreasing order. If the trend is in increasing order then it is beneficial for the company. It shows that the earning of the company in the near future is increasing.

Table No.4.40

The Actual and Trend Value of EPS of SCBNL

For The FY 2004/05 to 2008/09

FY	Actual Value	Trend Value
2004/05	143.14	167.69
2005/06	175.84	156.67
2006/07	167.37	145.65
2007/08	131.92	134.63
2008/09	109.99	123.61

Source: Appendix 30(A)

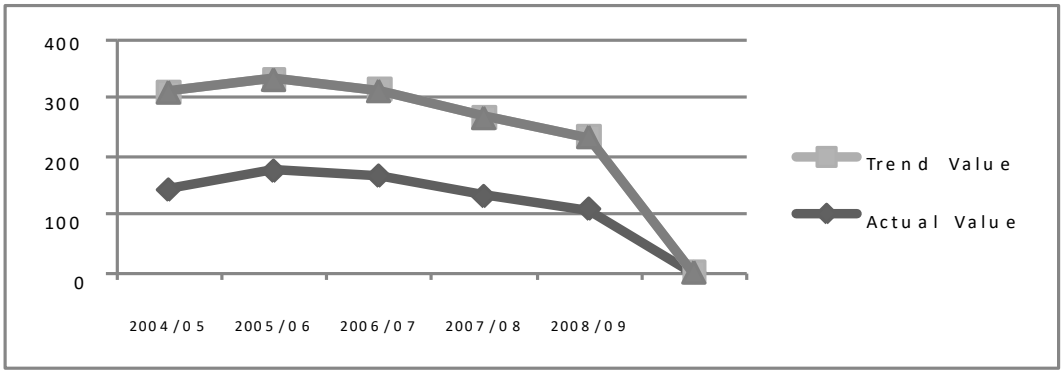

Figure-4.9 The Actual and Trend Value of EPS of SCBNL

Table No.4.41

The Actual and Trend Value of EPS of HBL

For The FY 2004/05 to 2008/09

FY	Actual Value	Trend Value
2004/05	47.91	52.19
2005/06	59.24	55.34
2006/07	60.66	58.49
2007/08	62.74	61.64
2008/09	61.9	64.79

Source: Appendix 30(B)

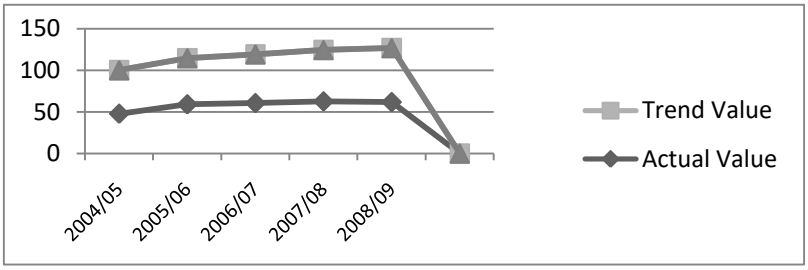

Figure-4.10 The Actual and Trend Value of EPS of HBL

The trend equation of EPS of SCBNL is Y = 145.65 +(-11.02)x , HBL is Y = 58.49 +3.15x where, Y and x are denoted for EPS and time variable respectively. The Y intercept is the average amount of EPS of five year period. Y intercept of SCBNL and HBL are 145.65 and 58.49 respectively. Slope trend of SCBNL and HBL were-11.02 and 3.15 respectively. The slope trend of SCBNL Bank's EPS for Fiscal Year 2004/05 to Fiscal Year 2008/09 is in fluctuating ratio. Whereas the slope trend of HBL EPS is in increasing ratio. The table clearly reveals that the actual amount of SCBNL's EPS in the year 2004/05 was 143.14 then it reached to 109.99 in the year 2008/09. Similarly the trend value of EPS was 167.69 million and had amount to 123.61 million with annual decrease of 11.02 million. Same as, the table defined that the actual amount of HBL's EPS in the year 2004/05 was 47.91 million then it reached to 61.9 million in the year 2008/09. Similarly, the trend value of EPS of HBL was 52.19 million and had amount to 64.79 million with an annual increase of 3.15 million.

4.4.6 Trend Analysis of NWPS:

Under this we have to compare the net worth per share of two banks SCBNL and HBL and compare whether it is in increasing trend or in decreasing trend in the future. Also, actual and trend value can be compared.

Table No. 4.42

The Actual and Trend Value of NWPS of SCBNL

For The FY 2004/05 to 2008/09

FY	Actual Value	Trend Value
2004/05	422.38	477.63
2005/06	468.22	451.99
2006/07	512.12	426.35
2007/08	401.52	400.71
2008/09	327.53	375.07

Source: Appendix 31(A)

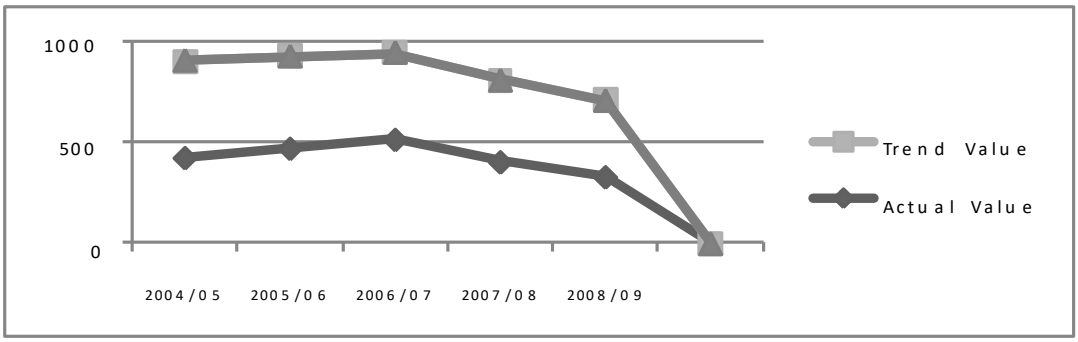

Figure-4.11The Actual and Trend Value of NWPS of SCBNL

Table No. 4.43

The Actual and Trend Value of NWPS of HBL

For The FY 2004/05 to 2008/09

FY	Actual Value	Trend Value
2004/05	239.59	236.88
2005/06	228.72	242.19
2006/07	264.74	247.5
2007/08	247.95	252.81
2008/09	256.52	258.12

Source: Appendix 31(B)

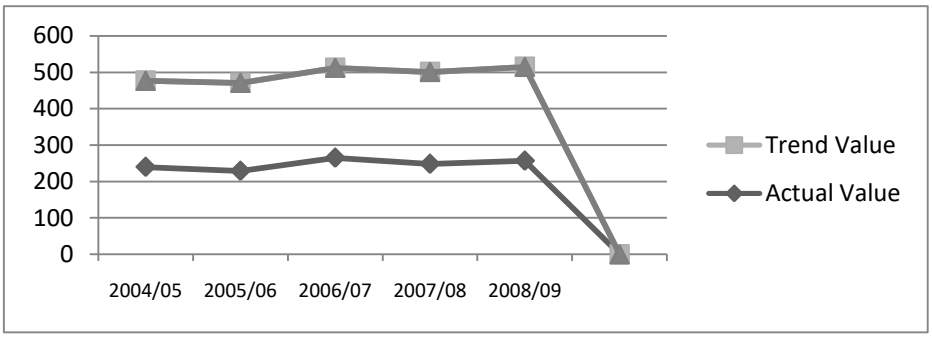

Figure-4.12 The Actual and Trend Value of NWPS of HBL

The trend equation of NWPS of SCBNL is Y = 426.35 +(-25.64)x , HBL is Y = 247.50 +5.31x where, Y and x are denoted for EPS and time variable respectively. The Y intercept is the average amount of EPS of five year period. Y intercept of SCBNL and HBL are 426.35 and 247.50 respectively. Slope trend of SCBNL and HBL were-25.64 and 5.31 respectively. The slope trend of SCBNL Bank's NWPS for Fiscal Year 2004/05 to Fiscal Year 2008/09 is in decreasing ratio. Whereas the slope trend of HBL NWPS is in increasing ratio. The table clearly reveals that the actual amount of SCBNL's NWPS in the year 2004/05 was 422.38 million then it reached to 327.53 million in the year 2008/09. Similarly the trend value of NWPS was 477.63 million and had amount to 375.07 million with annual decrease of 25.64 million. Same as, the table defined that the actual amount of HBL's NWPS in the year 2004/05 was 239.59 million then it reached to 256.52 million in the year 2008/09. Similarly, the trend value of NWPS of HBL was 236.88 million and had amount to 258.12 million with an annual increase of 5.31million.

4.4.7 Trend Analysis of DPS:

DPS is the dividend per share and dividends are the main attraction of any company to its stakeholders as well as for public. So, increasing trend of DPS reveals the better position of the company in future. So, we have to compare the actual value with the trend value and also we have to compare the trend of two banks SCBNL and HBL.

Table No. 4.44

The Actual and Trend Value of DPS of SCBNL

For The FY 2004/05 to 2008/09

FY	Actual Value	Trend Value
2004/05	120	134
2005/06	140	129
2006/07	130	124
2007/08	130	119
2008/09	100	114

Source: Appendix 32(A)

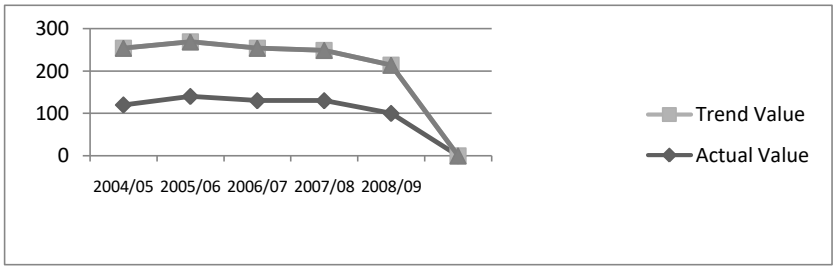

Figure-4.13 The Actual and Trend Value of DPS of SCBNL

Table No.4.45

The Actual and Trend Value of DPS of HBL

For The FY 2004/05 to 2008/09

FY	Actual Value	Trend Value
2004/05	31.58	32.23
2005/06	35	35.63
2006/07	40	39.03
2007/08	45	42.43
2008/09	43.56	45.83

Source: Appendix 32(B)

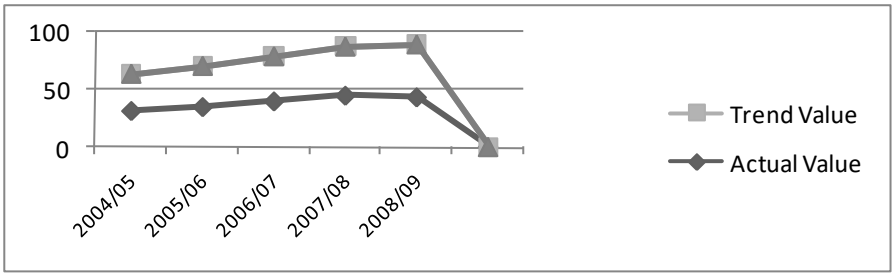

Figure-4.13 The Actual and Trend Value of DPS of HBL

The trend equation of DPS of SCBNL is Y = 124 +(-5)x, HBL is Y = 39.03 +3.40x where, Y and x are denoted for DPS and time variable respectively. The Y intercept is the average amount of DPS of five year period. Y intercept of SCBNL and HBL are 124 and 39.03 respectively. Slope trend of SCBNL abd HBL were-5 and 3.40 respectively. The slope trend of SCBNL Bank's Fiscal Year 2004/05 to Fiscal Year 2008/09 is in decreasing ratio. Whereas the slope trend of HBL DPS is in increasing ratio. The table clearly reveals that the actual amount of SCBNL's DPS in the year 2004/05 was 120 million then it reached to 100 million in the year 2008/09. Similarly the trend value of DPS was 134 million and had amount to 114 million with annual decrease of 5.0 million. Same as, the table defined that the actual amount of HBL's DPS in the year 2004/05 was 31.58 million then it reached to 43.56 million in the year 2008/09. Similarly, the trend value of DPS of HBL was 32.23 million and had amount to 45.83 million with an annual increase of 3.40 million.

4.5 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:

Liquidity Ratio

The liquidity position of SCBNL and HBL reveals that:

1. From the analysis of current ratio, it is found that the mean ratio of SCBNL is lower than HBL. It means that it has maintained lower liquidity and higher risk in comparison to SCBNL. The ratio of HBL is more consistent than SCBNL since C.V of HBL is lower than that of SCBNL.

2. The mean ratio of quick ratio of SCBNL is higher than that of HBL. It means that SCBNL has maintained higher quick assets in comparison to HBL. Also, C.V of SCBNL is less than that of HBL which shows there is less variation in the SCBNL ratios.

3. The mean ratio of cash and bank balance to total deposits of SCBNL is higher than HBL. It states that cash and bank balance in liquidity position of SCBNL is higher than HBL. And the ratio of SCBNL is more consistent than HBL.

4. The mean ratio of cash and bank balance to current assets of SCBNL is higher than HBL. It states that the liquidity position of HBL is poorer than SCBNL and the ratio of HBL is less consistent than SCBNL.

5. The mean ratio of investment in government securities to current assets ratio of SCBNL is higher than HBL. It means that SCBNL had invested its higher portions of current assets on government securities than HBL. On the other hand, C.V in ratios of HBL is greater than SCBNL which mean the variability's of ratios of HBL is less consistent than SCBNL.

6. While examining the mean ratio of Loan and advances to current assets, SCBNL has maintained lower ratio than HBL. On the other side, C.V. of SCBNL is lower than HBL. So, SCBNL is more consistent than that of HBL.

7. The mean ratio of NRB Balance to current, saving deposit shows that SCBNL has lower deposit than that of HBL. It means balance amount kept in NRB from the current and saving deposit of SCBNL is lower in comparison to HBL. But the C.V of SCBNL is higher than that of HBL which shows it has more consistency than HBL.

8. The mean ratio of NRB Balance to Fixed deposit of SCBNL is higher than that of HBL. It means the amount deposited by SCBNL from its fixed deposit is higher than deposited by HBL. C.V of SCBNL is lower than that of HBL. So, it means there is greater variation in ratio of HBL.

Assets Management Ratio (Activity Ratio)

The assets management ratio of SCBNL and HBL reveals that:

1. In overall, mean ratio of loan and advances to total deposit of HBL is higher than SCBNL. In case of coefficient of variation, SCBNL has lower C.V HBL.

2. The mean ratio of total investment to total deposit of SCBNL is higher than HBL. The variability of ratios of SCBNL is lower than HBL.

3. The mean ratio of Loan and advances to total working fund of HBL is higher than SCBNL. The variability of ratios is higher than SCBNL.

4. The mean ratio of Loan and advances to total working fund of HBL is higher than SCBNL. The variability of ratios of HBL is higher than SCBNL.

5. The mean ratio of investment on government securities to total working fund ratio of SCBNL is higher than HBL. However, HBL seems to have more variable ratio than SCBNL.

6. The mean ratio of investment on share and debentures to total working fund of HBL is slightly higher than SCBNL and also HBL is more consistent and homogeneous than SCBNL.

7. The mean ratio of performing assets to total assets of SCBNL is higher than HBL but in case of variability HBL has more variability than SCBNL.

Profitability Ratio

The profitability ratio of SCBNL & HBL reveals that:

1. SCBNL has the mean ratio of return on total working. fund equal to HBL. On the other hand SCBNL and HBL are equally consistent and homogeneous.

2. The mean ratio of total interest earned to total working fund of HBL is higher than SCBNL. The ratio of SCBNL is more consistent than HBL.

3. HBL has the mean ratio of total interest pays to total working fund is higher than SCBNL. HBL ratio is more consistent than SCBNL.

4. The mean ratio of return on loan and advance of SCBNL is higher than HBL. On the other hand, SCBNL is more consistent than HBL.

5. In the mean ratio of return on equity, it is observed that SCBNL has an average mean value which is higher than of HBL. The coefficient of variation of SCBNL is less than HBL.

6. The mean ratio of total interest expenses to total interest income of SCBNL is lower than of HBL. The C.V shows that HBL has more consistent ratio than of SCBNL.

From the above finding of profitability ratios, it can be concluded that profit earning capacity of SCBNL is high in comparison to HBL.

Return to Investors

1. The average MPS of SCBNL is higher than HBL. Similarly, the coefficient of variation of HBL is less than SCBNL. This shows that HBL is more consistent than SCBNL. It can be seen that average NWPS of SCBNL is the higher than HBL. Similarly, the coefficient of variation of HBL is less than SCBNL. This shows that HBL is more consistent than SCBNL.

2. The average EPS of SCBNL is the higher than HBL. Similarly, the coefficient of variation of HBL is less than SCBNL. This indicates that HBL is more consistent than SCBNL. The average DPS of SCBNL is higher than HBL. The C.V. indicates that SCBNL is more consistent than HBL in DPS.

3. SCBNL has the higher average P/E ratio than HBL. The C.V. indicates that HBL has higher consistency in P/E ratio than SCBNL.

4. Correlation coefficient of MPS with EPS shows that there exist lower positive correlation in SCBNL and higher positive correlation in HBL. Correlation coefficient of MPS with NWPS shows that there exist low degree of negative correlation in SCBNL and higher positive correlation in HBL. But the correlation coefficient of MPS with DPS shows that there exist low degree of negative correlation in SCBNL and higher positive correlation in HBL.

5. Trend Analysis of Total deposit shows that trend value of both SCBNL and HBL are in increasing trend.

6. Trend Analysis of Loan & Advance shows that trend value of both SCBNL and HBL are in increasing trend.

7. Trend Analysis of Net Profit shows that trend value of both SCBNL and HBL are in increasing trend.

8. Trend Analysis of MPS shows that trend value of both SCBNL and HBL are in increasing trend.

9. Trend Analysis of EPS shows that trend value of SCBNL is in decreasing trend and HBL is in increasing trend.

10. Trend Analysis of NWPS shows that trend value of SCBNL is in decreasing trend and HBL is in increasing trend.

11. Trend Analysis of DPS shows that trend value of SCBNL is in decreasing trend and HBL is in increasing trend.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Banking plays a great role in the development of a country. Basically, financial system is the channel through which mobilization and allocation of savings is carried out in the economy. As such, the financial system facilitates the transfer of financial resources form savers to borrowers. With these objectives, Commercial banks play a vital role. Banking helps to mobilize small savings collectively to the huge capital investment. In this sense, systematic collection of idle funds and the subsequent mobilization or canalization has supplemented not only the financial needs of trading, manufacturing and service industries, but also provided the necessary finances for agricultural sectors. Though, the banking is considered as the platform of money market and capital markets, commercial banks help to promote the money market and capital market.

After linearization policy taken by the government in 1990 A.D. many financial institutions are opened. The economy boosted from the date. As a result the competitions among the commercial banks, finance companies, development banks become very tough. As the present scenario of Nepal's entry in WTO, foreign banks are also able to operate their branch bank in Nepal. That will make Nepalese financial industries more competitive. Thus, the banks of the country should be able to cope with the change of the conditions by strengthening the financial position, rendering new and effective services to the customers, innovating new services and techniques. Undoubtedly, the role of commercial banks has become crucial in capital formation.

Presently, 28 commercial banks are operating in the country and most of them are listed in NEPSE. Out of twenty eight commercial banks, two joint venture banks namely, Standard Chartered and Himalayan bank are selected as the sample banks for this thesis work. The objectives, functions, policies and strategies of joint venture banks have been emphasized and the performances of the two sampled joint venture banks

have been analyzed. The main purpose of selecting these two banks are, they have been offering all kind of available facilities available in banking sectors in the country. The study is mainly based on the secondary data publicly available in the NEPSE data base and the annual report of concerned banks. For the study, the five years' data of the banks have been pooled starting from FY 2004/05 to 2008/09. The collected data of the banks for the study purpose are thoroughly processed, tabulated for the required format. Different measures of the data have been calculated using different statistical tools and financial tools with the best effort.

The entire thesis has been classified into five chapters namely, (I) introduction chapter, (II) Review of literature, (III) Research methodology, (IV) Data presentation and analysis and finally (V) summery, conclusion and recommendations.

In the first chapter, background, focuses, objectives, importance, limitations, statement of problems and organization of the study are briefly discussed. In second chapter the relevant literature of the topic, articles, books, and journals are studied and reviewed. The previous thesis relating to subject matter has been reviewed. In the third chapter, statistical and financial tools have been studied. The brief explanation of tools and the logic for using the tools also have been presented. Methodology, research design to be followed, types of data, data collection process, method of data collection process, sample and population are presented. The forth chapter is about the presentation and the analysis of the data; the major findings of the study are presented on the basis of the analysis carried out in the thesis.

In last chapter the summary, conclusion and the recommendations to the concerned parties are presented. The conclusion and recommendations extracted from the data analysis and computation of different financial and statistical tools are very useful to the banks especially. Thus to follow the recommendation of this work would be a mile stone to improve their weak points in future performance and to strengthen their financial presence in the market.

5.2 Conclusion

This study reveals that the average current ratio of both banks i.e. SCBNL and HBL has below normal standard but HBL has higher current ratio. It means HBL bank's solvency position is better than SCBNL. Comparatively, HBL has maintained low ratios, it shows some difficulties to meet the demand of its customers on their deposit to pay at any time but it may be earning more by investing cash into different sectors. But it should ensure to have enough liquid funds to serve its customer. HBL is low capable to maintain Cash and Bank balance in comparison to SCBNL. SCBNL has invested its more portions of current assets as government securities than HBL. From the point of investment on government securities SCBNL is better than HBL. HBL has succeeded to invest its fund in loan and advances in comparison to SCBNL.

From the analysis of asset management ratio, HBL has better position regarding the mobilization of loan and advances to the total deposit and acquiring higher profit than SCBNL. HBL is in weak condition to mobilize its deposits by investing in different sectors in comparison of SCBNL. HBL fund mobilization in terms of government securities with respect to total working fund is not more satisfactory than SCBNL. HBL has invested slightly more portion of its total working fund on shares and debentures than SCBNL. While comparing performing assets to total assets SCBNL has more performing assets than HBL.

In profitability ratio, it can be concluded that SCBNL and HBL both are in same position in the earning capacity by utilizing available resources. The ratio of total interest earned to total working fund ratio of SCBNL is satisfactory than HBL. That means SCBNL is in better position from payment of interest point of view (Less expenses generate the high income). It seems to be successful to collect its working fund from less expensive sources in comparison to HBL. SCBNL is in better position and able to earn high return on its loan and advances in comparison to HBL from the view point of average mean and C.V. The average mean and lower C.V. shows that SCBNL has mobilized its equity capital more efficiently than HBL. Also, the total interest expense over its total interest income

of SCBNL is lower than that of HBL but lower C.V. of HBL shows it is more consistent & homogeneous during the study period than SCBNL.

While considering Capital Structure ratio or leverage ratio, SCBNL has better position in comparison to HBL. It means that SCBNL has less debt on total equity and total assets while HBL has used more debt than that of SCBNL. Using less debt is profitable for the bank and it also shows less risk. C.V of SCBNL is less than HBL which shows it has more consistent ratio. Also, interest coverage ratio shows that earning from interest of SCBNL is more than HBL and the variation is also less than HBL.

From the investor analysis, it is found that all the indicators like Market Price per share (MPS), Net Worth per share (NWPS), Earning per share (EPS), Divided per share (DPS), Price-earning ratio (P/E) ratio of SCBNL is higher than HBL in terms of mean return but while considering the variation, SCBNL has less consistent ratio than HBL in MPS, NWPS, EPS and P/E ratio. Only in the case of DPS SCBNL has less C.V than HBL.

The coefficient correlation between MPS and EPS of SCBNL shows low positive correlation while HBL shows high positive correlation. Since correlation coefficient 'r' of SCBNL is less than 6.P.E, the value is insignificant while 'r' of HBL is more than 6. P.E. So, its value is significant. The Coefficient correlation between MPS and NWPS of SCBNL has low negative correlation while HBL has high positive correlation. Both the banks have insignificant correlation coefficient. The coefficient correlation between MPS and DPS of SCBNL has low negative correlation while there is higher positive correlation in HBL. The value of 'r' of SCBNL is insignificant while that of HBL is significant.

Trend Analysis shows that value of total deposit, loan & advance, net profit and MPS of SCBNL are in increasing trend while EPS, NWPS and DPS are in decreasing trend.

While considering HBL, value of total deposit, loan & advance, net profit, MPS, EPS, NWPS and DPS all are in increasing trend.

5.3 Recommendations

Based on the analysis, interpretation and conclusions some recommendations are made here so that concerned authorities, future researchers, academicians, bankers can get some insights on the present conditions on above topics. It is assumed that this research will be profitable to improve the current situation as well as for the grounding of further researches. The major recommendations after this study are:

- On the basis of liquidity ratio, it is found that the two joint venture banks have not the standard current ratios. SCBNL seem to have held more cash and balance rather than HBL. To maintain liquidity in perfect, it is recommended that SCBNL should invest the idle deposit in productive sector. On the other hand, they have enough cash balance to meet current requirement.
- The profitability ratio of SCBNL is lower which causes the lower profit before tax. Analyzing the data of two JVBs, from year 2004/05 to 2008/09, HBL has higher profit before tax than SCBNL. So, in order to achieve operational efficiency SCBNL should reduce operating costs since by decreasing costs, profit of any bank can grow considerably, they must search for loopholes in their operations where unnecessary costs are being incurred and should eliminate them.
- As loan and advance of HBL are in the higher volume as compared to SCBNL, SCBNL should try to increase its credit portfolio by exploring the productive sectors. This will not only increase the weight of interest income from risk assets but will also facilitate in promoting the industries to develop the overall economic situation of the nation.
- Financial figures should show a consistency in their respective growths. The financial records observed in all the chosen JVB'S are rather erratic. Therefore all these banks are suggested to predict a more accurate data in order to remain in the same position and to advance ahead.
- In order to generate more capital for the development of the economy more deposit needs to be collected by the financial institutions. For this the selected JVB's are suggested to quote higher deposit interest rate as far as possible.

Though, this situation reduces their profit prospects in the short run, it will enhance the economic condition of the country in the long run.

- Shareholders are the real owner of the organization. But they do not seem to be happy with the rate of return on equity provided by the banks. Thus, it is recommended that the management team should put emphasis on the maximizing the wealth of the shareholders. Low market price of share and less earning per share of commercial banks indicate the poor performance in the market. Similarly low dividend payout ratio also discourages the shareholders. Reviewing the study, SCBNL have higher MPS, NWPS, EPS and price earning ratio than HBL. Therefore, it is suggested to the management team of HBL to improve their performance.

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