

# **CHAPTER - I**

## **INTRODUCTION**

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

Development and expansion of capital market are essential for the rapid economic growth of the country which helps economic development by mobilizing long-term capital needed for productive sector. Capital market is an indication of national economy, and its smooth operation leads a country to economic growth. So capital market is the back bone of national economy. Financial intermediaries play vital role in such fund movement i.e. from the surplus holders to the needy. In this regard, financial institutions are the formal medium for contributing effective utilization of the available resources in the economy. Likewise, financial market is another prosaic contributor for effective financial/ capital transactions.

Financial Analysis as a part of finance is also one of the major parts in every type of organization, which is very useful to understand the firm's performance. As the financial services industry becomes more complex, the financial information provided to public becomes more difficult to understand. Quality governance is impossible without effective analysis and evaluation of financial information.

This approach is that Traditional financial ratio analysis has focused on the numbers. The value of quantitative relations can be used to diagnose strength and weaknesses in the firm's performance. It provides a framework for financial planning and control. Financial managers need the information provided by analysis both evaluate the firm's past performance and to map future plans. Financial analysis concentrates on financial statement analysis, which highlights the key aspects of firm's operation. After identifying so much scopes and importance of financial analysis, this decided to do research work on it by giving the example of one of the well-known bank, Himalayan Bank Limited Standard Chartered Bank.

Bank is considered as the backbone in the development of the national economy. It is financial institution, which act as a transaction of money by accepting various types of deposit, disbursing loans and rendering other financial services. So, among the various function to provide loan to the investors in the major function. Through the loan, there will be increase in the environment of the investment and the bank has the major role in creating such an environment.

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

## **1.2 A Brief Profile of the Sample Bank**

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

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 2043 B.S. when it was initially registered as a joint-venture operation. Today the Bank is an integral part of Standard Chartered Group having an ownership of 75% with 25% shares owned by the Nepalese public. The Bank enjoys the status of being a subsidiary of Standard Chartered Bank, a leading international bank in the world. Standard Chartered is a leading international banking group. It has operated for over 150 years in some of the world's most dynamic markets and earns more than 90 percent of its profits in Asia, Africa and the Middle East. This geographic focus and commitment to developing deep relationships with clients and customers has driven the Bank's growth in recent years. Standard Chartered PLC is listed on the London and Hong Kong stock exchanges as well as the Mumbai and National Stock Exchanges in India.

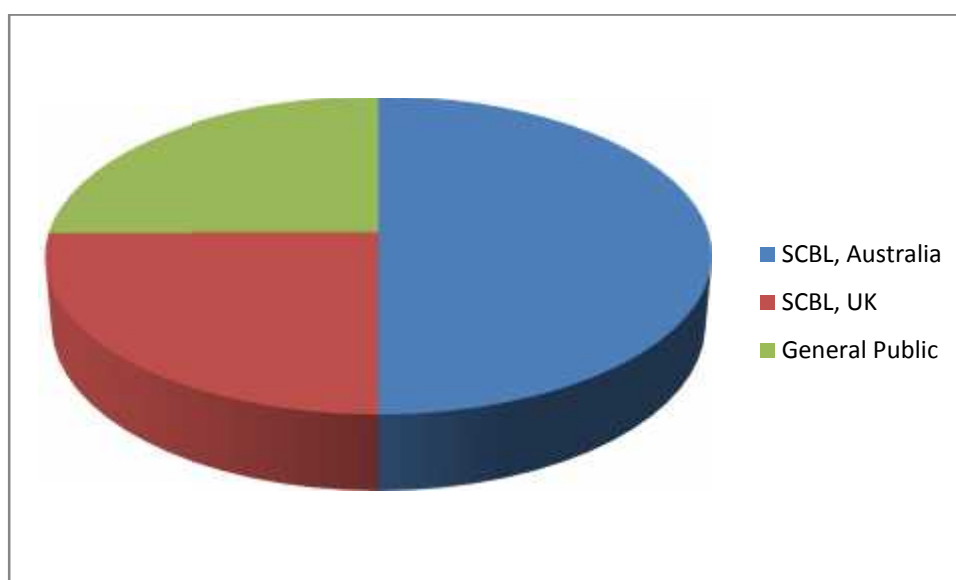
With 1,700 offices in 70 markets, the Group offers exciting and challenging international career opportunities for nearly 87,000 staff. It is committed to building a sustainable business over the long term and is trusted worldwide for upholding high standards of corporate governance, social responsibility, environmental protection and employee diversity. Standard Chartered's heritage and values are expressed in its brand promise, 'Here for good'. With 19 points of representation, 23 ATMs across the country and more than 425 local staff, Standard Chartered Bank Nepal Ltd. has carved a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal. Standard Chartered Bank Nepal Limited offers a full range of banking products and services in Consumer, Wholesale and SME Banking by catering to a wide range of customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, government corporations, hotels as well as the DO segment comprising of embassies, aid agencies, NGOs and INGOs. The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspire to continue to be a leader in introducing new products and in delivering superior services. It is one of the first Banks in Nepal to implement the Anti-Money Laundering policy and to apply the 'Know Your Customer' procedures. Corporate Social Responsibility is an integral part of Standard Chartered's ambition to become the world's best international bank and is the mainstay of the Bank's values. The Bank believes in delivering shareholder value in a socially, ethically and environmentally responsible manner. Standard Chartered throughout its long history has played an active role in supporting those communities in which its customers and staff live. It concentrates on projects that assist children, particularly in the areas of health and education. Environmental projects are also occasionally considered. It supports non-governmental organizations involving charitable community activities. The Group launched two major initiatives in 2003 under its 'Believing in Life' campaign- 'Seeing is Believing' and 'Living with HIV/ AIDS'.

**Table No. 1.1**  
**Share Holder Pattern**

SCBL, Australia	50%
SCBL, UK	25%
General Public	25%

*(Sources: Annual Report of SCBNL)*

**Figure No. 1.1**  
**Shareholders Pattern**



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

- Tele banking
- Credit Card Facilities
- International services
- ATM
- Personal & Corporate Financial Services
- Foreign Currency Transaction
- SWIFT

## **1.2.2 Himalayan Bank Limited**

Himalayan Bank was established in 2049 B.S. in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank easily confirms our claim.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL introduced several new products and services. Millionaire Deposit Scheme, Small and Medium Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- HIMAL Remit™. By deputing our own staff with technical tie-ups with local

exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.

Corporate Social Responsibility (CSR) holds one of the very important aspects of HBL. Being one of the corporate citizens of the country, HBL has always promoted social activities. Many activities that do a common good to the society have been undertaken by HBL in the past and this happens as HBL on an ongoing basis. Significant portion of the sponsorship budget of the Bank is committed towards activities that assist the society as large.

### **Vision**

Himalayan Bank Limited holds of a vision to become a **Leading Bank of the country** by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank.

### **Mission**

The Bank's mission is to become preferred provider of quality financial services in the country. There are two components in the mission of the Bank; **Preferred Provider and Quality Financial Services**; therefore we at HBL believe that the mission will be accomplished only by satisfying these two important components with the Customer at focus. The Bank always strives positioning itself in the hearts and minds of the customers.

### **Objective**

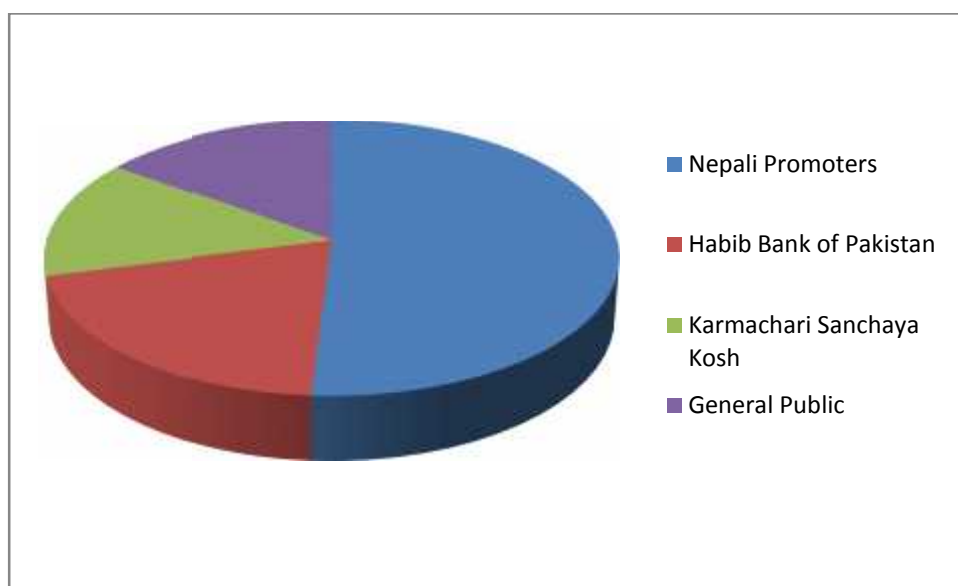
To become the Bank of first choice is the main objective of the Bank.

**Table No. 1.2**  
**Share Holder Pattern**

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

*(Sources: Annual Report of HBL)*

**Figure No. 1.2**  
**Share Holder Pattern**



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

- Tele Banking
- Credit Card Facilities
- Safe Deposit Locker
- International Trade and Bank Guarantee
- Western Union Money Transfer
- SWIFT (Society for Worldwide Interbank financial Tele-communication)
- ATM (Automatic Teller machine)

### **1.3 Statement of the Problems**

Stock return are explained and determined not only by a single factor rather this is the function of different independent variables. Financial position determines the stock returns. But how much is it relevant and applicable in case of under developed capital market like Nepal. Being an imperfect market the floor price of the listed company's shares cannot represent their true value, whether they are undervalued or overvalued.

Performance of a company can be measured using financial ratios. These ratios are used for comparison which is better performer. Ratios can be developed with the help of past balance sheet and profit and loss account. The developments must be in according to the change the market price of the share. A financially sound and better performing firm should have adequate liquidity, and the firm should lead the price and trade volume in stock market. Does this situation prevail the Nepal?

Another thing of consideration in case of Nepal is industry wise, firms differ in performance, there is too much of difference in profit between firms in same industry. The market value per share determines the rate of return to investors representing the profit of the company.

With consideration to above discussion few questions emerge that needs to be researched.

- What is the significance of the calculation of return to the investor?
- Strengths and weakness of the banks in terms of liquidity, profitability, leverage and other ratios.
- Satisfaction of depositors, investors, shareholders with the efficiency of banks
- Variance of the ratios during past years.

### **1.4 Focus of the Study**

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



the efficiency and the performance of the firm's management as reflected in the financial record and report.

The financial analysis tries to analysis profitability, income and expenditure, source and use of funds of these institutions. Financial ratios are evaluated with the help accounting data and financial statements like balance sheets and profit and loss accounts. With the help of these tools we can measure the liquidity, leverage, activity and profitability in rational way.

### **1.5 Objectives of the Study**

Financial performance has become vital and important tools in the field of financial management in all organization. The study is basically confined to provide a detailed analysis such as practical, usable and valuable and the financial performance currently facing the selected listed commercial banks.

The general objective of the study is to generalize the financial performance of the selected commercial banks and return to investor. To achieve this basic objective, the specific objectives are as follows.

- To identify and analyze the common variables to measure the performance of selected banks.
- To assess the financial performance of the banks.
- To analyze the investment returns of banks.
- To analyze the financial strengths and weakness of the sample financial institution.
- To analyze the banks deposit mobilization and investment procedures.
- To make relevant suggestions and recommendation for their effective and efficient future performance.

### **1.6 Significance of the Study**

The people's participation in security investment and stock trading is increasing unexpectedly. The recent trend and people's attitude towards common stock investment shows that there is a high potentiality in stock investment. It is important to increase financial and economic activities of the nation. The analysis of financial performance of

the joint venture commercial banks is significant managerial decision from the viewpoint of investors. It influences the shareholders to gain full information on the performance of the company, make sound judgment and helps in significant forecasts of investment decisions. Consequently, financial analysis enables investors to select the right kind of security for investment depending upon the comparative analysis of which company doing the best. Investors can form a correct opinion on predicting the risk of securities. Financial analysis provides adequate information on the securities and likely the investors can take full advantage by buying them at low price and selling them when the price rises.

Thus, this study has tried to fulfill the aforementioned analytical need before purchasing or selling stock in the secondary share market. The study may also help for interested researchers in the area of investment on common stock.

Apart from above, this study will be a matter of interest for academicians, students and practitioners.

## **1.7 Limitations of the Study**

The study will have some limitations; basically the study is done for the partial fulfillment of Masters of Business Studies. Time constraints, financial problem and lack of research experience will be the primary limitation and other limitations are as follows;

- The study has been designed to concentrate on banking sector, which is part of total capital market, so the conclusion can't be generalized on the total capital market.
- The study period will be covered for only five fiscal year i.e. from 2007/08 to 2011/12.
- Time and financial constraint are also major limitation of the study. The report has to be submitted within certain time period so this hinders the study to cover a large area.
- The researcher being a beginner in this area, this report cannot remain without flaws. But effort will be made to make the report with minimum error.

- Being almost impossible to draw the final product error is also a major limitation of the study.
- Study being based on the secondary data the result of this study resides on the accuracy of the sources.

## **1.8 Organizations of the Study**

The study is classified into five different chapters which are briefly discussed as follows:

### **Chapter I: Introduction:**

The first chapter dealt with introduction of the study. It includes background of the study, statement of the problems, objectives, significance, and limitation of the study and organization of the study.

### **Chapter II: Review of Literature**

The second chapter dealt with the review of literature which included review of related books, journals, articles and previous unpublished master level thesis etc.

### **Chapter III: Research Methodology**

This chapter explained the research methodology used in the study. It included research design, population and sampling, types and sources of data, data collection procedure, method of analysis and analytical tools used.

### **Chapter IV: Data presentation and Analysis**

Data presentation and analysis contained in the fourth chapter dealt with presentation of the data collected through various sources and analysis of data as well as major findings of the study.

### **Chapter V: Summary, Conclusion and Recommendations**

This is the last chapter of the study covered the summary of study and the main conclusion drawn from the study and some recommendation as well as suggestions on the basis of the study.

# **CHAPTER - II**

## **REVIEW OF LITERATURE**

### **2.1 Introduction**

Review of literature refers the survey of materials which means reviewing research studies or other relevant propositions in the related area of the study. To make the research more realistic review of literature is required. It provides significant knowledge in the field of research. Thus the review of various books, research studies and articles have been used to make clear about the concept of financial performance as well as to recall the previous studies made by various researches.

The purpose of literature review is thus is find out what research studies have been conducted in ones field of study, and what remains to be done. Review of literature provides foundation to the study. The literature survey also minimizes the risk of pursuing the dead end in research. To make meaningful research study conceptual review has been done through the study of various books, journals and articles and researches conducted by the previous researches in the field of financial performance i.e. research work, thesis and dissertation etc.

### **2.2 Conceptual theoretical framework**

#### **2.2.1 Meaning of commercial bank**

The commercial banks play an important role in accelerating the development of an economy. The commercial bank is the great institution that conducts the payment mechanism of country. The individuals and institutions make payments to each other through the mechanism of commercial bank. The commercial bank plays a leading role in the smooth operation of an economy it makes available all financial services to individuals and institutions.

Commercial banks are those which collect the immobilized capital from public, organizations etc as deposits and invest these capitals in different sectors like business, industries, and services etc, which fulfill the demands of capital in these sectors. The

development of an economy in fact depends upon the development of commercial banks to some extent. the role commercial bank is significant not only in mobilizing saving but also in making investment for the development of different sectors of the economy. Their role is also important for the poverty reduction, raising employment opportunities between the richer and poorer section of the society. These are also called financial intermediaries. Therefore it is called an engine economic growth. Development of the commercial banks has become the basis for measuring the level of economic growth of a nation.

### **2.2.2 Function of Commercial Banks**

Major functions of commercial banks are:

- ) To accept deposit from the Nepalese people government as well as from the foreigners with or without the interest form.
- ) To provide advance loans on sufficient securities of gold, silver, ornaments, government securities and promissory notes, movable properties or documents of little connected there with, share and debentures of the companies registered in the Nepalese companies act, bill of exchange to the reliable person or clients. Besides, they are bound to provide advance loans in certain minimum percentage of their total deposit in the priority sector of which are fixed on the direction of Nepal Rastra bank.
- ) On joint security of two or more reliable persons accepted by board, they act to provide loan to reliable persons. These are repayable on demand and for periods not exceeding six months.
- ) For the purpose of import and export business or other commercial purpose they issue letter of credit to the entrepreneurs.
- ) They act as agents of commission on behalf of clients in selling, purchasing, transferring and receiving in safe custody shares and debentures of companies with limited liabilities and also in sending remittance to any part of country and other countries. Thus they transfer money from one place to another through cheques, T.T., draft, fax etc and charge certain commission instead of this act.
- ) Although the transactions of foreign exchange are handled by the central bank, in general yet in certain circumstances, the commercial banks act to transact foreign

exchange. But all the statement relating to foreign exchange transaction that have done by the commercial banks should point out to the central banks

- ) In the places, where central banks services are absent, the commercial banks act as a government's bank.

### **2.2.3 Objectives of commercial bank**

- ) Collection of immobilized money from public, organization etc and investment in government securities and company equities, lending to commercial as well as productive sectors, foreign exchange, remittance, merchant banking, correspondent banking etc.
- ) To provide banking services to the people and business in the country and to provide micro credit to the priority sector of government sector.

### **2.2.4 Evolution of Bank**

The evolution of bank is not a non-phenomenon. There was crude form of banking even in an ancient Vedic era. The terms banking such as deposits, pledge, policy of loan, interest rates etc can be found in the "Mansumiriti".

The Roman Empire collapses in the last of 15<sup>th</sup> century and consequently, commercial banking transactions were because of revival of commercial and other trading activities in European countries. According to the opinion of great economist Geoffrey Crowther, following community groups are the ancestors of modern banking:

- 1 The Merchant Trader
- 2 The Goldsmith
- 3 The Money Lenders

History tells us that it was the merchant banker who first evolved the system of banking by trading in commodities then money. Their trading activities required the remittance of money from one place to another for which they issued different documents as the near substitutes of money, called draft or hund is in modern days.

The next stage in the growth of banking was the goldsmiths; the business of goldsmiths was such that they had to take deposits such as bullion, money and ornaments for the security from theft. This makes possible to the goldsmiths to charge something for taking care of the money, bullion and jeweler. On the other hand, as the evidence of receiving valuables, they used to issue a receipt to the depositors. As those receipts are good for payment equipment to the amount mentioned, it become like the modern cheques, as a medium of exchange and a means of payments.

Finally, money lenders in the early age had contributed in the growth of banking to a larger extends. They used to advance the coins on loan by charging interest. As a safe guard they used to keep some money in the reserve. Therefore goldsmiths and money lenders became bankers who started performing the two functions of bank i.e. accepting deposit and providing loans and advances. "The bank of Venice" of Italy was established in 1157 A.D. as the first banking institution in the world. The second banking institution namely "The bank of Barcelona" of Spain was established in 1401 A.D. Its function is to exchange money, receive deposits and discount bill of exchange, both for their own citizens and for the foreigner. During 1407 A.D. "The Bank of Genon" was established in 1609 A.D. "The Bank of England" was incorporated in 1694 A.D. as a joint stock bank and later on the 1844 A.D. it becomes a first central bank in the world.

### **2.2.5 Banking industry in Nepal**

The specific date of beginning of money and banking transaction in Nepal is unknown. The banking functions were carried out in unorganized sectors. It is found that minted coins, copper coins, silver coins, and gold coins were introduced by different kings.

Institutional development of modern banking in Nepal had begun from early 1990s. With the establishment of Nepal Bank Limited in 1994 B.S, the new era of banking sector had started in Nepal. As a central bank, Nepal Rastra Bank was established in 2013 B.S. under the provision of Nepal Rastra Bank Act 2012, with the objectives of helping in the development of monetary and financial sector by undertaking various functions.

Another step was added when Rastriya Banijya Bank was established in 2022 B.S. under the Banijya Bank Act 2021 B.S. Likewise, Agriculture Development Bank was established in 2024 B.S. with the objective of increasing the life standard of those people who are involved in agriculture.

The banks opened before the decade of 1980s were by the government. No private sector was permitted to open banks in Nepal. The process of development adopted liberalized economic policies to develop the financial sector. As a pre-condition to economic liberalization, the Foreign Investment and Technology Transfer Act, 2038 came into existence. The government allowed private sectors to open banks. Joint venture projects were also allowed. Many joint venture commercial banks and financial institutions were established. As a result, Nepal Arab Bank Limited was established as a first joint venture commercial bank in 2041 B.S under the provision of Commercial Bank Act, 2031 and Company Act 2022. Then, Nepal Indosuez Bank Limited was established in 2042 B.S. and Nepal Grindlays Bank Limited in 2043 B.S. In 2058 B.S., the name of Nepal Grindlays Bank Limited has been changed into Standard Chartered Bank Nepal Limited and Nepal Indosuez Bank Limited has been changed into Nepal Investment Bank in 2059 B.S., which has not foreign share now. After the restoration of multiparty democracy, the newly formed government adopted liberalized policies aimed at accelerating economic growth and considerably reducing state interference in business. The governments encouraged foreign and private investment by offering attractive incentives and facilities including 100% foreign ownership in all but few sectors. This help to create conducive business environment for banking. As a result, additional commercial banks came into existence. When the internal violence shows green signal to manage and Nepal Rastra Bank make ease for rules and regulations, many new commercial banks are coming existence and existing development banks and financial institutions are upgrading them as commercial banks. . At present there are 31 commercial banks registered and operated in Nepal.



**Table No. 2.1**  
**List of Commercial Banks in Nepal**

<b>SN.</b>	<b>Name Of Bank</b>	<b>Established Date(in B.S.)</b>	<b>Head Office</b>
<b>1</b>	Nepal Bank Limited	1994/07/30	Dharmapath, Kathmandu
<b>2</b>	Rastriya Banijya Bank limited	2022/1010	Singhdarbarplaza, Kathmandu
<b>3</b>	Nabil Bank Limited	2041/03/29	Kantipath, Kathmandu
<b>4</b>	Nepal Investment Bank Limited	2042/11/26	DurbarMarg, Kathmandu
<b>5</b>	Standard Chartered Bank Nepal Limited	2043/10/16	NayaBaneshwar, Kathmandu
<b>6</b>	Himalayan Bank Limited	2049/10/05	Thamel, Kathmandu
<b>7</b>	Nepal SBI Bank Limited	2050/03/23	Hattisar, Kathmandu
<b>8</b>	Nepal Bangladesh Bank Limited	2051/02/23	NayaBaneshwar, Kathmandu
<b>9</b>	Everest Bank Limited	2051/07/01	Lazimpat, Kathmandu
<b>10</b>	Bank of Kathmandu Limited	2051/11/28	Kamaladi, Kathmandu
<b>11</b>	Nepal Credit and Commerce Bank Limited	2053/06/28	Siddharthanagar, Rupandehi

<b>12</b>	Nic Asia Bank limited	2064/06/25	Tripureshowr, Kathmandu
<b>13</b>	Lumbini Bank Limited	2055/04/01	Narayangadh, Chitawan
<b>14</b>	Machhapuchhre Bank Limited	2057/06/17	Prithvichowk, Pokhara
<b>15</b>	Kumari Bank Limited	2057/12/21	Durbarmarg, Kathmandu
<b>16</b>	Laxmi Bank Limited	2058/12/21	Adarshanagar, Birgunj
<b>17</b>	Siddhartha Bank Limited	2059/09/09	Hattisar, Kathmandu
<b>18</b>	Agriculture Development Bank Ltd	2024/10/07	Ramshahapath, Kathmandu
<b>19</b>	Global Ime Bank Ltd.	2063/09/18	Birgunj, Parsa
<b>20</b>	Citizens Bank International Ltd.	2064/01/07	Kamaladi, Kathmandu
<b>21</b>	Prime Commercial Bank Ltd.	2064/06/07	New Road, Kathmandu
<b>22</b>	Sunrise Bank Ltd.	2064/06/25.	Gairidhara Crossing, Kathmandu
<b>23</b>	Grand Bank Nepal Limited	2065/0212	Kamaladi, Kathmandu
<b>24</b>	NMB Bank Ltd.	2065/02/20	Babarmahal, Kathmandu
<b>25</b>	Kist Bank Ltd.	2066/01/24	Anamnagar, Kathmandu

26	Janata Bank Nepal Ltd	2066/12/23	NayaBaneshwar, Kathmandu
27	Mega Bank Nepal Ltd.	2067/04/07	Kantipath, Kathmand
28	Commerz & Trust Bank Nepal Ltd.	2067/06/04	Kamaladi, Kathmandu
29	Civil Bank Ltd.	2067/08/10	Kamaladi, Kathmandu
30	Century Commercial Bank Ltd	2067/11/26	Putalisadak Kathmandu
31	Sanima Bank Limited	2068/11/03	Nagpokhari, Kathmandu

(Sources:www.nrb.com)

### 2.2.6 Financial Performance Analysis: A brief introduction

Financial analysis is concerned with analyzing the financial statement of an organization in difference aspect. The term indicates the real picture of an organization by interpreting financial ratio and analysis, which enables to evaluate and disclose the conditions of an organization. Every stakeholder such as shareholders, trade creditors, long term investors or debtors, customers, employees, tax authorities, managements etc. wants to know about the position or conditions of an organization before or after their involvement to the organization. Profit is one of the indicators of sound performance, which indicates the result of sound business management. "Profit earned by the firm is the main financial performance indicators of a business enterprise". (Ronald; 195: 21-22). Business organization is mostly inspired to generate profit. Profit is the major indicators of a good-financial performance of the company.

Financial performance is the heart of financial decision. It is the main indicator of success and failure of a firm. So, that the management should take appropriate action towards its weakness and maintain good performance in the strong areas. The main purpose of bank performance analysis is to evaluate its progress to meet the goals and objectives set forth

by management and to compare the performance of the bank relative to that of similar other banks.

Effective planning and control are central to enhancing enterprises value. Financial plans may take forms, but any good plan must be related to the firms' existing strength and weaknesses. The strengths must be understood if they are to be used to proper advantage and the weaknesses must be recognized if corrective action is to be taken. The financial manager can plan future financial requirements in accordance with the forecasting and budgeting procedures, but the plan must begin with the type of financial analysis.

A powerful and the most tested tool of financial analysis is the ratio analysis. "It is defined as the systematic use of ratio to interpret the financial statement. So that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined" (Khan and Jain; 1999: 5.13).

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

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

"Financial ratios can divide into four type's liquidity ratio, debt ratio, profitability ratio and coverage ratio. These ratios are helpful for managerial control and for a better understanding of what outside suppliers of capital expect in financial condition and performance" (Van Horne; 2002:343).

"The major functions of financial management are raising funds, investing them in assets and distributing return earned from assets to shareholders, which are respectively known as financing investing and dividend decision. While performing these functions a firm should balance cash outflow and inflow, which is known as liquidity decision" (Pandey; 1999:5).

"If management is to maximize the value of the firm's stock price, is must analysis the weakness and strength of the firm which is possible from the ratio analysis which help to assess the financial performance in comparing with the firm and other firm. Financial statement analysis involves a comparison of firm's performance with that of other firm in the same line of business. The analysis is used to determine the firm's financial position in order to find out current strengths and weakness and to suggest action that might useful to firm to take advantages to its strength and correction to its weakness" (Weston and Brigham; 1987:44).

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

A study of financial performance is a basic process which provides information, liquidity position, earning capacity, efficiency in operation, profitability, sources and uses of capital, financial achievement and status of the companies. This study mainly focused on financial performance of commercial bank, which is examined for various reasons.

There are many parties concerned with the bank i.e. shareholders, creditors, investors, governments, management, central bank, general public etc. Short-term creditors are

interested in the liquidity of the bank. They examined the ability of the bank to pay the amount of interest. Long-term creditors like debenture holders, financial institutions etc. are more concerned with the bank's long-term financial strength of solvency while evaluating the financial performance business concerning with resource mobilization.

Shareholders are interested with the growth of the retained earnings and at the same time stability in earning. Similarly, management of the bank is concerned about the overall position of the bank. Likewise, government regularity is concerned with the rate of return on the assets and also wants to see the proportion of capital structure of the bank. The general public is also interested towards the concerned matters.

Proper utilization of the bank's resources is an indicator of sound performance. How far the banks have gained over the years depend chiefly on how far they have been able to utilize their resources in an effective manner. So to increase profitability, the bank should properly utilize the resources. So financial performance analysis of the firm has different kind of indicators out of which financial statement analysis, ratio analysis, sources & uses of fund are the major indicators to measure the strength and weakness of a firm.

### **2.2.7 Importance of financial performance analysis**

The importance of analysis of financial statement can be generally outlined as below:

- ) Financial statement analysis measures the firm's liquidity and solvency position.
- ) Financial statement analysis illustrates the profitability position of the firm.
- ) Financial analysis provides sufficient information to the management in order to organize objectives device plans, formulate policies and implement them effectively.
- ) Financial statement analysis furnishes necessary information to fulfill the needs of current as well as potential investors and regulatory authorities.
- ) Financial statement analysis shows the true and fair picture of the firm.

### **2.2.8 Users of financial ratios**

There are basically two uses of financial ratio analysis: to track individual firm performance over time and to make comparative judgments regarding firm's performance. Firm's performance is evaluated using trend analysis- calculating individual ratios on a pre-period basis, and tracking their values over time. This analysis is can be used to spot trend that may be cause for concern, such as increasing average collection period for outstanding receivable for a decline in the firm's liquidity status.

Another common uses of ratio is to make relative performance comparison for example, comparison of firm's profitability to that of major competitor or observing how the firm's stacks up versus industry average enables the user to form judgments concerning key areas such as profitability or management effectiveness. Use of financial ratios includes parties both internal and external to the firm. External user includes security analysts, current and potential investors, creditors, competitors, and other industry observer. Initially, manager use ratio analysis to monitor performance and pinpoint strength and weakness from which specific goal, objective, and policy initiatives may be formed.

#### **I. Short Term Creditor and Depositor**

Creditor and Depositor are interested primarily in the liquidity of the firm. In order words, they are concerned with the firm's ability to pay its bill promptly. In the case of banks, they have various forms of borrowing, such as federal funds market or the discount window. They also maintain some assets that can be readily sold in the secondary market. If the need for fund is temporary, an increase in short term liabilities (from the federal fund market or the discount window) may be more appropriate (Madum Jeff, 1989)

#### **II. Long Term Creditors**

Long term Creditor holds bonds or mortgage against the firm who are mainly interested in the cash flow ability of the firm to serve4 debt over the long run. They may evaluate the ability by analyzing the capital structure of the firm. In case of commercial banks. The central bank and other foreign bank are more concerned in capital structure of the bank.

### **III. Equity Investor**

Equity Investor generally refers to the buying and holding of shares of stock on a stock market by individual and funds in anticipation of income from dividends and capital gain as the value of stock rises.

### **IV. Management of a Firm**

Management of a firm is interested in overall ratios not particularly in one or two, because the firm's purpose is not only to have internal control but also better understanding of what capital suppliers seek in financial condition and the performance from it.

### **V. Central bank**

The Central Bank of Nepal is more concerned on liquidity management and capital adequacy fund of the banks. It has made some statutory prescription that must be followed by the commercial bank.

## **2.3 Review of related studies**

Varies studies have been conducted on the financial performance of commercial banks of Nepal, many of them are concentrated to Nepalese commercial banks and only few are focused on joint venture banks especially comparative studies. In this chapter, different previous studies have been reviewed so that the chances of duplication will be avoided from the present study and some newness can be created in this field of study.

### **2.3.1 Review or articles and journals**

**Fama's** study (1965) on the random walk model was one of the best definitive and comprehensive every study conducted. He observed the daily proportionate prices of 30 individual stocks of the Dow Jones Industrial Average Index (DJIAI) for the period of 1957 to 1962. He employed the statically tools such as serial correlation and runs test to draw inference about depended of the price series. He calculated auto-correlation coefficient for daily changes in log prices for lag from 1 to 30 and found that the coefficient were almost close to zero in overall. The correlation coefficient for daily changes in average was +0.03, which is near to zero. But on the daily price changes, 11 out of 30 stocks had correlation coefficient more than twice their computed standard



errors. The coefficient ranged from smallest 0.06 to largest 0.123. However Fama concluded, "Dependence as such a small order of magnitude is, from a practical point of view, probably unimportant for both the statistician and the investor." Fama also calculated serial correlation for lag from 1 to 10 for no-overlapping differencing intervals of four, nine and sixteen days to examine the possibility if price change across longer interval shows dependence. All the results are again not significantly different from zero.

In 1997 International Monetary Fund [IMF], Policy Development and Review Development Division published a working paper entitled "Determinants of Stock Prices: The case of Zimbabwe". The working paper examined the general relationship between stock price and macroeconomic variables in Zimbabwe, using the revised DDM, error-correction model, and multi factor return generating model. Despite the large fluctuation in stock prices since 1991, the analysts indicated that the Zimbabwe Stock Exchange functioned quite constitutively during the period. Whereas, sharp increases in the share prices in stock prices during 1993-94 were mainly due to the shift of the risk premium that was caused by partial capital account liberalization, the monetary.

**Poudel, (2053)** in his article "*Financial Statement Analysis: An Approach to Evaluate Bank's Performance*" published in NRB Samachar said that the balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss account. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets accounts form a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans/advances and investments and paid on deposits are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The users of the financial statements of a bank need relevant, reliable and comparable information, which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of the bank's financial statement has been expressly laid down in the concerned act. Commercial Bank

Act 2031 B.S. requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

Another article "*Psychological Pressure for Willful Defaulters*" published in "Business Age International" of January 2005 said that maintaining the health of the financial sector is the first priority of the government, as crisis in the sector will push the country decades back and increase poverty. It has been said that the central bank would stand strong, against willful defaulters who cite circumstantial reasons for their failure in settling loans, but does not compromise on other aspects of business and livelihood. The bad practice of top Nepali business firms for not repaying loans to the banks has created hurdles in the healthy and free growth of the financial sector. It is the responsibility of the government to strictly discourage such unhealthy practices to safeguard the entire financial sector from any mishaps.

In order to check the growing non-performing asset problems of commercial banks and financial institutions and to maintain the financial health of these institutions by preventing risky investments, RBB on September 18, 2003 issued several directives tightening its earlier blacklisting procedures. As per the new provisions: All financial institutions are required to disclose the name of the loan defaulters every six months; financial institutions have been barred from lending any amount to the blacklisted defaulter or any of his family members. Credit Information Bureau (CIB) can blacklist the firm, company, or an individual who fails to clear the debt within the stipulated period. If they fail to clear the debt amount in time, or is found misusing the loans, among others, the creditor can be blacklisted. The proprietor along with the proprietorship firms, and partners would also be blacklisted. Furthermore, the shareholders holding 10% or more shares would also be blacklisted, if the public limited company fails to clear the dues.

During the recently held meeting of the World Bank and the International Monetary Fund, the donor community has strongly raised the issue of slow pace of loan recovery by the defaulters of the bank. Consequently, the government has vowed to take harsh measures, which includes seizing the passports of willful defaulters, if the concerned line institutions make formal request through the NRB essential to recover loans from defaulters to ensure

the success of financial sector reforms. Due to the tendency of non-repayment for loans, the risk of taking the provision has increased thereby lessening the possibility of reducing the interest rate between deposit and lending. Taking into consideration these adversities, Debt Recovery Act, Debt Recovery Tribunal and the Umbrella Act related with banking have been in operation.

**Sharma (1998)**, in his article “*Joint Venture Banks in Nepal Co-Existing and Crowding Out*” published, and 1998 volume 35 said that, it would be definitely be unwise for Nepal not to let the JVBs to operate in the country and not to take advantages of them as additional means of resources mobilization as well as harbinger of new era in banking. But it will certainly be unfortunate for the country to develop the JVB s. And the most of the cost of the domestic banks .so far, one should admit frankly, no different treatment has been extended to the domestic and JVB s; at least from the government side, which is commendable. If HMG keeps on the stance of treating the domestic and JVB s; equally deposit the leathers bargaining strength and the JVBs also show their alacrity to come forward to share the trials and the tribulations of this poor country. Both type of banks will coalesce and co-exists, complimenting each other and contributing for the nations accelerate developments. On the contrary, if the JVBs use their straight against trading in to the cumbersome path of the development along with the domestic banks and government.

In the journal of Financial Economics, summer 1996, entitled “*Commonality in the Determinants of Expected Stock Returns*” by Robert A. Haugen and Nardin L. Baker, they presented with evidence that the determinants of the cross section of expected stock return were stable in their identify and influence from period to period and from country. The determinants were related to risk, liquidity, price level, growth potential and stock price history. Out of sample predications of expected returns, using moving average values for the pay-offs to these firm characteristics were strongly and consistently accurate. Two findings, however, distinguished their paper form others in the contemporary literature. First, the stock with higher expected and realized rate of return was unambiguously of lower risk than the stocks with lower returns. Second, they found that the important determinants of expected stock returns were strikingly common to the major equity

markets of the world. Given the nature of the texts, it was highly unlikely that those results may be attributed to bias or data snooping. Consequently, the result seems to reveal a major failure in the efficient market hypothesis.

### **2.3.2 Review of books**

**Pradhan (2000)** provides very close insight for analyzing the capital market in Nepal. He advocated, “*A number of studies have been conducted on the stock market behavior in developed and big capital markets but their relevance is yet to be seen in the context of smaller and underdeveloped capital markets.*”

As per the book, the stock market behavior in smaller and underdeveloped capital markets is thus one of the important areas of the study in finance. Information on stock market behavior in such smaller and underdeveloped capital markets would help development of realistic theoretical models and formulation of relevant hypotheses for empirical testing in finance.

In Nepal, the listing of shares in stock exchange center (SEC) and their trading in the stock market is a recent phenomenon. Low trading volume, absence of professional brokers, early stage of growth, limited movement of share prices, and limited information available to investors characterize the Nepalese stock market. A number of researches are available on government owned public enterprises but researches on enterprises whose stocks are listed in SEC and traded in stock market are yet to come up in Nepal. Viewed in this way, this chapter is expected to provide at least some insights into stock price behavior in Nepal.

### **2.3.3 Reviews of unpublished dissertations**

**Ojha (2000)**, has conducted a research on “*Financial Performance and Common Stock Pricing*”. The main objectives of his research were;

- To study and examine the difference of financial performance and stock prices.
- To examine the relationship of dividends and stock price.
- To explore the signaling effects in stock price.

Nepalese stock market is in infancy stage; in general it is very new and just started to develop. Dominance of banking sector is prevalent in the market due to other industries including finance companies, insurance and manufacturing is not encouraging. Corporate firm with long history have a relatively stable profitability parameters that the firm established after the economic liberalization of 1990. Older firms have been issuing bonus share more times than the new one. Dividend per share is relatively more stable than the dividend payout ratio. That's why payout ratio and dividend yields have been highly fluctuating. Due to lack of proper investment opportunity most of the investors have directed their saving towards the secondary stock market. There is significant positive correlation between the dividends paid and stocks prices of banking and manufacturing industries. All other industries have not a perfect correlation between the dividends paid and stock prices. There is a positive correlation between the net worth per share and stock prices of banking, airline and hotel industries, there is no perfect correlation between the net worth per share and common stock price.”

**Joshi (2002)** conducted a study on “*A Comparative Study on Financial Performance of Nepal SBI bank ltd & Nepal Bangladesh bank Ltd.*” with the following objectives.

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

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

The analysis of liquidity position of these commercial banks shows different position here, the average current ratio of NSBI is great than that of NBB. Therefore, the liquidity position of SBI is in normal position.

The turnover of the commercial banks is the main indication of income generating activities. These ratios are used to judge how efficiently the firm is using its resources. From the analysis of turnover of these two banks, NBB has better turnover than SBI in terms of loans and advances to total deposit ratio. Thus NBB has better utilization of resources income generating activities than SBI bank; which definitely lead the bank to

increase in income and thus making an increment profit for the organization. Despite the fluctuating trend in the ratio of cash and bank balance to total deposit SBI bank is more efficient than NBB in cash management i.e. it is more able to keep more cash balance against its various deposits.

The analysis of profitability of these two commercial banks is also different. The overall calculation seems to be better for NBB. Though certain ratios like dividend per share, dividend payout ratio etc are better for SBI bank. From the calculation, NBB seems to tackle their investors more efficiently.

Going through net profit to total deposit ratio, it can be said that NBB seems to be more successful in mobilizing its customers saving in much more productive sectors. NBB has slightly riskier debt financing position in comparison to SBI bank.

**Shrestha (2003)** conducted study on; “*A Comparative Analysis of Financial Performance of the Selected Joint Venture Banks*” had set the following objectives:

- To examine the comparative financial strengths and weakness of the selected Banks.
- To highlight various aspects relating to financial performance of these Banks for last five years.

The major findings of the study were as follows:

Analysis of liquidity ratio indicates better liquidity position of the NB bank. Although liquidity position of NBL and NABIL are lower, they are still able to meet their current obligation.

Analysis of leverage or capital structure ratio indicates that long-term debt to net worth ratio of NB bank is the highest and NABIL is the lowest. Banks are extremely leveraged. Total debt to net worth and total asset ratio of HBL is the highest and that of NABIL has relatively lower leverage.

Return on investment, interest earned to total assets ratio and commission and discount earned to personnel expenses ratio of NB bank is higher than NABIL bank and HBL, while return on shareholder's equity is higher in HBL and interest income to interest expense ratio is higher in NABIL bank.

The valuation ratios used for analysis showed the following results .the PE ratio and DPR of NABIL bank is the highest and HBL is the second highest, while the MVPS to BVPS ratio of HBL is the highest and NB is the lowest. Operating profit of NABIL is higher than that of HBL and NB bank. NABIL's operating profit is 42.62% of its operating income, HBL is 33.51% and NB bank is 33.86% only.

**Luintel (2003)** reveals in the thesis, "*A Study on Financial Performance Analysis of Nepal Bank Limited*" that, the NBL has not maintained a balanced ratio among its deposit liabilities during the second period of the study. As compared the second period with the first period, the bank is seemed to be unable to utilize its high cost resources in high yielding investment portfolio. During both the periods there are negative operating profit for two years. But both the years of the first period enjoyed positive net profits due to the non-operating incomes. Hence, there is a demarcation between operational and non – operational activities of the bank and performance and result of the first period shows that the bank is more inclined towards non-operating activities. Furthermore, the liquidity position of the bank is also not satisfactory during both periods. It is even worse during the second period. Various current ratios have fluctuated during both the periods .it shows lack of specific policy of holding various types of current assets. Thus it can be said that the financial position of the NBL is worse during the second period due to its inefficiency in risk management .the overall financial position on the bank is unsatisfactory during the both periods.

**Sharma (2005)**, made a research entitled,"To Evaluate the Financial Performance of Commercial Banks: Nepal SBI bank limited, Nepal Bangladesh Bank Limited and Everest Bank Limited" and his main research objectives were as follows:

- ) To evaluate the liquidity position of Nepal SBI bank limited, Nepal Bangladesh bank limited and Everest bank limited.

- ) To evaluate the profitability position of the banks
- ) To evaluate the efficiency of assets management of the banks.
- ) To compare the overall financial performance of the banks.

In his research work, He has made ratio analysis, return to investors analysis and simple statistical analysis. And his important research findings were as follows:

- ) The debt assets ratio of the sample bank shows the aggressive use of debt capital by the banks. Such debt should be invested in profitable sectors.
- ) The total investment to total deposit ratio of the NSBIBL is comparatively lower. so it should utilize its total deposit for investment purpose more efficiently.
- ) Interest expense to total expense ratio of EBL shows a large portion of the expense has been incurred in other expenses in comparison to other listed banks. It will be better for EBL to decrease other expenses.
- ) NSBIBL has been yielding lower return to shareholder equity. So it should utilize the shareholder's equity more efficiently.
- ) Profitability ratios of NBBL show that the profit of the bank is in decreasing trend. So it will be better for NBBL to focus to increase the profitability position of the bank

**Shakya (2012)**, made research entitled "A study of Financial Performance Analysis of Himalayan Bank Limited" and her main research objectives were as follows-

- ) To make evaluation of the financial performance of HBL in terms of liquidity, efficiency of asset and cost management.
- ) To make Evaluation of earning generating capacity
- ) To provide suggestion and recommendation that will help management to improve the performance of bank

In her research work, she has made ratio analysis, return to investors and correlation analysis. Her important research findings were as follows-

- ) HBL bank is strong enough to maintain the liquidity position to meet the cash requirement of clients.



- ) The operating efficiency of the bank is decreasing every year and bank is not able to mobilize its deposit.
- ) The debt management ratio of the bank is very high which is not preferable
- ) The correlation coefficient of deposit and loan and advances, deposit and investment and total assets and net profit is found to be positive indicating the positive relationship between the respective variable.

## **2.4 Research Gap**

Commercial banks invest its deposit in different profitable sector according to the direction and circular of Nepal Rastra Bank and guidelines and policy of their own bank. Financial analysis statement has to be prepared according to the direction of NRB. Nepal Rastra bank's policy is changing time to time .So the updated study over the change of time frame is major concern for the researcher one of the most critical of all banking problems in recent years centers on raising and maintaining sufficient capital. Bank capital is the first hand fund that initiates to operate the whole banking functions and its adequacy is always playing a catalytic role in the uplift of the banking system. The amount of capital is one which assures the creditors especially the largest depositors. It assists to acquire public confidence.

Some comparative studies are previously done with regards to the financial analysis of banks but in depth study about the bank is not found. To fulfill the need of financial analysis of banks, the researcher has put his efforts in this study. This study put its effort to analyze the main indicators of financial performance with financial and statistical tools for banks. Hence, this study fulfills the research gap about the "Performance of Banks and comparative financial performance of banks" (A study of Listed Commercial Banks in Nepal Stock Exchange).

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Researcher needs sequential steps to adopt realistic study or studying a problem with certain object/objects in view. Therefore, through research methodology researcher can get appropriate guidelines and knowledge about the various sequential steps to adopt a systematic analysis. Research methodology is the investigation tools of any certain area and it means clearly observation of certain object.

Research is the process of systematic and in depth study or search any particular topic, subject or area of investigation backed by collection presentation and interpretation of relevant details or data.

Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well throughout activities of gathering, recording, analysis and interpreting the data with the purpose of finding answers to the problem.

This chapter mainly deals with the research methodology used to ascertain the study objectives. Under this, research design, nature and sources of data, population and sample and method of data analysis technique have been described.

#### **3.2 Research Design**

Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. It included an outline of what the investigator will do from writing the hypotheses and their operational implications to the final analysis of data. The structure of the research is more specific, it is the outline, the scheme, and the standard of the operation of the variables. When we draw diagrams that outline the variables and their relation and juxtaposition, we build structural schemes for accomplishing operational research purposes. Strategy, as used

here, is also more specific than plan. In other words, strategy implies how the research objectives will be reached and how the problem encountered in the research will be tackled.

The method and definite technique, which guides to study and give ways to perform research work is known as research design. It is most necessary to complete the research and fulfill the objective of the research.

First of all information and data are collected. The important information and data are selected. Then data is arranged in useful manner. After that, data are analyzed by using appropriate financial and statistical tools. In analysis part, interpretation and comments are also made wherever necessary. Result and conclusion are given after analysis of data, recommendation and suggestion is also given, the thesis has been adopted from previous research works. Previous thesis styles and formats have been followed.

The main objective of research work is to evaluate the comparative performance evaluation of Himalayan Bank Limited and Standard chartered Bank limited Nepal. To complete this study, following design and format has been adopted.

### **3.3 Nature and Sources of Data**

The primary thing for any research is that the collected data should be reliable. So it is very important for a researcher to know how the data are collected and how much is the reliability of the data, this study mainly based on secondary data of the concerned banks, Nepal Rastra Bank, SEBON, and different library are the providers of the data. The review of literature of the proposed study was based on the text books, official publications, journals, unpublished thesis, web site etc. The necessary data and information at macro level have been collected from relevant institutions and authorities such as NRB Ministry of Finance, NEPSE, SEBON and their respective publications similarly the required micro level data derived from annual reports of selected banks, SEBON and NEPSE. In addition to above, supplementary data and information were collected from different library such as library of Shankar Dev Campus, T.U. Central library, SEBON etc. The major sources of data and information are as follows;

- ) NRB Economic Report, NRB
- ) Non-Banking Financial Statistics, NRB
- ) Banking and Financial Statistics, NRB
- ) Economic Survey, Ministry of Finance
- ) Annual Reports of Concern Commercial Banks (from 2007/08 to 20011/12)
- ) Annual Report of SEBON
- ) Trading Report of NEPSE
- ) Journal of Finance
- ) Journal of Business
- ) Previous Research Studies, Dissertation and Articles on the Subject
- ) Various Text Books
- ) Different Library

### **3.4 Population and Sample**

Population of this study includes all commercial banks. At present, there are 31 commercial banks. They have only been considered as population for the study, two leading private commercial banks are selected as sample. On the basis of establishment period and performances, samples are taken. The sampled commercial banks are as follows:

- ) Himalayan Bank Limited
- ) Standard Chartered Bank Limited Nepal.

### **3.5 Tools for Analysis**

For the purpose of data analysis, various financial and statistical tools will be used to achieve the objective of the study. The evaluation of data will be carried out to the pattern of data available.

Different tools have been selected according to the nature of data as well as subject matter. The major tool employed for the analysis of the data is ratio analysis, which established the numerical relationship between two variables of the financial statement. Besides financial tools, the statistical tools are also used.

### **3.5.1 Financial Tools**

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet. In this study ratio analysis is used as the financial tools for the data analysis.

#### **3.5.1.1 Ratio Analysis**

Ratio analysis is a technique of analyzing interpreting financial statements to evaluate the performance of an organization by creating the ratios from the figures of different accounts consisting in balance sheet and income statement. The qualitative judgment concerning financial performance of a firm can be carried out with the help of ratio analysis. Even though there are many ratios, only those ratios have been covered in this study, which are related to investment operation of the bank.

This study contains following ratios:

##### **A. Liquidity Ratios**

Liquidity ratio measure a firm's ability to satisfy its short- term commitments out of current or liquid assets. These ratios focus on current assets and liabilities and are used to ascertain the short-term solvency position of a firm.

##### **i. Current Ratio**

The current ratio is the quantitative relationship between current assets and current liabilities. Here, current assets are those, which can normally be converted into cash within a year. These include cash and marketable securities, accounts receivable, inventories and so on. On other hand, current liabilities refer to those obligations, which must be paid within an accounting cycle. These include accruals, accounts payable, notes payable and so on. Current ratio is calculated as follows:

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

Where,

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

As a conventional rule the ratio 2:1 is employed as a standard of comparison.

### **ii) Cash and Bank Balance to Total Deposit Ratio**

This is the ratio of most liquid asset, cash and bank balance with the total deposit. As higher ratio indicates the higher ability to meet their deposits & vice versa.

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

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

### **iii) Cash and Bank Balance to Current Assets Ratio**

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

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

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

### **iv) Investment on Government Securities to Current Asset Ratio**

This ratio shows the percentage of current assets invested on government securities. This is calculated dividing the amount of investment on government securities by the total amount of current assets.

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

## **B. Assets Management Ratios (Activity Ratios)**

Asset management ratios are known as turnover ratios or activity ratios or efficiency ratios. These ratios look at amount of various types of assets and attempt to determine if they are too high or too low with regard to current operating levels. They provide the measure for how effectively the firm's assets are being managed. If too many funds are tied up in certain types of assets that could otherwise be employed more productively elsewhere, the firm is not as profitable as it should be. Following ratios are calculated to measure how efficiently a firm employs its assets.

### **i) Loan and Advances to Total Deposit Ratio**

This ratio indicates how efficiently the selected banks and finance companies are utilizing their total collections/deposits on loan and advances for optimization of profit.

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

### **ii) Total Investment to Total Deposit Ratio**

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

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

### **iii) Loan and Advances to Fixed Deposit Ratio**

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

To see the relationship between loan & advances to fixed deposit, this ratio is computed dividing loan and advances to fixed deposit and the formula is as follows;

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

#### **iv) Loan and advance to saving deposit ratio**

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

$$\text{Loan and advance to Saving Deposit ratio} = \frac{\text{Loan and Advances}}{\text{Saving Deposit}}$$

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

#### **v) Fixed Deposit to Total Deposit Ratio**

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

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



#### **vi) Saving Deposit to Total Deposit Ratio**

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

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

#### **C. Profitability Ratios**

Profitability is the end results of a number of corporate policies and decisions. It measures how effectively the firm is being operated and managed. Owners, manager and creditors are interested to know the financial soundness of the firm. Owners are eager to know their returns whereas managers are interested in their operating efficiency. So they calculate profitability ratios because expectations of both owners and manager are evaluated in terms of profit earned by the firm. Following are the major ratios used to measure the profitability of a firm:

##### **i) Return on Total Working Fund Ratio (Return on assets)**

It is also known as return on assets. This ratio measures the profit earning by mobilizing available resources (Total assets). The bank has to earn satisfactory return on assets or working funds are well manage and are efficiently utilized maximizing taxes within the legal options available will also improve the available will also improve the return or return will be higher. Net profit includes the profit that is left to the internal equities after all charge and expenses cost. It is calculated dividing return on net profit/loss by total working fund and can expressed as:

$$\text{Return on Total Working Fund Ratio} = \frac{\text{Net Profit}}{\text{Total working funds}}$$

## **ii) Return on Loan and Advances Ratio**

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

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

## **iii) Total Interest Earned to Total Working Fund Ratio**

Higher this ratio indicates the better performance of financial institutions in the form of interest earning on the better working fund. This ratio is calculated diving total interest earned from investment by total working fund. Mathematically;

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

## **iv) Total Interest Paid to Total Working Fund Ratio**

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

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

## **v) Return on capital employed**

A ratio between net profit to capital employed is known as return on capital employed.

The return on capital employed can be computed in the following way.

$$\text{Return on capital employed} = \frac{\text{Net profit after tax}}{\text{Capital employed}}$$

Where capital employed = total assets – current liabilities

#### **vi) Return on Equity Ratio (ROE)**

The return on equity(ROE) measures the return on the owner's investment in the firm. Higher ratio of return on equity is better for owner. It is calculated as follows:

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

#### **3.5.1.2 Net worth per share (NWPS)**

Net worth is the owner's equity in the company. It is also known as book value of the company. The book value per share is computed by dividing the amount of total shareholder's equity, which is called net worth, by the number of shares outstanding. This figure represents the asset value per share after deducting liabilities and preferred stock. Book value is a historical cost amount. It represents the real or actual value of the common stock. Generally, market price of stock is greater than book value of the stock.

#### **3.5.1.3 Price earnings ratio (P/E Ratio)**

Price earnings ratio indicates investors' expectations about the firm's performance. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the P/E ratio declines. Price- earnings ratio is the ratio between market price per share and earnings per share.

$$\text{Price earnings ratio} = \frac{\text{Price per share}}{\text{Earnings per share}}$$

#### **3.5.1.4 Dividend yield**

Dividend yield is the measure of rate of return in the form of dividends. It is relative term, which is calculated by dividing dividend per share by market price per share. Only higher dividends or lower dividends do not matter to investors. So it is essential to determine the rate of return on their investment.

$$\text{Dividend yield} = \frac{\text{Dividend per share}}{\text{Market value per share}}$$

### 3.5.1.5 Earning per share (EPS) analysis

The profitability of bank from the point of view of the ordinary shareholders is earning per share. The ratio explains net income for each unit of share. Earnings per share of an organization gives the strength of the share in the market. It shows how much of the total earnings belong to the ordinary shareholders. EPS is calculated as:

$$EPS = \frac{NetIncome}{NoOfSharesOutstanding}$$

### 3.5.1.6 Dividend per share (DPS) analysis

Dividend per share is calculated to know the share of dividend that the shareholders receive in relation to the paid up value of the share. A large number of present and potential investors may be interested in the dividend per share, rather than the earning per share. Therefore, an institution offering a high dividend per share is regarded as efficient in fulfilling shareholders expectations, which will also enable to increase the value of an institution.

Dividend per share is the earning distribute to ordinary shareholders divided by the number of ordinary shares outstanding, i.e,

$$DPS = \frac{TotalDividend}{NoOfOrdinaryShares}$$

### 3.5.1.7 Growth ratio

It represents how well the commercial banks those growth ratios are maintaining their economic and financial position. Here those growth ratios are analyzed and interoperate, which are related to the fund mobilization and investment management of a bank. In the topic, there are four types of growth ratio of total deposit, total investment, loan and advances and net project calculated. The analysis also concerns which asset portfolio has significant increment corresponding to the increment in deposit liability and investment. The formula to calculate growth ratio and average ratio are as follows;

$$\text{Growth rate} = \frac{\text{Present year figure} - \text{Previous year figure}}{\text{Previous year figure}} * 100\%$$

### 3.5.2 Statistical Tools

To meet the objectives of the study statistical tools are equally important. It helps us to analyze the relationship between two or more variables. In this research, Simple analytical tools are used such as coefficient of determination, probable error, standard deviation, Karl Pearson's coefficient of correlation; trend analysis adopted which are as follows:

#### 3.5.2.3 Standard Deviation (S.D.)

The standard deviation measures the absolute dispersion of distribution. The greater the amount of dispersion the greater the standard deviation and the greater will be magnitude of deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of series; a large standard deviation means just the opposite. Standard deviation is extremely useful in judging the representatives of the mean.

#### 3.5.2.5 Probable error (P.E.)

P.E. interprets the value of correlation co-efficient. It helps to determine applicability for the measurement of reliability of computed value of the correlation coefficient 'r'. It can be calculated as:

$$P.E. \times 6 \mid \frac{0.6745 \mid (1 - Zr^2)}{\sqrt{N}}$$

Where,

r = correlation coefficient

N = number of pairs of observations.

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

If the value of r is more than 6 times of probable error the coefficient of correlation is practically certain, i.e. the value of r is significant.

#### 3.5.2.4 Coefficient of corrélation (r)

Correlation coefficient measures the relationship between two and more than two variable, when they are so related that the change in the value of one variable is accompanied by the change in the value of the other. Or it indicates the direction of relationship among variables. A method of measuring correlation is called Pearson's coefficient of correlation.

It is denoted by 'r'. The correlation coefficient can be calculated by using following formula:

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

Where,

N= number of observations

X and Y are variables.

The decision criteria:

When,

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

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

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

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

### 3.5.2.2 Regression analysis

Simple regression analysis is the basis for this chapter because the analysis part is fully covered by regression analysis. Under this analysis, influences of other words, multiple regression independent variables upon dependent variable is measured and evaluated. In analysis helps to establish the functional relationship between dependent and independent variables and there by provides a mechanism for estimation. The purpose of multiple regression analysis in this study is to analyze the combined effect of different variables of the sampled banks. Furthermore, how the selected variables influence, is also being tested using regression model. As stated earlier, multiple regression analysis is the best way to project or estimate the value of dependent variable on the basic of independent variables.

## **CHAPTER- IV**

### **DATA PRESENTATION AND ANALYSIS**

This chapter implies the presentation and analysis of data collected from various secondary sources. The chapter has been divided into two main sections. The first section of the chapter includes the presentation and analysis of data while the second section includes major findings of the study.

#### **4.1 Financial Tools**

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

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

Liquidity Ratio, Asset Management Ratio, Profitability Ratio, EPS,DPS,DY,P/E Growth Ratio

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

Commercial Banks must maintain its satisfactory liquidity position to satisfy the credit needs of the Commercial to meet demands for deposit, withdrawals, Pay nation by obligation in time and convert non-cash assets into cash to fulfill immediate needs without loss of bank and consequent impact on long run profit.

**i) Current Ratio:**

The current ratio is the quantitative relationship between current assets and current liabilities. Here, current assets are those, which can normally be converted into cash within a year. These include cash and marketable securities, accounts receivable, inventories and so on. On other hand, current liabilities refer to those obligations, which must be paid within an accounting cycle. These include accruals, accounts payable, notes payable and so on. Current ratio is calculated as follows:

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

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

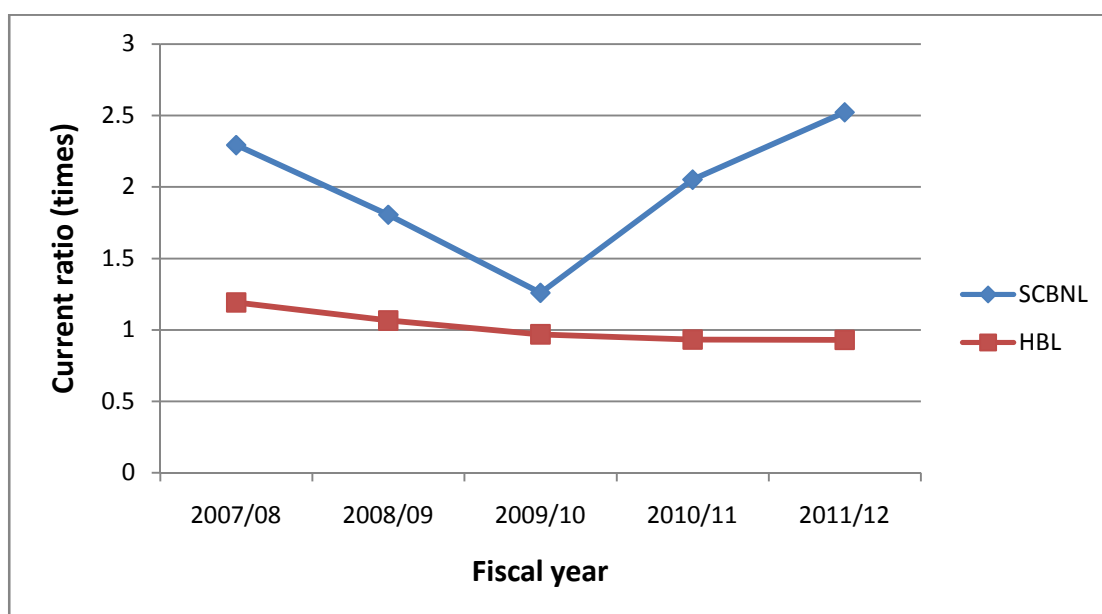
<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	2.2925	1.1925
2008/09	1.8052	1.0660
2009/10	1.2588	0.9695
2010/11	2.0507	0.9331
2011/12	2.5217	0.9305
<b>Mean</b>	<b>1.9858</b>	<b>1.0183</b>
<b>S.D.</b>	<b>0.4865</b>	<b>0.1117</b>
<b>C.V.</b>	<b>24.54%</b>	<b>10.97%</b>

*Sources: Appendix No. 1 (i)*



**Figure No. 4.1**

**Current Ratio**



It is clear in the table and figure no. 4.1, HBL have not maintain current assets more than their current liabilities in three years, only maintain in F/Y 2007/08 and 2008/09 and SCBNL have maintained current assets more than their current liabilities in all five year. This is a sign that SCBNL bank is capable enough to pay their current obligations. SCBNL has the highest current ratio in F/Y 2011/12 i.e., 2.5217 and the lowest in F/Y 2009/2010 i.e., 1.2588

Similarly HBL has a high current ratio of 1.1925 in F/Y 2007/2008 and a low of 0.9305 in F/Y 2011/2012. The averages mean ratio of SCBNL is higher than HBL; i.e. 1.9858 > 1.0183. This shows that SCBNL liquidity position is better than that of HBL. The lower degree of standard deviation and coefficient of variation suggest that both the banks have maintained consistency in their ratios. Though as per the conventional rule current ratio should be 2:1 but for banks any current ratio above 1 also considered healthy and sound.

In order to bring about consistency in this research, checks subject to clearing have been excluded from cash and bank balance and included in other assets.

## ii) Cash and Bank Balance to Total Deposit Ratio

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

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

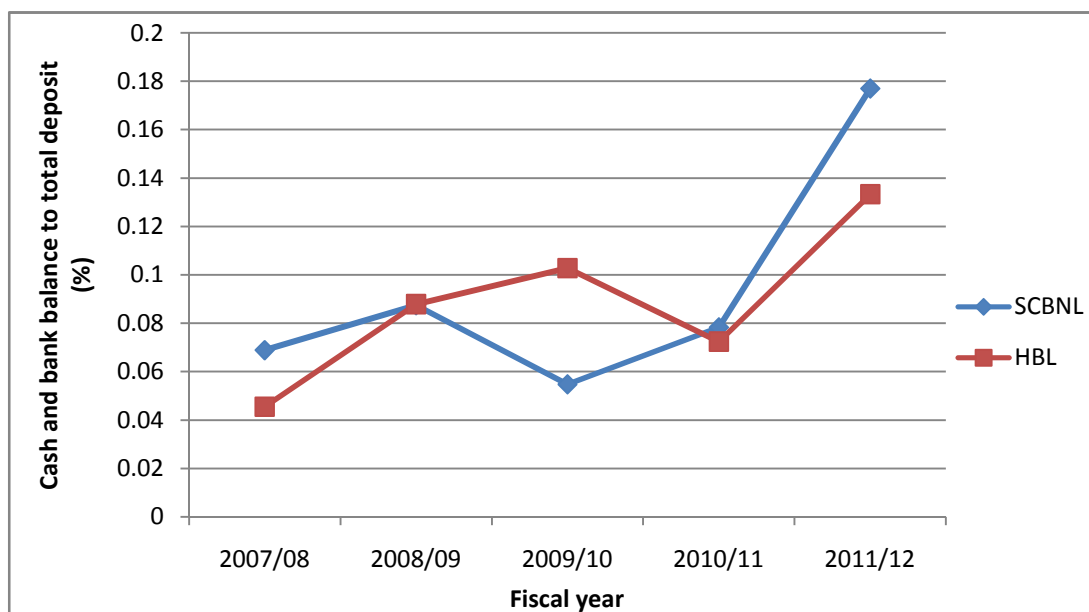
As higher ratio indicates the higher ability to meet their deposits and vice versa. The following table shows the cash and Bank balance to total deposit ratio of two banks during the study period.

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

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	0.0689	0.0455
2008/09	0.0875	0.0879
2009/10	0.0548	0.1028
2010/11	0.0783	0.0724
2011/12	0.1770	0.1333
<b>Mean</b>	<b>0.0933</b>	<b>0.0884</b>
<b>S.D.</b>	<b>0.0483</b>	<b>0.0329</b>
<b>C.V.</b>	<b>51.77%</b>	<b>37.22%</b>

*Sources: Appendix No. 1 (ii)*

**Figure No. 4.2**  
**Cash and bank balance to total deposit ratio**



In the table and figure no. 4.2 shows that the cash and bank balance to total deposit of both banks is in fluctuating trend during the study period. SCBNL had a high ratio of 17.70% in F/Y 2011/2012 and a low ratio of 5.48% in F/Y 2009/2010. Similarly, HBL has a high of 13.33% in F/Y 2011/2012 and a low of 4.55% in F/Y 2007/2008. The averages mean ratio of SCBNL is slightly higher than HBL i.e., 9.33% > 8.84%. This shows, SCBNL readiness to meet customer requirement better than HBL. The C.V. of SCBNL is slightly Higher than that of HBL i.e., 51.77% < 37.22%. On its basis, it can be concluded that SCBNL ratios are less consistent than that of HBL.

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

### **iii) Cash and Bank Balance to Current Assets Ratio**

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

of cash, it may fail to make the payment for presented cheques by its customers. So, sufficient and appropriate cash reserves should be maintained properly.

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

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash and bank balance}}{\text{Current assets}}$$

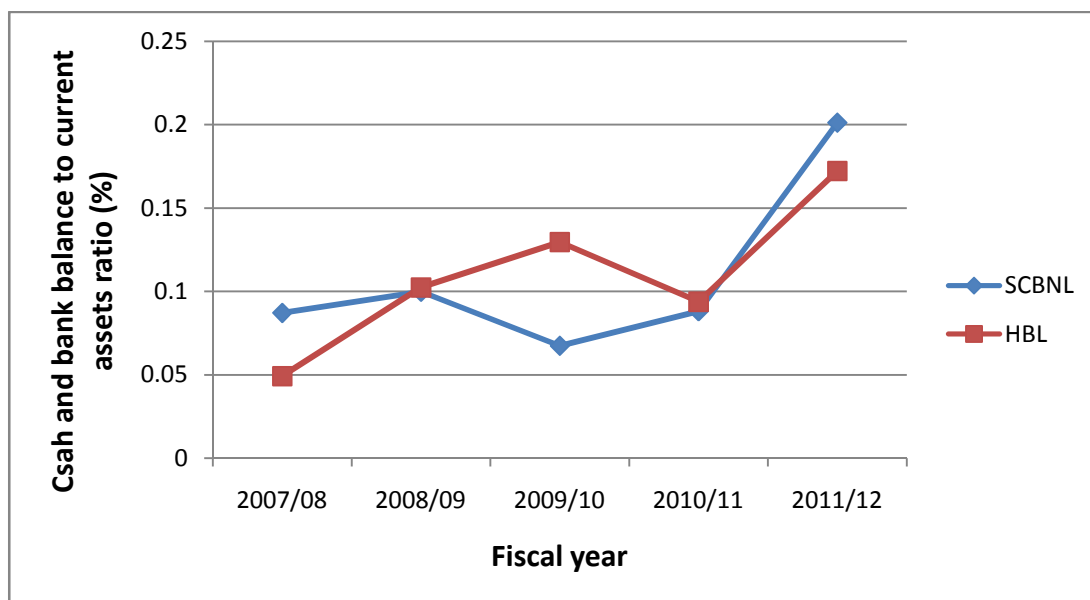
**Table No. 4.3**  
**Cash & Bank Balance to Current Assets Ratio**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	0.0871	0.0492
2008/09	0.0998	0.1023
2009/10	0.0674	0.1295
2010/11	0.0882	0.0938
2011/12	0.2012	0.1721
<b>Mean</b>	<b>0.1087</b>	<b>0.1094</b>
<b>S.D.</b>	<b>0.0530</b>	<b>0.0454</b>
<b>C.V.</b>	<b>48.76%</b>	<b>41.50%</b>

*Sources: Appendix No. 1 (iii)*

**Figure No.4.3**

**Cash and bank balance to current assets ratio**



In the table figure and figure no. 4.3 shows that the cash and bank balance to current assets of both banks is in fluctuating trend during the study period. SCBNL has maintained a high ratio of 20.12% in F/Y 2011/12, and a low ratio of 6.74% in 2009/2010. Similarly, HBL has maintained a high ratio of 17.21% in F/Y 2011/12, and a low ratio of 4.92% in F/Y 2007/08.

The average mean ratio of HBL is slightly higher than SCBNL. The C.V. of SCBNL is greater than that of HBL i.e., 48.76% > 41.50%. It shows SCBNL ratios are less consistent than that of HBL. The above table does not show any significant difference between the CBs with regards to meeting customer's daily cash requirement. Both have fared well in meeting their depositor's daily cash requirement and investing the surplus fund in other productive areas.

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

The ratio examines Share of a commercial banks current assets which invested in different government securities i.e. treasury bills and government bonds. Commercial banks are interested to invest their collected fund on different securities issued by government to utilize their excess fund. Even governments securities are not so liquid as cash and bank balance of commercial bank they can easily be sold in the market or it can also be

converted into cash in other ways. The ratio is computed as:

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

**Table No. 4.4**

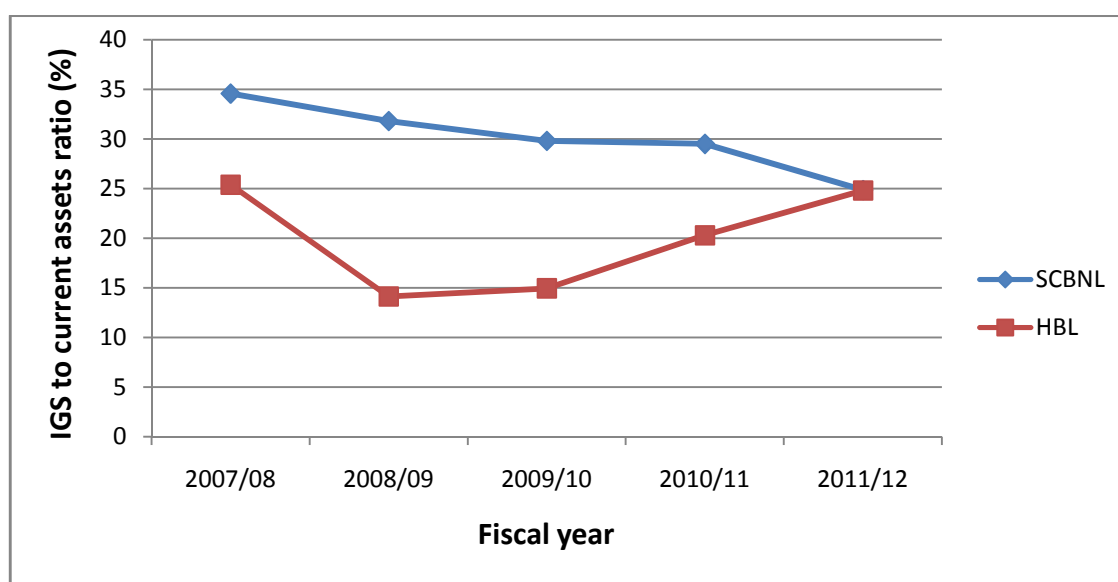
**Investment on Government Securities to Current Assets Ratio**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	34.56	25.37
2008/09	31.80	14.13
2009/10	29.80	14.95
2010/11	29.50	20.28
2011/12	24.85	24.79
<b>Mean</b>	<b>30.10</b>	<b>19.90</b>
<b>S.D.</b>	<b>3.56</b>	<b>5.28</b>
<b>C.V.</b>	<b>11.83%</b>	<b>26.53%</b>

*Sources: Appendix No. 1(iv)*

**Figure No. 4.4**

**Investment to government securities to current assets ratio**



In the table and figure no. 4.4 clearly depicts that the investment on government securities to current assets of SCBNL is in decreasing trend and HBL is in fluctuating trend. Never the less, HBL have tried to maintain consistency from F/Y 2009/2010 onwards.

SCBNL has maintained a high ratio of 34.56% in F/Y 2007/08, and a low ratio of 24.85% in 2011/2012. Similarly, HBL has maintained a high ratio of 25.37% in F/Y 2007/08, and a low ratio of 14.13% F/Y 2008/09.

The average mean ratio of SCBNL is higher than HBL i.e. 30.10>19.90. The C.V. of SCBNL is lower than that of HBL i.e., 11.83% <26.53%

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

#### **4.1.2 Asset Management Ratio**

Asset management ratios are known as turnover ratios or activity ratios or efficiency ratios. These ratios look at amount of various types of assets and attempt to determine if they are too high or too low with regard to current operating levels. They provide the measure for how effectively the firm's assets are being managed. If too many funds are tied up in certain types of assets that could otherwise be employed more productively elsewhere, the firm is not as profitable as it should be. Following ratios are calculated to measure how efficiently a firm employs its assets.

##### **i) Loan and Advances to Total Deposit Ratio**

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

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

**Table No. 4.5**

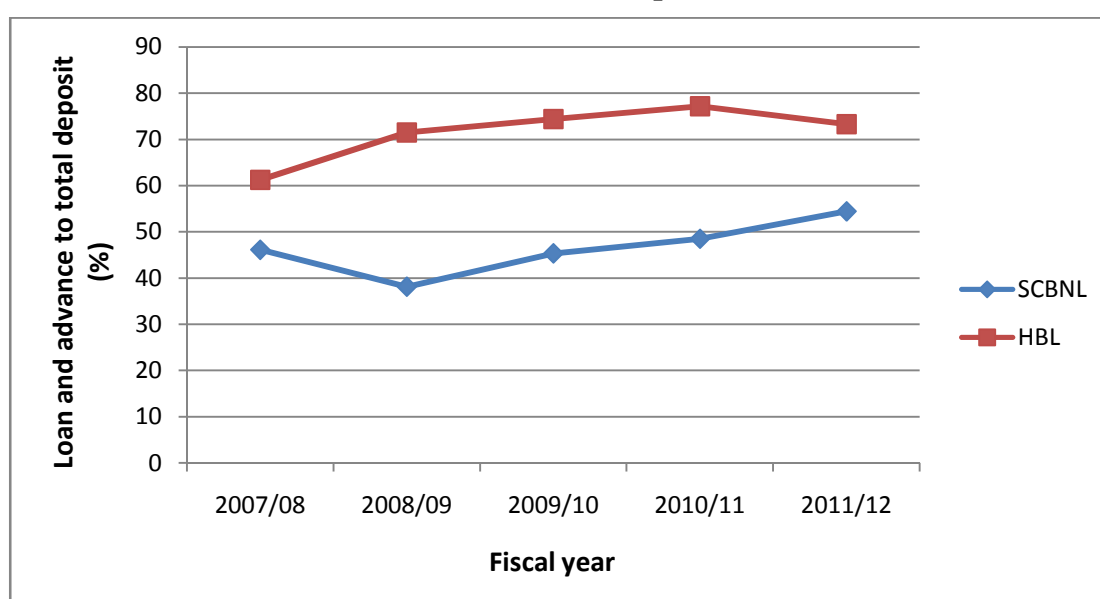
**Loan & Advances to Total Deposit Ratio**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	46.12	61.23
2008/09	38.14	71.49
2009/10	45.35	74.39
2010/11	48.49	77.14
2011/12	54.43	73.26
<b>Mean</b>	<b>46.51</b>	<b>71.50</b>
<b>S.D.</b>	<b>5.90</b>	<b>6.10</b>
<b>C.V.</b>	<b>12.69%</b>	<b>8.53%</b>

Sources: Appendix No. 1 (v)

**Figure No. 4.5**

**Loan and Advances to Total Deposit**



In the table and figure no.4.5 shows that the loan and advances to total deposit of both the banks have a fluctuating trend. SCBNL had a high ratio of 54.43% in F/Y 2011/12 and a low ratio of 38.14% in F/Y 2008/09. Accordingly, HBL had a high of 77.14% in F/Y 2010/11 and a low of 61.23% in F/Y 2007/08. The mean ratio of HBL is higher than that of SCBNL i.e. 71.50% > 46.51%. HBL seems to be strong in terms of mobilization of its total deposits as loan and advances when compared to SCBNL.



In terms of C.V., the C.V. of SCBNL is higher than that of HBL i.e. 12.69% > 8.53%. It can be concluded that, HBL has been more successful in mobilizing its total deposits as loan and advances than SCBNL. On the contrary, a high ratio should not be perceived as a better state of affairs from the point of view of liquidity, as loan and advance are not as liquid as cash and bank balance and other investment. In portfolio management of bank various factors such as availability of funds, liquidity requirements, central bank norms etc. needs to be taken into account.

#### ii) Total Investment to Total Deposit Ratio

The commercial banks must mobilize its deposit fund by investing in different securities issued by government and other financial non financial sectors. This ratio measures the extent to which the banks are capable to mobilize their deposits on investment in various securities. This ratio is computed by dividing total investment by total deposit.

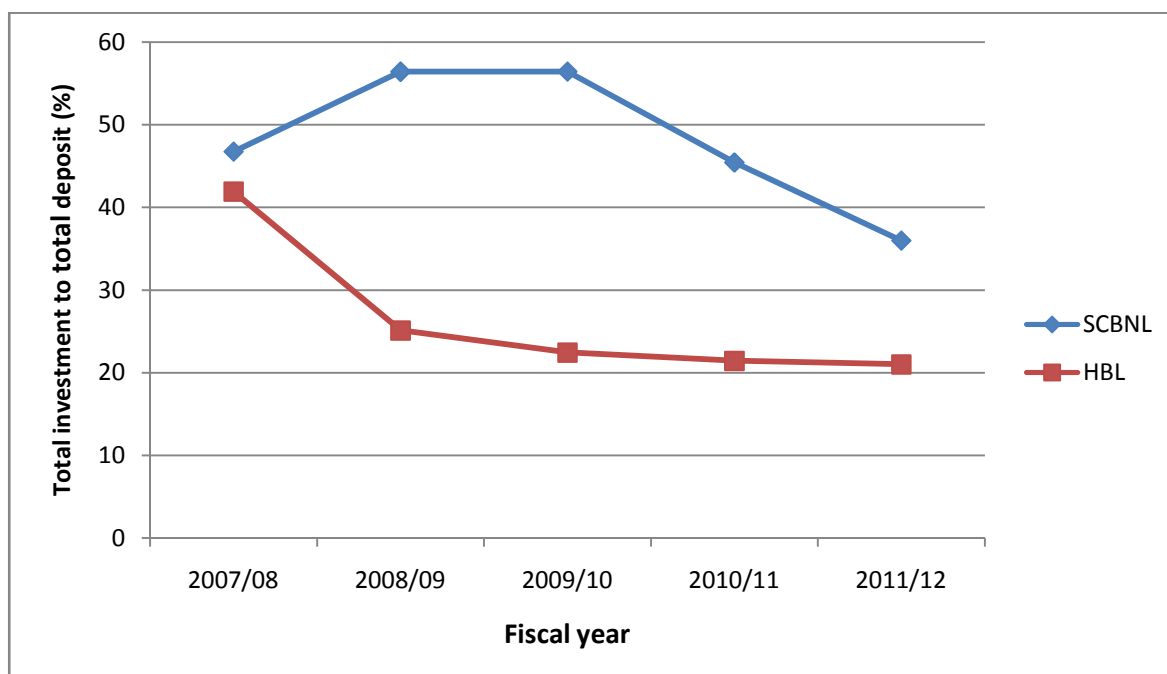
**Table No. 4.6**  
**Total Investment to Total Deposit Ratio**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	46.74	41.89
2008/09	56.41	25.12
2009/10	56.42	22.45
2010/11	45.42	21.43
2011/12	35.97	21.02
<b>Mean</b>	<b>48.19</b>	<b>26.38</b>
<b>S.D.</b>	<b>8.58</b>	<b>8.82</b>
<b>C.V.</b>	<b>17.80%</b>	<b>33.42%</b>

*Sources: Appendix No. 1 (vi)*

**Figure No. 4.6**

**Total Investment to Total Deposit**



In the table and figure no. 4.6 shows a fluctuating trend in total Investment to total deposit of SCBNL and decreasing trend in total investment to total deposit of HBL. SCBNL has a high ratio of 56.42% in F/Y 2009/10 and a low ratio of 35.97% in F/Y 2011/12. HBL, on the other hand had a high ratio of 41.89% and a low ratio of 21.02% in F/Y 2007/08 and 2011/12 respectively.

SCBNL has a high mean ratio than HBL i.e., 48.19% > 26.38%. From mean ratio perspective, SCBNL has been more successful in mobilization of deposits on various forms of investment.

From C.V. viewpoint, C.V. of SCBNL is lower than that of HBL i.e. 17.80% < 33.42%, SCBNL bank have more consistent than HBL.

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

### iii) Loan and Advances to Fixed Deposit Ratio

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

To see the relationship between loan & advances to fixed deposit, this ratio is computed dividing loan and advances to fixed deposit and the formula is as follows;

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

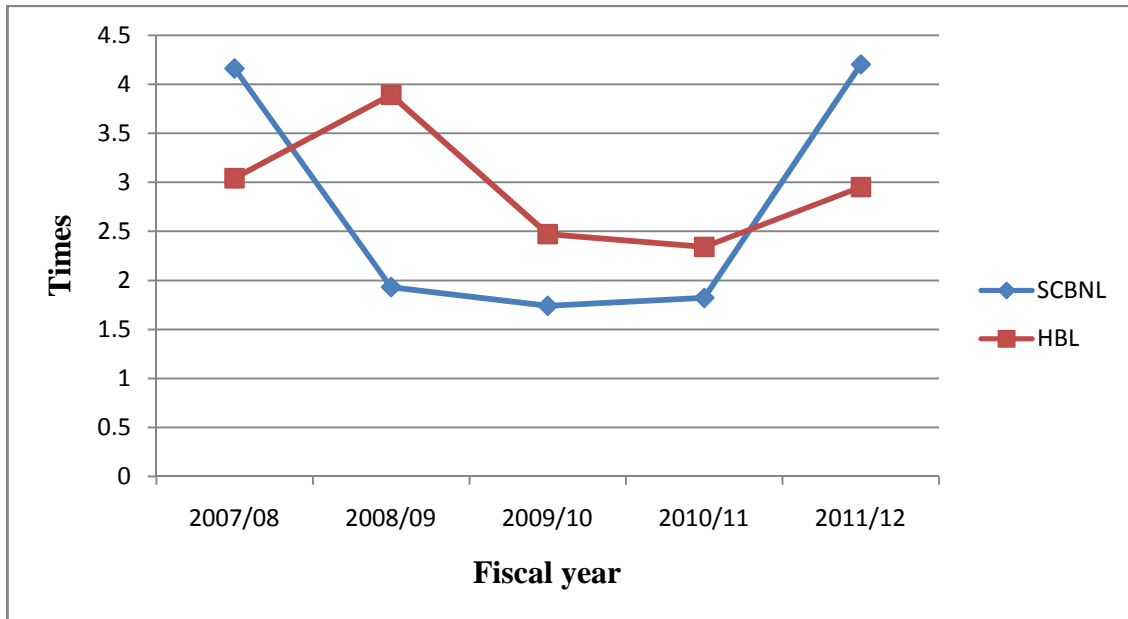
**Table No. 4.7**

#### **Loan & Advances to Fixed Deposit Ratio**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	4.16	3.04
2008/09	1.93	3.89
2009/10	1.74	2.47
2010/11	1.82	2.34
2011/12	4.20	2.95
<b>Mean</b>	<b>2.77</b>	<b>2.94</b>
<b>S.D.</b>	<b>1.29</b>	<b>0.61</b>
<b>C.V.</b>	<b>46.57%</b>	<b>20.81%</b>

*Sources: Appendix No. 1 (vii)*

**Figure No. 4.7**  
**Loan and Advances to Fixed Deposit**



In the table and figure no. 4.7 shows a fluctuating trend of loan and advances to fixed deposit of SCBNL and HBL. SCBNL has maintained highest ratio of 4.20 times in F/Y 2011/12 and a low ratio of 1.74 times in F/Y 2009/10. Similarly, HBL has maintained a high ratio of 3.89 times in F/Y 2008/09 and a low ratio of 2.34 times in F/Y 2010/11.

HBL has a high mean ratio than SCBNL i.e., 2.94 > 2.77. From mean ratio perspective, HBL has been more successful in mobilization of fixed deposit as loan and advance.

From C.V. viewpoint, C.V. of SCBNL is higher than that of HBL i.e. 46.57% < 20.81%, HBL bank have more consistent than SCBNL in loan and advance to fixed deposit ratio. In conclusion, it reveals the strength of HBL in mobilizing its total fixed deposit as loan and advances.

**iv) Loan and advance to saving deposit ratio**

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

$$\text{Loan and advance to Saving Deposit ratio} = \frac{\text{Loan and Advances}}{\text{Saving Deposit}}$$

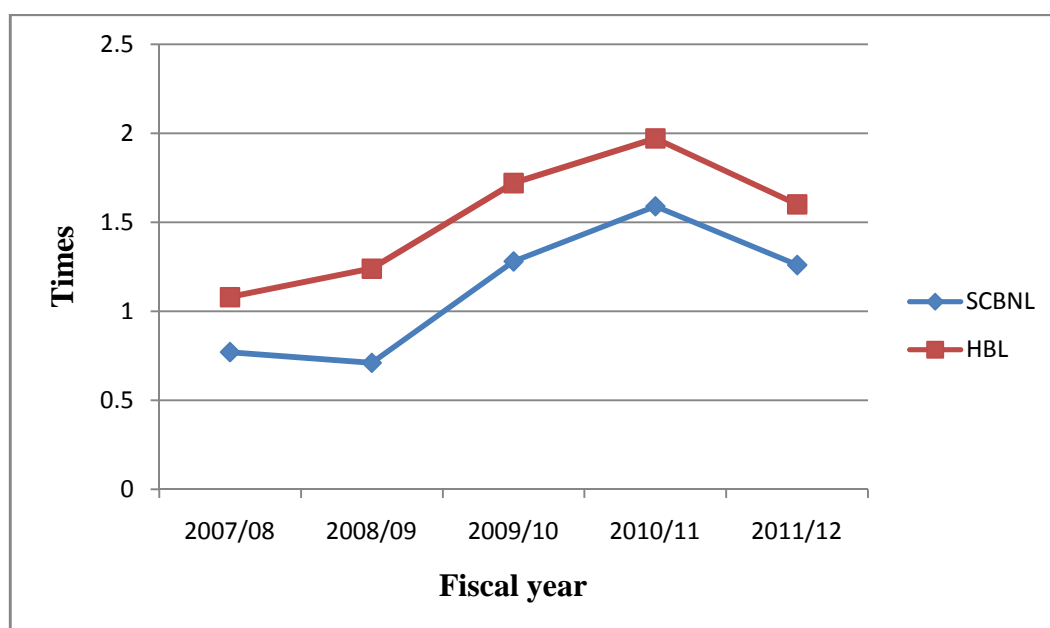
In the present study loan and advance represent to local and foreign bills discounted purchased and loan, cash credit and overdraft in local currency as well as inconvertible foreign currency. To make high profit by mobilizing its fund in the best way, a commercial bank should not keep its all collected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

**Table No. 4.8**  
**Loan & Advance to Saving Deposit Ratio**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	0.77	1.08
2008/09	0.71	1.24
2009/10	1.28	1.72
2010/11	1.59	1.97
2011/12	1.26	1.60
<b>Mean</b>	<b>1.12</b>	<b>1.52</b>
<b>S.D.</b>	<b>0.37</b>	<b>0.27</b>
<b>C.V.</b>	<b>33.13%</b>	<b>17.75%</b>

*Sources: Appendix No. 1 (viii)*

**Figure No. 4.8**  
**Loan and Advance to Saving Deposit**



In the table and figure no. 4.8 clearly shows fluctuated trend of loan and advances to saving deposit ratio of both banks during the study period. SCBNL has maintained highest ratio of 1.59 times in F/Y 2010/11 and a low ratio of 0.71 times in F/Y 2008/09. Similarly, HBL has maintained a high ratio of 1.97 in F/Y 2010/11 and a low ratio of 1.08 in F/Y 2007/08.

HBL has a high mean ratio than SCBNL i.e.,  $1.52 > 1.12$ . From mean ratio perspective, HBL has been more successful in mobilization of saving deposit as loan and advance.

From C.V. viewpoint, C.V. of SCBNL is higher than that of HBL i.e.  $33.13\% > 17.75\%$ , HBL bank have more consistent than SCBNL in loan and advance to saving deposit ratio.

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

**v) Fixed Deposit to Total Deposit Ratio**

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

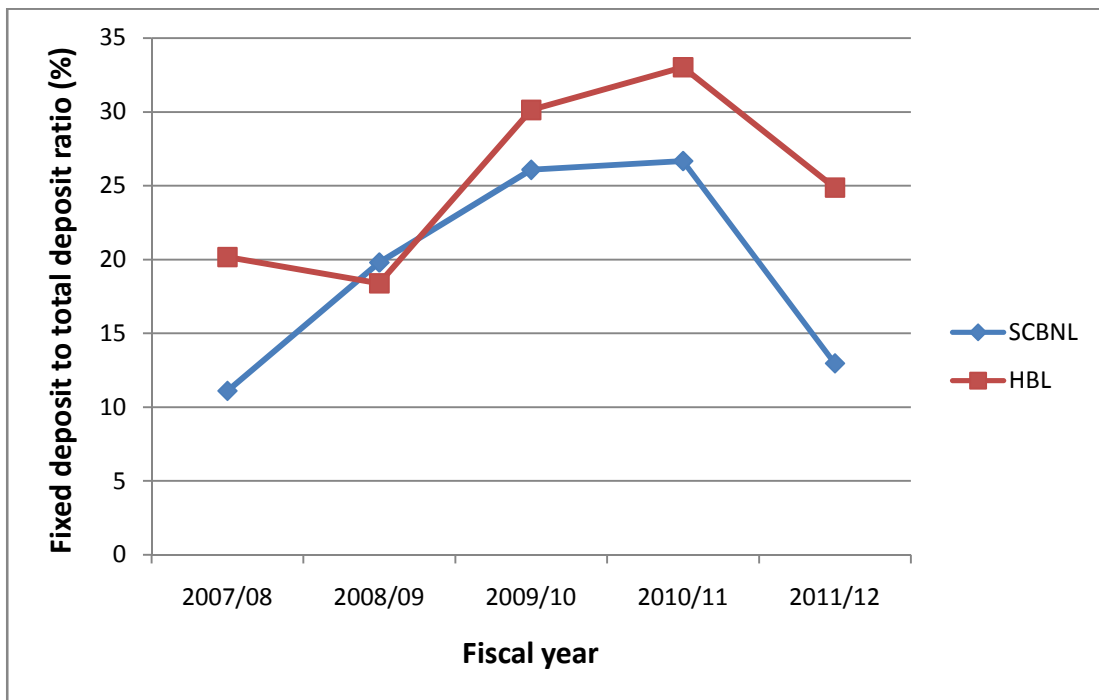
$$\text{Fixed Deposit to Total Deposit Ratio} = \frac{\text{Fixed Deposit}}{\text{Total Deposit}}$$

**Table No. 4.9**  
**Fixed Deposit to Total Deposit Ratio**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	11.10	20.17
2008/09	19.80	18.39
2009/10	26.08	30.12
2010/11	26.67	33.01
2011/12	12.96	24.86
<b>Mean</b>	<b>19.32</b>	<b>25.31</b>
<b>S.D.</b>	<b>7.21</b>	<b>6.26</b>
<b>C.V.</b>	<b>37.32%</b>	<b>24.75%</b>

Sources: Appendix No. 1 (ix)

**Figure No. 4.9**  
**Fixed Deposit to Total Deposit Ratio**



In the table and figure no. 4.9 clearly shows fluctuated trend of fixed deposit total deposit ratio of both banks. SCBNL has maintained highest ratio of 26.67% in F/Y 2010/11 and a low ratio of 11.10% in F/Y 2007/08. Similarly, HBL has maintained a high ratio of 33.01% in F/Y 2010/11 and a low ratio of 18.39% in F/Y 2008/09.

SCBNL has a low mean ratio than HBL i.e., 19.32% < 25.31%. From mean ratio perspective, HBL has been more successful in mobilization of fixed deposit on total deposit.

From C.V. viewpoint, C.V. of SCBNL is higher than that of HBL i.e. 37.32% > 24.75%, HBL bank has more consistent than SCBNL in fixed deposit to total deposit ratio.

It is clearly states that HBL has the maximum fixed charged bearing deposit than SCBNL. From the viewpoint of cost minimizing more is not favorable other hand, from viewpoint of liquidity portion of fixed deposit may be termed as favorable.



#### vi) Saving Deposit to Total Deposit Ratio

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

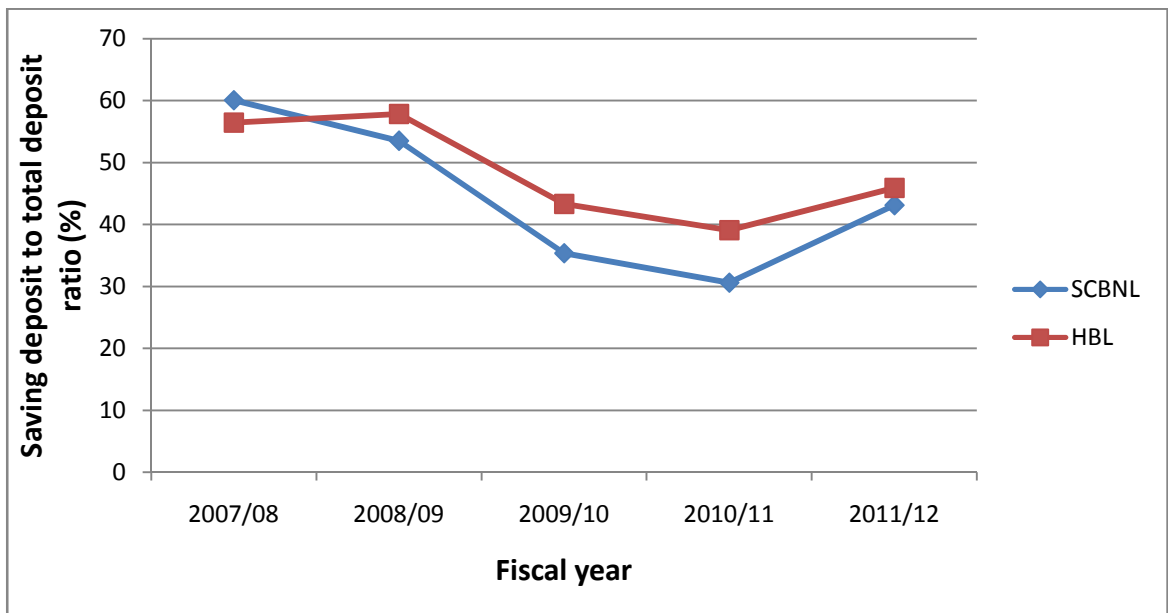
$$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

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

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	60.03	56.44
2008/09	53.49	57.84
2009/10	35.33	43.32
2010/11	30.58	39.09
2011/12	43.10	45.91
<b>Mean</b>	<b>44.51</b>	<b>48.52</b>
<b>S.D.</b>	<b>12.27</b>	<b>8.25</b>
<b>C.V.</b>	<b>27.56%</b>	<b>17.01%</b>

*Sources: Appendix No 1 (x)*

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



In the table and figure no. 4.10 clearly shows fluctuated trend of saving deposit to total deposit ratio of both banks but decreasing trend up to F/Y 2010/11 and then increasing in F/Y 2011/12 of SCBNL. SCBNL has maintained highest ratio of 60.03% in F/Y 2007/08 and a low ratio of 30.58% in F/Y 2010/11. Similarly, HBL has maintained a high ratio of 57.84% in F/Y 2008/09 and a low ratio of 39.09% in F/Y 2010/11.

SCBNL has a low mean ratio than HBL i.e., 44.51% < 48.52%. From mean ratio perspective, HBL has been more successful in mobilization of saving deposit on total deposit. It means if 1 is total deposit of SCBNL and HBL, portion of saving deposit is 44.51% and 48.52% respectively.

From C.V. viewpoint, C.V. of SCBNL is higher than that of HBL i.e. 27.56% > 17.01%, HBL bank have more consistent than SCBNL in saving deposit to total deposit ratio.

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

### 4.1.3 Profitability Ratios

Profitability ratios are useful to measure the efficiency of operation of a firm in term of profit. Profit is the indicator of the financial performance of any firm. Commercial banks acquire profit by providing different kinds higher the profitability ratio shows the efficiency of the management. The following profitability ratios are related to study under this heading.

#### i) Return on Total Working Fund Ratio (Return on assets)

It is also known as return on assets. This ratio measures the profit earning by mobilizing available resources (Total assets). The bank has to earn satisfactory return on assets or working funds are well manage and are efficiently utilized maximizing taxes within the legal options available will also improve the available will also improve the return or return will be higher. Net profit includes the profit that is left to the internal equities after all charge and expenses cost. It is calculated dividing return on net profit/loss by total working fund and can expressed as:

$$\text{Return on Total Working Fund Ratio} = \frac{\text{Net Profit}}{\text{Total working funds}}$$

**Table No. 4.11**

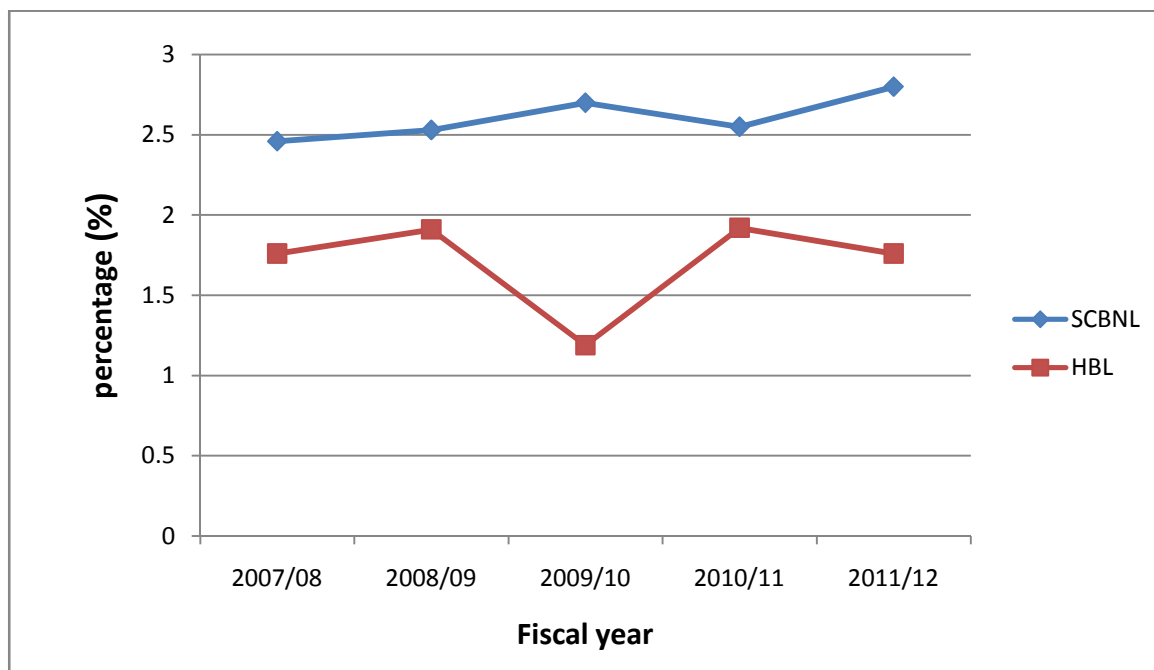
#### **Return on Total Working Fund Ratio (%)**

<b>Fiscal year</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	2.46	1.76
2008/09	2.53	1.91
2009/10	2.70	1.19
2010/11	2.55	1.92
2011/12	2.80	1.76
<b>Mean</b>	<b>2.61</b>	<b>1.71</b>
<b>S.D.</b>	<b>0.14</b>	<b>0.30</b>
<b>C.V.</b>	<b>5.41%</b>	<b>17.48%</b>

*Sources: Appendix No. 1(xi)*

**Figure No. 4.11**

**Return on Total Working Fund**



In the table and figure no. 4.11 reveals that the ratio of return on total working fund is fluctuated in case of SCBNL and HBL during the study period. SCBNL has had a high ratio of 2.80% in F/Y 2011/12 and a low ratio of 2.46% in F/Y 2007/08. Similarly, HBL has had a high of 1.92% and a low of 1.19% in F/Y 2010/11 and 2009/10 respectively.

SCBNL has a slightly high mean ratio than HBL i.e.,  $2.61 > 1.71$ . It reveals that SCBNL has been able to earn high profit on total working fund in comparison to HBL.

From the viewpoint of C.V., SCBNL ratios are more consistent than HBL. C.V. of SCBNL is lower than HBL i.e.  $5.41\% < 17.48\%$ . Both banks need to exert more effort in mobilizing its working assets more efficiently.

**ii) Return on Loan and Advances Ratio**

Return on loan and advances ratio measure the earning capacity of banks on its total deposit mobilized on loan and advances mostly loan and advances included loan, cash credit, overdraft, bills purchased and discount. In order words return on loan and advances

ratio indicates how efficiently the banks have employed its resources in the form of loan and advances. It can be computed as:

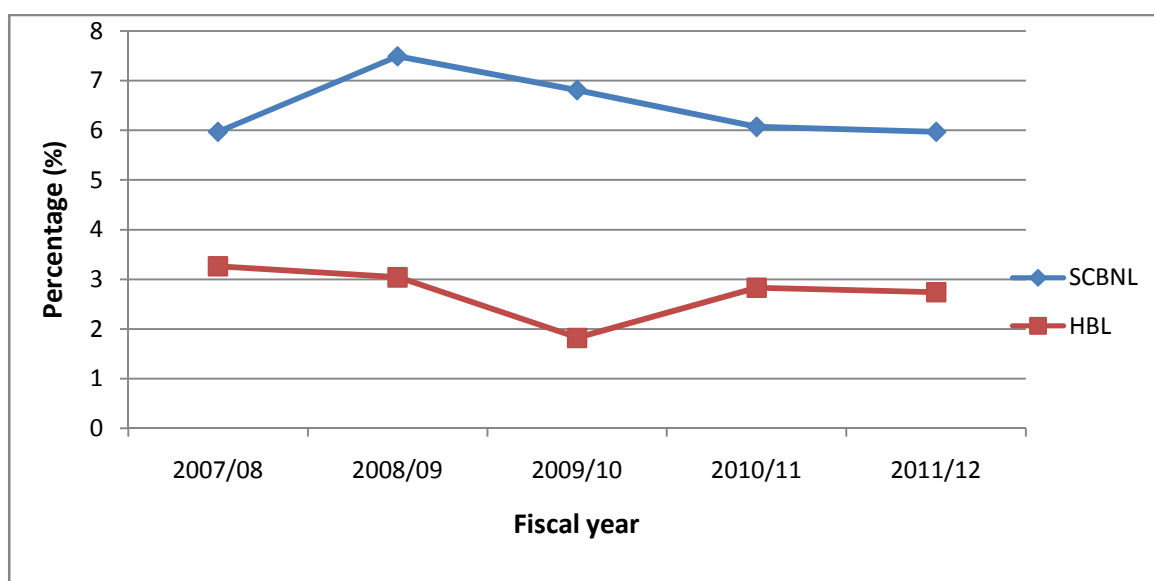
$$\text{Return on Loan \& Advances Ratio} = \frac{\text{Net profit}}{\text{Loan \& Advances}}$$

**Table No. 4.12**  
**Return on Loan and Advances Ratio (%)**

Fiscal Years	SCBNL	HBL
2007/08	5.97	3.26
2008/09	7.49	3.04
2009/10	6.81	1.82
2010/11	6.07	2.83
2011/12	5.97	2.74
<b>Mean</b>	<b>6.47</b>	<b>2.74</b>
<b>S.D.</b>	<b>0.67</b>	<b>0.51</b>
<b>C.V.</b>	<b>0.43%</b>	<b>20.15%</b>

Sources: Appendix No. 1 (xii)

**Figure No. 4.12**  
**Return on Loan and Advances Ratio (%)**



In the table and figure shows no. 4.12 that the ratio of return on loan and advances of SCBNL are better than HBL in all F/Y, through they have a fluctuating trend. SCBNL ratios have witnessed a increasing trend up to F/Y 2008/09, thereafter they have an decreasing trend. SCBNL has recorded a high ratio of 7.49% in F/Y 2008/09, and a low ratio of 5.97% in F/Y 2007/08 and 2011/12. Similarly, HBL recorded a high of 3.26% in F/Y 2007/08 and a low of 1.82% in F/Y 2009/10.

The comparison of mean ratio reveals that SCBNL has a higher ratio than HBL i.e., 6.47% > 2.74%. This shows that SCBNL has been more successful in maintaining its higher return on loan and advances than HBL.

C.V. of SCBNL is lower than HBL i.e. 0.43 % < 20.15%. It proves that HBL has higher variability of ratio than SCBNL. In conclusion, it can be said that HBL profit earning capacity by utilizing available resources is weaker compared to SCBNL, but nevertheless HBL is making significant improvements in this regard.

### iii) Total Interest Earned to Total Working Fund Ratio

This ratio is calculated to find out the percentages of interest earned in total assets. It reflects the extent to which the banks are success in mobilizing there to total assets to gain higher income as interest. Higher ratio indicates higher earning power of the banks of its total working fund. This ratio is computed by dividing total interest earned by total working fund i.e. total assets.

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

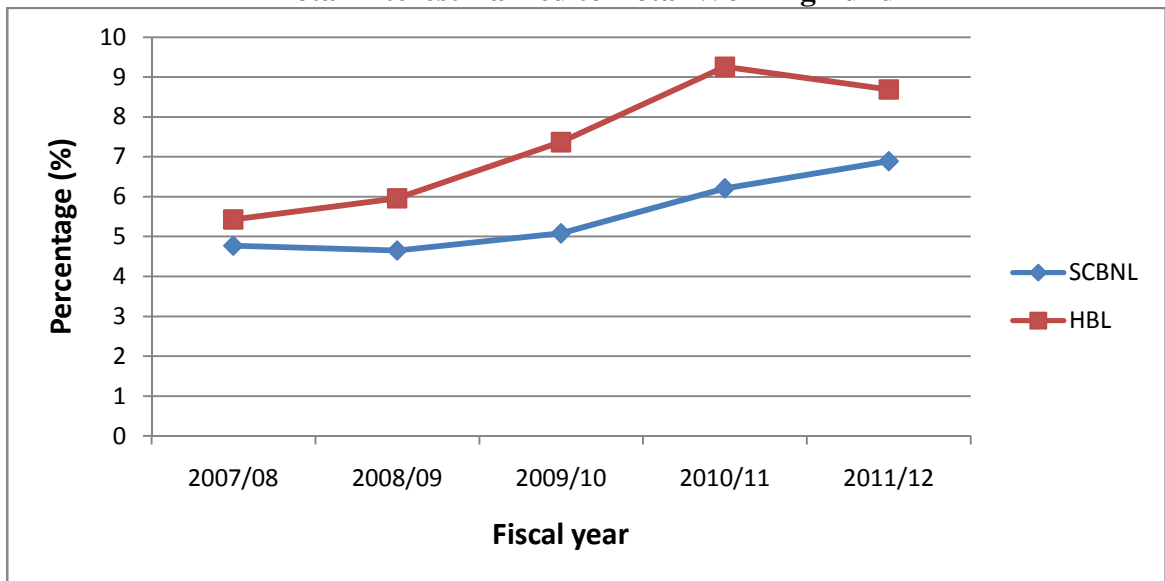
**Table No. 4.13**  
**Total Interest Earned to Total Working Fund Ratio (%)**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	4.77	5.43
2008/09	4.65	5.96
2009/10	5.08	7.37
2010/11	6.21	9.26
2011/12	6.89	8.69
<b>Mean</b>	<b>5.52</b>	<b>7.34</b>
<b>S.D.</b>	<b>0.98</b>	<b>1.42</b>
<b>C.V.</b>	<b>17.78%</b>	<b>19.41%</b>

Sources: Appendix No. 1(xiii)

**Figure No. 4.13**

**Total Interest Earned to Total Working Fund**



In the table and figure no. 4.13 shows that, decrease in F/Y 2008/09, after that increasing up to F/Y 2011/12 in interest earning ratio of SCBNL and increasing up to F/Y 2010/11, after that decrease in F/Y 2011/12 in interest earning ratio of HBL. In fact higher ratio of HBL than that of SCBNL in all fiscal year. SCBNL has had a high ratio of 6.89% in F/Y 2011/12 and a low ratio of 4.65% in F/Y 2008/09. Similarly, HBL has experienced a high of 9.26% in F/Y 2010/11 and a low of 5.43% in F/Y 2007/08.

The average Interest earning ratio of SCBNL is lower than HBL i.e., 5.52% < 7.34%. This reflects that HBL has been stronger in terms of interest earning power with respect to total working fund than SCBNL. According to C.V. SCBNL has lower than HBL i.e., 17.78% < 19.41%, it means slightly more consistent of interest earning ratio of SCBNL than HBL.

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

#### iv) Total Interest Paid to Total Working Fund Ratio

This ratio is calculated to find out the proportion of interest paid against the total working fund. Higher ratio indicated the higher interest expenses on total working fund and Vice-versa. The table below shows the mean, S.D and C.V of total interest paid to total working fund ratio. Generally, this ratio is considering good as lower it is. This ratio reveals the relationship between total interests paid amount and total employed. The formula is as follows;

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

**Table No. 4.14**

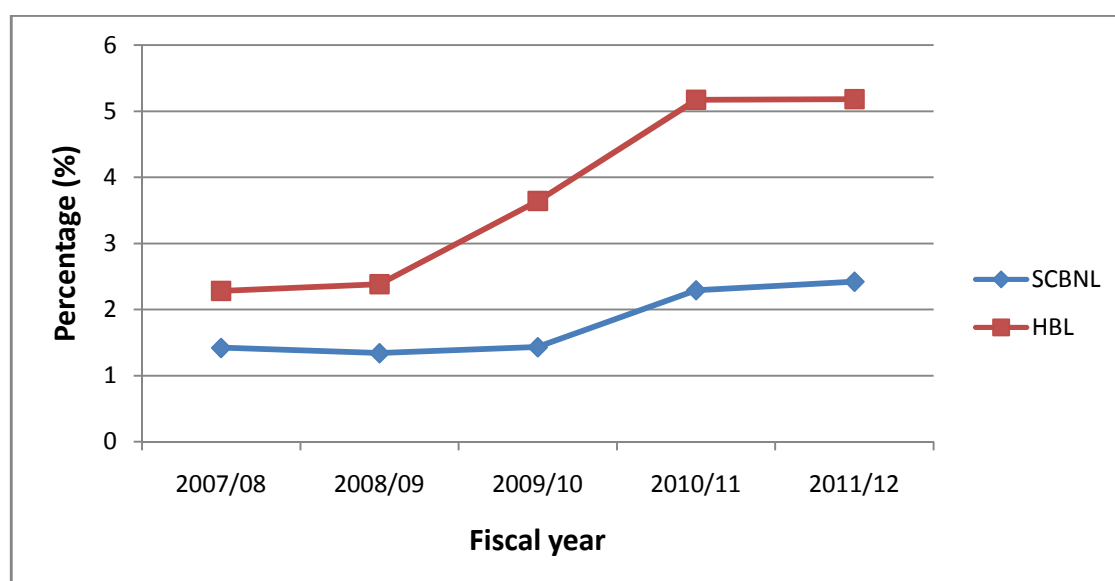
**Total Interest Paid to Total Working Fund Ratio (%)**

Fiscal Years	SCBNL	HBL
2007/08	1.42	2.28
2008/09	1.34	2.38
2009/10	1.43	3.64
2010/11	2.29	5.17
2011/12	2.42	5.18
<b>Mean</b>	<b>1.78</b>	<b>3.73</b>
<b>S.D.</b>	<b>0.53</b>	<b>1.42</b>
<b>C.V.</b>	<b>29.66%</b>	<b>38.22%</b>

*Sources: Appendix No.1 (xiv)*

**Figure No. 4.14**

**Total Interest Paid to Total Working Fund**





In the table and figure no. 4 14 shows that, fluctuated trend in total Interest paid to total working fund ratio of SCBNL and increasing trend in total interest paid to total working fund ratio of HBL. The decrease in Interest expenses can be attributed to an all time low interest rate offered by banks on deposits, lower interest rates on inter-bank taking, and bank borrowings.

the average ratio of SCBNL with regards to total interest paid to total working fund ratio is lower than that of HBL i.e. 1.78%<3.73%. In terms of C.V., SCBNL ratios are more stable than that of HBL i.e.,29.66 %<38.22%.

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

#### v) Return on capital employed

A ratio between net profit to capital employed is known as return on capital employed. The return on capital employed can be computed in the following way.

$$\text{Return on capital employed} = \frac{\text{Net profit after tax}}{\text{Capital employed}}$$

Where capital employed = total assets – current liabilities

**Table No 4.15**

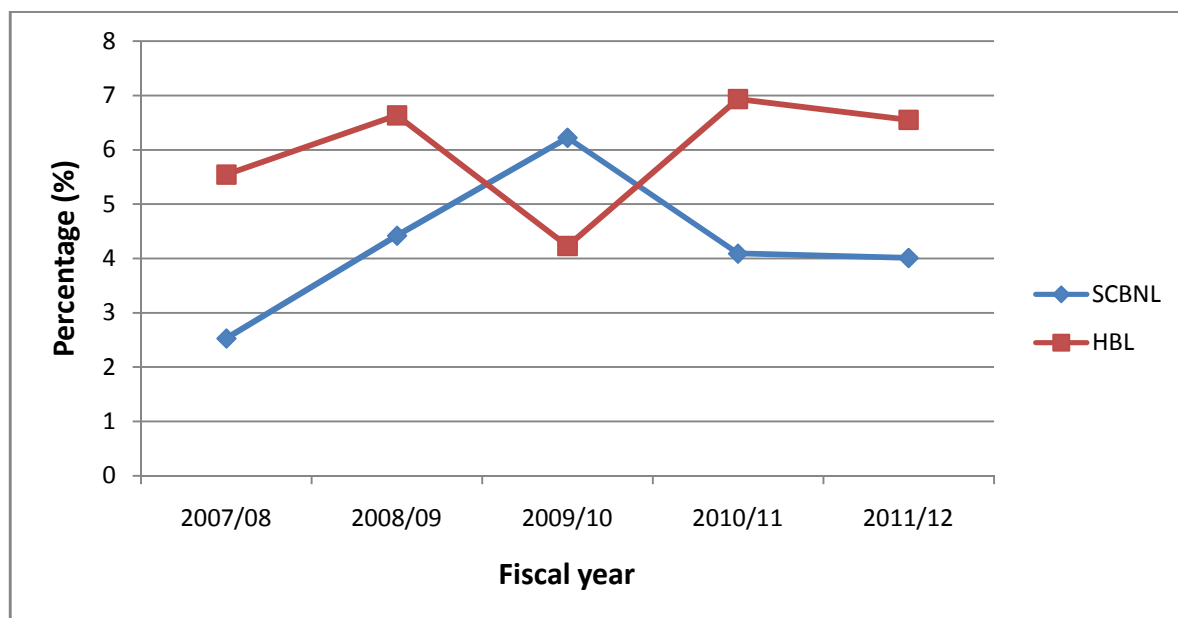
#### **Return on Capital Employed**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	2.53	5.54
2008/09	4.42	6.63
2009/10	6.22	4.23
2010/11	4.09	6.93
2011/12	4.01	6.55
<b>Mean</b>	<b>4.26</b>	<b>5.98</b>
<b>S.D.</b>	<b>1.32</b>	<b>1.09</b>
<b>C.V.</b>	<b>30.90%</b>	<b>18.26%</b>

*Sources: Appendix No. 1 (xv)*

**Figure No. 4.15**

**Return on capital employed**



In the table and figure no. 4.15 shows that, the comparison of mean ratio reveals that HBL has higher ratio than SCBNL. This shows that HBL has been more successful in maintaining the efficiency of the firm on the utilization of total capital. A higher ratio is an indication of the better utilization of capital employed.

**vi) Return on equity ratio (ROE)**

The return on equity (ROE) measures the return on the owner's investment in the firm. Higher ratio of return on equity is better for owner. It is calculated as follow

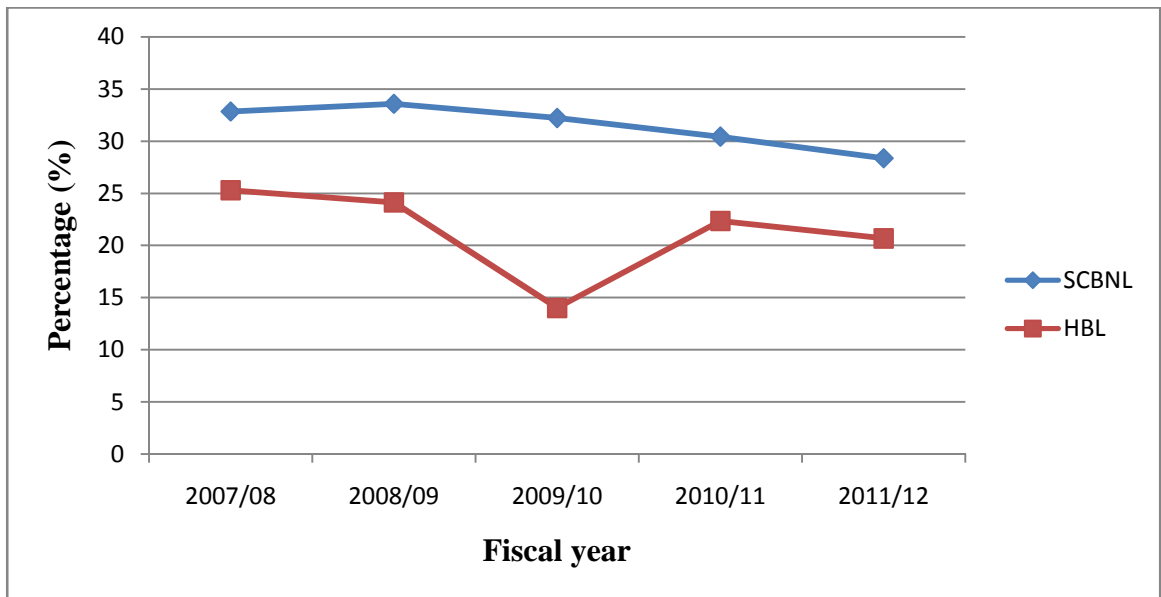
$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit}}{\text{Total Equity Capital}}$$

**Table No. 4.16**  
**Return on equity ratio (ROE) (%)**

<b>Fiscal Year</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	32.85	25.30
2008/09	33.58	24.13
2009/10	32.22	14.02
2010/11	30.43	22.36
2011/12	28.36	20.69
<b>Mean</b>	<b>31.49</b>	<b>21.30</b>
<b>S.D.</b>	<b>2.10</b>	<b>4.43</b>
<b>C.V.</b>	<b>6.67%</b>	<b>20.80%</b>

Sources: Appendix No. 1 (xvi)

**Figure No. 4.16**  
**Return on equity (ROE)**



In the table and figure no. 4.16 reveals that the ratio of return on equity is fluctuated in case of SCBNL and HBL during the study period. SCBNL has had a high ratio of 33.58%

in F/Y 2008/09 and a low ratio of 28.36% in F/Y 2011/12. Similarly, HBL has had a high of 25.30% and a low of 14.02% in F/Y 2007/08 and 2009/10 respectively.

In the mean ratios, it is observed that SCBNL has the average mean value i.e., 31.49 which is more than 21.30 of HBL. The co-efficient of variation of SCBNL is less than HBL i.e., 6.67% < 20.80%. Finally it can be concluded that SCBNL has mobilized its equity capital more efficiently than HBL.

#### **4.1.4 Net worth per share (NWPS)**

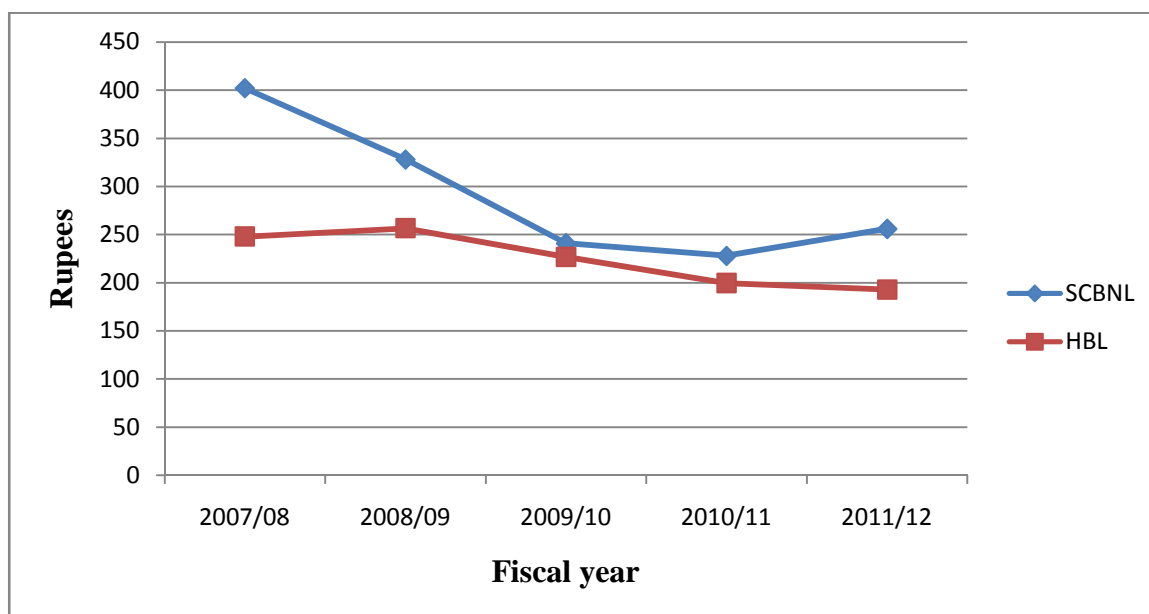
Net worth is the owner's equity in the company. It is also known as book value of the company. The book value per share is computed by dividing the amount of total shareholder's equity, which is called net worth, by the number of shares outstanding. This figure represents the asset value per share after deducting liabilities and preferred stock. Book value is a historical cost amount. It represents the real or actual value of the common stock. Generally, market price of stock is greater than book value of the stock.

**Table No. 4.17**  
**Net worth per share (NWPS)**

<b>Fiscal Year</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	402	247.95
2008/09	328	256.52
2009/10	241	226.79
2010/11	228	199.77
2011/12	256	193.00
<b>Mean</b>	<b>291</b>	<b>224.81</b>
<b>S.D.</b>	<b>73.12</b>	<b>28.21</b>
<b>C.V.</b>	<b>25.13%</b>	<b>12.55%</b>

sources : Annual report of concern bank

**Figure No. 4.17**  
**Net worth per share (NWPS)**



In the table and figure no. 4.17 shows that, SCBNL had an average NWPS of Rs. 291 with standard deviation 73.12. The coefficient of variation shows that there is fluctuation of 25.13% in NWPS of SCBNL.

HBL within the period of study had an average NWPS of Rs.224.81. ranging between Rs.193 and Rs. 247.95. The standard deviation is 28.21 and the fluctuation of 12.55% in the closing NWPS is seen during the period.

Finally, it can be concluded that NWPS of SCBNL is the higher than that of HBL. Similarly the standard deviation of SCBNL is highest and HBL is the lowest. The coefficient of variation of these banks shows that there is an above moderate level of fluctuations in the NWPS.

#### **4.1.5 Price earnings ratio (P/E Ratio)**

Price earnings ratio indicates investors' expectations about the firm's performance. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the P/E ratio declines. Price- earnings ratio is the ratio between market price per share and earnings per share.

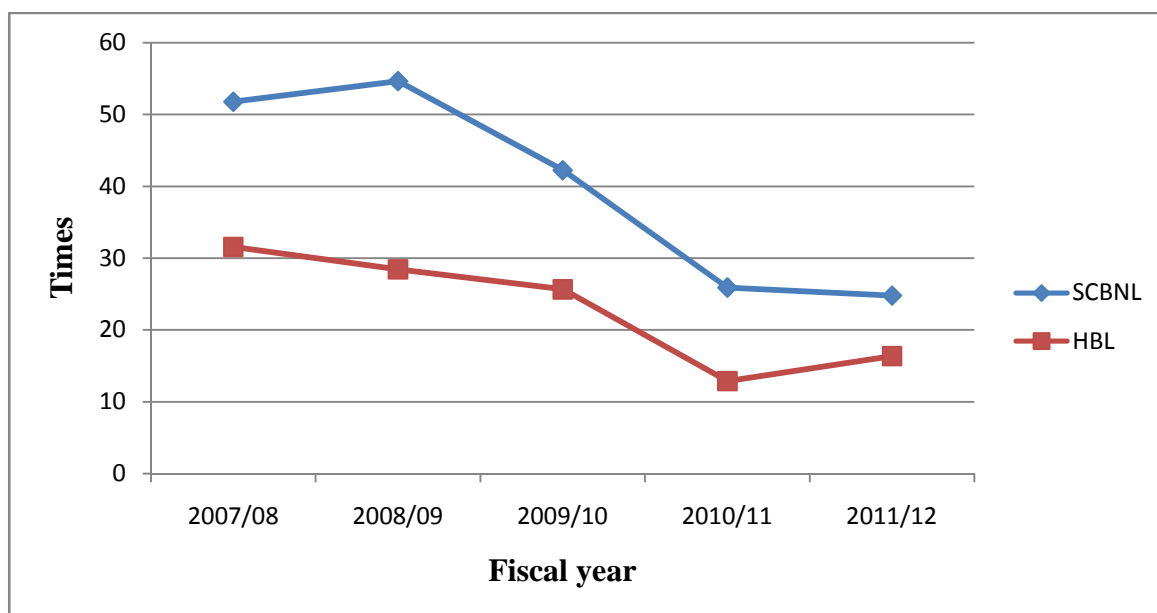
P/E Ratio = Price per share/ Earning per share

**Table No. 4.18**  
**Price earnings ratio (P/E Ratio)**

<b>Fiscal Year</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	51.77	31.56
2008/09	54.64	28.43
2009/10	42.23	25.66
2010/11	25.90	12.88
2011/12	24.78	16.35
<b>Mean</b>	<b>39.86</b>	<b>22.98</b>
<b>S.D.</b>	<b>14.04</b>	<b>8.01</b>
<b>C.V.</b>	<b>35.22%</b>	<b>34.85%</b>

sources : Annual report of concern bank

**Figure No. 4.18**  
**Price earnings ratio (P/E)**



In the table and figure no.4.18 shows that, the average P/E Ratio of SCBNL, during this period of study is 39.86. It is within the range of 24.78 and 51.77. The standard deviation

of P/E Ratio is 14.04 whereas coefficient of variation is 35.22% indicating the medium fluctuating nature of P/E Ratio in SCBNL.

HBL has an average P/E Ratio of 22.98 ranging between 16.35 and 31.56 during the period of study. The standard deviation is 8.01 and the fluctuation of 34.85% which indicates that the bank has the medium fluctuation in P/E Ratio during the period.

Finally it can be concluded that SCBNL has the highest average P/E Ratio and HBL has the lowest. The C.V indicates that among the banks under study during period, both banks medium fluctuating in P/E ratio.

#### **4.1.6 Dividend yield**

Dividend yield is the measure of rate of return in the form of dividends. It is relative term, which is calculated by dividing dividend per share by market price per share. Only higher dividends or lower dividends do not matter to investors. So it is essential to determine the rate of return on their investment.

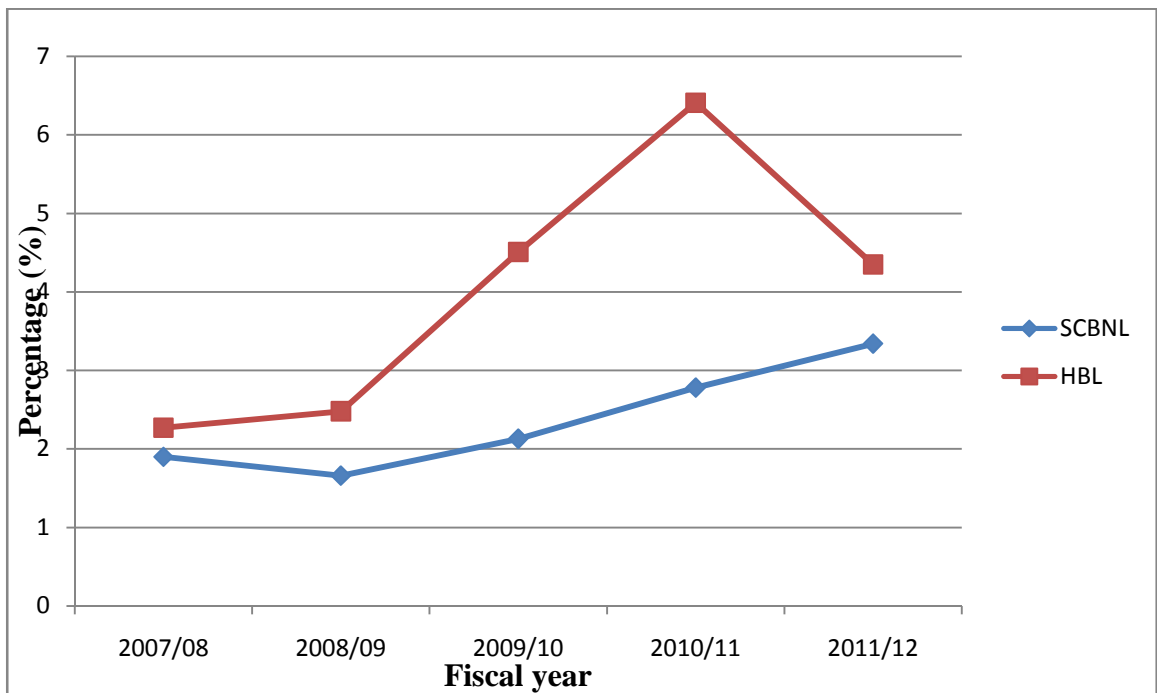
$$\text{Dividend yield} = \text{Dividend per share} / \text{Market value per share}$$

**Table No. 4.19**  
**Dividend Yield (DY)**

<b>Fiscal Year</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	1.90	2.27
2008/09	1.66	2.48
2009/10	2.13	4.51
2010/11	2.78	6.41
2011/12	3.34	4.35
<b>Mean</b>	<b>2.36</b>	<b>4.00</b>
<b>S.D.</b>	<b>0.68</b>	<b>1.69</b>
<b>C.V.</b>	<b>28.93%</b>	<b>42.32%</b>

**Sources:** Appendix No. 1(xvii)

**Figure No. 4.19**  
**Dividend yield (DY)**



In the table and figure no. 4.19 reflects that, SCBNL had an average DY of 2.36 with a standard deviation of 0.68. The coefficient of variation shows that there is a fluctuation of 28.93%. Similarly HBL had an average DY of 4.00 with the SD of 1.69. The coefficient of variation shows that there is a fluctuation of 42.32%. From the above data and calculations, it can be seen that the average DY of HBL is the higher than that of SCBNL. The DY range of the banks under study during the period is between 1.66% and 6.41%. Similarly the standard deviation of HBL is the higher than SCBNL. The coefficient of variation of HBL is higher than SCBNL. It means SCBNLs DY is more stable than HBL.

#### **4.1.7 Earning per share (EPS) analysis**

The profitability of bank from the point of view of the ordinary shareholders is earning per share. The ratio explains net income for each unit of share. Earnings per share of an organization give the strength of the share in the market. It shows how much of the total earnings belong to the ordinary shareholders. EPS is calculated as:

$$EPS = \frac{NetIncome}{NoOfSharesOutstanding}$$

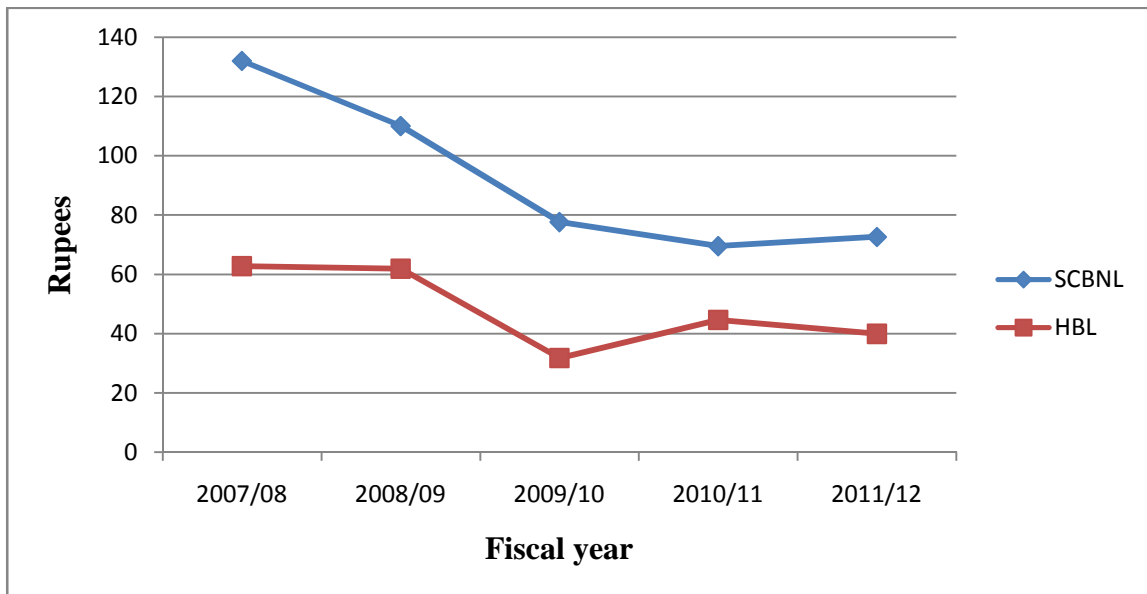


**Table No. 4.20**  
**Earnings per share (EPS)**

<b>Fiscal Year</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	131.92	62.74
2008/09	109.99	61.90
2009/10	77.65	31.80
2010/11	69.51	44.66
2011/12	72.60	39.94
<b>Mean</b>	<b>92.33</b>	<b>48.21</b>
<b>S.D.</b>	<b>27.41</b>	<b>13.68</b>
<b>C.V.</b>	<b>29.69%</b>	<b>28.38%</b>

sources : Annual report of concern bank

**Figure No. 4.20**  
**Earnings per share (EPS)**



In the table and figure no. 4.20 shows that, fluctuating trend in EPS of both banks during the study period. SCBNL within the period of study had an average EPS of Rs.92.33, ranging between Rs.72.60 and Rs. 131.92. The standard deviation is Rs. 27.41 and the fluctuation of 29.69% in the EPS is seen during the period.

The average EPS of HBL during the period of study is Rs. 48.21, ranging between Rs 39.94 and Rs 62.74. The standard deviation is Rs.13.68 and a coefficient of variation is

28.38%. C.V. indicates that there is a fluctuation of 28.38% in the EPS of HBL during the period of the study.

Finally, it can be concluded that average EPS of SCBNL is the higher than that of HBL. Similarly the standard deviation of SCBNL is higher than HBL. The coefficient of variation of these banks shows that there is slightly more fluctuations of SCBNL in the EPS.

#### 4.1.8 Dividend per share (DPS) analysis

Dividend per share is calculated to know the share of dividend that the shareholders receive in relation to the paid up value of the share. A large number of present and potential investors may be interested in the dividend per share, rather than the earning per share. Therefore, an institution offering a high dividend per share is regarded as efficient in fulfilling shareholders expectations, which will also enable to increase the value of an institution.

Dividend per share is the earning distribute to ordinary shareholders divided by the number of ordinary shares outstanding, i.e.

$$DPS = \frac{\text{Total Dividend}}{\text{No Of Ordinary Shares}}$$

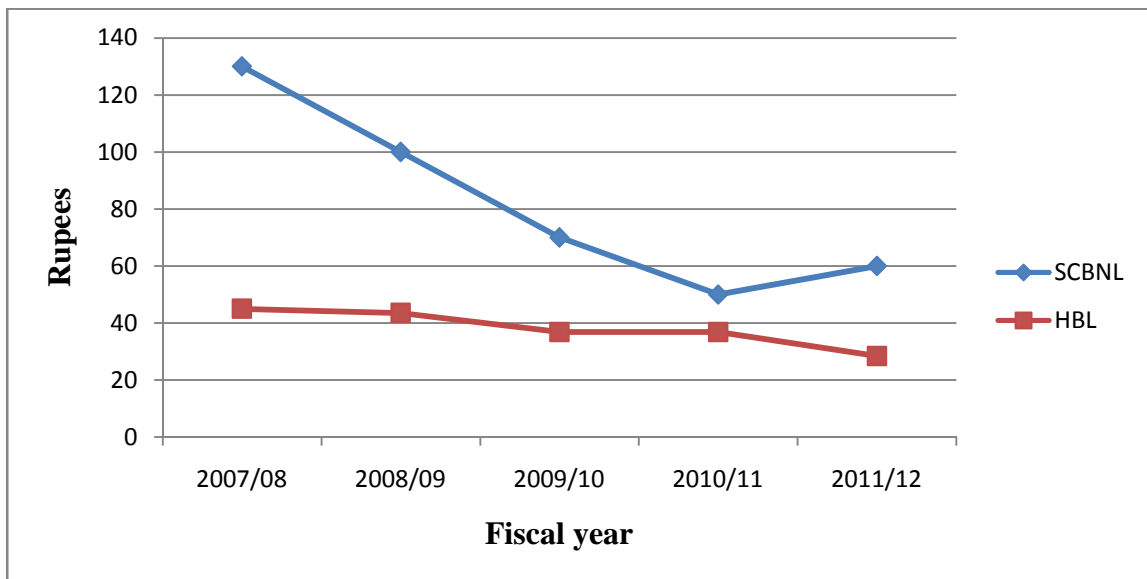
**Table No. 4.21**

**Dividend per share (DPS) (RS)**

<b>Fiscal Year</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	130	45
2008/09	100	43.56
2009/10	70	36.84
2010/11	50	36.84
2011/12	60	28.42
<b>Mean</b>	<b>82</b>	<b>38.13</b>
<b>S.D.</b>	<b>32.71</b>	<b>6.60</b>
<b>C.V.</b>	<b>39.89%</b>	<b>17.31%</b>

Sources: Appendix No. 1(xviii)

**Figure No. 4.21**  
**Dividend per share (DPS)**



In the table and figure no. 4.21 shows that, SCBNL had a decreasing trend up to F/Y 2010/11 and then increasing in F/Y 2011/12. Similarly, HBL had a decreasing trend in all fiscal year during the study period.

SCBNL has an average DPS of Rs. 82. Continue dividend was paid in the years. The standard deviation is Rs. 32.71 and the fluctuation of 39.89% in the DPS is seen during this period.

HBL has an average DPS of Rs. 38.13. The highest DPS is Rs 45 whereas it has paid low dividend i.e. Rs 28.42 in the years 2011/2012. The standard deviation is 6.60 and coefficient of variation is 17.31%. The CV indicates that the DPS of HBL is 17.31% fluctuating.

Finally, SCBNL has the higher average DPS than HBL. It means more dividend is paid to shareholder by SCBNL. The C.V indicates that among the banks under study during the period, more consistency in DPS of HBL than SCBNL.

### 4.1.9 Growth Ratios

It represents how well the commercial banks those growth ratios are maintaining their economic and financial position. Here those growth ratios are analyzed and interoperate, which are related to the fund mobilization and investment management of a bank. In the topic, there are four types of growth ratio of total deposit, total investment, loan and advances and net project calculated. The analysis also concerns which asset portfolio has significant increment corresponding to the increment in deposit liability and investment. The formula to calculate growth ratio and average ratio are as follows;

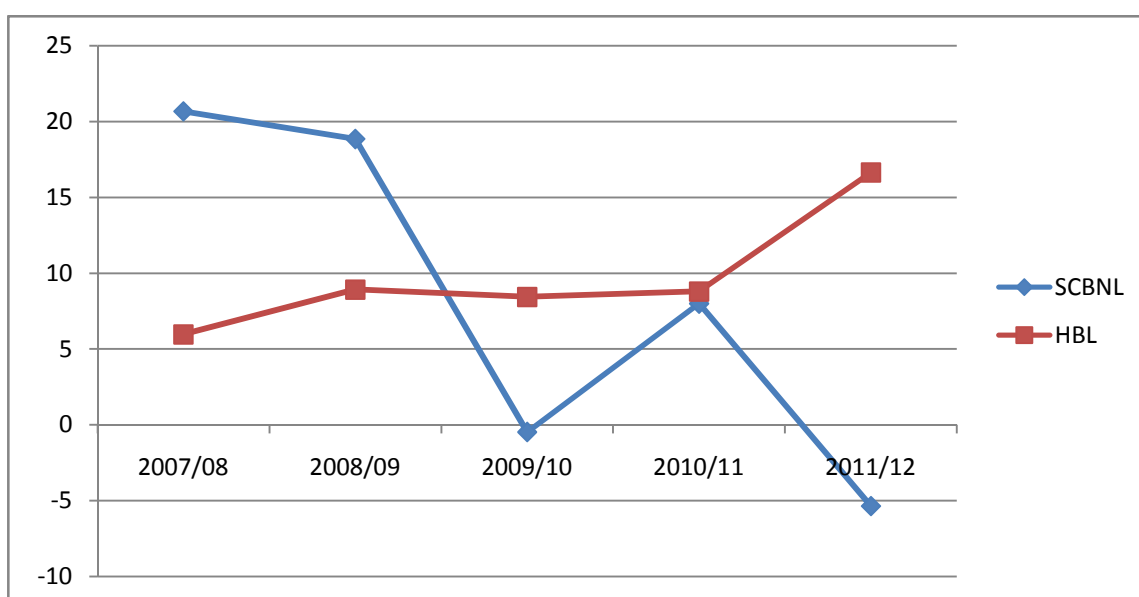
$$\text{Growth rate} = \frac{\text{Present year figure} - \text{Previous year figure}}{\text{Previous year figure}} * 100\%$$

**Table No. 4.22**  
**Growth Ratio of Total Deposit (%)**

Fiscal Years	SCBNL	HBL
2007/08	20.67	5.97
2008/09	18.85	8.92
2009/10	-0.47	8.44
2010/11	8.00	8.80
2011/12	-5.35	16.64
<b>Average growth Rates</b>	<b>8.34</b>	<b>9.76</b>

*Sources: Appendix No.1 (xix)*

**Figure No. 4.22**  
**Growth Ratio of Total Deposit**



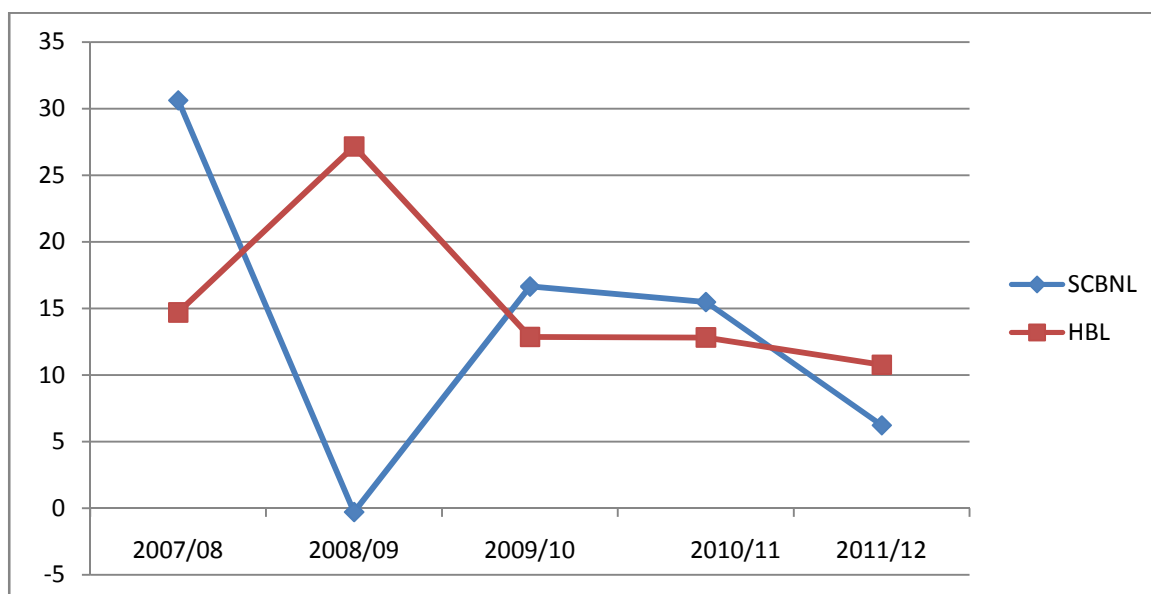
In the table and figure no. 4.22 shows that, fluctuating trend in growth rate of total deposit of both banks during the study period. SCBNL had a more fluctuated, with in a average growth rate is 8.34%, higher growth rate of SCBNL is 20.67% and lower growth rate is - 5.35% in F/Y 2007/08 and 2011/12 respectively. Similarly, HBL had a average growth rate is 9.76%, high growth rate of total deposit of HBL is 16.64% and low growth rate of total deposit is 5.97% in F/Y 2011/12 and 2007/08 respectively. Finally, it can be conclude that average growth rate of total deposit of HBL is higher than SCBNL and more fluctuating of growth rate of SCBNL. On the contrary, HBL has been successful in increasing its deposit year after year. This is a solid proof of its high quality service, security, and credibility in the mind of depositors.

**Table No. 4.23**  
**Growth Ratio of Loan and Advances (%)**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	30.62	14.70
2008/09	-0.28	27.16
2009/10	16.65	12.86
2010/11	15.48	12.82
2011/12	6.23	10.77
<b>Average growth Rates</b>	<b>13.74</b>	<b>15.66</b>

*Sources: Appendix No. 1(xx)*

**Figure No. 4.23**  
**Growth Ratio of Loan and Advances**



In the study period above table and figure no. 4.23 shows that, SCBNL ratios were highly variable than HBL. The average growth rate of total loan and advances of HBL is better than SCBNLL i.e.  $15.66\% > 13.74\%$ . It seems to be better position of loan and advance of HBL than SCBNL.

**Table No. 4.24**  
**Growth Ratio of Total Investment (%)**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	2.58	12.83
2008/09	45.55	-34.70
2009/10	-1.92	-3.05
2010/11	-13.04	3.84
2011/12	-25.03	14.39
<b>Average growth Rates</b>	<b>1.63</b>	<b>-1.34</b>

*Sources: Appendix No. 1 (xxi)*

**Figure No. 4.24**  
**Growth Ratio of Total Investment**



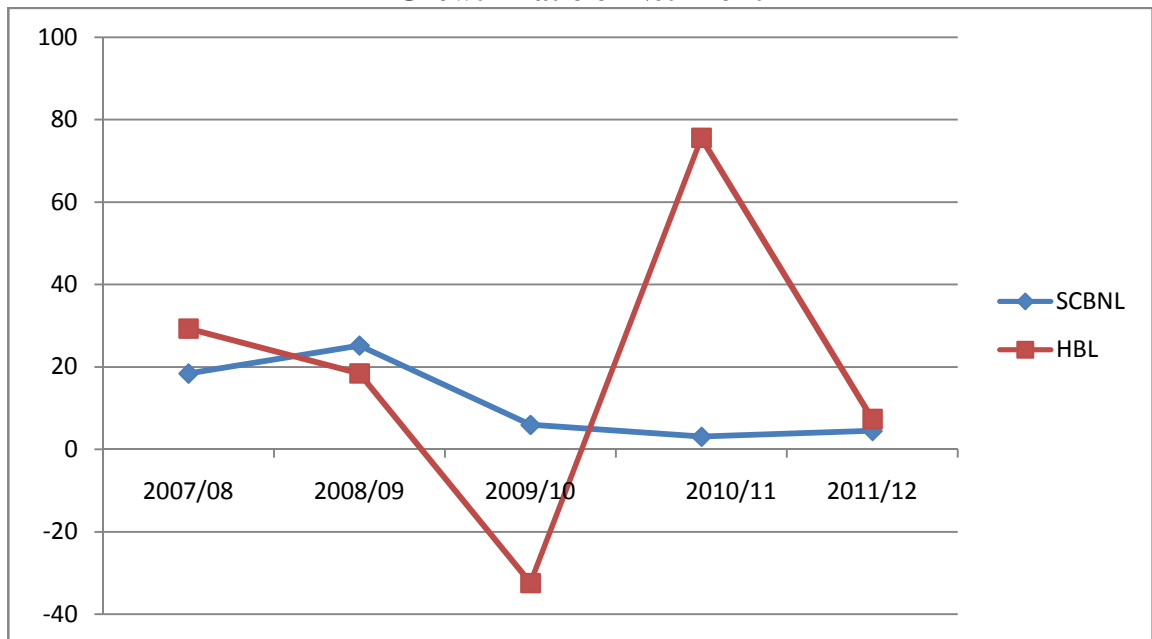
In the table and figure no. 4.24 shows that, the growth rate of total investment of both banks is in a fluctuating trend. The average growth ratio of investment of SCBNL seems to be higher than HBL i.e., 1.63% > -1.34%. This is due to a massive growth in SCBNL investment. However, we must not discount the fact that SCBNL investment to total deposit is far greater than HBL.

**Table No. 4.25**  
**Growth Ratio of Net Profit (%)**

<b>Fiscal Years</b>	<b>SCBNL</b>	<b>HBL</b>
2007/08	18.40	29.29
2008/09	25.18	18.39
2009/10	5.93	-32.42
2010/11	3.07	75.53
2011/12	4.45	7.34
<b>Average growth Rates</b>	<b>11.41</b>	<b>19.63</b>

*Sources: Appendix No. 1 (xxii)*

**Figure No. 4.25**  
**Growth Ratio of Net Profit**



In the table and figure no. 4.25 shows that, fluctuating trend in growth of net profit of SCBNL but HBL bank is highly fluctuating trend in net profit. The mean growth rate of HBL is higher than SCBNL i.e., 19.63% > 11.41%. It means HBL bank is in better position through net profit.

## 4.2 Statistical Tools

### 4.2.1 Coefficient of Correlation Analysis

Correlation analysis is the relationship between dependent variables so it is called constant variable also. Correlation is denoted by 'r' and ranges from +1.0 indicating perfect positive correlation to -1.0, indicating perfect negative perfect correlation. If the correlation coefficient is zero, then the factors are independent or un-correlated.

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



### Interpretation of Correlation Co-efficient

- It lies always between +1 to -1.
- When  $r = +1$ , there is perfect positive correlation.
- When  $r = -1$ , there is perfect negative correlation.
- When  $r = 0$ , there is no correlation.
- When  $r$  lies between 0.7 to 0.999, (-0.7 to -0.999) there is a high degree of positive or negative correlation.
- When  $r$  lies between 0.5 to 0.6999, there is moderate degree of correlation.
- When  $r$  is less than 0.5, there is a low degree of correlation.

### Probable Error

- If  $r < 6 \text{ P.E}$ , then the value of 'r' is not significant.
- If  $r > 6 \text{ P.E}$ , then the value of 'r' is definitely significant.
- If the other situations happen, nothing can be concluded with certainty.

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

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

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

**Table No. 4.26**

**Statement Showing Correlation between Total Deposit and Total Investment  
Evaluation Criterion**

<b>Banks</b>	<b>R</b>	<b><math>r^2</math></b>	<b>P.E.</b>	<b>6 P.E.</b>
<b>SCBNL</b>	0.3974	0.1580	0.2540	1.5240
<b>HBL</b>	-0.3708	0.1375	0.2602	1.5610

*Sources: Appendix No.2 (i)*

In the table no. 4.26 shows that, the coefficient of correlation 'r' between deposits and total investment in case of SCBNL is 0.3974, which indicates a positive correlation between deposits and total investment. Coefficient of determination ( $r^2$ ) is 0.1580. This means 15.80% of variation of the dependent variable has been explained by independent variable. The value of 'r' i.e. 0.3974 is lower than six times P.E. This states that there exists insignificant relationship between deposits and total investment.

The coefficient of correlation 'r' between deposits and total investment in case of HBL is - 0.3708, which indicates a negative relationship between the two variables. The coefficient of determination ( $r^2$ ) is 0.1375. This indicates that 13.75% of the variation of the dependent variable has been explained by independent variable. The value of 'r' i.e. - 0.3708 is lower than six times P.E. This states that there exists insignificant relationship between deposits and total investment.

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

#### **4.2.1.2 Correlation between Total Deposit and Loan & Advances**

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

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

**Table No. 4.27**

#### **Statement Showing Correlation between Total Deposit and Loan & Advances**

##### **Evaluation Criterion**

<b>Banks</b>	<b>R</b>	<b><math>r^2</math></b>	<b>P.E.</b>	<b>6 P.E.</b>
<b>SCBNL</b>	0.6236	0.3889	0.1843	1.1060
<b>HBL</b>	0.9645	0.9302	0.0211	0.1263

*Sources: Appendix No.2 (ii)*

In the table no. 4.27 shows that, the coefficient of correlation between deposit and loan and advance in case of SCBNL is 0.6236. This indicates that there is a positive relationship between deposit and loan and advances. The calculated value of ( $r^2$ ) or coefficient of determination is 0.3889. This means 38.89% of variation of the dependent variable (loan and advances) has been explained by the independent variable (deposit). When the value of 'r' i.e., 0.6236 is compared with six times the probably error or 6P.E. i.e., 1.1060, we can say that there is insignificant relationship between deposits and loan advances because 'r' is lower than six times P.E. i.e.  $0.6236 < 1.1060$ . The coefficient of correlation 'r' between deposits and loan and advances incase of HBL is 0.9645, which gives us an indication of higher positive correlation between them. Similarly, the value of coefficient of determination ( $r^2$ ) is found to be 0.9302. This shows that 93.02% variation of dependent variable (loan and advances) has been explained by the independent variable (deposits). The value of 'r' is greater than six times P.E. i.e.  $0.9645 > 0.1263$ . This further shows that the value of 'r' is significant. In other words, there is significant relationship between deposit and loan and advances.

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

#### **4.2.1.3 Correlation between MPS & EPS**

**Table No. 4.28**

**Statement Showing Correlation between MPS & EPS**

**Evaluation Criterion**

<b>Banks</b>	<b>R</b>	<b><math>r^2</math></b>	<b>P.E.</b>	<b>6 P.E.</b>
<b>SCBNL</b>	0.9739	0.9585	0.0155	0.0932
<b>HBL</b>	0.8852	0.7836	0.4381	2.6289

*Source: Appendix No.2 (iii)*

In the table no. 4.28 shows that, the coefficient of correlation 'r' between MPS and EPS in case of SCBNL is 0.9739, which indicates a positive correlation between MPS and EPS. Coefficient of determination ( $r^2$ ) is 0.9585. This means 95.85% of variation of the dependent variable has been explained by independent variable. The value of 'r' i.e. 0.9739 is greater than six times P.E. This states that there exists a significant relationship between MPS and EPS.

The coefficient of correlation 'r' between MPS and EPS in case of HBL is 0.8852, which indicates a positive relationship between the two variables. The coefficient of determination ( $r^2$ ) is 0.7836. This indicates that 78.36% of the variation of the dependent variable has been explained by independent variable. The value of 'r' i.e. 0.8852 is lower than six times P.E. This states that there exists insignificant relationship between MPS and EPS

In conclusion, it can be said that, SCBNL show significant relationship between MPS and EPS. HBL shows insignificant relation.

#### 4.2.1.4 Correlation between MPS & DPS

**Table No. 4.29**  
**Statement Showing Correlation between MPS & DPS**  
**Evaluation Criterion**

<b>Banks</b>	<b>R</b>	<b><math>r^2</math></b>	<b>P.E.</b>	<b>6 P.E.</b>
<b>SCBNL</b>	0.9708	0.9424	0.0174	0.1042
<b>HBL</b>	0.8596	0.7389	0.0787	0.4725

*Source: Appendix No. 2(iv)*

In the table no. 4.29 shows that, the coefficient of correlation 'r' between MPS and DPS in case of SCBNL is 0.9708, which indicates a positive correlation between MPS and DPS. Coefficient of determination ( $r^2$ ) is 0.9424. This means 94.24% of variation of the dependent variable has been explained by independent variable. The value of 'r' i.e. 0.9708 is greater than six times P.E. This states that there exists a significant relationship between MPS and DPS.

The coefficient of correlation 'r' between MPS and DPS in case of HBL is 0.8596, which indicates a positive relationship between the two variables. The coefficient of determination ( $r^2$ ) is 0.7389. This indicates that 73.89% of the variation of the dependent variable has been explained by independent variable. The value of 'r' i.e. 0.8596 is greater than six times P.E. This states that there exists significant relationship between MPS and DPS

In conclusion, it can be said that both the banks show significant relationship between MPS and DPS.

#### **4.2.2 Regression Analysis**

Simple regression analysis is the basis for this chapter because the analysis part is fully covered by regression analysis. Under this analysis, influences of other words, multiple regression independent variables upon dependent variable is measured and evaluated. In analysis helps to establish the functional relationship between dependent and independent variables and there by provides a mechanism for estimation. The purpose of multiple regression analysis in this study is to analyze the combined effect of different variables of the sampled banks. Furthermore, how the selected variables influence, is also being tested using regression model. As stated earlier, multiple regression analysis is the best way to project or estimate the value of dependent variable on the basic of independent variables.

#### 4.2.2.1 Regression Equation of Total Investment on Total Deposit by Using the Method of t-Test (TI = a + bTD)

Table 4.30

Regression Equation of Total Investment on Total Deposit by Using the Method of t-Test (TI = a + bTD)

S. No.	Name of Company	Regression Coefficient		r <sup>2</sup>	Calculated Value (t)	Tabulated Value (t)	Result
		Constant (a)	Slope (b)				
1	SCBNL	44700092671	0.7972	0.1580	0.7501	3.182	Insignificant
2	HBL	57625599172	-1.2388	0.1375	0.6915	3.182	Insignificant

Source: Appendix No.2 (v)

Table 4.30 depicts the major output of simple regression between total investment and total deposit of the two banks by using the method of t-test. The regression coefficient (b) of SCBNL and HBL are 0.7972 and -1.2388 respectively. 0.7972 indicate that there exists positive relationship between total investment and total deposit of SCBNL and -1.2388 indicate negative relation between total investment and total deposit of HBL.

The respective coefficients of determination (r<sup>2</sup>) are 0.1580 and 0.1375 for SCBNL and HBL, which indicates that the change in total investment is due to change of total deposit are 0.1580 and 0.1375 units respectively and the remaining variables is due to the effect of other factor.

In case of t-test, the calculated value of t < tabulated value of t in both banks which indicates that the relationship is not statistically significant of t at 0.05 level of significance and their H<sub>0</sub> is accepted. The acceptance of Null Hypothesis shows that total investment and total deposit are not significantly correlated such a situation is not a healthy indicator for the entire sector in the country.

### **4.3 Major Findings of the Study**

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

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

#### **Liquidity Ratio**

The liquidity position of SCBNL and HBL reveals that:

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

From the above findings, we can conclude that the liquidity position of SCBNL is comparatively better than HBL. It has the highest cash and bank balance to total deposit, investment in government securities to current assets. SCBNL is in a better position to meet its daily cash requirement. SCBNL has a higher current ratio, which justifies that it is also capable enough to meet its current obligations. HBL mean cash and bank balance to

current assets ratio. The higher degree of variability in cash and bank balance to current assets ratio of SCBNL during the study period.

### **Asset Management Ratio**

The asset management ratio of SCBNL and HBL reveals that:

- The mean ratio of loan and advances to total deposit ratio of HBL is higher than SCBNL. In terms of consistency HBL is more consistent than SCBNL.
- The mean ratio of total investment to total deposits of SCBNL is higher than HBL. The ratios of SCBNL are more consistent and less variable than HBL.
- The mean ratio of loan and advances to fixed deposit of HBL is higher than SCBNL. The ratios of HBL are less variable and more consistent than SCBNL.
- HBL has been more successful in identifying profitable investment sectors and increasing its earning. The same does not hold true for SCBNL, whose efforts seems to be more focused on investing in risk free assets, rather than increasing its loan and advances volume and subsequent earnings from it.
- HBL has a higher fixed deposit to total deposit ratio than SCBNL. HBL has the maximum fixed charge bearing deposit than SCBNL. From viewpoint of cost minimizing more is not favorable other hand, from viewpoint of liquidity greater portion of fixed deposit may be termed as favorable one.
- HBL has a higher saving deposit to total deposit ratio than SCBNL. If the total deposit of HBL is 1 then saving deposit will 48.52. The average saving deposit to total deposit ratios of HBL and SCBNL are 48.52 and 44.51. It clearly states that HBL has the maximum saving charge bearing deposit than SCBNL. From viewpoint of cost minimizing more is not favorable other hand, from viewpoint of liquidity greater portion of saving deposit may be termed as favorable one.

From the above findings we can conclude that HBL has been more successful in mobilization of its loan and advance to total deposits, fixed deposit to total deposit, saving deposit to total deposit loan and advance to fixed deposit, loan and advance to saving deposit ratio. On the other hand, SCBNL appears to be stronger in mobilization of total investment to total deposits ratio.



## **Profitability Ratios**

The profitability ratios of SCBNL and HBL reveal that,

- The mean ratio of return on total working fund of SCBNL higher than HBL. The ratios of SCBNL are more consistent and less variable than HBL.
- The mean ratio of return on total loan and advances of SCBNL has been found to be significantly greater than HBL. The ratios of SCBNL are less variable and more consistent than HBL.
- The mean ratio of total interest earned to total working fund of HBL is higher than SCBNL. SCBNL ratios are slightly more stable and less variable than HBL.
- The mean ratio of total interest paid to total working fund ratio of SCBNL is lower than HBL. However, HBL ratios are more variable than SCBNL ratios.
- The mean ratio of return on capital employed ratio of HBL is higher than SCBNL. This shows that HBL has been more successful in maintaining the efficiency of the firm on the utilization of total capital. A higher ratio is an indication of the better utilization of capital employed.
- The mean ratio of return equity ratio of SCBNL is higher than HBL and SCBNL ratios are less variable than HBL.

On the basis of above, we can conclude that SCBNL has been more successful in maintaining its higher return on loan and advances and total working fund and return on equity. On the other hand, HBL has been more successful in maintaining its interest earned to total working fund ratio, interest paid to total working fund ratio, and return on capital employed ratio.

- ) The mean ratio of SCBNL is higher than HBL. However, HBL ratios are more stable than SCBNL in NWPS.
- ) SCBNL has the highest average P/E Ratio and HBL has the lowest. The C.V indicates that among the banks under study during period, slightly more stable of HBL than SCBNL in P/E ratio.
- ) The average DY of HBL is the higher than that of SCBNL. The DY range of the banks under study during the period is between 1.66% and 6.41%. Similarly the

standard deviation of HBL is the higher than SCBNL. The coefficient of variation of HBL is higher than SCBNL. It means SCBNLs DY is more stable than HBL.

- ) Average EPS of SCBNL is the higher than that of HBL. Similarly the standard deviation of SCBNL is higher than HBL. The coefficient of variation of these banks shows that there is slightly more fluctuations of SCBNL in the EPS.
- ) SCBNL has the higher average DPS than HBL. It means more dividend is paid to shareholder by SCBNL. The C.V indicates that among the banks under study during the period, more consistency in DPS of HBL than SCBNL.

### **Growth Ratios**

The growth ratio of SCBNL and HBL reveals that,

- The average growth rate of deposits of HBL are significantly higher than SCBNL
- SCBNL ratios were highly variable than HBL. The average growth rate of total loan and advances of HBL is better than SCBNLL i.e.  $15.66\% > 13.74\%$ . It seems to be better position of loan and advance of HBL than SCBNL.
- The growth rate of total investment of both banks is in a fluctuating trend. The average growth ratio of investment of SCBNL seems to be higher than HBL i.e.,  $1.63\% > -1.34\%$ .
- Fluctuating trend in growth of net profit of SCBNL but HBL bank is highly fluctuating trend in net profit. The mean growth rate of HBL is higher than SCBNL i.e.,  $19.63\% > 11.41\%$ . It means HBL bank is in better position through net profit.

From the above shows, the Growth ratio of Deposit, Loan and advance, and Net profit are better of HBL and only Growth ratio of Investment is better of SCBNL.

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

Co-efficient of correlation analysis between different variables of SCBNL and HBL reveals that;

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

- The co-efficient of correlation between MPS and EPS of SCBNL is slightly higher than HBL.
- The co-efficient of correlation between MPS and DPS of SCBNL is higher than HBL.

In conclusion, we can say that there is a significant relationship between MPS and EPS, MPS and DPS and there is an insignificant relationship between total deposit & total investment, total deposit & loan in case of SCBNL. In case of HBL, there exists a significant relationship between deposits and loan & advance, MPS & DPS and insignificant relationship between total deposit and total investment, MPS and EPS.

### **Regression Analysis**

Simple regression between total investment and total deposit of the two banks by using the method of t-test. The regression coefficient (b) of SCBNL and HBL are 0.7972 and -1.2388 respectively. 0.7972 indicate that there exists positive relationship between total investment and total deposit of SCBNL and -1.2388 indicate negative relation between total investment and total deposit of HBL.

The respective coefficient of determination ( $r^2$ ) are 0.1580 and 0.1375 for SCBNL and HBL, which indicates that the change in total investment is due to change of total deposit are 0.1580 and 0.1375 units respectively and the remaining variables is due to the effect of other factor.

In case of t-test, the calculated value of  $t <$  tabulated value of  $t$  in both banks which indicates that the relationship is not statistically significant of  $t$  at 0.05 level of significance and their  $H_0$  is accepted. The acceptance of Null Hypothesis shows that total investment and total deposit are not significantly correlated such a situation is not a healthy indicator for the entire sector in the country.

## **CHAPTER-V**

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

This is the concluding chapter of the study. This chapter is divided into three sections: Summary, Conclusions and Recommendations. In this chapter, we summarize the study in brief and genuine information of the present situation under the topic of the study is defined on summary. Conclusions are analysis of applicable data by using various financial and statistical tools, which presents strengths, weakness, opportunities and threats of the CBs. And suggestions are obtainable in recommendation, which is arranged on the based from finding and conclusions.

#### **5.1 Summary**

Development and expansion of capital market are essential for the rapid economic growth of the country which helps economic development by mobilizing long-term capital needed for productive sector. Capital market is an indication of national economy, and its smooth operation leads a country to economic growth. So capital market is the back bone of national economy. Financial intermediaries play vital role in such fund movement i.e. from the surplus holders to the needy. In this regard, financial institutions are the formal medium for contributing effective utilization of the available resources in the economy. Likewise, financial market is another prosaic contributor for effective financial/ capital transactions.

The commercial banks play an important role in accelerating the development of an economy. The commercial bank is the great institution that conducts the payment mechanism of country. The individuals and institutions make payments to each other through the mechanism of commercial bank. The commercial bank plays a leading role in the smooth operation of an economy it makes available all financial services to individuals and institutions. Commercial banks are those which collect the immobilized capital from public, organizations etc as deposits and invest these capitals in different sectors like business, industries, and services etc, which fulfill the demands of capital in these sectors. The development of an economy in fact depends upon the development of commercial banks to some extent. the role commercial bank is significant not only in mobilizing saving but also in making investment for the development of different sectors of the

economy. Their role is also important for the poverty reduction, raising employment opportunities between the richer and poorer section of the society. These are also called financial intermediaries. Therefore it is called an engine economic growth. Development of the commercial banks has become the basis for measuring the level of economic growth of a nation. The banks opened before the decade of 1980s were by the government. No private sector was permitted to open banks in Nepal. The process of development adopted liberalized economic policies to develop the financial sector. As a pre-condition to economic liberalization, the Foreign Investment and Technology Transfer Act, 1981 came into existence. The government allowed private sectors to open banks. At present there are 31 commercial banks registered and operated in Nepal.

Financial performance is the heart of financial decision. It is the main indicator of success and failure of a firm. So, that the management should take appropriate action towards its weakness and maintain good performance in the strong areas. The main purpose of bank performance analysis is to evaluate its progress to meet the goals and objectives set forth by management and to compare the performance of the bank relative to that of similar other banks.

Effective planning and control are central to enhancing enterprises value. Financial plans may take forms, but any good plan must be related to the firms' existing strength and weaknesses. The strengths must be understood if they are to be used to proper advantage and the weaknesses must be recognized if corrective action is to be taken. The financial manager can plan future financial requirements in accordance with the forecasting and budgeting procedures, but the plan must begin with the type of financial analysis.

Financial statement analysis measures the firm's liquidity and solvency position. Financial statement analysis illustrates the profitability position of the firm. Financial analysis provides sufficient information to the management in order to organize objectives device plans, formulate policies and implement them effectively. Financial statement analysis furnishes necessary information to fulfill the needs of current as well as potential investors and regulatory authorities. Financial statement analysis shows the true and fair picture of the firm.

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

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

At last but not least we can conclude that financial analysis is done to determine the banks financial position in order to identify its current strength and weaknesses and to suggestion that might enable the firm to take advantage of its strengths and correct its weaknesses. The study is about the financial performance of the SCBNL and HBL based on its financial data of five years. By using financial and statistical tools, the overall financial performance of the bank has tried to analyze. The various ratios have revealed the financial condition of the bank over the five years. Correlation analysis helps to establish the relationship between two variables which can be useful to know how one variable affect the another variable.

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

## **5.2 Conclusion**

This study reveals that the current ratio of both bank are greater than 1, which should be considered satisfactory for both banks. The liquidity position of SCBNL is better than HBL. The cash and bank balance of SCBNL with respect to deposits is slightly greater than HBL. This puts, SCBNL in a better position with respect to meeting customer requirement than HBL. In contrast, a high ratio of non-earning cash and bank balance is an indication of bank's unavailability to invest its fund in income generation areas. The cash and bank balance of HBL with respect to current assets is higher than SCBNL. This shows greater capacity of HBL to meet its customer's cash requirement but that does not mean SCBNL can't meet its daily customer cash requirement. HBL needs to invest its funds in

more productive sectors. SCBNL mean investment in government securities is better than HBL. The higher degree of variability in investment in government securities of HBL during the study period shows lack of concrete policy of the bank in this regard.

HBL has been more successful in mobilization of its loan and advance to total deposits, fixed deposit to total deposit, saving deposit to total deposit, loan and advance to fixed deposit, loan and advance to saving deposit ratio. On the other hand, SCBNL appears to be stronger in mobilization of total investment to total deposits ratio.

SCBNL has been more successful in maintaining its higher return on loan and advances and total working fund and return on equity. On the other hand, HBL has been more successful in maintaining its interest earned to total working fund ratio, interest paid to total working fund ratio, and return on capital employed ratio.

The mean ratio of SCBNL is higher than HBL in NWPS. However, HBL ratios are more stable than SCBNL. SCBNL has the highest average P/E Ratio and HBL has the lowest. The C.V indicates that among the banks under study during period, slightly more stable of HBL than SCBNL in P/E ratio. The average DY of HBL is the higher than that of SCBNL. The DY range of the banks under study during the period is between 1.66% and 6.41%. Similarly the standard deviation of HBL is the higher than SCBNL. The coefficient of variation of HBL is higher than SCBNL. It means SCBNLs DY is more stable than HBL. The average EPS of SCBNL is the higher than that of HBL. Similarly the standard deviation of SCBNL is higher than HBL. The coefficient of variation of these banks shows that there is slightly more fluctuations of SCBNL in the EPS. SCBNL has the higher average DPS than HBL. It means more dividend is paid to shareholder by SCBNL. The C.V indicates that among the banks under study during the period, more consistency in DPS of HBL than SCBNL.

The average growth rate of deposits of HBL is significantly higher than SCBNL. SCBNL ratios were highly variable than HBL. The average growth rate of total loan and advances of HBL is better than SCBNL i.e. 15.66% > 13.74%. It seems to be better position of loan and advance of HBL than SCBNL. The growth rate of total investment of both banks is in a fluctuating trend. The average growth ratio of investment of SCBNL seems to be higher

than HBL i.e., 1.63% > -1.34%. Fluctuating trend in growth of net profit of SCBNL but HBL bank is highly fluctuating trend in net profit. The mean growth rate of HBL is higher than SCBNL i.e., 19.63% > 11.41%. It means HBL bank is in better position through net profit.

There is a significant relationship between MPS and EPS, MPS and DPS and there is an insignificant relationship between total deposit & total investment, total deposit & loan in case of SCBNL. In case of HBL, there exists a significant relationship between deposits and loan & advance, MPS & DPS and insignificant relationship between total deposit and total investment, MPS and EPS.

Simple regression between total investment and total deposit of the two banks by using the method of t-test. The regression coefficient (b) of SCBNL and HBL are 0.7972 and -1.2388 respectively. 0.7972 indicate that there exists positive relationship between total investment and total deposit of SCBNL and -1.2388 indicate negative relation between total investment and total deposit of HBL. The respective coefficient of determination ( $r^2$ ) are 0.1580 and 0.1375 for SCBNL and HBL, which indicates that the change in total investment is due to change of total deposit are 0.1580 and 0.1375 units respectively and the remaining variables is due to the effect of other factor. In case of t-test, the calculated value of  $t <$  tabulated value of  $t$  in both banks which indicates that the relationship is not statistically significant of  $t$  at 0.05 level of significance and their  $H_0$  is accepted. The acceptance of Null Hypothesis shows that total investment and total deposit are not significantly correlated such a situation is not a healthy indicator for the entire sector in the country.

### **5.3 Recommendation**

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

- In commercial bank the liquidity position affects external and internal factors such as saving for investment situations, central banks requirements, the leading policies management capacity etc. In this study it should try to lower the current liabilities to improve its liquidity position. Current liabilities to improve its



liquidity position. Current ratio of both banks is satisfactory, both banks current ratio are greater than 1 but it is below its standard rate 2:1 so the banks are suggested to improve current assets

- The ratio of cash and bank balance to total deposit of SCBNL is higher than that of HBL. It means SCBNL has higher cash and bank balance which decrease profit of bank. So it is recommended to mobilize cash and bank balance in profitable as loan and advances.
- From the study it is found that SCBNL has invested funds in government securities than that of HBL bank. HBL has a slightly higher cash and bank balance to current assets ratio So HBL is recommended to invest its fund in government securities instead of keeping them idle “Something is better than nothing”.
- SCBNL loan and advances to total deposit ratio is lowest in compared to HBL bank. To overcome from the situation it is recommended to follow liberal lending policy and invest more and more of total deposit in loan and advances.
- SCBNL bank is higher ratio of total investment to total deposit as compared to HBL, so HBL is recommended to its deposit for more investment.
- The proportion of saving deposit to the total deposit is low of SCBNL. It is recommended to increase the saving deposits of the banks to moderate the risk and return in the current situation.
- Return on loan and advance is lower of HBL as compared to SCBNL so, HBL is recommended to increase earning in loan and advance by successful utilization of available resources.
- Capital return on employed ratio of SCBNL is lower than HBL, so SCBNL is recommended to better utilization of capital employed.
- ROE of HBL has lower as compared to SCBNL, HBL is recommended to mobilize its equity capital more efficiently.
- Dividend per share is lower of HBL so, HBL is recommended to increase of dividend payout ratio for attract to shareholder.
- The banks should be very careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and its all customers. SCBNL is strongly

recommended to increase growth ratio of net profit. HBL is recommended to increase of investment because average growth rate of investment is in negative.

- In the light of growing competition in the banking sector the business of the bank is customer oriented. It should strengthen and active its marketing function as it is an effective tool of attracting and retaining customers. The bank should develop on “Innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient way.
- Integrated and speedy development of the country is possible only when competitive banking services reaches nooks and corners of the country. SCBNL and HBL have shown not more interest to open branches in rural areas. Both the banks are recommended to expand their branches and banking services and facilities in rural areas and communities to accelerate their economic development. NRB should implement policies to encourage banks, which provide extensive services while disincentive sings those who are not responsive to the banking needs of the community, including the underprivileged.

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## ANNEXURE - 1

### i. Current Ratio Times

#### SCBNL

F/Y	2007/08	2008/09	2009/10	2010/11	2011/12
CA	23550	31444	28632	33758	31645
CL	10272	17419	22746	16462	12549
CR	2.292640187	1.80515529	1.258770773	2.050662131	2.521714878
Mean	1.985788652				
S.D	0.486509702				
C.V.	0.244995711				

#### HBL

F/Y	2007/08	2008/09	2009/10	2010/11	2011/12
CA	29449	29813	29858.9	31590725	36965599
CL	24696	27968	30797.2	33855546	39726157
CR	1.192460317	1.065968249	0.969532945	0.933103398	0.930510318
Mean	<b>1.018315045</b>				
S.D	0.111745013				
C.V.	0.109735208				

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

#### SCBNL

F/Y	2007/08	2008/09	2009/10	2010/11	2011/12
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<b>CBB</b>	2050243214	3137163535	1929306520	2975795278	6366233069
<b>TD</b>	29743998794	35871721127	35182721454	37999242310	35965630744
<b>Ratio</b>	0.068929643	0.08745506	0.054836762	0.078311964	0.177008798
<b>Mean</b>	0.093308445				
<b>S.D</b>	0.048320032				
<b>C.V.</b>	0.51785272				

### **HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>CBB</b>	1448142900	3048526788	3866490684	2964651321	6362296158
<b>TD</b>	31842789356	34682306863	37611202274	40920627030	47730993909
<b>Ratio</b>	0.045477891	0.087898616	0.102801571	0.072448824	0.13329486
<b>Mean</b>	0.088384353				
<b>S.D</b>	0.032863168				
<b>C.V.</b>	0.371821113				

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

#### **SCBNL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>CBB</b>	2050243214	3137163535	1929306520	2975795278	6366233069
<b>CA</b>	23550000000	31444000000	28632000000	33758000000	31645000000
<b>Ratio</b>	0.08705916	0.099769862	0.067382877	0.088150817	0.201176586

<b>Mean</b>	0.10870786
<b>S.D</b>	0.052984351
<b>C.V.</b>	0.487401283

### **HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>CBB</b>	1448142900	3048526788	3866490684	2964651321	6362296158
<b>CA</b>	29449000000	29813000000	29858900000	31590725000	36965599000
<b>Ratio</b>	0.049174604	0.102254949	0.129492067	0.093845625	0.172113974
<b>Mean</b>	0.109376244				
<b>S.D</b>	0.045433522				
<b>C.V.</b>	0.415387477				

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

### **SCBNL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>IGS</b>	8138	9998	8531	9957	7863
<b>CA</b>	23550	31444	28632	33758	31645
<b>Ratio</b>	0.345562633	0.317962091	0.297953339	0.294952308	0.248475273



<b>Mean</b>	<b>0.300981129</b>
<b>S.D</b>	<b>3.56</b>
<b>C.V.</b>	<b>0.118272425</b>

**HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>IGS</b>	7471	4212	4465.3	6407363	9162223
<b>CA</b>	29449	29813	29858.9	31590725	36965599
<b>Ratio</b>	0.253692825	0.141280649	0.149546701	0.202824183	0.247858096
<b>Mean</b>	0.199040491				
<b>S.D</b>	5.28				
<b>C.V.</b>	0.265326633				

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

**SCBNL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>L&amp;A</b>	13718597132	13679756990	15956955268	18427270491	19575968330
<b>TD</b>	29743998794	35871721127	35182721454	37999242310	35965630744
<b>Ratio</b>	0.461222354	0.381352123	0.453545224	0.48493784	0.544296539
<b>Mean</b>	0.465070816				
<b>S.D</b>	0.059				
<b>C.V.</b>	0.1268624				

**HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>L&amp;A</b>	19497520482	24793155269	27980628760	31566976755	34965433862
<b>TD</b>	31842789356	34682306863	37611202274	40920627030	47730993909
<b>Ratio</b>	0.61230567	0.714864653	0.743944013	0.771419674	0.732551975
<b>Mean</b>	0.715017197				
<b>S.D</b>	0.061				
<b>C.V.</b>	0.085312633				

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

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>TI</b>	13902819011	20236121082	19847511025	17258682472	12938215774
<b>TD</b>	29743998794	35871721127	35182721454	37999242310	35965630744
<b>Ratio</b>	0.467415935	0.564124621	0.564126657	0.454184911	0.359738325
<b>Mean</b>	0.48191809				
<b>S.D</b>	0.085766396				
<b>C.V.</b>	0.177968825				

**HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>TI</b>	13340176785	8710690646	8444910165	8769938671	10031580497
<b>TD</b>	31842789356	34682306863	37611202274	40920627030	47730993909
<b>Ratio</b>	0.4189387	0.251156611	0.224531779	0.214315843	0.21016911
<b>Mean</b>	0.263822409				
<b>S.D</b>	0.08816				
<b>C.V.</b>	0.334164184				

**vii. Loan and Advances to Fixed Deposit Ratio**

**SCBNL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>FD</b>	3301013939	7101697629	9175070477	10136244465	4661260883
<b>L&amp;A</b>	13718597132	13679756990	15956955268	18427270491	19575968330
<b>Ratio</b>	4.155873736	1.926265761	1.739164327	1.817958373	4.199715232
<b>Mean</b>	2.767795486				
<b>S.D</b>	1.28895309				
<b>C.V.</b>	0.465696651				

**HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
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<b>FD</b>	6423874106	6377132497	11328635821	13507370421	11866679120
<b>L&amp;A</b>	19497520482	24793155269	27980628760	31566976755	34965433862
<b>Ratio</b>	3.03516541	3.887821882	2.469902749	2.337018662	2.946522233
<b>Mean</b>	2.935286187				
<b>S.D</b>	0.610723369				
<b>C.V.</b>	0.208062632				

**viii. Loan and Advances to Saving Deposit Ratio**

**SCBNL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>SD</b>	17856134474	19187636692	12430009193	11619814870	15502306249
<b>L&amp;A</b>	13718597132	13679756990	15956955268	18427270491	19575968330
<b>Ratio</b>	0.768284824	0.712946425	1.283744446	1.585848888	1.26277781
<b>Mean</b>	1.122720479				
<b>S.D</b>	0.372012132				
<b>C.V.</b>	0.331348843				

**HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>SD</b>	17972440577	20061047700	16294680337	15994563707	21915374201
<b>L&amp;A</b>	19497520482	24793155269	27980628760	31566976755	34965433862

<b>Ratio</b>	1.084856584	1.235885365	1.717163404	1.973606616	1.595475101
<b>Mean</b>	1.521397414				
<b>S.D</b>	0.270050245				
<b>C.V.</b>	0.177501449				

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

**SCBNL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>FD</b>	3301013939	7101697629	9175070477	10136244465	4661260883
<b>TD</b>	29743998794	35871721127	35182721454	37999242310	35965630744
<b>Ratio</b>	0.110980839	0.197974823	0.260783421	0.266748594	0.129603201
<b>Mean</b>	0.193218176				
<b>S.D</b>	0.072118401				
<b>C.V.</b>	0.373248535				

**HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>FD</b>	6423874106	6377132497	11328635821	13507370421	11866679120
<b>TD</b>	31842789356	34682306863	37611202274	40920627030	47730993909
<b>Ratio</b>	0.201737167	0.183872789	0.301203767	0.330087083	0.248615798
<b>Mean</b>	0.253103321				

<b>S.D</b>	0.062633136
<b>C.V.</b>	0.247460743

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

**SCBNL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>SD</b>	17856134474	19187636692	12430009193	11619814870	15502306249
<b>TD</b>	29743998794	35871721127	35182721454	37999242310	35965630744
<b>Ratio</b>	0.6003273	0.534895904	0.353298684	0.305790699	0.431031124
<b>Mean</b>	0.445068742				
<b>S.D</b>	0.122669587				
<b>C.V.</b>	0.275619416				

**HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>SD</b>	17972440577	20061047700	16294680337	15994563707	21915374201
<b>TD</b>	31842789356	34682306863	37611202274	40920627030	47730993909
<b>Ratio</b>	0.564411628	0.578423107	0.433240081	0.390868001	0.459143471
<b>Mean</b>	0.485217258				
<b>S.D</b>	0.082526253				

<b>C.V.</b>	0.170081035
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**xi. Return Total Working Fund Ratio (%)**

**SCBNL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>Net Profit</b>	818921008	1025114536	1085871694	1119171286	1168967497
<b>TA</b>	33335788326	40587468009	40213319926	43810519664	41677052360
<b>Ratio</b>	0.024565821	0.025256923	0.027002787	0.02554572	0.028048229
<b>Mean</b>	0.026083896				
<b>S.D</b>	0.001412536				
<b>C.V.</b>	0.05415357				

**HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>Net Profit</b>	635868519	752834735	508798193	893115143	958638260
<b>TA</b>	36175531637	39330131823	42717124613	46736203884	54364427882
<b>Ratio</b>	0.01757731	0.019141424	0.011910872	0.019109707	0.017633557
<b>Mean</b>	0.017074574				
<b>S.D</b>	0.002985074				

<b>C.V.</b>	0.174825664
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**xii. Return on Loan and Advances (%)**

**SCBNL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>Net Profit</b>	818921008	1025114536	1085871694	1119171286	1168967497
<b>L&amp;A</b>	13718597132	13679756990	15956955268	18427270491	19575968330
<b>Ratio</b>	0.059694224	0.074936604	0.068050056	0.060734512	0.059714415
<b>Mean</b>	0.064625962				
<b>S.D</b>	0.006738369				
<b>C.V.</b>	0.104267216				

**HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>Net Profit</b>	635868519	752834735	508798193	893115143	958638260
<b>L&amp;A</b>	19497520482	24793155269	27980628760	31566976755	34965433862
<b>Ratio</b>	0.032612789	0.03036462	0.018183944	0.028292704	0.027416741
<b>Mean</b>	0.02737416				
<b>S.D</b>	0.005515698				
<b>C.V.</b>	0.201492859				



**xiii. Total Interest Earned to Total working fund Ratio (%)**

**SCBNL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>Interest Income</b>	1591195526	1887221257	2042109322	2718698856	2870970682
<b>TA</b>	33335788326	40587468009	40213319926	43810519664	41677052360
<b>Ratio</b>	0.04773235	0.046497635	0.050781913	0.062055846	0.068886126
<b>Mean</b>	0.055190774				
<b>S.D</b>	0.009814895				
<b>C.V.</b>	0.1778358				

**HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>Interest Income</b>	1963647472	2342198179	3148605196	4326140588	4724887323
<b>CA</b>	36175531637	39330131823	42717124613	46736203884	54364427882
<b>Ratio</b>	0.054281095	0.059552259	0.073708266	0.092565083	0.086911378
<b>Mean</b>	0.073403616				
<b>S.D</b>	0.014247829				
<b>C.V.</b>	0.194102555				

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

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>Interest Expenses</b>	471729700	543786600	575740660	1003100293	1007198992
<b>TA</b>	33335788326	40587468009	40213319926	43810519664	41677052360
<b>Ratio</b>	0.014150849	0.013397894	0.014317163	0.022896334	0.024166752
<b>Mean</b>	0.017785798				
<b>S.D</b>	0.005275702				
<b>C.V.</b>	0.296624427				

**HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>Interest Expenses</b>	823744838	934778015	1553530687	2414807243	2816441404
<b>TA</b>	36175531637	39330131823	42717124613	46736203884	54364427882
<b>Ratio</b>	0.022770774	0.023767477	0.036367867	0.051668879	0.051806696
<b>Mean</b>	0.037276338				
<b>S.D</b>	0.014247829				
<b>C.V.</b>	0.382221807				

**xv. Return on capital employed Ratio (%)****SCBNL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>TA</b>	33335788326	40587468009	40213319926	43810519664	41677052360
<b>CL</b>	1027200000	17419000000	22746000000	16462000000	12549000000
<b>CE=TA- CL</b>	32308588326	23168468009	17467319926	27348519664	29128052360
<b>Net Profit</b>	818921008	1025114536	1085871694	1119171286	1168967497
<b>Ratio</b>	0.025346852	0.044246108	0.062165902	0.040922554	0.040132017
<b>Mean</b>	0.042562687				
<b>S.D.</b>	0.013153926				
<b>C.V.</b>	0.309048306				

### **HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>TA</b>	36175531637	39330131823	42717124613	46736203884	54364427882
<b>CL</b>	24696000000	27968000000	30797200000	33855546000	39726157000
<b>CE=TA- CL</b>	11479531637	11362131823	11919924613	12880657884	14638270882
<b>Net Profit</b>	635868519	752834735	508798193	893115143	958638260
<b>Ratio</b>	0.055391504	0.066258229	0.042684682	0.069337696	0.06548849
<b>Mean</b>	0.05983212				

<b>S.D.</b>	0.010924732
<b>C.V.</b>	0.182589753

#### xvi. Return On Equity

##### HBL

Fiscal Year	2007/08	2008/09	2009/10	2010/11	2011/2012
EPS	62.74	61.9	31.8	44.66	39.94
N.W.Per Share	247.95	256.52	226.79	199.77	193
ROE (EPS/NWPS)	0.253034886	0.24130672	0.14021782	0.223557	0.20694301
Mean					0.21301191
SD.					0.04429855
C.V.					0.207962795

#### xvii. Dividend Yield

##### SCBNL

Fiscal Year	2007/08	2008/09	2009/10	2010/11	2011/2012
DPS	130	100	70	50	60
MPS	6830	6010	3279	1800	1799
DY (DPS/MPS)	0.019034	0.016639	0.021348	0.0277778	0.0333519
Mean					0.02363
SD.					0.0068361
C.V.					0.2892958

##### HBL

Fiscal Year	2007/08	2008/09	2009/10	2010/11	2011/2012
DPS	45	43.56	36.84	36.84	28.42
MPS	1980	1760	816	575	653
DY (DPS/MPS)	0.022727273	0.02475	0.04514706	0.06407	0.04352221
Mean					0.04004322
SD.					0.0169495
C.V.					0.423280175

#### xviii. Dividend Per Share

**SCBNL**

Fiscal Year	2007/08	2008/09	2009/10	2010/11	2011/2012
DPR	130%	100%	70%	50%	60%
Par Value	100	100	100	100	100
DPS (DPR*Par)	130	100	70	50	60
Mean	82				
SD.	32.710854				
C.V.	0.3989129				

**HBL**

Fiscal Year	2007/08	2008/09	2009/10	2010/11	2011/2012
DPR	45%	43.56%	36.84%	36.84%	28.42%
Par Value	100	100	100	100	100
DPS (DPR*Par)	45	43.56	36.84	36.84	28.42
Mean	38.132				
SD.	6.601024163				
C.V.	0.173109833				

**xix. Calculation of Growth Rate of Total Deposit of SCBNL and HBL**

**SCBNL**

Fiscal Year	Total Deposit	Growth Rate	Avg. Growth Rate
2006/07	24647021		8.34%
2007/08	29743999	20.68%	
2008/09	35350824	18.85%	
2009/10	35182721	-0.47%	
2010/11	37999242	8.00%	
2011/12	35965631	-5.35%	

**HBL**

Fiscal Year	Total Deposit	Growth Rate	Avg. Growth Rate
2006/07	30048417756		9.75%
2007/08	31842789356	5.97%	
2008/09	34682306863	8.92%	
2009/10	37611202274	8.44%	
2010/11	40920627030	8.80%	
2011/12	47730993909	16.64%	

**xx. Calculation Growth Rate of Loan & Advance**

**SCBNL**

Fiscal Year	Loan & Advance	Growth Rate	Avg. Growth Rate
2006/07	10502637		13.74%
2007/08	13718597	30.62%	
2008/09	13679757	-0.28%	
2009/10	15956955	16.65%	
2010/11	18427270	15.48%	
2011/12	19575968	6.23%	

**HBL**

Fiscal Year	Loan & Advance	Growth Rate	Avg. Growth Rate
2006/07	16997997046		15.66%
2007/08	19497520482	14.70%	
2008/09	24793155269	27.16%	
2009/10	27980628760	12.86%	
2010/11	31566976755	12.82%	
2011/12	34965433862	10.77%	

**xxi. Growth Rate of Total Investment**

**SCBNL**

Fiscal Year	Total Investment	Growth Rate	Avg. Growth Rate
2006/07	13553233		1.63%
2007/08	13902819	2.58%	
2008/09	20236121	45.55%	
2009/10	19847511	-1.92%	
2010/11	17258682	-13.04%	
2011/12	12938216	-25.03%	

**HBL**

Fiscal Year	Total Investment	Growth Rate	Avg. Growth Rate
2006/07	11822984558		-1.34%
2007/08	13340176785	12.83%	
2008/09	8710690646	-34.70%	
2009/10	8444910165	-3.05%	
2010/11	8769938671	3.84%	
2011/12	10031580497	14.39%	

**xxii. Growth Rate of Net Profit**

**SCBNL**

Fiscal Year	Net Profit	Growth Rate	Avg. Growth Rate
2006/07	691668		11.41%
2007/08	818921	18.40%	
2008/09	1025114	25.18%	
2009/10	1085873	5.93%	
2010/11	1119171	3.07%	
2011/12	1168967	4.45%	

**HBL**

Fiscal Year	Net Profit	Growth Rate	Avg. Growth Rate
2006/07	491822905		19.63%
2007/08	635868519	29.29%	
2008/2009	752834735	18.39%	
2009/10	508798193	-32.42%	
2010/11	893115143	75.53%	
2011/12	958638260	7.34%	

## Appendix - 2

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

#### SCBNL

F/Y	2007/08	2008/09	2009/10	2010/11	2011/12
<b>TD</b>	2974399879 4	3587172112 7	3518272145 4	3799924231 0	3596563074 4
<b>TI</b>	1390281901 1	2023612108 2	1984751102 5	1725868247 2	1293821577 4
<b>Correlation r</b>	0.397447632				
<b>r<sup>2</sup></b>	0.15796462				
<b>P.E</b>	0.253996012				
<b>6P.E.</b>	1.523976075				

#### HBL

F/Y	2007/08	2008/09	2009/10	2010/11	2011/12
<b>TD</b>	3184278935 6	3468230686 3	3761120227 4	4092062703 0	4773099390 9
<b>TI</b>	1334017678 5	8710690646	8444910165	8769938671	1003158049 7
<b>Correlation</b>	-0.370794646				



<b>n</b>	
<b>r</b>	
<b>r<sup>2</sup></b>	0.137488669
<b>P.E</b>	0.260172487
<b>6P.E.</b>	1.561034921

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

**SCBNL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>TD</b>	2974399879 4	3587172112 7	3518272145 4	3799924231 0	3596563074 4
<b>L&amp;A</b>	1371859713 2	1367975699 0	1595695526 8	1842727049 1	1957596833 0
<b>Correlation</b>	0.623638138				
<b>r<sup>2</sup></b>	0.388924527				
<b>P.E</b>	0.184328043				
<b>6P.E.</b>	1.105968257				

**HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>TD</b>	3184278935 6	3468230686 3	3761120227 4	4092062703 0	4773099390 9
<b>L&amp;A</b>	1949752048 2	2479315526 9	2798062876 0	3156697675 5	3496543386 2
<b>Correlation</b>	0.964470346				
<b>r<sup>2</sup></b>	0.930203048				
<b>P.E</b>	0.021053922				
<b>6P.E.</b>	0.126323534				

**iii. Calculation of Correlation between MPS & EPS**

**SCBNL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>MPS</b>	6830	6010	3279	1800	1799
<b>EPS</b>	131.92	109.99	77.65	69.51	72.6
<b>Correlation (r)</b>	0.973923525				
<b>r<sup>2</sup></b>	0.948527033				
<b>P.E</b>	0.015526578				
<b>6P.E.</b>	0.09315947				

**HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>MPS</b>	1980	1760	816	575	653
<b>EPS</b>	62.74	61.9	31.8	44.66	39.94
<b>Correlation (r)</b>	0.885184422				
<b>r<sup>2</sup></b>	0.78355146				
<b>P.E</b>	0.438145387				
<b>6P.E.</b>	2.628872321				

**iv. Calculation of Correlation between MPS & DPS**  
**SCBNL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
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<b>MPS</b>	6830	6010	3279	1800	1799
<b>DPS</b>	130	100	70	50	60
<b>Correlation (r)</b>	0.970789009				
<b>r<sup>2</sup></b>	0.942431301				
<b>P.E</b>	0.017365327				
<b>6P.E.</b>	0.104191964				

### **HBL**

<b>F/Y</b>	2007/08	2008/09	2009/10	2010/11	2011/12
<b>MPS</b>	1980	1760	816	575	653
<b>DPS</b>	45	43.56	36.84	36.84	28.42
<b>Correlation r</b>	0.859620603				
<b>r<sup>2</sup></b>	0.738947581				
<b>P.E</b>	0.078745234				
<b>6P.E.</b>	0.472471407				

#### **v. Calculation of regression of total investment on total deposit**

##### **SCBNL**

<b>F/Y</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
<b>Total Investment (Y)</b>	139028190 11	202361210 82	198475110 25	172586824 72	129382157 74
<b>Deposit(X)</b>	297439987 94	358717211 27	351827214 54	379992423 10	359656307 44
<b>b=</b>	0.7971759				

	66			
<b>a=mean Y+ b mean X</b>	447000926 71			
<b>Regression Equation</b>	<b>Y=44700092671 + 0.7972x</b>			
Y/5	168366698 73			
X/5	349526628 86			

**HBL**

<b>F/Y</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
<b>Total Investment (Y)</b>	133401767 85	871069064 6	844491016 5	876993867 1	100315804 97
<b>Deposit(X)</b>	318427893 56	346823068 63	376112022 74	409206270 30	477309939 09
b=	- 1.23882606 2				
<b>a=mean Y+ b mean X</b>	576255991 72				
<b>Regression Equation</b>	<b>Y=57625599172-1.2388x</b>				
Y/5	985945935 3				
X/5	385575838 86				