

**A COMPARATIVE STUDY ON WORKING CAPITAL
MANAGEMENT BETWEEN SCBNL AND HBL**

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RECOMMENDATION

This is to certify that the thesis

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"Comparative Study On Working Capital Management Between SCBNL and HBL" has been prepared as approved by the Department in the prescribed format of faculty of management; this thesis is forward for examination.

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**Comparative Study On Working Capital Management Between SCBNL and HBL**" submitted to central department of management, Tribhuvan University, is my original work. It is done in the form of partial fulfillment of the requirements for the Master's Degree in Business Studies (MBS) under the guidance and supervision of LecturerBal Krishna Shrestha Central Department of Management, Tribhuvan University, Kirtipur Kathmandu, Nepal.

August 2010

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LIST ABBREVIATION

a	=	Constant of Regression
b	=	Coefficient of Regression
CV	=	Coefficient of Variation
DPR	=	Dividend Payout Ratio
DPS	=	Dividend Per Share
DY	=	Dividend Yield
EPS	=	Earning Per Share
HBL	=	Himalayan Bank Limited
Inf.	=	Inference
Insig.	=	Insignificance
MPS	=	Market Price Per Share
P/E Ratio	=	Price Earning Ratio
PE	=	Probability of Error
r	=	Coefficient of Correlation
R ²	=	Coefficient of Determination
SCBNL	=	Standard Chartered Bank Nepal Limited
SD	=	Standard Deviation
SDC	=	Shankar Dev Campus
SE	=	Standard Error
SEE	=	Standard Error of Estimation
Sig.	=	Significance
T.U.	=	Tribhuvan University

CHAPTER -I

INTRODUCTION

1. Background of the Study

In this era of globalization, the economic activities are soaring up in the international market. Nepal doesn't have its own long history of the economic activities. About two century ago the barter system was prevailing every where in the country, even now in the remote areas the system is still in practice. Until the period of reunification of modern Nepal by Prithivi Naryan Shah there were only two prevailing which was some how controlled by the Rana. Their regime begun in 1903 B.S. during the beginning period of their regime, office like Tejarath Adda and Muluki Khana were established in order to attract deposits and grand loans. But it was not sufficient for the economic development due to lacking of experienced manpower and new technology. As the time passed by there some increasing economic activities was seemed in the country which led to the establishment of first commercial bank of Nepal Viz Nepal Bank Limited.

Thus, the history of the development of financial institution in Nepal is not very long. Nepal bank ltd. is the first commercial bank of Nepal which was established in 1994 B.S. in non- government sector. The second commercial bank is Rastrya Bank Ltd. Which was established in 2022 B.S. in 100% government ownership. But after studying to the origin of modern banking, we come to know-that Bank DERIALO" which was established in 1587 A.D. is the first bank of the world in Venice, Italy.

Financial Institution can be considered as the catalyst to the economic growth of a country. The development process of a country involves the mobilization and developed of resources. Development of trade, and commerce and industry are the prime requisite for the attainment of the economic political and social goals. TO fulfill the purpose of planning, financial functions more often dominate the other functions. "There is always lack of finance in underdeveloped economy because natural resources are either underutilized or unutilized in productive sectors or even other purpose i.e.; social welfare and so on. Likewise, underdeveloped countries are not deficient in land, water, mineral, forest or power resources, though they may be untapped; constituting only potential resources." (Dewett; 1994; 454) so in these countries for the rapid development of the economy, there should be proper mobilization of resources. Due to various difficulties or even ignorance of the people, such resources have not been properly utilized. Hoarding could be one of this. So, banks and other financial institutions play a vital role to encourage thrift and discourage hoarding. They pursue rapid economics growth, developing the banking habits among the people, collecting the small-scattered resources in one bulk and utilizing them in further productive purposes-and rendering other valuable services to the country. Thus, this gives the individuals an opportunity to borrow funds against further income, which may improve the economic well being of the borrower. Financial institution in the economy plays a crucial role in the process of economic growth of the country. Financial institution refers to a business concern that is mainly confined to finance for the development of the trade, commerce and industry. Trade, commerce and industry are the prime factors of the economic development. Bank is a financial institution, which primarily deals in borrowing and lending. Banking is a vital part of national economy and any vehicle for the

mobilization of economy's financial resources and extension of credit to the business and service enterprises. Commercial banks are the heart of the financial system. They hold the deposits of individuals, government establishment and business units. They make funds available through of their lending and investing activities to borrowers: individuals, business firm and government establishments. In doing so, they assist both the flow of goods and services from the producers to consumers and the financial activities to the government. They provide a large portion of medium of exchange and they are the media through which monetary policy is affected. These facts shows that the commercial banking system of a nation is very important to the functioning of its economy. The concept of financial institutions In Nepal was introduced when the first commercial bank, Nepal Bank Limited (NBL) was established in Kartik 30, 1994 B.S as a semi-government organization. In Baisakh 14, 2013 B.S. the first central bank, named as the Nepal Rastra Bank was established with an objectives of supervising, protecting and directing the function of commercial banking activities. Consequently, another commercial bank was fully owned by the government named as Rastriya Banijya Bank was established for the establishment in 2022 B.S. under the Banijya Bank Act 2021 B.S.. In the fiscal year 2039\40, new banking policy was introduced for the established for the establishment of new banks by the joint investment of foreign nations. Its objective was to create healthy competitive banking system and to provide cheap banking facilities to the people. The establishment of joint venture banks gave a new-horizon to the financial sector of the country. Nepal Arab Bank Limited (NABIL) is the first joint venture commercial bank incorporated in 2041 B.S. In 2043 B.S., the second JVBS, Nepal Indosuez Bank ltd (Currently Nepal Investment Bank Limited) was established. In the same year, Nepal Grind lays Bank Ltd. (Currently Standard Chartered Bank

Nepal Limited) in the form JVB was also established. But more JVBS came into existence after the initiation of government's policy of economic liberalization and privatization in 2049 B.S.. They are Himalyan Bank Ltd. (2051). Everest Bank Ltd. (2051) and Bank of Katmandu (2052) came into existence in chronological order. Under favorable environment, various other banks were established thereafter.

In a global prospective, joint ventures are the mode of trading through partnership among nations and also a form of negotiations between various groups and services for sharing comparative advantage. A joint venture is the joining of force between two or more enterprises for the purpose of carrying out a special operation (industrial or commercial investment, production or trade). These JVBS came into existence to acceleration the place of economic development and financial system of the nation.

Proper financial decision making is extremely important in banking transaction for its efficiency and profitability. Most of the financial decision of a bank are concerned with current assets and current liabilities. The working capital management of a bank is different from other types of business enterprise, a oarik role to fulfill the requirement of working capital of the other types of business enterprise. It also need to working capital of other business enterprises is a part of current assets of bank's working capital and we can consider deposits and short-term borrowings as a part of current liabilities.

1.1.1 Introduction Of Stander chartered Banks Nepal Limited

The banks was originally establishes as a joint venture of grind lays bank PLC and Nepal Bank Limited 50 percentage, Nepal Ban k Limited 33.34 percent and general public 16.66 percent along with the

change of ownership to stander Chartered, the banking are of SCBNL saw the rise of a new dawn changing the general image of the bank. With this acquisition, standard Chartered Bank now owns 50 percent share of Nepal Grindlays Banks Limited (NGBL) previously owned by ANZ Grindlays.

With the mission statement " To be the leading international bank in our principal markets', the banks operares through 14 offices, spread throughout Nepal and focuses mainly one corporate, consumer and commercial banking, providing services for international firms as well. The bank contributed to a large extent in the development of the country by the way of loans to industrial projects, the priority and deprived sectors,

Stander Chartered Bank Nepal Limited offers a full range of banking products and services in wholesale and consumer banking, catering to wide range of customers from individuals, to mid-market local coporate to multinationals and public sector companies as well as embassies, aid agencies, airlines, hotels and government corporations. The bank has been the pioneer in introducing 'customet focused' products and services in the country and aspires to continue to be a leader in introducing new products and highest level of service delivery. It is the first bank in Nepal that implemented the Anti-Money Laundering Policy and applied the 'Know Your Customer procedure on all the customer accounts.

The bank has 425 staff as the 16th July 2010. This indicates that the banks provide very good working environment to the best of financial sector in the county great emphasis is put on training staff. To improve the skills and knowledge of the staff the bank continues to provide

development programs in-house training programs, including on-the job training and job rotation.

1.1.2 Introduction Of Himalayan Bank Limited

Himalayan Bank Limited was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employees provident fund and Habib Limited, one of the largest commercial bank of Pakistan. Banking operation concerned from January 1993. It's the first commercial bank of Nepal whose maximum share are held by the Nepalese private sector. Beside commercial banking services, the bank also offers industrial and merchant banking services.

The bank 12 branches in kathmandu Valley at the following location" Thamel, Newroad, Maharajgung, Teku, Pulchowk (patan) and Suryavinayak (moved from Nagarkot), Sorahkhutte, Dilli Bazaar, Soyambhu, New Baneswor, Kalanki, Saatdobato and Battisputali. In addition, the bank also has twenty other branches outside Kathmandu valley in Banepa, Tandi. Bharatpur, Birgunj, Hetauda, Biratnagar, Pokhara, Dharan, Siddharthanagar and Butwal, Trisuli, Damak, Nepalgung, Itahari, Palpa, Ghorahi, Baglung, Parsa, Dhangadi, Gorkha, Barhabise and Kawaswoti.

Himalayan Bank has always been committed to providing a quality service to its valued customers with a personal touch. All customers are treated with utmost courtesy as valued clients. the bank wherever possible offers tailor made facilities to its clients, based on the unique needs and requirements of diffeent clients. To further extend the reliable and efficient serviced to its valued customers, Himalayan Bank has adopted the latest banking technology. This has no only helped the bank to constantly improve its valued customers, Himalayan Bank has adopted

the latest banking technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for further adoption to new technology. The bank already offers unique services such as SMS banking and Internet banking to customers and will be introducing more services like these in the near future.

Himalayan Bank is committed to be a bank where "Banking is done with a difference".

1.2 Statement of the Problems

Working capital is a crucial, which is compared as lifeblood of the human beings for any organization. In most enterprises the management of working capital has been misunderstood as the management of money rather than its efficient utilization. The management of working capital is synonymous to the management of short term liquidity. It has been regarded as one of the conditioning factors in the decision making issues. It is no doubt, very difficult to point out as to how much working capital is needed by a particular business organization. An organization, which is not willing to take more financial risks, can do for more of current short-term liquidity. The more of short term liquidity means more of current assets and less of current liabilities. The less current liabilities implies less short term financing leading to the lower returns resulting from the use of more high cost long term financing. So it is very essential to analyze and find out problems and its solution to make efficient use of funds for minimizing the risk of loss to attain profit objective.

Joint Venture banks like Standard Chartered Bank Nepal limited and Himalayan Bank limited are playing an important role in the economic development of the country. Wrong decision on working capital management of these two commercial banks not only affects the

liquidity and profitability of the bank but also economy and banking system of the country.

Working capital management on bank is also difficult as that of manufacturing and non-manufacturing business organization. Commercial banks are great monetary institutions, which are playing important role to the general welfare of the economy. The responsibility of commercial banks are more than any other financial institutions. They must be ready to pay on demand a good share of their liabilities without warning or notice. Bank collects fund from different types of deposit for providing loan and advances to different sector. To get higher return, banks must try to increase funds from deposits as well as their investment. The first motive of banking business is to borrow public saving and lead to needy people. But commercial banks always face the problem for utilization more deposits a investment fully and productively. The gap between collection of deposits and disbursement of loans increase the cash balance on bank, which require paying its large amount of liabilities on its expositors demand without notice. But large amount of ideal cash balance also decreases profitability of banks.

As mentioned above, following are the major problems that have been identified for the purpose of this study.

-) What is the liquidity position of SCBNL and HBL.
-) How to utilize the liquidity in SCBNL and HBL.
-) What componens of working capital that afect the operating income of SCBNL and HBL?

1.3 Objectives of the Study

The main objective of this study is to highlight and examine the management of working capital in Standard Chartered Bank Nepal Limited and Himalayan Bank Limited. The specific objectives of this study are as follows:

-) To analyze working capital management of SCBNL and HBL.
-) To examine and evaluate the position of current assets and current liabilities, and their impact on liquidity position.
-) To analyze composition of working capital, assets utilization and profitability.
-) To provide recommendation and suggestions on the basis of major findings.

1.4 Significance of the Study

Nepalese commercial banks are operating in the competitive environment. In this situation, banks have to adopt suitable strategies for their existence. They should balance and co-ordinate the different functional areas of business concern. The success or failure of any organization depends on its strategy, which is affected by working capital management. Working capital management is the crux of problem to proper strategy on its favors.

The study has multidimensional signification, which can be divided into four broader headings.

1. Its signification to the shareholders: the study might be helpful to aware the shareholders regarding the working capital Management,

i.e., liquidity and profitability of their banks. The compression will help them to identify the productivity of their funds in each two banks.

2. Its signification to the management: the study might be helpful to go deep into the matters as to why the working capital management of their banks is better (or worse) than their competitors.
3. Its significance to the outsiders: among outsiders, mainly the customers, financing agencies, stock exchanges and stock traders are interested in the performance of banks and the customers both depositors and debtor) can identify to which banks they should go. The financial agencies can understand why there is more secured and, stock exchange, stockbroker and stock traders can find out the relative worth of the stocks of each bank.
4. Its significance to the policy makers: policy makers here refer to the government and Nepal Rastra Bank. The study will be helpful to them while formulating the policy regarding commercial banks.

Therefore, considering all these facts, the study of working capital management of SCBNL and HBL is considerably important.

1.5 limitation of the Study

The scope of the study has been limited in terms of period of study as well as sources and nature of data. The period covered by the study extended over 5 years from 2005\06 to 2009\10. At the time of study; the data could be available up to 2009\10 only.

The limitation of this study are as follows.

- 1) This study is confined to only two of the joint venture banks, namely SCBNL and HBL.
- 2) The study is mainly based on secondary data. It is done mostly on the basis of the publishes financial documents, like balance sheet, profit and loss as account and other related journalism, magazines and books etc.
- 3) The study follows with specific tools such as ratio analysis, means, CV and correlation.
- 4) The lack of sufficient time and resources is another limitation of the study. The study is fully based on the student's financial resources and is to be completed within limited time. The report has taken only 5-year data for study from year 2005\06 to 2009\10
- 5) The study is limited from the point of view of submission on partial fulfillment of the requirement for the master degree in business study.

1.6 Organization of the Study

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

Chapter one is the introductory which deals with background of the study, profile of SCBNL and HBL, statement of problems, objective of the study, need of the study an limitations of the study.

The second chapter deals with the review of literatures relating to concept of working capital management, Issue of working capital policy, review of books, review of journals\articles and review of dissertation.

The third chapter is the research methodology, which deals with research design, nature and sources of data, population and sample, period covered, data gathering procedure and tools of data analysis. For the analysis, various financial and statistical tools have been used which are discussed details in this third chapter.

The fourth chapter deals with the presentation and analysis of relevant data and information through a definite course of research design. The chapter also presents the results relating to working capital management.

The latest chapter is concerned with the summary of the study. Various conclusions are drawn from the study and recommendations are provided for improving the future performance.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Introduction:

This chapter deals with the theoretical aspect of the topic on investment policy in more detail and descriptive manner. It provides the foundation for developing comprehensive theoretical framework and knowledge of the status relevant to the field of research in order to explore the relevant and true facts for the reporting purpose. Hence, in this chapter, the focus has been made on the review of literature relevant to the investment policy of commercial banks. For this study, different books, journals, articles, annual reports and some research paper related with this topic has been reviewed. For this purpose, chapter has been mainly sections, viz. theoretical perspective and review of related studies.

2.2 Meaning of working Capital

a bank must always have cash balances in hand in order to pay its depositors up demand or when the amounts credited to them become due. It must also keep a proportion of its assets in forms that can readily be converted into cash. Only in this way can confidence in the banking system be maintained. Working capital is regarded as the life blood and nerve of a business concern and is essential to accommodate the smooth operations of any organizations. To sustain the belief of the people and customer, the organization should always get ready to meet the obligations.

According to I.M. Pandey, there are two concepts of working capital: gross concept and net concept. The gross working capital, simply called as working capital, refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year (or operating cycle) and include cash, short-term securities, debtors, bill receivable and stocks. The term net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders, which are expected to mature for payment within an accounting year and include creditors, bills payable, bank overdraft and outstanding expenses or accrued income. A positive net working capital will arise when current assets exceed current liabilities and a negative net working capital occurs when current liabilities are in excess of current assets. Net working capital concept also covers the question of judicious mix of long-term and short-term funds for financing current assets (Pandey, 1992:P796-797)

Working capital refers to the resources of the firm that are used to conduct day-to-day operation that makes business successful. Without cash, bills cannot be paid without receivable the firm can not allow timing different between delivering goods to services and collecting the money to pay for them, without inventories the firm cannot engage in production nor can it stock goods to provide immediate deliveries. As a result of the critical nature of current assets the management of working capital is one of the most important areas in determining whether a firm will be successful. Need of working capital is directly related to firm's growth. The term working capital refers to the current assets of the firm's those items that can be converted into cash within the year. Net working capital is defined as the difference between current assets and current liabilities (Hampton and Wagner, 1989:P.34). "working capital may be

defined as the funds deployed by the company in the form of cash, stock, sundry debtors and other current assets. The total sum of funds deployed in such assets is termed as gross working capital. Net working capital is defined as the difference between gross working capital and current liabilities. The term working capital generally means net working capital. The liquidity position of a company is dependent of the investment in the working capital. (Mahat, Volume2, Number 2, P.22)

2.3 Issues of working Capital

In the management of working capital, the most posing questions are how much working capital to maintain? What type of financing to use? How to adjust the working capital when there is a change in the level of business activities ? In particular, they face the following issues with respect to the management of working capital, (Pradhan, 1992:P.148).

-) Size of working capital to maintain size of each type of current assets
-) Size of permanent and seasonal working capital investment
-) Source of financing : Short -term or Long -term Financing
-) Cost of financing : Cost of Short -Term VS Long - term Financing
-) Risk associate with types of financing : Trade- off between cost and risk
-) Maintenance of current ratio: Minimizing the risk of cash flow problem

2.4 Review of Books

Some of the books on financial management regarding working capital management are reviewed here under.

The well-known professors *Weston and Brigham* (J.Fre Weston and Eugene F. Prigham:7th edition) have given some theoretical insights into working capital management after their various research studies on it. The bond conceptual finding's of their study provides sound knowledge and guidance for the further study on the field of management of working capital in any enterprise and naturally to this study as well. They explain, in the beginning, The importance of working capital, concept of working capital, financing of working capital, the use of short term VS long term debt, relationship of current assets to fixed assets. In the next chapter they have dealt with the various components of working capitals and their effective management techniques. The component of working capital they have dealt with are- cash, marketable securities, receivable and inventory. For the efficient management of cash, they have explained the different cash management models. They have also explained the major sources and forms of short term financing such as trade credit, loans from commercial banks and commercial paper management. For Financing of working capital has described the Tondon committee recommendation on the fifth chapter.

Dr. Radhey Shyam Pradhan (Dr. Radhey Shyam Pradhan 1986, " Management of working capital" New Delhi) has published a book management of working capital in Nepalese PES. This book is based on the study on none manufacturing public enterprises of Nepal for the duration of ten years from 1973 to 1982A.D. He has aimed to provide useful insight into the existing and forthcoming corporations on working

capital behavior. In This study, he has dealt with various issues viz-type of working capital policy followed by those PEs- liquidity positions, structure of working capital, nature of working capital, utilization and demand for working capital and its various components with changes volume of sales in those PEs. In the study he reveals that most of the selected enterprises achieved a trade off between risk and return there -by following neither an aggressive nor a conservative approach. Almost all the selected PEs had a positive net working capital and much of the growth in net working capital might, however, be attributed to inflation as the forth in net working capital at deflated prices has been much lower. The liquidity measures showed a pooe liquidity postion in majority of MPEs. It has been noticed that the enterprises had either negative cash flows or earning before tax or they had excessive net current debts, which could not be paid within a year. Of the current assets, which is an average, half of the total assets in PEs. The share of inventories is the largest folloed by receivables and cash. There had been an improvement in utilization of current assets in the majority of PEs. He also noticed that the adjustment speed of actual to desire balance had been observed as highest for cash followed by inventories. However the speed of adjustment was much slower in all this cases. The results were, therefore, surprising as the adjustment of even cash holding was not immediate further more, the inclusion of capacity utilization in the models did not seem to have contributed much to the demand functions of working capital and its various components. Thus, capacity utilization as a significant variable affecting these demand functions was doubtful. This book, thus, provides an extensive and comprehensive survey on the overall liquidity position, working capital policy, working capital utilization and demand functions of the current assets.

Suniti Shrestha (Suniti Shrestha 1995 " Portfolio Behavior of Commercial Banks in Nepal") study on portfolio behavior of commercial banks in Nepal and selected two local commercial banks, three joint venture banks and one development banks a sample for the study. Some major finding of her study are here under.

-) Total deposits have been the major sources of fund for all the banks.
-) Capital and reserve funds do not seem to have changed much over the yea.

The user of fund analysis show that the resources of commercial banks are allocated in the liquid funds, investments on securities, loans and advances, bills purchased and discounted.

-) Among the portfolio, for Nepalese banks loan and advances share highest volume of the resources and the bills purchased and discounted the least over the year.
-) The excess reserves of the commercial banks show unused resource. The cash reserve exceeds much more than the required cash reserve.

2.5 Review of Articles

This section deals with the review of journal / articles and research world by different management experts relating to working capital management and bank performance.

Narayan Pd. Paudel's (Narayan Pd. Paudel 2053 B.S. " Financial statement Analysis: An approach) to evaluate Bank's Performance Nepal Rastra Bank Samachar

article described the necessity and importance of financial statement analysis to evaluate bank performance. Analysis of Bank financial statement is different from other companies due to special nature of assets and liabilities structure of banking industry. The bank's balance sheet is composed of financing claims a liability in the form of deposits and as assets in the form of loans but fixed asset account for a small portion of the total assets. He described the major balance sheet characteristics of commercial banks which are as follows:

Characteristics	Significance	Risk	Return
1. Few Fixed Assets	Low degree of operating leverage	Reduce	Reduce
2. Substantial amount of short term liabilities (Deposits)	To be liquid	Increase	Increase
3. Substantial amount of Financial Assets	High degree of operating leverage	Increase	Increase

At last, he added that analysis of financial statements can give a good insight a good insight into financial health and performance of a bank.

Dr. Manohar K. Shrestha (Dr. Manohar K. Shrestha, July 1992-june 1983 "working Capital management in public Enterprises: A study on Financial Results and constraints" ISDOC Vol. 8) in his article has considered ten selected PEs and studied the working capital management in those PEs. He has focused on the liquidity, turnover and profitability position of those enterprises. He found that four PEs had maintained adequate liquidity position two had excessive and remaining four had failed to maintain desirable liquidity position. On the turnover, four had adequate

turnover, one had high turnover and remaining three had not satisfactory turnover on net working capital. He had also found that out of ten PES, six PEs were operating at losses while only four were getting some percentage of profits. With reference to those findings he had brought certain policy issues such as lack of suitable financial planning negligence of working capital management, deviation between liquidity and turnover of assets and inability to show positive relationship between turnover and return on net working capital.

Dr. K. Acharya (Dr. K. Acharya, 1985 " Problems and impediment in the management of working capital in Nepalese enterprises" ISDOC Vol 10) articles has described the two major problems: operational problems and organizational problems regarding the working capital management in Nepalese PEs. The operational problems he found are listed in the current ratio 2:1 and slow turnover of inventory. Similarly, change in working capital in relation to fixed capital had very low impacts over the profitability, thin transmutation of capital employed to sales, absent of apathetic management information system; break even analysis, fund flow analysis and ratio analysis were either undone or ineffective for performance evaluation. Finally monitoring of the proper functioning of working capital management has never been considered a managerial job. In the second part, he has listed the organizational problems in the PES. In most of the PEs, there is lack of regular internal and external audit system as well as evaluation of financial results. Similarly, very few PES have been able to present their capital requirement, functioning of finance department is not satisfactory and some PEs are even facing the under utilization of capacity. To make an efficient use of fund for minimizing the risk of loss and to attain profit objective, he has made some suggestions.

2.6 Review of Previous Thesis

Various research work have done by MBA and MBS students in different aspects of commercial banking, such as financing performance, working capital management etc. studies and reviews on working capital working capitals management of other organizations and their conclusion are relevant to my study. Some reviewed previous dissertations are as follows:

Arjun Lal Joshi has studied on the topic " A study on working capital management of Birat Nagar Jute Mill Ltd." (1986). The main objective of this study is to show the composition o working capital and relationship between working capital and working capital components. To fulfill these objectives he has taken five-year study period and used secondary data. He found out that inventory, cash and bank balance, receivable and components of working capital. The major portion of current assets has been occupied by inventory and cash which have not been efficiently managed. The company has relied heavily on bank support for meeting additional funds without making the west utilization of realization funds. Receivable turnover is in favorable condition. Collection period is also favorable. It means the company can change in cash in very short period.

The major finding of the study were:

-) Inventory held major share of current followed by debtors and very negligible cash balance.
-) The company held poor liquidity position and was financed by short term sources (short term bank credit).
-) The company had not earn sufficient profit even to pay the interest on short term loans.

Pradeep Kumar Pathak has done a researcher o "An Evaluating of working capital management of Nepal Lube Oil Limited." (1994). The main objectives of his study is to appraise the working capital management of NLOL and to study the relationship between variables of working capital. TO achieve these objectives, he has taken five-year study period and applied the secondary data.

He found out the current assets with respects to total assets are in increasing trend year after year during the study period. It has occupied high portion than fixed assets. According to him, the growing tendency of investment over current assets could have adverse effects in NLOL's wealth maximization goal in the long run.

According to the conclusion of this study, the major finding were:

-) The company had lesser participation of fixed assets in total assets.
-) Cash holds of the company was relatively small portion of total assets and inventory held largest portion indicating unsound inventory management.
-) The company was inefficient in collecting receivables.
-) Receivables were not affected y sales.
-) Current assets did not depend upon the volume of the cash and receivables however significance relation between proportion of current assets and total assets, current asset and fixed asset, current assets and current liabilities and quick assets and current liability was.
-) Miss Rojina Shresta has carried out a study, her study " A study on working management with respect to Nation Trading Limited and Salt Trading Corporation Limited(2003)". Her main objective is to

present overall picture of working capital of National Training Limited and Salt training corporation Limited. The major findings of the study are as follows.

-) The current Assets to total Assets of NTL and STCL both are in fluctuating trend.
-) The investment in current assets is high in both of the trading companies with respect to its total assets and net fixed assets
-) Cash and bank balance holds the highest portion followed by inventory in NTL whereas cash and bank balance holds the least portion in STL and inventory holds the highest portion.
-) The liquidity position of the STCL is satisfactory and favorable in comparison to the liquidity position of the NTL.

Similarly, Mr. Dikpal Subedi has carried out a study " Working Capital management of manufacturing Companies Listed in NEPSE (2003)." His main objective is to examine the working capital policy of Nepalese manufacturing companies listed in Nepal stock Exchange Limited. He has identified the following points as major findings:

-) There is wide variation of the current assets within individual manufacturing companies.
-) The ratio of cash to current assets is widely varied among manufacturing companies during the study period from 1997 to 2001.
-) The overall company average of receivable to current assets ratio is 16 percentages.

-) There is wide variation in the ratio of inventory to current assets among the manufacturing companies.
-) There is no consistency in the company average of current assets to total assets in manufacturing companies.
-) The liquidity position of Nepalese manufacturing companies is not similar among different companies.

Mr. Basudev Shrestha has carried out his research on "A study on working capital management of dairy development corporation (2001)". The main objective of the study is to analyze the current assets and current liabilities and their impact and relationship to each other. The major findings of his study are as follow:

-) The major components of current assets in DDC are inventory cash and bank balance, sundry debtors and miscellaneous current assets in which inventory hold the major portion respectively in each year.
-) The company's investment in the form of working capital has been increasing the average investment in current assets is lower with respect to net fixed assets during the study period and DDC has no clear vision about the investment in current assets to fixed assets Portion.
-) The average receivable turnover and ACP is in fluctuating trend during the study period.
-) There is ineffective liquidity position and unsatisfactory profitability ratio in DDC>

-) The overall return position of DDC is negative i.e. not in favorable condition. It is because of inefficient utilization of CA, TA and shareholders' wealth.

Mr. Subash Chandra Shrestha has carried out " A comparative study of working capital management in Bhaktpur Brick Factory and Harishiddh, Factory (1992)". his main objective is to focus on the components of working capital cash, inventory receivable and current liabilities. He had done comparative assumed of WCM of BBF and HBF. He had used financial ratios as a major tool of analysis. In addition of this, he had used mean, index, standard deviation and coefficient of variation. The major findings of his study are as follows:

-) There is no proper relationship between liquidity and profitability of two brick factories.
-) Both Brick factories have followed various working capitals is no good combination between fixed capital and working capital.
-) BBF has been seriously suffered from negative return whereas HBF has been seriously suffered from negative return whereas HBF has generated positive return. However, both factories profitability position is not satisfactory.
-) Overall management and working capital is not strong in both brick factories.

Niraj K.C., has conducted research on "Comparative study of working capital management of Nepal bank limited and Nepal Arab Bank Limited (2000)"

The major objectives of the research are:

-) To review the related literature of recent development in working capital management.
-) To analyses the comparative study of working capital management of NBL and NABIL
-) To study the current asset and current liabilities and their impact and relationship to each other of NBL and NABIL.

Based on his findings, he has recommended that NBL should reduce or replace fixed deposits by collecting higher amount of short term deposits. NBL as well as NABIL should give proper attention on collection of over dated loan and advances and utilization of idle fund as loan and advances, NBL should reduce its cost though reducing high cost deposit and operate in a proper way so that it can have least operating cost which further maximize its profitability and maximize shareholders return. Both banks should adopt the matching working capital management policy instead of adopting conservative working capital policy.

The major findings of the study were:

-) The major components of current assets in NBL and NABIL are cash bank balance, loan advances and government securities.
-) Out of the major three current assets components, cash and bank balance holds the smallest portion in NBL. On the other hand government securities hold the smallest portion in NABIL. The interest income of NBL was better than NABIL.
-) The trend of quick ratio, cash and bank balance to deposit ratio, and cash and bank balance to deposit ratio, and cash and bank balance to current, margin and other deposit ratios of NBL and

NABIL are decreasing. The liquidity position of NBL was always better than NABIL.

-) Fixed deposit to total deposit, ratios of NBL were always higher than same of NABIL for the study period.
-) The turnover positions of NBL are in fluctuating trend but turnover positions of NABIL are decreasing in first three years then increasing in last two years of study period. NABIL has the better utilization of deposits in income generating activity than NBL. Also the NABIL has better investment efficiency on loan and advance.
-) Large portion of long term debt is used in current assets of both banks but relatively it is higher on NBL than NABIL. Both banks follows conservative working capital policy but NBL has more conservative working capital than NABIL. Due to more conservative working capital policy, risk of insolvency is lesser but cost of fund is higher on NBIL NABIL.
-) The profitability position of NABIL is far better although NBL earned higher interest NABIL.

Hari Prasad Lamsal, has conducted research study on "A comparative study of working capital management of NABIL and standard chartered bank Nepal Limited (2004)." The main objectives are:

-) To study the current assets and current liabilities and their impact on liquidity and profitability.
-) To analyze the liquidity, assets utilization, long term solvency and profitability of both banks.

-) To analyze the comparative study of working capital management between NABIL and SCBNL.

Based on his findings, the Standard chartered should seriously adjust its policy of investment on loan and advances with collected funds and increase their proportion of loan and advances with collected funds and increase their proportion of loan and advances in total current assets. Fixed deposits and saving deposits turnover position are also not satisfactory on both banks. Therefore, NABIL as well as SCBNL should give proper attention on collection over dated loan and advances and utilization of idle fund as well as loan and advances. Interest earned to total assets ratio is higher cost on Nabil but net profit ratios are less than SCBNL. It is due to higher cost on NABIL. By adopting the matching working capital management policy instead of adopting conservative working capital policy NABIL as well as SCBNL could improve in its profitability in the short run as well as long run.

The major findings of his study were:

-) The major components of current assets in Nabil and SCBNL are cash and bank balance, loan and advance and government securities.
-) The liquidity position of SCBNL is better than NABIL.
-) The turnover position of NABIL has better than SCBNL. The NABIL has better utilization of deposits in income generating activity than SCBNL.
-) Long term debt to net worth ratio of NABIL is always higher than SCBNL on that study period.

) Net profit to total assets ratio and net profit to total deposit ratios are always higher on SCBNL than NABIL. Cost of Services to total assets ratio of NABIL than NABIL. Cost of Services to total assets ratio of NABIL is always higher than the same of SCBNL On the study period. The average value of interned to total assets ratio of NABIL is higher than SCBNL.

2.7 Research Gap

Many research studies have been conducted by the different student's experts and researchers about working capital management. There have been found numerous research studies on financial companies and public enterprises regarding working capital. Some studies are related to a case study of a single company and some other are comparative in nature. But the comparative study of working capital management between two financial companies can be hardly found. From the review of related studies no one study have been found (Working capital management) as a comparative study in the context of standard chartered Bank Neal Limited (SCBNL) and Himalayan Bank Limited (HBL). The financial and statistical tools used by most of the researchers were ratio analysis, test of hypothesis and regression analysis. This research includes different tools like ratio analysis, correlation analysis and trend analysis as specific tools.

This research study made on "A comparative study of working capital management of standard Chartered Bank Nepal Limited and Himalyan Bank Limited" will be an effort to analyze on detail about working capital management of the two banks as a comparative study in present situation with the help of various related financial as well as statistical tools and techniques. The study can be beneficial to all the concerned parties like investors, Policy makers, and students to curry on further studies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspects and logical aspect. This researcher tries to perform a well-designed quantitative and qualitative research in a very clear and direct way using both financial and statistical tools.

3.2. Research Design

This study aims to portray accurately upon the working capital (or current assets and current liabilities) and its impact on overall financial position of two banks under consideration, namely, SCBNL and HBL Bank. The research methodology followed for this study is basically descriptive cum analytical research design.

3.3 Population and Sample

Nowadays a number of commercial banks have been emerging rapidly. Some have already been established and other in the process of establishment. Currently, there are 31 commercial banks in Nepal. In this study, all the commercial banks are population of the study. Among them SCBNL and HBL have been selected as samples for the present study on the basis of good financial performance.

3.4 Nature and Sources of Data

Since data used in the study are secondary in nature. Published annual reports of the concerned banks are taken as basic source of data. The data relating to financial performance are directly obtained from the concerned banks. Similarly, related books, magazine, journals, articles, reports, bulletins, data, from Nepal Stock Exchange and Nepal Rasta Bank. Central Bureau of statistic, related website from internet etc. as well as other supplementary data and various economic surveys are also used. Previous related studied to the subject are also counted as source of information.

3.5 Data Gathering Procedure

Since the data have been obtained from secondary sources, after collection of financial statement, master sheet of financial data have been extracted and ambulated as per the need of this study. In order to process the data, financial statement and other available information were viewed. These data were grouped in different tables and charts according to their nature. Most of the data have been compiled in one form and processed and interpreted as squired.

3.6 Tools of Data Analysis

Financial as well as the statistical tools are used to make the analysis more convenient, reliable and authentic. For data analysis, different items from the balance sheet and other statements are tabulated. Their ratios, percentages, mean, standard deviations, and coefficients of variations are then calculated variables, correlation coefficients are also calculated. In order to know about the sources and applications of the fund, funds flow statement is prepared. Likewise, trend analysis is also used to know the

trend of various ratios. Following are the brief introductions of the financial and statistical tools used in this study.

3.7 Financial Tools

Financial ratios are calculated to ascertain the financial condition of the firm. It is the relationship between financial variables contained in the financial statements (i.e., balance sheet, profit and loss account and income statements). It helps the related parties to spot out the financial strength and weakness of the firm. There are several financial tools, which can be applied in order to analyze the performance of commercial banks. The financial tools used in this study are as follows: Liquidity Ratio, activity ratio, and Profitability Ratio. Similarly, net working capital and composition of working capital in terms of cash and bank balance percentage, loan and advances percentage government securities percentage and miscellaneous current assets percentage are also calculated.

3.8 Liquidity Ratio

This ratio measures the liquidity position and short-term solvency of the firm indicating the company's ability to meet short-term obligation. The current ratio and quick ratio measure the the liquidity position of the company. (pradhan; 2000:53) These ratios are calculated to judge the long term as well as short-term financial position of concerned firm. Liquidity of any business organization is directly related to working capital or current assets and current liabilities of that origination. One of the main objectives of working capital management is keeping good liquidity position. Commercial banks need liquidity to meet loan demand and deposit withdrawals. Without good liquidity, banl is not able to

operate its function. To measure the bank's solvency position or ability to meet its short term obligation, various liquidity ratios are calculated.

The liquidity ratios calculated in this study are as follows:

A. Current Ratio

Current Ratio reflects the strength of current assets available with the company over its current liabilities into cash in one accounting year. This ratio indicates the current short term solvency position of the bank. The current ratios are the ratios of total current asset to current liabilities. Higher current ratio indicates better liquidity position. In other words, current ratio, the greater the margin of safety, and the larger the amount of current assets in relation to current liabilities, the more the bank's ability to meet its current obligations. By definition,

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

B. Quick Ratio

Quick ratio is used to measure the ability of concerned firms to pay current obligation (short term) without depending on other liquid assets with current ratio. It provides relationship between quick assets with current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset. Other assets that are considered to be relatively liquid and included in quick assets are book debts and marketable securities. This quick ratio can be found out by dividing the total quick assets by total liabilities.

$$\text{Quick Ratio} = \frac{\text{Quick or Liquid Assets}}{\text{Current Liabilities}}$$

C. Cash and Bank Balance to Deposit Ratio (Excluding Fixed Deposit)

This ratio shows the ability of banks immediate funds to cover their (Current, Margin< call and saving) deposits. It can be calculated by dividing cash and bank balance by deposits (excluding fixed deposits). The ratio can be expressed as:

$$\text{Balance Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit (Excluding Fixed Deposit)}}$$

Moreover, Nepal Rastra Bank "Directory" provision of 5% of cash balance with NRB to total deposit is to be maintained.

D. Saving Deposit to Total Deposit Ratio

Saving deposit is an interest bearing short term deposit. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short term in nature. It calculated by dividing the total amount of saving deposit by the amount of total deposit that can be expressed as follows:

$$\text{Saving deposit to Total deposit Ratio} = \frac{\text{Saving Deposits}}{\text{Total Deposits}}$$

II. Activity or Turnover Ratio

The funds of creditors and owners are invested in various assets to generate sales and profit. Activity ratio are used to evaluate the efficiency with the firm manages and utilizes its assets. This ratio indicates how quickly certain assets are converted into cash. From this ratio it can be know whether or not the business activities are efficient. These ratio are also called turnover ratios because they indicate speed with which assets

are converted or turnover into profit generating assets. These ratios, moreover, help in measuring the bank's ability to utilize their available resources. Following ratios are used under the activity ratios.

A. Loans and Advances to Total Deposit Ratio

The ratio assesses to what extent the bankers are able to utilize the depositor's fund to earn profit by providing loans and advances. In other words, how quickly total collected deposits are converted into loans and advantages given to the client to earn income. It is computed by the total amount of loan and advances to total deposit fund. Higher ratio indicates higher\proper utilization of funds and low ratio is the signal of inefficiency or remaining idle.

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

B. Loans and Advances to fixed Deposit Ratio

This ration differs slightly from the former one because it includes the fixed deposits only. The ratio measures how many much amount is used in loans and advances in comparison to fixed deposits. Fixed deposits are interest bearing long term obligations where as loan and advances are the major sources of investment in generating income for commercial banks. It is calculated as follows:

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

C. Loans and Advantages to saving Deposit Ratio

This ratio is also employed for the purpose of measuring utilization of saving deposits in generating revenue by giving loan and advances to the client i.e., to determine to what extent collected saving deposit amount is being deployed in providing loan and advances to generate income. Saving deposits are interest bearing obligation for short term purpose whereas loan and advances are the short-term investment for revenue income. This ratio indicates how much short term interest bearing deposits are utilized for income generating purpose. The formula for this ratio is as follows:

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

Profitability Ratio

The Profitability ratio, as the name suggests, measures the operating profitability in terms of profit margin return on equality and return on total investment. (Pradhan; 2000:53). Shareholders, bankers, government, tax collectors, employees are concerned with the profitability of the company; the shareholder are interested with their rate of return, employs in the future prospect of the company, government in companies tax payment capacity and banks in the prospective of the company. A required level of profit is necessary for survival and growth of a firm in a competitive environment.

Profitability can be measured in terms of a relationship between net profit and assets. This ratio is also know as profit-to-asset ratio. It measures the profitability of investment.

Various ratios can be developed based upon the profit under different circumstances. These different ratios are called profitability ratios, which are required to support the purpose of the study. The profitability ratios calculated in this study are:

A. Interest Earned to Total Assets

This ratio is used to determine total interest earned from investments over the total assets of a firm. It can be computed as follows:

$$\text{Interest Earned to Total Assets} \times \frac{\text{Interest earned}}{\text{Total assets}}$$

B. Net Profit to Total Assets Ratio:

Profit to total asset ratio is useful in measuring the profitability of all financial resources invested compared to total assets of a firm. This ratio is calculated by dividing the amount of net profit by the amount of total assets employed. Hence,

$$\text{Net Profit to Total Assets Ratio} \times \frac{\text{Net Profit}}{\text{Total Assets}}$$

E. Net Profit to total Deposit Ratio

This ratio measures the percentage of profit earned from the utilization of the total deposits. Deposits are mobilized for investment, loan and advances to the public in generating revenue. Higher ratio indicates that the funds are not properly mobilized.

$$\text{Net Profit to Total Deposit Ratio} \times \frac{\text{Net Profit}}{\text{Total Assets}}$$

D. Cost of Services to Total Assets Ratio

A sound management always tries to utilize its larger amount of assets with minimum cost. Cost of services to total assets ratio is useful in measuring the utilization of assets with cost of services. The ratio can be expressed as:

$$\text{Cost of Services to Total Assets Ratio} \times \frac{\text{Cost of Services}}{\text{Total Assets}}$$

IV. Composition of Working Capital

To operate a business, different kinds of assets are needed. For the day-to-day business operation, different types of current assets are utilized. In case of SCBNL and HBI, the main components of current assets are cash and bank balance, loan and advances and government securities. miscellaneous current assets are also a component of current assets. Prepaid expenses, outstanding income like interest receivable and other current assets are included in miscellaneous current assets.

In this study, composition percentages of following componentsw:

-) Cash and bank balance percentage
-) Loan and advances percentage
-) Government securities percentage
-) Miscellaneous current assets percentage

V. Net Working Capital

Net working capital is the difference between current assets and current liabilities. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities. A

negative net working capital occurs when current liabilities are in excess of current assets.

2. Statistical Tools

Various financial tools mentioned above were used to analyze the working capital management of SCBNL and HBL. Likewise, the relationship between different variables related to the study topics were also drawn out using statistical tools.

a. Means or Average

The means or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value. Average value is obtained by adding together all the terms and by dividing this total by the number of items. The formula is given below:

$$\bar{X} = \frac{\sum X}{N}$$

\bar{X} = Arithmetic Average

$\sum X$ = Sum of value of all terms, and,

N = Number of terms

b. Standard Deviation

The deviation is the measure that is most often used to describe variability in data distributions. It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean. Denoted by Greek letter σ (read as sigma), standard deviation is

extremely useful for judging the representatives of the mean. Standard deviation is represented as:

$$\exists = \sqrt{\frac{d^2}{n}}$$

Where,

\exists = Standard deviation

d^2 = Sum of square of the deviation measured from the arithmetic average, and,

n = Number of items

c. Coefficient of Variation

The coefficient of variation is the ratio of standard deviation to the mean for a give sample used to measure spread. It can also be thought of as the measure of relative risk. The larger the coefficient of variation, the greater-the risk relative to the average. Mathematically,

$$CV = \frac{\exists}{X}$$

Where,

CV = Coefficient of variation,

\exists = Standard deviation, and,

X = Arithmetic Average

Coefficient of Correlation

Correlation is a statistical tool, which is used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlations is always between +1 and -1. When r, the coefficient of correlation is +1, there is perfect relationship between two variables and vice-versa. When r is 0, there is no relationship between two variables. The formula for the calculation of coefficient of correlation between X and Y is given below:

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

Almost the test of significance of correlation coefficient has been done in this study. In order to test whether the correlation coefficient is significant to the correlation between the two variables, paired sample t-test has been applied at the standard significance level of 5%. If calculated value of t is greater or equal to its tabulated value, correlation is significant or else it is not significant. The formula for the calculation of t value is ,

$$t = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$$

e. Trend Analysis

Trend analysis is an analysis of financial ratio over time used to determine the improvement or deterioration of its financial situation. The trend line is represented by following equation.

$$Y_c = a + bx, \text{ where}$$

Y_c = Estimated value of Y for given value of x in coordinate axes,

a = Y intercept of mean of Y value,

b = slope of the line or rate of change

x = variable in time axis

to find the values of a and b , we have to solve the following equations:

$$Y = a + bX \quad (i)$$

$$\sum Y = a \sum X + b \sum X^2 \quad (ii)$$

Where, N = Number of years

To make calculation easier, the deviation of the independent variable (i.e. time) are taken from the middle of the time period so that $\sum X = 0$, Then the above two equations change to:

CHAPER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

The basis objectives of this study have been already highlighted n the first chapter. In order to achieve the highlighted objectives, analytical and research methodology have been followed. In this chapter, the researcher analyses Working capital of SCBNL and HBL.

4.2 Composition of Working Capital and its Trend Analysis

The operation of the business requires different kinds of current assets. The current assets as for day-to-day business operation. The main components of current assets at SCBNL and HBL are cash and bank balance, loan and advances and investment government securities. Miscellaneous current assets are also a component of current assets prepaid expenses, outstanding incomes for example, interest receivable, and other current assets are included on miscellaneous current assets.

Table 4.1 and 4.2 shows the amount of cash and bank balance, loan and advances, government securities and miscellaneous current assets of SCBNL and HBL respectively for the study period.

Table 4.1**Current Assets components of SCBNL****(In Rs. Million)**

Fiscal year	Cash and Bank Balance	Loan and Advances	Government Securities	Misc. Current Assets	Total Current Assets
2005\06	3170.21	5695.82	6722.83	5208.74	20797.6
2006\07	4241.75	6410.24	7948.22	4894.41	23494.63
2007\08	3370.81	8143.21	7203.07	3091.74	21808.83
2008\09	3253.51	8935.42	8644.86	4828.90	25662.69
2009\10	3782.177	10502.544	7107.94	7036.411	28429.16
Details on Appendix 1					

Table 4.1 shows that their current assets components of SCBNL are increasing always during the study period. Above table shows the lowest total Current Assets is 20797.6 for the fiscal year 2005\06 and highest total current is 28429.16 for the year 2009\10. In the other year during the study periods in 2006\07, 2007\08, 2006\07 the level of the total current assets are 23494.83, 2188.83 and 25662.69 respectively.

Table 4.2**Current Assets Components of HBNL**

Fiscal year	Cash and bank balance	Loan an as advances	Government securities	Misc. current Assets	Total Current assets
2005\06	2129.31	10001.85	3998.87	751.42	16881.45
2006\07	2370.09	11951.87	3431.73	742.17	18495.86
2007\08	2455.55	12424.52	5469.76	976.46	21326.29
2008\09	2722.63	4642.56	5144.32	643.61	23153.12
2009\10	3467.36	16998.00	6454.88	643.97	27564.21
Details on Appendix 2					

Table 4.2 shows that the current assets components of HBL are also increasing always during the study period. Above table shows the lowest total current assets is 16881.45 for the fiscal year 2005\06 and highest Total current is 27564.21 for the year 2009\10. In the other year during the study periods in 2006\07, 2007\08, 2008\9 the levels of total current assets are 18495.86, 21326.29 and 23153.12 respectively. From the above tables, total amount of current assets components of SCBNL is seen higher than that of HBL. Due to unequal volume of the components, percentage of components of current assets is required from comparative analysis.

The parentage composition of current assets to total current assets i.e. cash and bank balance, loans and advances investment in government securities and miscellaneous current assets are as follows:

Table 4.3

Percentage Components of Current Assets of SCBNL

Fiscal year	Cash and bank balance	Loan and advances	Government securities	Misc. current Assets	Total Current assets
2005\06	15.24	27.39	32.33	25.04	100
2006\07	18.05	27.28	33.84	20.83	100
2007\08	15.54	37.34	33.03	14.18	100
2008\09	12.68	34.82	33.68	18.82	100
2009\10	13.30	36.95	25.00	24.75	100
Average	14.94	32.756	32.576	20.724	
Std. Dev.	2.111	5.041	3.724	4.508	
C.V.	0.141	0.154	0.118	0.218	
Details on Appendix 3,4,5 and 6					

Table 4.3 shows that the cash and bank balance during the study period in 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 are 15.24, 18.05, 15.45, 12.68 and 13.30. Loan and advanced during the study period in 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 are 27.39, 27.28, 37.34, 34.82, 36.95 respectively. Government securities during the study period in 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 are 32.33, 33.84, 33.03, 33.68 and 25.00 respectively. And the misc. currents assets during the study periods in 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 are 25.04, 20.83, 14.18, 18.82 and 24.75 respectively.

Graph No. 4.1

Bar Diagram of Percentage Composition of SCBNL's Current Assets

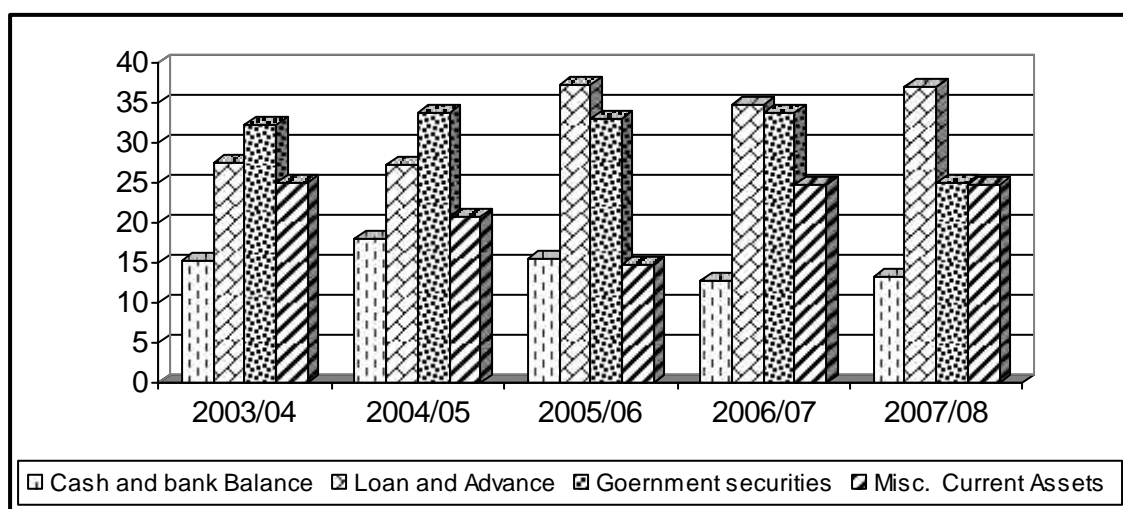


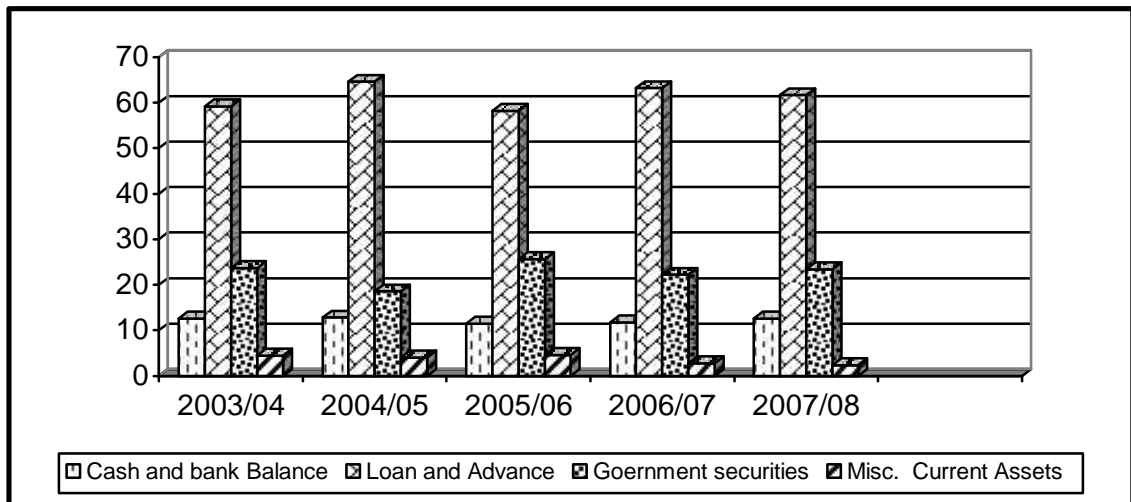
Table 4.4
Percentage Components of Current Assets of HBL

Fiscal year	Cash and bank balance	Loan and advances	Government securities	Misc. current Assets	Total Current assets
2005\06	12.61	59.25	23.69	4.45	100
2006\07	12.81	64.62	18.55	4.02	100
2007\08	11.51	58.26	25.65	4.58	100
2008\09	11.76	63.24	22.22	2.78	100
2009\10	12.58	61.66	23.42	2.34	100
Average	12.25	61.406	22.706	3.634	
Std. Dev.	0.579	2.660	2.620	1.014	
C.V.	0.047	0.043	0.116	0.279	
Details on Appendix 3,4,5 and 6					

Table 4.4 shows that the cash and bank balance during the study periods in 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 are 12.61, 12.81, 11.51, 11.76 and 12.58 respectively. Loan and advances are 59.25, 64.62, 58.26, 63.24 and 61.66 during the study period in 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Government securities during the study period in 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 are 23.69, 18.55, 25.65, 22.22 and 23.42 respectively. And the misc. current assets during the study periods in 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 are 4.45, 4.02, 4.58, 2.78 and 2.34 respectively.

Graph No. 4.2

Bar Diagram of Percentage Composition of HBL's Current Assets



4.2.1 Cash and Bank Balance Percentage

Cash and Bank balance percentage of SCBNL fluctuated over the study period. It is highest (15.45%) in the third year and lowest (12.68%) in the fourth year of the study period. The average cash and bank balance percentage of SCBNL is 14.94%.

Likewise cash and bank balance percentage of HBL also fluctuated over the study period. It is highest (12.81%) in the second year and lowest (11.51%) in the third year of the study period. The average cash and bank balance percentage of HBL is 12.35%.

The study shows that average cash and bank balance percentage of SCBNL (14.94%) is higher than that of HBL (12.25%).

Similarly, standard deviation is 2.111% in SCBNL, whereas it is 0.579% in HBL. Hence it shows SCBNL has higher risk factor than that of HBL. Likewise, coefficient of variation is 0.141 for SCBNL and 0.047 for

HBL, indicating more variation in cash and bank balance maintained in SCBNL compared to HBL.

From the calculation of cash and bank balance percentage trend as per appendix 5, the value of the constants a and b are as follows:

SCBNL	HBL
A= 14.94% or 0.1494	a = 12.25% or 0.1225
B= 1.735	b= 2.405

The rate of change of cash and bank balance percentage b in both the banks are positive.

It implies the increment cash and bank balance percentage to total current assets on both banks. The positive value of 'before' both banks shows the increasing in cash and bank balance percentage positive trend value of cash and bank percentage indicates the better utilization of cash and generating income.

4.2.2 Loan and Advances Percentage

Loan and advances percentage of SCBNL, are found slightly fluctuating in the study period. It is increasing in the third, fourth and fifth year and decreasing in the first and second year of the study period. It is highest in year 2007/08 i.e., 37.34% and lowest in the year 2006/07 i.e. 27.28%. The average loan and advances percentage of SCBNL is 32.756%. The loan and advances percentage of SCBNL are lower than the average in years 2005/06 and 2006/07. But it is higher than the average in years 2007/08, 2008/09 and 2009/10.

In case of HBL, the loan and advances percentage of HBL are always fluctuating in the study period. After first year, it is increasing in the second year and decreasing in the third year and again increasing in fourth year but gain decreasing in fifth year. The highest percentage of loan and advance of HBL is in year 2006/07 i.e. 64.62% and lowest in b year 2005/06 i.e. 58.26%. The average loan and advance percentage HBL is 61.406%. The loan and advance percentage of HBL are lower than the average in years 2005/06 and 2005/06. But it is higher than the average in years 2006/07, 2008/09 and 2009/10.

The standard deviation is 5.041% in SCBNL where as it is 2.660% is HBL. Hence, it shows SCBNL has higher risk factor than that of HBL. Likewise, coefficient of variation is 0.154 in SCBNL and 0.043 in HBL. Hence, more variation in loan and advance is maintained in SCBNL compared to HBL. 5r.

From calculation of loan and advances percentage trend as per appendix-6, the value of the constants a and b re as follows:

SCBNL	HBL
A= 32.76% or 0.3276	a =61.41% or 0.6141
B= 2.666	b= 0.344

The trend rates on the rate of change of loan and advances percentage of both banks are positives. It implies that the loan and advances of both banks are decreasing.

The above analysis helps to conclude that the loan and advance percentage of HBL are better than SCBNL. This loan and advances

percentage of total current assets indicates that the greater portion of current assets of HBL, is employed for the income generating purpose.

4.2.3 Government Securities

The percentage of government securities is increasing of SCBNL in the study period. It is highest (33.84%) in the year 2006/07 and lowest (25.00%) in the last year 2009/10. The average investment in government securities is 31.576%.

Similarly, the percentage of government securities of HBL, is decreasing in the second year and increasing in the third and fifth year and comparatively less increasing in the fifth year. It is higher (25.65%) in the third year 2007/08 and lowest (18.55%) in the second year 2006/07. The average government securities percentage of HBL is 22.705%. The average government securities percentage of SCBNL (31.576%) is higher than that of HBL (22.706%).

The standard deviation is 3.724% in SCBNL whereas it is 2.629% in HBL. Similarly, coefficient of variation is 0.118 in SCBNL and 0.116 in HBL. Hence, more variation in government securities is maintained in SCBNL compared to HBL.

From the calculation of government securities percentage trend as per appendix 7, the value of the constants a and b are as follows;

SCBNL

HBL

A= 31.58% OR 0.3158

A= 22.71% OR 0.2271

B =-1.482

B =0.313

The trend rate or rate of change of government securities percentage of SCBNL is negative and it is positive in HBL.

The above analysis helps to conclude that government securities percentage on total current assets of SCBNL is better than HBL. It shows that SCBNL has prioritized to invest on government securities rather than loan an advances due to unavailability of secured investment sector.

4.2.4 Miscellaneous Current Assets Percentage

The percentage of miscellaneous current assets of SCBNL is fluctuating in every year of study period. It is highest (25.04%) in the first year 2005/06 and lowest (14.18%) in the third year 2007/08. The average miscellaneous current assets percentage of SCBNL is 20.724%.

The percentage of miscellaneous current assets of HBL is fluctuating in the period of study. It is increasing in the fourth and fifth year of the study period. It is highest (4.45%) in the first year 2005/06 and lowest (2.34%) in the last year 2009/10. The average miscellaneous current assets percentage for HBL is 3.624%.

The standard deviation is 4.508% in SCBNL whereas it is 1.014 in HBL coefficient of variation is 0.218 in SCBNL and 0.279 in HBL. Hence, More variation in miscellaneous current assets is maintained in HBL compare to SCBNL.

4.3 Net Working Capital

Net working capital is the difference between current assets current liabilities. Net working capital can be positive or negative. A positive net working capital will rise when current assets exceed current liabilities. A negative net working capital occurs when current liabilities are in excess

of current assets. All the organization should have just adequate working capital to serve in competitive market. Excessive or inadequate working capital is dangerous from the firm's points of view. Excessive investment working capital affects a firm's profitability just as ideal investment yields nothing. In the same way inadequate or negative working capital may be harmful to the organization. So, net working can be more useful for the analysis of trend-off between profitability and risk. It enables a firm to determine how much amount is left for operational requirement

Total 4.5:

Net Working Capital of SCBNL

Rs. In Million

Fiscal year	Current Assets	Current Liabilities	Net Working Capital	% Change in NWC
2005\06	20797.60	17620.76	3176.82	
2006\07	23797.60	20657.71	2836.92	-0.11
2007\8	21808.83	18834.42	2974.41	0.05
2008\09	25662.69	21825.40	3837.29	0.29
2009\10	28429.16	23223.59	5205.57	0.36
Average			3606.202	
Std. Dev.			0.270	
C.V.				
Details on Appendix 1,2 and 6				

Total 4.6
Net Working Capital of HBL

(Rs.in Million)

Fiscal Year	Current Assets	Current Liabilities	Net working capital	% charge in NWC
2005\06	16881.45	18694.56	-1813.11	
2006\07	18495.86	18320.71	175.15	-1.10
2007\08	21326.29	20195.51	1130.78	5.46
2008\09	23153.12	20984.01	2169.11	0.92
2009\10	27564.21	22811.51	4752.70	1.19
Average			1282.926	
C.V.			1.8957	
Details on Appendix 3, 4, 5 and 6				

Table 4.5 shows that the net working capital of SCBNL is increasing always during the study period. The average net working capital of SCBNL is Rs.3606.202 million. The net working capital of SCBNL ranges from Rs.2836.92 million to Rs.5205.57 million.

In case of HBL, table 4.6 shows that the net working capital is decreasing in the first year and continuously increase till last year of the study period. The average net working capital of HBL is Rs.1282.926 million. The net working capital in HBL ranges from Rs. -1813.11 million to Rs. 4752.70 million. SCBNL has negative working capital but HBL has negative working capital in the first year during the study period.

4.4 Ratio Analysis

Ratio analysis is a powerful financial tool to measure the financial performance of banks comparatively. As mentioned in research

methodology, liquidity, turnover and profitability ratios are calculated. As a mathematical tool, the method of least-square is used to analysis performance.

4.4.1 Liquidity Ratios

Liquidity of any business organization is directly related with the working capital or current with the working capital of that organization. In other words, one of the main objectives sounds liquidity position. Bank is different organization which is changed in mobilization of funds. Therefore, without sound liquidity position, bank is not able to operate its function.

To measure the bank's solvency position or ability to meet its short term obligation, various liquidity ratios are calculated and to know the trend of liquidity, trend analysis of major liquidity ratios have been calculation.

4.4.1.1 Current Ratio

This ratio indicates the current short term solvency position of bank. Higher current ratio indicates better liquidity position. In other works, current ratio represents a margin of safety i.e. a "cushion" of protection for creditors and the highest the current ratio. Greater the merging of safety i.e. a "cusion" of protection for creditors and the highest the current ratio greater the margin of safety, large the amount of current assets in relation to current liabilities, more the banks ability to meet its current obligations.

The current ratio can be calculated as shown below:

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

The following table shows the current ratio to compare the working capital management of SCBNL and HBL.

Table 4.7 Current Ratio

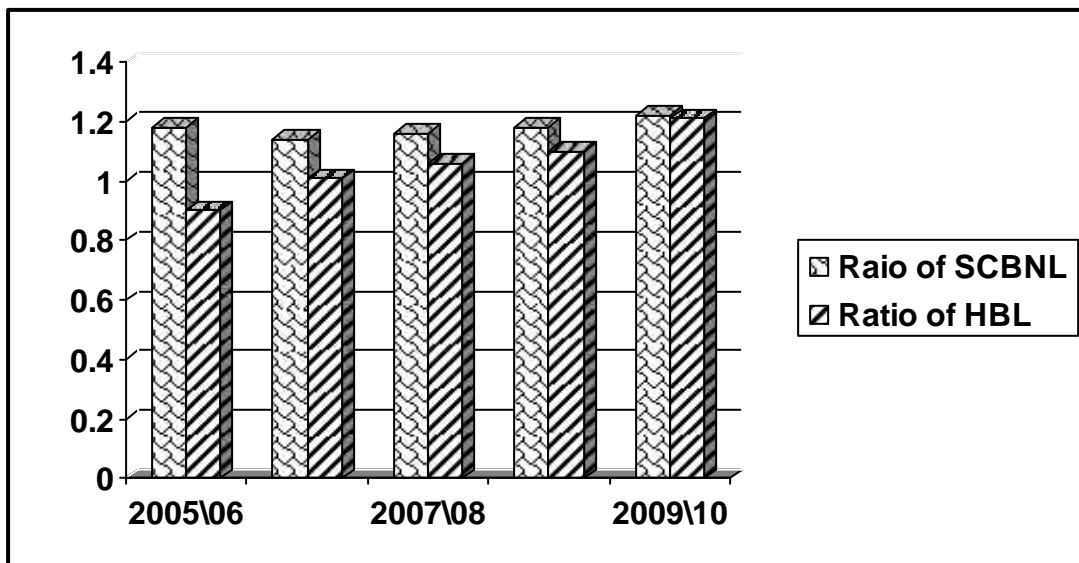
(Rs. In Million)

Fiscal Year	SCBNL			HBL		
	Current Assets	Current Liabilities	Ratio	Current Assets	Current Liabilities	Ratio
2005\06	20797.6	17620.78	1.18	16881.45	18694.56	0.90
2006\07	23494.63	20657.71	1.14	18495.86	18320.71	1.01
2007\08	21808.83	18834.42	1.16	21326.29	20195.51	1.06
2008\09	25662.69	21825.4	1.18	23153.12	20984.01	1.01
2009\10	28429.16	23223.59	1.22	27564.21	22811.51	1.21
Average			1.176	1.056		
Std. Dev.			0.0297	0.0823		
C.V			0.0253	0.0779		
Details on Appendices 1, 2 and 7						

Table 4.7 depicts that current ratio of HBL is quite fluctuating the highest current ratio of SCBNL is 1.22 in year 2009/10 and lowest is 1.14 in year 2006/07. In HBL the highest current ratio is 1.21 in the last year 2009/10 and lowest is 0.90 in the first year 2005/06. The average current ratio of SCBNL is 1.176. In HBL, the average current ratio is 1.056. The yearly ratios of SCBNL are always higher than that of HBL. Therefore, the average ratio of SCBNL is higher than the average ratio of HBL.

The standard deviation is 0.0297 in SCBNL where as it is 0.0823 in HBL. Similarly, coefficients of variation are 0.0253 in SCBNL and 0.0779 in HBL. Hence, it shows there is more variation in current ratio maintained by HBL compared to SCBNL.

Graph 4.3
Current Ratio



Graph 4.6 depict that the current ratio of SCBNL and HBL. It is clear from the above graph that current ratios of SCBNL are always higher than HBL.

The above analysis helps to conclude that both banks have sufficient current assets to discharge the current liabilities. Comparatively the liquidity position of SCBNL is better than that of HBL. In other words, SCB NL has more ability to meters its current obligations than HBL.

4.4.1.2 Quick Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of original value. Cash is a most liquid asset. Other assets which are considered to be relatively liquid and included in quick assets are book debts and marketable securities. For quick ratio, cash and bank balance and government securities are

included in quick assets by total current liabilities. The formula is given below:

$$\text{Quick Ratio} = \frac{\text{Quick or liquid Assets}}{\text{Current Liabilities}}$$

The following table shows the quick ratio of SCBNL and HBL.

Table 4.8
Quick Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Current Assets	Current Liabilities	Ratio	Current Assets	Current Liabilities	Ratio
2005\06	9893.04	17620.78	0.56	6128.18	18694.56	0.33
2006\07	12189.98	20657.71	0.59	5801.82	18320.71	0.32
2007\08	10573.88	18834.42	0.56	7925.31	20195.51	0.39
2008\09	11898.37	21825.40	0.55	7866.95	20984.01	0.37
2009\10	10890.11	23223.59	0.47	9922.24	228.11.51	0.43
Average			0.546			0.368
Std. Dev.			0.045			0.045
C.V			0.083			0.122
Details on Appendices 1,2 and 7						

Table 4.7 shows that the quick ratios of SCBNL are fluctuating over the study period. . The ratio is highest (0.59) in the year 2006/07 and lowest (0.47) in the year 2009/10. The average quick ratio of SCBNL is 0.546/ They yearly quick ratios are lower than the average in the years 2007/08, 2008/09 and 2009/10. However, the ratio is higher than the average in the second year.

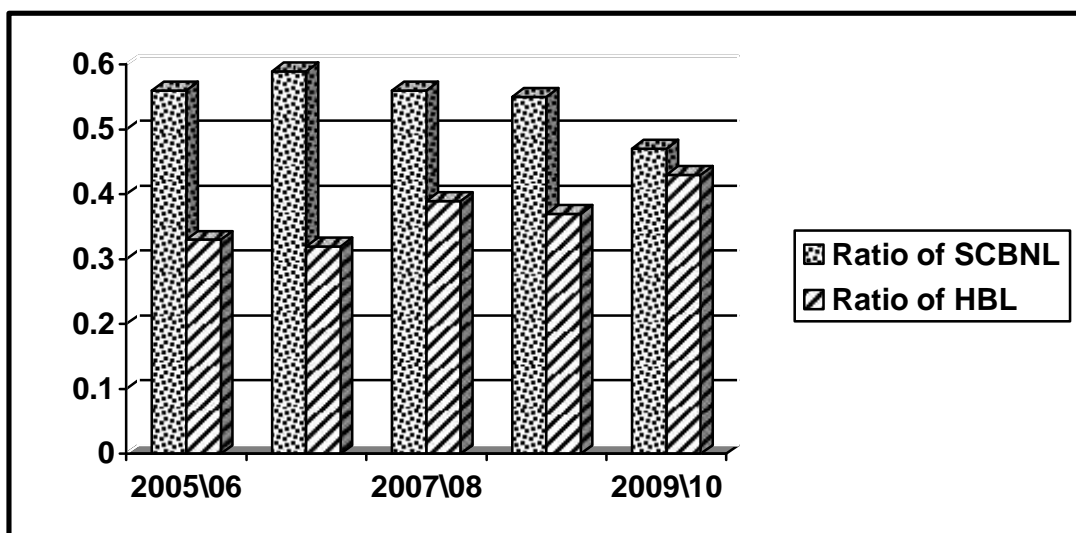
The quick ratios of HBL are also fluctuating over the study period. It is higher (0.43) in the year 2009/10 and lowest (0.32) in the year 2007/08.

The average quick ratio of HBL is 0.368. In the last three years of the study period, the yearly quick ratios are higher than the average ratio however; the ratios are lower than the average ratio in the first two years.

The average quick ratio of SCBNL is higher than that of HBL

The standard deviation is 0.045 in SCBNL whereas it is 0.045 in HBL. Similarly, coefficient of variation of SCBNL is 0.083 and 0.122 in HBL thus coefficient of variation of HBL is higher than that of SCBNL which shows that there is more variation in quick ratio of HBL compared to SCBNL

Graph 4.4
Quick Ratio



Graph 4.7 shows that the quick ratio of SCBNL and HBL. It is clear from the above graph that the quick ratios of SCBNL are always higher than HBL.

The above analysis helps to conclude that the quick ratios of SCBNL are always better than HBL. It shows the better liquidity position of SCBNL in comparison to HBL.

4.4.1.3 Cash and Bank Balance to Deposit Ratio (Excluding Fixed Deposit)

This ratio is calculated as below:

$$\text{Balance to deposit Ratio} = \frac{\text{cash and bank balance}}{\text{Total Deposit (Excluding Fixed Deposit)}}$$

The following table shows the cash and bank balance to deposit ratio (Excluding Fixed deposit) of SCBNL and HBL.

Table 4.9

Cash and bank balance to deposit ratio (Excluding Fixed Deposit)

(Rs. in million)

Fiscal Year	SCBNL			HBL		
	Cash and Bank Balance	Deposit	Ratio	Cash and Bank Balance	Deposit	Ratio
2005\06	3170.21	1680.04	0.19	2129.31	17802	0.12
2006\07	4241.76	1973.96	0.21	2370.09	17300.16	0.14
2007\08	3370.81	17918.72	0.19	2455.55	18706.57	0.13
2008\09	3253.51	20924.72	0.11	2722.63	2014.65	0.14
2009\10	3782.17	21450.53	0.18	3467.36	21847.29	0.16
Average		0.176		1.138		
Std. Dev.		0.0184		0.148		
C.V		0.1045		0.1075		
Details on Appendices 1,2 and 8						

Table 4.9 demonstrates that the ratios of SCBNL are fluctuating over the study period. The highest ratio is (0.21) in the year 2006/07 and lowest (0.11) in the year 2008/09. The average ratio of SCBNL is 0.176. The ratio is higher than the average only in the second year and last of the four years of study period has lower than average value.

In case of HBL, the ratios are fluctuating as well. The highest ratio is (0.16) in the year 2009/10 and lowest (0.12) in the year 2005/06. The average ratio of HBL is 0.138. The ratios are higher than average only in the last year and rest of the four years of the study period has lower than average value.

The average ratio of SCBNL (0.176) is higher than that of HBL (0.138)

The standard deviation is 0.0184 in SCBNL where as it is 0.0148 in HBL. Similarly, coefficient of variation of HBL is higher than that of SCBNL. This explains that SCBNL is more preferable than HBL in terms of cash and bank balance to deposit ratio (except fixed deposit). HBL has high risk or the variability of the ratio is lower is SCBNL than HBL.

From the above analysis, it can be concluded that from the average ratio shows that liquidity position of SCBNL is better than HBL because it has higher average ratio than that of HBL.

4.4.1.4 Saving Deposit to Total Deposit Ratio

This ratio is calculated as below:

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

The following table summarize as the saving deposits to total deposit ratio of SCBNL and HBL.

Table 4.10**Saving Deposit to Total Deposit Ratio**

(Rs. in million)

Fiscal Year	SCBNL			HBL		
	Saving Deposit	Total Deposit	Ratio	Saving Deposit	Total Deposit	Ratio
2005\06	1633.16	18755.64	0.57	10870.54	21007.37	0.52
2006\07	12771.83	21161.46	0.60	11759.6	22010.34	0.53
2007\08	13030.93	19335.1	0.67	12852.41	24814	0.51
2008\09	14597.67	23061.03	0.63	14582.86	26490.85	0.55
2009\10	15244.38	24647.02	0.62	15784.77	30048.42	0.52
Average	0.618			0.526		
Std. Dev.	0.037			0.015		
C.V	0.68			0.03		
Details on Appendices 1,2 and 9						

Table 4.11 shows that the saving deposit to total deposit ratios of SCBNL are fluctuating during the study period. It is higher (0.67) in the year 2007/08 and lowers (0.57) in the year 2005/06. The average ratio of SCBNL is 0.618. They early ratios of the first year lower than the average ratio. However, the yearly ratio of the last year is equal to the average ratio but the yearly ratios of the second third and the fourth year are higher than the average ratio.

In case of HBL, the saving deposits of total deposit ratios are also fluctuating in the study period. It is higher (0.55) in the year 2006/07 and lower (0.51) in the year 0.526. The yearly ratios are lower than the average ratio in the first, third and fifth year of the study period.

However, the yearly ratios are higher than the average ratio in the second and fourth year.

The average ratio of SCBNL (0.618) is higher than that of HBL (0.526)

The standard deviation of SCBNL is 0.037. Similarly, the standard deviation of HBL is 0.15. The coefficient of variation of SCBNL is 0.06. Likewise, the coefficient of variation of HBL is 0.03.

Saving deposits are short term in viability, it is longer in term than the current and other deposits. So the large portion of saving deposits in total deposits shows the liquidity of the bank. Bank also pays interest on saving deposits whereas current margin and other deposits are nominal cost funds from the above table 4.11, savings deposits to total deposits ratio of SCBNL is better than HBL.

4.4.2.2 Loan and Advances to Total Deposit Ratio

This ratio is calculated as below:

$$\text{Loan and advances to total deposit ratio} = \frac{\text{Loan and advances}}{\text{Total Deposits}}$$

The following table shows the effectiveness in utilization of total deposits SCBNL and HBL.

Table 4.11**Loan and advances to total deposits Ratio**

(Rs. in million)

Fiscal Year	SCBNL			HBL		
	Loan and advances	Total Deposit	Ratio	Loan and advances	Total Deposit	Ratio
2005\06	5695.82	18755.64	0.30	10001.85	21007.37	0.48
2006\07	6410.24	21161.46	0.30	11951.87	2210.43	0.54
2007\08	8143.21	19335.1	0.42	12424.52	24814	0.50
2008\09	8935.43	23061.03	0.39	14642.56	26490.85	0.55
2009\10	10502.64	24647.02	0.43	16998.00	30048.42	.57
Average	0.37			0.53		
Std. Dev.	0.064			0.037		
C.V	0.184			0.073		
Details on Appendices 1,2 and 10						

Table 4.12 demonstrates that the loan and advances to total deposit ratios of SCBNL are fluctuating during the study period. It is higher (0.43) in the year 2009\10 and lowest (0.30) in the year 2005\06 and 2008\09. It is decreasing till the fourth year and again increasing in the last year. The average ratio of SCBNL is 0.37 the yearly ratio of the third, fourth and last year are higher than the average ratio. However, the first and second year re lower than the average ratio.

The case of HBL, the loan advances to total deposit ratios are also slightly fluctuation during the study period. It is higher (0.57) in the year 2009\10 and lowest (0.48) in the year 2005\06. The average ratio of HBL is 0.53.

The average ratio of HBL (0.53) is higher than that of SCBNL (0.37).

The standard deviation of SCBNL is 0.064. Where'd as it is 0.037 in HBL. The coefficient of variation SCBNL is 0.184 and it is 0.073 in HBL. Thus, C.V. of HBL is lower than SCBNL. This shows that there is less variation in loan advances to total deposit ratio maintained by HBL compared tom SCBNL. In other worlds HBL has low risk.

The above analysis helps to conclude that\ loan and advances to total deposit ratio or total deposit turnover ratio of SCBNL is better than BNL. It is the indication of better performance of SCBNL is better than HBL. It is the indication of better performance of SCBLN. Thus, SCBNL is utilizing the funds more efficiently for the profit generating purpose on loan an advances than HBL. However, higher C.V. in SCBNL compared to HBL shows high risk in loan an advances to total deposits ratio of SCBNL.

4.4.2.3 Loan and Advance to Fixed Deposit Ratio

This ratio is calculate as below:

$$\text{Loans an Avances to Fixed Deposit Ratio} \times \frac{\text{Loans and Advance}}{\text{Fixed Deposit}}$$

The following table shows the ratio of loan and advances to fixed deposits of SCBNL and HBL.

Table 4.12**Loan an Advances to Fixed deposit Ratio**

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Loan and Advances	Total Deposit	Ratio	Loan and advances	Total Deposit	Ratio
2005\06	5695.82	1948.6	2.92	10001.85	3205.37	3.12
2006\07	6410.24	1428.5	4.49	11951.87	4710.18	2.54
2007\08	8143.21	1416.38	5.75	12424.52	6107.43	2.03
2008\09	8935.43	2136.31	4.18	14642.56	6350.20	2.31
2009\10	10502.64	3196.49	3.29	16998.00	8201.13	2.07
Average	4.126			2.414		
Std. Dev.	1.022			0.445		
C.V	0.501			0.266		
Details on Appendices 1,2 and 11						

Table 4.13 shows that the loan and advance to fixed deposit ratio of SCBNL are fluctuating during the study period. It is increasing in the second year till fourth year and again decreasing in the last year. It is highest (5.75) on the year 2005/06 and lowers (2.92) in the year 2005/046. The average ratio of SCBNL is 4.126. The yearly ratios of SCBNL are lower than the average ratio in the first and last year. However, the year ratio are higher than the average ratio in the second, third and fourth year.

In case of HBL, the yearly ratios are also fluctuating all the times during the study period. It is increasing in the first and second year decreasing after fourth year. It is higher (3.12) in the year 2005/06 and lowest (2.03) in the year 2007/08. The average ratio of HBL is 2.414. The yearly ratio of HBL is 2.414. The yearly ratios of HBL are higher and second year.

however, the yearly ratios of BHL are lower than the average ratio in the third, fourth and last year.

The average ratio of SCBNL (4.126) is higher than that of HBL (2.414).

The standard deviation of SCBNL is 1.022 where as it is 0.445 in HBL.

The coefficient of variation of SCBNL is 0.501 and it is 0.266 in HBL.

The above analysis helps to conclude that loan and advances to fixed deposit ratio of SCBNL is better than HBL. Because of lower amount of fixed deposit, the ratio is higher on SCBNL than HBL. The ratio implies the SCBNL is utilizing its fixed deposit in loan and advances more efficiently. Higher C.V. in SCBNL, compared to HBL, shows that the variability is more in loan and advance to fixed deposit ratio of SCBNL.

4.4.2.4 Loan and Advances to Saving Deposit Ratio

This is calculated as below:

$$\text{Loan and advances to saving Deposit Ratio} \times \frac{\text{Loan and Advances}}{\text{Saving Deposits}}$$

The following table shows the ratio of loan and advances to saving deposit of SCBNL and HBL.

Table 4.13**Loan and Advance to saving Deposit of SCBNL and HBL**

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Loan & advances	Total Deposit	Ratio	Loan & advances	Total Deposit	Ratio
2005\06	5695.82	10633.16	0.54	10001.85	10870.54	0.92
2006\07	6410.24	12771.83	0.50	11951.87	11759.6	1.02
2007\08	8143.21	13030.93	0.62	12424.52	12852.41	0.97
2008\09	8935.42	14597.68	0.61	14642.56	14582.86	1.00
2009\10	10502.64	15244.38	0.69	16998.00	15784.77	1.08
Average	0.592			0.998		
Std. Dev.	0.072			0.059		
C.V	0.134			0.062		
Details on Appendices 1, 2 and 12						

Table 4.14 shows that the loan and advances to saving deposit ratios of SCBNL are fluctuating over the study period. It is increasing after second year. It is highest (0.69) in the year 2009/10 and lowest (0.50) in the year 2006/07. The average ratio of SCBNL is 0.592. The yearly ratios of SCBNL are lower than the average ratio in the first and second year of the study period. However, the yearly ratios of SCBNL are higher than the average ratio in the third, fourth and the last year.

In case of HBL, the loan and advances to saving deposit ratio of HBL are also fluctuating during the study period. It is decreasing in the third year and then increasing till last year. It is highest (1.08) in the year 2009/10 and lowest (0.92) in the year 2005/06. The average ratio of HBL is 0.998.

The yearly ratios of HBL are higher than the average ratio in the second and last year. However, the yearly ratio of the fourth year is equal to the average ratio but the yearly ratios of the first and the third year are lower than the average ratio.

The average ratio of HBL (0.998) is higher than that of SCNLL (0.592).

The standard deviation of SCBNL is 0.074 whereas it is 0.059 in HBL. Similarly, the coefficient of variation of SCBNL is 0.134 and it is 0.062 in HBL.

From the above analysis it can be concluded that the loan and advances to saving deposits ratio of HBL is better than that of SCBNL. It implies that HBL is utilizing short term fund of outsiders more effectively than SCBNL but risk more in SCBNL than HBL.

4.4.3 Profitability Ratio

This ratio can be calculated as below:

$$\text{Interest Earned to Total to Assets Ratio} \times \frac{\text{Enterest Earned}}{\text{Total Assets}}$$

The following table shows the interest earned to total assets ratio of SCBNL and HBL.

Table 4.14**Interest earned to total assets Ratio**

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Interest Earned	Total Assets	Ration	Interest Earned	Total Assets	Ration
2005\06	1001.36	21000.5	0.05	1201.23	23355.23	0.05
2006\07	1042.18	23642.06	0.04	1245.89	24762.04	0.05
2007\08	1058.68	21893.89	0.05	1446.47	24844.69	0.05
2008\09	1189.60	25776.37	0.05	1626.47	29460.39	0.06
2009\10	1411.98	28596.68	0.05	1775.58	33519.15	0.05
Average	0.048			0.052		
Std. Dev.	0.0045			0.0045		
C.V	0.093			0.087		
Details on Appendices 1,2 and 13						

Table 4.15 Shows that interest earned to total assets ratios of SCBNL are slightly fluctuation during the study period. It is decreasing in second year an increasing in the third year then refrain constant till last year. It is highest (0.05) is the years 2005/06, 2006/07. 2007/08 and 2008/09 and 2009/10 lowest (.04) in the year 2006/07. The average ratio of SCBNL is 0.048. The yearly ratios of SCBNL are higher than the average ratio in the first. Third, four and fifth. However, the yearly ratios are lower than the average ratio in the second year of the study period.

In case of the HBL, the interest earned to total assets ratios of HBL are also fluctuating during the study period It is highest (0.06) in the year 2006//07 and lowest (0.05) in the year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10. The average ratio of HBL is 0.052.

The average ratio HBL (0.052) is higher than that of SCBNL (0.048). The standard deviation of SCBNL and HBL is 0.0045. The coefficient of variation of SCBNL is 0.093 and it is 0.087 in HBL. Thus, C.V. of HBL is lower than SCBNL. This shows that there is less variation in interest earned to total assets ratio in interest earned to total assets ratio maintained by HBL compared to SCBNL. In other words, HBL has lower risk in it.

As per appendix 25, the values of constants a and b are as follows:

SCBNL

HBL

a= 0.04% or 0.00048

a=0.052 or 0.00052

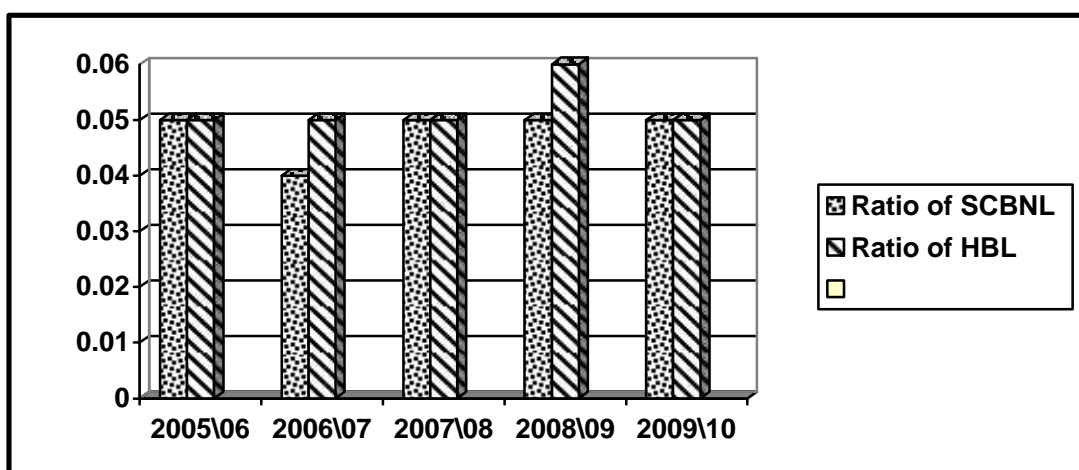
b = 0.001

b. 0.001

The rate of change in interest earned to total assets ratio of both banks are positive which implies the increasing trend of ratio.

Graph 4.5

Interest Earned to Total Assets Ratio



Graph 4.8 depicts that the trend and actual lines of HBL are always higher than SCBNL during the study period. So, the above analysis helps

to conclude that the interest earned to total assets ratio of HBL is better than SCBNL. This ratio of HBL is better than SCBNL. This implies that HBL is efficiently using its total assets (funds) to earn interest income.

4.4.31 Net Profit to Total Assets Ratio

This ratio can be calculated as follow:

$$\text{Net Profit to Total Assets Ratio} \times \frac{\text{Net Profit}}{\text{Total Assets}}$$

The following table shows the net profit to total assets ratio of SCBNL and HBL.

Table 4.15
Net Profit to Total Assets Ratio

(Rs. in million)

Fiscal Year	SCBNL			HBL		
	Interest Earned	Total Assets	Ration	Interest Earned	Total Assets	Ration
2005\06	506.96	21000.5	0.02	212.12	23355.23	0.01
2006\07	257.8	23642.06	0.02	263.05	24762.04	0.01
2007\08	539.21	21893.89	0.02	308.28	27844.68	0.01
2008\09	658.75	25776.37	0.03	457.46	29460.39	0.02
2009\10	691.65	28596.69	0.02	491.82	33519.15	0.01
Average	0.022			0.012		
Std. Dev.	0.004			0.004		
C.V	0.20.4			0.377		
Details on Appendices 1,2 and 14						

Table 4.16 shows that net profit to total assets ratios of SCBNL are not much fluctuating during the study period. It is highest (0.03) in the year

2008/09 and lowest (0.02) in the west of the years during the study period. The average ratio of SCBNL is higher than HBL.

As per appendix 26, the values of constants a and b are as follows:

SCBNL HBL

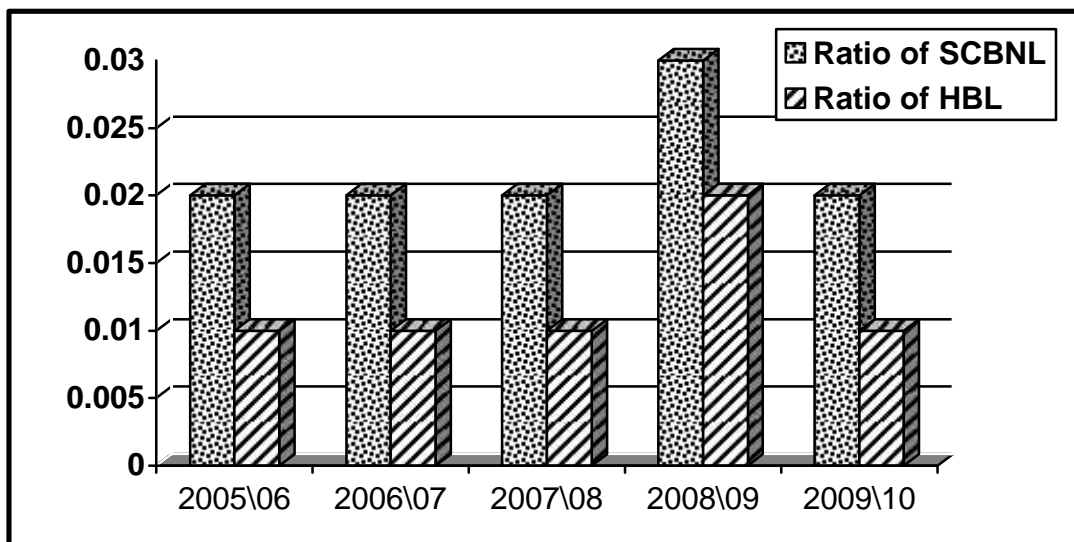
a= 0.022% or 0.00022 a=0.012% or 0.0012

b= 0.001 b. 0.001

The rate of change on net pronto to total assets ratio of both banks are same save which implies constant level of trend ratio neither increasing non decreasing trend.

Graph 4.6

Net profit to Total Assets Ratio



Graph 4.9 depicts that actual and trend lines of SCBNL are always higher the HBL during the study period. The actual and trend lines of HBL are on the same path of the graph.

The analysis above helps to conclude that the overall profitability of SCBNL has been better than HBL. SCBNL is efficient using its working fund of assets to earn higher rate of profit.

4.4.3.2 Net Profit to Total Deposit Ratio

This ratio can be calculated as follow:

$$\text{Net profit to Total deposit Ratio} \times \frac{\text{Net Profit}}{\text{Total Deposits}}$$

The following table shows the net profit to total deposits ratio of SCBNL and HBL.

Table 4.16
Net Profit to Total Deposit Ratio

(Rs. in Million)

Fiscal Year	SCBNL			HBL		
	Net Profit	Total Deposits	Ration	Net Profit	Total Deposits	Ration
2005\06	506.95	18755.64	0.03	212.12	21007.37	0.01
2006\07	537.8	21161.46	0.03	263.05	22010.34	0.01
2007\08	539.21	19335.1	0.03	308.28	24814	0.01
2008\09	658.75	23061.03	0.03	457.46	26490.85	0.02
2009\10	691.65	24647.02	0.03	491.82	30048.42	0.02
Average	0.03			0.014		
Std. Dev.	0			0.005		
C.V	0			.393		
Details on Appendices 1,2 and 15						

Table 4.17 shows that the ratios of SCBNL are always same during the study period. The average ratio of SCBNL is 0.03%.

In HBL, the ratios are a little bit fluctuating during the study period. The highest ratio of HBL is 0.02% in the year 2008/09 and 2009/10 and rest of the year it is same 0.1%. The average ratio of HBL is 0.014%. The average ratio of SCBNL is higher than that of HBL.

The coefficients of Variation are 0 in SCBNL and 0.393 in HBL. Thus, C.V. of HBL is higher than that of SCBNL. This shows that there is more variation in net profit to total deposit ratio maintained by HBL compared to SCBNL. In other words, HBL has high risk in it.

The above analysis helps to conclude that the net profit to total deposit ratio of SCBNL is better than BNL is higher than that of SCBNL. This shows that there is more variation in net profit for a commercial bank. Thus, SCBNL has better performance on mobilization total deposit during that period.

4.4.3.3 Cost of Service to Total Assets Ratio

This ratio can be calculated as follows:

$$\text{Cost of Services to total Assets Ratio} = \frac{\text{Cost of Services}}{\text{Total Assets}}$$

The following table shows the cost of services to total assets ratio of SCBNL and HBL

Table 4.17**Net Profit to Total Deposit Ratio**

Fiscal Year	SCBNL			HBL		
	Cost of services	Total Assets	Ration	Cost of services	Total Assets	Ration
2005\06	383.46	21000.5	0.02	674.28	23355.23	0.03
2006\07	410.5	23642.06	0.02	644.05	247662.04	0.03
2007\08	401.71	21893.89	0.02	740.55	27844.69	0.03
2008\09	471.43	25776.37	0.02	883.41	29460.39	0.03
2009\10	612.85	28596.69	0.02	1039.60	33519.15	0.3
Average	0.02			0.03		
Std. Dev.	0			0		
C.V	0			0		
Details on Appendices 1,2 and 16						

Table 4.18 shows that ratio of SCBNL are constant all the time during the study period. The average ratio of SCBNL is 0.02.

In HBL, ratios are constant all the time during the study period. The average ratio of HBL is 0.03.

The coefficients of variation are 0 in both banks.

4.5 Correction Analysis

Correction is a statistical tool than can be used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationships between to sets of figures.

Among the various methods of finding out coefficient of correlation, Karl person's methods are applied in the study. The result of coefficient of correlation is always between +1 and -1, there is perfect relationship between two variables and vice versa. When r is 0, there is no relationship between two variables.

4.5.1 Coefficient of correlation between loan Advances and total Deposit

The coefficient of correlation between loan and advances and total deposit is to measure the degree of relationship between major components of current assets i.e. loan and advances and major sources of fund on bank i.e. total deposits. In correlation analysis deposit is independent variable (y) and loan and advance is dependent variable (x). The purpose of computing coefficient of correlation is to justify whether the deposit are significantly used in loan and advances eternity and whether there is any relationship between these two variable. To find out the correlation are calculation are done.

The 4.19 shows the coefficient of correlation r, between loan and advances and total deposits i.e. r, Per, 6Per, of SCBNL and HBL during the study period.

Table 4.19

Correlation Analysis between loan and Advances and Total Deposits

Bank	R	PEr	6 PEr
SCBNL	0.828	0.21	1.26
HBL	0.975	0.015	0.09
Details on Appendix 17			

From the above table, we can find that coefficient of correlation between loan and advance and total deposit in SCBNL (r) is 0.828. It shows positive relationship between two variables. By considering the probable error, since the value of r i.e. 0.828 is less than six times of Per i.e. 1.26, we can say that the value of ' r ' is not significant.

In case of HBL, we observe coefficient of correlation between loan and advance and total deposits is .975, which shows the positive relationship between the two variables. By considering the problems error, since the value of r i.e. 0.975 is higher than the six time per i.e. 0.09 it shows that relationship between those two variable is highly significant.

From the above analysis it can be concluded that there is no significant relationship between loan and advances and total deposit is SCBNL but it is highly significant in HBL.

4.5.2 Coefficients of correlation between Investment of Government Securities and Total Deposits

The coefficient of correlation between investment of government security and total deposit it to measure the degree of relationship between two variables. Although bank utilities its deposit on loan and advances, some part of ideal deposit on loan and advances, some part of ideal deposit is independent variable Y and a government security is dependent variable X . The purpose of computing coefficient of correlation in this case is to justify whether or not the excess deposits are significantly used is government securities an whether there is any relationship these two variables.

Table 4.20 shows the coefficient of correlation r , between government securities and total deposits i.e. r per, $6Per$, of SCBNL and HBL during the study period.

Table 4.20

Correlation Analysis between government Securities and Total Deposits

Bank	R	PEr	6 PEr
SCBNL	0.419	0.25	1.49
HBL	0.924	0.04	0.24
Details on Appendix 18			

The above tables indicate that the coefficient of correlation between government securities and total deposits value ' r ' is 0.419 is SCBNL. It shows positive relationship between two variables. By considering the probable error, since the value of r i.e. 0.419 is less than six time PE i.e. 1.49, we can say that value of ' r ' is not significant.

In case of HBL, we observe coefficient of correlation between government securities and total deposits is 0.924, which shows the positive relationship between two variables. By considering the probable error, since the value of r i.e. 0.924 is higher than the six time Per, i.e. .24 it shows that relationship between two variables is highly significant.

From the above analysis, it can be concluded that there is no significant relationship between government security and total deposit in SCBNL but it is highly significant in HBL.

4.5.3 Coefficient of Correlation between Cash and Bank Balance and Current Liabilities

Cash and bank balance are most liquid component of current asset, which is required to meet the unexpected short-term obligation i.e. current liabilities. The coefficient of correlation between Cash and bank balance and current liabilities is to measure the degree of relationship between cash and bank balance and current liabilities. To find out the correlation, various calculations are performed.

Table 4.21 shows the coefficient of correlation r , between cash and bank balance and current Liabilities i.e. r , per, 6per of SCBNL and HBL during the study period.

Table 4.21

Correlation Analysis between Cash and Bank Balance and current Liabilities

Bank	R	PEr	6 PEr
SCBNL	0.435	0.25	1.5
HBL	0.936	0.04	0.24
Details on Appendix 17			

The above table indicates that the coefficient of correlation between cash and bank balance and current liabilities value ' r ' is 0.435 in SCBNL. It shows positive relationship between two variables. By considering the probable error since the value of i.e. 0.435 is less than six time per i.e.1.5 we can say that the value of ' r ' is not significant.

In case of HBL we observe coefficient of correlation between cash and bank balance and current liabilities is 0.936, which shows the positive relationship between n two variables. By considering the probable error,

since the value of r i.e. 0.936 is higher than six Per i.e. 0.24, it shows that relationship between two variable is highly significant from the above analysis, it can be concluded that there is no significant relationship between cash and bank balance and total deposit in SCBNL but it is highly significant in HBL.

4.5.4 Coefficient of correlation between loan advances and Net profit

The basic function of commercial bank is to collect deposit and invest these funds on loan and advance to generate higher profit. Large amount of loan Advances generates higher profit. In correlation analysis loan and advances is independent variable Y and net profit is dependent variable X . The purpose of computing coefficient of correlation is to justify whether or not the loan and advances significantly generate profit and whether there is any relationship between n these two variables.

Table 4.22

Correlation Analysis between loan and Advances and Net Profits

Bank	R	PEr	6 PEr
SCBNL	0.384	0.25	1.5
HBL	0.677	.16	0.98
Details on Appendix 17			

The above table indicates that the coefficient of correlation between loan and advances and net profit and value ' r ' is 0.384 in SCBNL. It shows positive relationship between two variables. By considering the probable error, since the value of r i.e. 0.384 is less than six time Per, i.e. 1.5, we can say that value of ' r ' is not significant.

In case of HBL, we observe coefficient of correlation between loan and advances and net profit is 0.677, which shows the positive relationship between two variables. By considering the probable error, since the value r i.e. 0.677 is less than six times Per i.e. 0.98, it shows that the value of ' r ' is not significant.

From the above analysis we conclude that there is no significant relationship between loan and advance and net profit in SCBNL and HBL.

4.6 Major Finding

The major finding of this study of SCBNL and HBL during the five year period are summarized below:

The net working capital of both SCBNL is positive and HBL is negative in the year 2005\06 of study period which shows sufficient amount of working capital for operational requirement in that year. The average net working capital for operational requirement in that year. The average capital of SCBNL is Rs.2606.20 millions and that of HBL is Rs.1282.93 million to net working capital of SCBNL range from RS. 2836.92 million to RS. 5205.57 million where as in HBL, it range from RS. 1813.11 million to Rs.4752.70million. The CV of SCBNL is 0.27 and that of HBL is 1.9 which shows that this is very high variability of net working capital maintained by SCBNL compared to HBL.

The liquidity positions of bank are analyzed with the current ratio, quick ratio and cash balance to deposit ratio. The current ratios of SCBNL and HBL ranges from 1.14 to 1.22 and 0.9 to 1.21 respectively. Measuring the risk factor it shows that there is more variation in current ratio of SCBNL compared to HBL. The average current ratio of SCBNL and HBL are

1.176 and 1.056 respectively. This shows that the liquidity position or short term solvency of SCBNL is better than HBL in the study period. The trends of liquidity ratio, or current ratio, quick ratio cash and balance to deposit ratio of SCBNL and HBL are increasing. Although higher liquidity means lower risk as well as lower profit in general, it does not necessarily mean lower profit in case of commercial banks.

The major components of current assets in SCBNL and HBL are cash and bank balance, loan and advance and government securities. In the study period, the proportion of cash and bank balance loan and advance and government securities to total current assets on an average are 14.94% 32.76% in SCBNL and 12.25% 61.41 and 22.71 in HBL, respectively. So it is found that the average cash and bank and bank balance and government securities are higher on SCBNL than on HBNL and average loan and advances percentage is higher in HBNL than in SCBNL. The trend values of cash and bank balance is positively in both bank and also the trend value of loan and advance is positive in both banks. But trend value of government securities is negative in SCBNL and positive in HBL.

Saving deposit to total deposit ratios of SCBNL are higher than that of HBL for the study period. The ratios of SCBNL range from 0.57 to 0.67 with an average 0.618. The ratio of HBNL range from 0.51 to 0.55 with an average of 0.526. Therefore it is concluded that SCBNL has more short term and less costly sources of funds than HBL. The risk of SCBNL is higher compared HBL.

The turnover position of SCBNL have fluctuating. The average value of loan and advances to total deposit ratio, loan and advances to fixed

deposit ratio and loan and advances to saving deposit ratio are 0.37, 4.126 and 0.592 on SCBNL and 0.53, 2.414 and 0.998 on HBL, respectively. From the analysis of turnover of these banks. It is found that HBL has slightly better turnover than SCBNL and risk is higher in SCBNL than HBL, therefore, HBL has better utilization of deposits in income generating activity than SCBNL.

It is also shows that HBL has better investment efficiency on loan and advance.

The profitability position of SCBNL and HBL are analyzed from different ways. The average values of interest earned to total assets ratio and net profit total assets ratio of HBL is 0.052% which is higher than SCBNL's 0.048%. This implies that HBL is more efficiently using its total assets to earn interest income.

The trend Value of interest earned to total assets ratio on banks are deceasing. Although the net profit to total assets ratio and net profit to deposit ratios are always higher on SCBNL than on HBL most of the time during the study period. The trend value of net profit to total assets ratio of SCBNL and HBL is at constant level. This shows that SCBNL is more efficiently using its working funds of assets to earn higher rate of profit than during the study period.

While analyzing the correlation, loan and advances and total deposits if both banks SCBNL and HBL are significantly correlated. The value of SCBNL is 0.528 and 0.975 in HBL. The positive value of r shows the positive relationship between loan and advances an total deposits. It shows that both banks utilize its total deposit on loan and advances effectively but relationships as well as utilization of deposits are better in HBL than in SCBNL. Correlation between investment on government

security an total deposits of SCBNL is not significant but in case of HBL, it is highly significant.

Cost of services to total assets ratio of HBL is higher than that of SCBNL. Cost of services to total assets of both banks ranges from 0.02% to 0.02% in SCBNL and 0.03% to 0.03% in HBL. Therefore, it is found that profitability portion to HBL is better than SCNL. It would be better to decrease the cost of services of SCBNL.

Coefficient of correlation between cash and bank balance and current liabilities of SCBNL shows that there is no significant relationship but there is highly significant relationship in HBL. The value of r is 0.435 on SCBNL and 0.936 on HBL. It shows that holding of cash and bank balance of SCBNL and HBL is related with current liabilities. Coefficient of correlation between loan and advances and net profit of SCBNL is 0.384 and in case of BHL it is 0.677. It shows that there is no significant relationship between loan and advances an net profit in SCBNL. It shows that change on loan and advances of SCBNL and HBL do not change the amount of profit significantly. It may de due to the use of higher amount of costly funds and other higher costs.

CHAPTER - FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is the important chapter for the research because this chapter is the extracts of all the previously discussed chapters. This chapter consists of mainly three parts: Summary, conclusion and recommendation. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation part, suggestion and recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as for further research.

5.1 Summary

Establishment of commercial banks especially joint venture banks, has continued in response to the economic liberalization policies of the government. As a result, in Nepal there are 31 commercial banks at present competing with each other in their business. These joint venture banks have concentrated themselves on financing foreign trade. Commerce and industry.

As mentioned earlier, this study concentrates on the comparative analysis of working capital position of SCBNL and HBL. From the perspective of the research, these two banks are chosen for study mainly because of accessibility and availability of financial data for latest five year period. to fulfill the objective, an appropriate research methodology has been developed, which includes ratio analysis as financial tool and trend analysis and correlation coefficient as statistical tools. The major ratio analysis consists of the composition of working capital, liquidity position,

turnover position, capital structure position and profitability position. Under these main ratios and their trend position are studied in the chapter four.

In order to test the relationship between the various components of working capital, Karl Pearson's correlation coefficient r is calculated and analyzed.

The necessary data are derived from the balance sheet and profit and loss account of SCBNL and HBL for the period of five years from fiscal year 2005/06 to 2009/10. In it chapter an attempt has been made to present conclusions and some suggestions and recommendations.

5.2 Conclusion

The average cash and bank balance and government securities percentage are higher on SCBNL than HBL and average loan and advances percentage is higher in HBL than in SCBNL. The net working capital of SCBNL is positive in the first year of the study period. Comparatively, SCBNL has higher net working capital than HBL.

Both the banks are able to maintain adequate liquidity position to meet the short term or even instant obligations in theta period. However, the liquidity position of SCBNL is slightly better than that of HBL. Although higher liquidity means lower risk as well as lower profit, but in commercial bank, higher liquidity is not always the cause of lower profitability.

In case of profitability position, profitability in terms of interest earned to total assets ratio of HBL is slightly higher than that of SCBNL. Therefore, HBL is more efficiently using its total assets (funds) to earn interest income. The net profit to total assets and the net profit to deposits

ratios are higher in SCBN than in HBL. Thus, it is concluded that the average profitability ratio of SCBNL is higher than that of HBL. Both the banks have constant level of growth in profitability during the study period. To acquire higher profits they should take strong steps for the better management strong marketing and strategic development etc.

Therefore, from above all, it can be concluded that both the banks are not of much difference. Comparatively, SCBNL is financially steady and better than HBL. But it does not mean that HBL is not performing well. Both banks are striving for better performance by adopting various new strategies and providing additional services.

Analyzing the turnover position between these two banks, the HBL is utilizing its funds more efficiently for the profit generating purpose on loan and advances than SCBNL. HBL is utilizing saving deposits more for the income generating purpose whereas SCBNL is utilizing more fixed deposits for the income generating purpose.

The correlation coincident of the variables selected for the statistical analysis shows that SCBNL has insignificant relationship with cash and bank balance and current liabilities, loan and advances and net profit loan and advances and total deposit and government securities and total deposits. Similarly, HBL has insignificant relationship with loan and advances and net profit but significant relationship with loan and advances and net profit but significant relationship with cash and bank balance and current liabilities, government securities and total deposits and loan and advances and total deposits

5.3 Recommendations

On the basis of above analysis and conclusion, following recommendations are made.

-) The liquidity position in terms of current ratio of both SCBNL and HBL are below than normal standard. Therefore, both banks should increase the current assets. Shift from invest in govt. Securities to loan and advances. Which will support in increase the profitability.
-) Positive working capital represents the sound financial management of the banks. Similarly, negative working capital represents the poor financial management of the banks. In case of SCBNL. We found always positive working capital during the study period however; it is positive in the first year in HBL and negative in the second year then again positive in the rest of the years. Therefore, to eradicate this situation in HBL, suitable working capital should be formulated and implemented. There should be keeping optimum size of investment in current assets and current liabilities.
-) Although proportion of loan and advances out of the total current assts of SCBNL is more than other current assets. Similarly, the proportion of loan and advances out of the total current assets of HBL is more than 50% of Current assets. Hence, SCBNL should adjust its policy of investment on loan and advances with collected funds and increase the proportion of loan and advances in total currant assets.
-) The turnover of the commercial banks is the primary bank is the primary factor of income generating activity. Saving deposits turnover position are also not satisfactory on both banks. Due to the poor turnover position, the chances of bad debts and non-earning idle funds are high. Therefore, both SCBNL and HBL should give proper

attention on collection of over- dated loan and advances and utilization of idle funds as loan and advances. Proportion of saving to total deposit is more than 49% in both SCBNL and HBL. Comparatively, SCBNL is better than that of HBL.

) Net profit to total assets ratio is higher on SCBNL than HBL but net profit to total deposits ratio is higher on HBL than SCBNL. However, interest earned to total assets ratio and the cost of services are higher on HBL than SCBNL. Therefore, HBL should try to reduce its cost by reducing high cost deposits and operating in proper and efficient way so that it can least operating cost which further maximizes its profitability and shareholder return. Improper working capital leads to decrease the profitability of the company and leads to run the company in the long run. So, SCBNL and HBL are recommended to give emphasis to proper working capital policy to uplift the financial performance of the companies in the competitive age of today.

) By implementing the matching working capital management policy instead of adopting conservative working capital policy, SCBNL, as well as HBL, can improve in its profitability in both short an long runs.

From turnover ratios, investment policy of HBL seems better than that of SCBNL during the study period. It is therefore necessary for SCBNL to utilize its deposits in income generating activities by better investment efficiency on loan and advance.

) The unskilled manpower, over staffing, unsystematic purpose of raw materials, unnecessary expenses, misuse of facilities, heavy expenses on overhead etc. May be the cause for high operating cost. So, both SCBNL and HBL are recommended to pay attention to these aspects.

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APPENDIX- 1

Calculation of Trend Value of Cash and Bank Balance to current Assets

Ratio:

X	x ²	SCBNL			HBL		
		Y ₁	XY ₁	Y _c =a+bx	Y ₂	XY ₂	Y _c =a+bx
-2	4	15.24	-30.48	11.47	12.61	-25.22	7.44
-1	1	18.05	-18.05	16.32	12.18	-12.81	9.85
0	0	15.45	0	14.94	11.51	0	12.25
1	1	12.68	12.68	16.68	11.76	11.76	14.66
2	4	13.30	53.2	18.41	12.58	50.32	17.06
	x ² =10	y ₁ =74.72	xy ₁ =17.35		y ₂ =61.27	xy ₂ =24.05	

For SCBNL,

For HBL

$$a \times \frac{y_1}{N} \times \frac{74.72}{5} \times 14.94$$

$$a \times \frac{y_2}{N} \times \frac{61.27}{5} \times 12.25$$

$$b \times \frac{XY_1}{X^2} \times \frac{17.35}{10} \times 1.735$$

$$b \times \frac{XY_2}{X^2} \times \frac{24.05}{10} \times 2.405$$

APPENDIX- 2

Calculation of Trend Value of Investment of Government Securities to current Assets Ratio:

X	x ²	SCBNL			HBL		
		Y ₁	XY ₁	Y _c =a+bx	Y ₂	XY ₂	Y _c =a+bx
-2	4	32.33	-64.66	34.54	23.69	-47.38	22.08
-1	1	33.84	33.84	33.06	18.55	-18.55	22.40
0	0	33.03	0	31.58	25.65	0	22.71
1	1	33.68	33.68	30.10	22.22	22.22	23.02
2	4	25.00	50	28.62	23.42	46.84	23.34
	x ² =10	y ₁ =157.88	xy ₁ =14.82		y ₂ =113.53	xy ₂ =3.13	

For SCBNL,

For HBL

$$a = \frac{y_1}{N} = \frac{157.88}{5} = 31.58$$

$$a = \frac{y_2}{N} = \frac{113.53}{5} = 22.71$$

$$b = \frac{XY_1}{X^2} = \frac{14.82}{10} = 1.482$$

$$b = \frac{XY_2}{X^2} = \frac{3.13}{10} = 0.313$$

The following formulas are used to calculate mean , standard deviation and coefficient variation

$$\text{Mean } \bar{X} = \frac{\sum X}{N}, \quad \text{Standard Deviation } = \sqrt{\frac{\sum d^2}{n}} \quad \text{coefficient of Variation}$$

$$\text{C.V.} = \frac{u}{\bar{X}},$$

Let X₁ and X₂ denote the ratio of SCBNL and HBL, respectively.

APPENDIX-3

Current Ratio:

Year	X1	X2	$d_1^2 \sum f_{x_1} z_{x_1}^2$	$d_2^2 \sum f_{x_2} z_{x_2}^2$
2005/06	1.18	0.90	0.000016	0.024336
2006/07	1.14	1.01	0.0012296	0.002116
2007/08	1.16	1.06	0.000256	0.000016
2008/09	1.18	1.10	0.000016	0.001936
2009/10	1.22	1.21	0.001936	0.023716
N=5	$\bar{X}_1=5.88$	$\bar{X}_2=5.28$	$d_1^2 \sum 0.00352$	$d_2^2 \sum 0.271144$

For SCBNL,

Average =1.176

Std. Dev.= 0.0297

C.V.=0.0253

For HBL

Average = 1.056

Std. Dev. =0.0823

C.V.= 0.0779

APPENDIX-4

Quick Ratio

Year	X1	X2	$d_1^2 \sum f_{x_1} z_{x_1}^2$	$d_2^2 \sum f_{x_2} z_{x_2}^2$
2005/06	0.56	0.33	0.000196	0.001444
2006/07	0.59	0.32	0.001936	0.0002304
2007/08	0.56	0.39	0.000196	0.000484
2008/09	0.55	0.37	0.000016	0.00004
2009/10	0.47	0.43	0.005776	0.003844
N=5	$\bar{X}_1=5.88$	$\bar{X}_2=5.28$	$d_1^2 \sum 0.00352$	$d_2^2 \sum 0.271144$

For SCBNL,

Average =0.546

Std. Dev.= 0.045

C.V.=0.083

For HBL

Average = 0.368

Std. Dev. =0.045

C.V.= 0.122

APPENDIX-5

Cash and Bank Balance to Deposit Ratio (Excluding Fixed Deposit):

Year	X1	X2	$d_1^2 \sum f_{x_1} Z_{x_1}^2$	$d_2^2 \sum f_{x_2} Z_{x_2}^2$
2005/06	0.19	0.12	0.000196	0.000324
2006/07	0.21	0.14	0.001156	0.000004
2007/08	0.19	0.13	0.000196	0.000064
2008/09	0.11	0.014	0.004356	0.000004
2009/10	0.18	0.16	0.00016	0.000484
N=5	$\bar{X}_1=0.88$	$\bar{X}_2=0.698$	$d_1^2 \sum 0.001352$	$d_2^2 \sum 0.00088$

For SCBNL,

Average =0.176

Std. Dev.= 0.0184

C.V.=0.1045

For HBL

Average = 0.138

Std. Dev. =0.0148

C.V.= 0.1075

APPENDIX-6

Cash and Bank Balance to Deposit Ratio (Excluding Fixed Deposit):

Year	X1	X2	$d_1^2 \sum f_{x_1} z_{x_1}^2$	$d_2^2 \sum f_{x_2} z_{x_2}^2$
2005/06	0.10	0.15	0.000064	0.005476
2006/07	0.07	0.21	0.000484	0.00196
2007/08	0.07	0.25	0.0000484	0.00676
2008/09	0.09	0.24	0.00004	0.000256
2009/10	0.13	0.27	0.001444	0.002116
N=5	$\bar{X}_1=0.46$	$\bar{X}_2=1.12$	$d_1^2 \sum 0.00248$	$d_2^2 \sum 0.00872$

For SCBNL,

Average =0.092

Std. Dev.= 0.025

C.V.=0.27

For HBL

Average = 0.224

Std. Dev. =0.047

C.V.= 0.21

APPENDIX-7

Loan and Advances to total Deposit Ratio

Year	X1	X2	$d_1^2 \sum f_{x_1} z_{x_1}^2$	$d_2^2 \sum f_{x_2} z_{x_2}^2$
2005/06	0.30	0.48	0.0049	0.0025
2006/07	0.30	0.54	0.0049	0.0001
2007/08	0.42	0.50	0.0025	0.0009
2008/09	0.39	0.55	0.0004	0.0004
2009/10	0.43	0.57	0.0036	0.0016
N=5	$\bar{X}_1=1.84$	$\bar{X}_2=2.64$	$d_1^2 \sum 0.0163$	$d_2^2 \sum 0.0055$

For SCBNL,

Average = 0.37

Std. Dev. = 0.064

C.V. = 0.184

For HBL

Average = 0.53

Std. Dev. = 0.37

C.V. = 0.073

APPENDIX-8

Loan and Advances to total Deposit Ratio

Year	X ₁	X ₂	d ₁ ² X f _{x₁} Z _{x₁} ⁻ Å	d ₂ ² X f _{x₂} Z _{x₂} ⁻ Å
2005/06	2.92	3.12	1.4544	0.4984
2006/07	4.49	2.54	0.1324	0.0158
2007/08	5.75	2.03	1.887	0.1474
2008/09	4.19	2.31	0.0029	0.0108
2009/10	3.29	2.07	0.6988	0.1183
N=5	X ₁ =20.63	X ₂ =12.07	d ₁ ² X 4.1752	d ₂ ² X 0.7907

For SCBNL,

Average = 4.126

Std. Dev.= 1.0217

C.V.=0.5006

For HBL

Average = 2.414

Std. Dev. =0.445

C.V.= 0.266

APPENDIX-9

Interest Earned to Total Assets Ratio (%)

Year	X_1	X_2	$d_1^2 \sum f_{x_1} z_{x_1}^2$	$d_2^2 \sum f_{x_2} z_{x_2}^2$
2005/06	0.05	0.05	0.00004	0.000004
2006/07	0.04	0.05	0.00064	0.000004
2007/08	0.05	0.05	0.00004	0.000004
2008/09	0.05	0.06	0.00004	0.000064
2009/10	0.05	0.05	0.00004	0.000004
N=5	$\bar{X}_1=0.24$	$\bar{X}_2=0.26$	$d_1^2 \sum 0.00008$	$d_2^2 \sum 0.00008$

For SCBNL,

Average = 0.048

Std. Dev.= 0.0045

C.V.=0.093

For HBL

Average = 0.052

Std. Dev. =0.0045

C.V.= 0.087

APPENDIX-10

Interest Earned to Total Assets Ratio (%)

Year	X_1	X_2	$d_1^2 \sum f_{x_1} z_{x_1}^2$	$d_2^2 \sum f_{x_2} z_{x_2}^2$
2005/06	0.02	0.01	0.000004	0.000004
2006/07	0.02	0.01	0.000004	0.000004
2007/08	0.02	0.01	0.000004	0.000004
2008/09	0.03	0.02	0.000064	0.000064
2009/10	0.02	0.01	0.000004	0.000004
N=5	$\bar{X}_1=0.11$	$\bar{X}_2=0.06$	$d_1^2 \sum 0.00008$	$d_2^2 \sum 0.00008$

For SCBNL,

Average = 0.022

Std. Dev.= 0.004

C.V.=0.182

For HBL

Average = 0.012

Std. Dev. = 0.004

C.V.= 0.333

APPENDIX-11

Interest Earned to Total Assets Ratio (%)

Year	X_1	X_2	$d_1^2 \sum f_{x_1} z_{x_1}^2$	$d_2^2 \sum f_{x_2} z_{x_2}^2$
2005/06	0.03	0.01	0	0.000016
2006/07	0.03	0.01	0	0.000016
2007/08	0.03	0.01	0	0.000016
2008/09	0.03	0.02	0	0.000036
2009/10	0.03	0.02	0	0.000036
N=5	$\bar{X}_1=0.15$	$\bar{X}_2=0.07$	$d_1^2 \sum X_0$	$d_2^2 \sum X_0.00012$

For SCBNL,

Average = 0.03

Std. Dev.= 0

C.V.= 0

For HBL

Average = 0.014

Std. Dev. = 0.005

C.V.= 0.393

APPENDIX-12

Interest Earned to Total Assets Ratio (%)

Year	X ₁	X ₂	d ₁ ² X f _{x₁} Z _{x₁} ⁻ Å	d ₂ ² X f _{x₂} Z _{x₂} ⁻ Å
2005/06	0.02	0.03	0	0
2006/07	0.02	0.03	0	0
2007/08	0.02	0.03	0	0
2008/09	0.03	0.03	0	0
2009/10	0.02	0.03	0	0
N=5	X ₁ =0.15	X ₂ =0.07	d ₁ ² X0	d ₂ ² X0

For SCBNL,

Average = 0.02

Std. Dev.= 0

C.V.= 0

For HBL

Average = 0.03

Std. Dev. = 0

C.V.= 0

APPENDIX-13

Calculation of Trend value of Interest Earned to Total Assets Ratio

X	x ²	SCBNL			HBL		
		Y ₁	XY ₁	Y _c =a+bx	Y ₂	XY ₂	Y _c =a+bx
-2	4	0.05	-0.1	0.046	0.05	-0.1	0.05
-1	1	0.04	-0.04	0.047	0.05	-0.04	0.15
0	0	0.05	0	0.048	0.05	0	0.25
1	1	0.05	0.05	0.049	0.06	0.06	0.36
2	4	0.05	0.1	0.05	0.05	0.1	0.45
	x ² =10	y ₁ =0.24	xy ₁ =0.01		y ₂ =0.26	xy ₂ =0.01	

For SCBNL,

For HBL

$$a \times \frac{y_1}{N} \times \frac{0.24}{5} \times 0.048$$

$$a \times \frac{y_2}{N} \times \frac{0.26}{5} \times 0.052$$

$$b \times \frac{XY_1}{X^2} \times \frac{0.01}{10} \times 0.001$$

$$b \times \frac{XY_2}{X^2} \times \frac{0.26}{10} \times 0.052$$

APPENDIX-14

Calculation of Trend Value of Net Profit to Total Assets Ratio

X	x ²	SCBNL			HBL		
		Y ₁	XY ₁	Yc=a+bx	Y ₂	XY ₂	Yc=a+bx
-2	4	0.02	-0.04	0.02	0.01	-0.02	0.01
-1	1	0.02	-0.02	0.021	0.01	-0.01	0.011
0	0	0.02	0	0.022	0.01	0	0.012
1	1	0.03	0.03	0.033	0.02	0.02	0.023
2	4	0.02	0.4	0.024	0.01	0.2	0.014
	x ² =10	y ₁ =0.11	xy ₁ =0.01		y ₂ =0.6	xy ₂ =0.01	

For SCBNL,

For HBL

$$a \times \frac{y_1}{N} \times \frac{0.11}{5} \times 0.022$$

$$a \times \frac{y_2}{N} \times \frac{0.06}{5} \times 0.012$$

$$b \times \frac{XY_1}{X^2} \times \frac{0.01}{10} \times 0.001$$

$$b \times \frac{XY_2}{X^2} \times \frac{0.26}{10} \times 0.001$$

APPENDIX-15

Calculation of Correlation Coefficient between Loan and Advances and Total Deposit of SCBNL

LA (X)	TD (Y)	$\sum X$	$\sum X^2$	$\sum Y$	$\sum Y^2$	$\sum XY$
5695.82	18755.64	-2241.65	5024994.72	-2636.41	6950657.69	5909908.48
641024	21161.46	-1527.23	2332431.47	-230.59	53171.75	352163.97
8143.21	19335.1	205.74	42328.95	-2056.95	4231043.30	423196.89
8935.42	23061.03	997.95	995904.20	1668.98	2785494.24	1665558.59
10502.64	24647.02	2565.17	6580097.13	3254.97	10594829.70	8349551.39
$\sum x = 39687.3$ 3	$\sum Y = 106960$.24		$\sum X^2 = 14975756.4$ 7		$\sum Y^2 = 24615196.6$ 8	$\sum XY = 15853$ 985.54

$$\bar{X} = \frac{\sum X}{N} = \frac{39687.33}{5} = 7937.47$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{106960.25}{5} = 21392.05$$

Correlation ,

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{15853985.54}{\sqrt{14975756.47 \times 24615196.68}} = 0.828$$

$$P.E. = 0.6745 \left| \frac{1 - r^2}{\sqrt{n}} \right| = 0.6745 \left| \frac{1 - 0.8228^2}{\sqrt{5}} \right| = 0.6745 \left| \frac{0.6856}{2.2361} \right| = 0.21$$

$$\dots P.E., 6 \left| 0.21 \right| = 1.26$$

**Calculation of Correlation Coefficient between Loan and Advances and
Total Deposit of HBL**

LA (X)	TD (Y)	$X - \bar{X}$	X^2	$Y - \bar{Y}$	Y^2	XY
0001.85	21007.37	-3201.91	10252227.65	-3866.83	14952374.25	12381241.65
1951.87	22010.34	-1251.89	1567228.57	-2863.86	8201694.1	3585237.70
2424.52	24814	-779.24	607214.98	-60.2	3624.04	46910.25
4642.56	26490.85	1438.8	2070145.44	1616.65	2613557.22	2326036.02
6998.00	30048.42	3794.24	14396257.18	5174.22	26772552.61	19632232.49
$\bar{x}=66018.8$	$\bar{Y}=124370$.98		$\sum X^2=28893073.8$ 2		$\sum Y^2=52543802.2$ 2	$\sum XY=37971$ 658.11

$$\bar{X} = \frac{\sum X}{N} = \frac{66018.8}{5} = 13203.76$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{124370.98}{5} = 24874.20$$

Correlation ,

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{37971658.11}{\sqrt{28893073.82 \times 52543802.22}} = 0.9745$$

$$PEr = 0.6745 \left| \frac{1 - Zr^2}{\sqrt{n}} \right| = \frac{1 - Z(0.9745)^2}{\sqrt{5}} = \frac{0.049}{2.2361} = 0.0219$$

$$\dots 6PE,6 \mid 0.015 \times 0.09$$

APPENDIX-16

Calculation of Correlation Coefficient between Government securities and Total Deposit of SCBNL

GS (X)	TD (Y)	$X - \bar{X}$	X^2	$Y - \bar{Y}$	Y^2	XY
6722.83	18755.64	-802.55	644086.50	-2636.41	6950657.69	2115850.85
7948.22	21161.46	422.84	178793.67	-230.59	53171.75	-97502.68
7203.07	19335.1	-322.31	103883.74	-2056.95	4231043.30	662975.55
8644.86	23061.03	1119.48	1253235.47	1668.98	2785494.24	1868389.73
7107.94	24647.02	-417.44	174256.15	3254.97	10594829.7	-1358754.68
$\bar{x}=37626.9$	$\bar{Y}=106906$		$\sum X^2=2354255.53$		$\sum Y^2=24615196.6$	$\sum XY=31909$
2	.25				8	58.77

$$\bar{X} = \frac{\sum X}{N} = \frac{37626.92}{5} = 7525.38$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{106960.25}{5} = 21392.05$$

Correlation ,

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{3190958.75}{\sqrt{2355.53 \times 24615196.68}} = 0.4192$$

$$PEr = 0.6745 \left| \frac{1 - Zr^2}{\sqrt{n}} \right| = 0.6745 \left| \frac{1 - Z(0.4192)^2}{\sqrt{5}} \right| = 0.6745 \left| \frac{0.8244}{2.2361} \right| = 0.25$$

$$\dots PE_{,6} \left| 0.25 \right| = 1.49$$

Calculation of Correlation Coefficient between Government Securities and Total Deposit of HBL

LA (X)	TD (Y)	$X - \bar{X}$	X^2	$Y - \bar{Y}$	Y^2	XY
3998.87	21007.37	-901.04	811873.08	-3866.83	14952374.25	3484168.50
3431.73	22010.34	-1468.18	2155552.51	-2863.86	8201694.1	424661.98
5469.76	24814	569.85	324729.02	-60.20	3624.04	-34304.97
5144.32	26490.85	244.41	59736.25	1616.65	2613557.22	395125.43
6454.88	30047.42	1554.97	2417931.70	5174.22	26772552.61	8045756.87
$\bar{x}=24499.5$ 6	$\bar{Y}=174370$.98		$X^2=5769822.56$		$Y^2=52543802.2$	$XY=16095$ 407.91

$$\bar{X} = \frac{\sum X}{N} = \frac{24499.56}{6} = 4083.26$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{124370.98}{6} = 20728.498$$

Correlation ,

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

$$= \frac{16095407.91}{\sqrt{5769822.56 \times 52543802.22}} = 0.9244$$

$$PEr = 0.6745 \left| \frac{1 - Zr^2}{\sqrt{n}} \right| = 0.6745 \left| \frac{1 - Z(0.9244)^2}{\sqrt{6}} \right| = 0.6745 \left| \frac{0.1462}{2.2361} \right| = 0.04$$

$$\dots 6PEr = 6 \times 0.04 = 0.24$$

APPENDIX-17

Cash and Bank Percentage of Total Current Assets

SCBNL			HBL		
Y ₁	XY ₁	Yc=a+bx	Y ₂	XY ₂	Yc=a+bx
15.24	0.30	0.09	12.61	0.36	0.130
18.05	3011	9.672	12.81	0.56	0.314
15.45	0.51	0.260	11.51	-0.74	0.548
12.68	-2.26	5.107	11.76	-0.49	0.240
13.30	-1.64	2.689	12.58	0.33	0.109
74.42		17.818	61.27		1.341

$$\bar{X} = \frac{\sum X}{N} = \frac{74.72}{5} = 14.94$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{61.27}{5} = 12.25$$

$$S^2 = \frac{\sum X^2 - \frac{(\sum X)^2}{N}}{N-1} = \frac{19.159}{8} = 2.395$$

Test Statistic,

$$t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}}$$

$$= \frac{2.69}{0.979}$$

$$= 2.748$$

$$|t| = 2.74846$$

APPENDIX-18

Cash and Bank Percentage of Total Current Assets

SCBNL			HBL		
Y ₁	XY ₁	Yc=a+bx	Y ₂	XY ₂	Yc=a+bx
27.39	-5.37	28.84	59.25	-2.16	4.66
27.28	-5.48	30.03	64.62	3.21	10.30
37.34	4.58	20.98	58.26	-3.15	6.92
34.82	2.06	4.24	63.24	1.83	3.35
36.95	4.16	17.56	61.66	0.25	.06
163.78		101.65	307.03		28.29

$$\bar{X} = \frac{\sum X}{N} = \frac{163.78}{5} = 32.76$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{307.03}{5} = 61.41$$

$$S^2 = \frac{\sum X^2 - \frac{(\sum X)^2}{N}}{N-1} = \frac{129.94}{4} = 32.485$$

Test Statistic,

$$t = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}}$$

$$= \frac{28.65}{2.55}$$

$$= 11.235$$

$$|t| = 11.235$$

Test of Hypothesis

As stated in chapter three in research methodology, some conceptual framework of null alternative hypothesis between SCBNL and HBL in various variables and formulated and tested as follows:

For the study, following set of null hypothesis have been formulated and tested.

- a. H₀: there is no significant difference in composition of working capital between SCBNL and HBL.
- b. H₀: There is no significant difference in liquidity position between SCBNL and HBL.
- c. H₁: There is a significant difference in liquidity position between SCBNL and HBL.
- d. H₀: There is no significant difference in profitability position between SCBNL and HBL.

H₁: There is a significant difference is profitability position between SCBNL and HBL.

To test the validity of our assumption, if sample size is less than 30, t-test is used. In order to apply t-test in the context of small sample, the t-value is calculated first and compared with the table value of t at a certain level of significance (say on 5%) for given degree of freedom. If calculated value of t exceeds the table value, we infer that the null hypothesis is rejected, that is the difference is significant at 5% level of significance. It

t is less than corresponding table value of t, the null hypothesis is accepted. In other words, the difference is not treated as significant.

4.6.1 Composition of working capital

To judge whether there is significant difference in composition of working capital between SCBNL and HBL, following null hypothesis and alternative hypothesis are formulated and tested.

a. Null hypothesis:

H₀: there is no significant difference in composition of working capital between SCBNL and HBL

b. Alternative Hypothesis

c. H₁: There is significant difference in composition of working capital between SCBNL and HBL.

The following table exhibits the mean value of various percentages measuring the composition of structure of working capital of SCBNL and HBL and student's value.

Table 4.23**Mean t-value of Composition of Working Capital**

S.N	Composition	SCBNL Mean	HBL Mean	Calculated t value	Tabulated t value	Result / Decision
1	Cash and bank balance	14.94	12.25	2.748	2.306	Ho is rejected
2	Loan and advances	32.76	61.41	11.235	2.306	Ho is rejected
3	Govt. Securities	31.58	22.71	4.351	2.306	Ho is rejected
4	Misc. Current assets	20.72	3.63	4.002	2.306	Ho is rejected
Details on appendices 31,32,33 and 34						

From the above table, it is clear that there is significant difference between cash and bank balance, loan and advances, government securities and miscellaneous current assets percentage of SCBNL and HBL because the calculated value of t is more than its tabulated value, and therefore, the null hypothesis is rejected.

4.6.2 Liquidity Position

To judge whether there is significant difference in liquidity position between SCNL and HBL, following null hypothesis and alternative hypothesis are formulated and tested.

a. Null Hypothesis :

H0: There is no significant difference in liquidity position between SCBNL and HBL.

b. Alternative Hypothesis :

H1: There is significant difference in liquidity position between SCBNL and HBL.

The following table exhibits the mean value of various percentages measuring the liquidity position of SCBNL and HBL and students t value.

Table 4.24

Liquidity position of SCBNL and HBL and Student t value

S.N	Composition	SCBNL Mean	HBL Mean	Calculated t value	Tabulated t value	Result / Decision
1	Current Ratio	1.176	1.056	2.264	2.306	Ho is rejected
2	Quick ratio	0.546	0.368	6.357	2.306	Ho is rejected
3	Cash bank balance to deposit ratio (Exc. Fixed deposit)	0.176	0.138	2.061	2.306	Ho is rejected
4	Fixed deposit to total deposit ratio	0.092	0.224	5.578	2.306	Ho is rejected
5	Saving deposit to total deposit ratio	0.618	0.526	5.144	2.606	Ho is rejected
Details on appendices 35,36,37,38 and 39						

From the above table, it is clear that the current ratio and cash and bank balance to deposit ratio of SCBNL and HBL is not significantly different as their calculated t value is less than the tabulated value. There is, however significant difference in quick ratio, fixed deposit to total deposit ratio and saving deposit to total deposit ratio of these two banks.

4.6.3 Profitability Position

To judge whether there is significant difference in profitability position between SCBNL and HBL, following null hypothesis and alternative hypothesis are formulated and tested.

a. Null hypothesis:

Ho: There is no significant difference in profitability position between SCNL and HBL.

b. Alternative Hypothesis:

H1: There is significant difference in profitability position between SCBNL and HBL.

The following table shows the mean value of various percentages measuring the profitability position of SCBNL and HBL and Student t value.

Table 4.25

T-value of Profitability Position

S.N	Composition	SCBNL Mean	HBL Mean	Calculated t value	Tabulated t value	Result / Decision
1	interest Earned to Total Assets	0.048	0.052	1.414	2.306	Ho is accepted
2	Net profit to total Assets	0.022	0.012	3.571	2.306	Ho is rejected
3	Net profit to total Deposits	0.03	0.014	6.40	2.306	Ho is rejected
4	Cost of Services to	0.02	0.03	0.01	2.306	Ho is accepted
Details on appendices 40,41,42 and 43						

From the above table, it is learnt that there is no significant difference between interest earned to total assets and cost of services to total assets of SCBNL and HBL because the calculated value of it is less than its tabulated value but there is significant difference between net profit to total assets and net profit to total deposit percentage of SCBNC and HBL because the calculated value of it is more than its tabulated value, and therefore, the null hypothesis is rejected.