

FINANCIAL PERFORMANCE OF JOINT VENTURE BANK IN NEPAL

**(A Comparative Study Analysis of Standard Chartered Bank Nepal
Limited and Himalayan Bank Limited)**



**A Thesis Submitted to:
The Department of Management
Post Graduate Campus, Biratnagar
Tribhuvan University**

**By
Sweta Bhadra
Department of Management
T.U. Regd. No. 7-1-3-1536-2001
Roll No. 94 (2063/065)
Second Year Exam Roll No. 184**

***In partial fulfillment of the Requirement of the Degree of
Master of Business Studies (MBS)***

**Biratnagar
2010**



TRIBHUVAN UNIVERSITY
POST GRADUATE CAMPUS
BIRATNAGAR
NEPAL

Tel No:021-522204
021-526327

Ref No.:.....
Date:.....

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This is to certify that the thesis

Submitted by:
Sweta Bhadra

Entitled
"FINANCIAL PERFORMANCE OF JOINT VENTURE BANK IN
NEPAL: (A Comparative Study Analysis of Standard Chartered Bank
Nepal Limited and Himalayan Bank Limited)"

has been prepared as approved by this Department in the prescribed format of
faculty of Management. This thesis is forwarded for examination.

Thesis Supervisor

(Prof. Dr. Khagendra Acharya)
Head of Department

Date:/...../.....



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NEPAL: (A Comparative Study Analysis of Standard Chartered Bank
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Chairman, Research Committee

Member (Thesis Supervisor)

Member (External Expert)

Date:/...../.....

DECLARATION

I hereby declare that the work reported in this thesis entitled "**Financial Performance of Joint Venture Bank in Nepal: (A Comparative Study Analysis of Standard Chartered Bank Nepal Limited and Himalayan Bank Limited)**" submitted to the Department of Management, Post Graduate Campus Tribhuvan University is my original work. It is done in the form of partial fulfillment of the requirement for the Master of Business Studies (MBS) under the supervision and guidance of Prof. Dr. Khagendra Acharya Department of Management, Tribhuvan University Biratnagar.

.....

Sweta Bhadra

T.U. Regd. No. 7-1-3-1536-2001

Roll No. 94(2063/065)

Second Year Exam Roll No. 184

Department of Management

Post Graduate Campus, Biratnagar

Date.../...../.....

ACKNOWLEDGEMENT

The field work report entitled, "**Financial Performance of Joint Venture Bank in Nepal: (A Comparative Study Analysis of Standard Chartered Bank Nepal Limited and Himalayan Bank Limited)**" is not only the result of my individual efforts. During preparation of report, I have consulted many sources. So, I would like to thank all of those whose works materials and ideas assisted me in preparing this report.

I would like to extend my sincere gratitude towards Post Graduate Campus Family including Guidance Prof. Dr. Khagendra Acharya, Dr. Madhav bd. Shrestha and the management staffs.

I would like to extend my sincere gratitude towards Mis. Sharmila Homagai, Branch Manager of Standard Chartered Bank. Similarly thank Ms. Nurrani Dhungel, for their invaluable suggestions at every stage of my work. It would be impossible for me to complete this study without their full intuitive support and constant encouragement.

At last I should not by pass to thank to Mr. (Staffs of **Standard Chartered Bank Nepal Limited and Himalayan Bank Limited.**) and other who were directly or indirectly involved in conducting this research.

Finally, I owe an immense debt of gratitude to my parents and my friends without them this would not have been possible.

Needless to say, I retain responsibility for any remaining errors of lack of clearly.

Sweta Bhadra
Post Graduate Campus
Biratnagar
Date: 2067/...../.....

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ABBREVIATION

A.D.	:	Anno Domini
AGM	:	Annual General meeting
AGM	:	Annual General Meeting
ATM	:	Automatic Tailor Machine
B.S.	:	Bikram Sambat
C.A.	:	Current Asset
C.L.	:	Current Liabilities
C.V.	:	Coefficient of Variance
CBS	:	Central Bureau of Statistics
Com	:	Commercial
DMUS	:	Decision Making Units
F/Y	:	Fiscal Year
HBL	:	Himalayan Bank Limited
JVBs	:	Joint Venture Banks
L/C	:	Letter of Credit
LTD	:	Limited
NIBL	:	Nepal Investment Bank Limited
NIDC	:	Nepal Industrial Development Corporation
O/D	:	Overdraft
OBS	:	Off Balance Sheet
P.Er	:	Probable Error
PVT	:	Private
SCBNL	:	Standard Chartered Bank Limited
ROA	:	Return on Assets
ROE	:	Return on Equity
S.D.	:	Standard Deviation
NBL	:	Nepal Bank Limited
RBB	:	Rastriya Banijya Bank

CHAPTER ONE

INTRODUCTION

1.2 Background

The present scenario of the world economy clearly demonstrates that the world is carrying 6.5 billion of population, out of which less than 1/4th of population only can enjoy the fruit of development. Even the poorest countries of Asia, America and Latin America adopted the capitalistic theory, to recover the background economic state and it was believed to reduce the poverty with capitalistic approach. But trickle down model did not suit these social, and geographical states. Again, the benefit gone at the hand of strong countries like U.S, England, France who had already gained the stages of high mass consumption.

Financial institution is the lifeblood of economic development of the country because financial institution acts as catalyst in the process of economic growth of the country. A bank is a financial institution, which can play a significant role in the upliftment of the economic situation of the developing country like Nepal. Bank plays a vital role to encourage thrift and discourage hoarding by mobilizing the resource and removing the habit of hoarding. They pursue economic growth rapidly developing the banking habit among the people by collecting the small scattered resource in one bulk, using them in the further productive purpose and rendering other valuable service to the country. Thus , this gives the individual an opportunity to borrow funds against future income, which may improve the economic wellbeing of the borrower. Bank deals with the offer of collected deposits and provides loans for commercial purpose.

In other words, bank facilities also become right hand for the growth of trade and industry of national economic of development country like Nepal.

The above fact shows that a bank plays vital role for the economic development of the country.

Talking about the history of bank and institutional banking system came into existence in Nepal only in the nineteenth century. Nepal Bank Limited was first financial institution of Nepal established on the 30th of Kartik 1994 B.S. Only one Nepal Bank Limited was not sufficient to look all the sectors of the country. So in 2013 B.S, another Bank named Nepal Rastra Bank was established as the central bank. Similarly, the second commercial bank of Nepal in magh10, 2022 B.S. under Rastriya Banijya Bank Act 2021. This act is now revised as commercial Bank Act 2031 B.S. “ Accepting deposit granting loan and performing commercial banking functions are the main motto of commercial banks”(MLJ : 2031). For the development of industry, commerce and trade, Nepal industrial development corporation was established under Industrial Development Corporation Act ,2016 for the development of agriculture session, Agriculture Development Bank was established on Magh 7, 2024 B.S. under the Agriculture Bank Act 2024 B.S.

The government of Nepal observed the necessities of rapid development of the country for which it has adopted ‘Liberalized economic policy, laissez fair economy and encouraged foreign investment’ (MLJFIPC,981:9). The government formed foreign investment and Technology Act 1981 AD. This was later revised as Act 1992 AD. by new elected democratic government’(MIFIPC,1992:10). The joint venture bank was introduced in Nepal in 2041 B.S. with the establishment of “Nepal Arab Bank limited .” It was established with joint venture of U.A E.Bank,financial institution of Nepal

The second joint venture bank, Nepal Indosuez Bank Limited was established in 6th Magh 2042 B.S. Similarly, other joint venture banks like , Nepal Grind lays Bank limited on 16th Marg 2043, Himalayan Bank Limited on 2049 B.S., State Bank of India limited on 2050 B.S., Nepal Bangladesh Bank limited established on 2051B.S. Everest Bank limited on 2051 B.S. Bank of Kathmandu on 2052 B.S. and Nepal Bank of Celon limited on 2052 B.S. have been also established . Till now others commercial banks have been also established.

Among them, majority of banks are established as joint venture banks. A joint venture bank is an association of two or more persons or parties undertaken to make the operation highly effective with their collective efforts. Joint venture banks play an important role for economic development of nation. They have been adopted new banking technique management like, hypothecation, syndication lending policies, Tele banking, credit card, master card from international banking technique. They render various services to their customers in order to facilitate their economic and social life. Joint venture banks are operating in Nepal in an act as commercial banks are operating and performing their work under the direction of Nepal Rastra Bank. Now a days, there are many joint venture banks and other financial institutions, but there are little opportunities to make fair investment. Meanwhile the banks and financial institutions are offering very low deposit and credit interest rate. So to survive in the competitive banking market one should follow the fundamental principles of sound investment policy with minimum risk and maximum profit.

However, the joint venture banks are operating in Nepal and play important role in the economic development of the country.

1.2.1 Brief Introduction of Standard Chartered (Nepal Grind lays) Bank Nepal Ltd.

Standard chartered (Nepal Grind lays) Bank Nepal limited is established the joint venture bank investment Nepalese and foreigner bank in Nepal. Standard Chartered Bank takes license 6th Feb 1986(2042/10/24) Standard Chartered Bank Nepal Limited operating in Jan 30th 1983 (B.S. 2043 Magh 16). The third joint venture bank in Standard Chartered Bank Nepal Limited. It was established and operated in Jan 30th 1987 with authorized capital, issued capital and paid up capital of Rs. 100 million, Rs.50million and Rs. 30 million respectively. It's 50 percent paid up capital, issued capital and paid up capital has increased to Rs. 200 million, 100 million and rs.100 million respectively at the end of the financial year 1993/94.

It is an associate company of the Australia (Standard chartered Grind lays Limited) and United state (Standard Chartered bank). Which is one of the largest and senior international banks operating in the region. Therefore, on 2057-04-17 Standard Chartered Bank group took over 50 percent share ownership of ANZ Grind lays lays bank limited and renamed as Standard Chartered bank Limited. Consequently, Nepal Bank limited shareholdings were 33.34 percent the rest 16.66 percent wee the Nepalese public holdings.

Standard Chartered Banks realizes that the prosperity of bank is high dependent on the development of the nation. The Bank are large network in the world. The bank always to do research and development its prosperity own field. The bank is committed to help development its prosperity own field. The bank is committed to help the process of national development by providing the modern financial services, promote tourism, industry, agriculture, trade, project sector on productive sector, and the service sector on reputed public opinion. By providing effective and efficient banking services to key industries the bank strives to make those industries more competitive internationally, change on named as Standard Chartered bank Nepal Limited (Nepal Grind lays Bank Limited) after takeover by standard Charters.

Now, share on chart of Standard Chartered Share Ownership

Standard Chartered Grind lays Ltd. Australia	50 Percent
Standard Chartered Bank, U.K. (Sell of NBL)	25 percent
General Pubic	16.66 percent
General Public (After sell NBL)	8.34 percent

SCBNL , offers a full range of banking products and services in wholesale and consumer banking catering to wide range of customers from individual to mid-market, local corporate to multinational and larger public sectors companies well as Embassies, AID Agencies, Airlines Hotels and Government corporation. 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 and highest level of service delivery. It is the first bank in Nepal that as implementation the Anti-money laundering policy and applied the “ Know your Customer” procedure on all the customer accounts.

It is also concentrates on projects that assist children, particularly in the areas of health education and it has taken initiatives to benefit the community. Two major initiatives in the area of health “Living with HIV” and “Seeing in Believing” have been undertaken by the bank since 2003.

1.1.2 Brief Introduction of Himalayan Bank Limited

Till time, new government elected in 1991/92, over hauled the overall economic policy of the country instead of continuing the sector reform program. Then the number of joint venture banks grew dramatically with the introduction of liberal and market - oriented economic policy.

Himalayan Bank limited is fourth joint venture established and operating in the country. The bank established on 18th January 1993. The authorized capital contributed by 20 percent Habib bank of Pakistan and Nepalese promoter.

Habib Bank limited, one of the largest commercial bank of Pakistan, Himalayan Bank authorized capital, issued capital and paid up capital has increased to Rs. 200 million, Rs. 100 million and Rs. 100 million respectively at the end of the financial year.

The major objectives of the bank is to provide modern banking facilities like tale Banking, clearing house, agency services, and letter of credit and to provide credit on commerce industrial and agricultural sectors.

The Bank has already offers unique service such as SMS Banking and Internet banking to customers. Himal Remit is one of the famous remit in Nepal. Beside of Arabian Country collecting and sent from here. It is success more than competitor. Till now Himalayan Bank provides service though its 20 Branch. Himalayan Bank will be introducing more services like these in the near future.

HBL is always committed to providing a quality services with a personal touch, to its valued customers. All customers are regarded as valued clients and treated with at most courtesy . the bank, wherever possible, offers tailored facilities to its clients to meet unique needs and requirements of different clients.

1.3 Focus of the study :

Financial performance indicates the overall financial strength. The term “ Financial Strength” has reference to the ability of a business (1) to meet the claims of creditors not only under current economic conditions but also under unfavorable situations that may occur in the future, (2) to take advantage of business dealings or expansion which require presently owned resources, additional funds obtained through the sale of long term debt obligations and capital stock , or a favorable credit rating ; and (3) to continue interest and divided payments without interruption. Financial strength should be studied from both a short term and long term point of view” (Ralph D. Kennedy and Stewart Y. McMillan, Financial statement form, Analysis and Interpretation, Richard D. Irwin, Inc, USA.1973,P.206).

Financial performance is that managerial activity which is concerned with planning, raising controlling and administrating of financial resources of an organization. It is basically measured by analyzing financial statements of an organization by using different financial and statistical tools and techniques. Financial performance is not only the evaluation of financial condition but also the evaluation of planning and it helps to improve the planning in future. The real picture of financial performance mainly depends upon the past, present and anticipated profit and current financial position of a business organization.

Standard Chartered Bank and Himalayan Bank have been operating well from their establishment on time. Their expertise's on international banking, promotes on public interest view and computerized service, professional attitude en specific area are factors for their rapid progress. They have been gaining successful on perfect commerce bank of market weakness identified

on general knowledge on banking. These banks have absolutely success to capture a remarkable market share of Nepalese banking sector or financial service industry in a relatively short period of year. Still come to large number of joint venture banks, insurance and co-operative financing has been competition on this Nepalese field. This is a common purpose of way 'External environment' problem of Standard character and Himalayan can be viewed from an insignificant growth rate in Net Profit of these banks in recent fiscal years.

Threatened of Market and weakness of internal of board can be traced out, with the analysis of standard charter and. Himalayan banks financial statements, in some aspects of these banks 'financial performance'. For instance, these banks 'Cash and Bank Balance'. Published on Nepal Rastra Bank. N.R.B. balance has been in fluctuating and declining trend but various deposits have been increasing which reflects inefficiency in liquidity management of the same banks.. In this way, it is obvious the Standard charter and Himalayan are facing many internal external source of problem. So, he researcher attempts, in this study, to seek on answer of some series issues such as:

- a) How far has standard charter and Himalayan banks been able to accumulate deposits and utilize deposits so accumulated?
- b) How these banks have been managing their positions in relative to the liquidity, asset management, capital structure and capital adequacy?
- c) How matter is the operational result in relative to their profitability?

1.3 Statement of the Problem:

Joint Venture banks with the help of their quality and prompt services are becoming an indispensable part of the economy of Nepal. Influence from the success of SCBNL and HBL, many new joint venture books have been introduced in Nepal. Which on one side shows a good sign of economy but on

other side due to such growth in number of banks and financial companies in a small economy there might be an unhealthy competition between them.

Almost of the JVBs and financial institution are centered in few towns of Nepal. Due to the growing number of banks and financial institution in a limited economy sector there is arising a throat cut competition in banking activities. Although there are banks like SCBNL. HBL that are achieving tremendous success in terms of profitability and market share but the management of these banks should always be careful to continue their success in future also.

Actually ratio analysis is the process of interpreting numerical relationship between the relative data as shown in financial statements. Since performance of JVBs is shown in financial statements, ratio analysis based on these financial data can help to understand the strength and weakness of the banks in easier way. Especially the study with the help of financial ratios and other indicators of JVBs tries to solve following issues;

- Financial aspects of the banks in terms of liquidity, profitability, leverage and other ratios.
- Satisfaction of depositors, investors, shareholders with the efficiency of banks.
- Co-efficient of correlation analysis during past years.

1.4 Objective of the Study

All the study has some objective and the study without any objective cannot be imagined. In our concern of the study, to find out the negative factors related towards the financial performance and to provide the suggestion to replace the negative factors with the positive factors and to make the financial performance effective and efficient and the study mainly focused on the following point.

- To know banks deposit mobilization on loan and advance.

- To know commercial bank trends in deposits and loans.
- To know banks' deposit mobilization on total investment.
- To know the growth of the fund mobilization and investment

1.5 Significance of the Study

The financials published by the banks gives the meaningful picture to the general public regarding the financial position of the banks. Thus, the analysis of these statements is necessary in order to give the full and clear-cut position and performance of the banks. This study is mainly compare the financial performance of SCBNL and HBL which compare the position of selected bank under the study, which encourage to improve the different position and performance of the selected banks. From data presentation and analysis researcher funds different aspects of the selective banks which is recommended to the banks for their further improving.

Banking Institutions definitely contribute and play an important role for domestic resource mobilization, economic development and maintains economic confidence of various segments and extends credit to people.

- This study has multidimensional significance in particular area of concerned banks which have been undertaken that justifies for finding out important points and facts to researcher, shareholders, brokers, traders, financial institution, and public knowledge.
- This study helps and justify for findings out the financial performance of concerned selected commercial banks and government of Nepal to make plans and policies.
- This studies certainly input the policymakers of concerned selected banks for making plans and policies of the effective banking system.

1.6 Limitations of the Study

This study is conducted for the partial fulfillment of MBS Degree. So, it possesses some limitations. The limitations of this study are as follows:

- a) In Nepal twenty-five commercial banks are under operation. However, due to time and resource constraints, the study is only confined to two JVBs, namely, Standard Chartered Bank Nepal Limited and Himalayan Bank Limited.
- b) The study is based on the published financial statements of concerned banks along with other information published in related journals, newspapers, magazines, bulletins (NRB, HBL, Standard Chartered), etc. Thus, the limitations of these materials may be inherent in this study.
- c) The whole study is based on the data of five years period from 2003/04 to 2007/08 and hence the conclusion drawn confines only to the above period.
- d) This study examines only the financial aspects of these banks.
- e) Analysis is based on only two commercial joint venture bank as a sample study which may not represent the accurate image of banking sector.
- f) Because of the historical data, it can't forecast for the correct financial position of future period.
- g) This study doesn't free from the assumption.
- h) This study focuses on comparative financial performance of SCBNL and HBL.

1.7 Organization of the study

The study has been divided into five chapters; Introduction, Review of Literature, Research Methodology, Presentation and Analysis of Data, and Summary, Conclusion and Recommendation.

General background, brief introduction to Standard Chartered Bank Nepal Limited, and Himalayan Bank Limited, statement of problem, objective significance, limitations, and organization are presented in the present chapter.

Concept of commercial banks, joint venture banks, History of commercial and Joint Venture Bank in Nepal, financial performance, Financial Statement analysis, Tools of financial performance review of related studies, Justification of the study 'Research Gap' are presented in the second chapter.

Research methods followed us has been spelt out in the third chapter. It includes research design, population and sample, nature and resources of data, methods of analysis and other relevant aspects.

Data presentation and analysis has been presented in chapter four.

The last chapter, summarizes the main conclusions that flow from the study, and offers suggestions for improvement. Direction for future research has also been spelt out.

CHAPTER TWO

REVIEW OF LITERATURE

This chapter covers the review of Literature to obtain the basic knowledge for the study. Review of Literature means reviewing research studies and other relevant propositions in the related area of the study so that the past studies, their conclusions may be known and further research can be conducted. "Literature review is basically a "stock taking" of available in ones field of research. The literature survey thus provides the students with the knowledge of the status of their field of research."(H.K. Wolf, and P.R. Pant , A Handbook for social science research and thesis writing, Buddha Academic Enterprises Pvt. Ltd; Kathmandu,1999,p.30)

"The purpose of reviewing the literature is to develop some expertise in one's are to see what new contributions can be made, and to receive some, ideas for developing research design."(Ibid).

In this research study review of literature is divided into two parts. The first part is conceptual review, which includes concepts of : financial performance, financial statements, financial statement analysis, common-size statement analysis, comparative financial statement analysis, ratio analysis, cash flow analysis, trend analysis, concept of commercial and joint venture banks. The second part is review of related studies, which encompasses the review of relevant past research studies in the related field.

2.1 Conceptual / Theoretical Review:

2.1.1 Concept of financial performance:

The goal of performance analysis is to highlight strength and weakness so that management can take appropriate action. To strengthen the weak and maintain performance in the strong areas. "Financial analysis is the process of identifying the financial strengths and weakness of firm by properly establishing relationships between the items of the balance sheet and profit and loss account (Pandey, Sunil, 2046:1).

High performance banking is simply high profitability banking. Profit is essential for enterprises for its survival and growth and to maintain capital adequacy through profit retention. Some common characteristic of high performance banks were as follows:

- a) Maximization of revenues
- b) Expenses control
- c) Consistently good management

High performance bank operated with slightly less capital and excellence control of overhead and fewer employees but with higher than average salaries. High performance banks had lower ratios of loans to total assets but were able to earn higher yield on loans and experience smaller loan losses.

Profit is important for any business concern including joint venture banks but the sole objectives of such institution not profit. Factors depressing profitability include extensive branching, high proportion of fixed assets to total assets, and competition from the thrift. Profit is also affected by inflation and government policies with regarding interest rate ceiling, direct lending and investment, labor laws etc.

The management must try to make profit for their bank. The interest of the nation as well as those of individual stock holders are suppose to be best served by vigorously seeking profit. Though profit is important for any business concerns including joint venture banks but profit cannot be the sole objective and an enterprise should not be evaluated just on the ground of the profit it earned "Neither the bank nor the community will be best served if the banker unreasonably sacrificed the safety of his fund or the liquidity of his bank in an effort to increase income" (American Institute of Banking, op. cit. p. 149).

'Liquidity refers to the ability to pay one hand on cash when it is needed, without having to sell long term assets at a loss in an unfavorable market" (ibid word).

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

Thus enough liquidity is needed to honor the cheques and at the same time to enable to make profitable loans when an opportunity arises. A bank must maintain adequate liquidity to meet a wide range of contingencies. Inadequate and or excess of liquidity both bring obvious difficulties. Excess liquidity is the loss of income but adoptive cash and bank balance must be maintained to meet day to day operative as well as for remote contingencies. It measures the extent to which it can oblige its short term obligations.

The market value of the shares as well as shareholder's return and risk may be affected by the capital structure decision i.e. debt equity mix. Inadequate equity capital makes the bank more risky. Inadequate equity capital compel to use more debt which has fixed cost, if firm fails to earn revenues and fails to pay fixed interest charges than the firm will be insolvent. On the other hand less use of debts reduces the shareholders profit because the cost of debt is always less than the cost of capital. "Above the indifference point (break even point) between stock financing and debt, financing, the debt financing is favorable with respect to earning per share, below it stock financing is best" (James C. Vanhorn, 1998: 297).

Proper utilization of the bank's resource is an indication of sound performance. How far banks have gained over the years depend chiefly on how

for they have been able to utilize their resources in an effective manner. Resources mobilization management of bank includes resource collection, investment portfolio, loans and advances etc. The task of utilization of resources is as much crucial as the mobilization is. So the increase profitability the bank should properly utilize the resources.

A bank communicates financial information to the public through financial statements and reports. The financial statement contains summarized information of the bank's financial affairs. The two basic financial statements of the bank are balance sheet and profit and loss account. Investors and financial analyst examine the bank's performance to make investment decision by analyzing the financial statements of the banks. Thus, ratio is one of the widely used financial tools that have been used to analyze the balance sheet and income statement. The income statement of profit and loss account reflects the performance of the banks over a period of time. It represents the summary of income obtained and the costs incurred by the bank during a year.

2.1.2 Financial Statements:

A Bank communicates Data and information regarding its financial conditions through financial statements financial statements reflect, “a combination of recorded facts, accounting commotions and personal judgments and the judgments applied affect them materially” (American Institute of certified public & accounts, cited in, R.S.N. Pillai and Bagavathi advanced Accountancy, Konark publishers Pvt. Ltd. New Delhi, 1994, P.1328” “the financial statements provide a Summary of the accounts of a business enterprise , the balance sheet reflecting the assets , liabilities and capital as of a certain date and the income statement showing the results of operations during a certain period.” (John N.myer, .Financial statements analysis, Prentice hall of India Pvt. Ltd., 1974, P95) Infact, financial statements are historical documents and relate to the past periods and are expressed in monetary terms to indicate the financial position in terms of assets and liabilities through balance sheet. “Financial statements are prepared for the purpose of presenting a periodical

review or report on progress by the Management and deal with the studies of investment in the business and the results achieved during the period under review.” (R.S.N. Pillai, and bagavathi, opt, it.)

The major financial statements are balance sheet and profit and loss statement. Other derived statements are profit and loss appropriation account and cash flow statements etc.

Balance sheet is a financial statement of greater importance. In fact it is called the fundamental accounting report. Balance sheet provides the value of firm's assets (what the firm owns), liabilities (what the firms owes outsiders), and equity (what the inside shareholders own) on a particular date. Hence, the balance sheet shoes then assets, liabilities and equity of the firm as of the given date (generally last date of accounting period).if is a static statements as is shows the position of business at a certain Moment of time. if provides a snapshot of the financial position of the business at the closing of the accounting period . if can be prepared either in account form as statements form. “Balance sheet contains information about resource and obligation of a business entity and about its owner's interest in the business at particulars point of time. (Ralph D.kenneely and stew ant Y.Mc Mullen, op.cit.P1

f properly prepared and certified by an independents auditor, the balance sheet is very useful to give a clear and accurate picture of firm's financial position. When used in conjunction with an income statement and other financial data, the balance sheet provides valuable information on the firm. Financial ratios can be developed to gain an insight into the liquidity, solvency and profitability aspects of the business. This is particularly true because most balance sheets are comparative. A comparative balance. Sheet displays the current balances and the prior year's balance of each account in tour columns. This allows the analyst to compare the beginning and end of year's position and to measure the changes in each amount during the course of the year.

Profit and loss statement is another major financial statement, which is also known as income statement. The profit and loss statement is a statement of

revenues earned and the expenses incurred for earning that revenue. If there is an excess of revenue over expenditure, it will show a profit otherwise loss. Moreover, as the profit and loss statement of a bank present the summary of revenue, expenses, net profit as loss of a bank for a particular period of time; it serves as a measure of the bank's profitability. It provides information on the various revenue generated during the certain period and expenses incurred by the firm during that period.

“The profit and loss account is condensed and classified record, prepared from various subsidiary and nominal accounts of the gains as losses to the business for a period of time.”(S.B. Chaudhary, Management accountancy, Kalyani publisher, New Delhi, 1978, P.21.)

It is a report of the firm's activities during a given period (normally one year). It shows the revenue and expenses of the firm, the effect of interest and taxes and the net profit for the period. It reflects the earning capacity and potentials of the firm.

Profit and loss appropriation account is the statement showing the balance in retained earnings after making adjustments for current profits and current dividend. The statement of retained earnings or profit and loss appropriation account acts as a link between the income statement and the balance sheet. The closing balance in retained earnings equals.

Opening balance + current net income – dividends

Cash flow statement is a statement of changes in financial position on cash balance. It is a statement of recording systematically all inflows and outflows of cash of the accounting period. It summarizes the causes of changes in cash position between dates of the two balance sheets. It indicates the sources and uses of cash.

Cash flow statement concentrates on transactions that have direct impact on cash. “Cash flow means inflows and outflows of cash during accounting period. From the beginning of the year up to the end of the year cash is

received from various sources and spent on various heads. Incoming and outgoing of cash is termed as cash flow.” (Pillai and Bagavathi, op.cit.p.1437.)

“Cash flow statement is a statement of change in financial position, based on cash concept of funds. In the preparation of such a statement all items that increase/ decrease cash are included but all those which have no effect on cash are excluded. Hence, it essentially a tool of short term financial planning.”(M.Y. Khan, and P.K. Jain, Management Accounting, Tata Mc Graw Hill Publishing CO. Ltd.,New Delhi, 2000,p.3.24)

These above mentioned financial statements of banks contained summarized information of financial affairs as well as other many important aspect of bank in an organized and systematic way. “Financial statements attempt to do several things. First they partray the assets and liabilities of a business firm at a moment of time, usually at the end of the year. This portrayal is known as the balance sheet. On the other hand, an income statement portrays the revenues, expenses, taxes and profit of the firm of a particular period of time, again usually a year. While the balance sheet represents an snapshot of the firm’s financial position at a movement in time; income statement depicts its profitability over time. “James C.van horne, fundamntls of financial management, prentice hall, New Delhi,1984,P.)

2.1.3 Financial statement Analysis:

Financial statements analysis is a major tool to analyze the firm’s financial performance and its position. soundness. of the financial performance Of a firm can be detrained only through the critical analysis of financial statements. A poor financial analysis may lead the firm to become failure. By comprehensive analysis of financial performance, a firm can evaluate its past and present position and can mare a better five planning and improvement toward goal achievement. Users of financial statement can get better insight about financial strength and weakness of the firm if they properly analyze information reported in those statement financial statement analysis is the

starting point for making plans before using any sophisticated forecasting and planning procedure.

“the analysis of financial statement is a process of evaluating relationship between component part of financial statement to obtain a better understanding of the firm’s position and performance” [R.W.Metcalf and P.L.Titard,principles of accounting(Philadelphia),W.B.saunders,1976,P197.]

“Financial statement analysis is an information processing system designated to provide data for decision making. The process of analysis of financial and operating data and the preparation and interpretation with measuring devices such as ratios, trends and percentages”. (N.P.agrawal, analysis of financial statements, Natisnal Publishing House New Delhi, 1981,P.5.)

“Financial statement analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the terms of balance and the profit and loss account” [I.M.Panday ,financial statement, vikash publishing house, New Delhi,(1993),P.96.]

“The analysis of financial statements refers to the financial statement in a way so as to afford a full diagnosis of the profitability and financial position of the firm concerned. For this purpose, financial statements are classified methodically, analyzed and compared with the figures of previous year as other similar firm.”(S.P. Jain and K.L.Narang, advanced accountancy, kalyani Publisher, New Delhi, 191, P.4)

Financial statement analysis thus assists the management to take benefit of the strategic management techniques by providing the management with the information regarding the strength and weakness of the firm so as to exploit the opportunities lying in the environment and managers the threats posed by the environments. The major purpose of financial statement analysis is to get detailed knowledge of financial/ economic condition of firm financial analysis flow the information about relationship of several items shown in financial

statements, involves analyzing the firm's financial statements to extract information that can facilitate decision-making. An analysis of financial statements can reveal whether the firm will be able to meet its long-term debt commitment; whether the firm is financially distressed; whether the firm is using its physical assets efficiently; whether the firm has an optimal financial mix; whether the firm is generating adequate returns for its shareholders; and whether the firm can sustain its competitive advantage.

“A number of factors should be taken into account in analyzing financial statements. One of the basic rules to observe in utilizing financial information is to be sure to know the rules under which the information was prepared. Also the statements must be interpreted. The use of standard ratios, especially comparing them to industry forms, can be very revealing to an analyst (to develop and use a wide range of ratios and other diagnostic devices).” (Harold Bierman, Jr. and Seymour Smith, *Financial Management for Decision Making*, McGraw-Hill Publishing Company, New York, 1986, P. 568.)

After analysis of financial statements, their interpretation is most necessary. Interpretation is impossible without analysis and without interpretation analysis has no value. In fact, analysis means breaking down a complex set of facts or figures into simple elements and interpretation means to put the meaning of the statement into simple terms and to explain in such a simple language of the financial position and earning capacity of the firm which can be understood even by a layman, who does not know accounting. Thus, interpretation acts as a bridge between the act of recording and reporting financial information and the act of using this information. So analysis refers to the process of fact-finding and breaking down a complex set of figures into simple components while interpretation stands for explaining the real significance of these simplified components. Interpretation is a mental process based on analysis and criticism and it is dependent on the interpreter himself. It is the drawing of inferences and stating what the figures in financial statements actually mean. The most important objective of the interpretation of financial statements is to understand

the significance and meaning of financial statements data to know the strength and weakness of the business so that a forecast may be data of the future prospects of the business.

I. Working Capital

Working capital means the excess amount of current assets over current liabilities. Working capital management involves the relationship between a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure the firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable and cash. In other word, it is the management of current assets and current liabilities of a firm. Current assets represent the asset which normally gets converted into cash within a year. For example cash, marketable securities, sundry debtors, bills receivable and inventory. Current liabilities, those are normally payable within a year. Bank overdraft, sundry creditors, current liabilities are the example of current liabilities.

Working capital is known as an important decision making area of financial management of an enterprise. It requires understanding of method for raising and allocating financial resources method by short term investments and financial decisions making paying attention to the overall objectives of the firm and now to relate short-term and long-term financial decision making. The success and failure of any business organization is heavily dependent upon the sort of efficient in its working capital management.

Working capital management is a process of short term decisions making regarding the current assets and affecting the long-term operation of an organization. It is a process of planning and controlling the level and mix of current assets of the firm as well as financing their assets it includes decisions regarding inventories and current liabilities with an objective of maximizing the value of firm.

Every firm wants to maximize wealth of its shareholders. In order to get mission it has to perform much function for this, the firm has to determine the suitable current assets investment policy, Maintain proper relation of current assets with fixed and total assets and finance the currents with short term as well as long-term sources. Thus the better performance of current assets is the integral part of working capital management.

There are two concept of working capital net concept and gross concept. The gross concept of working capital denotes short-term assets only, it does not include short term liabilities. Net concept of working capital refers the difference between current assets and current liabilities. Net working capital can be positive or negative.

II. Receivable Management

Receivable management is considered as an essential marketing tool acting as a bridge for the Movement of goods through production and distribution stages to customers. A firm grants trade credit to protect its products at favorable terms; when the firm sells its products or service and does not receive cash for it immediately, the firm is said to have granted trade credit to customers. Trade credit, thus creates receivable which the firm is expected to collect the near future. So it is most prominent force of the model business. The term receivable is defined as. "Debt domed to the firm by customers arising from sale of goods or services in the ordinary course of business." (D.M Jay, Introduction of financial management, Irvin, Home, wood .1977, P.156).

In simple word, amount due form customers is known as receivable. Receivable represent Investment. Firm would in general. Rather sell for cash them on credit, but competitive pressure for most firm's to offer credit. Thus, goods are shipped inventories are reduced and an account receivable is credited. Eventually, the customer will pay the account at which time a) the firm will receive cash and b) its receivable will decline. Carrying receivable has both direct and indirect cost but it also has a crucial advantage increased sales. As substantial amounts are tied up in receivable they need a careful

analysis and proper management. The receivables are also known as account receivable, customer receivable, sundry receivable, and trade debtor trade acceptance book debt bills receivable .etc.

In any sizeable business organization, the bulk of sales would be on credit. This is borne out by the fact that credit allowed to customers always enables the concern to increase sales. No business can run without credit sales plays a vital role in the development and expansion of market for each and every firm whether it is small or big. So the company should keep some provision for credit. Sales, which will definitely increase the level of receivables. In this sense, receivables play an important role in ensuring a higher turnover for the firm concerned. Receivables constitute a substantial portion of current assets of several firms and occupy second important place after inventories.

III. Inventory Management

The literary meaning of inventory is stock of goods. The various forms of material held by an organization are known as inventory. The basic types of inventory are raw materials; work in progress, finished goods inventories. It refers to the work pile stock of products of a firm is offering for sales and components that make up the product. In financial parlance, inventory is defined as the sum of value of raw materials. Fuels, lubricants, spare parts, maintenance, consumer goods, semi-processed materials and finished goods stock of any given point of time. To expand the definition of inventory and make it applicable to manufacturing firms. It can be stated that items of tangible personal property which are held for sale in the ordinary course of business and are in the process of production for such sale and are to be currently consumed in the production of goods or services to be available for sale. Therefore, inventory includes different types of consumable goods stock held by an organization. The basic reason for holding inventory is to keep up the production activities unhampered. Inventory is one of the most liquid assets to many businesses

concerns. It is also equally important to both governmental as well as non governmental sections, inventory, by nature a circulating capital and exhausts frequently either consumption or sale or by fire or other natural calamities. It occupies a large percentage of the working capital employed by a firm. Firms generally maintain some inventory stock to achieve a desired level of sale. The major goal of inventory management is to determine and maintain the optimum level of inventory management. Thus, purchasing, economically, using appropriately and preserving carefully is the main objectives of inventory management. In other words, optimum investment inventory is the essence of inventory management. In this modern era, inventory management plays a significant role in each and every organization whether small or big. Managing inventory is one of the crucial roles of financial manager as it covers a huge part of current assets and the finance manager should have efficient and effective control over asset being produced to be sold in the normal course of the firm's operation. The return on investment depends on a great deal on manner the inventories are managed. As it is quite clear that management should involve adequate attention to the inventory management to reduce the cost of production and working capital requirement. Thus, inventory management is and use of inventories so as to ensure the availability of inventory whenever needed, provide adequate cushion for contingencies and derive maximum economy and minimum wastage losses.

IV Cash Management

There are various sources of working capital management. Generally, there are three sources of working capital, cash, receivable and inventory.

Cash is the most important current assets for the operation of the business. Cash is the basic input needed to keep the business running on a continuous basis. It is also the ultimate output expected to be realized by selling the service or product manufactured by the firm. The firm should keep appropriate level of cash, neither more or less. It should be managed well, which the firm cash

disburse immediately without any restriction. (Pandey, I.M., Financial Management, Vikash Publishing House, India, 1979, p.836)

Cash refers to all the money's items that are immediately available to help to pay a firm's bill on the balance sheet; a firm will normally list cash assets in two categories. Cash and marketable securities. Cash, assets are coin and currencies held by the firm to cash register and petty cash where marketable securities include the firm short-term investment on treasury bills, commercial paper, negotiable time certificates and deposit etc. done from excess cash.

Cash is required to meet a firm's transaction and precautionary needs. A firm needs cash to make payment for question of resources and services for the normal conduct of the business. It needs additional funds to meet any emergency situation. Some firm may also maintain cash for taking advantage of speculative change in price of input and output. Management of cash involves three things.

- a) Managing cash flows in and out of the firms.
- b) Managing cash flows within the firm and
- c) Financing deficit or investing surplus cash and thus, controlling cash balance at a point of time. It is an important function in practice because it is difficult to predict cash flows and there is hardly any synchronization between cash inflows and outflows. The main goal of the cash management should be maintain to adequate cash position to keep the firms sufficient liquid and to use excessive cash in same profitable way.

The management of cash is also important because it is difficult to predict cash flows. Payment for taxes, dividends, seasonal inventory etc. built up will exceed cash inflow. At other times, cash inflows will more than cash payments because their may large cash leads and debtors may be realized in large sums promptly.

Cash management is on the main area of working capital management. The cash is the most liquid assets. So it should be never under estimated. It

should be managed well. The cash management involves formulation of policies and programmers for cash receipt and cash payment. For meeting day to day transaction and unforeseen contingencies, a firm has to hold cash.” (Pandey, I.M. Financial Management, Vikash Publishing House, India, 1979, p.237)

2.2 Tools for Evaluating Financial Performance:

For evaluation of financial performance of a business, there are number of tools and techniques. Analysis should choose the best tools suitable for his analysis, some relevant tools and techniques for the study are theoretically reviewed here.

I Ratio Analysis:

Ratio analysis is the systematic use of ratio to interpret the financial statements so that the strengths and weaknesses of a firm as well as its historical performance and current financial condition can be determined (Khan and Jain: 80).

A comparative study can be made between different statistics concerning varied facets of a business unit with the help of ratio analysis. Besides, just as the blood pressure, pulse and temperatures are the measures of the health of an individual, so does ratio analysis measure the economic, and financial health of a business concern. In a nutshell, economic and financial position/performance of a firm can be fully x-rayed through ratio analysis (Kothari, 1990:487).

After calculating various ratios, we need some standard for comparison to draw conclusion from the result. The standard of comparison may be of four types: (i) ratios calculated from the post financial statements of the same firm, (ii) ratios developed using the projected or pro forma, financial statements of the some firm, (iii) ratios of some selected firms, especially the most progressive and

successful, at the same point in time, and (iv) ratios of the industry to which the firm belongs (IM Pandey, op. cit 110).

Western and Brigham have classified ratios into six fundamental types via. (i) liquidity ratios, (ii) leverage ratios, (iii) Activity ratios (iv) profitability ratio (v) growth ratios and (iv) valuation ratios. Among these types of ratios, the first four types are popular and widely used. Growth ratios measure the firm's ability to maintain its economic position in the growth of the economy and industry and valuation ratios are the most complete measure of performance because they reflect the risk ratios (the first two) and the return ratios (the following three).

A ratio is defined as, "the indicated quotient of two mathematical expression and as" the relationship between two or more things" (Mass and Marrian 1975:958).

In this financial analysis, the relationship between two accounting figures, expressed mathematically, is known as financial ratio. Ratio helps to summaries the large quantities of financial data and to make qualitative judgment about the bank's financial performance.

From the view point of this study, ratio has been classified in following below:

1. Liquidity Ratios

Liquidity ratios are the indicator of short-term solvency or financial strength of the firm. It is the measurement of speed with which a banks asset can be converted into cash to meet deposit withdrawal and other current obligations.

a. Current Ratio

Current ratio shows the relationship between current assets and current liabilities. It can be computed by dividing current assets by current liabilities.

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Current ratio comprises cash and bank balance, receivables (Book debts, Bills Receivable), inventory or stock, marketable securities or short term investments, prepaid expenses, short-term loan and accrued income, advances etc. Likewise current liabilities include all obligations maturing within a year and are represented by creditor bills payable. Outstanding expense, bank overdraft, dividend payable, tax payable, short term loan and long term loan maturing during the year etc.

Current assets include all these assets which are in the form of cash can be converted into cash in a period of one year, current ratio has a standard measure of 2:1 or that the current assets should be two times or 200% of the total current liabilities.

b. Cash and Bank Balance to Total Deposit Ratio

This ratio measures the percentage of most liquid fund with the bank to immediate payment to the depositors. This ratio is computed by dividing cash and bank balance by total deposit. This can be presented as follows.

$$\text{Cash and Bank Balance to total deposit} = \frac{\text{Cash and bank balance}}{\text{Total deposits}}$$

c. Cash and Bank Balance to current Assets Ratio

Cash and Bank Balance are the most liquid current assets. This ratio measures the proportion of the most liquid assets i.e. cash and bank balance among the total current assets of bank higher ratio shows the bank ability to meet the demand for cash. This ratio is computed by dividing cash and bank balance by current assets.

$$\text{Cash and Bank Balance to current Asset} = \frac{\text{Cash and balance}}{\text{Current assets}}$$

d. Investment on Government Securities to Current Assets Ratio

Most of the firm has invested their fund on government securities. This ratio measures to find out the percentage of current assets invested on government securities (treasury bills, bonds) this ratio is computed by dividing investment securities by current assets.

Investment on Govt. Securities to Current assets =

$$\frac{\text{Investment on government securities}}{\text{Total Current assets}}$$

2. Assets Management Ratio

The bank or any firm has to manage the resources in a good way otherwise it's very difficult to run. Assets management ratio measures how efficiency the banks manages the resources at its command. The following ratios are used under this ratio.

a. Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how the banks are utilizing successfully their total deposits on loan advances or profit generating purpose. Greater ratio implies the better utilization of total deposits. This ratio can be computed by dividing loan ad advances by total deposits.

$$\text{Loan and Advances to Total Deposit} = \frac{\text{Loan and advance}}{\text{Total deposits}}$$

b. Total Investment to Total Deposit Ratio

Investment is one of the most important factors to earn income. This implies the utilization of firm's deposit on investment on government securities and share debenture of other companies and bank. This ratio can be computed by dividing total investment by total deposit. This can be mentioned as

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

The numerator consists of investment on government securities, investment on debenture, investment on debenture bonds and shares in other companies and other investment.

c. Loan and Advances to Fixed Deposit Ratio

Each commercial banks fixed deposit should play vital role on profit generating through fund mobilizing its total deposit on fixed and advances in appropriate levels. This ratio measures the extent to which the commercial banks are success in mobilizing fixed deposit on loan and advances for the purpose of income generation. A higher ratio preferable as it includes better mobilization of and a loan and advances and vice versa.. This can be mentioned as

$$\text{Loan and Advance to Fixed Deposit} = \frac{\text{Loan and Advance}}{\text{Total Fixed Deposit}}$$

Here, the total fixed includes all of period of time deposit on balance sheet items. In other words this includes, three month, six month, nine month, one year, two year and three year.

d. Loan and Advances to Saving Deposit Ratio

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

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

e. Fixed Deposit to Total Deposit Ratio

It is the ratio, which shows the percentage of fixed deposit on total deposit. Fixed deposit is one of the major sources of fund, which bears cost at a certain rate and has certain maturity. Hence, this ratio

shows the percentage of total deposit, which bears cost at a fixed rate and calculated by dividing fixed deposit ratio for the entire period of the study. This ratio is computed by dividing fixed deposit by total deposit.

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

f. Saving Deposit to Total Deposit Ratio

It is the ratio which shows the proportion of saving deposit on total deposit. Saving deposit is one of the major sources of fund which bears cost at a certain rate and has no certain maturity. Though termed as current liabilities, it should not be paid back any time. Hence, this ratio shows the proportion of total deposit which bears cost at a saving rate and calculated by dividing saving rate and calculated by dividing saving deposit by total deposit.

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

3. Profitability Ratios

The firm should earn profits to survive and grow over the long period of time but not at the cost of employees customers and society. Obviously, if the firm is not able to make reasonable profits from its operation, it will not run for long time. The profitability ratios are used as a measure to judge the operating efficiency (success or failure) of any firm. Profitability ratios are usually computed by relating it with sales or investment as listed below.

a. Return on Loan and Advances Ratio

This ratio indicates how efficiency the bank has employed its resources in the form of loan and advances. This ratio is computed by dividing net profit by loan and advances. This can be expressed as

follows.

$$\text{Return on loan and advances} = \frac{\text{Net profit}}{\text{Loan and advances}}$$

b. Return on Total Working Fund Ratio

This ratio measures the rate of return earned by the firm as a whole for all its investors. This is why this ratio equals net profit after tax plus interest on debt divided by total assets (exclusive of fictitious assets) are financed by the pool of funds contributed by shareholders and lenders.

$$\text{Return on total working fund} = \frac{\text{Net profit}}{\text{Total Assets}}$$

Higher ratio indicates the higher return on assets or on amount contributed by investors on account of efficiency management assets or capital.

c. Total Interest Earned to Total Working Fund Ratio

This ratio shows the percentage of interest earned on total working fund, higher ratio implies better performance of the bank its terms of interest earning on its total working fund. This ratio can calculate by dividing total interest earned by total working fund. This is expressed as

$$\text{Total Interest Earned to Total Working Fund} = \frac{\text{Total interest earned}}{\text{Total working fund}}$$

d. Total Interest Earned to Total outside Assets Ratio

This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of outside assets to earn interest. This ratio can be computed by dividing total interest earned by total outside assets. This can be expressed as follows.

$$\text{Total Interest Earned to Total outside Assets} = \frac{\text{Total interest earned}}{\text{Total outside assets}}$$

Total interest earned companies total interest income from loan and, advances, cash credit and overdrafts, government securities, bank and other investments. Total outside assets includes loan and advances, bills purchased and discounted and all types of investment.

e. Total Interest Paid to Total Working Fund Ratio

This ratio measures the percentage of total interest expenses against total working fund. Higher ratio indicates the higher interest expresses on total working funds and vice versa. This ratio can be computed by dividing total interest paid by total working fund. This can be expressed as follows.

$$\text{Total Interest Paid to Total Working Fund} = \frac{\text{Total interest paid}}{\text{Total working fund}}$$

II. Correlation analysis

Correlation analysis measures the degree of relationship between the variables. The measure of correlation is called the correlation coefficient. The correlation analysis refers to the techniques used in measuring the closeness of the relationship between the variables. Correlation analysis contributes to the understanding of economic behaviors aid in locating the critically important variables on which others depend, may reveal to the economist the connections by which disturbances spread and suggest to him to paths through which stabilizing forces may become effective (W.A. Neiswanger). To find the relationship between the variables the following item has been taken.

- Total Deposit and loan and advances
- Total Deposit and total investment
- Total outside assets and Net profit

III. Trend Analysis:

Trend analysis is another important tool for analyzing financial position of a firm. By trend analysis we can show the percentage change in different successive years clearly.

“Financial statements data for a number of years may be analyzed by determining and studying the trends of the data shown on the statements. The methods of analysis indicate one of direction upward or downward and involve the computation of percentage relationship that the major statement item bears to the same item in the base year.” (Ralph and Stewart, op.cit, p.220)

Generally, first year is selected as the base year. Trend percentages or relatives the base year emphasize changes in the financial and operating data between specific dates of period and make possible a horizontal analysis and study comparative financial statement data. The analyst compares the trends of related financial and operating data informing an opinion as to whether favorable or unfavorable tendencies are reflected by the data.

“Data may be shown graphically. The old saying, ‘A picture tells more than a thousand words’ has significance in analyzing and presenting financial and operating data. By studying charted data the analyst may obtain an idea of changes that have taken place.” (Ibid, p.212)

2.3 Concept of Commercial Bank and Joint Venture Bank:

It is difficult to give a precise and universal definition of a bank. Various scholars have defined the bank in different ways. The term ‘bank’ is derived from the Italian word ‘Banca’ which means a desk used by money exchangers.

However, there are various types of banking organization, here; emphasis is given to commercial banks because only the commercial bank is concerned in this study. “Commercial bank is the corporation which accepts demand deposit

to cheque and make short term loan to business enterprise regardless of the scope of its other services.”(American Institute of Banking, Principal of Banking Operation, USA, 1972, p.345)

The banks, which perform all kinds of banking business and generally finance trade and commerce, are called commercial banks. “Principally commercial banks accept deposits and provide loans primarily to business firms thereby facilitating the transfer of funds in the economy.”(P.N. Abro, and and o.p Gupta.Dictionary of commerce, Anmol Publications, New Delhi, 1968, p.64)

“A commercial banker is a dealer in money and in substitutes for money, such as checks or bills of exchange. The banker also provides a variety of financial services. The basic of banking business is borrowing from individuals, firms and occasionally governments – i.e. receiving “deposits” from them. With these resources and also with the banks own capital, the banker makes loans or extends credit and also invests in securities. The banker makes profit by borrowing at one rate of interest and lending at higher rate and by charging commissions for services rendered.”(The Encyclopedia Britannica, 15th edition, volume 14, Encyclopedia Britannica Inc,1991,p.600)

Commercial banks of Nepal can be classified into two categories viz domestic commercial banks and commercial banks with foreign collaboration. This study is confined to the commercial banks with foreign collaboration, that is, joint venture banks with foreign collaboration. Joint venture is the joining hands by two or more enterprises/ parties for the purpose of carrying out a specific operation. In global perspective joint venture is the mode of trading through partnership between the nation and also a form of negotiation between various groups of industries and traders. The main purpose of the joint venture is partnership of economies entitles for achieving corporate objective which is difficult to achieve individually. The concept of joint venture is based on the theory of complementation and synergy.

The joint venture banks with foreign collaboration in Nepal have been established under the company act 2053, and now operated under the Banks and financial institution or finance 2061. They have joint venture scheme between Nepalese and foreign parent banks investment each having agreed percentage of shares. The domestic investment has been made by individual investors, financial institutions and non-financial institution and also by general public.

2.4 History of Commercial and Joint venture Banking in Nepal.

In the overall development of banking system in Nepal the 'Tejarath Adda' may be regarded as the father of modern banking institution and for a quite along time it rendered a good service to government staffs as well as to the general public. The concept of financial institutions in Nepal was introduced when the first commercial bank, the Nepal Bank Limited, was established in 1994 B.S., as a semi government organization.

After the establishment of democracy in 2007 B.S. having felt the need of the development of banking sector, Nepal Rastra Bank was established on 14th Baisakh 2013 B.S. under Nepal Rastra Bank act 2012 B.S. Among other objectives of its establishment, one of them is to supervising protect and direct the functions of commercial banking activities.

The Nepal Bank Limited, the only commercial bank was operating at that time had its investment activities limited only in lending to commercial transaction. Investment of bank in industrial and agriculture sector was insignificant, so to develop and promote scientific commercial industrial and agricultural and capital market activities. NBL alone was not sufficient to extent adequate services in the national economy. Thus, another commercial bank, named as Rastriya Banijya Bank, gets established in 2022 B.S.

These two banks – Nepal Bank Limited and Rastriya Banijya Bank were established for the general purpose of expending the financial development and pursuing the financial intermediation process to fulfill the development requirement of the nation. But poor management practice and excessive

political interference and absence of modern managerial concept, these two banks could not satisfy the need of quality and competitive banking services. This situation led the government to open door to the establishment of foreign banks under joint venture scheme in the mid 2040 B.S., consequently Nabil Bank became the first joint venture bank to begin its operation in 2041 B.S. moreover, the economic liberalization process initiated by the government after 2043 B.S, resulted in the flow of private and joint venture banks of the country.

During the past two decades, Nepalese financial sector, especially banking sector has undergone a drastic change. The opening up of financial market to foreign joint venture banks, ending monopoly of two state owned banks is really a notable step, after which a number of private foreign affiliated joint venture banks emerged. According to the latest report of NRB, there are 17 commercial banks, operating in Nepal with foreign collaboration.

2.5 Review of Thesis and Articles

2.5.1 Review of Thesis

For the purpose of this study the relevant thesis works are completed by thesis workers regarding the various aspects of banking sector that are discussed as follows.

a. A Thesis made by S.L. Bajracharya (1978).

A study conducted by Bajracharyas S.. reviles in his thesis, "Evaluation of Financial Patterns of Nepalese commercial banks" that though the trend of deposit is increasing, the percentage change in each year is decreasing, commercial banks are contributing to enlarge the gap between collection and utilization of resources. Commercial banks are too liquid oriented to benefit the natural development. In proper utilization of resources in creating sort false in economic up liftmen.

b. A Thesis made by Utam Raj Panta (2003).

Mr. Pant, through his thesis has tried to make attempt to highlight the discrepancy between collection and utilization of resources. He has concluded that due to their lending confined for short term only, commercial banks are failure in resource utilization. In this context, better utilization or resources has recommended that commercial banks should given importance on long term landing too, for sound utilization of the deposits.

c. A Thesis made by Deepak Joshi (1998).

A Study conducted by Deepak Joshi entitled "A Study on commercial Banks of Nepal with special reference to financial Analysis of Rastray Banijya Bank", has concluded that the bank has maintained low liquidity position than required. There is a gradual increase in the amount of funded debt and capital structure. Return on assets is not satisfactory. The research suggests that the bank should invest its resources is more productive sectors and equity financing should be emphasized.

d. A Thesis made by Nagendra B. Amatya.

Likewise a study undertaken by Nagendra B. Amatya entitled, "An appraisal of financial position of Nepal bank limited" found that the liquidity position was fairly maintained and the bank has been found to have adopted conservative financing policy. 'low portion of equity capital has been resorted to finance total assets. The bank has operated successfully beyond the break-even point over the study period. Keeping in mind, it suggests to use equity - capital proportionately.

e. A Thesis made by Bhoj Raj Bohara (1992).

Consequently, a research conducted by Bhoj Raj Bohara entitled, "A comparative study of the financial performance of Nepal Arab bank and Nepal Indosuez Bank limited" concludes that both the bank have been maintaining adequate liquidity to meet their short term obligations and utilizing its deposits satisfactorily. NIBL has been more efficient in this regard. both the banks have

highly gendered capital structure, capital adequacy ratio of both the banks have been maintained in excess than actually required. The research suggests in increasing its equity capital financing in order to reduce its financial risks.

f. A Thesis made by Rajiv Malla (2005).

A study conducted by Rajiv Malla entitled, "A Comparative financial analysis of Standard Chartered Bank and Nabil Bank Limited" has concluded that the concern authority of SCB should focus on interest income as it is decreasing and lower than Nabil's. There could be may research like non payment of interest by client in time, improper vitalization of assets, low level of investment. These problems can be solved by efficient management of loans and advances focusing on recovery of interest in time and finding new area of investment.

2.5.2 Review of Article

The person's opinions or views expressed regarding commercial banks as well as Joint Venture Banks and their activities on Journals, Books and booklets, magazines etc. are focused as follows.

An article written by Radha Krishan Poudel on "Banking: Challenge Ahead" Focuses in the potential area 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 the foreign exchange rate but not to the growth in the real sector of the economy. Therefore, to sustain the current financial position in the long run, banks should enter new areas by marketing their credit in important sub-sectors such as hydro electricity, tourism, irrigation etc. (Radha Kishan Poudal, Banking: Challenge Ahead).

Another useful contribution made by Narayan Pd. Poudel in his article called 'Financial Statement Analysis' published in Nepal Rastra Bank Samachar on 2053 is reviewed. According to Mr. Poudel, Balance sheet, profit and loss a/c and the accompanying notes are the most useful aspects of the bank. We

need to understand the major cartelistic of bank's balance sheet and profit and loss account. The banks balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loan. Fixed assets account forms a small portion of total assets, financial innovations, which are generally contingent in nature, are considered as off - balance sheet items. (Mr. Poudel Financial Statement Analysis, An approach to evaluate bank's performance, NRB Samachar, An annual publication, 2053)

According to Poudel, the principal objectives of analyzing financial statements are to identify:

- Financial adoptability (liquidity)
- Financial performance (profitability) and
- Financial position of the bank (silvery)

A study conducted by Prof. Manohar Krishana Shrestha entitle Shareholder's Democracy and Annual General Meeting Feedback Portfolio Analysis concludes about the financial performance of Nepal Grind lays Bank Ltd. that "there is a positive change in return on equity, dividend per share, earning per share, market price per share and dividend payout ratio and there is a negative change in current ratio, loan to deposit ratio and price earning ratio".(Prof. Shresha, Manohar Krishna, Shareholder's Democracy and Annual General Meeting Feedback: Portfolio Analysis, Nepal Publication KTM, P 83, 1999)

2.6 Justification of the Study/Research Gap

Most of the users of financial statements are interested in assessing the overall performance i.e. profitability which is affected by the following factors:

- a. The structure of balance sheet and profit and loss account.
- b. Operating efficiency and internal management system.
- c. Managerial decision taken by the top management regarding interest rate, exchange rate, lending policies etc.
- d. Environmental changes (technology, government, competition, economy).

Many research have been conducted on the financial matters but were limited to liquidity, profitability as well as leverage of the firm. Hence, the present study is concerned to focus on various aspects of financial ratio as well as various statistical tools in order to evaluate both the giant banks, i.e. Standard Chartered Bank Nepal limited and Himalayan Bank Limited in distinct way.

Keeping in view the fact that there is no comparative study of standard chartered bank Nepal limited and Himalayan Bank limited. The concerned banks are the leading joint venture banks of the country having huge market. The above mentioned works deal on traditional concept only. To get more accuracy in result, this study has been concluded to focus on both modern concept. The researcher has covered five fixed years (2003/04 to 2007/08) to analyze the liquidity position. Assets management position, profitability position, growth ratio. This study examines recent secondary financial data using coefficient of correlation, trend analysis. The researcher chooses this subject to throw light on financial performance and to suggest the possible measures for micro analysis (such as deposit transit on loan) of the bank. To know the significance to the shareholders, depositors, customers and general public etc.

CHAPTER THREE

RESEARCH METHODOLOGY

Research Methodology may be defined as a systematic process that is adopted by the researcher in studying a problem with certain objective in view. Research Methodology is a broad concept, which comprises tools and techniques used to analyze the data as well as logic behind their application. Here one should think why it is to be followed in order to solve the problem.

The basic objective of this study is to analyze the financial performance of Standard Chartered bank and Himalayan Bank Limited Comparatively. To achieve the desired objectives of the research study, an appropriate research methodology has to be followed. In this chapter focus of the research has been made on research design, nature and sources of data, population and sample, data collection procedure, data processing and tools used for analysis.

3.1 Research Design

The research design followed by us for the purpose of this study is basically the comparative evaluation of financial performance of SCBNL and HBL. For evaluating the financial performance of these banks both the analytical as well as descriptive approaches are used. Analysis is mainly based on the secondary information, and the financial statements of the last five year.

3.2 Population and Sample

Presently twenty five commercial banks are under operation in Nepal (See:1.2.1). These constitute the population of the present study. However, due to resource and time constants only two banks - SCBNL and HBL - are selected as Samples. The idea behind selecting these two banks.

1. Standard Chartered Bank Nepal Limited
2. Himalayan Bank Limited

3.3 Sources and Type of Data

The Study is based on Secondary data. The required data were directly obtained from financial statements. Such as Balance Sheet and Profit and Loss account of the concerned banks.

The major sources of information collection are as follows:

- Financial report of listed companies, published by security board of Nepal.
- Annual reports of concern commercial banks (from 2003/04 to 2007/08).
- Journals, government and non-government publication other supportive books and mostly websites of the companies.
- Other related published and unpublished documents.

3.4 Data Gathering Instrument and Procedures

These are different instrument and procedures of used to collect data. Most used instruments are as follows:-

1. Browsing in the internet.
2. Self inquiry in the banks/institutions.
3. Secondary data like previous thesis of ex-students, magazine, and bourses etc.

3.5 Tools and Techniques of Analysis

In this study, only financial and statistical tools are used for the analysis of data. The procedures of analyzing data are described as follows.

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 result.

3.5.1 Financial Tolls

3.5.2 Statistical Tolls

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.

In details, Ratio Analysis (See:2.4, Financial Performance- Ratio Analysis)

3.5.2 Statistical Tools

Statistical tools help to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan and advance or investment on other companies. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical tools such as standard deviation, Karl Pearson's coefficient of correlation, trend analysis adopted which are as follows:

a. 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 a whole group of which it is a part as typical of all the values in the group. Out of various measures of statistical tools, arithmetic mean is one of the useful tools applicable here. It is easy to calculate and understand and based on all observations. Arithmetic mean of a given set of observations is their sum divided by the number of

observations. In general, if x_1, x_2 and $x \dots\dots\dots x_n$ are the given observations. Then, arithmetic mean usually denoted by \bar{x} is given by

$$\bar{X} = \frac{X_1 + X_2 + X_3 + \dots\dots\dots + X_n}{n}$$

where, n = number of observations

b. Standard Deviations

The measurement of the scatter ness 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 the standard deviation mean of high degree of uniformity of the observation as well as homogeneity of the series a large standard deviation means just the opposite. In this study standard deviation of different ratio are calculated. The following formula is used to calculate.

$$S. D = \sqrt{\frac{\sum X^2}{N} - \left(\frac{\sum X}{N}\right)^2}$$

c. Coefficient of Variation (CV)

The Coefficient of variation is the relative measure of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in present symbolically,

$$CV = \left(\frac{\text{Standard Deviation}(\sigma)}{\text{Mean}(\bar{X})}\right) \times 100\%$$

d Coefficient of Correlation (r)

Correlation analysis contributes to the understanding of economic behaviors, aids in locating the critically important variables on which others depend, may reveal to the economist the connections by which disturbances spread and suggest to him to paths through which stabilizing forces may become effectives (W.A. Neiswanger). The 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 donate 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 value of the other variable. In this study coefficient of correlation of correlation is calculated between a MVPS and BVPS, ROE and HPR. The degree of association between the two variable, say x and y and is defined by correlation coefficient (r).

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

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 coefficient of determination (r²)

The coefficient of determination is the measure on the degree of linear irradiation or correlation between two variable, 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.

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

d. 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,

r^2 = 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.

e. Trend Analysis

Under this topic we analyze and interpret the trend of deposits, loan and advances, investment and net profit of EBL and KBL that helps to make forecasting for next five years. The following trend value analysis have been used in this study.

Trend analysis of total deposit, loan and advance, total investment and net profit. The trends of related variable can be calculated as,

$$y = a + bx.$$

3.6 Limitations

1. Analysis is based on only two commercial joint venture bank as a sample study which may not represent the accurate image of banking sector.
2. The study is only based on financial aspects of these banks.
3. These in time constraint of only five years period.
4. Only certain related factors are considered.
5. Analysis is based on secondary data's so, the credibility and adequacy of the data affect the analysis.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

This chapter is an analytical chapter, where an attempt has been made to analyze and evaluate main financial items, which have an impact on comparative financial analysis of Standard Chartered Bank Nepal limited and Himalayan Bank limited. In this study those ratios are calculated and analyzed that are important in evaluating the compare of two commercial bank.

4.1 Financial Tools

Financial analysis involves identifying the financial strength and weakness of the organization by presenting the relationship between items of balance sheet. Ratio analysis has been mainly used for the analysis of data to get the objectives. There are various financial ratios related to investment management and fund mobilization, have been presented and discussed in order to evaluate and analyze the performance of three joint venture banks. The ratio are designed and calculated to highlight the relationship between financial items and figures. These calculations are based on financial statements of concerned joint venture banks. The financial ratios that are calculated for the purpose of this study are as follows:

- a. Liquidity Ratio
- b. Asset Management Ratio
- c. Profitability Ratio
- d. Growth Ratio

4.1.1 Analysis of Liquidity Ratios

Liquidity ratio measures the firm's capability to meet its current obligation. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community, demand for the deposit withdrawals, pay maturity in time and convert non cash assets into cash to satisfy immediate need without loss to bank and consequent impact on long-run profit. The following ratios which measure the liquidity position of banks are calculated.

I. Current Ratio

Meaning: This ratio establishes a relationship between cash and bank balance to total deposit.

Relation: The ratio between the cash and bank balance and total deposit measure the ability of banks highly liquid or immediate funds to meet its unanticipated calls on all types of deposits.

Standard: Higher ratio indicates the greater ability to meet the sudden demand of deposits and vice versa. But too, high ratio is undesirable since capital will be tied up and it will maximize the opportunity cost. The ratio is calculated by dividing cash and bank balance by total deposit. Generally, accepted current ratio is 2:1, however, it is accepted 1:1 too for banking and seasonal business.

Implication: It is clear from the above table that SCBNL and HBL have maintained current assets more than their current liabilities. Both banks are capable enough to pay their current obligations SCBNL has the highest current assets of 1.0226 in the F/Y 2006-07 and the lowest is 0.946 in the F/Y 2008/09 respectively.

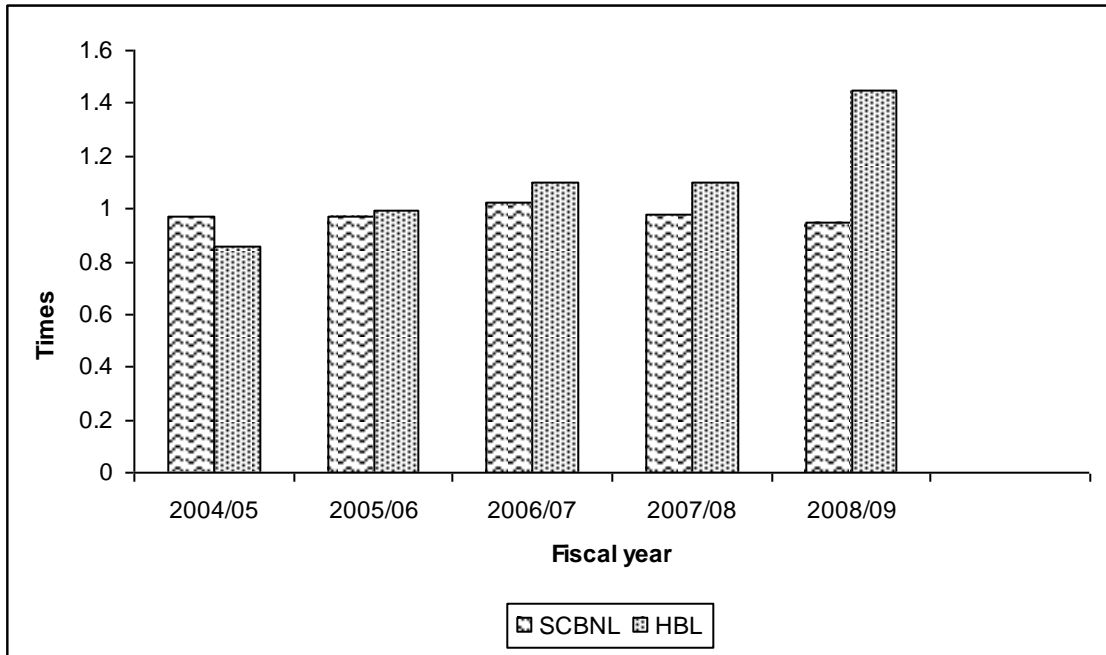
This ratio is obtained by dividing current assets by current liabilities

Table 4.1
Current Ratio (Times)

Fiscal Year	SCBNL	HBL
2004/05	0.971	0.854
2005/06	0.9688	0.993
2006/07	1.0226	1.098
2007/08	0.981	1.103
2008/09	0.946	1.446
Mean	0.98	1.10
S.D	0.03	0.22
C.V.	2.87%	19.22%

Source: Appendix No. (1) (i)

Figure 4.1
Current Ratio (Times)



Analysis of Information: The average mean ratio of HBL is higher than SCBNL i.e. $1.10 > 0.98$. This shows that HBL liquidity position is better than that of SCBNL. The lower degree of standard deviation and coefficient of variation suggest that both the banks have maintained consistency in their ratio. Though as per the conventional rule current ratio should be 2.1 but for banks any current ratio above 1 also considered healthy and sound.

II. Cash and Bank Balance to Total Deposit Ratio

Meaning: This ratio establishes a relationship between cash and bank balance to current assets.

Relation: This ratio examines the banks liquidity capacity on the basis of its most liquid assets i.e., cash and bank balance. This ratio reaches the ability of the banks to make the payment of its customer depositors.

Standard: Higher ratio indicates the greater ability to meet the sudden demand of deposits and vice versa. But too, high ratio is undesirable

since capital will be tied up and it will maximize the opportunity cost. High ratio indicates the sound ability to meet their daily cash requirement of their customer deposit and some earning maybe lost. Similarly, lower ratio is also not preferable as the bank may fail to make the payment against the cheques presented by the customers.

The ratio is calculated by dividing cash and bank balance by total deposits. The cash and bank balance to total deposit ratio of SCBNL and HBL are given below.

Table 4.2
Cash and bank Balance to Total Deposit Ratio

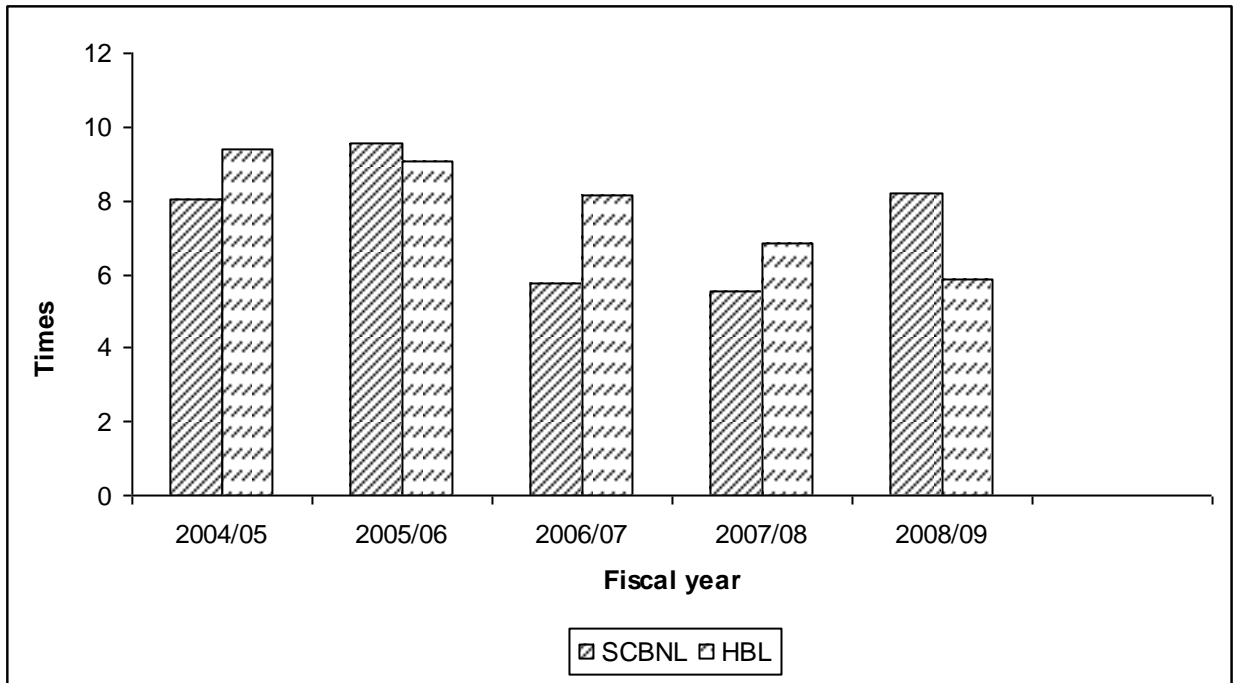
Fiscal Year	SCBNL	HBL
2004/05	8.06	9.42
2005/06	9.56	9.092
2006/07	5.75	8.12
2007/08	5.53	6.84
2008/09	8.21	5.85
Mean	7.42	7.86
S.D	1.73%	1.51%
C.V.	23.31%	19.18%

Source: Appendix No. 1(ii)

The above table shows that the cash and bank balance to total deposit of SCBNL is in fluctuating trend and HBL has decreasing trend during the study period.

Implication: SCBNL had a high ratio of 9.56% in F/Y 2005/06 and low ratio of 5.53% in F/Y 2007/08. Similarly, HBL has a high of 9.42% in F/Y 2004/05 and low of 5.85% in F/Y 2008/09.

Figure 4.2
Cash and Bank Balance to Total Deposit



Analysis of Information: The average mean ratio of HBL is slightly higher than SCBNL i.e. 7.86% > 7.42%. This shows, HBL readiness to meet customer requirement better than SCBNL. The C.V. of HBL is slightly lower than that of SCBNL i.e., 19.18% < 23.31% on its basis, it can be concluded that SCBNL ratios are more consistent than that of HBL.

III Cash and Bank Balance to Current Assets Ratio

Meaning: This ratio establishes a relationship between cash and bank balance to current assets.

Relation: This ratio examines the banks liquidity capacity on the basis of its most liquid assets i.e., cash and bank balance. This ratio reaches the ability of the banks to make the payment of its customer depositors.

Standard: High ratio indicates the sound ability to meet their daily cash requirement of their customer deposit and some earning maybe lost. Similarly,

lower ratio is also not preferable as the bank may fail to make the payment against the cheque presented by the customers. This ratio is calculated by dividing cash and bank balance by current assets.

The cash and bank balance to current assets ratio are presented in the following table.

Table 4.3
Cash and Bank Balance to Current Asset Ratio (%)

Fiscal Year	SCBNL	HBL
2004/05	8.85	12.14
2005/06	10.07	10.76
2006/07	5.529	9.45
2007/08	5.94	7.42
2008/09	9.18	6.33
Mean	7.91	9.22
S.D	2.04	2.37
C.V.	25.83%	25.75

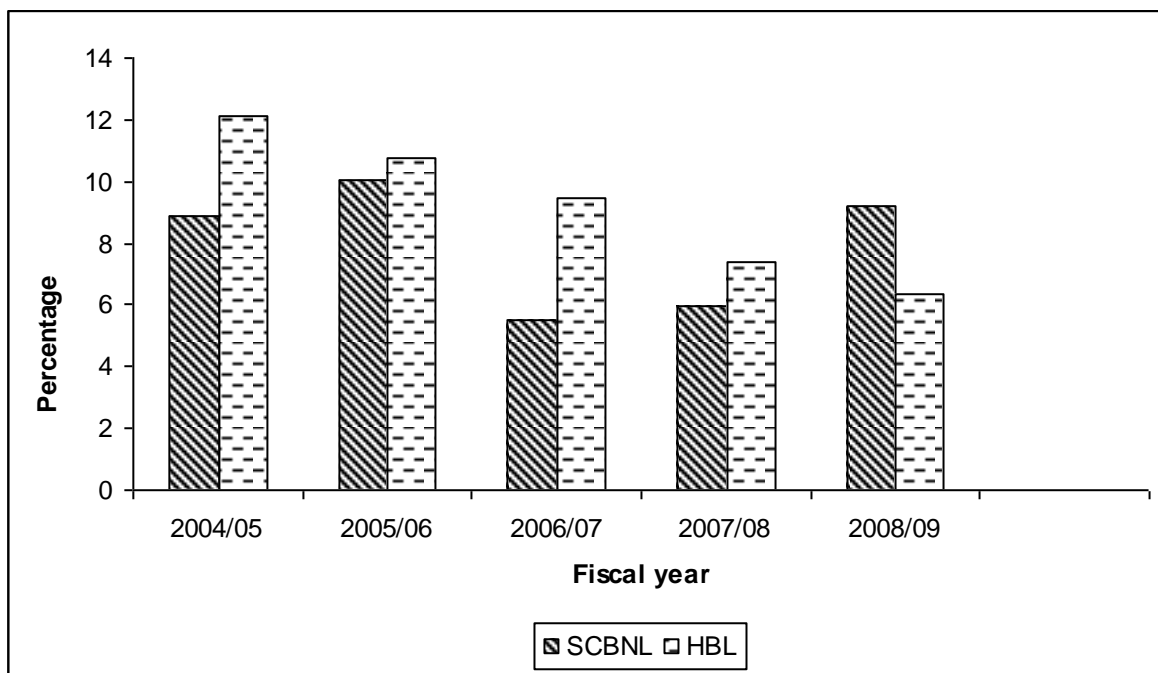
Sources: Appendix No. 1 (iii)

Implication: SCBNL has maintained a high ratio of 10.07% in F/Y 2005/06, and a low ratio of 5.529% in 2006/07. Similarly, HBL has a high of 12.14% in F/Y 2004/05 anticipating higher cash requirement depositors in this F/Y. It has a low ratio of 6.33% in F/Y 2008/09.

The above table shows that the cash and bank balance to current assets of SCBNL is in fluctuating trend and HBL has decreasing trend during the study period.

The average mean ratio of HBL is slightly higher than SCBNL i.e. 9.22% > 7.91%. The C.V of HBL is greater than that of SCBNL i.e. 25.75% > 25.83%. It shows HBL ratios are less consistent than that of SCBNL.

Figure 4.3
Cash and Bank to Current Assets



Analysis of Information: The above table does not show any significant difference between the CBs with regards to meeting customer's daily cash requirement. Both have forced well in meeting their depositors daily cash requirement and investing the surplus fund in other productive areas.

IV. Investing on Government Securities to Current Assets Ratio

Meaning: This ratio establishes a relationship between investing on government securities to current assets.

Relation: This ratio is interested to invest their collected funds on different securities issued by government in different times to utilize their excess funds and for other purpose. Though, government securities are not so much liquid as cash and bank balance.

Standard: Government securities are not so much liquid as cash and bank balance. They can be easily sold in the market or they can be converted into cash on other ways. This ratio helps to examine that portion of banks, current assets, which is invested on different government securities.

This ratio is calculated by dividing investment on government securities by current assets. The investment on government securities to current assets ratio are as follows.

Table 4.4
Investment on Government Securities to Current Assets Ratio

Fiscal Year	SCBNL	HBL
2004/05	38.52	20.54
2005/06	39.56	18.45
2006/07	37.28	25.62
2007/08	40.22	22.22
2008/09	32.27	23.24
Mean	37.57	22.02
S.D	3.16	2.72
C.V.	8.42	12.36

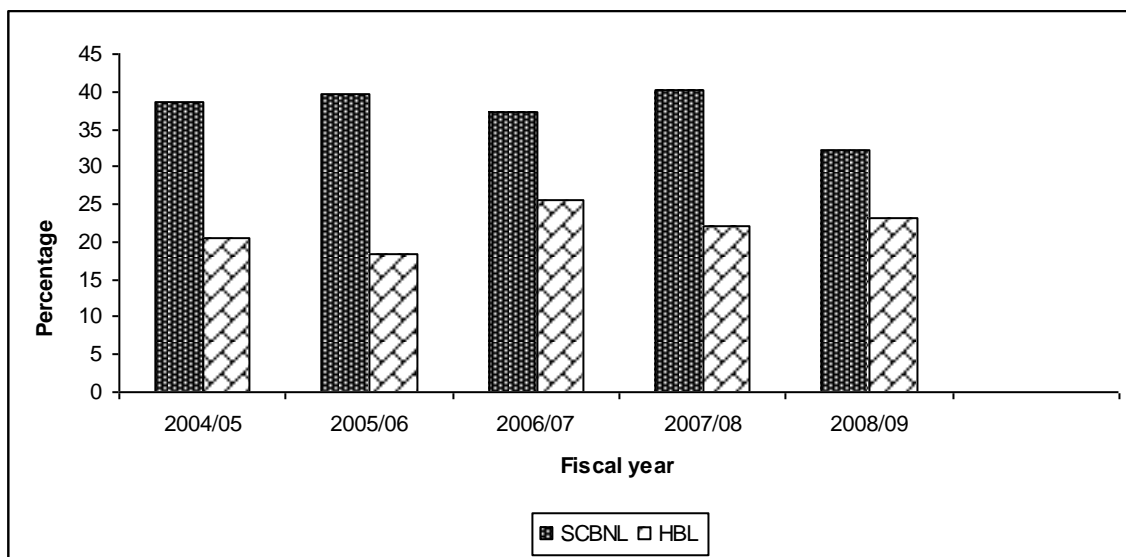
Sources: Appendix No. 1 (iv)

Implication: The above table shows that the investment on Government Securities Current Assets of SCBNL and HBL is in fluctuating trend. Near the less, SCBNL have tried to maintain consistency from F/Y 2005/06 on words. The figure shows that HBL is lower that of SCBNL on investment on Government Securities to Current Assets.

From figure, it is evident that the average mean ratio of SCBNL is higher than that of HBL i.e., $37.57\% > 22.02\%$. Similarly, the C.V ratio of HBL is higher than that of SCBNL i.e. $12.36\% > 8.42\%$. This shows that a greater portion of current assets of SCBNL comprises of government securities. Also, SCBNL investment in government securities to current assets have an increasing trend over the year. From the point of view of C.V.SCBNL ratios have been more consistent.

Figure 4.4

Investment on Government Securities to Current Assets Ratio



Analysis of Information: From the above analysis it is clear that HBL has made lesser investment in government securities as it has injected more funds on other productive sectors. The reason behind SCBNL higher ratio could be attributed to more deposit collection and unavailability of other secured and profitable investment sectors.

4.1.2 Analysis of Assets Management Ratio

A commercial bank must be able to manage its assets very well to earn high profit to satisfy its customer and for its own existence. This ratio measures how efficiently the bank manages the resources at its command. The following ratios measure the assets management ability of SCBNL and HBL.

I. Loan and Advances to Total Deposit Ratio

Meaning: This ratio establishes a relationship between loan and advance to total deposit.

Relation: This ratio is calculated to find out how the banks are utilizing successfully their total deposits on loan advances or profit generating purpose.

Standard: Greater ratio implies the better utilization of total deposits. This ratio actually measure the extent to which the banks are successfully to mobilize their total deposits on loan and advances.

This ratio is calculated dividing loan and advances by total deposits.

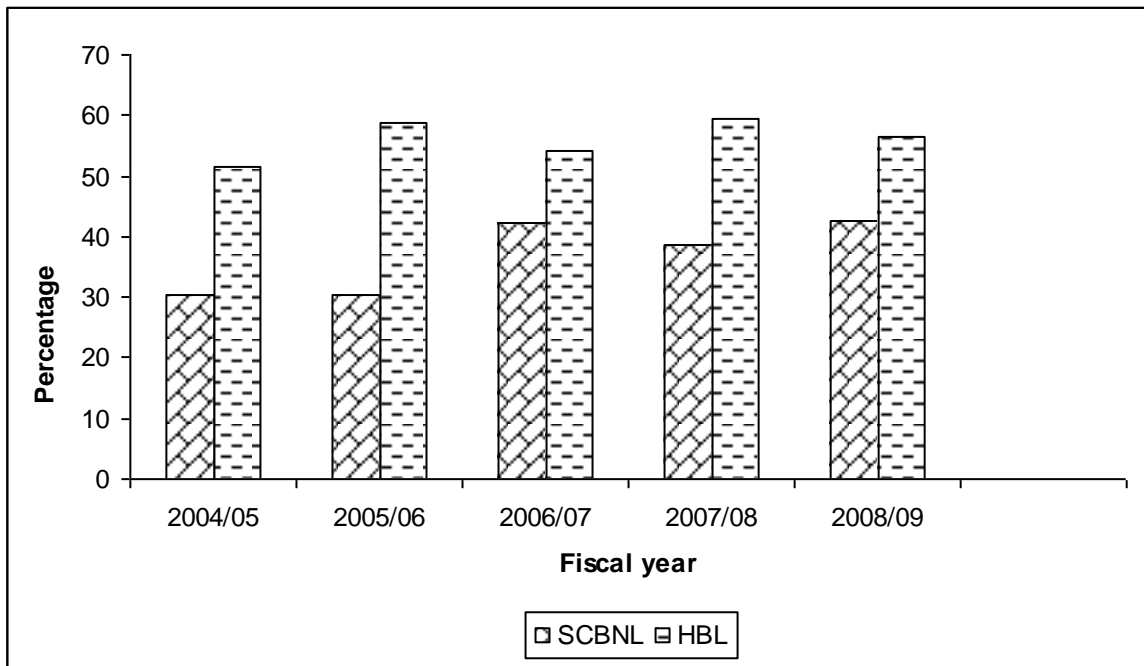
Table 4.5
Loan and Advances to Total Deposit Ratio

Fiscal Year	SCBNL	HBL
2004/05	30.36	51.62
2005/06	30.3	58.7
2006/07	42.12	54.21
2007/08	38.75	59.5
2008/09	42.61	56.57
Mean	36.83	56.12
S.D	6.12	3.25
C.V.	16.6%	5.79%

Sources: Appendix no. 1(v)

Implication: The above table shows that the loan and advances to total deposit of both the banks have a fluctuating trend. SCBNL had a high ratio of 42.61 in F/Y 2008/09. And a low ratio of 30.30% in F/Y 2005/06. Accordingly, HBL had a high of 59.5% in F/Y 2007/08 and a low of 51.62% in F/Y 2004/05 . The mean ratio of HBL is higher than that of SCBNL i.e., 56.12%>36.83%. Similarly, the C.V ratio of SCBNL is higher than that of HBL i.e., 16.6%>5.79%. HBL seems to be strong in terms of mobilization of its total deposits of loan and advances than SCBNL.

Figure 4.5
Loan and Advances to Total Deposit



Analysis of Information: On the contrary, a high ratio should not be perceived as a better state of affairs from the point of view of liquidity, as loan and advance are not a liquid as cash and bank balance and other investment. In Portfolio management of bank various factors such as availability of funds, liquidity requirements central bank norms etc needs to be taken into account.

II. Total Investment to Total Deposit Ratio

Meaning: This ratio establishes a relationship between total investment to total deposit.

Relation: The commercial banks are interested to invest its funds in different securities issued by government and other financial or non-financial companies. This ratio measures the extent to which the banks are able to mobilize their deposit on investment in various securities.

Standard: High ratios indicate the high success in mobilizing deposit in securities and vice versa. Investment is one of the most important factors to earn income. This implies the utilization of firm's deposit on investment on government securities and share debenture of other companies and bank.

This ratio is calculated by dividing total investment by total deposits. The data tabulated below shows the total investment to total deposit ratio.

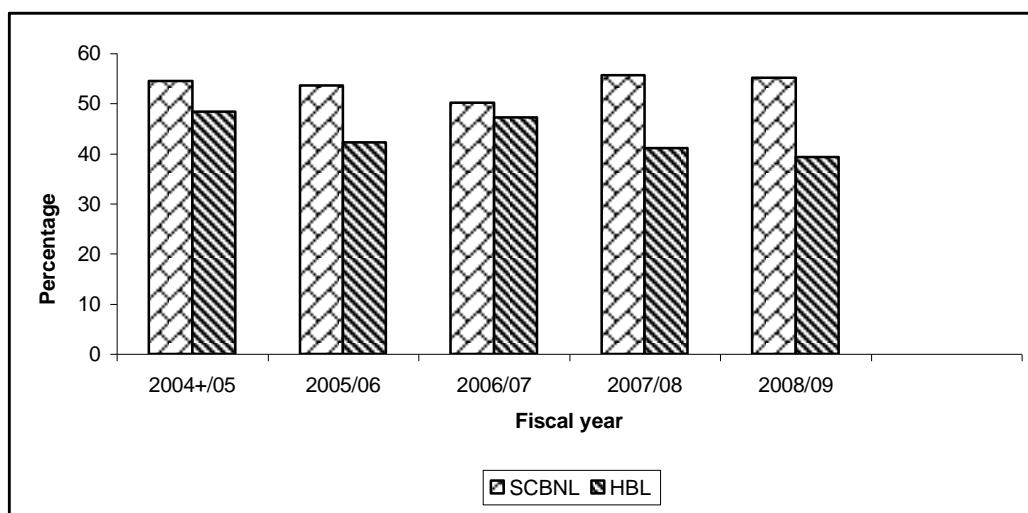
Table 4.6
Total Investment to Total Deposit Ratio

Source: Appendix NO .1(VI)

Fiscal Year	SCBNL	HBL
2004/05	54.47	48.44
2005/06	53.68	42.22
2006/07	50.18	47.2
2007/08	55.71	41.1
2008/09	55.1	39.35
Mean	53.53	43.66
S.D	2.17	3.96
C.V.	4.04	9.06

Implication : The above table, both SCBNL and HBL has fluctuating trend in total investment to total deposit. SCBNL has a high ratio of 55.71% in F/Y 2007/08 and low ratio of 50.18 in F/Y 2006/07. And other side HBL had a high ratio of 48.44% and a low ratio of 39.35% in F/Y 2004/05 and 2008/09 respectively.

Figure 4.6
Total Investment to Total Deposit Ratio



SCBNL has a high mean ratio than HBL i.e. $53.83\% > 43.66\%$. From mean ratio perspective, SCBNL has been more successful in mobilization of deposit on various from of investment.

HBL has a high C.V ratio than SCBNL i.e. $9.06\% > 4.04\%$. From C.V. viewpoint, both the sample banks have been inconsistent with SCBNL being little better in term of consistency than HBL.

Analysis of Information: Above figure, analysis reveals that SCBNL has been more successful in mobilizing its resource on various forms of investment. What is worth mentioning is that interest on Treasury Bills, Inter bank lending and placements are at all time low level, so SCBNL has not done itself justice by investing in low yield less risky and risk free assets.

III. Loan and Advances to Fixed Deposit Ratio

Meaning: This ratio establishes a relationship between loan and advances to fixed deposit.

Relation: The main purpose of this ratio is to examine how board area the bank has covered to provide its service efficiently. Each commercial banks fixed deposit should play vital role on profit generating through fund mobilizing its total deposit on fixed and advances in appropriate levels.

Standard: This ratio measures the extent to which the commercial banks are success in mobilizing fixed deposit on loan and advances for the purpose of income generation. A higher ratio preferable as it includes better mobilization of and a loan and advances and vice versa.

This ratio is computed by dividing loan and advances by total fixed deposit. The following table exhibits the ratio of loan and advances to total working fund.

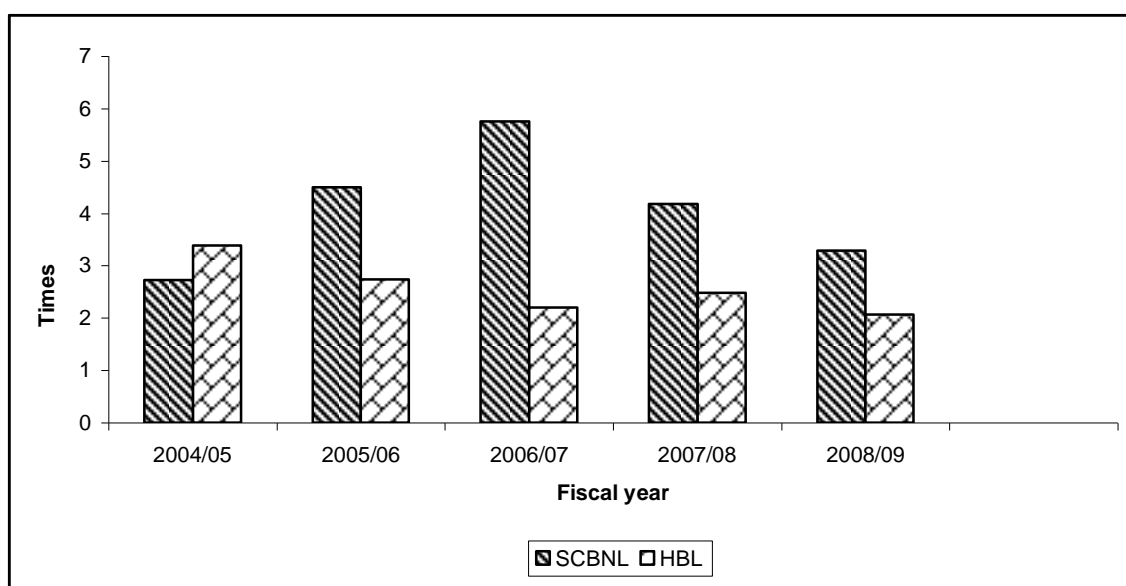
Table 4.7
Loan and Advances to Fixed Deposit Ratio

Fiscal Year	SCBNL	HBL
2004/05	2.72	3.38
2005/06	4.49	2.74
2006/07	5.75	2.2
2007/08	4.18	2.48
2008/09	3.29	2.07
Mean	4.13	2.57
S.D	1.11	0.52
C.V.	26.9%	20.19%

Sources: Appendix No.1 (vii)

Implication: The above table shows a fluctuating trend of loan and advances to fixed deposit of SCBNL and HBL. SCBNL has maintained higher ratio of 5.75% in F/Y 2006/07 and a low ratio of 2.72% in F/Y 2004/05. Similarly HBL ha maintained a high ratio of 3.38% in F/Y 2004/05 and a low ratio of 2.07% in F/Y 2008/09.

Figure 4.7
Loan and Advances to Fixed Deposit



Analysis of Information : SCBNL has a high average ratio of loan and advances to total working fund than HBL i.e. $4.13\% > 2.57\%$. SCBNL also has a high C.V ratio than that of HBL i.e. $26.9\% > 20.19\%$. It reveals the strength of SCBNL in mobilizing its total assets as loan and advances.

IV. Loan and Advances to Saving Deposit Ratio

Meaning: This ratio establishes a relationship between loan and advances to saving deposit.

Relation: Loan and advance are also included in the current assets of commercial bank because generally they provide short-term loan, advance, overdraft and cash credit. The ratio can be computed in the following way. In the present study loan and advance represent to local and foreign bills discounted purchased and loan, cash credit and overdraft in local currency as well as inconvertible foreign currency

Standard: To make high profit by mobilizing its fund in the best way, a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan and advance to the customers. If sufficient loan and advances cannot be granted, it should pay interest on those unutilized deposit funds and may lose some earning. But high loan and advance may also be harmful to keep the bank in most liquid position because they can only be collected at the time of maturity only.

The ratio can be computed in the following way.

Table 4.8

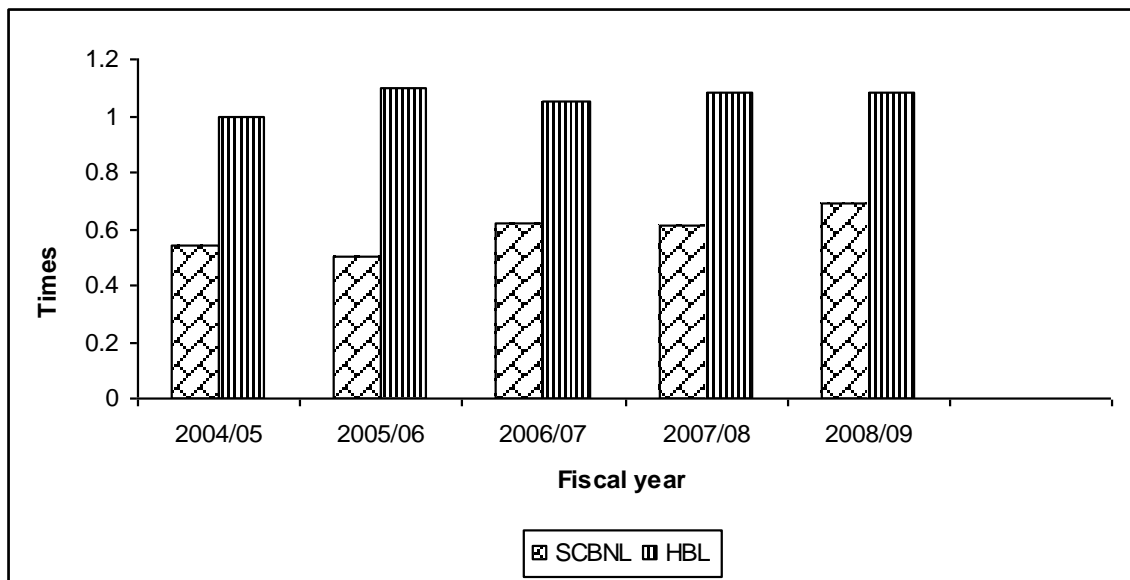
Fiscal Year	SCBNL	HBL
2004/05	0.54	1
2005/06	0.5	1.1
2006/07	0.62	1.05
2007/08	0.61	1.08

2008/09	0.69	1.08
Mean	0.59	1.06
S.D	0.07	0.04
C.V.	12.49%	3.67%

Source Appendix NO . 1 (Viii)

Implication: The above table clearly shows favorable fluctuated trend of loan and advance of SCBNL during the study period. The average mean ratio of HBL is higher compared to SCBNL i.e. 1.06% > 0.59% The C.V ratio of SCBNL is higher than the HBL i.e. 12.49% > 3.67%. HBL has experienced an increasing trend of loan and advances up to F/Y 2008/09. SCBNL had a high ratio of 0.69% in F/Y. 2008/09 and a low ratio of 0.50% in F/Y 2005/06. Similarly HBL has experienced a high ratio of 1.08% in F/Y 2007/08 and 2008/09 and a low of 1% in F/Y 2004/05.

Figure No. 4.8
Loan and Advance to Saving Deposit



Analysis of Information: The above analysis reveals that HBL has been more successful in identifying profitable investment sectors and increasing its earning. The same does not hold true of SCBNL, whose efforts seems to be more focused on investing in risk free assets rather than increasing its loan and advances volume and subsequent earning from it.

V. Fixed Deposit to Total Deposit Ratio

Meaning: This ratio establishes a relationship between fixed deposit to total deposit.

Relation: It is the ratio, which shows the percentage of fixed deposit on total deposit. Fixed deposit is one of the major source of fund, which bears cost at a certain rate and has certain maturity.

Standard: This ratio shows the percentage of total deposit, which bears cost at a fixed rate and calculated by dividing fixed deposit ratio for the entire period of the study.

The following table shows the fixed deposit to total deposit ratio is SCBNL and HBL during period. It can be mentioned as:

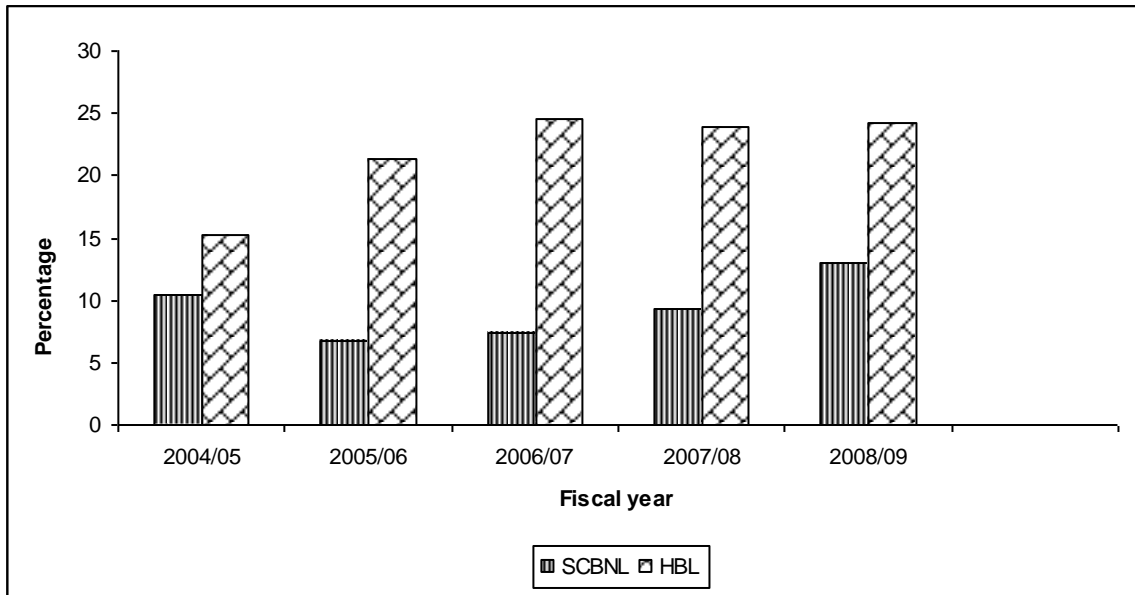
Table 4.9
Fixed Deposit to Total Deposit Ratio

Fiscal Year	SCBNL	HBL
2004/05	10.39	15.26
2005/06	6.75	21.4
2006/2007	7.33	24.61
2007/2008	9.26	23.97
2008/2009	12.97	24.29
Mean	9.34	22.51
S.D	2.5	4.56
C.V.	26.78%	20.26%

Sources: Appendix No. 1 (ix)

Implication : Above table shows the amount of fixed deposit to total deposit and their ratios of SCBNL and HBL along with their average standard deviation and C.V. of ratios. HBL has a higher fixed deposit to total deposit ratio than SCBNL. If the total deposit of HBL is 1 then fixed deposit will be 22.51. The average fixed deposit to total deposit of HBL and SCBNL are 22.51 and 9.34. Similarly, SCBNL has a higher C.V. than HBL i.e. 26.78% > 20.26%. It clearly states that HBL has the maximum fixed charge bearing deposit than SCBNL. From viewpoint of cost minimizing more is not favorable other hand, from view point of liquidity greater portion of fixed deposit maybe termed as favorable one.

Figure 4.9
Fixed Deposit to Total Deposit Ratio



Analysis of Information : The above analysis reveals that HBL has been more successful in identifying profitable investment sectors and increasing its earnings. The same does not hold true for SCBNL, whose efforts seem to be more focused on investing in risk-free assets, rather than increasing its loan and advances volume and subsequent earnings from it.

VI. Saving Deposit to Total Deposit Ratio

Meaning: This ratio establishes a relationship between saving deposit to total deposit.

Relation: It is the ratio which shows the proportion of saving deposit on total deposit. Saving deposit is one of the major sources of funds which bears cost at a certain rate and has no certain maturity. Though termed as current liabilities, it should not be paid back any time.

Standard: This ratio shows the proportion of total deposit which bears cost at a saving rate and is calculated by dividing saving deposit by total deposit ratio for the entire period of the study.

The following table shows the saving deposit to total deposit ratio for SCBNL and HBL during the period. It can be mentioned as:

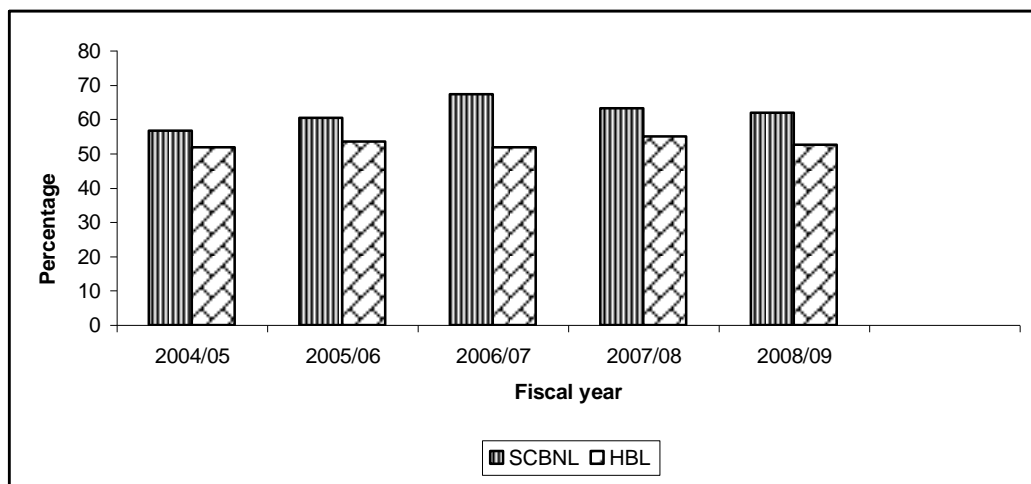
Table 4.10
Saving Deposit to Total Deposit Ratio

Fiscal Year	SCBNL	HBL
2004/05	56.69	51.75
2005/06	60.35	53.43
2006/07	67.4	51.79
2007/08	63.3	55.05
2008/09	61.85	52.53
Mean	61.92	52.91
S.D	3.93	1.38
C.V.	6.35%	2.60%

Source: Appendix NO.1 (x)

Implication: The above table shows the amount of saving deposit to total deposit and their ratios of SCBNL and HBL along with their average standard deviation and C.V. of ratios. SCBNL has a higher saving deposit to total deposit ratio than HBL. If the total deposit of SCBNL is 1 then saving deposit will be 61.92. The average saving deposit to total deposit ratios of SCBNL and HBL are 61.92 and 52.91. SCBNL has a higher C.V ratio than that of HBL, i.e. $6.35\% > 2.60\%$. It clearly states that SCBNL has the maximum saving charge bearing deposit than HBL.

Figure 4.10
Saving Deposit to Total Deposit Ratio



Analysis of Information : From viewpoint of cost minimizing more is not favorable other hand, from viewpoint of liquidity greater portion of saving deposit may be termed as favorable one. The above analysis reveals that SCBNL has been successful in identifying profitable investment sector.

4.1.3 Analysis of Profitability Ratios

The main objectives of a commercial bank are 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 huddle investment opportunities expand banking transaction in different places, finance government in need of development funds etc. a commercial bank must have to earn sufficient profit. Of course, profitability ratios are the best indicators of overall efficiency. Here, mainly, those ratios are presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of SCBNL and HBL.

I. Returns on Loan and Advances Ratio

Meaning: This ratio establishes a relationship between dividing net profit by loan and advances.

Relation: Return on loan and advances ratio measures the earning capacity of commercial banks its mobilized fund based loan and advances.

Standard: The high ratio indicates the high return and vice versa. This ratio calculated by dividing net profit by loan and advances.

The following table shows the return on loan and advances ratio is SCBNL and HBL during period. It can be mentioned as:

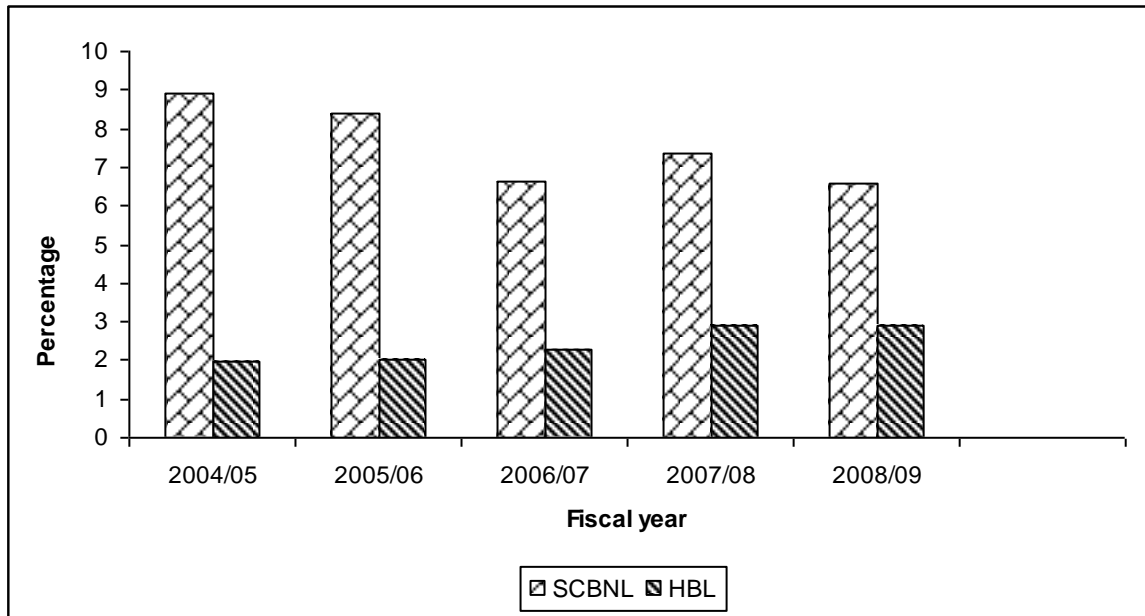
Table 4.11
Return on Loan and advances Ratio(%)

Fiscal Year	SCBNL	HBL
2004/05	8.9	1.96
2005/06	8.41	2.03
2006/07	6.62	2.3
2007/08	7.37	2.9
2008/09	6.6	2.89
Mean	7.58	2.42
S.D	1.04	0.46
C.V.	13.77	18.85

Sources: Appendix No. 1(xi)

Implication: The above table shows that the ratio of return on loan and advances of SCBNL are better than HBL in all F/Y, through they have a fluctuating trend. SCBNL ratios have witnessed a decreasing trend up to F/Y 2006/07, therefore they have an increasing trend. SCBNL has recorded a high ratio of 8.9% in F/Y 2004/05 and a low ratio of 6.6% in F/Y 2008/09. Similarly, HBL recorded a high of 2.90% in F/Y 2007/08 and a low of 1.96% in F/Y 2004/05.

Figure 4.11
Return on Loan and Advances Ratio (%)



Analysis of Information: The comparison of mean ratio reveals that SCBNL has a higher ratio than HBL i.e. $7.85 > 2.42\%$. This shows that SCBNL has been more successful in maintaining its higher return on loan and advances than HBL.

C.V. of SCBNL is significantly lower than HBL, i.e. $13.77\% < 18.85\%$. It proves that HBL has higher variability of ratio than SCBNL. In conclusion, it can be said that HBL profit earning capacity by utilizing available resources is weaker compared to SCBNL, but nevertheless HBL is making significant improvements in this regard.

II. Return on Total Working Fund Ratio

Meaning: This ratio establishes a relationship between dividing net profit and total assets.

Relation: Return on total working fund ratio measures the profit earning capacity by investing financial resources of the bank assets.

Standard: Return will be higher if the banks working fund is well managed and efficiency utilized and vice versa.

The data tabulated below reflects the profitability position with respect to total assets of SCBNL and HBL. It can be expressed as:

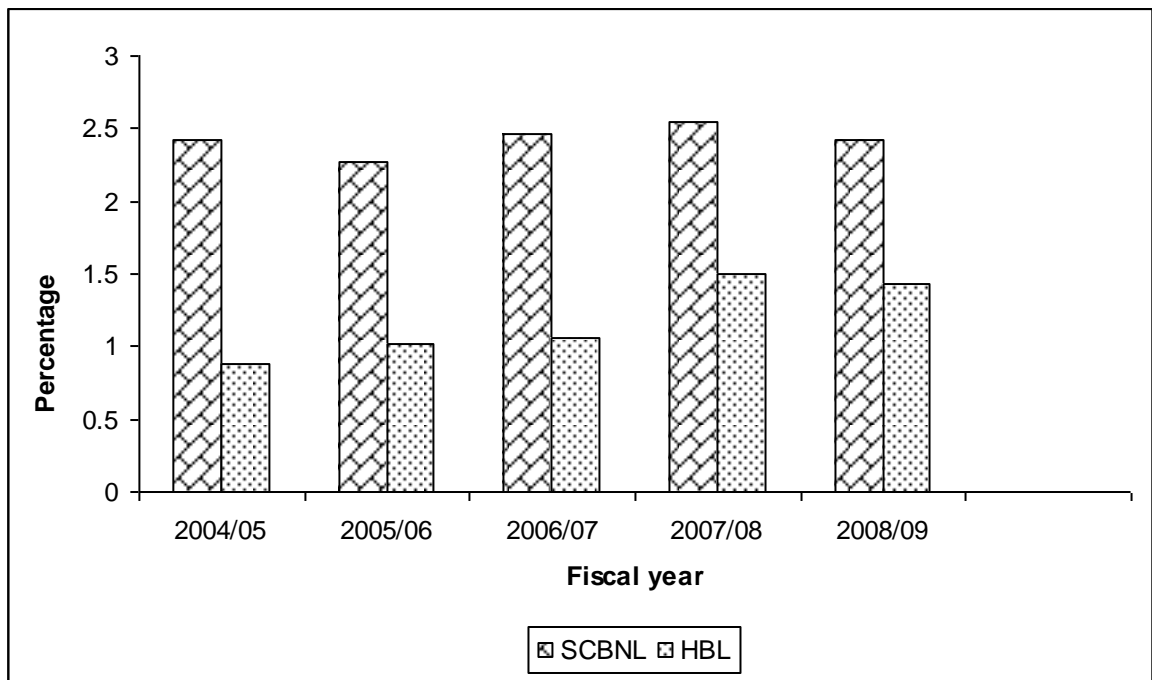
Table 4.12
Return on Total Working Fund Ratio (%)

Fiscal Year	SCBNL	HBL
2004/05	2.424	0.88
2005/06	2.27	1.02
2006/07	2.46	1.06
2007/08	2.55	1.5
2008/09	2.42	1.43
Mean	2.42	1.18
S.D	0.40	0.27
C.V.	4.17%	23.05%

Sources: Appendix No. 1(xii)

Implication: The above table reveals that the ratio of return on total working fund is fluctuated in case of SCBNL and increasing trend in case of HBL during the study period. SCBNL has had a high ratio of 2.55% in F/Y 2007/08 and a low ratio of 2.27% in F/Y 2005/06. Similarly, HBL has had a high of 1.50% and a low of 0.88% in F/Y 2007/08 and 2004/05 respectively.

Figure 4.12
Return on Total Working Fund Ratio (%)



Return on Total Working Fund SCBNL, has a slightly high mean ratio than HBL i.e. $2.42 > 1.18$. It reveals that SCBNL has been able to earn high profit on total working fund in comparison to HBL.

Analysis of Information: From the view point of C.V., SCBNL ratios are less consistent than HBL i.e. $4.17\% < 23.05\%$. Both banks need to exert more effort in mobilizing its working assets more efficiently.

III. Total Interest Earned to Total Working Fund Ratio

Meaning: This ratio establishes a relationship between dividing total interest earned and total working fund.

Relation: This ratio is very helpful to reveals the earning capacity of commercial banks by mobilizing its working fund. This ratio is important to know the extent on which the banks are successful in mobilizing their total assets to generate high income as interest.

Standard: Higher the ratio, higher will be the earning power of the bank on its total working fund and vice versa.

The following table shows interest earned to total working fund ratio of SCBNL and HBL.

Table 4.13
Total Interest Earned to Total Working Fund Ratio(%)

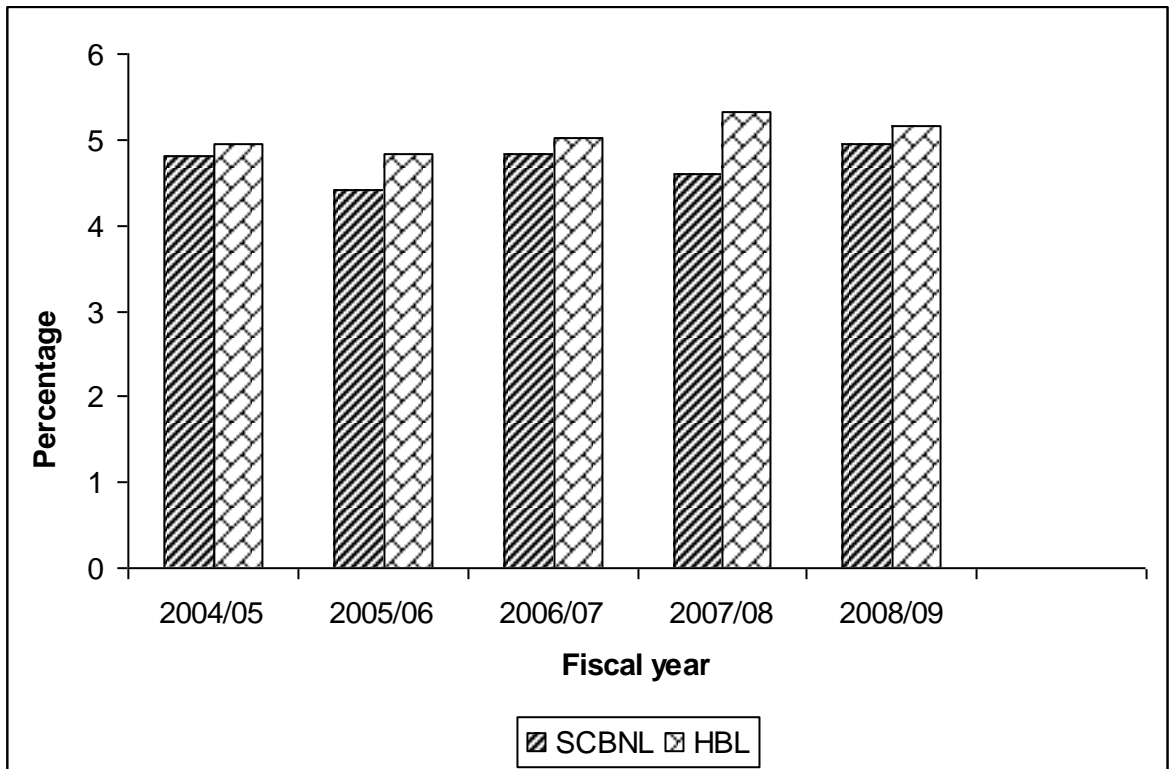
Fiscal Year	SCBNL	HBL
2004/05	4.81	4.96
2005/06	4.41	4.84
2006/07	4.83	5.01
2007/08	4.61	5.32
2008/09	4.94	5.17
Mean	4.72	5.06
S.D	0.21	0.19
C.V.	4.45%	3.71%

Sources: Appendix No.1(xiii)

Implication: The above table reflects a fluctuated trend in interest earning ratio of SCBNL and HBL. SCBNL has had a high ratio of 4.94% in F/Y 2008/09 and a low ratio of 4.41% in F/Y 2005/06. Similarly, HBL has experienced a high of 5.32% in F/Y 2007/08 and a low of 4.84% in F/Y 2005/06.

Figure 4.13

Total Interest Earned to Total Working Fund



The average interest earning ratio of SCBNL is 4.72% whereas the same for HBL is 5.06%. The C.V ratio of SCBNL is 4.45% whereas the same for HBL is 3.71%. This reflects that HBL has been stronger in term of interest earning power with respect to total working fund than SCBNL.

Analysis of Information: From the above analysis, we can conclude that HBL has been able to earn high interest on its total assets. i.e. it has been more successful in mobilizing its assets to generate high income. The decreasing trend of interest earning ratio with respect to total working fund is a matter of concern and both the banks need to look for away to improve upon their interest earnings.

IV. Total Interest Earned to Total Outside Assets Ratio

Meaning: This ratio establishes a relationship between dividing total interest earned to total outside assets.

Relation: The main assets of a commercial bank are its outside assets, which includes loan and advances, investment on government securities, investment on shares and debentures and other types of investments.

Standard: This ratio reflects the extent on which the banks are successful to earn interest a major income on all the outside assets. A high ratio shows high earning power of total outside assets and vice versa.

The following table shows interest earned to total outside assets.

Table 4.14
Total Interest Earned to Total Outside (%)

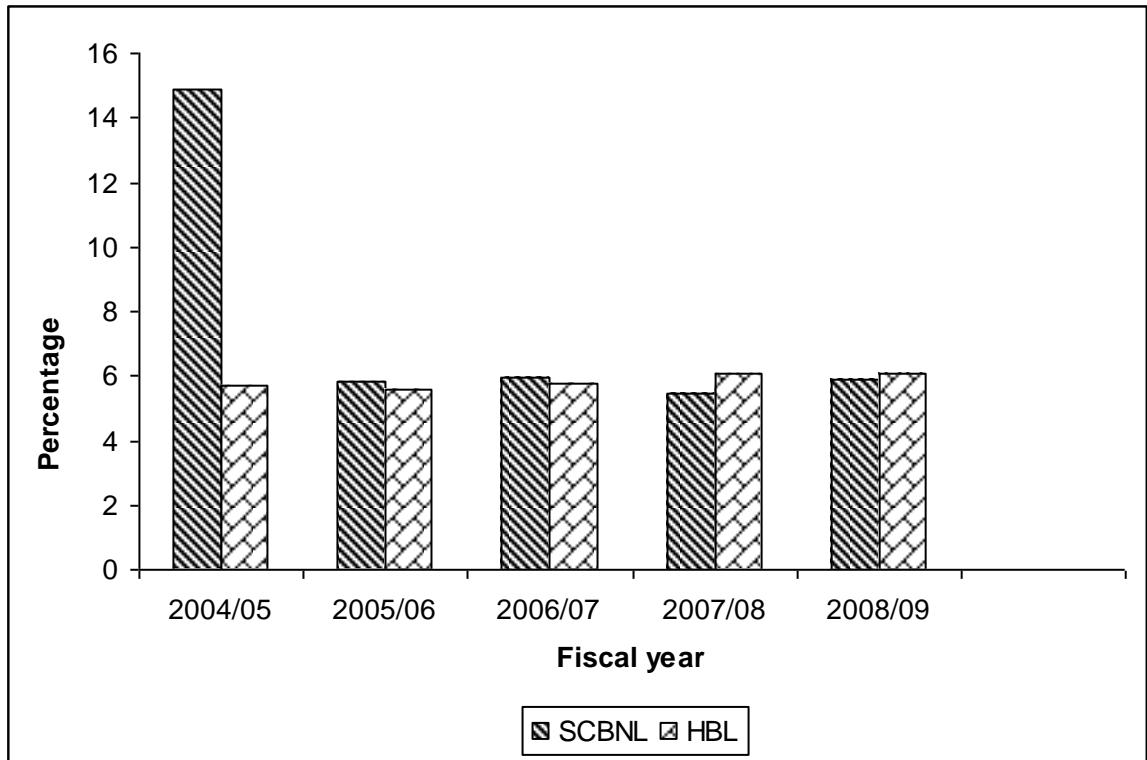
Fiscal Year	SCBNL	HBL
2004/05	14.9	5.71
2005/06	5.86	5.61
2006/07	5.93	5.75
2007/08	5.46	6.1
2008/09	5.87	6.1
Mean	7.60	5.85
S.D	4.08	0.23
C.V.	53.63%	3.23%

Sources: Appendix No. 1(xiii)

The above table reflects a fluctuated trend in interest earned to total outside assets in case of SCBNL and HBL during the study period.

Figure 4.14

Total Interest Earned to Total Outside Assets



Implication: SCBNL has recorded a high ratio of 14.9% in F/Y 2004/05 and a low ratio of 5.46% in F/Y 2007/08. HBL has had a high ratio of 6.10% in F/Y 2007/08 and 2008/09 and a low ratio of 5.61% in F/Y 2005/06.

In case of mean ratio, SCBNL has a higher ratio than HBL i.e., 7.60% > 5.85. It is clear that SCBNL has earned higher amount of interest on its outside assets in comparison to HBL. The C.V. of HBL is lower than SCBNL i.e. 3.93% < 53.69%. This indicates that HBL ratios are more stable than SCBNL.

Analysis of Information: From the above analysis, it can be concluded that HBL seems to be more successful in earning high interest on its outside assets than SCBNL.

V. Total Interest Paid to Total Working Fund Ratio

Meaning: This ratio establishes a relationship between dividing total interest paid to total working fund.

Relation: This ratio measures the percentage of total interest expenses against total working fund. Total interest paid is that amount which is paid to the lenders as well as bond holders. To operate the business a bank raises the fund through the different source they are (i) issuing share and debenture (ii) taking loan etc. It is called capital gearing i.e. higher the capital gearing the larger the interest paid amount is and vice versa. Generally, this ratio is considering good as lower it is.

Standard: The higher ratio is the indicator or higher interest expenses on total working fund and vice versa.

The following table shows the total interest paid to total working fund ratio. This ratio reveals the relationship between total interest paid amount and total employed. The formula is as follows;

Table 4.15
Total Interest Paid to Total Working Fund Ratio(%)

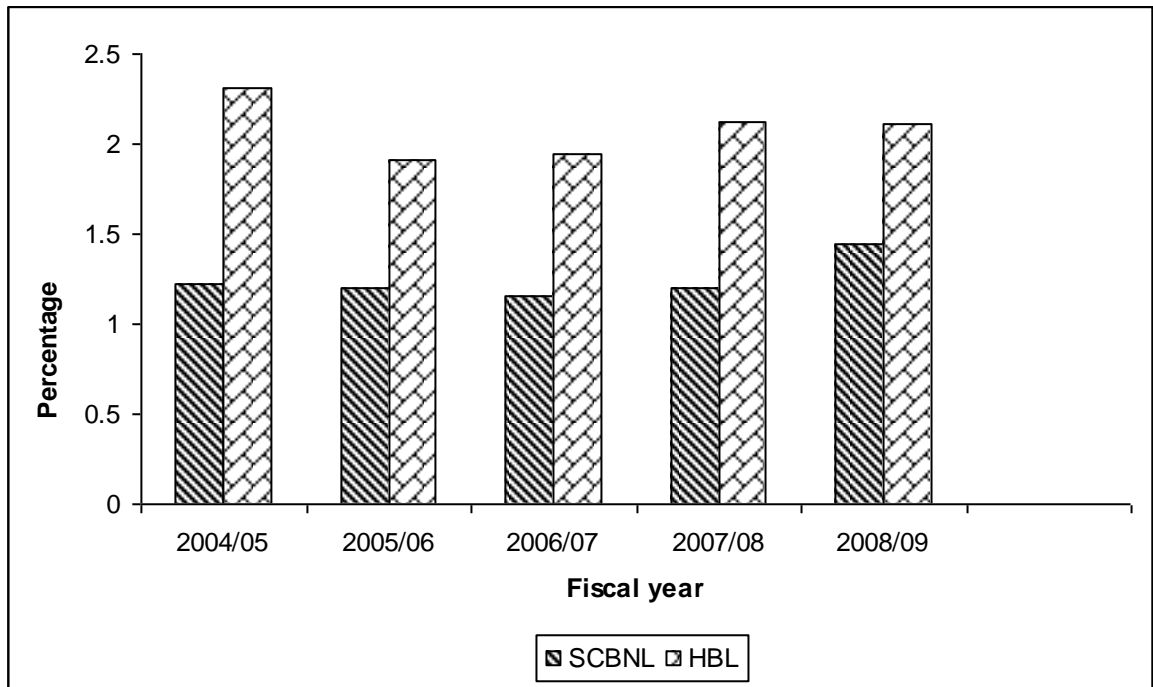
Fiscal Year	SCBNL	HBL
2004/05	1.22	2.31
2005/06	1.2	1.91
2006/07	1.16	1.95
2007/08	1.2	2.12
2008/09	1.44	2.11
Mean	1.24	2.11
S.D	0.11	0.18
C.V.	8.98%	8.31%

Source: Appendix No. 4.15 (xv)

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

Figure 4.15

Total Interest Paid to Total Working Fund



The average ratio of SCBNL with regards to total interest paid to total working fund ratio is slightly lower than that of HBL i.e. $1.24\% < 2.11\%$. In terms of C.V, The C.V ratio of SCBNL is higher than HBL i.e. $8.98\% > 8.31\%$. So, SCBNL ratio are more stable than that of HBL.

Analysis of Information: Overall, we can say that HBL is in a better position from interest payment point of view that SCBNL and HBL seems to have collection its funds from chapter sources than SCBNL.

4.1.5 Analysis of Growth Ratios

Those growth ratios are analyzed and interpreted which are directly related to the fund mobilization and investment of a commercial bank. Growth ratio represents how well the commercial banks are maintaining their economic and financial position. Under this topic the following ratio directly related to fund mobilization and investment of the banks are calculated.

- i. Growth Ratio of Total Deposits.
- ii. Growth Ratio of Total Loan and Advances.
- iii. Growth Ratio of Total Investment.

iv. Growth Ratio of Total Net Profit.

The ratio can be calculated by dividing the last period figure by the first period figure then by referring to the compound interest tables. The high ratio generally indicates better performance of a bank and vice versa.

Table 4.16
Growth Ratio of Total Deposit(%)

Fiscal Year	SCBNL	HBL
2004/05	18756	21007
2005/06	21161	22010
2006/07	19.335	24814
2007/08	23061	26490
2008/09	24647	30048
Growth Ratio(%)	7.06%	9.36%

Source Appendix No. 1(XVi)

Figure 4.16
Growth Ratio of Total Deposit

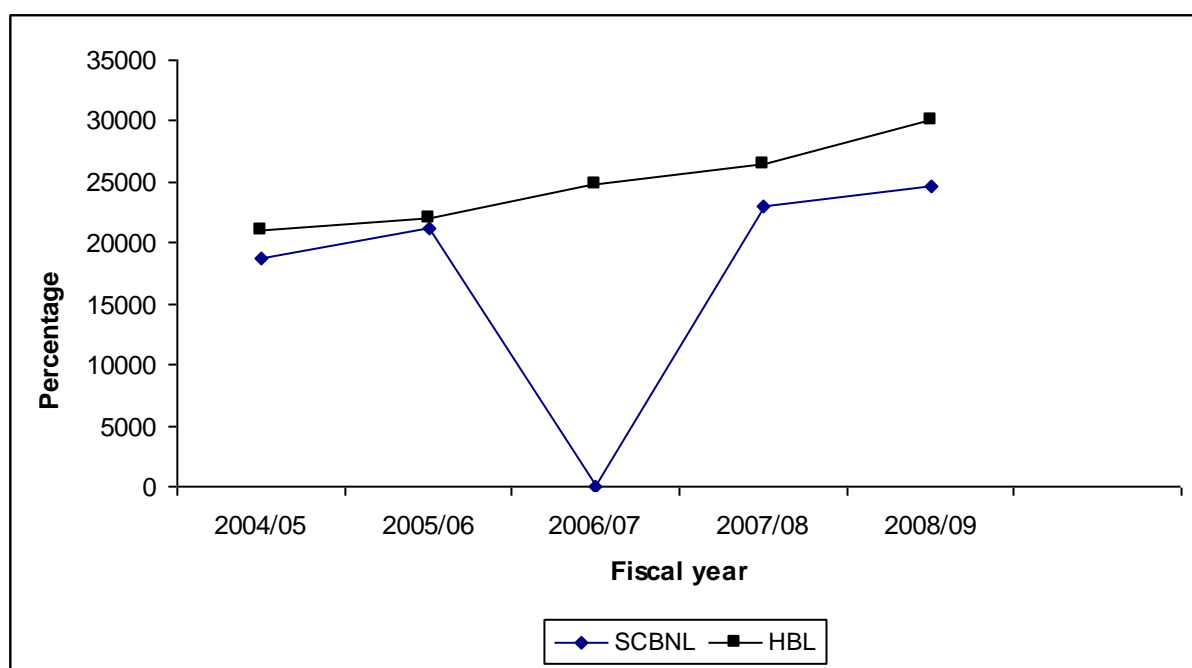


Table 4.17
Growth Ratio of Loan and Advances

Fiscal Year	SCBNL	HBL
2004/05	5696	10845
2005/06	6410	12920
2006/07	8143	13451
2007/08	8935	15762
2008/09	10502	16998
Growth Rate(%)	16.53%	13.18%

Source: Appendix No. 1(XVI)

Figure 4.17
Growth Ratio of Loan and Advances

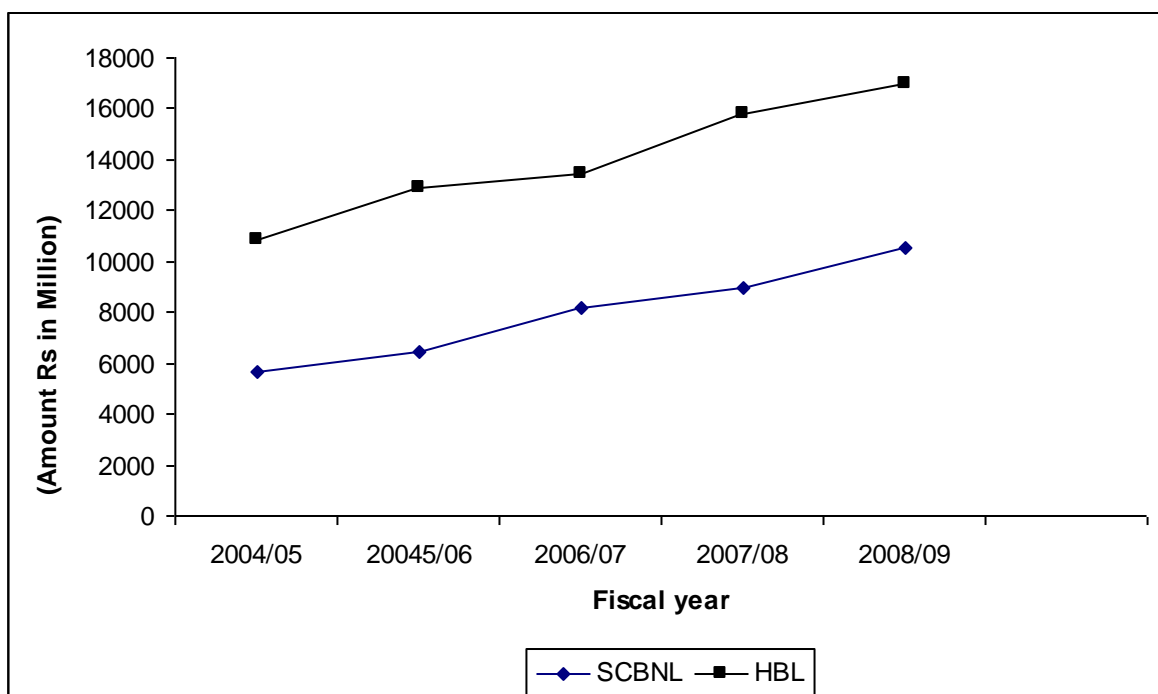


Table 4.18
Growth Ratio of Total Investment

(Rs in million)

Fiscal Year	SCBNL	HBL
2004/05	10216	10175
2005/06	11360	9292
2006/07	9702	11692
2007/08	12847	10889
2008/09	13553	11823
Growth Rate(%)	7.32%	3.82%

Source Appendix No. 1 (XVI)

Figure 4.18
Growth Ratio of Total Investment

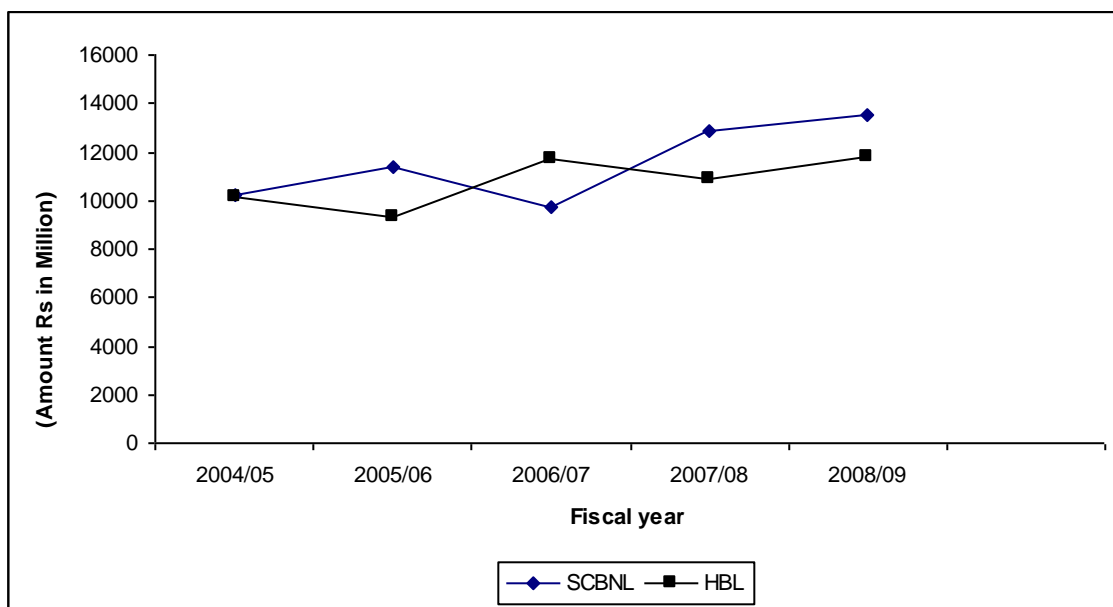


Table 4.19
Growth Ratio of Net Profit

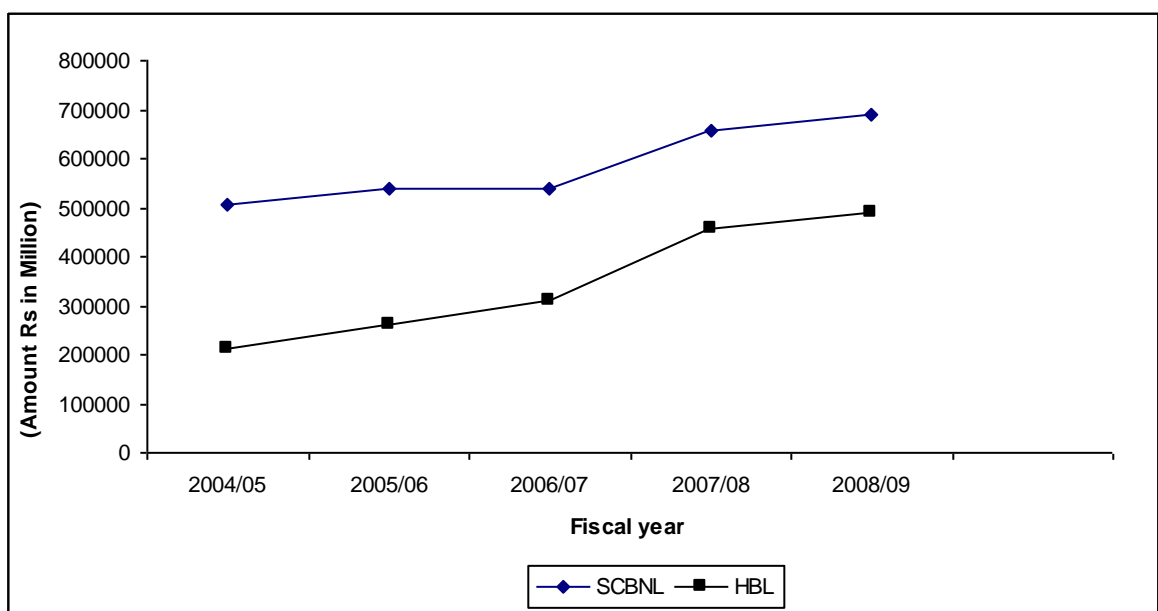
(Rs in Million)

Fiscal Year	SCBNL	HBL
2004/05	506932	212132
2005/06	537800	263052
2006/07	539204	308277
2007/08	658756	457458
2008/09	691668	491823
Growth Rate(%)	8.08%	23.43%

Source Appendix No. 1 (xvi)

The growth rate of deposits of both the banks is in increasing trend. The average growth rate of deposits of HBL are significantly higher than SCBNL i.e. 9.36% > 7.06%. This indicates SCBNL dismal performance in collecting more deposits.

Figure 4.19
Growth Ratio of Net Profit



On the contrary, HBL has been successful in increasing its deposit year after year. This is a solid proof of its high quality service, security and credibility in the mind of depositors.

In the study period, SCBNL ratios were highly variable than HBL. The growth rate of total loan and advance of both the banks are in increasing trend. The average growth rate of total loan and advances of SCBNL is better than HBL i.e. $16.53\% > 13.18\%$. This ratio can be misleading in the sense that the ratio of loan and advance to current assets; total deposits and total working fund of HBL s comparatively less than that of SCBNL.

The growth rate of total investment of HBL is in a fluctuating trend but growth rate of total investment of SCBNL is in highly increasing trend except in F/Y 2006/07.

SCBNC has been successful in increasing its investment year after year. The average growth ratio of investment of SCBNL seems to be higher than HBL, i.e. $7.32\% > 3.82\%$. This is due to a massive growth in SCBNL investment. However, we must not discount the fact that SCBNL investment to total working fund is far greater than HBL.

The growth rate of net profit of both the banks has in increasing trend. The mean growth rate of HBL is higher than SCBNL i.e. $23.43\% > 8.08\%$.

4.2 Statistical Tools

Some statistical tools such as coefficient of correlation analysis between different variables, trend analysis of deposits, loan and advances, investment and net profit as well as hypothesis test (t-statistic) are used to achieve the objectives of the4 study. These statistical tools which are used to analysis are as follows.

Interpretation of correlation co-efficient

- It lies always between +1 to -1.
- When $r = -1$ there is perfect positive correlation

- When $r = 0$, there is no correlation.
- When r lies between 0.7 to 0.999, (-0.7 to 0.9999) there is a high degree of positive or negative correlation.
- When r lies between 0.5 to 0.6999, there is moderate degree of correlation.
- If $r < 6 \text{ P.E.}$, then the value of ' r ' is not significant.
- If $r > 6 \text{ P.E.}$, then the value of ' r ' is definitely significant.

4.2.1 Coefficient of Correlation Analysis

Under this topic, Karl Pearson's coefficient of correlation is used to find out the relationship between deposit and loan and advances, deposit and total investment, outside assets and net profit, deposits and net profit, deposits and interest earned, loan and advances and interest paid, total working fund and net profit.

I. Coefficient of Correlation between Total Deposits and Loan and Advances

The coefficient of correlation between deposits and loan and advances measures the degree of relationship between them. In our study, we have taken deposit as an independent variable denoted by (x) and loan and advances as dependent variable (y). The main objective of calculating ' r ' between these two variable is to justify whether deposits are significantly used as loan and advances or not.

Table 4.20

Statement Showing Correlation between Total Deposit and Loan and Advances Evaluation Criterion

Banks	r	r²	P.E.	6P.E.
SCBNL	0.8257	0.6818	0.0960	0.5758
HBL	0.9584	0.9185	0.0246	0.1476

Source: Appendix No.2(i)

In the above table the coefficient of correlation between deposit and loan and advance in case of SCBNL is 0.8257. This indicates that there is a positive relationship between deposit and loan and advances.

The calculated value of (r^2) or coefficient of determination is 0.6818. This means 68.18% of variation of the dependent variable (loan and advances) has been explained by the independent variable (deposit). When the value of 'r' i.e. 0.8257 is compared with six times the probably error or 6P.E. i.e. 0.5758, we can say that there is significant relationship between deposits and loan and advance because 'r' between deposits and loan and advance incase of HBL is 0.9584, which gives us an indication of higher positive correlation between them.

Similarly, the value of coefficient of determination (r^2) is found to be 0.9185. This shows that 91.85% variation of dependent variable (loan and advances) ha been explained by the independent variable (deposits). The value of 'r' is greater than six times P.E. i.e. $0.9584 > 0.1476$. This further shows that the value of 'r' is significant. In other words, there is significant relationship between deposit and loan and advances.

From the above analysis, we can conclude that both the banks shows positive relationship between deposit and loan and advance. The relationship is highly significant in case of SCBNL and HBL and the value of (r^2) shows higher percentage of dependency. Further, the increase in loan and advance is due to effective mobilization of deposits and other factors have marginal role in increase in loan and advances.

II. Coefficient of Correlation between Total Deposit and total Investment

Coefficient of correlation between deposit and investment measures the degree of relationship between these two variables. here, deposit is taken as independent variable (x) and the variable dependent on deposit on deposits is total investment, which is denoted by (y). The purpose of calculating 'r' is to judge whether deposits are significantly mobilized as investments or not.

The following table shows the value r , r^2 , P. Er and 6P.Er of SCBNL and HBL during the study period.

Table 4.21
Statement Showing Correlation between Total Deposit and Total Investment Evaluation Criterion

Banks	r	r^2	P.E.	6P.E.
SCBNL	0.9786	0.9576	0.0128	0.0768
HBL	0.7870	0.6194	0.1148	0.6889

Source: Appendix No.2(ii)

The coefficient of correlation ' r ' between depositors and total investment in case of SCBNL is 0.9786, which indicates a positive correlation between deposits and total investment. Coefficient of determination (r^2) is 0.9576. This mean 95.76% of variation of the dependent variable has been explained by independent variables. The value of ' r ' i.e. 0.9786 is also greater than six times P.E. This states that there exists a significant relationship between depositors and total investment.

The coefficient of correlation ' r ' between deposits and total investment in case of HBL is 0.7870, which indicates a position relationship between the two variables. The coefficient of determination (r^2) is 0.6194. This indicates that 61.94% of the variation of the dependent variable has been explained by independent variable which further states that there is a significant relationship between deposits and total investment.

In conclusion, it can be said that both the banks show significant relationship between total deposits and total investment.

III. Coefficient of Correlation between Total Outside Assets and Net Profit

The coefficient of correlation ' r ' between total outside asset net profit measures the degree of relationship between these two variables. here, total

outside assets is independent variable (x) and net profit is dependent variable (y). The main purpose of calculating between these two variable is to justify whether net profit is significantly correlated with total outside assets or not.

The following table shows table shows the value r, r², P.E r and PE. Er of SCBNL and HBL during the study period.

Table 4.22

**Statement Showing Correlation between total outside assets and Net Profit
Evaluation Criterion**

Banks	r	r ²	P.E.	6P.E.
SCBNL	0.8308	0.6903	0.0934	0.5605
HBL	0.9565	0.9149	0.0257	0.1540

Sources: Appendix No.2(iii)

The coefficient of correlation 'r' between total outside assets and net profit in case of SCBNL is 0.8308, which indicate4s a positive correlation between outside assets and net profit. Coefficient of determination 'r' is 0.6903. This means 69.03% of variation of the dependent variable has been explained by independent variable. The value of 'r' i.e., 0.8308 is also greater than six times P.E. This states that there exists a significant relationship between outside assets and net profit.

The coefficient of correlation 'r' between total outside assets and net profit in case of HBL is 0.9565, which indicates a positive relationship between the two variables. The coefficient of determination (r²) is 0.9149. This indicate that 91.49% of the variation of the dependent variable has been explained by independent variable. Moreover 'r' is greater than six times P.E. which further states that there is significant relationship between outside assets and net profit.

In conclusion, it can be said that both the banks show significant relationship between total outside assets and net profit.

4.2.2 Trend Analysis

Trend analysis, present or future analysis, is utilized to see the movement of upward or downward by the help of given numerical values of some specified period of time. That time period may of five years, ten years etc.

Here, trend analysis of deposit, loan and advance, investment and net profit of the banks are done. The forecast is made for the next five years. These are based on the following assumptions.

The main assumption is that there things are remaining the same.

- Nepal Rastra Bank will not change its guideline to commercial banks.
- The economy will remains in the present stage.
- The bank will run is present position.
- The forecast will be true only when a limitation of least square method is carried out.

4.2.2.1 Analysis of Trend value of Total Deposit and Loan and Advances

Under this topic, an effort has been made to calculate the trend values of total deposit and loan and advances of SCBNL and HBL for five years from FY 2004/05 to 2008/09 and forecast for next five years till FY 2013/14.

This following table shows the trend value of 10 years from 2004/05 to 2013/14.

Table 4.23**Trend values of Total Deposit and Loan and
Advances of SCBNL and HBL**

(Rs. in million)

Years	Trend Values of Total Deposit SCBNL	Trend Value of Total Deposit HBL	Trend Value of SCBNL	Trend Value of HBL
2004/05	104223.75	2061.68	55097.06	109652.86
2005/06	105591.99	22618.54	67235.86	124801.60
2006/07	106960.23	24875.40	79374.66	13950.34
2007/08	108328.47	27132.26	91513.46	155099.08
2008/09	109696.71	29389.12	10365.26	170247.82
2009/10	111064.95	31645.98	11571.06	185396.56
2010/11	112433.19	33902.84	127929.86	200545.30
2011/12	113801.43	36159.70	140068.66	21569.04
2012/13	115169.67	38416.56	152207.46	230842.78
2013/14	116537.94	40673.42	164346.26	24991.52

Source: Appendix No.3 (i and iv).

From the above comparative table it is clear that a trend value of SCBNL is in an increasing trend. If other things remain unchanged the total deposit of SCBNL is predicated to be Rs. 116537.91 million and that of HBL to be less than deposit of SCBNL by the end of FY 2013/14, i.e. Rs. 40673.42 million.

- Trend value of total deposit SCBNL.
- Trend value of Total Deposit HBL.
- Trend value of Loan and Advance SCBNL.
- Trend value of Loan and Advance HBL.

From the above trend analysis, it is quite obvious that SCBNL deposit collection is proportionately much better than HBL from FY 2003/04. The trend value of total deposit of both SCBNL and HBL are fitted in the trend lines given in figure on.

The above table clearly shows that the loan and advance of both the banks are in an increasing trend. Assuming that other things will remain constant, the loan and advances of SCBNL at the end of FY 2013/14 is predicted to be Rs. 164346.26.

From the above trend analysis, it is quite clear that HBL loan and advance in relation to SCBNL is comparatively higher through out the trend projection period. The above trend value of loan and advances of SCBNL and HBL are fitted in the trend line given in figure.

4.2.2.2 Analysis of Trend Value of Total Investment and Net Profit

Under this topic, an attempt has been made to analyze total investment and net profit of SCBNL and HBL for five years is FY 2004/05 to 2008/09 and forecast is made for next five years till FY 2013/14.

Table 4.24

**Trend Value of Total Investment and Net Profit and
SCBNL and HBL**

(Rs. Million)

Years	Trend Value of Total Investment SCBNL	Trend Value of Total Investment HBL	Trend Value of Net Profit SCBNL	Trend Value of Net Profit HBL
2004/05	9903.71	9795.98	488.79	195.79
2005/06	10719.84	10285.18	537.83	271.17
2006/07	11535.97	10774.38	586.87	346.55
2007/08	12352.10	11263.58	635.91	421.93
2008/09	13168.23	11752.78	684.95	497.31

2009/10	13984.36	12241.48	733.99	572.69
2010/11	14800.49	12731.18	783.03	648.07
2011/12	15616.62	13220.38	832.07	723.45
2012/13	16432.75	13709.58	881.11	798.83
2013/14	17248.88	14198.78	930.15	874.21

Source: Appendix No. 3 (v and viii).

From the above table, it is clear that the trend value of both the banks are in an increasing trend. If other things remain unchanged total investment of SCBNL is predicted to be Rs. 17248.88 in FY 2013/14 and that of HBL to be Rs. 14198.78 million. These value are highest under the review period.

The above table, reveals that SCBNL total investment is higher than that of HBL through out the trend projection period. It can be said that both SCBNL and HBL have followed the policy of maximizing their investment.

- Trend value of total investment SCBNL.
- Trend value of total investment HBL.
- Trend value of Net profit SCBNL.
- Trend value of Net profit HBL.

From the above comparative table, it is clear that the trend value of both the banks are in increasing trend. Other things remaining the same the trend value of both the banks are in increasing trend. The trend value of SCBNL will be highest in FY 2013/14 i.e. Rs. 930.15 million. In case of HBL net profit will be Rs. 874.21 million in FY 2013/14, which is the highest under the review period.

SCBNL net profit is higher than that of HBL through the review period. It can be said that both the banks have followed the policy of maximizing their net profit. however, we can draw a conclusion that SCBNL has utilized its fund better than HBL to earn higher amount of profit. The above calculated trend

values of net profit of SCBNL and HBL are fitted in the trend line given in figure.

4.3 Major Findings of the Study

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

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

Liquidity Ratio

The liquidity position of SCBNL and HBL reveals that

- From the analysis of current ratio it is found that the mean ratio of HBL is slightly than SCBNL. The Ratio of HBL is consistent. The mean current ratio of HBL is greater than 1 and SCBNL mean current ratio is less than 1.
- The mean ratio of cash and bank balance to current assets of HBL greater capacity to meet its customer's daily cash requirement than SCBNL. The ratios of SCBNL are less variable and more consistent than HBL.
- The mean ratio of cash and bank balance to total deposits of HBL is slightly higher than SCBNL. HBL has better liquidity position than SCBNL because of high percentage of liquid assets. This shows HBL readiness to meet its customer requirement. On the contrary, a high liquidity also indicates the ability of the bank to mobilize its current assets. The ratios of SCBNL are more consistent than HBL.
- The mean ratio of investment in government securities to current assets of SCBNL is higher than HBL. This shows that SCBNL has invested

more of its fund in government securities than HBL. The ratios of SCBNL are less variable and more consistent than HBL.

The above results shows that the liquidity positions of HBL and SCBNL are satisfactory. But we can conclude that the liquidity position of HBL is comparatively better than SCBNL. It has the highest cash and bank balance to total deposit, cash and bank balance to current total deposit, cash and bank balance to current assets. HBL is in a better position to meet its daily cash requirement. HBL has a better position to meet its daily cash requirement. HBL has a higher current ratio, which justifies that it is also capable enough to meet its current obligations. SCBNL mean investment in government securities is better than HBL. The highest degree of variability is investment is government securities of SCBNL during the study period shows lack of concrete policy of the bank in this regard asset. enlargement ratio.

The asset management ratio of SCBNL and HBL reveals that:

- The mean ratio of loan and advances to total deposit ratio of HBL is higher than SCBNL. In terms of consistency both have been stable in their ratios.
- The mean ratio of total investment to total deposits of SCBNL is higher than HBL. The ratios of SCBNL are more consistent and less variable than HBL.
- The mean ratio of loan and advance to fixed deposit of SCBNL is higher than HBL. The ratios of SCBNL are less variable and more consistent than HBL.
- HBL has been more successful in identifying profitable investment sectors and increasing its earning. The same does not hold true for SCBNL, whose efforts seems to be more focused on investing in risk free assets, rather than increasing its loan and advances volume and subsequent earnings from it.

- HBL has a higher fixed deposit to total deposit ratio than SCBNL, HBL has the maximum fixed charge bearing deposit than SCBNL. From viewpoint of cost minimizing more is not favorable other hand from viewpoint of liquidity greater portion of fixed. deposit maybe termed as favorable one.
- SCBNL has a higher saving deposit to total deposit ratio than HBL. If the total deposit of SCBNL is 1 then saving deposit will be 61.92. The accurate saving deposit to total deposit ratios of SCBNL has the maximum saving charge bearing deposit than HBL. From view point of cost minimizing more is not favorable other hand, from view point of liquidity greater portion of saving deposit maybe termed as favorable are.

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

Profitability Ratio

The profitability ratios of SCBNL and HBL reveals that,

- The mean ratio of return on total working fund of SCBNL is slightly higher than HBL. The ratio of SCBNL are less consistent and more variables than HBL.
- The mean ratio of total interest earned to total working fund of SCBNL is higher than HBL. SCBNL ratios are more stable and less variable than HBL.
- The mean ratio of return on total loan and advance of SCBNL has been found to be significantly greater than HBL. The ratios of SCBNL are less variable and more consistent than HBL.

- The mean ratio of total interest earned to total outside assets of HBL is higher than SCBNL. The ratios of SCBNL are more consistent than HBL.
- The mean ratio of total interest paid to total working fund ratio of SCBNL is lower than HBL. However, HBL ratios are more variable than SCBNL ratios.
- The mean ratio of total interest earned to total outside assets of HBL is higher than SCBNL. The ratios of SCBNL are more consistent than HBL.

On the basis of above, we can conclude that SCBNL has been more successful in maintaining its higher return on loan and advances and total working fund. On the other hand, HBL has been more successful in term of earning power with respect to total working fund. HBL has been more successful in mobilization of its funds in interest bearing assets to earn higher total outside assets than SCBNL. HBL is in a better position than SCBNL from interest payment point of view. HBL has paid higher interest than SCBNL, whereas the latter seems to have collected its funds from cheaper sources than HBL.

Growth Ratios

The growth ratio of SCBNL and HBL reveals that,

- SCBNL ratios were higher variable than HBL. The growth rate of total loan and advances of both the banks are in increasing trend. The average growth rate of total loan and advances of SCBNL is better than HBL.
- The average growth rate of deposits of HBL are significantly higher than SCBNL.
- The growth rate of total investment of HBL is in a fluctuating trend but growth rate of total investment of SCBNL is in highly increasing trend except in FY 2006/07.

- The growth rate of net profit of both the banks has in increasing trend. The mean growth rate of HBL is higher than SCBNL i.e. 23.43% > 8.08%.

This ratio can be misleading in the sense that the ratio of loan and advance to current assets, total deposits and total working fund of HBL is comparatively less than that of SCBNL.

Co-efficient of Correlation Analysis

Coefficient of correlation analysis between different variables of SCBNL and HBL reveals that;

- The co-efficient of correlation between deposits and total investment of HBL is slightly higher than SCBNL.
- HBL is slightly higher than SCBNL of coefficient of correlation between deposits and loan and advances.
- The coefficient of correlation between total outside assets and net profit HBL of is slightly higher than SCBNL.

In conclusion, we can say that there is a significant relationship between deposit and total investment, total deposit and loan and advances and total outside assets and net profit in case of SCBNL. In case of HBL, there exists a significant relationship between deposits and total investment, deposit and loan and advance and total outside assets and net profit.

Trend analysis and projection for Next Five years:

The trend analysis of deposits, loan and advance, total investment and net profit and its projection for next five years of SCBNL and HBL reveals that:

- The deposits of both the banks have an increasing trend. The total deposit of SCBNL is predicted to be Rs. 116537.91 million and that of HBL to be Rs. 40637.42 million at the end of F/Y 2013/14. The deposit collection of SCBNL is much better than HBL.

- The loan and advance of both the banks have an increasing trend. The total loan and advance of SCBNL is predicted to be Rs.164346.26 million and that of HBL to be Rs. 245991.52 million at the end of F/Y 2013/14. The loan and advance of HBL is much better compared to SCBNL.
- The loan and advance of both the banks have an increasing trend. The total loan and advance of SCBNL is predicted to be Rs. 164346.26 million and that of HBL to Rs. 245991.52 million at the end of F/Y 2013/14. the loan and advance of HBL is much better compared to SCBNL.
- The total investments of both the banks have an increasing trend. The total investment of SCBNL is projected at Rs. 18044.78 million and that of HBL at Rs. 14198.78 million by the end of F/Y 2013/14. SCBNL seems to have a much focused policy with regards to total investment than HBL.
- The net profits of both the banks are in an increasing trend. The net profit of SCBNL and HBL is predicted at Rs. 930.15 million and Rs. 874.21 million respectively by the end of F/Y 2013/14. The position of SCBNL with regard to utilization of the fund to earn profit is better than HBL.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter includes two aspects of the study. The first aspects are to focus on summarizing the fact finding of the study and making and conclusion remarks upon them. While second aspects of the study focuses on making some useful suggestions and recommendations based on findings of the study for further improvement of the banks. This would be meaningful to the top management of the bank to initiate action and achieve the desired results. The objective of the researcher is not only to point out errors and mistakes but also to correct them and give directions for further growth and improvement.

5.1 Summary

The development of any country largely depends upon its economic development. Economic development demands transformation of savings or invertible resources into the actual investment formation is the prerequisite in setting the overall pace of the development of a country. It is the financial institutions that transfer funds from surplus spending units to deficit units.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector which deals in the process of channeling the available resources in the needed sector. It plays the role of agent between the deficit and surplus of financial resources. Financial institutions like banks are a necessity to collect scattered saving and put them into productive channels. In the absence of such institution it is possible the saving will not be safety and profitable utilized within the economy. It will be diverted aboard into unproductive sectors.

The primary objectives of the study is to analyze the overall performance of SCBNL and HBL, however the other objectives are to examine the overall performance of SCBNL and HBL in terms of liquidity, activity,

profitability, coverage and capital adequacy ratio to study the achievement of SCBNL and HBL, to evaluate the effectiveness of collection of deposit and their utilization to examine the causes of gap existing between deposits and loan, investment etc, to provide suggestion and recommendation for the improvement of future performance and maximum utilization of deposit.

The study is about the financial performance of the SCBNL and HBL based on its financial data of five years. By using financial and statistical tools, the overall financial performance of the bank has tried to analyze. The various ratios have revealed the financial condition of the bank over the five years. Income and expenditure analysis also showed the percentage share of each income and expenses head. Correlation analysis helps to establish the relationship between two variables which can be useful to know how one variable affects the another variable. Likewise trend analysis is used to find out the trend of some very important elements like total deposit, loan and advance, net profit, net worth, SCBNL and HBL and investment on the basis of the past data of the bank. This can be used in predicting the value of these elements.

Analyzing the credit sector and the bank guarantee, the bank is trying to avoid unnecessary risk, thus categorizing itself as risk avert bank. B mobilizing its funds more in loan and advances, the bank could have increased its profit. But form the tabulated figures, it is evident that SCBNL and HBL had preferred to invest in secured sectors like government securities and shares and debentures than in lending. From which various finding have shown in above chapter from that finding conclusion have been drawn which are presented as below.

5.2 Conclusion

This study reveals that the current ratio of HBL is greater than 1 and SCBNL current ratio is less than 1, which should be considered satisfactory for HBL but not satisfactory for SCBNL. The liquidity position of HBL is better than SCBNL. The cash and bank balance of HBL with respect to deposits is greater than SCBNL. In this situation, HBL in a better position with respect to

meeting customer requirement than SCBNL. In contrast, a high ratio of non-earning cash and bank balance is in indication of bank's unavailability to invest its fund in income generation areas. The cash and bank balance of HBL with respect to current assets is higher than SCBNL. This shows greater capacity of HBL to meet its customer's cash requirement but that does not mean SCBNL cannot meet its daily customer cash requirement. HBL needs to invest its funds in more productive sectors. SCBNL mean investment in government securities is better than HBL. The higher degree of variability in investment in government securities of SCBNL during the study period shows lack of concrete policy of the bank in this regard.

SCBNL has been more successful in maintaining its higher return on loan and advances and total working fund. In the other hand, HBL has been more successful in term of earning power with respect to total working fund. HBL has been more successful in mobilization of its funds in interest bearing assets to earn higher total outside assets bearing assets to earn higher total outside assets than SCBNL. HBL is in a better position than SCBNL from interest payment point of view. HBL has paid higher interest payment point of view. HBL has paid higher interest than SCBNL from interest payment point of view. HBL has paid higher interest has SCBNL, whereas the latter seems to have collected its funds from cheaper sources than HBL.

HBL has been more successful in mobilization of its investment to total deposits ratio. On the other hand, SCBNL appears to be stronger in mobilization of total investment to total deposits. Both the banks have successfully managed their assets towards different income generation activities.

The growth rate of total loan and advance of SCBNL and HBL the banks are in increasing trend. The average growth rate of total loan and advances of SCBNL is better than HBL. The growth rate of total investment of HBL is in a fluctuating trend but growth rate of total investment of SCBNL is in highly increasing trend except in F/Y 2006/07. The growth rate of net profit

of both the banks has in increasing trend. The mean growth rate of HBL is higher than SCBNL i.e. 23.43% > 8.08%. This ratio can be misleading in the sense that the ratio of loan and advance to current assets, total deposits, and total working fund of HBL is comparatively less than that of SCBNL.

There is a significant relationship between deposit and total investment, total deposit and loan and advances and total outside assets and net profit in case of SCBNL. In case of HBL, there exists a significant relationship between deposits and total investment, deposit and loan and advance and total outside assets and net profit.

The trend value of deposits, loan and advances, investment and net profits of SCBNL and HBL are in an increasing trend. The trend values of deposits, net profit and investment of SCBNL are proportionately higher than HBL in all the years. The trend value of loan and advances of HBL is proportionately better than SCBNL in all the years.

5.3 Recommendation

On the basis of analysis, findings, following recommendations are made. The banks can make use of these recommendations to overcome their weakness, inefficiency and improve their present fund mobilization and their overall financial analysis.

- Current ratio of the bank is found below the standard. So, it is recommended that the bank should increase the current assets to meet the short-term obligation of the bank. Otherwise there may arise question to the credit worthiness of the bank at any point of time.
- Cash and bank balance of total deposit ratio of the bank were fluctuation order. Since it is the most liquid asset some provision regarding on this should be made to have consistency. It is recommended to have moderate level of cash and bank balance to meet unanticipated calls on current savings call and other deposits.

- The proportion of saving deposit to the total deposit is very low. It is recommended to increase the saving deposits of the bank to moderate the risk and return in the current situation.
- The main source of commercial banks is collecting deposit from public who don't need that fund recently. So, it is recommended to collect more amounts as deposits through large variety of deposits schemes and facilities, like cumulative deposit scheme, prize bonds scheme, gift cheque scheme, recurring deposit scheme (life insurance), monthly interest scheme, house building scheme, direct finance housing scheme, education loan scheme and many others.
- The banks should be very careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and its all customers. HBL is strongly recommended to gain highest profit margin. Also it should reduce its expense. Profitability position of SCBNL is satisfactory and should try to maximize it.
- It is recommended to adopt innovation approach to marketing. In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strength and activates its marketing function as it is an effectively tools to attract and retain the customers for the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way be optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The bank is also required to explore the new market areas. For this purpose, it is recommended to form a strong marketing department in its central level, which deals with the banking products, places, price and promotion.
- Integrated and speedy development of the country is possible only when competitive banking services reaches nooks and corners of the country. SCBNL and HBL have shown not more interest to pen branches in rural

areas. Both the banks are recommended to expand their branches and banking services and facilities in rural areas and communities to accelerate their economic development. NRB should implement policies to encourage banks, which provide extensive services while disincentive Sings banks, which provide extensive services while disincentive Sings those who are not responsive to the banking needs of the community including the underprivileged.

- They should attract more non-interest bearing current deposit for increasing profit margin by investing the same as loan and advance.
- SCBNL and HBL are facing competition from recently established commercial bank, financial companies, development bank, micro credit development bank, co-operative and NGO. So, giving emphasis on technology development, SCBNL and HBL should be more market-oriented/service-oriented, step forward on new business activities, develop efficiency of manpower, offer a complete range of financial services.
- Recently, carper, garments and tourism industries of Nepal are bearing negative impact from reduction in worldwide economic activities. SCBNL and HBL have invested in these industries, consequently they are also suffering from that situation. So, they are recommended to adopt more diversified investment policy for investing in wide-range of profitable sectors and in proportionate manner.
- Recent year, more banking sector are investing target to SME (Small Medium Enterprises) area. So, SCBNL and HBL will study micro analysis and find out invest on SME.

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APPENDIX -1

i. Current Ratio Times

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Current assets	17084409	20093715	19322679	21472350	22025802
Current liabilities	17594654	20740829	18895638	21888227	23283089
Ratio	0.971	0.9688	1.0226	0.981	0.946

HBL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Current assets	16297019	18602009	21326260	23153115	27775530
Current liabilities	19083160	18733141	19422823	20091038	19208530
Ratio	0.854	0.993	1.098	1.03	1.446

ii. Cash and Bank Balance to Total Deposit Ratio(%)

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Cash and Bank balance	1512304	2023164	1111117	1276241	2021021
Total Deposit	19755635	21161442	19335095	23061032	24647021
Ratio	8.06	9.56	5.75	5.53	8.21

HBL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Cash and Bank balance	1979209	2001184	2014471	1717352	1757341
Total Deposit	21007379	22010333	24814012	26490852	30048418
Ratio	9.42	9.092	8.12	6.84	5.85

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

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Cash and Bank balance	1512304	2023164	1111117	1276241	2021021
Current Assets	17084409	20093715	19322679	21472350	22025802
Ratio	8.85	10.07	5.529	5.94	9.18

HBL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Cash and Bank balance	1979209	2001184	2014471	1717352	1758191
Current Assets	16297019	18602009	21326260	23153115	27775530
Ratio	12.14	10.76	9.45	7.42	6.33

iv. Investment on Government Securities to Current Assets Ratio(%)

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Investment Govt. Securities	6581348	7948217	7203066	8635875	7107937
Current Assets	1708440	20093715	19322679	21472350	22025802
Ratio	38.52	39.56	37.28	40.22	32.27

HBL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Investment Govt. Securities	3347102	3431728	5469729	5144312	6454873
Current Assets	16297019	18602009	21326260	23153115	27775330
Ratio	20.54	18.45	25.65	22.22	23.24

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

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Loan and advance	5695823	6410242	8143208	8935418	10502637
Total Deposit	187559635	21161442	19335095	23061032	24647021
Ratio	30.36	30.30	42.12	38.75	42.61

HBL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Loan and advance	10844599	12919631	13451168	15761977	16997797
Total Deposit	21007379	22010333	24814012	26490852	30048418
Ratio	51.62	58.70	54.21	59.5	56.57

vi. Total Investment to Total Deposit Ratio(%)

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Total Investment	10216199	11360328	9702553	12847536	13553233
Total Deposit	18755635	21161442	19335095	23061032	24647021
Ratio	54.47	56.68	50.18	55.71	55.10

HBL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Total Investment	10175435	9292103	11692342	10889031	11822985
Total Deposit	21007379	22010333	24814012	26496852	30048418
Ratio	48.44	42.22	47.20	41.10	39.35

vii. Loan and Advance to Fixed Deposit Ratio(%)

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Loan and Advance	5695823	6410242	8143208	8935418	10502637
Fixed Deposit	1948596	1428495	1416383	2136307	3196490
Ratio	2.92	4.49	5.75	4.18	3.29

HBL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Loan and Advance	10844599	12919631	13451168	15761977	16997797
Fixed Deposit	3205373	4710177	6107431	6350202	8201135
Ratio	3.83	2.74	2.20	2.48	2.07

viii. Loan and Advances to Saving Deposit Ratio(%)

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Loan and Advance	5695823	6410242	8143208	8935418	10502637
Saving Deposit	10633162	12771826	13030929	14597674	15244385
Ratio	0.54	0.50	0.62	0.61	0.69

HBL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Loan and Advance	10844599	12919631	13451168	15761977	16997797
Saving Deposit	10870542	11759602	12852415	1458255	15784770
Ratio	1.00	1.10	1.05	1.08	1.08

ix. Fixed Deposit to Total Deposit Ratio(%)

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Fixed Deposit	1948596	1428495	1416383	2136307	3196490
Total Deposit	18755635	21161442	19335095	23061032	24647021
Ratio	10.39	6.75	7.33	9.26	12.97

HBL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Fixed Deposit	3205373	4710177	6107431	6350202	8201135
Total Deposit	21007379	22010333	24814012	26490852	30048418
Ratio	15.26	21.40	24.61	23.97	27.29

x. Saving Deposit to Total Deposit Ratio(%)

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Saving Deposit	10633142	12771826	13030929	14597674	15244385
Total Deposit	18755635	21161442	19335095	23061032	24647021
Ratio	56.69	60.35	67.40	63.30	61.85

HBL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Saving Deposit	10870542	11759602	12852415	14582855	15784770
Total Deposit	21007379	22010333	24814012	26490852	30048418
Ratio	51.75	53.43	51.79	55.05	52.53

xi. Return Total Working Fund Ratio (%)

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Net Profit	506932	537800	539204	658756	691668
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	2.424	2.27	2.46	2.55	2.42

HBL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Net Profit	212132	263052	308277	457458	491823
Total Working Fund	24197974	25729787	28871343	30579808	34315868
Ratio	0.88	1.02	1.06	1.50	1.43

xii. Total Interest Earned to Total Outside Assets Ratio(%)

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Total Interest Earned	1001359	1042175	1058677	1189603	1411942
Total Outside Assets	6722023	17770570	17845761	21782954	24055870
Ratio	14.90	5.86	5.93	5.46	5.87

HBL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Total Interest Earned	1201233	1245895	1446468	1626474	1775583
Total Outside Assets	21020034	22211734	25143510	26651008	29616709
Ratio	5.71	5.61	5.75	6.10	6.10

xiii. Return on Loan and Advances(%)

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Net Profit	506932	537800	539204	258756	691668
Loan and Advance	5695823	6410242	8143208	8935418	10502637
Ratio	8.9	8.41	6.62	7.37	6.6.

HBL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Net Profit	212132	263052	308277	457458	491823
Loan and Advance	10844599	12919331	13451168	15761977	16997997
Ratio	1.96	2.03	2.30	2.90	2.89

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

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Total Interest Earned	1001359	1042175	1058677	1189603	1411982
Total Working Fund	20910970	23642060	21893578	2.5776332	28596689
Ratio	4.81	4.41	4.83	4.61	4.94

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Total Interest Earned	1201233	1245895	1446468	1626474	1775583
Total Working Fund	24197974	25729787	28871343	30579808	34315868
Ratio	4.96	4.84	5.01	5.32	5.17

xv. Total Interest Paid to Total Working fund Ratio(%)

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Total Interest Paid	255154	275809	254127	303198	413055
Total Working Fund	20910970	23642060	21893578	25776332	28696689
Ratio	1.22	1.2	1.16	1.20	1.44

SCBNL	Fiscal year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Total Interest Paid	554128	491543	561964	648842	167411
Total Working Fund	24197974	25729878	28871343	30579808	34315868
Ratio	2.31	1.91	1.95	2.12	2.24

xvi. Sample Calculation on Growth Rate of Total Deposit of SCBNL and HBL.

Growth rate is calculated from

$$D_n = D_0 (1+g)^{n-1}$$

D_n = Total Deposit of n^{th} year.

D_0 = Total Deposit of initial year

G = Growth Rate

N = Number of year

$$D_{2008/09} = 24647 \quad D_{2004/05} = 18756, N = 5$$

$$D_{2008/09} = D_{2004/05} (1+g)^{n-1} \text{ or, } 24647 = 18756(1+g)^{5-1}$$

$$\text{Or, } 1.314 = (1+g)^4 \text{ or } 1+g = (1.314)^{1/4} \quad g = 0.0706 \text{ or } 7.06\%$$

Growth rate of other are calculated and fed in the corresponding tables according to the above formula.

Other growth ratios are same as above methods

SOURCE:- An Annual Report Of SCBNL & HBL

APPENDIX - 2

i. Calculating of Correlation between Total Deposit and Total Investment of SCBNL and HBL.

SCBNL		
F/Y	Total Deposit	Total Investment
2004/05	18755635	10216199
2005/06	21161442	11360328
2006/07	19335095	9702553
2007/08	23061032	12847536
2008/09	24647021	13553233
	r	0.9786
	r ²	0.9576
	P.E.	.00128
	6P.E.	0.0768

HBL		
F/Y	Total Deposit	Total Investment
2004/05	21007379	10175435
2005/06	22010333	9292103
2006/07	24814012	11692342
2007/08	26490852	10889031
2008/09	30048418	11822985
	r	0.7870
	r ²	0.6194
	P.E.	0.1148
	6P.E.	0.6889

ii. Calculation of Correlation between Total Deposit and Loan and Advances of SCBNL and HBL.

SCBNL		
F/Y	Total Deposit	Loan and Advance
2004/05	18755635	5695823
2005/06	21161442	6410242
2006/07	19335095	8143208
2007/08	23061032	8935418
2008/09	24647021	10502637
	r	0.8257
	r ²	0.6818
	P.E.	0.0960
	6P.E.	0.5758

HBL		
F/Y	Total Deposit	Loan and Advance
2004/05	21007379	10844599
2005/06	22010333	12919631
2006/07	24814012	13451168
2007/08	26490852	15761977
2008/09	30048418	16997797
	r	0.9584
	r ²	0.9185
	P.E.	0.0246
	6P.E.	0.1476

iii. Calculation of Correlation between Outside Assets and Net Profit of SCBNL and HBL

SCBNL		
F/Y	Total Outside Assets	Net Profit
2004/05	6722023	506932
2005/06	17770570	537800
2006/07	17845761	839204
2007/08	21782954	658756
2008/09	24055870	691668
	r	0.8308
	r ²	0.6903
	P.E.	0.0934
	6P.E.	0.5605

HBL		
F/Y	Total Outside Assets	Net Profit
2004/05	21020034	212132
2005/06	22211734	263052
2006/07	25143510	308277
2007/08	26651008	457458
2008/09	29616709	491823
	r	0.9565
	r ²	0.9149
	P.E.	0.0257
	6P.E.	0.1540

Source: An annual report of SCBNL and HBL.

APPENDIX -3

i. Trend Value of Total Deposit of SCBNL

Fiscal Year(t)	Total Deposit(y)	x=(t-2005)	x ²	(Rs in million) xy
2004/05	18755.64	-2	4	-37511.28
2005/06	21161.44	-1	1	-21161.44
2006/07	19335.10	0	0	0
2007/08	23061.03	1	1	23061.03
2008/09	24647.02	2	4	49294.04
N=5	106960.23	0	10	13682.35

$$a = \frac{\Sigma y}{N} = \frac{106960.23}{5} = 21392.05$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{13682.35}{10} = 1368.24$$

The equation of the straight line trend is

$$Y_c = a + bx$$

$$Y_c = 106960.23 + 1368.24x$$

Year	x=(t-2003)	Trend value $Y_c = 106960.23 + 1368.24x$
2004/05	-2	104223.75
2005/06	-1	105591.99
2006/07	0	106960.23
2007/08	1	108328.47
2008/09	2	109696.71
2009/10	3	111064.95
2010/11	4	112433.19
2011/12	5	113801.43
2012/13	6	115169.67
2013/14	7	116537.91

ii. Trend Value of Total Deposit of HBL

Fiscal Year(t)	Total Deposit(y)	x=(t-2005)	x ²	(Rs in million) xy
2004/05	21007.38	-2	4	-42014.76
2005/06	22010.33	-1	1	-22010.33
2006/07	24814.01	0	0	0
2007/08	26496.85	1	1	26496.85
2008/09	30048.42	2	4	60096.84
N=5	124376.99	0	10	22568.6

$$a = \frac{\Sigma y}{N} = \frac{124376.99}{5} = 24875.40$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{22568.6}{10} = 2256.86$$

The equation of the straight line trend is:

$$Y_c = a + bx$$

$$Y_c = 24875.40 + 2256.86x$$

Year	x=(t-2003)	Trend value $Y_c = 24875.40 + 2256.86x$
2004/05	-2	20361.68
2005/06	-1	22618.54
2006/07	0	24875.40
2007/08	1	27032.26
2008/09	2	29389.12
2009/10	3	31645.98
2010/11	4	33902.84
2011/12	5	36159.70
2012/13	6	38416.56
2013/14	7	40673.42

iii. Trend Value of Loan and Advances of SCBNL

Fiscal Year(t)	Loan and Advance(y)	x=(t-2005)	x ²	xy
2004/05	56958.23	-2	4	-113916.46
2005/06	64102.42	-1	1	-64102.42
2006/07	81432.08	0	0	0
2007/08	89354.18	1	1	89354.18
2008/09	105026.37	2	4	210052.74
N=5	396873.28	0	10	121388.04

$$a = \frac{\Sigma y}{N} = \frac{396873.28}{5} = 79374.66$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{121388.04}{10} = 12138.80$$

The equation of the straight line trend is:

$$Y_c = a + bx$$

$$Y_c = 79374.66 + 12138.800x$$

Year	x=(t-2003)	Trend value $Y_c = 9374.66+12138.800x$
2004/05	-2	55097.06
2005/06	-1	67235.86
2006/07	0	79374.66
2007/08	1	91513.46
2008/09	2	103652.26
2009/10	3	115791.06
2010/11	4	127929.86
2011/12	5	140068.66
2012/13	6	152207.46
2013/14	7	164346.26

iv. Trend Value of Loan and Advances of HBL

Fiscal Year(t)	Loan and Advance(y)	x=(t-2005)	x^2	xy
2004/05	108445.99	-2	4	-216891.98
2005/06	129196.31	-1	1	-129196.31
2006/07	134511.68	0	0	0
2007/08	157619.77	1	1	157619.77
2008/09	169977.97	2	4	339955.94
N=5	699751.72	0	10	151487.42

$$a = \frac{\Sigma y}{N} = \frac{699751.72}{5} = 139950.34$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{151487.42}{10} = 15148.74$$

The equation of the straight line trend is:

$$Y_c = a + bx$$

$$Y_c = 139950.34 + 15148.74x$$

Year	x=(t-2003)	Trend value $Y_c = 139950.34+ 148.74x$
2004/05	-2	109652.86
2005/06	-1	124801.60
2006/07	0	139950.34
2007/08	1	155099.08
2008/09	2	170247.82
2009/10	3	185396.56
2010/11	4	200545.30
2011/12	5	215694.04
2012/13	6	230842.78
2013/14	7	245991.52

v. Trend Value of Total Investment of SCBNL

Fiscal Year(t)	Total Investment(y)	x=(t-2005)	x ²	xy
2004/05	10216.20	-2	4	-20432.4
2005/06	11360.33	-1	1	-11360.33
2006/07	9702.55	0	0	0
2007/08	12847.54	1	1	12847.54
2008/09	13553.23	2	4	27106.46
N=5	57679.85	0	10	8161.27

$$a = \frac{\Sigma y}{N} = \frac{57679.85}{5} = 11535.97$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{8161.27}{10} = 816.13$$

The equation of the straight line trend is:

$$Y_c = a + bx$$

$$Y_c = 11535.97 + 816.13x$$

Year	x=(t-2003)	Trend value $Y_c = 11535.97 + 816.13x$
2004/05	-2	9903.71
2005/06	-1	10719.84
2006/07	0	11535.97
2007/08	1	12352.10
2008/09	2	13168.23
2009/10	3	13984.36
2010/11	4	14800.49
2011/12	5	15616.62
2012/13	6	16432.75
2013/14	7	17248.88

vi. Trend Value of Total Investment of HBL

Fiscal Year(t)	Total Investment(y)	x=(t-2005)	x ²	xy
2004/05	10175.44	-2	4	-20350.88
2005/06	9292.10	-1	1	-9292.1
2006/07	11692.34	0	0	0
2007/08	10889.03	1	1	10889.03
2008/09	11822.99	2	4	23645.98
N=5	53871.9	0	10	4892.03

$$a = \frac{\Sigma y}{N} = \frac{53871.9}{5} = 10774.38$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{4892.03}{10} = 489.20$$

The equation of the straight line trend is:

$$Y_c = a + bx$$

$$Y_c = 10774.38 + 489.20x$$

Year	x=(t-2003)	Trend value $Y_c = 10774.38 + 489.20x$
2004/05	-2	9795.98
2005/06	-1	10285.18
2006/07	0	10774.38
2007/08	1	11263.58
2008/09	2	11752.78
2009/10	3	12241.98
2010/11	4	12731.18
2011/12	5	13220.38
2012/13	6	13709.58
2013/14	7	14198.78

vii. Trend Value of Net Profit of SCBNL

Fiscal Year(t)	Net Profit(y)	x=(t-2005)	x^2	xy
2004/05	506.93	-2	4	-1013.86
2005/06	537.80	-1	1	-537.8
2006/07	539.20	0	0	0
2007/08	658.76	1	1	658.76
2008/09	691.67	2	4	1383.34
N=5	2934.36	0	10	490.44

$$a = \frac{\sum y}{N} = \frac{2934.36}{5} = 586.87$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{490.44}{10} = 49.04$$

The equation of the straight line trend is:

$$Y_c = a + bx$$

$$Y_c = 586.87 + 49.04x$$

Year	x=(t-2003)	Trend value $Y_c = 586.87 + 49.04x$
2004/05	-2	488.79
2005/06	-1	537.83
2006/07	0	586.87
2007/08	1	635.91
2008/09	2	684.95
2009/10	3	733.99
2010/11	4	783.03
2011/12	5	832.07
2012/13	6	881.11
2013/14	7	930.15

viii. Trend Value of Net Profit of HBL

Fiscal Year(t)	Net Profit(y)	x=(t-2005)	x ²	xy
2004/05	212.13	-2	4	-424.26
2005/06	263.05	-1	1	-263.05
2006/07	308.28	0	0	0
2007/08	457.46	1	1	457.46
2008/09	491.82	2	4	983.64
N=5	1732.74	0	10	753.79

$$a = \frac{\Sigma y}{N} = \frac{1732.74}{5} = 346.55$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{753.79}{10} = 75.38$$

The equation of the straight line trend is:

$$Y_c = a + bx$$

$$Y_c = 346.55 + 75.38x$$

Year	x=(t-2003)	Trend value $Y_c = 346.55 + 75.38x$
2004/05	-2	195.79
2005/06	-1	271.17
2006/07	0	346.55
2007/08	1	421.93
2008/09	2	497.31
2009/10	3	572.69
2010/11	4	648.07
2011/12	5	723.45
2012/13	6	798.83
2013/14	7	874.21

Source : An annual report of SCBNL and HBL