

# **A Comparative Financial Performance Analysis of Standard Chartered Bank Limited and Himalayan Bank Limited**

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**Declaration**

I hereby declare that the work reported in this thesis entitled “**A Comparative Financial Performance Analysis of Standard Chartered Bank Limited and Himalayan Bank Limited**” submitted to United College, Faculty of Management, Tribhuvan University is my original work for the partial fulfillment of the requirements for the degree of Master's in Business Studies (M.B.S.) under supervision of **Prof. Dr. Bal Krishna Shrestha** and **Prof. Mahesh Raj Ojha** of United College, Kumaripati, Lalitpur.

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Lastly, my paramount dedication is to my family members who have been uninterrupted source of sustain for me during the tribulation of this research work.

I have tried to cover all the possible matters that I felt, important to sum up the “**A Comparative Financial Performance Analysis of Standard Chartered Bank Limited and Himalayan Bank Limited**”. I am hopeful that this task will be helpful to the students of business studies & to those who want to make further researches under this topic.

**Kiran Niroula**  
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## ABBREVIATIONS

IMF	:	International Monetary Fund
NEPSE	:	Nepal Stock Exchange
NRB	:	Nepal Rastra Bank
ADB	:	Agriculture Development Bank
SCBNL	:	Standard Chartered Bank Nepal Limited
HBL	:	Himalayan Bank Limited
EBL	:	Everest Bank Limited
NIBL	:	Nepal Investment Bank Limited
BOK	:	Bank of Kathmandu
NBL	:	Nepal Bank Limited
ATM	:	Automatic Teller Machine
SWIFT	:	Society for Worldwide Interbank Financial Tele- Communication
CBs	:	Commercial Banks
F/Y	:	Fiscal Year
SD	:	Standard Deviation
CV	:	Coefficient of Variation
PE	:	Probable Error

## **CHAPTER -I**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Bank is a financial institution, and the backbone of a country for the economic development. Bank constitutes the important segment of the financial infrastructure of any country. In broad sense, bank can be said as important financial institution, which collects and safeguards the public money, disburses the collected money for the productive purposes, transfers funds guarantees, credit worthiness and exchange of money. Banks are rendering a wide range of services to people.

Basically bank performs various types of services like collection of deposits from the public, granting loans to the investors, overdraft, guarantees against payment, letter of credit, discounting bills, and selling of shares agency functions. Banks collect money from public by attracting them with sound interest rate into their deposits and provide loans to the industry, business houses and needy people with some interest which is higher than the interest rate they provide in the deposit.

The commercial bank has its own role and contribution in the economic development. It is a source for economic development; it maintains economic confidence of various segments and extends credit to people. To meet the objectives, the overall performance of the bank should be soundly adjusted with each other. Only the well combined factors assist in well performance. When performance will be well, the output will generally be sound. It helps bank to

proceed in its track. Commercial banks are extending 3 percent fund in equity and also providing wholesale loans to IMF (International Monetary Fund). At present, 25 commercial banks (Including Agriculture Development Bank) are extending credit to the deprived sector.

Just by collecting cash from savers and providing loans to the investors, we can say that the bank acts as an agent between the savers and investors. Therefore we can say that the main game of the bank is to play with money in order to generate profit. The banking sector has now reached even to the most of the remote areas of the country and has contributed a good deal to the growth of the economy. By lending their resources in small scale industries under intensive banking programmes, banks have contributed to the economic growth of the country.

The capital formulation leads to increase in the size of national output, income, employment and solving the problem of inflation and balance of payment by making the economy free from the burden of foreign debts. Banking sector plays pivotal role in the economic development of a country and formulate core of the money market in an advance country. Capital formulation is one of the most important factors in the economic development.

Banking institutions are inevitable for the resource mobilization and all round development of the country. They have resources for economic development and they maintain economic confidence of various segments and extend credit to people. Banking concept existed even in the ancient period, when the Merchants, Gold Smiths and Money Lenders were performing the work i.e. accepting deposits, keeping valuable things in the custody and granting loans to the needy people. This was all their individual effort. Banks came into existence mainly with the objectives of collecting idle funds, mobilizing them into productive sectors so as to help in the overall economic development. The bankers have the

responsibility of safeguarding the interest of the depositors, the shareholders and the society where they are serving.

Financial Analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of the Balance Sheet and the Profit and Loss Account. Quality governance is impossible without effective analysis and evaluation of financial information. The study of performance of commercial banks and return to investors occupies an important role in the development of capital market. Development and expansion of capital markets are essential for the rapid economic growth of the country. Capital market helps economic development by mobilizing long-term capital needed for productive sectors. It is vital to long term growth and prosperity of the economy since it provides the channel through which needed funds can be raised. The analysis of the performance is designed to make a careful study of the recent financial records of the financial companies. In order to evaluate its performance financial statements are analyzed .Performance evaluation must not be focused exclusively up to the criterion of short term profitability or any other signals standards which may cause managers to act contrary to the long range interest of the company as a whole.

The proper analysis and interpretation of financial statements are felt necessary in corporate banks, private enterprises, and similarly other organizations to find out what information are indicated from their balance sheet and income statement as well as other necessary accounting information. On the basis of these information, it becomes easy to chalk out the problem faced by the corporations. A capable financial manager must select best analytical tools (such as Ratio Analysis) to determine the liquidity, profitability, turnover and capital structure of the corporation.

The introduction of liberal economic policy adopted by Nepal Rastra Bank has provided an opportunity for the banking institutions to grow rapidly in Nepal. As a result, different joint venture banks and financial institutions were established rapidly and now there are licensed 25 commercial banks in the country as of Mid July, 2008. Though there has been number of joint venture banks in Nepal, the present aim is to comparatively analyze the financial performance of the **Standard Chartered Bank Nepal Limited** and the **Himalayan Bank Limited** just to be assured whether they can put equal contribution in the economic growth of the country or not.

## **1.2 Origin of Banking System**

According to a French writer Revil Pout, bank notes were in practice in Babylonia around 600 B.C. This could be considered as the first ever step to the inception of banking system. It has been assumed that the practice of modern banking functions such as exchange of money, transfer of funds, note issue, accepting deposits, lending money, etc. already began in Rome around the late 4<sup>th</sup> century. However, the banking development collapsed with the Roman civilization. The banking business revived in the 12<sup>th</sup> century as Jews conducted functions such as safe keeping of valuables, lending money at interest and similar other functions. Being lured by the good profit, Italians too, extensively followed suit.

As a result, Bank of Venice, the first bank in the world came into existence in 1157 A.D. Prior to the development of modern banking system, the role of merchants, money lenders and gold smiths became dominant in the society. Therefore, they can be considered as the three ancestors of modern banking. Gradually, the function of accepting deposits and granting loans were handed over from individual to the joint stock company.

Following it were established the Bank of Barcelona and the Bank of Genoa in 1401 and 1407 respectively. The Bank of Venice and the Bank of Genoa

continued to operate until the eighteenth century. With the expansion of commercial activities in Northern Europe there sprang up a number of private banking houses in Europe and slowly it spread throughout the world. In Nepal, modern banking starts from the establishment of Nepal Bank Limited.

### **1.3 Development of Banking System in Nepal**

In the country, the development of banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of landlords, rich merchants, shopkeepers and other individual moneylender has acted as fence to institutional credit in presence of unorganized money market.

Though establishment of banking industry was very recent, some crude bank operations were in practice even in the ancient times. In Nepalese Chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shakhadhar, a Sudra merchant of Kantipur in 879 or 880 AD after having paid all the outstanding debts in the country. This shows the basic of money lending practice in ancient Nepal. Towards the end of 8<sup>th</sup> century, Gunakam Dev had borrowed money to rebuild the Kathmandu valley. In 11<sup>th</sup> century, during Malla regime there was an evidence of professional moneylenders and bankers. It is further believed that money lending business, particularly for financing the foreign trade with Tibet, became quite popular during reign of Mallas. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have charged exorbitant rates of interest and other extra dues on loans advanced.

The establishment of the "Tejarath Adda" during the year 1877 AD was fully subscribed by the government of Kathmandu valley, which played a vital role in the banking system. This establishment helped the general public to provide credit facilities at a very low rate of 5 percent. The Tejarath Adda distributed credit

facilities to the public especially on the collateral of gold and silver through its several branches established in different parts of the country. Hence, it could be regarded as pioneer foundation of banking in Nepal which ran smoothly for flow decades.

The main defects of this institution souged as there was no other financial institution set-up and there was not effort to expand the services. Above all defects, this institution did not accept any deposits from the public. In the absence of saving mobilization the "Adda" faced financial problems making it impossible to cater the need of general population throughout the country. After that again, for a long time, several unorganized bankers and indigenou moneylenders continued to flourish as the sole provider of the credit and services to the general public.

At the same time, the government started trade with India and Tibet. And the various indigenou bankers handled even the trade, because transfer of the money could be safely made only through these bankers in the absence of modern banking institutions. Hence, the need of banking institution was realized. This was even strongly supported by the situation caused during 1934 AD's earthquake where there was a need of finance for the reconstruction of works. Reviewing these situations, the "Udhyog Parisad" (Industrial Development Board) was constituted in 1936 A.D. One year after it's formulation, it formulated the "Company Act" and "Nepal Bank Act" in 1937 AD under which Nepal Bank Limited with the co-operation of Imperial Bank of India came into existence as the first commercial bank in Nepal. Banking in the modern sense started with the inception of Nepal Bank Limited on 1994 B.S. Nepal Bank Limited had a Herculean responsibility of attracting people toward banking sector from pre-dominant moneylenders' net and of expanding banking services. Nepal Bank Limited paid more attention to profit generating business and preferred opening branches at urban centers.

With a view to abolish dual monetary system, to stabilize the exchange rate, to facilitate the use of Nepalese currency throughout the kingdom and to mobilize the capital to encourage the development in industry and trade, Nepal Rastra Bank (NRB) was established on 14<sup>th</sup> Baishak 2013 B.S. (26<sup>th</sup> April 1956) under functioning as the Government's bank and has contributed to the growth of financial sector. On 7<sup>th</sup> Falgun 2016 B.S., Nepal Rastra Bank issued Nepalese currency note for the first time.

Integrated and speedy development of the country is possible only when competitive banking services reach nooks and corners of the country. Keeping this in mind, government set up Rastriya Banijya Bank in 2022.10.10. (B.S.) as a fully government owned commercial bank. Industrial Development Centre was set up in 2013 B.S. with the chief objective to provide long term to industrial sector development. In 2016 B.S., Industrial Development Centre was converted to Nepal Industrial Development Corporation.

Similarly Agriculture Development Bank was established in 2024.10.07.(B.S.) to provide finance for the agricultural products so that agricultural productivity could be enhanced by introducing modern agricultural techniques. Likewise, Co-Operatives came into existence in 2019 B.S. Moreover, Security Exchange Centre was established in 1976 to enhance capital market activities. Securities Exchange Centre was renamed Nepal Stock Exchange (NEPSE) in 1993. In the context of increasing commercial activities in the country, the service of merely two commercial banks (Nepal Bank Limited and Rastriya Banijya Bank) was realized insufficient.

With the establishment of Rastriya Banijya Bank and Agriculture Development Bank, banking services spread to both the urban and rural areas. Nepal Rastra Bank also gave incentive to Nepal Bank Limited to expand their branches to rural areas. This helped the common people to reduce their burden of paying higher rate

of interest to money lenders and absolved them from kowtowing before money lenders. It is natural expectations of customers keep on increasing. Once they got banking services they were expecting improvement and efficiency. However, excess political and bureaucratic interference and absence of modern managerial concept in these institutions were hurdle in this regard. Banking services to the satisfaction of customers were a far cry. The inception of Nepal Arab Bank Limited (renamed as NABIL Bank Limited since 1<sup>st</sup> January 2002) in B.S. 2041.03.29 (12 July 1984) as a first joint venture bank proved to be a milestone in the history of banking. Being attracted by the success of NABIL bank and liberal economic policy adopted by the government after the restoration of Multiparty Democracy System in 2046 B.S. a number of commercial banks, came into Nepalese financial Market. The banking sector in Nepal started with the establishment of Nepal Bank Limited. NABIL Bank gave a new ray of hope to the sluggish financial sector.

Today, we have got 25 (Including ADB) commercial banks in operation in Mid July 2008.

#### **1.4 Brief Profile of Banks under Study**

##### **Standard Chartered Bank Nepal Limited**

In 1987 AD., Nepal Grindlays Bank Limited (recent name Standard Chartered Bank Nepal limited) was established as another commercial bank on Nepal among other JVBs to contribute in commercial sector of Nepalese economy. The bank has made a significant contribution from its establishment in the Nepalese banking sector. The 50% of the equity share capital was originally owned by ANZ Grindlays Bank, UK, which managed & controlled the overall activities of the bank.

In August 2000, the ownership of ANZ bank Grindlays, UK, was transferred to SCB, Australia. The bank, at present is managed & controlled by SCBL, Australia with a new name SCBNL in 2001. SCBL holds 50% of total equity capital investment. 35% of total equity share capital is held by Nepal Bank Limited & remaining 15% share capital is held by general public investors. The bank is being managed under Joint Venture & Technical Services. Agreement that was signed between SCB & Nepalese promoters. The bank has been providing various banking services to its customers through branches national wide. Among which 5 of the main branches are regulating their services in Kathmandu valley alone. The bank is launching some new programmes from to attract new customer to boost up its banking activities such as long term Home Loan at minimum interest rate.

### **Share Holding Pattern**

1. SCBL, Australia - 50%
2. SCBL, UK - 25%
3. General Public - 25%

### **Share Capital of Standard Chartered Bank Limited**

#### a. Authorized capital

10,000,000 ordinary shares @ Rs.100 per share = Rs. 1000,000,000.

#### b. Issued capital

50,00,000 ordinary shares @ Rs. 100 per share = Rs. 50,00,00,000

#### c. Paid up capital

41,32,548 ordinary share @ Rs. 100 per share = Rs. 41,32,54,800

Standard Chartered Bank Nepal Limited has provided various modern facilities for its customers. They are well- equipped with latest technologies as well. Some of them have been listed below:

1. Tele banking

2. Credit Card Facilities
3. International services
4. ATM
5. Personal & Corporate Financial Services
6. Foreign Currency Transaction
7. SWIFT

### **Himalayan Bank Limited**

Himalayan Bank Limited was incorporated in 1992 by the distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial banks of Pakistan. Banks operation was commenced from January 1993. It is the first commercial bank of Nepal with maximum share holding by Nepalese private sector. Beside commercial activities, the Bank also offers industrial and merchant banking.

### **Share Holding Pattern**

- Nepali Promoters - 51.00%
- Habib Bank of Pakistan - 20.00%
- Karmachari Sanchaya Kosh - 14.00%
- General Public - 15.00%

### **Share Capital of Himalayan Bank Ltd.**

#### a. Authorized capital

10,000,000 ordinary shares @ Rs. 100 per share = Rs. 1000,000,000.

#### b. Issued capital

81,08,100 ordinary shares @ Rs. 100 per share = Rs. 81,08,10,000

#### c. Paid up capital

81,08,100 ordinary share @ Rs. 100 per share = Rs. 81,08,10,000

Besides banking facilities it provides other facilities too, they are given as:

1. Tele Banking
2. Credit Card Facilities
3. Safe Deposit Locker
4. International Trade and Bank Guarantee
5. Western Union Money Transfer
6. SWIFT
7. ATM

### **1.5 Statement of Problem**

Since the joint ventures banks, financial companies and about dozens of rural banks and corporate societies have been established gradually because of the liberal and market oriented economic policy of the HMG/N. In short span of time, bank has brewed new competitive scenario and has posed a challenge to the monopolistic banks which are making attractive profits. In the change scenario these banks need to explore their strengths and weaknesses and improve their performance because their success depends upon their ability to boost the productivity and financial performance. Thus this study seeks efficiency and weakness of the selected banks through different tools. This study basically focuses our attention to reveal the struggle and success achieved by SCBNL and HBL. Though, joint venture banks have been successfully operating and contributed significantly to the overall economic development of the country, the study of financial performance is basic process which provides information about profitability, liquidity position earning capacity, efficiency in operation, credit worthiness, source and use of capital, financial achievement and status of banks.

The information obtained can be used to measure the efficiency and effectiveness of the banks in respect of deploying financial resources in the profitable manner. Yet they are not free from problems that need to be resolved for improving their

performance. In Nepal, profitability rate, operating expenses, dividend distribution among shareholders have been found inconsistent.

While assessing the financial health of the company, answers to the questions relating to the company's profitability, assets utilization, and liquidity financing capabilities may be sought. A number of questions go beyond the scope of ratio analysis. They however need to be answered while assessing the financial health of the company.

The following issues are to be dealt for the purpose of this study:

- What are the major factors effecting the financial performance of SCBNL and HBL?
- What is their financial position?
- How far SCBNL and HBL have been able to meet their current obligation when they become due?
- How far SCBNL and HBL are able to meet its short term as well as long term obligations to its customers?

## **1.6 Focus of the Study**

This study is focused on the comparative analysis of the financial performance of Standard Chartered Bank Nepal Limited and Himalayan Bank Limited. Financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statement. Financial ratio analysis is a widely used tool of financial analysis and its performance. The goal of such analysis is to determine the efficiency and the performance of the firm's management management as reflected in the financial record and report.

The financial analysis tries to analysis profitability, income and expenditure, source and use of funds of these institutions. Financial ratios are evaluated with the help accounting data and financial statements like balance sheets and profit

and loss accounts. With the help of these tools we can measure the liquidity, leverage, activity and profitability in rational way.

## **1.7 Objective of the Study**

This project report is led to examine the application of financial performance concept of Standard Chartered Bank to analyze the financial activities followed by the organization is sufficient or not to generate profit. My effort in this study is also to find out exact financial performance of the Standard Chartered Bank over five years period.

To fulfill these objectives followings are the sub objectives-

- To evaluate their financial positions
- To analyze the financial strengths and weaknesses of the sampled financial Institution
- To analyze the banks deposit mobilization and investment procedures
- To make relevant suggestions and recommendations for their effective and efficient future performance

## **1.8 Significance of the Study**

Regarding the economic structure of the country, the banks do not have sufficient investment opportunity rapidly increasing financial institutions are creating threats of selected joint venture banks. This study attempts to find out the causes of failure and success of these banks using the various financial and statistical tools. The study will create awareness about utilization of the scarce resources and help to identify the productivity of their funds and the market value of their investments.

The study will be useful to the following stakeholders:

- ) To the investors i.e. shareholders
- ) To the management of the banks
- ) To the policy makers (while formulating the policy regarding Commercial Banks)

) To the new researchers (to get depth knowledge of banks as well as to get valuable findings of research).

### **1.9 Limitation of the Study**

Despite many efforts on the part of the researcher, this study is also not free from limitations. The major limitations of this study will be:

1. The study covers only the latest five fiscal years form 2002/03 to 2006/2007.
2. The study has mainly been conducted on the basis of secondary data such as annual reports of Standard Chartered Bank Nepal Limited and Himalayan Bank Limited and other related journals, books and magazines that are provided by the banks.
3. Among various commercial banks, this study was confined to comparatively evaluate Financial Performance of Standard Chartered Bank Nepal and Himalayan Bank Limited only.
4. The accuracy of the research work will be dependent on data provided by concerned banks.
5. Time factor is major limitation of this study.

### **1.10 Organization of the Study**

The study is divided into following five different chapters:

#### **Chapter 1: Introduction**

This chapter deals with the introduction that includes Background of the study, Origin of Banking system, Development of Banking System in Nepal, Brief Profile of Standard Chartered Bank, Statement of the Problem, Objectives of the study, Limitations of the study and Significance of the study.

## **Chapter 2: Review of Literature**

Second Chapter deals with the available literature review. It includes review of books, review of relevant journals and articles, and review of previous thesis.

## **Chapter 3: Research Methodology**

Third chapter explains the research methodology used in the study, which includes research designs, population and samples, data collection procedures, methods of data analysis and methods of data presentation.

## **Chapter 4: Data Presentation and Analysis**

Fourth Chapter is the heart of the study and in this part data have been systematically presented, analyzed and interpreted. Various financial and statistical techniques have been used to analyze and interpret the data.

## **Chapter 5: Summary, Conclusions and Recommendations**

Fifth or last chapter constitutes the summary of major findings, recommendations, conclusion as well as suggestions for further improvement.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

#### **2.1 Conceptual / Theoretical Review**

Review of Literature is the study of concepts and a crucial aspect of planning of study i.e. developed in the area of same kind of research. This chapter highlights upon the existing literature and research studies about the related financial performance of different concepts. Review of Literature is an essential part of all studies. It is a way to discover what other research in the area of our problem has uncovered. Scientific Research must be based on past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies.

##### **2.1.1 Concept of Financial Performance Analysis**

Financial performance analysis is a study of relationship among the various financial factors to pinpoint the strengths and weaknesses of a firm in order to forecast the prospects for future earnings. In the recent time, financial performance analysis has played an increasing important role as a tool for examining the real worth of a going concern which is one of the important Fundamental Accounting Assumption.

Financial performance analysis determines the solvency of a business concern and the measure of efficiency of operation as compared to similar concerns. The analysis reveals how far the dream and ambition of the top management have been converted into reality during each financial year. The analysis being the technique of X-raying the financial position as well as the progress of a concern

enables managers and investors to take decisions that will affect the company's future.

**Myer (1974)**, "Financial Statement analysis is largely a statement of relationship among the various financial factors in business as disclosed by the single set of statements and study of the trend of these factors as shown in a series of Statements".

**Meigs (1978)**, "Financial analysis is the process of Selection, Relation and Evaluation". In financial analysis, ratios are widely used. Ratios are also suitably classified in accordance with the purposes of use. Before taking up the usefulness, let us see what is meant by the financial ratios. A ratio is calculated using at least one financial variable.

**Robbinson (1957)**, "The profit earned by the firm is the main financial performance indicator of business enterprises. Profit results mainly from successful business management, cost control, credit risk management and successful efficiency of operation".

Profit earned by the company is also affected by inflation and government policies regarding interest rates, direct lending and investment, taxes and labor laws etc. Profit is essential for enterprises to serve and grow and to maintain capital adequacy through profit relation. It is also essential to access market for both debt and equity and to provide funds for increasing assistance to the productive sector.

Liquidity refers to the ability to pay one's hands on cash when it is needed, without having to sell long term assets at a loss in an unfavorable market. Enough liquidity is needed to honor cheques and to enable to make profitable loans when an opportunity arises. Bank must maintain adequate liquidity to meet a wide range of contingencies. If a bank fails to maintain adequate

liquidity, it faces different kinds of financial problems. On the other hand, if it maintains excess liquidity it is not good for the business. Excess liquidity leads banks towards decreasing trends. So a bank must maintain adequate liquidity on its liquid properties such as cash in hand, cash in reserve bank, investment on gold and other liquid properties. A bank must maintain adequate cash and bank balance to meet day-to-day cash expenses. It measures the extent to which it can oblige its short-term obligation. The central bank of any country determines the percentage for maintaining the Liquidity Position.

A firm must have adequate equity capital in their capital structure in order to call a solvent firm. If a bank fails to maintain adequate equity capital then it makes the bank more risky. Inadequate capital makes more debt, which has fixed cost, if firm fails to earn revenue and fails to pay fixed interest charges then the firm will be insolvent. On the other hand, less use of debt reduces the shareholder's profit because the cost of debt is always less than cost of the capital.

Long term creditors like debenture holders are more concerned with the firm's long term financial strength and solvency. So while evaluating the financial performance, solvency is widely used which measure the funds supplied by the owners and creditors. Business of the bank is mainly resource mobilization. Banks must have utilized its resources properly. If a bank fails to collect deposits then it curtails profitable opportunity and if it fails to utilize its collected resources then it can't earn revenue. Resource mobilization of a bank includes resources collection, investment portfolio, loans and adequacy. It measures the extent to which bank is successful to utilize its resources.

**Pandey (1995)**, "Financial performance decision plays a vital role to increase the profitability by analyzing the past performance and efficiency of a firm from accounting data and financial statements. The profit earned by the firm is the

main financial indicator of business enterprises. Profit is essential for an enterprise to survive, grow and to maintain capital adequacy through profit retention. The profit can't solely predict the financial performance of the firm. Thus, financial performance is the starting point for making plans deforming using any sophisticated forecasting and budgeting procedures".

Financial analysis identifies the financial strengths and weaknesses of the firm with the help of basis financial statements. For these purposes, ratios help the analysts to make qualified judgments about the firm's financial positioned performances.

**Pandey (1995)**, "Financial Analysis is the purpose of identifying the Financial Strengths & Weaknesses of the firm by properly establishing Relationship between the Balance sheet And Profit & Loss Accounts".

**Gitman (1988)**, "Ratio Analysis involves the Methods of Calculating and Interpreting Financial Ratios to Assess the Firm's Performance & Status".

**Pandey (1995)**, "Ratio Analysis is the powerful tool of financial analysis. A ratio is designed as the Indicated Quotient of Two Mathematical Expressions and as the Relationship between Two or More Variables. In the Financial Analysis, a ratio is used as a benchmark for evaluating the Financial Positions & Performances of the Firms".

**Van Horne (1999)**, "Ratio may also be judged in comparison with those of similar firms in the same line of business and when appropriate with an industry average. From empirical testing in the recent years, it appears that financial ratios can be used successfully to predict certain events, bankruptcy in particular. With this testing, financial ratio analysis has become more scientific & objectivity than ever before".

Financial statement analyzes the techniques used by various groups like Creditors, Shareholders, Potential Investors, Management, Government and so on. Financial Statements reflect firm's overall performance as well as its future growth and solvency, thus the analysis of financial statements is crucial.

**Poudel (1997)**, "Unlike other non-bank financial companies, commercial banks do not produce and sell physical goods. They produce loans and financial innovations to facilitate trade transactions because of special role they play in the economy, they are heavily regulated by the concerned authorities. Analysis of bank's financial statements is different from that of other companies due to the special nature of assets and liabilities structure of banking industries".

Financial statements are usually analyzed with the help of financial tools and financial ratios which are out of the primary tools. The term ratio refers to the numerical and quantitative relationship between two variables. Important ratios can be calculated from the balance sheet and profit and loss account. Balance sheet is the state of affairs of an entity as at the balance sheet date. Profit and loss account on the other hand shows the financial position (profit or loss) during that period. Ratio analysis is relevant in assessing the performance and position of firms. Various ratios are used for this purpose.

Financial statement analysis is a study of relationship among the various financial factors in a business as discussed by a single set of statements and study of the trends of these factors as shown by the series of statements by establishing a strategic relationship between the items of balance sheet and income statements and other operating data. The financial analysis (as it is simply called) unveils the measuring and significances of such items.

**Van Horne & Wachowicz (1997)**, "Financial analysis involves the use of various financial statements- the first is the balance sheet which represents a

snapshot of the firms financial position at a movement in time and next is the income statement that depicts a summary of the firms profitability over time".

Analysis and interpretation of financial statements are an attempt to determine the financial performance of any organization so that forecasts may be made of the prospects for future earnings, ability to pay interests, debt maturity and probability of a sound dividend policy.

**Helfert (1992)**, "It is also the analytical and judgmental process that helps answer questions that have been posed. Therefore it is means to end. Apart of the specific analytical answer the solutions to financial problems and issue depend significantly on the views of the parties involved in related issues and on the nature and ratability of the information available".

**Hampton (1998)**, "With respect to the problems identified from the analysis, pertinent care should be made to distinguish between the cause and symptom of problem".

**Jain (1996)**, "Through the application of analytical tools profitability and financial health of a concern is evaluated in a proper, critical and scientific manner".

Financial performance analysis is helpful in assessing the financial position and profitability of a business concern. The analysis of financial statements thus refers to the treatment of the information contained in the financial statement in a way so as to afford full diagnosis of the profitability and financial position. Financial performance analysis is helpful to the decision maker for finding out favorable situation of a business concern. Therefore financial analyses reflect the financial position of a firm, which is the process of determining the operational and financial characteristics of a firm.

### **2.1.2 Financial Performance Analysis of Bank**

Balance Sheet, Profit and Loss Account, Cash Flow Statement and the accompanying notes are the most important aspects of financial statements of the banks. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets proportion on total assets is generally low in the case of each bank. Financial innovations, which are generally contingent in nature are considered as off balance sheet items. Interest received on loans and advances and investment and paid on deposit liabilities are major components of bank's profit and loss account. The other sources of incomes are fees, commissions, discounts, service charges, etc.

**Poudel (1997)**, "Traditionally, banks act as financial intermediaries to channel funds from excess units. Unlike the other non-bank financial companies, commercial banks do not produce any physical goods. They produce loans and financial innovations to facilitate trade transactions. Because of special role they play in the economy, concerned authority heavily regulate them. Analysis of banks financial statements is different from that of other companies due to the special nature of assets and liabilities".

The users of financial statements of banks are relevant and reliable with comparative information to evaluate the financial performance and position of banks and hence to make economic decisions. Commercial Bank Act 1994 requires the audited balance sheet and profit and loss account to be published in leading newspaper for the information of the general public.

Most of the users of financial statements are interested in assessing the bank's overall performance. Following factors affect the evaluation of bank's overall performances which are structure of balance sheet and profit and loss account, operating efficiency and internal management system. Managerial decision is

taken by the top management regarding interest rates, lending policies, exchange rates and environmental changes such as changes in technology, government, competition, economy, etc.

Ratio analysis is one of the most frequently used tool to evaluate the financial health, operating result and growth of the banks. Financial ratios themselves do not indicate position of the institution. A standard or norm is needed to judge them. As loans account a substantial portion of bank's total assets, poor quality of loans would subject bank to a higher risk of default or nonpayment. Classifying total loans and advances into performing assets and non-performing category can assess the quality of loan of a bank. In our context commercial banks are required to classify their total loans portfolio into different categories. The basis of classification is aging, overdue, repayment position, and quality of collateral and financial position of borrowers. Capital adequacy of the bank is assessed on the basis of risk-weighted assets. It indicates bank's financial strength and solvency. Bank facing capital adequacy problem may increase the capital and reduce the existing assets structure in ordered to maintain the desired level of capital base. Liquidity is measured by the speed with which bank's assets can be converted into cash to meet deposits withdrawal and other current obligations. A bank is subject to minimum cash reserve requirement imposed by central bank to ensure that minimum accounts of total assets are held in liquid form to meet unexpected withdrawal.

### **2.1.3 Concept of Financial Statement**

In the beginning of civilization, the number of business transactions had taken a very small place. Each businessman was able to record and check business transactions himself. After the increment of business transactions, the need of accounting system increased. With the help of financial statement, every businessman could show actual business condition to the different parties.

**Pandey (1993)**, "Financial statements systematically contain summarized information of the firm's financial affairs. Top management needs financial statements to see actual financial situation of the firm to the owners, creditors and the general public. Balance Sheet and Income Statement are used to assist in decision-making. Balance Sheet and Profit & Loss account are the traditional basic financial statements of business. Financial statement contains summarized information of firm's financial affairs organized and systematically, they are meant to represent the firm's financial situation to user".

These statements provide reliable financial information about economic resources and obligations of business enterprises.

**Kereps and Gee (1974)**, "The term financial statements used by itself without qualification usually refer to three principle statements. The balance sheet, the income statement and a statement of changes in equity and changes in the ownership accounts".

Thus, we can say that financial statements communicate information to the different parties. It is a source of information relating to a firm.

**Kennedy (1974)**, "The financial statements represent summaries of the financial and operating data entered in the accounting records, re-stated in monetary units. These monetary units do not generally represent current absolute values".

**Gupta and Radnaswami (1998)**, "Financial statement contains Balance Sheet and Profit and Loss Account. Every balance sheet and profit and loss account of a company shall give a true and fair view of the state of affairs of the company and further, the balance sheet shall be in the form set out as near thereto as circumstances admit or in such other form as may be approved by the central government either generally or in any particular case. Banking sector, which is

governed by special statutes, have different forms prescribed for the profit and loss account and the balance sheet under the respective statutes".

Brigham viewed the financial statements as an accounting picture of the firm's operations and financial position. Evidently financial statements consist of income statement and balance sheet.

### **Balance Sheet**

Balance sheet presents the position of company's assets, liabilities and shareholder's equity at a particular date. The liabilities indicate the amount owned by the firm to its creditors. It represents summary of the financial and operating data entered in the accounting records, which are stated in the monetary units.

**Pandey (1993)**, "A balance sheet is a treatment showing the nature and amounts of all debts owned by the firm and the amount of equity of owners in the assets of the business. Balance sheet contains information about resources and obligations of a business entity and about the owner's interest in the business at a particular point of time".

We can say that the balance sheet shows the assets owned by the business and the sources of funds (from creditors and owners) used in acquiring the assets.

### **Income Statement or Profit and Loss Account**

**Kereps & Gee (1974)**, "The earning capacity and potential of the firm are reflected by the income statement. Income statement presents the summary of revenues, expenses and net income or net loss of a firm for a period of time, which measures the firm's profitability, statement of income, and statement of loss. A profit and loss statement (also known as earnings or a statement of operations) is a statement sharing over a specified and limited period of the life

of a business, the nature and amount of all its income for the period and the nature and amount of all its operating costs and expenses".

**Shukla and Grewal (1990)**, "The Profit and Loss Account starts with the credit from the Trading Account in respect of gross profit (or debit if there is gross loss). Thereafter, all those expenses or losses, which have not been debited to the Trading Account, are debited to the Profit & Loss Account. If there is any income besides the gross profit; it will also be transferred to the credit of the Profit and Loss Account".

In conclusion, we can say that profit and loss statement shows the net income or net loss resulting from the operation of business during a specific period of time.

#### **2.1.4 Feature of Financial Performance Analysis**

**Welsch, Hiltbrand and Gordan (1992)**, the performance report should be:

- ) Tailored to the organizational structure and locus of controllability (that is, by responsibility center).
- ) Designed to implement the management-by-exception principle.
- ) Repetitive and related to short time periods.
- ) Adapted to the requirements of the primary users.
- ) Simple, understandable, and report only essential information.
- ) Accurate and designed to pinpoint significant distinctions.
- ) Prepared and presented promptly.
- ) Constructive in tone.

#### **2.1.5 Purposes of Financial Performance Analysis**

**Jain and Narayan (1989)**, "Financial analysis is helpful in assessing the financial position and profitability of a concern. This is done through comparison by ratio for the same concern over a period of years; or for one

concern against another; or for one concern against the industry as a whole; or for one concern against the predetermined standards; or for one department of a concern against another of the same concern. In short, the main objectives of analysis of financial statements are to assess:

- ) The present and future earning capacity or profitability of the concern.
- ) The operational efficiency of the concern as a whole and of its various parts and departments.
- ) The short term and long term solvency of the concern for the benefit of the debenture holders and trade creditors.
- ) The comparative study in regard to one firm with another firm or one department to another department.
- ) The possibility of development in the future by making forecast and preparing budgets
- ) The financial stability of a business concern.
- ) The real meaning and significance of financial data.
- ) The long term liquidity of its funds".

### **2.1.6 Uses of Financial Performance Analysis**

**Jain and Narayan (1989)**, "Information given in the financial statement is very useful to a number of parties and they are:

- ) **Owners:** Owners provide funds for the operation of the business and they want to know whether their funds are being properly utilized or not. The financial statements prepared from time to time satisfy their curiosity.
- ) **Creditors:** Creditors want to know the financial position of a concern before giving loans or granting credit. The financial statement helps them in judging such position.

- ) **Investors:** Prospective investors, who want to invest money in a firm would like to make an analysis of the financial statements of that firm to know how safe their proposed investment will be.
- ) **Employees:** Employees are interested in the financial position of the concern they serve, particularly when payment of bonus depends upon the size of the profits earned. They would like to know that the bonus being paid to them is correct; so they become interested in the preparation of correct profit and loss account.
- ) **Government:** Central and state governments are interested in the financial statements because they reflect the earning for a particular period for the purpose of taxation.
- ) **Research Scholars:** The financial statements, being a mirror of the financial position of the firm are of immense value to the research scholars who want to make study in the financial operation of a particular firm.
- ) **Consumers:** Customers are interested in the establishment of goods accounting control so that cost of production may be reduced with the resultant reduction of the prices of goods they buy.
- ) **Managers:** Management is the art of getting things done through others. This requires the subordinates to do the work properly. Financial statements are an aid in this respect because they serve the managers in appraising the performance of the subordinates. Actual result achieved by the employees can be measured against the budgeted performance they were expected to achieve and remedial action can be taken if the performance is not upto the mark".

### 2.1.7 Limitation of Financial Performance Analysis

- ) ***Interim and not final reports:*** Financial statement does not depict the exact position and are essentially interim reports. The exact position can be only known if the business is closed.
- ) ***Lack of precision and definiteness:*** Financial statements may not be realistic because they are prepared by following certain concepts and conventions. For example; going concern concept gives us an idea that the business will continue and assets are to be recorded at cost but the book value which the assets is showing may not be actually reliable.
- ) ***Lack of objective judgment:*** Financial statements are influenced by the personal judgment of the accountant. He may select any method of depreciation, valuation of stock, etc. Such judgment if based on integrity and competency of the accountant will definitely affect the preparation of the financial statements.
- ) ***Records only monetary facts:*** Financial statements disclose only monetary facts. Those transactions which can't be measured in monetary terms such as conflict between production manager and marketing managers may be very important for a business concern but not recorded in the business book.
- ) ***Historical in nature:*** These statements are drawn after the actual happening of the events. They attempt to present a view of the past performance and have nothing to do with the accounting for the future. Modern management is forward looking but these statements do not directly help in making future estimates and taking decisions for the future.
- ) ***Artificial view:*** These statements do not give a real and correct report about the worth of the assets and their loss of value as these are shown on the historical cost basis. Thus these statements provide artificial view in

market or replacement value and the effect of the changes in the price level are completely ignored.

- ) ***Scope of manipulation:*** These statements are sometimes prepared according to the needs of the situation or the whims of the management. A highly efficient concern may cancel its real profitability by disclosing loss or minimum profit whereas an efficient concern may declare dividend wrongly showing profit in the profit and loss account.
- ) ***Inadequate information:*** There are many parties interested in the information given by the financial statements but their objectives and requirements differ. The financial statements as prepared under the provision of the company act fail to meet the needs of all. These are mainly prepared to safeguard the interest of shareholders.

## **2.2 Review of Related Studies**

Reviews related to various journals, articles and past thesis can be made which provide guidelines to the thesis under study. Some of these reviews are as follows:

### **2.2.1 Review of Related Journals and Articles**

In addition to financial performance, various articles were published on financial aspect, which deals in the context of Nepalese commercial and joint venture banks. The major findings of the approaches used in those important articles and journals are reviewed briefly.

**A. H. Robert & L.B. Nardin. (Summer, 1996).** "*Commonality in the determinants of expected stock returns.*" The Journal of Financial Economics, presented with evidence that the determinants of the cross section of expected stock return were stable in their identity and influence from period to period and from country. The determinants were related to risk, liquidity, price level, growth

potential and stock price history. Out of sample predictions of expected returns, using moving average values for the pay-offs to these firm characteristics were strongly and consistently accurate. Two findings, however, distinguished their paper from others in the contemporary literature. First, the stock with higher expected and realized rate of return was unambiguously of lower risk than the stocks with lower returns. Second, they found that the important determinants of expected stock returns were strikingly common to the major equity markets of the world. Given the nature of the texts, it was highly unlikely that those results may be attributed to bias or data snooping. Consequently, the result seems to reveal a major failure in the efficient market hypothesis.

**IMF Working Paper. (1997).** *"Determinants of stock prices: the Case of Zimbabwe."* The working paper examined the general relationship between stock price and macroeconomic variables in Zimbabwe, using the revised DDM, error-correction model, and multi factor return generating model. Despite the large fluctuation in stock prices since 1991, the analysts indicated that the Zimbabwe Stock Exchange functioned quite constitutently during the period. Whereas, sharp increases in the share prices, in stock prices during 1993-94 were mainly due to the shift of the risk premium that was caused by partial capital account liberalization, the monetary.

**Kafle, Deepak Raj (1993),** his article *"Capital Market in Nepal"* in the newsletter of the Nepal Chartered Accountant has been reviewed. According to that, Nepalese capital market got a proper structure only in the year 1993. In this year securities board was established as regulator and stock trading commenced through the member brokers adopting upon outcry auction system. Stock exchange in its usual role was their expected to develop as a powerful mechanism to mobilize savings for long term investments. Today stock exchange has gained experience of over a decade. It is now a place where the financial products of 115 companies are traded. These listed companies make a market capitalization in the tune of 45 billions rupees, 8.5% of GDP. During this period, a cumulative total of

seven hundred thousand shareholders have acquired stock ownership in the listed companies. A broad based initial offer market where more than seven billion rupees were raised contributes the proliferation in the share ownership.

Stock market has grown in the past decade but not to an extent desired. It is still in an early stage and has to grow significantly to play a more meaningful role in the banking dominated financial system. There should be concerted efforts to improve market size, liquidity, concentration and volatility in order to gain the status of a credible market. It has become more relevant to focus on developing a credible market when banking sector is under its way of meaningful reform and pressure for integration to the world and regional markets are mounting. We probably do not have any other better choice than keeping in rhythm with regional prosperity through more investment and service linkages.

There are sufficient reasons to be enthusiastic for the growth of the private sector and subsequently argue in favor of vast potential of the growth of the stock market in Nepal. However, realizing such potentials is possible only when supported by requisite changes in the legal and institutional infrastructure, telecom and aviation sector, new mega investment hydro and physical infrastructure projects are likely to come up and absorb huge investment resources. Furthermore, some well performing closely held companies are also showing interest to come to the capital market. These potential investment sectors can play a catalytic role to trigger further market growth. We believe that the limited fund deployment needs in the domestic market and limited investment avenues are temporary phenomena that will get rectified as the economy becomes confident to come out from the prevailing conflict situation. Some basic reforms in the capital markets are already taking shape in Nepal. Effective regulation of products and intermediaries, appropriate regulation with effective enforcement, market operations and transparent standards are some of the key reform agendas. Further the infrastructural developments including information dissemination and order

routing mechanism, trading by stem linkages and settlement and clearing arrangement fundamental to a well functioning market have been visualized.

**K.C., Raj Kumar (2003)**, in his article *"Financial Sector Reforms – Still a Long Way to Go"* published in "The Rising Nepal" concluded that the financial sector has a direct impact in the national economy. It is obvious that any slight change in the financial sector triggers a significant impact in the economy. Following the implementation of the financial sector reform policy, the country's economy has experienced a sea change.

**Poudel, Narayan Prasad (1996)**, in his article *"Financial Statement Analysis: An Approach to Evaluate Bank's Performance"* published in NRB Samachar said that the balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss account.

The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets accounts form a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items.

Interest received on loans/advances and investments and paid on deposits are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The users of the financial statements of a bank need relevant, reliable and comparable information, which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of the bank's financial statement has been expressly laid down in the concerned act. Commercial Bank Act 2031B.S. requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

**Sharma, Murari Raj (1998)** in his article *"Joint Venture Banks in Nepal Co-Existing and Crowding Out"* published in PRASHAN yearly on 1998 volume 35

said that, it would be definitely be unwise for Nepal not to let the JVBs to operate in the country and not to take advantages of them as additional means of resources mobilization as well as harbinger of new era in banking. But it will certainly be unfortunate for the country to develop the JVBs. And the most of the cost of the domestic banks, so far, one should admit frankly, no different treatment has been extended to the domestic and JVBs; at least from the government side, which is commendable. If Government keeps on the stance of treating the domestic and JVBs; equally deposit the leathers bargaining strength and the JVBs also show their alacrity to come forward to share the trials and the tribulations of this poor country. Both type of banks will coalesce and coexists, complimenting each other and contributing for the nations to accelerate developments. On the contrary, if the JVBs use their strength against trading into the cumbersome path of the development along with the domestic banks and government.

### **2.2.2 Review of Past Thesis**

**Joshi, S. (2003)**, in her study entitled “*A study on Financial Performance Analysis of Nepal Investment Bank Ltd*”, evaluated the financial performance of Nepal Investment Bank Ltd. with the major objectives as: (i) to evaluate the overall financial position of NIB Ltd. (ii) To examine liquidity, profitability and ownership ratios (iii) To study the income and expenditure statements of the bank.

On the basis of various analysis, the researcher came out with the following conclusions:

The CR of the bank over the study period is 1.09 times on an average. Therefore, the liquidity position of NIBL is in normal standard. The cash and bank balance proportion with respect to the current asset is moderate since the average ratio is 10.17%. The result of the analysis indicates that the share of fixed deposit is high in the total deposit. Saving deposits stand midway between current and fixed deposits. The analysis indicates that the cash reserve at bank is more than required.

Hence, in general the liquidity position of the bank is good enough to meet the short-term obligation. The debt –equity ratio of the bank is high, which means the creditors have invested more in the bank than the owners.

Interest earned in comparison to the assets is inadequate. Net profit earned in comparison to the total deposit is relatively low. The result of the analysis indicates that the net profit earned in comparison to the total assets is fluctuating. The profit earning in relation with the shareholder's equity of NIBL is better. In general, the profitability ratios of the bank indicate that the overall performance of the bank is effective in maximizing the wealth. The researcher also found that the turnover ratios of the bank indicate that it had utilized its resources in the best possible way to maximize its wealth. Because the bank had succeeded to utilize total deposit in profit generating purposes and the bank had mobilized its total deposits in loans and advances satisfactorily.

The researcher found that the EPS of the bank is quite good because though the EPS had fluctuated, its average stands 54.16 during the study period. The research showed the proportion of the earnings distributed to the shareholder per share is very low and they are being compensated very slowly. DPR of the bank is decreasing and very low. Overall she had found that the ownership ratio of the bank is not encouraging as it is in a decreasing trend.

**Joshi, Suchita (2006)**, conducted her thesis on “*Financial Performance of Joint Venture Banks in Nepal with reference to Everest Bank Limited*”, had objectives to evaluate liquidity, profitability, capital structure, turnover, cost effectiveness and growth position of EBL and she found that the liquidity position of EBL is efficient .it showed that EBL cannot maintain the convenient standard of current ratio of 2:1. Beside it also concluded that saving deposit of bank is in increasing trend as compared to fixed deposit. In addition, EBL has used higher proportion of debt in their capital

Structure, financing assets from capital structure of EBL appears to be levered. EBL follows more risk more profit strategy. Bank is not able to maintain the capital adequacy ratio as directed by NRB. EBL is maintaining its interest coverage ratio. Beside, bank is utilizing more outsiders' funds in order to extend loan and advances to generate profit. But the profitability ratio of the bank is not in favorable condition.

**Karki, Babu Kaji (2005)**, in his thesis entitled "*A Comparative Analysis of Financial Performance of NABIL and SCBNL*", has pointed out following objectives:

- i) To evaluate liquidity position of both banks.
- ii) To analyze comparative financial performance of both banks.
- iii) To study the comparative position of both banks.
- iv) To offer a package of suggestion to improve the financial performance
- v) To identify the relationship between interests earned and operating profit.

**Major Findings of this Study are as follows:**

- i) SCBNL has efficiently operated its long-term fund, deposit and assets to generate more profits.
- ii) Liquidity position of NABIL bank is favorable in many cases, it seems excessive. The proposed recommendations for this bank are to reduce its excessive non-performing assets (Cash and bank balance) and invest on the income generating current assets (Treasury Bills), while SCBNL must strength its liquidity position.
- iii) Comparatively SCBNL's profitability position is better than that of NABIL.

**Luintel, Nabin Kishor (2003)**, a study entitled "*A Study on Financial Performance of Nepal Bank Limited*", concluded that NBL has not maintained a balanced ratio among its deposit liabilities during the second period of the study. Comparing the second period with the first period, the bank is seemed to be unable to utilize its high cost resources in high yielding investment portfolio. During both

periods, there are negative operating profits for two years. But both the years of the first period enjoyed positive net profits due to the non-operating incomes. Hence, there is a demarcation between operational and non –operational activities of the bank and performance and result of the first period shows that the bank is more inclined towards non-operating activities. Furthermore, the liquidity position of the bank is also not satisfactory during both periods. It is even worse during the second period. Various current ratios have fluctuated during both the periods .It shows lack of specific policy of holding various types of current assets. Thus, it can be said that the financial position of NBL is worse during the second period due to its inefficiency in risk management. The overall financial position on the bank is unsatisfactory during both the periods.

**Maharjan, Sunil (2007)**, conducted his thesis on “*A Comparative Study of Financial Performance of Commercial Banks (with reference to Himalayan Bank Limited, Nepal Investment Bank Limited and Everest Bank Limited)*”, had main objectives to identify the relationship between net profit with respect to deposit, loan and advance and investment and to analyze financial performance of sample banks in terms of liquidity, profitability, growth, leverage and capital adequacy , and reached to the conclusion that the overall performance of sample banks are found to be satisfactory. All sample banks are not strong in all performance. Some are strong in liquidity point of view, EBL found to be comparatively better than sample banks because HBL and NIBL have aggressive working policy. All the sample banks are comparatively successful in assets and deposits in profitable sectors in form of loan and advance, investment in government securities and shares and debentures.

**Pradhan, Prabhu Narayan (2004)**, in his thesis entitled "*A Comparative Study on Financial Performance of HBL and SCBNL*", has pointed out following objectives:

- i) To analyze comparative financial performance of both banks.
- ii) To evaluate liquidity position of both banks.

- iii) To identify the relationship between interests earned and operating profit.
- iv) To offer a package of suggestions to improve their financial performance.

**Major Findings of this Study are as follows:**

- i) Current ratio of both the banks is below the standard, this might effect the liquidity position of these banks.
- ii) SCBNL's loans and advances to total deposits ratio are significantly lower than that of HBL.
- iii) SCBNL is strongly recommended to follow liberal lending policy and invest more and more percentage amount of total deposits in loans and advances.
- iv) HBL is strongly recommended to increases it's earning per share and dividend per share to keep investors within the bank.

**Sadula, Milan (2007)**, in his thesis entitled "*Financial Performance of Commercial Banks and Returns to Investors: With Special Reference to BOK, EBL, SCBNL, NIBL, NABIL*", has pointed out following objectives:

- i) To evaluate liquidity position of these Banks.
- ii) To analyze comparative financial performance of these banks.
- iii) To study comparative position of selected banks.
- iv) To offer a package of suggestions to improve the financial performance.

**Major Findings of this Study are as follows:**

- i) Commercial Banks except SCBNL and NABIL are not maintaining constant DP ratio. It is recommended to maintain a constant DP ratio so as to have the confidence of general shareholders.
- ii) Net income of SCBNL is the highest and that of BOK is lowest during the study period. SCBNL has highest EPS and that of BOK is the lowest. SCBNL and NABIL are continuously paying the dividend maintaining higher DP Ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.

**Upreti, Pramod (2007)**, in his thesis entitled "*A Comparative Study of Financial Performance of NIBL, HBL, SCBNL and EBL*", has pointed out following objectives:

- i) To study the present situation of the four joint venture banks
- ii) To do the comparative study about the financial performance of these banks with regard to-their profitable liquidity, efficiency and capital structure.
- iii) To provide recommendation and suggestion on the findings to improve financial performance of these banks.

**Major Findings of this Study are as follows:**

- i) Among all the sampled banks, HBL has the lowest ratio and EBL has not mobilized its assets into profit generating projects.
- ii) SCBNL has been successful in earning more net profit by the proper use of its available assets.
- iii) EBL with the highest ratio has been successful in generating more interest by the proper use of its available assets.
- iv) EBL and HBL seem to have held more cash and bank balance rather than other commercial banks.

## **CHAPTER -III**

### **RESEARCH METHODOLOGY**

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying a problem with certain objectives. In this chapter, purposes, hypothesis, research questions and formats are covered.

Research means to research the problem again and again to find out something more about the problem. And methodology is the research method used to test the hypothesis in which different processes are used to collect, analyze and interpret facts and figures. The prime objective of this study is to comparatively evaluate and assess the Financial Performance of Standard Chartered Bank Nepal Limited and Himalayan Bank Limited. Thus, this chapter contains those methods that make easy to compress the performances made. This topic is concerned with analyzing the strengths and weaknesses of the financial performance of SCBNL and HBL.

#### **3.1 Research Design**

A study design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the study purpose with economy in procedure. To fulfill the objectives of this study primary as well as secondary data will be used. Study data will be descriptive as well as analytical.

**Joshi (2001)**, "A plan of study or blue print for study that presents a series of guideposts to enable the researcher to progress in the right direction in order to achieve the goal is called a research design or strategy.

This project follows descriptive, analytical, and exploratory research design. This research design is a plan to obtain the answers of research questions through

analysis of data. The study design of this project is a comparative examination and evaluation of financial performance of SCBNL and HBL. This study is closely related with the various financial elements of the selected banks which is very useful to analyze and evaluate their financial position.

### **3.2 Population & Sample**

All the 25 commercial banks that are operating in Nepal are considered as the population for the research study. It is not possible to study all the data related with all joint venture banks because of the limited time period, hence only two joint venture banks i.e. Standard Chartered Bank Nepal Limited and Himalayan Bank Limited have been selected as samples for the present study from the whole population.

#### **Population**

The table below shows the 25 commercial banks existing in Nepal as the population for the research study:

**Table No. 3.1**

**List of Commercial Banks in Nepal**

1	Nepal Bank Ltd.	1937/11/15	Kathmandu
2	Rastriya Banijya Bank	1966/01/23	Kathmandu
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu
4	NABIL Bank Ltd.	1984/07/16	Kathmandu
5	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Ltd.	1987/01/30	Kathmandu
7	Himalayan Bank Ltd.	1993/01/18	Kathmandu
8	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu
9	Nepal Bangladesh Bank Ltd.	1993/06/05	Kathmandu
10	Everest Bank Ltd.	1994/10/18	Kathmandu
11	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu
12	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar
13	Lumbini Bank Ltd.	1998/07/17	Narayangadh
14	Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biratnagar, Morang
15	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara, Kaski
16	Kumari Bank Ltd.	2001/04/03	Kathmandu
17	Laxmi Bank Ltd.	2002/04/03	Birgunj, Parsa
18	Siddhartha Bank Ltd.	2002/12/24	Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu
21	Prime Bank Ltd	2007/9/24	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	Nepal Development Bank Ltd.	2008	Kathmandu
25	NMB Bank Ltd.	2008	Kathmandu

*(Source: Banking and Financial Statistics, Mid July 2008, Nepal Rastra Bank.)*

**Sample**

**Standard Chartered Bank Nepal Limited and Himalayan Bank Limited** are chosen as sample from amongst the above population.

**3.3 Sources of Data and its Collection Techniques**

As the present study is being undertaken to evaluate the performance of the bank, mostly the secondary sources of data are used in the study. The supplementary data and information are obtained from various sources like

annual reports and financial statements of the selected banks, official records, monthly bulletins of banks, various published and unpublished periodicals, magazines and dissertations, and all available reports and materials of Nepal Rastra Bank (NRB) on commercial banks. Internet sites of the selected banks are also used to get various information related to the study. Besides, banks officials of various departments were directly approached to gain required relevant information.

On the other hand, in order to review different books and previous studies, frequent visits have been made to Tribhuvan University Library, United College Library. etc. Similarly, in order to collect relevant documents, frequent visits have also been made to Standard Chartered Bank Nepal, Himalayan Bank, Nepal Rastra Bank, etc.

### **3.4 Data Processing Techniques**

Data so obtained have no meaning unless they are arranged and presented in a systematic way. Further, they need to be verified and simplified for the purpose of analysis. Moreover, data and information so gathered are to be checked, edited and tabulated in such ways that provide convenience for computation and interpretation. The relevant data have been inserted in meaningful tables. Only the data that are relevant to the study have been presented in the tabular form in the understandable way and unnecessary data have been excluded. It is attempted to find out the conclusion from the available data with the help of various financial as well as statistical tools. An advanced computerized statistical program has been widely used to provide efficiency in the calculation of statistical information.

### 3.5 Data Analysis Tools

Financial statements merely do not give perfect information about a business concern therefore various types of tools are used to analyze financial statement. These tools are called tools of financial analysis. The tools of financial analysis are needed to show the relationships and changes between the elements of the various financial statements. With the help of various financial tools, we can identify the actual situation of a business concern. A brief explanation of these tools has been given below:

#### 3.5.1 Financial Tools Applied

Following financial tools are used in this study:

##### Ratio Analysis

It consists of the following ratios:

##### A. Liquidity Ratio

It also consists of the following ratios:

##### 1. Current Ratio

Where,

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

##### 2. Cash and Bank Balance to Deposits Ratio

Where,

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

##### 3. Cash and Bank Balance to Current Asset Ratio

Where,

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

##### 4. Investment on Government Securities to Current Asset Ratio

Where,

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

Current Asset

**5. Loans and Advances to Current Asset Ratio.**

Where,

$$\text{Loans and Advances to Current Asset Ratio} = \frac{\text{Loans and Advances}}{\text{Current Asset}}$$

**B. Activity Ratio**

Following ratios fall under this heading:

**1. Loans and Advances to Total Deposit Ratio**

Where,

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

**2. Total Investment to Total Deposit Ratio**

Where,

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

**3. Loans and Advances to Fixed Deposit Ratio**

Where,

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

**4. Loans and Advances to Saving Deposit Ratio**

Where,

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

**5. Fixed Deposit to Total Deposit Ratio**

Where,

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

**6. Saving Deposit to Total Deposit Ratio**

Where,

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

### **C. Profitability Ratios**

Following ratios are calculated under this heading:

#### **1. Return on Total Working Fund Ratio**

Where,

$$\text{Return on Total Working Fund Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Working Fund}}$$

#### **2. Total Interest Earned to Total outside Assets Ratio**

Where,

$$\text{Total Interest Earned to Total outside Assets Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Outside Assets}}$$

#### **3. Returns on Loans and Advances Ratio**

Where,

$$\text{Returns on Loans and Advances Ratio} = \frac{\text{Net Profit or Loss}}{\text{Total Loans and Advances}}$$

#### **4. Total Interest Earned to Total Working Fund Ratio**

Where,

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

#### **5. Total Interest Paid to Total Working Fund Ratio**

Where,

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

### **D. Growth Ratios**

Where,

$$\text{Growth Ratio} = \frac{\text{Present Year's Figure}}{\text{Previous Year's Figure}}$$

Growth Ratios of following items are calculated under this heading:

- 1. Growth Ratio of Total Deposit**
- 2. Growth Ratio of Loans and Advances**
- 3. Growth Ratio of Total Investment**
- 4. Growth Ratio of Net Profit**

### 3.5.2 Statistical Tools Applied

Statistical analysis is an important technique to analyze the financial performance of the bank. Various statistical tools used in this study are given below:

#### Arithmetic Mean

$$\bar{X} = \frac{x_1 + x_2 + \dots + x_n}{n} = \frac{\sum x}{n}$$

Where,

$\bar{X}$  = Arithmetic Mean

$x_1 + x_2 + \dots + x_n$  = Variable of Values

$\sum x$  = Sum of the Values of Variable x

n = Number of Observation

#### Standard Deviation

$$SD = \sqrt{\frac{1}{n} \sum (X - \bar{X})^2}$$

Where,

SD = Standard Deviation

$\bar{X}$  = Mean

#### Coefficient of Variation

$$CV = \frac{SD}{\bar{X}} \times 100$$

Where,

CV = Coefficient of Variation

#### Karl Pearson's Coefficient of Correlation(r)

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

Where,

n = number of observations in series X and Y;  $\sum x$  = sum of observations in series X;  $\sum y$  = sum of observation in series Y;  $\sum x^2$  = sum of squared

observations in series X;  $\sum Y^2$  = sum of squared observations in series Y;  
 $\sum XY$  = sum of the product of observations in series X and Y

### **Coefficient of Determination ( $r^2$ )**

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

Where,

$r$  = Coefficient of correlation

$r^2$  = Coefficient of determination

### **Probable Error (PE)**

$$P. E. = 0.6745 \left[ \frac{1 - r^2}{\sqrt{n}} \right]$$

Where,

$r$  = Correlation Coefficient

$n$  = No. of pairs of observation

### **Trend Analysis**

Trend Analysis of Total Deposit, Loans and Advances, Total Investment and Net Profit are done in this study

The straight line trend is given by the following formula:

$$Y = a + bx$$

Where,

$Y$  = Value of dependent variable

$a$  =  $Y$  intercept

$b$  = Slope of the trend line

$x$  = Values of independent variables

### **3.6 Method of Data Presentation**

The researcher has accumulated all the necessary data and financial information. Collected data for five-year period (i.e. from 2002/03 to 2006/2007) are presented in tabular form. Tables are prepared to show various financial ratios of the same period. These tables are accompanied by corresponding changes, averages and standard deviations.

Some important graphical presentation is also included as and when necessary. In appendix also the ratio analysis and bar diagram are stated. The appendix also included the computation table of master list of specific value chart for coefficient of correlation, averages and standard deviation. All the financial and statistical values are computed manually. Similarly, all the financial numerical values are determined under million of Nepalese rupees and expressed in a round figure. From the analysis of the financial statement, we find the financial performance and financial position of the selected banks.

## **CHAPTER- IV**

### **DATA PRESENTATION AND ANALYSIS**

After the introduction of financial performance, here is given the major and utmost important findings. This is an analytical chapter, where the researcher has analyzed and evaluated those major financial items, which mainly effect the financial management and fund mobilization.

#### **4.1 Financial Tools**

Financial analysis is the process of identifying the financial strengths and weaknesses of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used with the help which data can be analyzed properly.

Various financial ratios related to the financial management and the fund mobilization are presented and discussed to evaluate and analyze the performance of two banks SCBNL and HBL. Financial ratios are calculated and data will be analyzed with the help of those ratios. Some important financial ratios are only calculated from the view point of the fund mobilization and financial analysis. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another. All these calculations are based on financial statements of concerned Banks. The important and needed financial ratios, which are to be calculated for the purpose of these studies, are mentioned below.

Liquidity Ratio, Asset Management Ratio, Profitability Ratio, Growth Ratio

##### **4.1.1 Liquidity Ratio**

Raito analysis express quantitative relation of two mathematical variables as it is a financial tool. Ratio is taken to judge an accounting figure in relation to the other accounting balances. There are different types of ratios used to measure a firm's

financial position. Liquidity ratio presents liquidity position of a firm. Liquidity position is calculated taking relation to the different portfolios of the firm. It may vary based on nature of business. In this study following ratios are mentioned of the concerned financial Institutions.

### 1. Current Ratio

Current ratio measures short term liabilities maturing before one year. This is a broad measurement tool to analyze liquidity position of a financial institution. It indicates Bank's ability to discharge current obligation. Current assets of joint venture banks refer to cash and near cash items (i.e. cash and bank balance, money at call and short notice, loans and advances, cash credit, bills discounted, investment, interest receivables, miscellaneous current assets) and current liabilities are deposits (i.e. saving, fixed, current call and short deposit, other bill's payable, miscellaneous liabilities). The ratio is obtained by dividing current assets by current liabilities.

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

**Table No. 4.1**  
**Current Ratio (Times)**

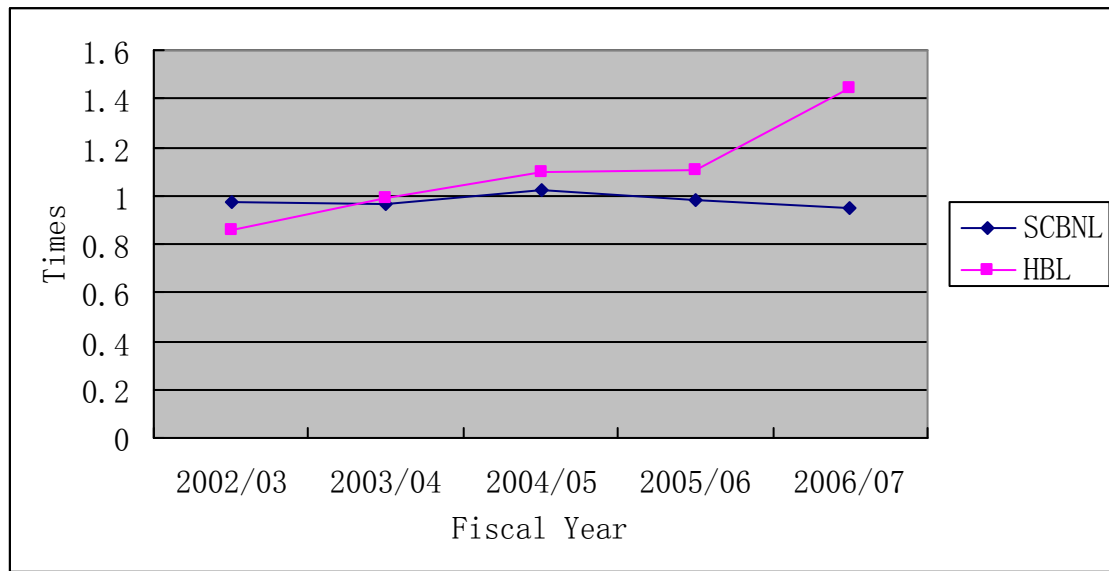
<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2002/03	0.971	0.854
2003/04	0.9688	0.993
2004/05	1.0226	1.098
2005/06	0.981	1.103
2006/07	0.946	1.446
<b>Mean</b>	<b>0.98</b>	<b>1.10</b>
<b>S.D.</b>	<b>0.03</b>	<b>0.22</b>
<b>C.V.</b>	<b>2.87%</b>	<b>19.92%</b>

*Sources: Appendix No. 1 (i)*

It is clear from the above table that SCBNL have not maintained current assets less than their current liabilities and HBL have maintained current assets more than

their current liabilities. This is a sign that HBL bank is capable enough to pay their current obligations. HBL has the highest current ratio in F/Y 2006/07 i.e., 1.446 and the lowest in F/Y 2002/2003 i.e., 0.854.

**Figure No. 4.1**  
**Current Ratio**



Similarly SCBNL has a high current ratio of 1.0226 in F/Y 2004/2005 and a low of 0.946 in F/Y 2006/2007. The averages 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 ratios. Though as per the conventional rule current ratio should be 2:1 but for banks any current ratio above 1 is also considered healthy and sound.

## **2. Cash and Bank Balance to Total Deposit Ratio**

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

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

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

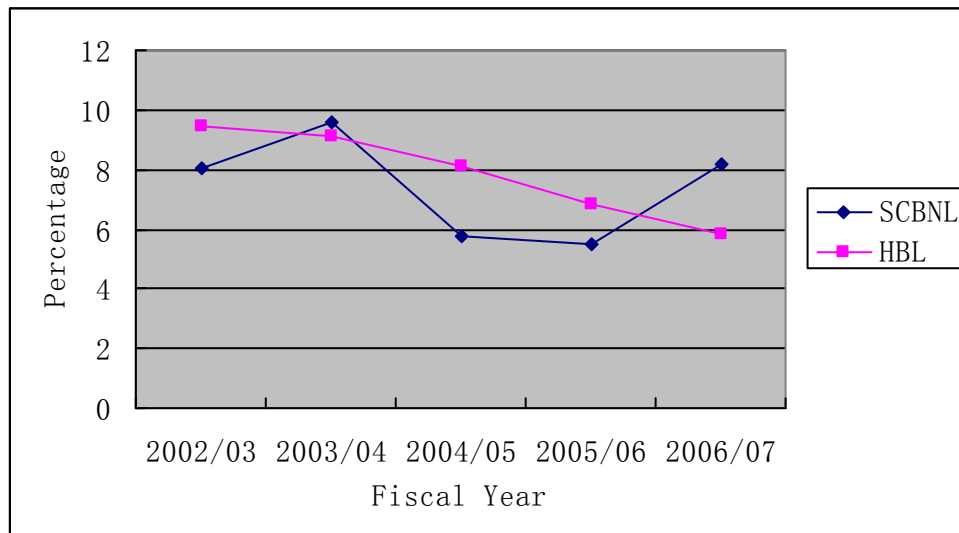
**Table No. 4.2**  
**Cash and Bank Balance to Total Deposit Ratio(%)**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2002/03	8.06	9.42
2003/04	9.56	9.092
2004/05	5.75	8.12
2005/06	5.53	6.84
2006/07	8.21	5.85
<b>Mean</b>	<b>7.42</b>	<b>7.86</b>
<b>S.D.</b>	<b>1.73</b>	<b>1.51</b>
<b>C.V.</b>	<b>23.31</b>	<b>19.18</b>

*Sources: Appendix No. 1 (ii)*

The above table shows that the cash and bank balance to total deposit of SCBNL is in fluctuating trend & HBL has decreasing trend during the study period. SCBNL had a high ratio of 9.56% in F/Y 2003/2004 and a low ratio of 5.53% in F/Y 2005/2006. Similarly, HBL has a high of 9.42% in F/Y 2002/2003 and a low of 5.85% in F/Y 2006/2007. The averages mean ratio of HBL is slightly higher than SCBNL i.e., 7.86% > 7.42%. This shows, HBL's readiness to meet customer requirement better than SCBNL. The C.V. of HBL of 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.

**Figure No. 4.2**  
**Cash and Bank Balance to Total Deposit Ratio**



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

### 3. Cash and Bank Balance to Current Assets Ratio

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

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

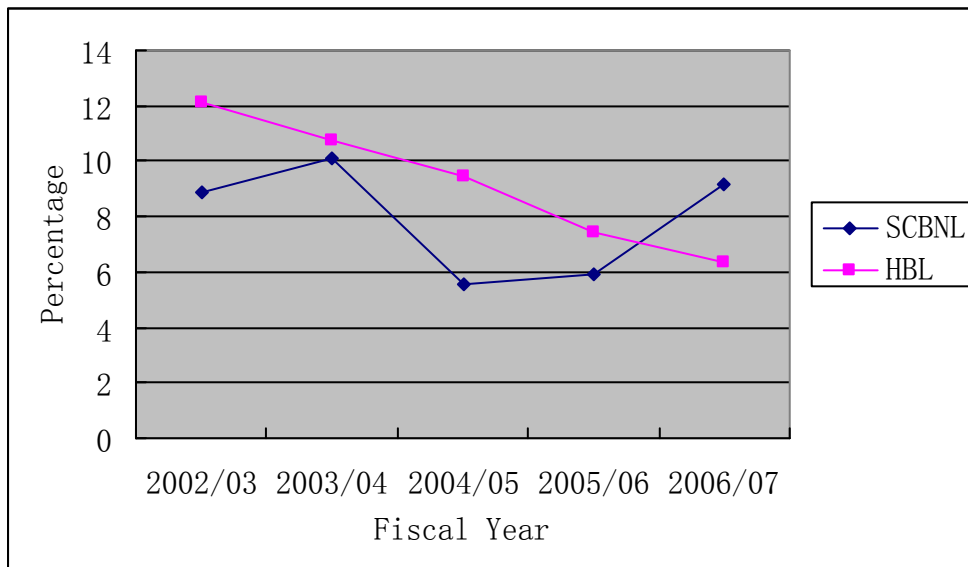
**Table No. 4.3**  
**Cash & Bank Balance to Current Assets Ratio (%)**

Fiscal Years	SCBNL	HBL
2002/03	8.85	12.14
2003/04	10.07	10.76
2004/05	5.529	9.45
2005/06	5.94	7.42
2006/07	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)*

The above table shows that the cash and bank balance to current assets of SCBNL is in fluctuating trend & HBL has decreasing trend during the study period. SCBNL has maintained a high ratio of 10.07% in F/Y 2003/04, and a low ratio of 5.529% in 2004/05. Similarly, HBL has a high of 12.14% in F/Y 2002/03 anticipating higher cash requirement depositors in this F/Y. It has a low ratio of 6.33% in F/Y 2006/2007.

**Figure No. 4.3**  
**Cash and Bank Balance to Current Assets Ratio**



The average mean ratio of HBL is slightly higher than SCBNL. The C.V. of HBL is greater than that of SCBNL i.e., 9.22% > 7.91%. It shows HBL ratios are less consistent than that of SCBNL. The above table does not show any significant difference between the CBs with regards to meeting customer's daily cash requirement. Both have fared well in meeting their depositor's daily cash requirement and investing the surplus fund in other productive areas.

#### 4. Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of commercial banks current assets, which invested on different government securities. More or less, each commercial bank is interested to invest their collected fund on different types of securities issued by government in different times to utilize their excess funds and for other purpose. Though government securities are not as liquid as cash balance of a commercial bank, which can be easily sold in the market or they can be converted into cash in other ways. This ratio shows that out of total current assets, how much percentage of it has been occupied by the investment on government securities by total current assets.

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

**Table No. 4.4**  
**Investment on Government Securities to Current Assets Ratio(%)**

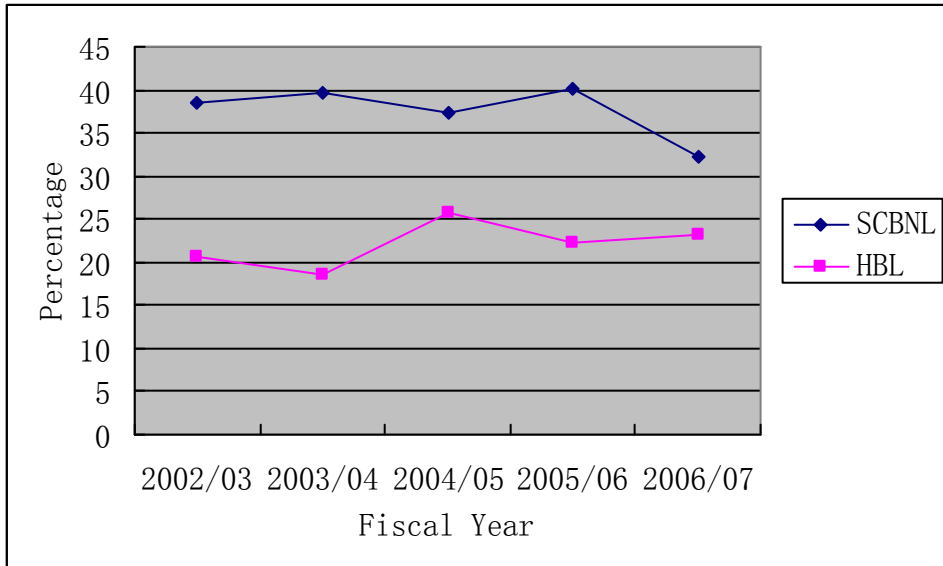
Fiscal Years	SCBNL	HBL
2002/03	38.52	20.54
2003/04	39.56	18.45
2004/05	37.28	25.65
2005/06	40.22	22.22
2006/07	32.27	23.24
Mean	37.57	22.02
S.D.	3.16	2.72
C.V.	8.42	12.36

Sources: Appendix No. 1 (iv)

The above table clearly depicts that the investment on government securities to current assets of SCBNL and HBL have a fluctuating trend. Never the less, SCBNL have tried to maintain consistency from F/Y 2003/2004 onwards.

**Figure No. 4.4**

**Investment on Government Securities to Current Assets Ratio**



From the above five year figure, it is evident that the average mean ratio of SCBNL is higher than that of HBL i.e. 37.57% > 22.02%. 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 years. From the view point of C.V., SCBNL ratios have been more consistent.

SCBNL has been more consistent in its ratio post F/Y 2004/05. 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 Asset Management Ratio

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

#### 1. Loans and Advances to Total Deposit Ratio

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

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

**Table No. 4.5**

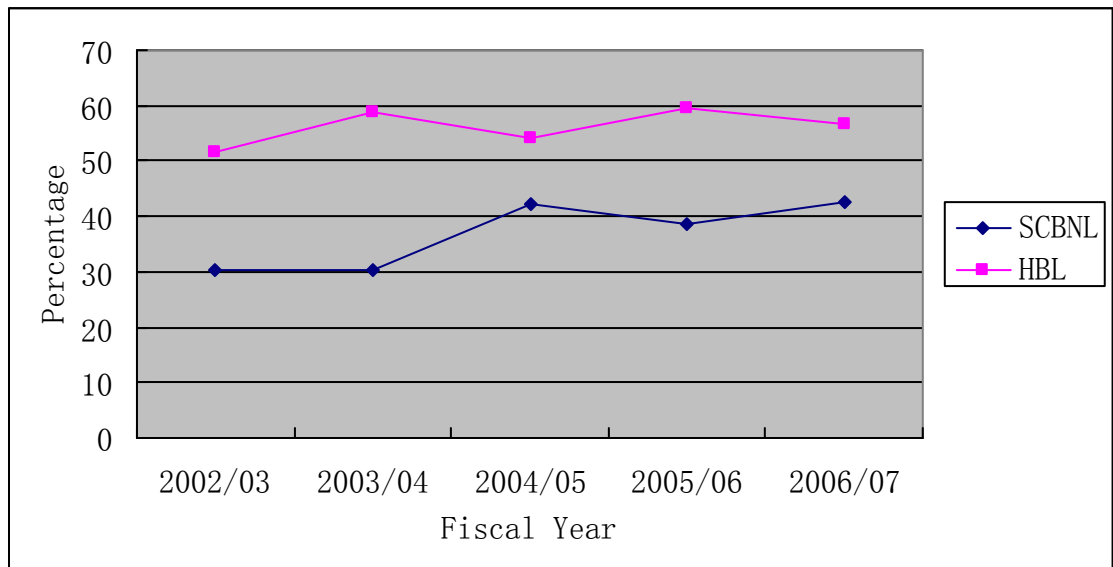
#### **Loans & Advances to Total Deposit Ratio(%)**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2002/03	30.36	51.62
2003/04	30.3	58.7
2004/05	42.12	54.21
2005/06	38.75	59.5
2006/07	42.61	56.57
<b>Mean</b>	<b>36.83</b>	<b>56.12</b>
<b>S.D.</b>	<b>6.12</b>	<b>3.25</b>
<b>C.V.</b>	<b>16.60</b>	<b>5.79</b>

*Sources: Appendix No. 1 (v)*

The above table shows that the loans and advances to total deposit of both the banks have a fluctuating trend. SCBNL had a high ratio of 42.61% in F/Y 2006/07 and a low ratio of 30.30% in F/Y 2003/04. Accordingly, HBL had a high of 59.50% in F/Y 2005/06 and a low of 51.62% in F/Y 2002/03. The mean ratio of HBL is higher than that of SCBNL i.e. 56.12% > 36.83%. HBL seems to be strong in terms of mobilization of its total deposits as loans and advances when compared to SCBNL.

**Figure No. 4.5**  
**Loans and Advances to Total Deposit Ratio**



In terms of C.V., both seem to be nearly consistent. It can be concluded that, HBL has been more successful in mobilizing its total deposits as loans and advances than SCBNL. On the contrary, a high ratio should not be perceived as a better state of affairs from the point of view of liquidity, as loans and advances are not as 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.

## 2. Total Investment to Total Deposit Ratio

A commercial bank may mobilize its deposit by investing its fund in different securities issued by government and other financial or non-financial companies. Now effort has been made to measure the extent to which the banks are successful in mobilizing the total deposit on investment. In the process of portfolio management of banks various factors such as availability of fund, liquidity requirements, central bank norms etc are to be considered in general. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice-versa. Total investment includes investment on government securities, priority deprive sector, loan to industries and business houses, personal loans etc.

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

**Table No. 4.6**

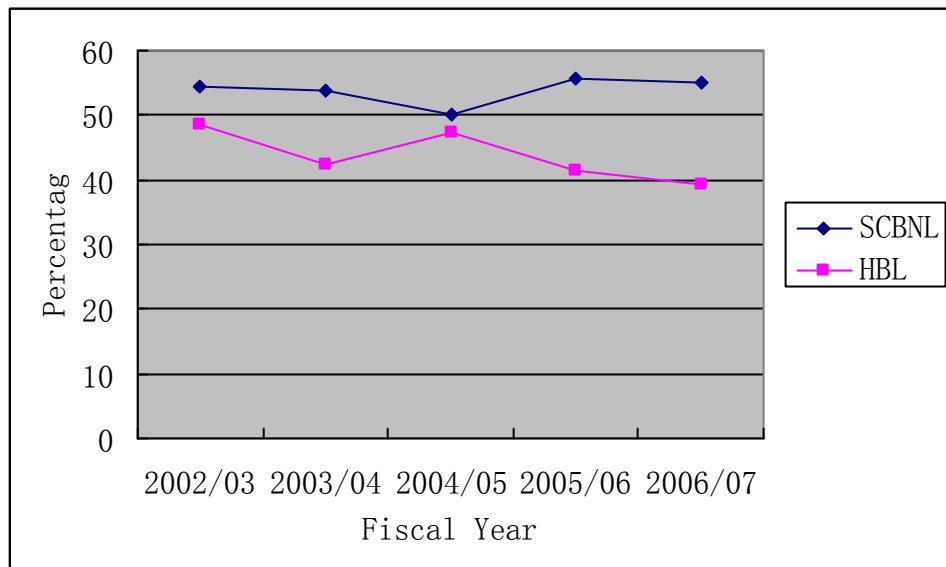
**Total Investment to Total Deposit Ratio(%)**

Fiscal Years	SCBNL	HBL
2002/03	54.47	48.44
2003/04	53.68	42.22
2004/05	50.18	47.2
2005/06	55.71	41.1
2006/07	55.1	39.35
Mean	53.83	43.66
S.D.	2.17	3.96
C.V.	4.04	9.06

*Sources: Appendix No. 1 (vi)*

The above table shows a highly fluctuating trend in total investment to total deposit of SCBNL and HBL. SCBNL has a high ratio of 55.71% in F/Y 2005/06 and a low ratio of 50.18% in F/Y 2004/05. HBL, on the other hand had a high ratio of 48.44% and a low ratio of 39.35% in F/Y2002/03 and 2006/07 respectively.

**Figure No. 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 deposits on various forms of investment.

From C.V. viewpoint, both the sample banks have been inconsistent, with SCBNL being little better in terms of consistency than HBL.

In conclusion, the above analysis reveals that SCBNL has been more successful in mobilizing its resources on various forms of investment. What is worth mentioning is that Interest on Treasury Bills, Interbank Lending and Placements are at an all time low level, so SCBNL has not done itself justice by investing in low yield less risky and risk free assets.

### **3. Loans and Advances to Fixed Deposit Ratio**

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

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

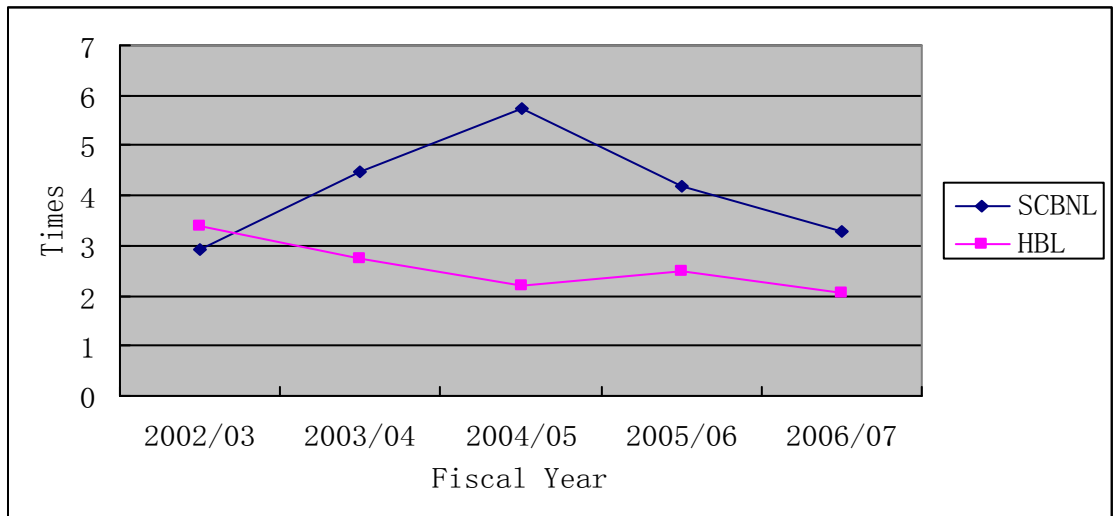
**Table No. 4.7**  
**Loans & Advances to Fixed Deposit Ratio (Times)**

Fiscal Years	SCBNL	HBL
2002/03	2.92	3.38
2003/04	4.49	2.74
2004/05	5.75	2.2
2005/06	4.18	2.48
2006/07	3.29	2.07
Mean	4.13	2.57
S.D.	1.11	0.52
C.V.	26.90%	20.19%

*Sources: Appendix No. 1 (vii)*

The above table shows a fluctuating trend of loans and advances to fixed deposit of SCBNL and HBL. SCBNL has maintained highest ratio of 5.75 in F/Y 2004/05 and a low ratio of 2.92 in F/Y 2002/03. Similarly, HBL has maintained a high ratio of 3.38 in F/Y 2002/03 and a low ratio of 2.07 in F/Y 2006/07.

**Figure No. 4.7**  
**Loans and Advances to Fixed Deposit Ratio**



SCBNL also has a high average ratio of loans and advances to fixed asset than HBL i.e.  $4.13 > 2.57$ . It reveals the strength of SCBNL in mobilizing its total assets as loans and advances.

#### **4. Loans and Advances to Saving Deposit Ratio**

Loans and advances are also included in the current assets of commercial banks because generally they provide short-term loan, advance, overdraft, and cash credit.

In the present study loans and advances represent to local and foreign bills discounted purchased and loan, cash credit and overdraft in local currency as well as inconvertible foreign currency. To make high profit by mobilizing its fund in the best way, a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loans and advances to the customers. If sufficient loan and advances cannot be granted, it should pay interest on those unutilized deposit funds and may lose some earnings. But high loans and advances may also be harmful to keep the bank in most liquid position because they can only be collected at the time of maturity only.

Loans & Advances to Saving Deposit Ratio  $\frac{\text{Loan \& Advances}}{\text{Saving Deposit}}$

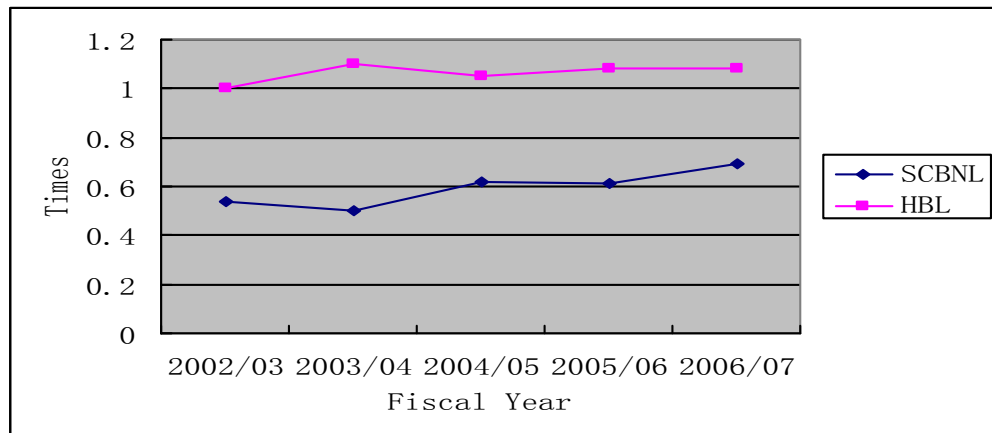
**Table No. 4.8**  
**Loans & Advances to Saving Deposit Ratio (Times)**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2002/03	0.54	1
2003/04	0.5	1.1
2004/05	0.62	1.05
2005/06	0.61	1.08
2006/07	0.69	1.08
<b>Mean</b>	<b>0.59</b>	<b>1.06</b>
<b>S.D.</b>	<b>0.07</b>	<b>0.04</b>
<b>C.V.</b>	<b>12.49%</b>	<b>3.67%</b>

*Sources: Appendix No. 1 (viii)*

The above table clearly shows favorable fluctuated trend of loans and advances of SCBNL during the study period. The average mean ratio of HBL is higher compared to SCBNL i.e.  $1.06 > 0.59$ . HBL has experienced an increasing trend of loans and advances up to F/Y 2006/2007. SCBNL had a high ratio of 0.69 in 2006/07 and a low ratio of 0.50 in F/Y 2003/2004. Similarly HBL has experienced a high ratio of 1.08 in F/Y 2005/2006 and 2006/07 and a low of 1 in F/Y 2002/2003.

**Figure No. 4.8**  
**Loans and Advances to Saving Deposit**



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 for SCBNL, whose efforts seems to be more focused on investing in risk free assets, rather than increasing its loans and advances volume and subsequent earnings from it.

### 5. 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 is calculated by dividing fixed deposit by total deposit for the entire period of the study.

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

**Table No. 4.9**

**Fixed Deposit to Total Deposit Ratio (%)**

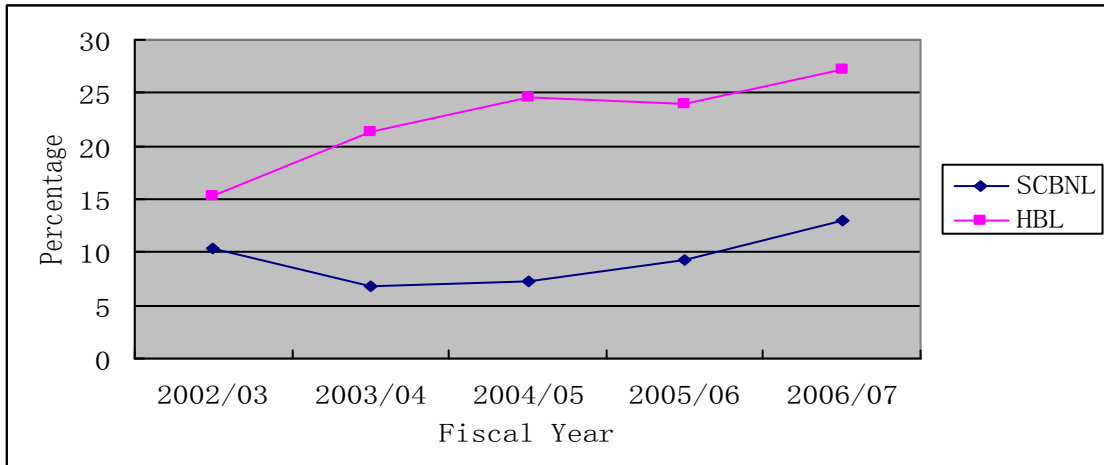
Fiscal Years	SCBNL	HBL
2002/03	10.39	15.26
2003/04	6.75	21.4
2004/05	7.33	24.61
2005/06	9.26	23.97
2006/07	12.97	27.29
Mean	9.34	22.51
S.D.	2.50	4.56
C.V.	26.78	20.26

*Sources: Appendix No. 1 (ix)*

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 ratios of HBL and SCBNL are 22.51 and 9.34 respectively.

**Figure No. 4.9**

**Fixed Deposit to Total Deposit Ratio**



The above analysis reveals that HBL has the maximum fixed charge bearing deposit than SCBNL. From viewpoint of cost minimizing more is not favorable, in

the other hand from viewpoint of liquidity greater portion of fixed deposit may be termed as favorable one.

### 6. 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 can be calculated by dividing saving deposit by total deposit for the entire period of the study.

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

**Table No. 4.10**

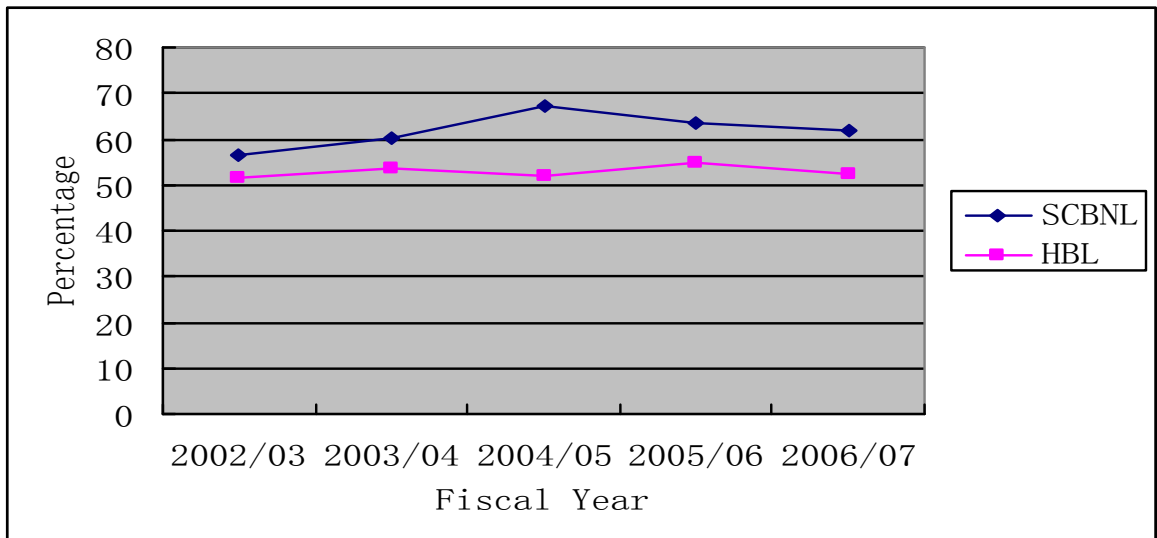
#### **Saving Deposit to Total Deposit Ratio(%)**

Fiscal Years	SCBNL	HBL
2002/03	56.69	51.75
2003/04	60.35	53.43
2004/05	67.4	51.79
2005/06	63.3	55.05
2006/07	61.85	52.53
Mean	61.92	52.91
S.D.	3.93	1.38
C.V.	6.35	2.60

*Sources: Appendix No. 1 (x)*

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 respectively.

**Figure No. 4.10**  
**Saving Deposit to Total Deposit Ratio**



The above analysis clearly states that SCBNL has the maximum saving charge bearing deposit than HBL. From viewpoint of cost minimizing more is not favorable, in the other hand, from viewpoint of liquidity, greater portion of saving deposit may be termed as favorable one.

### 4.1.3 Profitability Ratios

The main objective of commercial bank is to earn profit by providing different types of banking services to its customers. To meet various objectives like maintaining good position, meet fixed internal obligations, overcome the future contingencies, grab hidden investment in need of development funds etc. In conclusion commercial banks have to earn sufficient profit.

Of course, the profitability ratios are the best indicators of overall efficiency. Here, mainly those major ratios are presented and analyzed, through which the effort has been made to measure the profit earning capacity

## 1. Return on Total Working Fund Ratio

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

$$\text{Return to Total Working Fund Ratio} = \frac{\text{Net Profit}}{\text{Total Working Fund}}$$

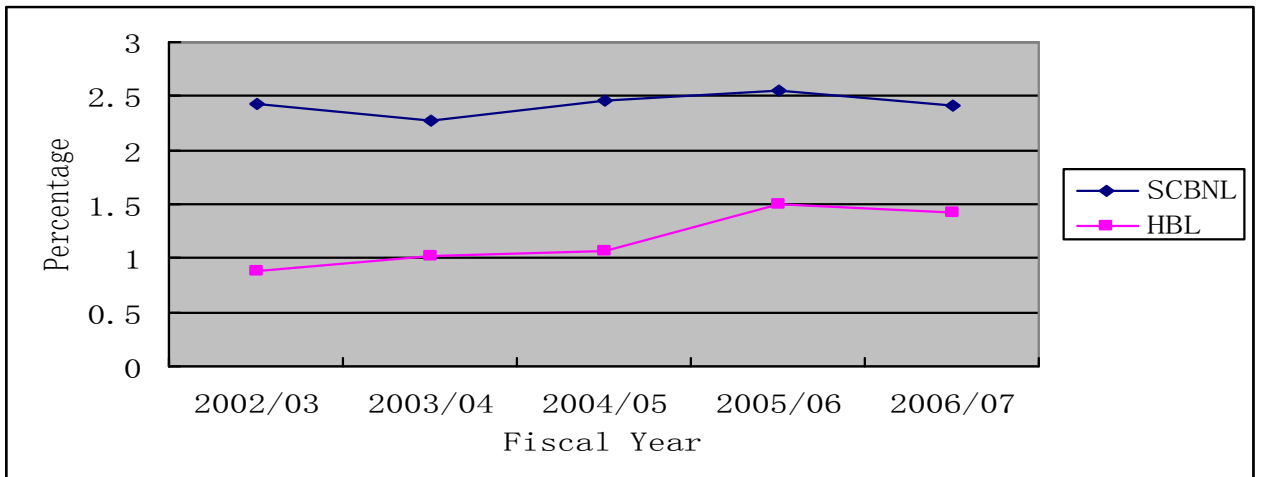
**Table No. 4.11**  
**Return on Total Working Fund Ratio (%)**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2002/03	2.424	0.88
2003/04	2.27	1.02
2004/05	2.46	1.06
2005/06	2.55	1.5
2006/07	2.42	1.43
<b>Mean</b>	<b>2.42</b>	<b>1.18</b>
<b>S.D.</b>	<b>0.10</b>	<b>0.27</b>
<b>C.V.</b>	<b>4.17</b>	<b>23.05</b>

*Sources: Appendix No. 1 (xi)*

The above table reveals that the ratio of return on total working fund is fluctuated in case of SCBNL and is in increasing trend in case of HBL during the study period. SCBNL has had a high ratio of 2.55% in F/Y 2005/06 and a low ratio of 2.27% in F/Y 2003/04. Similarly, HBL has had a high of 1.50% and a low of 0.88% in F/Y 2005/06 and 2002/03 respectively.

**Figure No. 4.11**  
**Return on Total Working Fund Ratio**



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.

From the viewpoint 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.

**2. Total Interest Earned to Total outside Assets Ratio**

This ratio shows the relationship between interests earned amount and total outside assets borrowed by the bank. Total interest earned is that amount which is earned investing in different sectors by the bank in an accounting year. Where as, total outsider's assets include loans (short term as well as long term), borrowings and bond amounts.

$$\text{Total Interest Earned To Total outside Assets Ratio} = \frac{\text{Total interest Earned}}{\text{Total Outside Assets}}$$

**Table No. 4.12**

**Total Interest Earned to Total Outside Assets Ratio (%)**

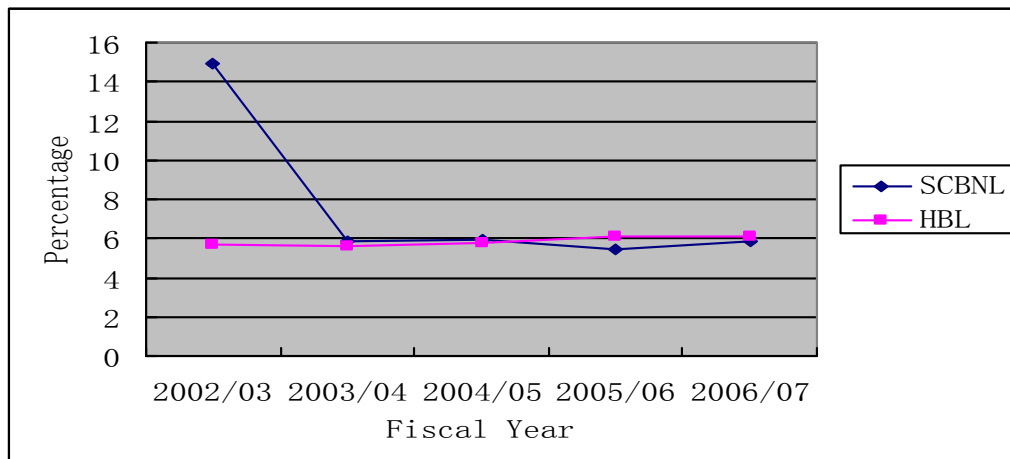
Fiscal Years	SCBNL	HBL
2002/03	14.9	5.71
2003/04	5.86	5.61
2004/05	5.93	5.75
2005/06	5.46	6.1
2006/07	5.87	6.1
Mean	7.60	5.85
S.D.	4.08	0.23
C.V.	53.69	3.93

*Sources: Appendix No. 1 (xii)*

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 No. 4.12**

**Total Interest Earned to Total Outside Assets Ratio**



SCBNL has recorded a high ratio of 14.90% in F/Y 2002/03 and a low ratio of 5.46% in F/Y 2005/06. HBL has had a high ratio of 6.10% in FY 2005/06 and 2006/07 and a low ratio of 5.61% in F/Y 2003/04.

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.

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

### 3. Return on Loans and Advances Ratio

Return on loans and advances ratio shows how efficiency of the banks has utilized their resources to earn good return from provided loans and advances. This ratio is computed by dividing net profit or loss by the total amount of loans and advances. It can be mentioned as:

$$\text{Return on Loans and Advances Ratio} = \frac{\text{Net Profit}}{\text{Loans and Advances}}$$

**Table No. 4.13**

#### **Return on Loans and Advances Ratio (%)**

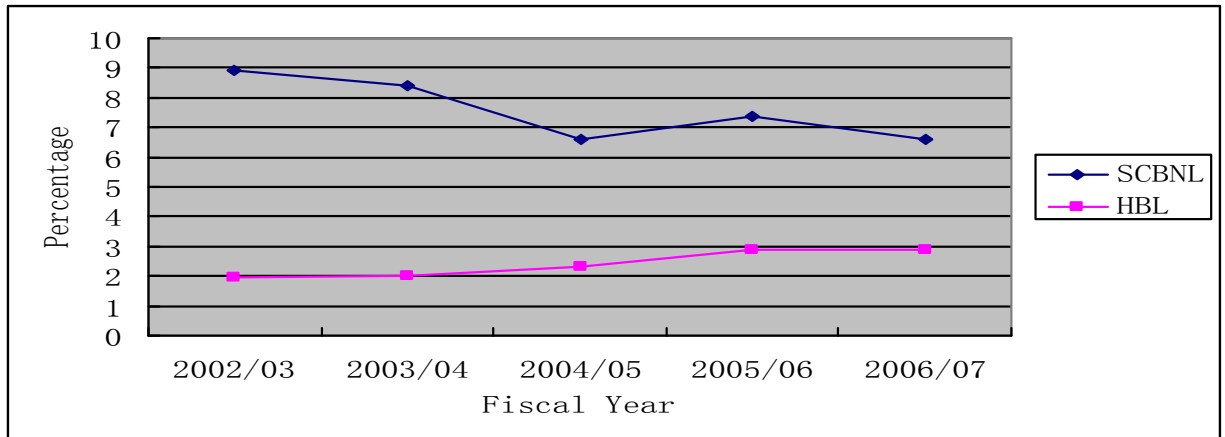
Fiscal Years	SCBNL	HBL
2002/03	8.9	1.96
2003/04	8.41	2.03
2004/05	6.62	2.3
2005/06	7.37	2.9
2006/07	6.6	2.89
Mean	7.58	2.42
S.D.	1.04	0.46
C.V.	13.77	18.85

*Sources: Appendix No. 1 (xiii)*

The above table shows that the ratio of return on loans and advances of SCBNL are better than HBL in all F/Y, though they have a fluctuating trend. SCBNL ratios have witnessed a decreasing trend upto F/Y 2004/05, thereafter an increasing trend and again a decreasing trend. SCBNL has recorded a high ratio of 8.90% in F/Y 2002/03, and a low ratio of 6.60% in F/Y 2006/07. Similarly, HBL recorded a high of 2.90% in F/Y 2005/06 and a low of 1.96% in F/Y 2002/03.

**Figure No. 4.13**

**Return on Loans and Advances Ratio**



The comparison of mean ratio reveals that SCBNL has a higher ratio than HBL i.e., 7.58% > 2.42%. This shows that SCBNL has been more successful in maintaining its higher return on loans 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.

**4. Total Interest Earned to Total Working Fund Ratio**

To respect the earning capacity of a commercial bank in its total working fund (total assets), total interest earned to total working fund ratio is very helpful. In other words, this ratio reflects the extent to which the banks are successful in mobilizing their assets to generate high income. A high ratio is an indicator of high earning power of the bank on its working fund and vice-versa. This ratio is computed by dividing total interest earned by total working fund i.e. total assets.

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

**Table No. 4.14**

**Total Interest Earned to Total Working Fund Ratio (%)**

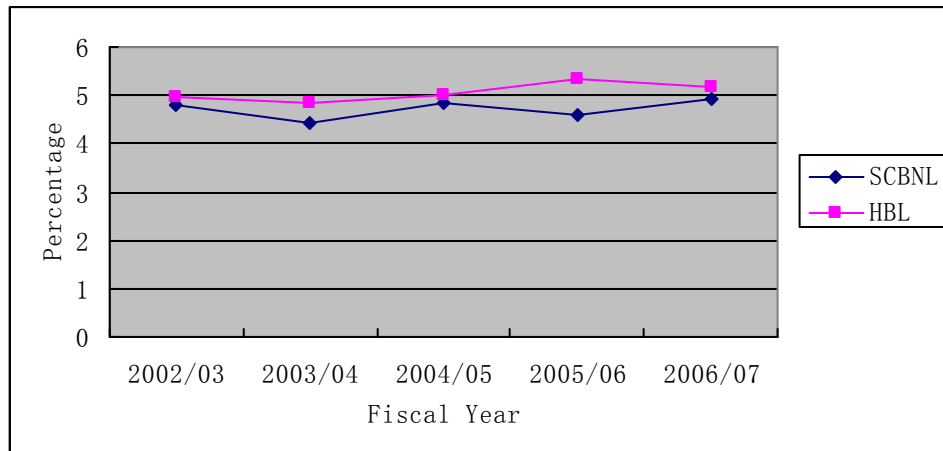
Fiscal Years	SCBNL	HBL
2002/03	4.81	4.96
2003/04	4.41	4.84
2004/05	4.83	5.01
2005/06	4.61	5.32
2006/07	4.94	5.17
Mean	4.72	5.06
S.D.	0.21	0.19
C.V.	4.45	3.71

*Sources: Appendix No. 1 (xiv)*

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 2006/07 and a low ratio of 4.41% in F/Y 2003/04. Similarly, HBL has experienced a high ratio of 5.32% in F/Y 2005/06 and a low of 4.84% in F/Y 2003/04.

**Figure No. 4.14**

**Total Interest Earned to Total Working Fund Ratio**



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

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 ways to improve upon their interest earnings.

### 5. Total Interest Paid to Total Working Fund Ratio

Total interest paid is that amount which is paid to the lenders as well as bondholders. To operate the business a bank raises the fund through the different sources. 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 considered good as it is lower. This ratio reveals the relationship between total interests paid amount and total employed. The formula is as follows:

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

**Table No. 4.15**

#### **Total Interest Paid to Total Working Fund Ratio (%)**

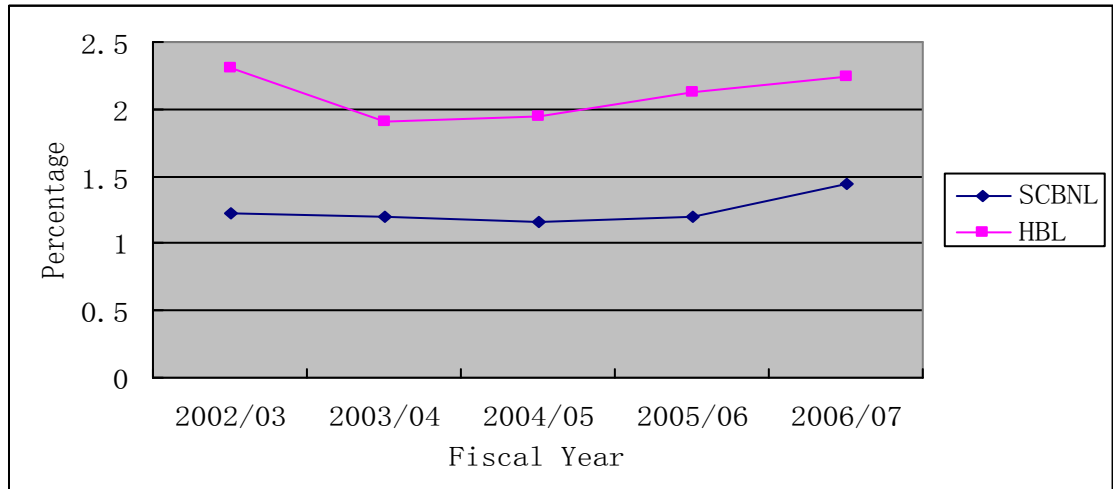
<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2002/03	1.22	2.31
2003/04	1.2	1.91
2004/05	1.16	1.95
2005/06	1.2	2.12
2006/07	1.44	2.24
<b>Mean</b>	<b>1.24</b>	<b>2.11</b>
<b>S.D.</b>	<b>0.11</b>	<b>0.18</b>
<b>C.V.</b>	<b>8.98</b>	<b>8.31</b>

*Sources: Appendix No. 1 (xv)*

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 No. 4.15**  
**Total Interest Paid to Total Working Fund Ratio**



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

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

#### 4.1.4 Growth Ratios

Growth ratio measures the increment and decrement of present year's figure in comparison to previous year's figure. Growth rate analysis of the banks involves analysis of growth in deposits, loans, investments and net profit. The rate of growth is self explanatory for the performance of a bank. Growth analysis ascertains how much growth in deposit liability is supported by growth in assets. The analysis also concerns which asset portfolio has significant increment corresponding to the increment in deposit liability and investment policy. The formula to calculate growth ratio and average ratio are as follows:

$$\text{Growth Ratio} = \frac{\text{Present Year's Figure}}{\text{Previous Year's Figure}}$$

### 1. Growth Ratio of Total Deposit

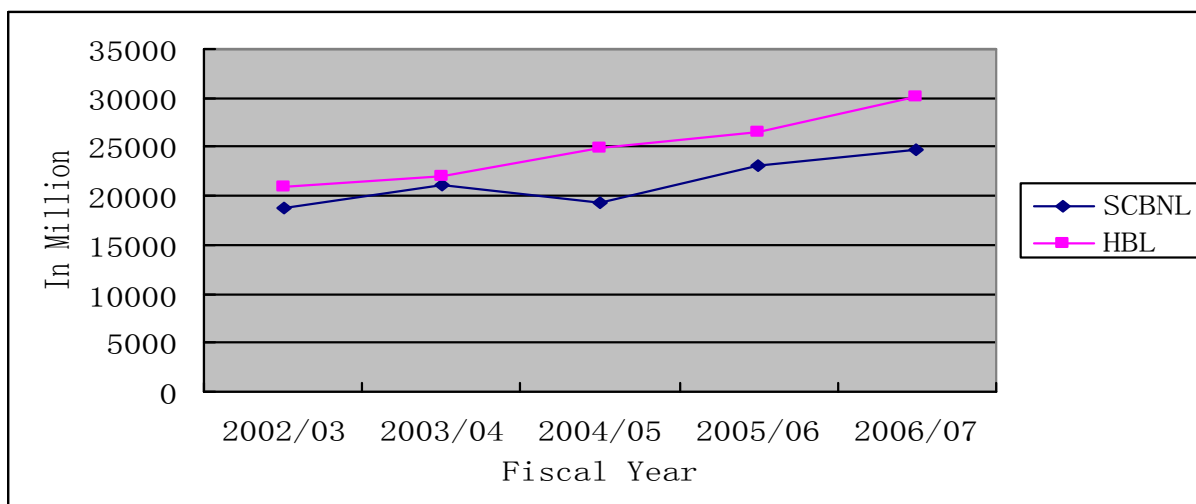
**Table No. 4.16**  
**Growth Ratio of Total Deposit**  
**(Rs. in Million)**

Fiscal Years	SCBNL	HBL
2002/03	18756	21007
2003/04	21161	22010
2004/05	19335	24814
2005/06	23061	26490
2006/07	24647	30048
Growth Rates (%)	7.06	9.36

*Sources: Appendix No. 1 (xvi)*

The following figure can be drawn from the above table:

**Figure No. 4.16**  
**Growth Ratio of Total Deposit**



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.

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.

## 2. Growth Ratio of Loans and Advances

**Table No. 4.17**

### **Growth Ratio of Loans and Advances**

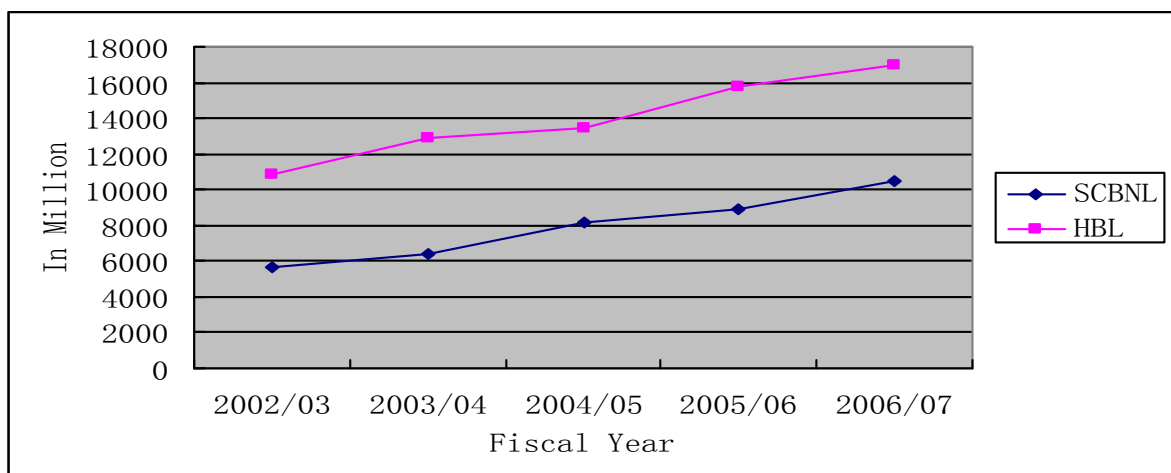
(Rs. in Million)

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2002/03	5696	10845
2003/04	6410	12920
2004/05	8143	13451
2005/06	8935	15762
2006/07	10502	16998
<b>Growth Rates (%)</b>	<b>16.53</b>	<b>13.18</b>

The following figure can be useful in understanding the above table more clearly:

**Figure No. 4.17**

### **Growth Ratio of Loans and Advances**



In the study period, SCBNL ratios were highly variable than HBL. The growth rate of total loans and advances of both the banks are in increasing trend. The average growth rate of total loans 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 loans and advances to current assets, total deposits, and total working fund of HBL is comparatively less than that of SCBNL.

### 3. Growth Ratio of Total Investment

**Table No. 4.18**

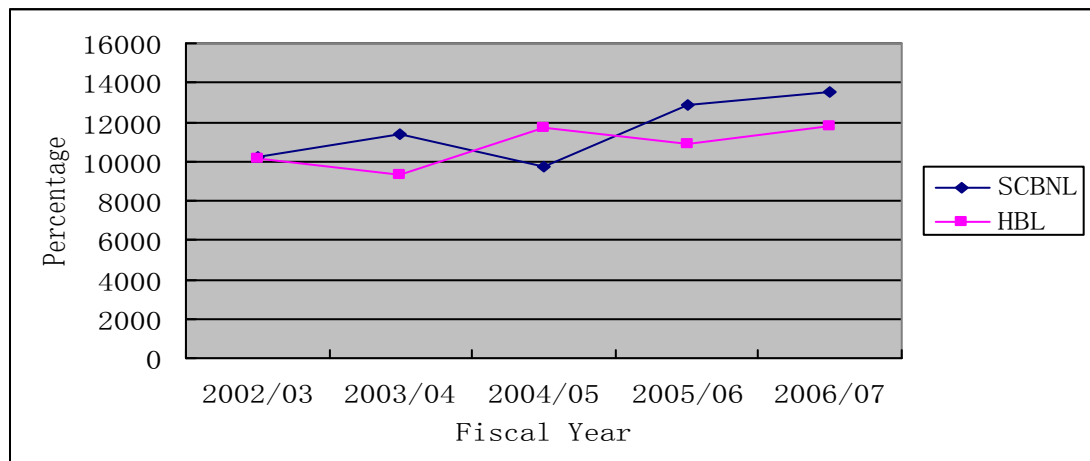
**Growth Ratio of Total Investment  
(Rs. in Million)**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2002/03	10216	10175
2003/04	11360	9292
2004/05	9702	11692
2005/06	12847	10889
2006/07	13553	11823
<b>Growth Rates (%)</b>	<b>7.32</b>	<b>3.82</b>

The following figure helps to understand the above table more clearly:

**Figure No. 4.18**

**Growth Ratio of Total Investment**



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 2004/05.

SCBNL 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's investment. However, we must not discount the fact that SCBNL's investment to total working fund is far greater than HBL.

#### 4. Growth Ratio of Net Profit

**Table No. 4.19**

#### **Growth Ratio of Net Profit**

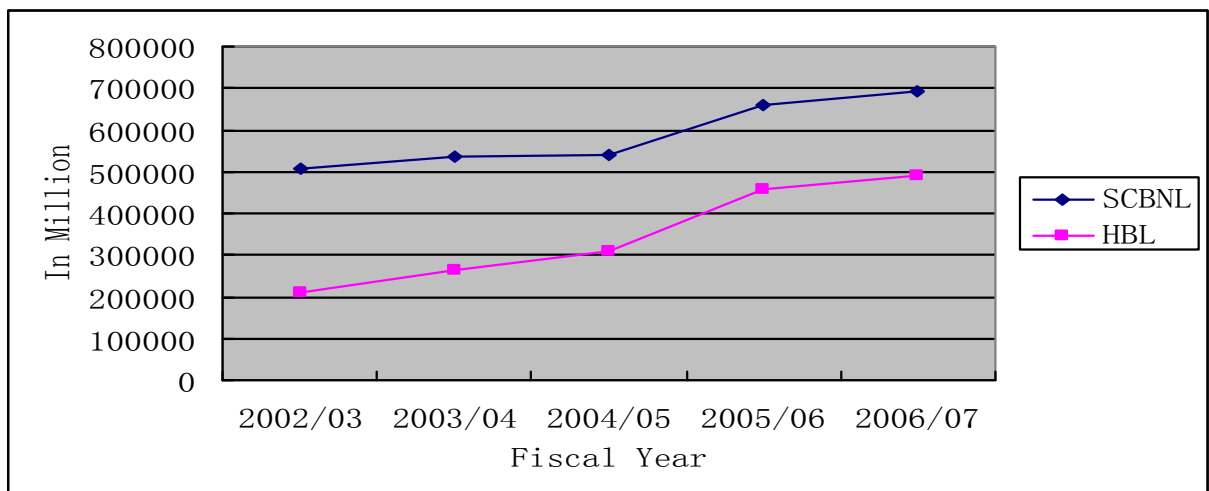
**(Rs. in Million)**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2002/03	506932	212132
2003/04	537800	263052
2004/05	539204	308277
2005/06	658756	457458
2006/07	691668	491823
<b>Growth Rates (%)</b>	<b>8.08</b>	<b>23.43</b>

The following table helps to understand the above table clearly:

**Figure No. 4.19**

#### **Growth Ratio of Net Profit**



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**

Statistical analysis is an important technique to analyze the financial performance of the bank.

According to **Croxton and Cowden**, "statistical or statistical methods may be defined as the collection, presentation, analysis and interpretation of numerical data."

**Gupta and Kapoor (1994)**, In modern times, statistics is viewed not as a mere device for collecting numerical data but as a means of developing sound techniques for their handling and analysis and drawing valid inferences from them. As such, it is not confined to the affairs of the state but is including constantly into various diversified spheres of life- social, economic and political. It is now finding wide applications in almost all sciences, social as well as physical. It has rather become indispensable in all phases of human endeavor. Statistical analysis has proved immensely useful in solving a variety of economic problems. Such as wages, prices, analysis of time series and demand analysis. It has also facilitated the development of economic theory. Wide applications of mathematics and statistics in the study of economics have led to the development of new disciplines called economic statistics and economics.

In statistics analysis, we can use standard deviation, coefficient of variation, correlation analysis, probable error, co-efficient of determination, probable error, trend analysis, etc. Some of these methods are explained below:

### **4.2.1 Coefficient of Correlation Analysis**

Correlation analysis is the relationship between dependent variables so it is called constant variable also. Correlation is denoted by 'r' and ranges from +1.0

indicating perfect positive correlation to  $+1.0$ , indicating perfect negative correlation. If the correlation coefficient is zero, then the factors are independent or un-correlated.

In this chapter, correlation between deposit & total investment, deposit and loans & advances and outside assets & net profit have been calculated. Then results have analyzed and interpreted and then significance of correlation has been tested using Karl Pearson's correlation of co-efficient.

### **Interpretation of Correlation Co-efficient**

- ) It lies always between  $+1$  to  $-1$ .
- ) When  $r = +1$ , there is perfect positive correlation.
- ) When  $r = -1$ , there is perfect negative correlation.
- ) When  $r = 0$ , there is no correlation.
- ) When  $r$  lies between  $0.7$  to  $0.999$ , ( $-0.7$  to  $-0.999$ ) 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.
- ) When  $r$  is less than  $0.5$ , there is a low degree of correlation.

### **Probable Error**

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

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

#### 4.2.1.1 Correlation between Total Deposit and Total Investment

Coefficient of correlation between deposit and total investment measures the degree of relationship between these two variables. Here deposit is taken as independent variable (X) and the variable dependent on deposit 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 of 'r',  $r^2$ , P.E. & 6P.E. of SCBNL and HBL during the study period.

**Table No. 4.20**

**Statement Showing Correlation Between Total Deposit and Total Investment  
Evaluation Criterion Banks**

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

*Sources: Appendix No. 2 (i)*

The coefficient of correlation 'r' between deposits 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 means 95.76% of variation of the dependent variable has been explained by independent variable. 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 deposits and total investment.

The coefficient of correlation 'r' between deposits and total investment in case of HBL is 0.7870, which indicates a positive 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.

#### 4.2.1.2 Correlation between Total Deposit and Loans & Advances

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

The following table shows the value of r,  $r^2$ , P.E. and 6P.E. between total deposits and loans and advances of SCBNL and HBL during the study period

**Table No. 4.21**

**Statement Showing Correlation Between Total Deposit and Loan & Advances  
Evaluation Criterion**

Banks	r	$r^2$	P.E.	6 P.E.
SCBNL	0.8257	0.6818	0.0960	0.5758
HBL	0.9584	0.9185	0.0246	0.1476

Sources: Appendix No. 2 (ii)

In the above table the coefficient of correlation between deposit and loans and advances in case of SCBNL is 0.8257. This indicates that there is a positive relationship between deposit and loans 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 (loans 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 loans and advances because 'r' is greater than six times P.E. i.e.  $0.8257 > 0.5758$ . The coefficient of correlation 'r' between deposits and loans

and advances in case 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 (loans and advances) has 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 loans and advances. From the above analysis, we can conclude that both the banks show positive relationship between deposits and loans and advances. 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 loans and advances is due to effective mobilization of deposits, and other factors have marginal role in increase in loans and advances.

#### 4.2.1.3 Correlation Between Total Outside Assets and Net Profit

Coefficient of correlation 'r' between total outside assets and net profit measures the degree of relationship between these two variables. The main objective of calculating coefficient of correlation between outside assets and net profit is to justify whether the net profit is significantly correlated with total outside assets or not.

The following shows the value of r,  $r^2$ , P.E. & 6P.E. of SCBNL and HBL during the study period.

**Table No. 4.22**

**Statement Showing Correlation between Total Outside Assets and Net Profit**

#### **Evaluation Criterion**

Banks	r	$r^2$	P.E.	6 P.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 indicates a positive correlation between outside assets and net profit. Coefficient of determination ( $r^2$ ) 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 ( $r^2$ ) is 0.9149. This indicates 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 be of five years, ten years, etc.

Here, trend analysis of deposits and loans & advances, and 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 other things are remaining the same.
- ) The forecast will be true only when a limitation of least square method is carried out.
- ) The bank will run is present position.
- ) The economy will remains in the present stage.

) Nepal Rastra Bank will not change its guideline to commercial banks.

#### 4.2.2.1 Analysis of Trend Value on Total Deposit and Loans & Advances

Under this topic, an effort has been made to calculate the trend values of total deposit and loans & advances of SCBNL and HBL for five years from F/Y 2002/03 to 2006/07 and forecast for next five years till F/Y 2011/12.

This following table shows the trend values of 10 years from 2002/03 to 2011/12.

**Table No. 4.23**

#### **Trend Values of Total Deposit and Loans & Advances of SCBNL and HBL**

**(Rs. in million)**

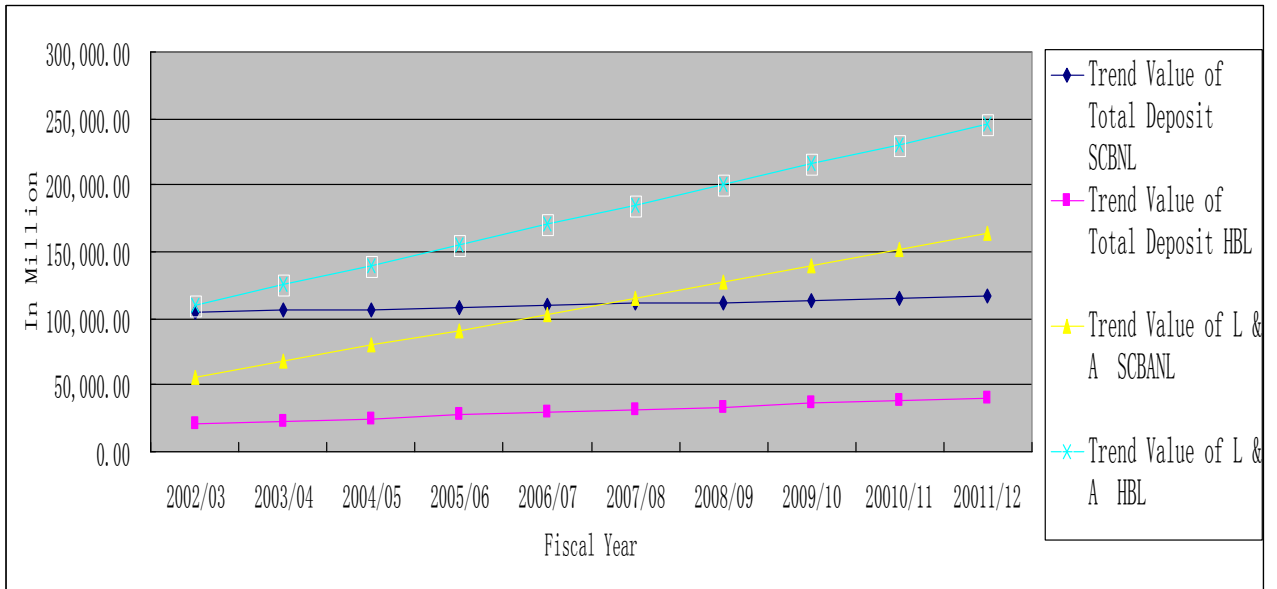
Years	Trend Value of Total Deposit SCBNL	Trend Value of Total Deposit HBL	Trend Value of L & A SCBNL	Trend Value of L & A HBL
2002/03	104223.75	20361.68	55097.06	109652.86
2003/04	105591.99	22618.54	67235.86	124801.60
2004/05	106960.23	24875.40	79374.66	139950.34
2005/06	108328.47	27132.26	91513.46	155099.08
2006/07	109696.71	29389.12	103652.26	170247.82
2007/08	111064.95	31645.98	115791.06	185396.56
2008/09	112433.19	33902.84	127929.86	200545.30
2009/10	113801.43	36159.70	140068.66	215694.04
2010/11	115169.67	38416.56	152207.46	230842.78
2011/12	116537.91	40673.42	164346.26	245991.52

Sources: Appendix No. 3 (i &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 predicted to be Rs. 116537.91 million and that of HBL to be less than deposit of SCBNL by the end of F/Y 2011/2012 i.e. Rs. 40673.42 million.

**Figure No. 4.20**

**Trend Values of Total Deposit and Loans and Advances of SCBNL and HBL**



From the above trend analysis, it is quite obvious that SCBNL deposit collection is proportionately much better than HBL from F/Y 2002/2003 onwards. The trend values of total deposit of both SCBNL and HBL are fitted in the trend lines given in figure no. 4.20.

The above table clearly shows that the loans and advances of both the banks are in an increasing trend. Assuming that other things will remain constant, the loans and advances of SCBNL at the end of F/Y 2011/2012 is predicted to be Rs. 164346.26 million. Similarly, the projection for HBL at the end of F/Y 2011/2012 is Rs 245991.52 million.

From the above trend analysis, it is quite clear that HBL loans and advances in relation to SCBNL is comparatively higher throughout the trend projection period.

#### 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 i.e. F/Y 2002/03 to 2006/07 and forecast is made for next five years till F/Y 2011/12.

**Table No. 4.24**

#### **Trend Values of Total Investment & Net Profit of SCBNL and HBL**

**(Rs. in million)**

<b>Years</b>	<b>Trend Value of Total Investment SCBNL</b>	<b>Trend Value of Total Investment HBL</b>	<b>Trend Value of Net Profit SCBNL</b>	<b>Trend Value of Net Profit HBL</b>
<b>2002/03</b>	9903.71	9795.98	488.79	195.79
<b>2003/04</b>	10719.84	10285.18	537.83	271.17
<b>2004/05</b>	11535.97	10774.38	586.87	346.55
<b>2005/06</b>	12352.10	11263.58	635.91	421.93
<b>2006/07</b>	13168.23	11752.78	684.95	497.31
<b>2007/08</b>	13984.36	12241.98	733.99	572.69
<b>2008/09</b>	14800.49	12731.18	783.03	648.07
<b>2009/10</b>	15616.62	13220.38	832.07	723.45
<b>2010/11</b>	16432.75	13709.58	881.11	798.83
<b>2011/12</b>	17248.88	14198.78	930.15	874.21

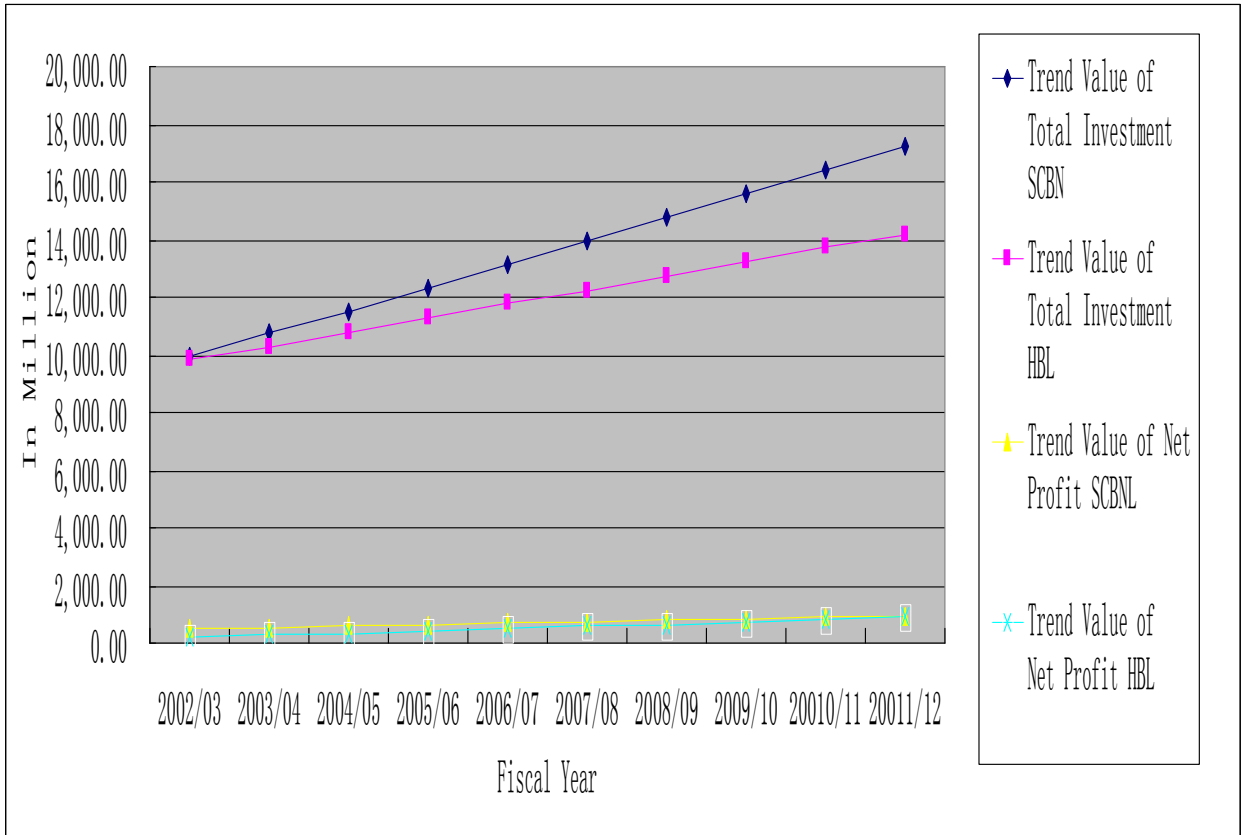
*Sources: Appendix No. 3 (v & viii)*

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 F/Y 2011/2012 and that of HBL to be Rs. 14198.78 million. These values 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. The above calculated trend values of SCBNL and HBL are fitted in the trend line given in the figure below.

**Figure No. 4.21**

**Trend Values of Total Investment & Net Profit of SCBNL and 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 F/Y 2011/2012 i.e. Rs. 930.15 million. In case of HBL net profit will be Rs 874.21 million in F/Y 2011/2012, 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 amounts of profit.

### 4.3 Major Findings of the Study

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

The main findings of the study derived from the analysis of 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 higher 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 is slightly higher than SCBNL. This shows 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.

From the above findings, 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 assets. HBL is in 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 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.

### **Asset Management Ratio**

The asset management ratio of SCBNL and HBL reveals that:

- ) The mean ratio of loans 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 loans and advances 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 loans 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 may be 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 average saving deposit to total deposit ratios of SCBNL and HBL are 61.92 and 52.91. It clearly states that SCBNL has the maximum saving charge bearing deposit than HBL. 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.

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 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.

### **Profitability Ratio**

The profitability ratios of SCBNL and HBL reveal that:

- ) The mean ratio of return on total working fund of SCBNL is slightly higher than HBL. The ratios of SCBNL are less consistent and more variable than HBL.
- ) The mean ratio of total interest earned to total working fund of SCBNL is lower than HBL. HBL ratios are more stable and less variable than SCBNL.
- ) The mean ratio of return on total loans and advances 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 SCBNL is higher than HBL. The ratios of HBL are more consistent than SCBNL.
- ) 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.

On the basis of above, we can conclude that SCBNL has been more successful in maintaining its higher return on loans 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. SCBNL has been more successful in mobilization of its funds in interest bearing assets to earn higher total outside assets than HBL. 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 Ratio**

The growth ratios of SCBNL and HBL reveal that:

- ) The average growth rate of deposits of HBL are significantly higher than SCBNL
- ) SCBNL ratios were highly variable than HBL. The growth rate of total loans and advances of both the banks are in increasing trend. The average growth rate of total loans 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 FY 2004/05.
- ) The growth rate of net profit of both the banks has an 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 loans and advances to current assets, total deposits, and total working fund of HBL is comparatively less than that of SCBNL.

### **Co-efficient of Correlation Analysis**

Co-efficient 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 lower than SCBNL.
- ) HBL is slightly higher than SCBNL in case of coefficient of correlation between deposits and loans and advances.
- ) The co-efficient of correlation between total outside assets and net profit of HBL is slightly higher than SCBNL

In conclusion, we can say that there is a significant relationship between deposit and total investment, total deposit and loans & 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 loans and advances and total outside assets and net profit.

### **Trend Analysis and Projection for Next Five Years**

The trend analysis of deposits, loans and advances, 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. 40673.42 million at the end of F/Y 2011/2012. The deposit collection of SCBNL is much better than HBL.
- ) The loans and advances of both the banks have an increasing trend. The total loans and advances 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 2011/2012. The loans and advances 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. 17248.88 million and that of HBL at Rs. 14198.78 million by the end of F/Y 2011/2012. 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 2011/2012. The position of SCBNL with regard to utilization of the fund to earn profit is better than HBL.

## **CHAPTER-V**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

This chapter is an accomplished specific and indicative enclosure which contains summary and conclusion of findings and recommendations. Brief introduction to all chapters of the study and genuine information of the present situation under the topic of the study is defined on summary. Conclusions are analysis of applicable data by using various financial and statistical tools, which presents strengths, weaknesses, opportunities and threats of the CBs. And suggestions are obtainable in recommendations, which are arranged on the basis of findings and conclusions.

#### **5.1 Summary**

The development of any country 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 institution that transfers funds from surplus spending units to deficit units.

The evolution of the organized financial system in Nepal has a more recent history than in other countries of the world. In Nepalese context, the history of development of modern banks started from the establishment of Nepal bank limited in 1937 A.D. nowadays there are 25 CBs operating in Nepalese financial market which is in increasing trend due to the country's movement towards economic liberalization, financial scenario has changed, and foreign banks were invited to operate in Nepal. For the better performance of CBs, successful formulation & effective implementation of investment policy is the prime requisite. Nowadays there is a very high competition in the banking industries but very less opportunity to make investment. The opportunities are hidden. Thus these CBs should take initiative action in search of the new opportunities. So that,

they can easily survive in this competitive banking business world & earn profit. Bank's investment has a lot to do with the economic health of the country because the bank loans support the growth of new business & trade empowering the economic activities of the country.

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 that the saving will not be safely and profitably 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 other objectives are to examine the overall performance of SCBNL and HBL in terms of liquidity, activity, profitability, growth ratios 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 loans, investment, etc to provide suggestions and recommendations for the improvement of future performance and maximum utilization of deposit.

Last but not the least we can conclude that financial analysis is done to determine the banks financial position in order to identify its current strengths and weaknesses and to provide suggestions that might enable the firm to take advantage of its strengths and correct its weaknesses. 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 banks has tried to analyze. The various ratios have revealed the financial

condition of the banks over the five years. Correlation analysis helps to establish the relationship between two variables which can be useful to know how one variable affect the another variable. Likewise trend analysis is used to find out the trend of some very important elements like total deposit, loans and advances, net profit, investment, etc of SCBNL and HBL on the basis of the past data of the banks. This can be used in predicting the value of these elements.

By mobilizing its funds more in loans and advances, the banks could have increased their 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. Various findings are shown in above chapter from that findings, conclusions have been drawn which are presented as below:

## **5.2 Conclusions**

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. This puts, HBL in a better position with respect to meeting customer's requirement than SCBNL. In contrast, a high ratio of non-earning cash and bank balance is an 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.

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

SCBNL has been more successful in maintaining its higher return on loans and advances and total outside assets. On the other hand, HBL has been more successful in terms of earning power with respect to total working fund. SCBNL has been more successful in

mobilization of its funds in interest bearing assets to earn higher total outside assets than HBL. 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.

The average growth rate of deposits of HBL is significantly higher than SCBNL. SCBNL ratios were highly variable than HBL. The growth rate of total loans and advances of both the banks are in increasing trend. The average growth rate of total loans 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 FY 2004/05. The growth rate of net profit of both the banks has an 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 loans and advances 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 loans & 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 loans and advances and total outside assets and net profit.

The trend values of deposits, loans 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 loans and advances of HBL is proportionately better than SCBNL in all the years.

### **5.3 Recommendations**

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

- ) Current ratios of the banks are 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 creditworthiness of the banks at any point of time.
- ) Cash and bank balance of total deposit ratio of the banks were in fluctuation order. Since it is the most liquid assets some provisions 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 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 banks should be very careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and their all customers. HBL is strongly recommended to gain highest profit margin. Also it should

reduce its expenses. Profitability position of SCBNL is satisfactory and should try to maximize it.

- ) 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, cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme, house building scheme, direct finance housing scheme, education loan scheme and many others.
- ) It is recommended to adopt innovative approach to marketing. In the light of growing competition in the banking sector, the business of the bank should be customer oriented. They should strengthen and activate its marketing function as it is an effective tool to attract and retain the customers for the purpose, the banks should develop an innovative approach to banks marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. 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, prices 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 show not more interest to open branches in rural areas. Both the banks are recommended to expand their maximum branches and banking services and facilities in rural areas and communities too to accelerate their economic development. NRB should implement policies to encourage banks, which provide extensive services while disincentive signs those who are not responsive to the banking needs of the community, including the underprivileged.

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**APPENDIX - 1**

**i. Current Ratio (Times)**

**SCBNL**

Fiscal year	2002/03	2003/04	2004/05	2005/06	2006/07
Current Assets	17084409	20093715	19322679	21472350	22025802
Current Liabilities	17594654	20740829	18895638	21888227	23283089
Ratios	0.971	0.9688	1.0226	0.981	0.946

**HBL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
Current Assets	16297019	18602009	21326260	23153115	27775530
Current Liabilities	19083160	18733141	19422823	20991038	19208530
<b>Ratio</b>	<b>0.854</b>	<b>0.993</b>	<b>1.098</b>	<b>1.103</b>	<b>1.446</b>

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

**SCBNL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Cash and Bank Balance</b>	1512304	2023164	1111117	1276241	2021021
<b>Total Deposit</b>	18755635	21161442	19335095	23061032	24647021
<b>Ratio</b>	8.06	9.56	5.75	5.53	8.21

**HBL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Cash and Bank Balance</b>	1979209	2001184	2014471	1717352	1757341
<b>Total Deposit</b>	210073793	24814012	26490852	30048418	2201033
<b>Ratio</b>	9.42	9.092	8.12	6.84	5.85

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

**SCBNL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Cash and Bank Balance</b>	1512304	2023164	1111117	1276241	2021021
<b>Current Asset</b>	17084409	20093715	19322679	21472350	22025802
<b>Ratio</b>	8.85	10.07	5.529	5.94	9.18

**HBL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Cash and Bank Balance</b>	1979209	2001184	2014471	1717352	1757341
<b>Current Asset</b>	16297019	18602009	21326260	23153115	27775330
<b>Ratio</b>	12.14	10.76	9.45	7.42	6.33

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

**SCBNL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Investment on Government Securities</b>	6581348	7948217	7203066	8635875	7107937
<b>Current Asset</b>	17084409	20093715	19322679	21472350	22025802
<b>Ratio</b>	38.52	39.56	37.28	40.22	32.27

**HBL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Investment on Government Securities</b>	3347102	3431728	5469729	5144312	6454873
<b>Current Asset</b>	16297019	18602009	21326260	23153115	27775330
<b>Ratio</b>	20.54	18.45	25.65	22.22	23.24

**v. Loans and Advances to Total Deposit Ratio (%)**

**SCBNL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Loans and Advances</b>	5695823	6410242	8143208	8935418	10502637
<b>Total Deposit</b>	18755635	21161442	19335095	23061032	24647021
<b>Ratio</b>	30.36	30.30	42.12	38.75	42.61

**HBL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Loans and Advances</b>	10844599	12919631	13451168	15761977	16997797
<b>Total Deposit</b>	210073793	24814012	26490852	30048418	2201033
<b>Ratio</b>	9.42	9.092	8.12	6.84	5.85

**vi. Total Investment to Total Deposit Ratio (%)****SCBNL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Total Investment</b>	10216199	11360328	9702553	12847536	13553233
<b>Total Deposit</b>	18755635	21161442	19335095	23061032	24647021
<b>Ratio</b>	54.47	53.68	50.18	55.71	55.10

**HBL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Total Investment</b>	10175435	9292103	11692342	10889031	11822985
<b>Total Deposit</b>	210073793	24814012	26490852	30048418	2201033
<b>Ratio</b>	48.44	42.22	47.20	41.10	39.35

**vii. Loans and Advances to Fixed Deposit Ratio (Times)****SCBNL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Loans and Advances</b>	5695823	6410242	8143208	8935418	10502637
<b>Fixed Deposit</b>	1948596	1428495	1416383	2136307	3196490
<b>Ratio</b>	2.92	4.49	5.75	4.18	3.29

**HBL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Loans and Advances</b>	10844599	12919631	13451168	15761977	16997797
<b>Fixed Deposit</b>	3205373	4710177	6107431	6350202	8201135
<b>Ratio</b>	3.38	2.74	2.20	2.48	2.07

**viii. Loans and Advances to Saving Deposit Ratio (Times)****SCBNL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Loans and Advances</b>	5695823	6410242	8143208	8935418	10502637
<b>Saving Deposit</b>	10633162	12771826	13030929	14597674	15244385
<b>Ratio</b>	0.54	0.50	0.62	0.61	0.69

**HBL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Loans and Advances</b>	10844599	12919631	13451168	15761977	16997797
<b>Saving Deposit</b>	10870542	11759602	12852415	14582855	15784770
<b>Ratio</b>	1.00	1.10	1.05	1.08	1.08

**ix. Fixed Deposit to Total Deposit Ratio (%)****SCBNL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Fixed Deposit</b>	1948596	1428495	1416383	2136307	3196490
<b>Total Deposit</b>	18755635	21161442	19335095	23061032	24647021
<b>Ratio</b>	10.39	6.75	7.33	9.26	12.97

**HBL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Fixed Deposit</b>	3205373	4710177	6107431	6350202	8201135
<b>Total Deposit</b>	210073793	24814012	26490852	30048418	2201033
<b>Ratio</b>	15.26	21.40	24.61	23.97	27.29

**x. Saving Deposit to Total Deposit Ratio (%)****SCBNL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Saving Deposit</b>	10633162	12771826	13030929	14597674	15244385
<b>Total Deposit</b>	18755635	21161442	19335095	23061032	24647021
<b>Ratio</b>	56.69	60.35	67.40	63.30	61.85

**HBL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Saving Deposit</b>	10870542	11759602	12852415	14582855	15784770
<b>Total Deposit</b>	210073793	24814012	26490852	30048418	2201033
<b>Ratio</b>	51.75	53.43	51.79	55.05	52.53

**xi. Return Total Working Fund Ratio (%)****SCBNL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Net Profit</b>	506932	537800	539204	658756	691668
<b>Total Working Fund</b>	20910970	23642060	21893578	25776332	28596689
<b>Ratio</b>	2.424	2.27	2.46	2.55	2.42

**HBL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Net Profit</b>	212132	263052	308277	457458	491823
<b>Total Working Fund</b>	24197974	25729787	28871343	30579808	34315868
<b>Ratio</b>	0.88	1.02	1.06	1.50	1.43

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

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Total Interest Earned</b>	1001359	1042175	1058677	1189603	1411942
<b>Total Outside Assets</b>	6722023	17770570	17845761	21782954	24055870
<b>Ratio</b>	14.90	5.86	5.93	5.46	5.87

**HBL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Total Interest Earned</b>	1201233	1245895	1446468	1626474	1775583
<b>Total Outside Assets</b>	21020034	22211734	25143510	26651008	29616709
<b>Ratio</b>	5.71	5.61	5.75	6.10	6.10

**xiii. Return on Loans and Advances (%)****SCBNL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Net Profit</b>	506932	537800	539204	658756	691668
<b>Loans and Advances</b>	5695823	6410242	8143208	8935418	10502637
<b>Ratio</b>	8.9	8.41	6.62	7.37	6.6

**HBL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Net Profit</b>	212132	263052	308277	457458	491823
<b>Loans and Advances</b>	10844599	12919631	13451168	15761977	16997797
<b>Ratio</b>	1.96	2.03	2.30	2.90	2.89

**xiv. Total Interest Earned to Total Working Fund Ratio (%)****SCBNL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Total Interest Earned</b>	1001359	1042175	1058677	1189603	1411982
<b>Total Working Fund</b>	20910970	23642060	21893578	25776332	28596689
<b>Ratio</b>	4.81	4.41	4.83	4.61	4.94

**HBL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Total Interest Earned</b>	1201233	1245895	1446468	1626474	1775583
<b>Total Working Fund</b>	24197974	25729787	28871343	30579808	34315868
<b>Ratio</b>	4.96	4.84	5.01	5.32	5.17

**xv. Total Interest Paid to Total Working Fund Ratio (%)****SCBNL**

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Total Interest Paid</b>	255154	275809	254127	303198	413055

<b>Total Working Fund</b>	20910970	23642060	21893578	25776332	28596689
<b>Ratio</b>	1.22	1.2	1.16	1.20	1.44

### HBL

<b>Fiscal Year</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
<b>Total Interest Paid</b>	554128	491543	561964	648842	767411
<b>Total Working Fund</b>	24197974	25729787	28871343	30579808	34315868
<b>Ratio</b>	2.31	1.91	1.95	2.12	2.24

### xvi. Sample Calculation of 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  $n^{\text{th}}$  year.

$D_0$  = Total deposit of initial year.

G = Growth rate.

N = Number of year.

$$D_{2006/07} = 24647 \quad D_{2002/03} = 18756 \quad N = 5$$

$$D_{2006/07} = D_{2002/03} (1+g)^{n-1} \quad \text{Or, } 24647 = 18756 (1+g)^{5-1}$$

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

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

Other growth ratios are same as above methods.

## APPENDIX - 2

### i. Calculation of Correlation Between Total Deposit and Total Investment of SCBNL and HBL

#### SCBNL

F/Y	Total Deposit	Total Investment
<b>2002/03</b>	18755635	10216199
<b>2003/04</b>	21161442	11360328
<b>2004/05</b>	19335095	9702553
<b>2005/06</b>	23061032	12847536
<b>2006/07</b>	24647021	13553233
<b>r</b>		<b>0.9786</b>
<b>r<sup>2</sup></b>		<b>0.9576</b>
<b>P.E.</b>		<b>0.0128</b>
<b>6P.E.</b>		<b>0.0768</b>

#### HBL

F/Y	Total Deposit	Total Investment
<b>2002/03</b>	21007379	10175435
<b>2003/04</b>	22010333	9292103
<b>2004/05</b>	24814012	11692342
<b>2005/06</b>	26490852	10889031
<b>2006/07</b>	30048418	11822985
<b>r</b>		<b>0.7870</b>
<b>r<sup>2</sup></b>		<b>0.6194</b>
<b>P.E.</b>		<b>0.1148</b>
<b>6P.E.</b>		<b>0.6889</b>

**ii. Calculation of Correlation Between Total Deposit and Loans & Advances of SCBNL and HBL**

**SCBNL**

<b>F/Y</b>	<b>Total Deposit</b>	<b>Loans and Advances</b>
<b>2002/03</b>	18755635	5695823
<b>2003/04</b>	21161442	6410242
<b>2004/05</b>	19335095	8143208
<b>2005/06</b>	23061032	8935418
<b>2006/07</b>	24647021	10502637
<b>r</b>		<b>0.8257</b>
<b>r<sup>2</sup></b>		<b>0.6818</b>
<b>P.E.</b>		<b>0.0960</b>
<b>6P.E.</b>		<b>0.5758</b>

**HBL**

<b>F/Y</b>	<b>Total Deposit</b>	<b>Loans and Advances</b>
<b>2002/03</b>	21007379	10844599
<b>2003/04</b>	22010333	12919631
<b>2004/05</b>	24814012	13451168
<b>2005/06</b>	26490852	15761977
<b>2006/07</b>	30048418	16997797
<b>r</b>		<b>0.9584</b>
<b>r<sup>2</sup></b>		<b>0.9185</b>
<b>P.E.</b>		<b>0.0246</b>
<b>6P.E.</b>		<b>0.1476</b>

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

**SCBNL**

<b>F/Y</b>	<b>Total Outside Assets</b>	<b>Net Profit</b>
<b>2002/03</b>	6722023	506932
<b>2003/04</b>	17770570	537800
<b>2004/05</b>	17845761	539204
<b>2005/06</b>	21782954	658756
<b>2006/07</b>	24055870	691668
	<b>r</b>	<b>0.8308</b>
	<b>r<sup>2</sup></b>	<b>0.6903</b>
	<b>P.E.</b>	<b>0.0934</b>
	<b>6P.E.</b>	<b>0.5605</b>

**HBL**

<b>F/Y</b>	<b>Total Outside Assets</b>	<b>Net Profit</b>
<b>2002/03</b>	21020034	212132
<b>2003/04</b>	22211734	263052
<b>2004/05</b>	25143510	308277
<b>2005/06</b>	26651008	457458
<b>2006/07</b>	29616709	491823
	<b>r</b>	<b>0.9565</b>
	<b>r<sup>2</sup></b>	<b>0.9149</b>
	<b>P.E.</b>	<b>0.0257</b>
	<b>6P.E.</b>	<b>0.1540</b>

### APPENDIX – 3

#### i. Trend Value of Total Deposit of SCBNL

(Rs. In Million)				
Fiscal Year (t)	Total Deposit (y)	x = (t-2005)	X <sup>2</sup>	xy
<b>2002/03</b>	18755.64	-2	4	-37511.28
<b>2003/04</b>	21161.44	-1	1	-21161.44
<b>2004/05</b>	19335.10	0	0	0
<b>2005/06</b>	23061.03	1	1	23061.03
<b>2006/07</b>	24647.02	2	4	49294.04
<b>N = 5</b>	<b>106960.23</b>	<b>0</b>	<b>10</b>	<b>13682.35</b>

$$a = \frac{\sum Y}{N} = \frac{106960.23}{5} = 21392.05$$

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

**The Equation of the Straight Line Trend is;**

$$Y_c = a + bx$$

$$Y_c = 106960.23 + 1368.24x$$

Year	x = (t-2003)	Trend Value $Y_c = 106960.23 + 1368.24x$
<b>2002/03</b>	-2	104223.75
<b>2003/04</b>	-1	105591.99
<b>2004/05</b>	0	106960.23
<b>2005/06</b>	1	108328.47
<b>2006/07</b>	2	109696.71
<b>2007/08</b>	3	111064.95
<b>2008/09</b>	4	112433.19
<b>2009/10</b>	5	113801.43
<b>2010/11</b>	6	115169.67
<b>2011/12</b>	7	116537.91

ii. Trend Value of Total Deposit of HBL

(Rs. In Million)				
Fiscal Year (t)	Total Deposit (y)	x = (t-2005)	X <sup>2</sup>	xy
2002/03	21007.38	-2	4	-42014.76
2003/04	22010.33	-1	1	-22010.33
2004/05	24814.01	0	0	0
2005/06	26496.85	1	1	26496.85
2006/07	30048.42	2	4	60096.84
<b>N = 5</b>	<b>124376.99</b>	<b>0</b>	<b>10</b>	<b>22568.6</b>

$$a = \frac{\sum Y}{N} = \frac{124376.99}{5} = 24875.40$$

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

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$$Y_c = 24875.40 + 2256.86x$$

Year	x = (t-2003)	Trend Value $Y_c = 24875.40 + 2256.86x$
2002/03	-2	20361.68
2003/04	-1	22618.54
2004/05	0	24875.40
2005/06	1	27132.26
2006/07	2	29389.12
2007/08	3	31645.98
2008/09	4	33902.84
2009/10	5	36159.70
2010/11	6	38416.56
2011/12	7	40673.42

iii. Trend Value of Loans and Advances of SCBNL

(Rs. In Million)

Fiscal Year (t)	Loans and Advances (y)	x = (t-2005)	X <sup>2</sup>	xy
2002/03	56958.23	-2	4	-113916.46
2003/04	64102.42	-1	1	-64102.42
2004/05	81432.08	0	0	0
2005/06	89354.18	1	1	89354.18
2006/07	105026.37	2	4	210052.74
<b>N = 5</b>	<b>396873.28</b>	<b>0</b>	<b>10</b>	<b>121388.04</b>

$$a = \frac{\sum Y}{N} = \frac{396873.28}{5} = 79374.66$$

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

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$$Y_c = 79374.66 + 12138.80x$$

Year	x = (t-2003)	Trend Value $Y_c = 79374.66 + 12138.80x$
2002/03	-2	55097.06
2003/04	-1	67235.86
2004/05	0	79374.66
2005/06	1	91513.46
2006/07	2	103652.26
2007/08	3	115791.06
2008/09	4	127929.86
2009/10	5	140068.66
2010/11	6	152207.46
2011/12	7	164346.26

iv. Trend Value of Loans and Advances of HBL

(Rs. In Million)

Fiscal Year (t)	Loans and Advances (y)	x = (t-2005)	X <sup>2</sup>	xy
2002/03	108445.99	-2	4	-216891.98
2003/04	129196.31	-1	1	-129196.31
2004/05	134511.68	0	0	0
2005/06	157619.77	1	1	157619.77
2006/07	169977.97	2	4	339955.94
<b>N = 5</b>	<b>699751.72</b>	<b>0</b>	<b>10</b>	<b>151487.42</b>

$$a = \frac{\sum Y}{N} = \frac{699751.72}{5} = 139950.34$$

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

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$$Y_c = 139950.34 + 15148.74x$$

Year	x = (t-2003)	Trend Value $Y_c = 139950.34 + 15148.74x$
2002/03	-2	109652.86
2003/04	-1	124801.60
2004/05	0	139950.34
2005/06	1	155099.08
2006/07	2	170247.82
2007/08	3	185396.56
2008/09	4	200545.30
2009/10	5	215694.04
2010/11	6	230842.78
2011/12	7	245991.52

v. Trend Value of Total Investment of SCBNL

(Rs. In Million)

Fiscal Year (t)	Total Investment (y)	x = (t-2005)	X <sup>2</sup>	xy
2002/03	10216.20	-2	4	-20432.4
2003/04	11360.33	-1	1	-11360.33
2004/05	9702.55	0	0	0
2005/06	12847.54	1	1	12847.54
2006/07	13553.23	2	4	27106.46
<b>N = 5</b>	<b>57679.85</b>	<b>0</b>	<b>10</b>	<b>8161.27</b>

$$a = \frac{\sum Y}{N} = \frac{57679.85}{5} = 11535.97$$

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

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$$Y_c = 11535.97 + 816.13x$$

Year	x = (t-2003)	Trend Value $Y_c = 11535.97 + 816.13x$
2002/03	-2	9903.71
2003/04	-1	10719.84
2004/05	0	11535.97
2005/06	1	12352.10
2006/07	2	13168.23
2007/08	3	13984.36
2008/09	4	14800.49
2009/10	5	15616.62
2010/11	6	16432.75
2011/12	7	17248.88

vi. Trend Value of Total Investment of HBL

(Rs. In Million)

Fiscal Year (t)	Total Investment (y)	x = (t-2005)	X <sup>2</sup>	xy
2002/03	10175.44	-2	4	-20350.88
2003/04	9292.10	-1	1	-9292.1
2004/05	11692.34	0	0	0
2005/06	10889.03	1	1	10889.03
2006/07	11822.99	2	4	23645.98
<b>N = 5</b>	<b>53871.9</b>	<b>0</b>	<b>10</b>	<b>4892.03</b>

$$a = \frac{\sum Y}{N} = \frac{53871.9}{5} = 10774.38$$

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

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$$Y_c = 10774.38 + 489.20x$$

Year	x = (t-2003)	Trend Value $Y_c = 10774.38 + 489.20x$
2002/03	-2	9795.98
2003/04	-1	10285.18
2004/05	0	10774.38
2005/06	1	11263.58
2006/07	2	11752.78
2007/08	3	12241.98
2008/09	4	12731.18
2009/10	5	13220.38
2010/11	6	13709.58
2011/12	7	14198.78

**vii. Trend Value of Net Profit of SCBNL**

**(Rs. In Million)**

<b>Fiscal Year (t)</b>	<b>Net Profit (y)</b>	<b>x = (t-2005)</b>	<b>X<sup>2</sup></b>	<b>xy</b>
<b>2002/03</b>	506.93	-2	4	-1013.86
<b>2003/04</b>	537.80	-1	1	-537.8
<b>2004/05</b>	539.20	0	0	0
<b>2005/06</b>	658.76	1	1	658.76
<b>2006/07</b>	691.67	2	4	1383.34
<b>N = 5</b>	<b>2934.36</b>	<b>0</b>	<b>10</b>	<b>490.44</b>

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

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

**The Equation of the Straight Line Trend is;**

$$Y_c = a + bx$$

$$Y_c = 586.87 + 49.04x$$

<b>Year</b>	<b>x = (t-2003)</b>	<b>Trend Value</b> $Y_c = 586.87 + 49.04x$
<b>2002/03</b>	-2	488.79
<b>2003/04</b>	-1	537.83
<b>2004/05</b>	0	586.87
<b>2005/06</b>	1	635.91
<b>2006/07</b>	2	684.95
<b>2007/08</b>	3	733.99
<b>2008/09</b>	4	783.03
<b>2009/10</b>	5	832.07
<b>2010/11</b>	6	881.11
<b>2011/12</b>	7	930.15

viii. Trend Value of Net Profit of HBL

(Rs. In Million)

Fiscal Year (t)	Net Profit (y)	x = (t-2005)	X <sup>2</sup>	xy
2002/03	212.13	-2	4	-424.26
2003/04	263.05	-1	1	-263.05
2004/05	308.28	0	0	0
2005/06	457.46	1	1	457.46
2006/07	491.82	2	4	983.64
<b>N = 5</b>	<b>1732.74</b>	<b>0</b>	<b>10</b>	<b>753.79</b>

$$a = \frac{\sum Y}{N} = \frac{1732.74}{5} = 346.55$$

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

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$$Y_c = 346.55 + 75.38x$$

Year	x = (t-2003)	Trend Value $Y_c = 346.55 + 75.38x$
2002/03	-2	195.79
2003/04	-1	271.17
2004/05	0	346.55
2005/06	1	421.93
2006/07	2	497.31
2007/08	3	572.69
2008/09	4	648.07
2009/10	5	723.45
2010/11	6	798.83
2011/12	7	874.21