

CHAPTER I

INTRODUCTION

1.1 General Background

Nepal, a developing country, is characterized by high population growth rate (2.1), low per capita income (\$311), low saving rate (11% of the GDP), and consequently, a low rate of capital formation. For economic prosperity in the country, the process of capital formation, among other prerequisites, should be expedited. However capital accumulation is basically determined, among others, by saving and investment propensity. For this purpose, scattered meager savings must be mobilized, and put them into productive channels. Banking institutions are inevitable for the resource mobilization and all-round development of the country.

1.2 Commercial Banking in Nepal

Nepalese efforts are being made to accelerate the pace of economic development after the initiation of a five-year plan in 1956. Nepal Bank Limited, the first commercial bank of Nepal was established on the 30th Kartik 1994 B.S. with 51% government participation, and use by the public, In the absence of a Central Bank in the country carried source of the government transaction till 2012 B.S.

In the year 2013 B.S. Nepal Rastra Bank came into existence as a central bank under the Nepal Rastra Act of 2012. In 1980s, government initiated some measures to liberalize the economy with the assistance of International Monetary Fund (IMF). In FY 1985 it subsequently embarked upon the structural adjustment program encompassing

measures to raise domestic resource mobilization, strengthen financial sector and liberalize industrial , trade policies and micro hydro power.

Rastra Baniyya Bank came in second commercial bank. It's operating in 2022/10/10 B.S. Agriculture Development Bank came in third commercial bank. It's operating in 2024/10/7 B.S. Nabil Bank Limited came in fourth commercial bank. It's operating in 2041/3/29 B.S. Nepal Investment Bank Ltd. came in fifth commercial bank. It's operating in 2042/11/26. Standard Charter Bank Nepal Ltd. came in sixth commercial bank. It's operating in 2043/10/16 B.S. Himalayan Bank came in seventh commercial bank. It's operating in 2049/10/5 B.S. And other are detail in under table 1.1.

Table 1.1
List of Commercial Banks

S.N.	Commercial Banks	Head Office	Operation Date (B.S.)
1.	Nepal Bank Limited	Dharmapat, Office	1994/7/30
2.	Rastriya Baniyya Bank	Singadarbar, Kathmandu	2022/10/10
3.	Agriculture Development Bank	Ramsahapath Kathmandu	2024/10/7
4.	Nabil Bank Limited	Kantipath, Kathmandu	2041/3/29
5.	Nepal Investment Bank Ltd.	Darbar Marg, Kathmandu	2042/11/26
6.	Standard Chartered Bank Nepal Ltd.	New Baneshwor, Kathmandu	2043/10/16
7.	Himalyan Bank Ltd.	Tamel, Kathmandu	2049/10/5
8.	Nepal S.B.I. Bank Ltd	Hattisar, Kathmandu	2050/3/23
9.	Nepal Bangladesh Bank Ltd.	New Baneshowor, Kathmandu	2050/2/23
10.	Everest Bank Ltd.	Lazimpat, Kathmandu	2051/7/1
11.	Bank of Kathmandu Ltd.	Kamladi, Kathmandu	2051/11/28
12.	Nepal Credit and Commerce Banks Ltd.	Siddarthanagar, Rupendihi	2053/6/28

13.	Lumbini Bank Ltd.	Narayani, Chitwan	2055/4/1
14.	Nepal Industrial and Commercial Bank Ltd.	Biratnagar, Morang	2055/4/5
15.	Machapurche Bank Ltd.	Pithabi Chock, Pokhara, Kaski	2057/6/17
16.	Kumari Bank Ltd.	Putalisadak, Kathmandu	2057/12/21
17.	Laxmi Bank Ltd.	Adarshanagar, Birgung, Parsa	2058/12/21
18.	Siddhartha Bank Ltd	Kamladi, Kathmandu	2059/9/9
19.	Global Bank Ltd.	Birgung, Parsa	2063/9/18
20.	Citizens Bank International Ltd.	Kamaladi, Kathmandu	2064/6/7
21.	Prime Bank Ltd.	New Road, Kathmandu	2064/6/7
22.	Sunrise Bank Ltd.	Gairidara, Kathmandu	2064/6/25
23.	Bank of Asia Nepal Ltd	Tripureshwor, Kathmandu	2064/6/25
24.	Development Credit Bank Ltd	Kamaladi, Kathmandu	2057/10/10
25.	NMB Bank Ltd	Babar Mahal, Kathmandu	2053/9/11

Source: Nepal Rastra Bank,

In addition to twenty-five commercial banks a number of development banks have also been established in the country, and their number stands at fifty-eight. Seventy-eight financial company are also under operation.

The increasing number of banks and financial institution in the country, clearly indicate that Nepal can play an effective role in mobilizing the meager raising and putting them into productive channels. At the same time it is also an indication of increasing competitive among the banks.

1.3 Statement of the Problem

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

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

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

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

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

1.4 Objective of the Study

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

to make the financial performance effective and efficient and the study mainly focused on the following point.

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

1.5 Significance of the Study

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

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

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

- This studies certainly input the policymakers of concerned selected banks for making plans and policies of the effective banking system.

1.6 Limitations of the Study

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

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

1.7 Organization of the Study

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

General background, statement of problem, objective significance, limitations, and organization are presented in the present chapter.

Concept of commercial banks, joint venture banks, regulations relating to commercial banking activities in Nepal, financial performance, brief introduction to Standard Chartered Bank Nepal Limited, and Himalayan Bank Limited, review of related studies, Justification of the study 'Research Gap' are presented in the second chapter.

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

Data presentation and analysis has been presented in chapter four.

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

CHAPTER-II

REVIEW OF LITERATURE

In this chapter review of relevant literature on the financial aspect has been presented.

This covers conceptual review covering the topics like the Concept of commercial banks, Concept of joint venture banks, brief introduction of Standard Chartered (Nepal Grind lays) Bank Nepal Limited, brief introduction of Himalayan Bank limited, regulations relating to commercial banking activities in Nepal, Financial performance, review of related studies, Justification of the study 'Research Gap'.

2.1 Concept of Commercial Banks

Commercial bank wide range of function, which have a worldwide net work. Be believe and common banks truly that called commercial banks.

According to John Holland, "Commercial Banks are financial intermediaries that borrow money from savers in the form of deposit and loan them to ultimate borrowers by making loans on buying securities."

"A bank is a business organization that receives and holds deposits of funds from others makes loan or extends credits and transfer funds by written order of depositors" (The Encyclopedia Americana, Vol. 1984).

"The American Institute of Banking has laid down four functions of the commercial bank i.e. receiving and handling deposits, handling payment for its clients, granting loan and investment and creating money by extension of credit.

Stating the function and need of commercial bank, the world book Encyclopedia has defined "Commercial banks are the most numerous banks. They offer a full range of service, including current and saving account, loans and trust services. They primarily serve the needs of business but also offer their service to individuals.

In the Nepalese context, the Nepal Commercial Act, 2031 B.S. defines, "a commercial bank as one which exchange money, deposits money or accepts deposits, grants loans, and performs commercial banking function."

Establishment of commercial banks are very essential for the rapid economic development and for the smooth running of an enterprise. Banks receive deposit evaluating big amount of resource and invest it in different sectors of the economy. It is difficult to see who would distribute these saving among entrepreneurs. In world wide country, both of developed and developing country, there has been an attempt to increase the supply of the main ingredients for successful industrialization such as the technique, efficient management, skilled personnel market, capital, research and development , accessibility to modern manufacturing, production and operation management and entrepreneurship.

"They have established specific institutional body to mobilize their capital and to channel zed them into productive sector of the economy. As Nepal, like most of the developing countries suffer from almost completely lack of capital market both commercial banks and non-banking financial institution, consequently have a specific role to play in a long process of growth. In principle, they should undertake the responsibility for activating the increasing flow of personal saving so that

the amount of hoarded wealth were diverted from unproductive to productive uses" (Pant Y.P., 1971: 127).

Commercial banks are controlled and regulated by Central Banks. In Nepal, Nepal Rastra Bank is the central banks that controls and regulates the commercial banks through Rastra Bank Act 2012 B.S.

2.2 Concept of Joint Venture Banks

A joint venture is defined as "The joining of forces between two or more enterprises for the purpose of carrying out a specific operation (Industrial or commercial investment, production or trade)" (Gupta DP, 1994: 15-24).

In global perspective joint venture banks is a mode of trading through the partnership among nations and also a form of negotiation between the various group of industrialist traders and mercantile to achieve mutual exchange of goods and services for sharing comparative advantage in their contribution. "When two or more independent firms mutually decide to participate in a business venture, contribute to the total equity or more or less capital and establish a new organization. It is know as joint venture" (Jauch and Glucck, 1988:232).

The tendency of gradual increase in the expansion of services of the banking and financial institution can be regarded as one of the positive effects towards achieving high economic growth by maintaining economic stability and by stimulating economic activities though confessional credit expansion. A country to be benefited from venture capital should have a favorable investment climate. In Nepal, three of the most dramatic reforms were carried out in 1980s (K.C. Pramesh, 2048: 69-74).

The JVBs of Nepal are in a better position than local commercial banks in profit making. On an average no foreign banks have suffered loss till now, but local banks have owned negative profits (Pradhan K., 1991:31).

JVBs have played an important role in attracting foreign investment by familiarizing the foreign investors (multinational companies and other business organizations) with the relevant Nepalese rules and regulations and practiced through their publications. The existence of foreign JVBs, has presented an environment of healthy competition among the existing commercial banks. The main beneficiary of this is the bank client. The increased competition forces the existing banks to improve their quality and extend their services by simplifying procedures and by training, motivation their own staff to respond to the new challenges (Chopra Sunil, 2046:1).

The main focus of the study is to analyze the financial performance of the joint venture bank i.e. , SCBNL and HBL.

Brief Introduction of Standard Chartered (Nepal Grind lays) Bank Nepal Limited

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

100 million and Rs. 100 million respectively at the end of the financial year. 1993/94.

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

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

Now, share on chart of Standard Chartered Share Ownership

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

Brief Introduction of Himalayan Bank Limited

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

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

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

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

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

2.2.1 Positive Aspects of Joint Venture Banks

These are key of positive point.

- An international network of bank branches.
- Advanced management skills.
- Research and development.
- Efficient modern banking services.
- Developed in Human research with modern banking technology.
- Import of technology which is not available in the country.

2.2.1 Objectives of Joint Venture Banks

Joint venture Banks were established to incite foreign investment and modern technology to provide financial services to the target market in the kingdom of Nepal.

Government policy of economic liberalization has opened its doors to private foreign investment in conjunction with Nepalese investors. This has intensified the competition which has ultimately affected the profitability of the banks.

The main objectives of joint venture banks are described as follows:

i. Providing New services:

Present day, JVBs speedier services than that of the domestic banks is the half market of the joint venture banks through their services are basically in traditional areas, which could highly educate for the domestic banks.

ii. Offering better links with international Market

The JVBs are usually better place to raise resource internationally for viable projects in developing countries like Nepal. It is very much earners for Nepalese business to procure international linkage through the joint venture banks.

iii. Providing More Resource for Investment

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

iv. Creating a Competitive Environment

The JVBs have created competitive environment in banking business in Nepal. Prior to the arrival of joint venture banks there was a little competitive zeal between the NBL and RBB as they had almost set bunch of customers, working areas and services, This benefit the common man, business and industries and country as which have used.

2.2.3 Role of Joint Venture Banks

JVBs pose a serious challenge to existence of the ineffective native banks. But some challenges can be taken by the domestic banks as an opportunity to modernize them and sharpen competitive jealous. It is true that JVBs are already playing an increasingly dynamic and vital role in the economic development of the nation.

i. Foreign Investment

JVBs have played an important role in attracting foreign investment by familiarizing the foreign investors (that is multinational companies and other business organizations) with the relevant Nepalese financial rules and regulations and practices through their publications.

ii. Health Competition

The existence of foreign JVBs has presented an environment of healthy competition among the existing commercial banks. The main beneficiary of this is the bank client. The increased competition forces helps the existing banks to improve their quality and extend services by simplifying procedures and by training, motivating their own staff to respond to the new challenges.

iii. Banking Techniques

The JVBs in Nepal bags the credit for the introduction of the new banking techniques such as hypothecation and syndicating under the guidance of Nepal Rastra Bank. Other areas of expertise are forward cover for foreign exchange transaction by importer and exporters inter bank market for money and securities, merchant banking, arranging foreign currency loans etc. These and other innovation techniques in the international banking have been introduced to Nepal by those foreign joint venture banks.

2.3 Regulations Relating to Commercial Banking Activities in

Nepal

Regulation is a procedure institutional arrangement which helps to forward banking activities and it is also instituted to limit the risk that any one bank may take with a goal of limiting the vulnerability of the system

as whole regulation relating to commercial banking activities in Nepal are mentioned below.

- An per Nepal Rastra Bank directives regarding maintenance of minimum liquidity effective for Chaitra 2054, banks are required to maintain minimum cash reserve as under

Cash in hand : 3 percent of total deposit

Cash balance at NRB : 8 percent of current and saving deposit

:6 percent fixed deposit

In case of deficit, banks are penalized.

- Commercial banks are registered under company act and commercial banks act in order to being operation in Nepal.

- Banks have to invest a certain percentage of loan advances in the deprived and priority sectors. In case of failing, banks will be penalized.

Priority sector - 95 percent of risk assets.

Deprived sector : 2.5 percent of risk assets

This is supposed to encourage the development of small business and rural industries. The investment in the rural branches can be counted towards the deprived sector target.

- While the JVBs can set their won interest rates on loans /deposits, they are required to publish a schedule of rates for various types of loans /deposits and are restricted to vary the rate more than + or -1 percent. There is no prime rate or base rate in Nepal at any bank.

- Minimum paid up capital required for a new commercial bank is Rs. 30 million to operate in rural areas except in Kathmandu Valley and other municipalities, 50 million to operate five at joining districts except Kathmandu valley. Rs. 120 million to operate all

over existing banks have been instructed to raise their capital fund to minimum Rs. 500 million by FY 2057/58 Ashad.

- Banks are required to obtain approval from NRB to open any branch or counter. they need to open at least two branches in adjoining semi urban areas at least one branch in rural area if they want to open a branch in Kathandu, Lalitpur, Bhaktapur, Pokhara, Birgunj, Narayangadh and Biratnagar. Normally banks are not allowed to open countres in metropolitan and semi-metropolitan cities except for short special occasions.
- The government has been actively encouraging the development of new branches. There are now 25 commercial banks in Nepal. This will lead to increased pressure on interest margins and deteriorating loan Quality.

2.4 Financial Performance

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

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

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

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

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

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

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

I.M. Pandey, Says, "A Firm should assure that it does not suffer from lack of liquidity, and also that it does not have excess of liquidity. The failure of a company to meet its obligation due to lack of sufficient liquidity, will result in poor credit worthiness, loss of creditor's

confidence, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad; idle assets earn nothing. The firm's funds will be unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

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

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

Proper utilization of the bank's resource is an indication of sound performance. How far banks have gained over the years depend chiefly on how for they have been able to utilize their resources in an effective

manner. Resources mobilization management of bank includes resource collection, investment portfolio, loans and advances etc. The task of utilization of resources is as much crucial as the mobilization is. So the increase profitability the bank should properly utilize the resources.

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

Among various financial tools, ratio analysis has been used in this study. Thus, brief introduction has been used in this study.

Ratio Analysis

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

A comparative study can be made between different statistics concerning varied facets of a business unit with the help of ratio analysis. Besides, just as the blood pressure, pulse and temperatures are the measures of the health of an individual, so does ratio analysis measure the economic, and financial health of a business concern. In a nutshell,

economic and financial position/performance of a firm can be fully x-rayed through ratio analysis (Kothari, 1990:487).

After calculating various ratios, we need some standard for comparison to draw conclusion from the result. The standard of comparison may be of four types: (i) ratios calculated from the post financial statements of the same firm, (ii) ratios developed using the projected or pro forma, financial statements of the some firm, (iii) ratios of some selected firms, especially the most progressive and successful, at the same point in time, and (iv) ratios of the industry to which the firm belongs (IM Pandey, op. cit 110).

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

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

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

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

1. Liquidity Ratios

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

a. Current Ratio

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

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

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

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

b. Cash and Bank Balance to Total Deposit Ratio

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

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

c. Cash and Bank Balance to current Assets Ratio

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

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

d. Investment on Government Securities to Current Assets Ratio

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

Investment on Govt. Securities to Current assets =

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

2. Assets Management Ratio

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

a. Loan and Advances to Total Deposit Ratio

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

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

b. Total Investment to Total Deposit Ratio

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

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

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

c. Loan and Advances to Fixed Deposit Ratio

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

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

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

d. Loan and Advances to Saving Deposit Ratio

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

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

e. Fixed Deposit to Total Deposit Ratio

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

by dividing fixed deposit ratio for the entire period of the study. This ratio is computed by dividing fixed deposit by total deposit.

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

f. Saving Deposit to Total Deposit Ratio

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

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

3. Profitability Ratios

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

a. Return on Loan and Advances Ratio

This ratio indicates how efficiency the bank has employed its resources in the form of loan and advances. This ratio is computed by

dividing net profit by loan and advances. This can be expressed as follows.

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

b. Return on Total Working Fund Ratio

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

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

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

c. Total Interest Earned to Total Working Fund Ratio

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

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

d. Total Interest Earned to Total Outside Assets Ratio

This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of out side assets to earn interest. This ratio can be computed

by dividing total interest earned by total outside assets. This can be expressed as follows.

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

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

e. Total Interest Paid to Total Working Fund Ratio

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

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

2.5 Review of Thesis and Articles

2.5.1 Review of Thesis

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

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

A study conducted by Bajracharyas S.. reviles in his thesis, "Evaluation of Financial Patterns of Nepalese commercial banks" that

though the trend of deposit is increasing, the percentage change in each year is decreasing, commercial banks are contributing to enlarge the gap between collection and utilization of resources. Commercial banks are too liquid oriented to benefit the natural development. In proper utilization of resources in creating sort false in economic up liftmen.

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

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

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

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

d. A Thesis made by Nagendra B. Amatya.

Likewise a study undertaken by Nagendra B. Amatya entitled, "An appraisal of financial position of Nepal bank limited" found that the liquidity position was fairly maintained and the bank has been found to have adopted conservative financing policy. 'low portion of equity capital

has been resorted to finance total assets. The bank has operated successfully beyond the break-even point over the study period. Keeping in mind, it suggests to use equity - capital proportionately.

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

Consequently, a research conducted by Bhoj Raj Bohara entitled, "A comparative study of the financial performance of Nepal Arab bank and Nepal Indosuez Bank limited" concludes that both the bank have been maintaining adequate liquidity to meet their short term obligations and utilizing its deposits satisfactorily. NIBL has been more efficient in this regard. both the banks have highly gendered capital structure, capital adequacy ratio of both the banks have been maintained in excess than actually required. The research suggests in increasing its equity capital financing in order to reduce its financial risks.

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

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

2.5.2 Review of Article

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

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

Another useful contribution made by Narayan Pd. Poudel in his article called 'Financial Statement Analysis' published in Nepal Rastra Bank Samachar on 2053 is reviewed. According to Mr. Poudel, Balance sheet, profit and loss a/c and the accompanying notes are the most useful aspects of the bank. We need to understand the major cartelistic of bank's balance sheet and profit and loss account. The banks balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loan. Fixed assets account forms a small portion of total assets, financial innovations, which are generally contingent in nature, are considered as off - balance sheet items. (Mr. Poudel Financial Statement Analysis, An approach to evaluate bank's performance, NRB Samachar, An annual publication, 2053)

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

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

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

2.6 Justification of the Study/Research Gap

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

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

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

Keeping in view the fact that there is no comparative study of standard chartered bank Nepal limited and Himalayan Bank limited. The

concerned banks are the leading joint venture banks of the country having huge market. The above mentioned works deal on traditional concept only. To get more accuracy in result, this study have been concluded to focus on both modern concept. The researcher has covered five fixed years (2003/04 to 2007/08) to analyze the liquidity position. Assets management position, profitability position, growth ratio. This study examines recent secondary financial data using coefficient of correlation, trend analysis. The researcher choose this subject to throw light on financial performance and to suggest the possible measures for micro analysis (such as deposit transit on loan) of the bank. To know the significance to the shareholders, depositors, customers and general public etc.

CHAPTER III

RESEARCH METHODOLOGY

The present chapter deals with the research methods followed by us in keeping in mind the objectives outlined in 1.4. It includes research design, population and sample, source and types of data and techniques applied in the collection of information. Tools - both the financial as well as statistical - for the analysis purposes have also been spelt out here. Limitation of the methodology has been outlined the end of this chapter.

3.1 Research Design

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

3.2 Population and Sample

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

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

3.3 Sources and Type of Data

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

The major sources of information collection are as follows:

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

3.4 Data Gathering Instrument and Procedures

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

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

3.5 Tools and Techniques of Analysis

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

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

3.5.1 Financial Tools

3.5.2 Statistical Tools

3.5.1 Financial Tools

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

Ratio Analysis

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

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

3.5.2 Statistical Tools

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

a. Arithmetic Mean

An average is a single value selected from a group of values to represent them in same way which is supposed to stand for a whole group of which it is a part as typical of all the values in the group. Out of various measure of statistical tools, arithmetic mean is one if the useful tools applicable here. It is easy to calculate and understand and based on all observations. Arithmetic mean of a given set of observations is their sum divided by the number of observations. In general, if x_1 , x_2 and x

..... x_n are the given observations. Then, arithmetic mean usually denoted by \bar{x} is given by

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

where, n = number of observations

b. Standard Deviations

The measurement of the scatter ness of the mass of figures in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. the greater the amount of dispersion, greater the standard deviation mean of high degree of uniformity of the observation as well as homogeneity of the series a large standard deviation means just the opposite. In this study standard deviation of different ratio are calculated. The following formula is used to calculate.

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

c. Coefficient of Correlation (r)

Correlation analysis contributes to the understanding of economic behaviors, aids in locating the critically important variables on which others depend, may reveal to the economist the connections by which disturbances spread and suggest to him to paths through which stabilizing forces may become effectives (W.A. Neiswanger). The coefficient of correlation measures the direction of relationship between the two sets of figures. It is the square root of the coefficient of determination. Two variables are said to be correlated if the change in one variable results in a corresponding change in the other variable. There is positive and negative correlation.

If the values of the two variables deviate in the same direction i.e. the increase in the values of one variable results, on an average, in a corresponding increase in the value of the other value or if a decrease in the values of one variable results, on an average, in a corresponding decrease in the values of the other variable. Correlation is said to be positive or direct on the other hand correlation is said to be negative or inverse if the variables deviate in the opposite direction i.e. if the increase (decrease) in the values of one variable results, on the average, in a corresponding decrease (increase) in the value of the other variable. In this study coefficient of correlation of correlation is calculated between a MVPS and BVPS, ROE and HPR. The degree of association between the two variable, say x and y and is defined by correlation coefficient (r).

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

Where,

N = the no. of pair of observation

X = Dependent variable

Y = Independent variable

The value of 'r' lies between -1 to +1 and if r = 1 there is perfect positive relationship. If r = -1, there is perfect negative relationship. If r= 0, there is no correlation at all coefficient of determination (r^2)

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

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

d. Probable Error (PE)

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

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

Where,

r^2 = coefficient of determination

N = the no. of pair of observation

1. If the value of r is less than probable error there is no evidence of correlation i.e. value of r is not at all significant.
2. If the value of r is more than six times the probable error coefficient of correlation is practically certain i.e. the value of r is significant.

e. Trend Analysis

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

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

$$y = a + bx.$$

3.6 Limitations`

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

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

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

4.1 Financial Tools

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

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

4.1.1 Analysis of Liquidity Ratios

Liquidity ratio measures the firm's capability to meet its current obligation. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community, demand for the deposit

withdrawals, pay maturity in time and convert non cash assets into cash to satisfy immediate need without loss to bank and consequent impact or long-run profit. The following ratios which measure the liquidity position of banks are calculated.

I. Current Ratio

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

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

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

Implication: It is clear from the above table that SCBNL and HBL have maintained current assets more than their current liabilities. Both banks are capable enough to pay their current obligations SCBNL has the highest current assets of 1.0226 in the F/Y 2005-06 and the lowest is 0.946 in the F/Y 2007/08 respectively.

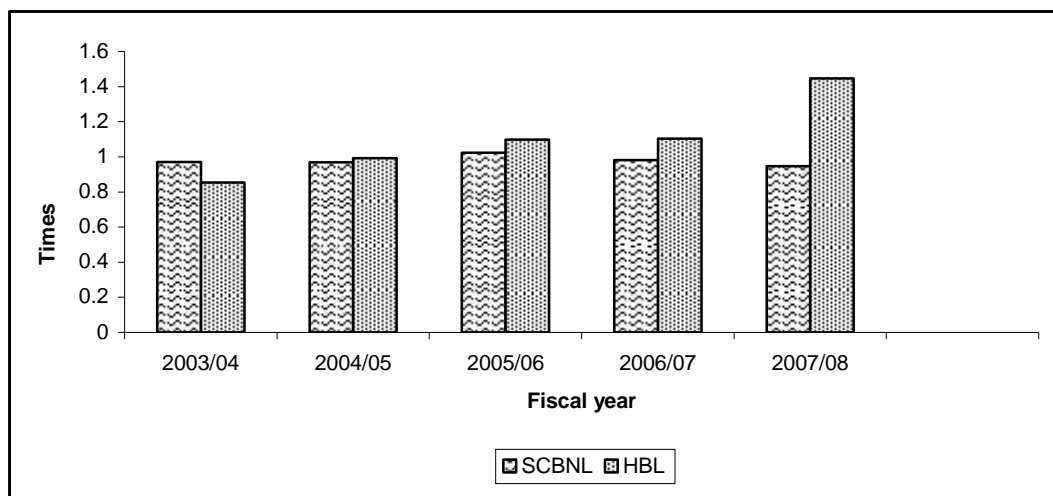
This ratio is obtained by dividing current assets by current liabilities

Table 4.1
Current Ratio (Times)

Fiscal Year	SCBNL	HBL
2003/04	0.971	0.854
2004/05	0.9688	0.993
2005/06	1.0226	1.098
2006/07	0.981	1.103
2007/08	0.946	1.446
Mean	0.98	1.10
S.D	0.03	0.22
C.V.	2.87%	19.22%

Source: Appendix No. (1) (i)

Figure 4.1
Current Ratio (Times)



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

II. Cash and Bank Balance to Total Deposit Ratio

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

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

Standard: Higher ratio indicates the greater ability to meet the sudden demand of deposits and vice versa. But too, high ratio is undesirable since capital will be tied up and it will maximize the opportunity cost. High ratio indicates the sound ability to meet their daily cash requirement of their customer deposit and some earning maybe lost. Similarly, lower ratio is also not preferable as the bank may fail to make the payment against the cheques presented by the customers.

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

Table 4.2
Cash and bank Balance to Total Deposit Ratio

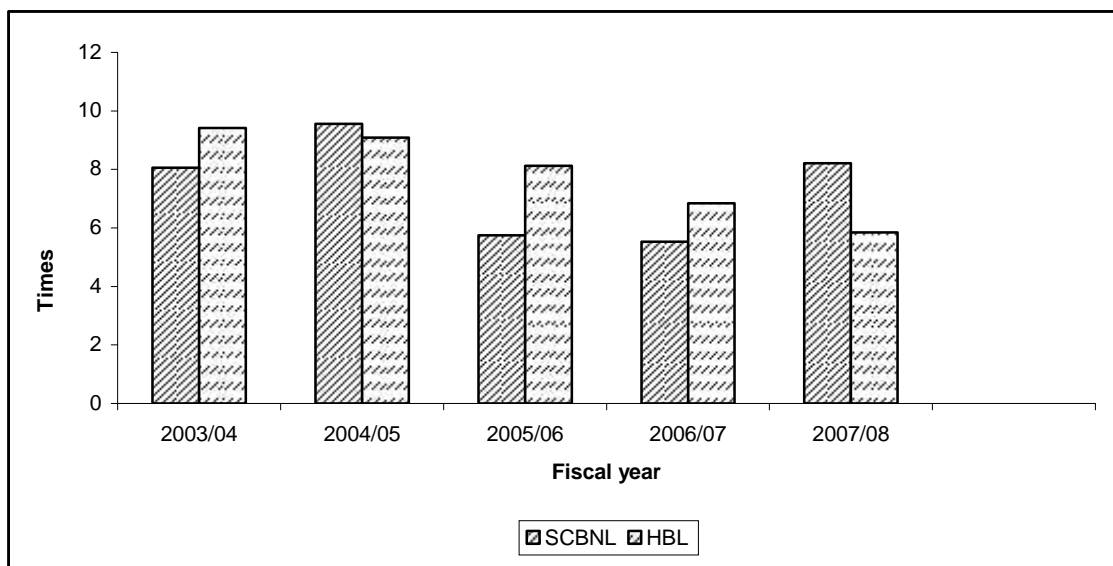
Fiscal Year	SCBNL	HBL
2003/04	8.06	9.42
2004/05	9.56	9.092
2005/06	5.75	8.12
2006/07	5.53	6.84
2007/08	8.21	5.85
Mean	7.42	7.86
S.D	1.73%	1.51%
C.V.	23.31%	19.18%

Source: Appendix No. 1(ii)

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

Implication: SCBNL had a high ratio of 8.56% in F/Y 2004/05 and low ratio of 5.53% in F/Y 2006/07. Similarly, HBL has a high of 9.42% in F/Y 2006/07. Similarly, HBL has a high of 9.42% in F/Y 2003/04 and low of 5.85% in F/Y 2007/08.

Figure 4.2
Cash and Bank Balance to Total Deposit



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

III Cash and Bank Balance to Current Assets Ratio

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

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

Standard: High ratio indicates the sound ability to meet their daily cash requirement of their customer deposit and some earning maybe lost. Similarly, lower ratio is also not preferable as the bank may fail to make the payment against the cheque presented by the customers. This ratio is calculated by dividing cash and bank balance by current assets.

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

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

Fiscal Year	SCBNL	HBL
2003/04	8.85	12.14
2004/05	10.07	10.76
2005/06	5.529	9.45
2006/07	5.94	7.42
2007/08	9.18	6.33
Mean	7.91	9.22
S.D	2.04	2.37
C.V.	25.83%	25.75

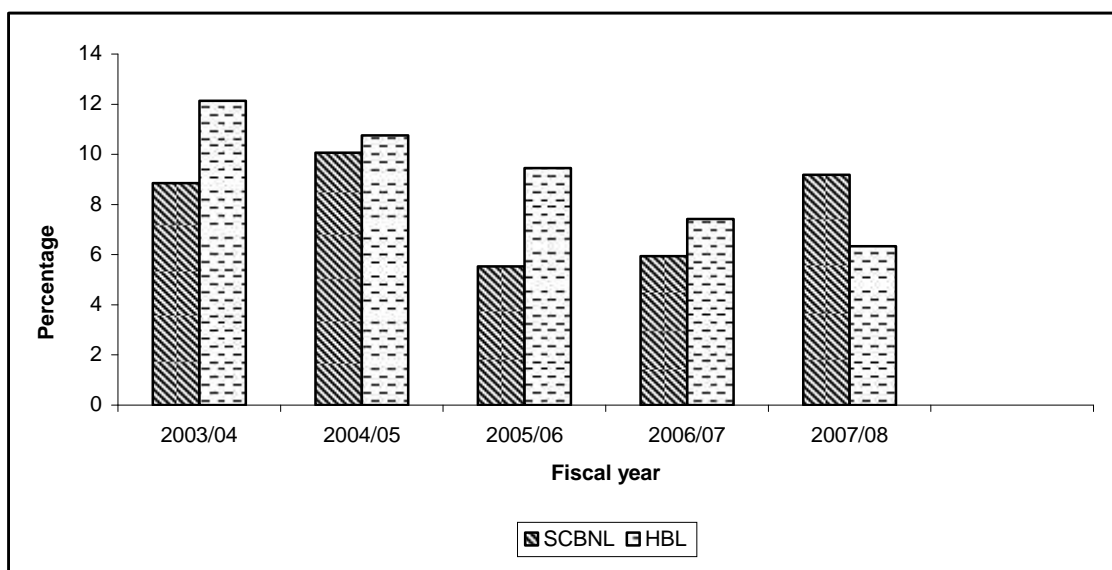
Sources: Appendix No. 1 (iii)

Implication: SCBNL has maintained a high ratio of 10.07% in F/Y 2004/05, and a low ratio of 5.529% in 2005/06. Similarly, HBL has a high of 12.14% in F/Y 2003/04 anticipating higher cash requirement depositors in this F/Y. It has a low ratio of 6.33% in F/Y 2007/08.

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

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

Figure 4.3
Cash and Bank to Current Assets



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

IV. Investing on Government Securities to Current Assets Ratio

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

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

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

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

Table 4.4

Investment on Government Securities to Current Assets Ratio

Fiscal Year	SCBNL	HBL
2003/04	38.52	20.54
2004/05	39.56	18.45
2005/06	37.28	25.62
2006/07	40.22	22.22
2007/08	32.27	23.24
Mean	37.57	22.02
S.D	3.16	2.72
C.V.	8.42	12.36

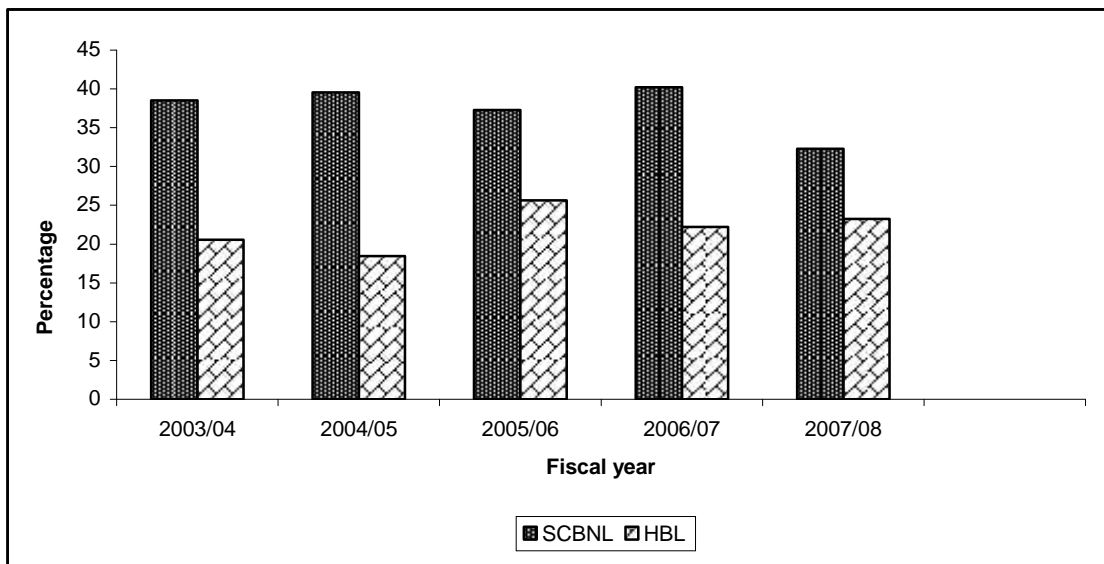
Sources: Appendix No. 1 (iv)

Implication: The above table shows that the investment on Government Securities Current Assets of SCBNL and HBL is in fluctuating trend. Near the less, SCBNL have tried to maintain consistency from F/Y 2004/05 onwards. The figure shows that HBL is lower than that of SCBNL on investment on Government Securities to Current Assets.

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

Figure 4.4

Investment on Government Securities to Current Assets Ratio



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

4.1.2 Analysis of Assets Management Ratio

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

I. Loan and Advances to Total Deposit Ratio

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

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

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

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

Table 4.5

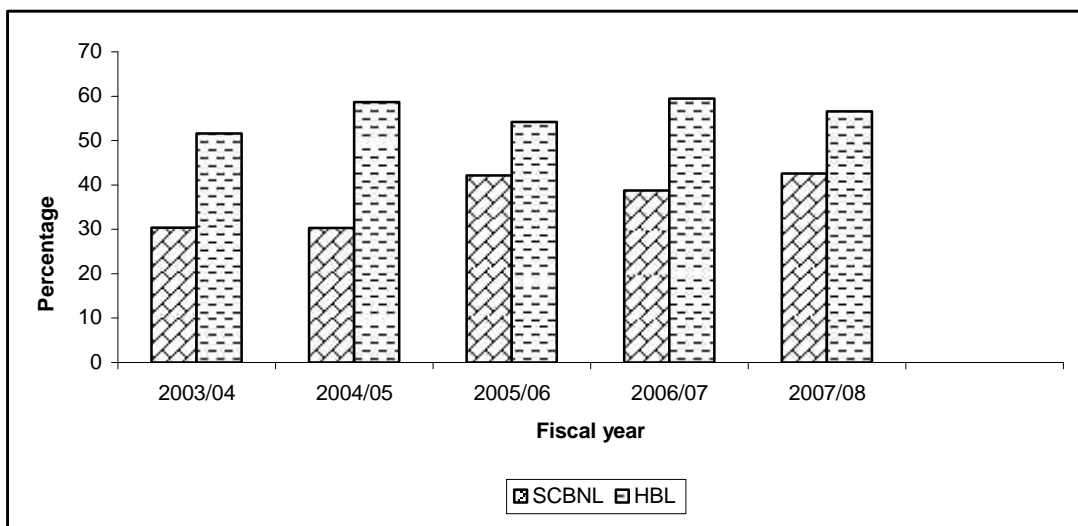
Loan and Advances to Total Deposit Ratio

Fiscal Year	SCBNL	HBL
2003/04	30.36	51.62
2004/05	30.3	58.7
2005/06	42.12	54.21
2006/07	38.75	59.5
2007/08	42.61	56.57
Mean	36.83	56.12
S.D	6.12	3.25
C.V.	16.6%	5.79%

Sources: Appendix no. 1(v)

Implication: The above table shows that the loan and advances to total deposit of both the banks have a fluctuating trend. SCBNL had a high ratio of 42.61 in F/Y 2006/07. And a low ratio of 30.30% in F/Y 2004/05. Accordingly, HBL had a high of 59.5% and a low of 51.62% . The mean ratio of HBL is higher than that of SCBNL i.e., 56.12% > 36.83%. HBL seems to be strong in terms of mobilization of its total deposits of loan and advances than SCBNL.

Figure 4.5
Loan and Advances to Total Deposit



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

II. Total Investment to Total Deposit Ratio

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

Relation: The commercial banks are interested to invest its funds in different securities issued by government and other financial or

non-financial companies. This ratio measures the extent to which the banks are able to mobilize their deposit on investment in various securities.

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

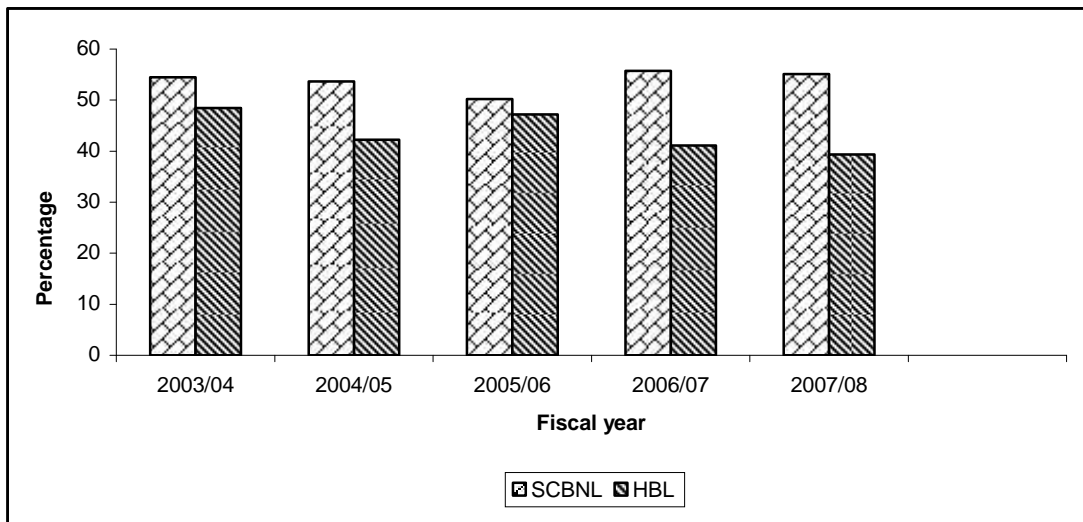
This ratio is calculated by dividing total investment by total deposits. The data tabulated below shows the total investment to total deposit ratio.

Table 4.6
Total Investment to Total Deposit Ratio

Fiscal Year	SCBNL	HBL
2003/04	54.47	48.44
2004/05	53.68	42.22
2005/06	50.18	47.2
2006/07	55.71	41.1
2007/08	55.1	39.35
Mean	53.53	43.66
S.D	2.17	3.96
C.V.	4.04	9.06

Implication : The above table, both SCBNL and HBL has fluctuating trend in total investment to total deposit. SCBNL has a high ratio of 55.71% in F/Y 2006/07 and low ratio of 50.18 in F/Y 2005/06. And other side HBL had a high ratio of 48.44% and a low ratio of 39.35% in F/Y 2003/04 and 2007/08 respectively.

Figure 4.6
Total Investment to Total Deposit Ratio



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

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

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

III. Loan and Advances to Fixed Deposit Ratio

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

Relation: The main purpose of this ratio is to examine how board area the bank has covered to provide its service efficiently. Each commercial banks fixed deposit should play vital role on profit

generating through fund mobilizing its total deposit on fixed and advances in appropriate levels.

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

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

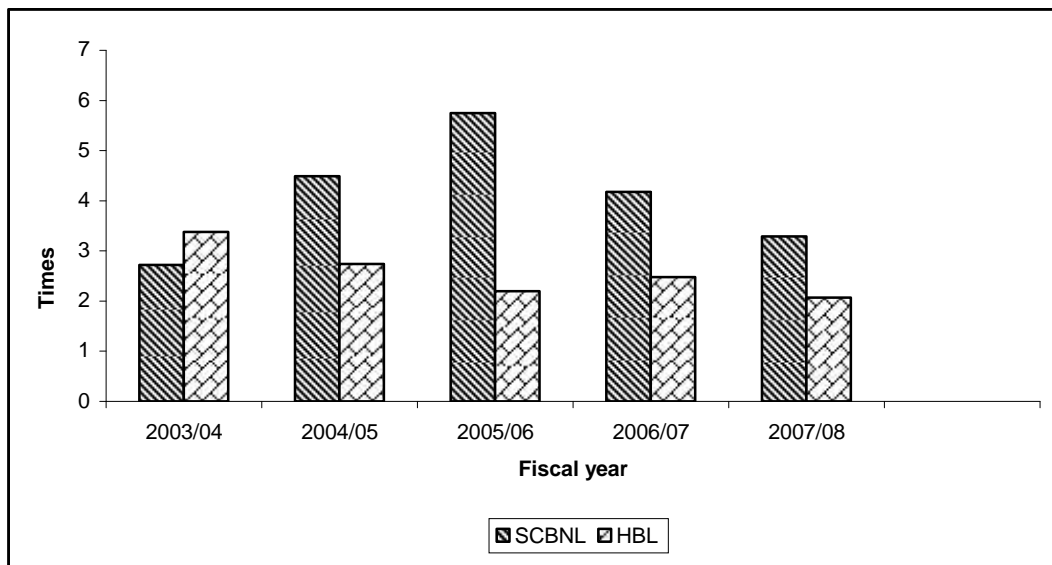
Table 4.7
Loan and Advances to Fixed Deposit Ratio

Fiscal Year	SCBNL	HBL
2003/04	2.72	3.38
2004/05	4.49	2.74
2005/06	5.75	2.2
2006/07	4.18	2.48
2007/08	3.29	2.07
Mean	4.13	2.57
S.D	1.11	0.52
C.V.	26.9%	20.19%

Sources: Appendix No.1 (vii)

Implication: The above table shows a fluctuating trend of loan and advances to fixed deposit of SCBNL and HBL. SCBNL has maintained higher ratio of 5.75% in F/Y 2005/06 and a low ratio of 2.92% in F/Y 2003/04. Similarly HBL ha maintained a high ratio of 3.38% in F/Y 2003/04 and a low ratio of 2.07% in F/Y 2007/08.

Figure 4.7
Loan and Advances to Fixed Deposit



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

IV. Loan and Advances to Saving Deposit Ratio

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

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

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

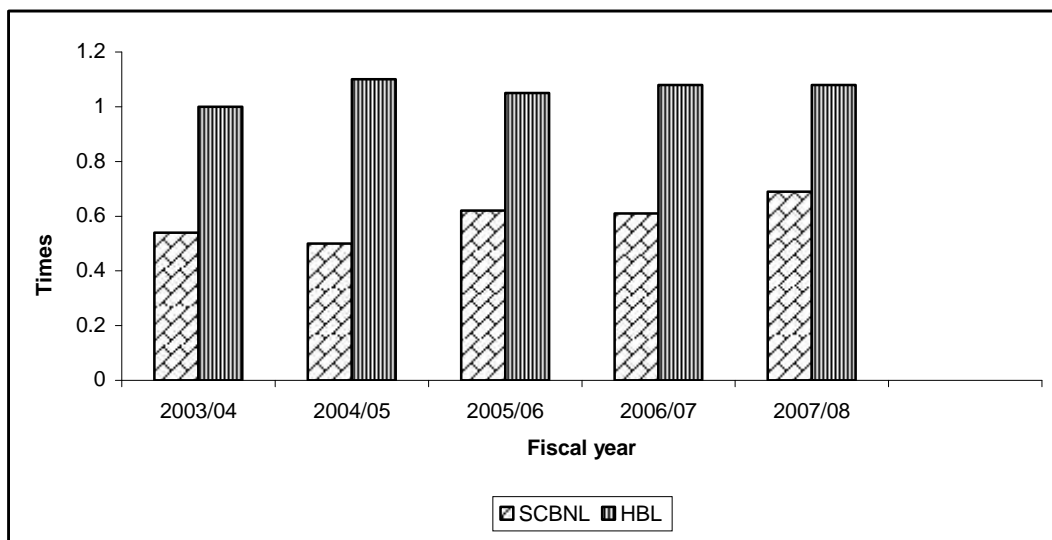
The ratio can be computed in the following way.

Table 4.8

Fiscal Year	SCBNL	HBL
2003/04	0.54	1
2004/05	0.5	1.1
2005/06	0.62	1.05
2006/07	0.61	1.08
2007/08	0.69	1.08
Mean	0.59	1.06
S.D	0.07	0.04
C.V.	12.49%	3.67%

Implication: The above table clearly shows favorable fluctuated trend of loan and advance of SCBNL during the study period. The average mean ratio of HBL is higher compared to SCBNL i.e. 1.06% > 0.59% HBL has experienced an increasing trend of loan and advances up to F/Y 2007/08. SCBNL had a high ratio of 0.69% in F/Y. 2007/08 and a low ratio of 0.50% in F/Y 2004/05. Similarly HBL has experienced a high ratio of 1.08% in F/Y 2006/07 and 2007/08 and a low of 1% in F/Y 2003/04.

Figure No. 4.8
Loan and Advance to Saving Deposit



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

V. Fixed Deposit to Total Deposit Ratio

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

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

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

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

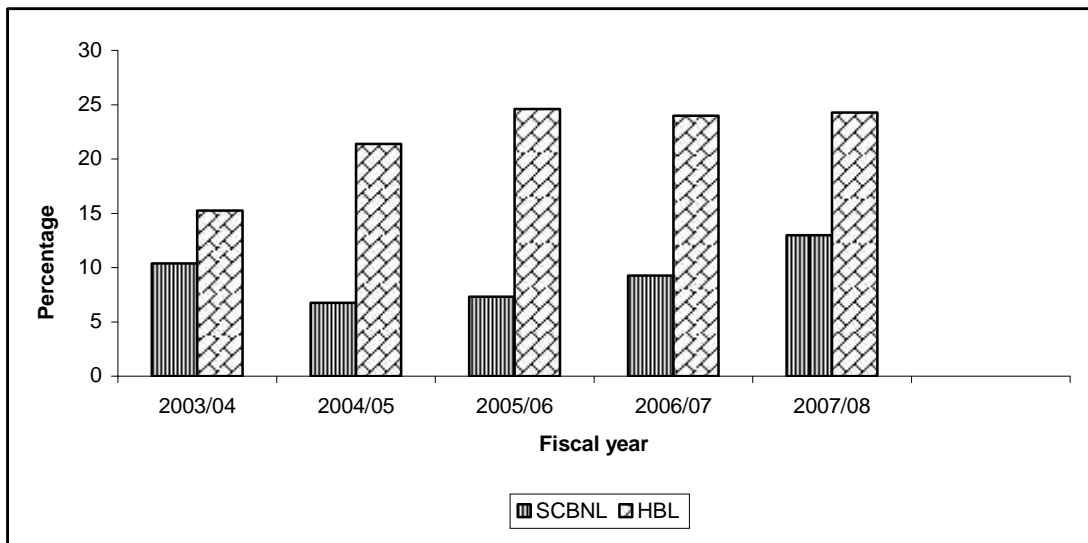
Table 4.9
Fixed Deposit to Total Deposit Ratio

Fiscal Year	SCBNL	HBL
2003/04	10.39	15.26
2004/05	6.75	21.4
2005/2006	7.33	24.61
2006/2007	9.26	23.97
2007/2008	12.97	24.29
Mean	9.34	22.51
S.D	2.5	4.56
C.V.	26.78%	20.26%

Sources: Appendix No. 1 (ix)

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

Figure 4.9
Fixed Deposit to Total Deposit Ratio



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

VI. Saving Deposit to Total Deposit Ratio

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

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

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

and calculated by dividing saving deposit by total deposit ratio for the entire period of the study.

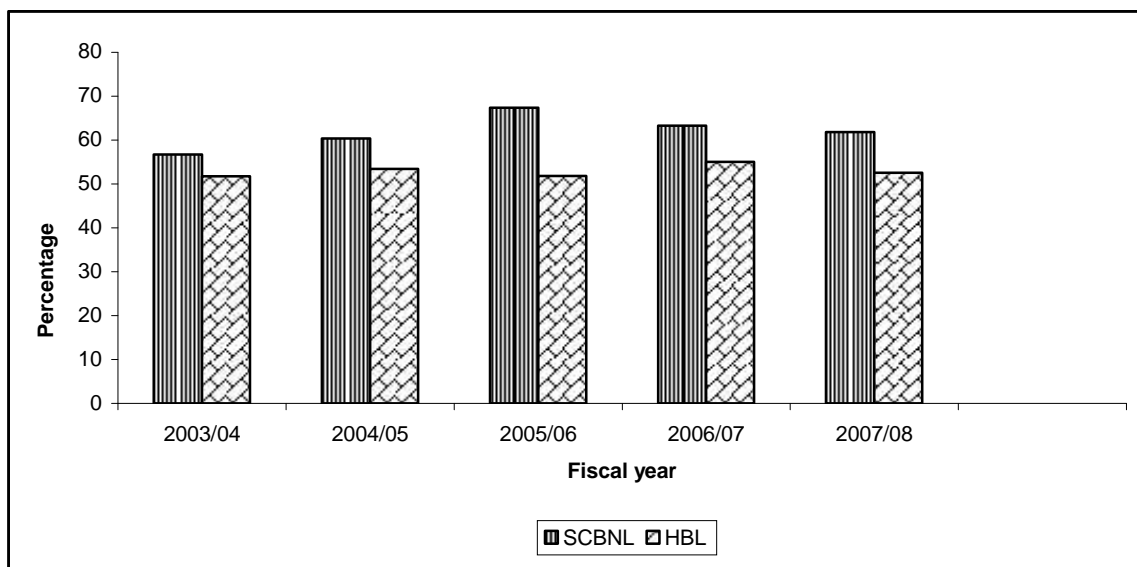
The following table shows the saving deposit to total deposit ratio is SCBNL and HBL during period. It can be mentioned as:

Table 4.10
Saving Deposit to Total Deposit Ratio

Fiscal Year	SCBNL	HBL
2003/04	56.69	51.75
2004/05	60.35	53.43
2005/06	67.4	51.79
2006/07	63.3	55.05
2007/08	61.85	52.53
Mean	61.92	52.91
S.D	3.93	1.38
C.V.	6.35%	2.60%

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

Figure 4.10
Saving Deposit to Total Deposit Ratio



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

4.1.3 Analysis of Profitability Ratios

The main objectives of a commercial bank are to earn profit providing different types of banking services to its customers. To meet various objectives like to have a good liquidity position, meet fixed internal obligation, overcome the future contingencies, grab huckle investment opportunities expand banking transaction in different places, finance government in need of development funds etc. a commercial bank must have to earn sufficient profit. Of course, profitability ratios are the best indicators of overall efficiency. Here, mainly, those ratios are presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of SCBNL and HBL.

I. Returns on Loan and Advances Ratio

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

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

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

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

Table 4.11
Return on Loan and advances Ratio(%)

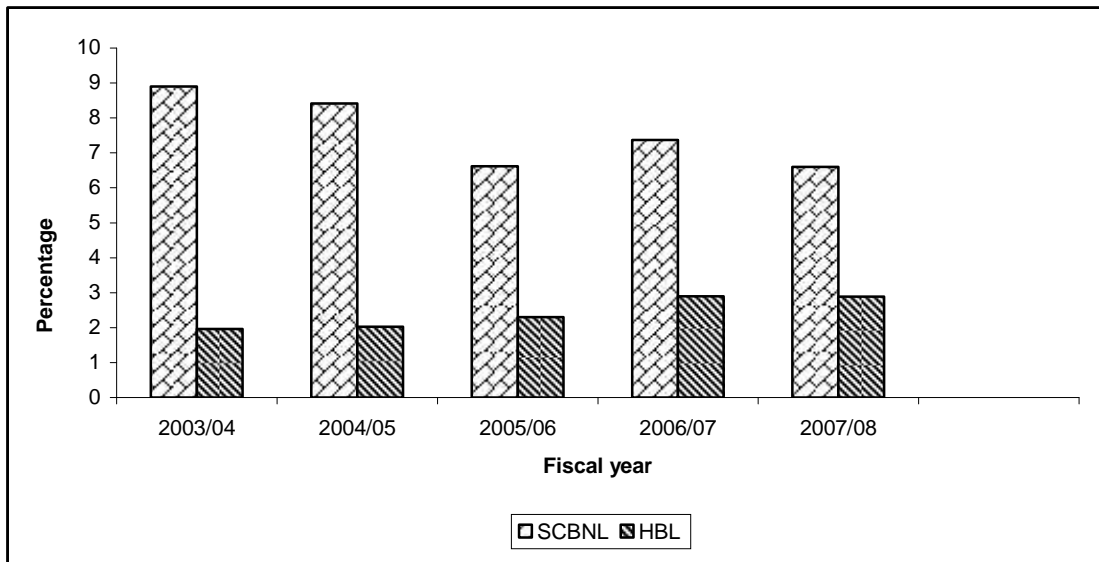
Fiscal Year	SCBNL	HBL
2003/04	8.9	1.96
2004/05	8.41	2.03
2005/06	6.62	2.3
2006/07	7.37	2.9
2007/08	6.6	2.89
Mean	7.58	2.42
S.D	1.04	0.46
C.V.	13.77	18.85

Sources: Appendix No. 1(xi)

Implication: The above table shows that the ratio of return on loan and advances of SCBNL are better than HBL in all F/Y, through they have a fluctuating trend. SCBNL ratios have witnessed a decreasing trend up to F/Y 2005/06, therefore they have an increasing trend. SCBNL has recorded a high ratio of 8.9% in F/Y

2003/04 and a low ratio of 6.6% in F/Y 2007/08. Similarly, HBL recorded a high of 2.90% in F/Y 2006/07 and a low of 1.96% in F/Y 2003/04.

Figure 4.11
Return on Loan and Advances Ratio (%)



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

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

II. Return on Total Working Fund Ratio

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

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

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

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

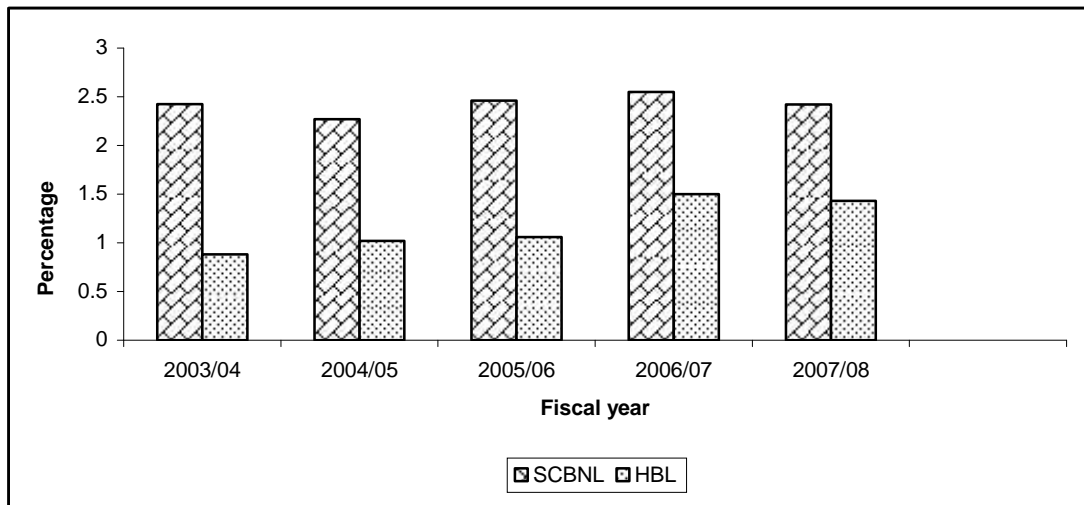
Table 4.12
Return on Total Working Fund Ratio (%)

Fiscal Year	SCBNL	HBL
2003/04	2.424	0.88
2004/05	2.27	1.02
2005/06	2.46	1.06
2006/07	2.55	1.5
2007/08	2.42	1.43
Mean	2.42	1.18
S.D	0.40	0.27
C.V.	4.17%	23.05%

Sources: Appendix No. 1(xii)

Implication: The above table reveals that the ratio of return on total working fund is fluctuated in case of SCBNL and increasing trend in case of HBL during the study period. SCBNL has had a high ratio of 2.55% in F/Y 2006/07 and a low ratio of 2.27% in F/Y 2004/05. Similarly, HBL has had a high of 1.50% and a low of 0.88% in F/Y 2006/07 and 2003/04 respectively.

Figure 4.12
Return on Total Working Fund Ratio (%)



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

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

III. Total Interest Earned to Total Working Fund Ratio

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

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

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

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

Table 4.13

Total Interest Earned to Total Working Fund Ratio(%)

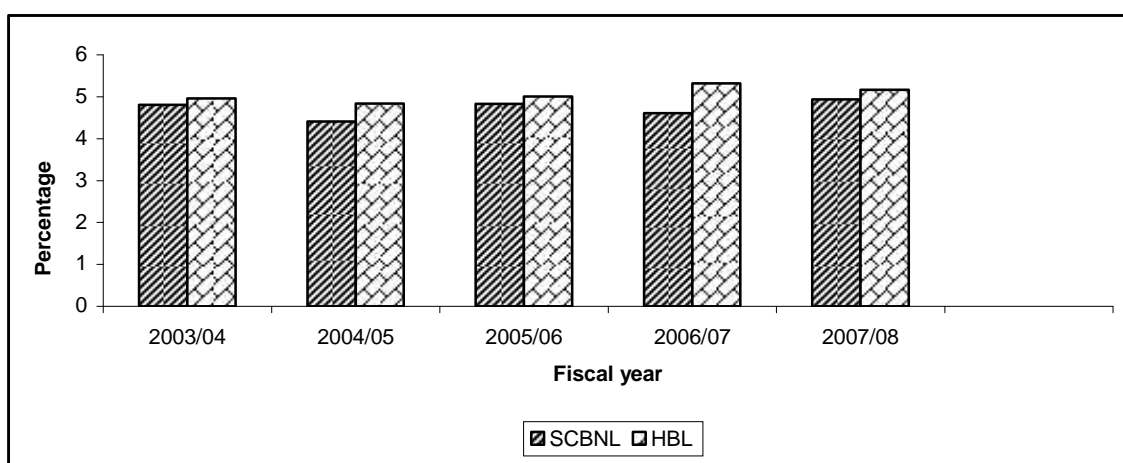
Fiscal Year	SCBNL	HBL
2003/04	4.81	4.96
2004/05	4.41	4.84
2005/06	4.83	5.01
2006/07	4.61	5.32
2007/08	4.94	5.17
Mean	4.72	5.06
S.D	0.21	0.19
C.V.	4.45%	3.71%

Sources: Appendix No.1(xiii)

Implication: The above table reflects a fluctuated trend in interest earning ratio of SCBNL and HBL. SCBNL has had a high ratio of 4.94% in F/Y 2007/08 and a low ratio of 4.41% in F/Y 2004/05. Similarly, HBL has experienced a high of 5.32% in F/Y 2006/07 and a low of 4.84% in F/Y 2004/05.

Figure 4.13

Total Interest Earned to Total Working Fund



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

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

IV. Total Interest Earned to Total Outside Assets Ratio

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

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

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

The following table shows interest earned to total outside assets.

Table 4.14

Total Interest Earned to Total Outside (%)

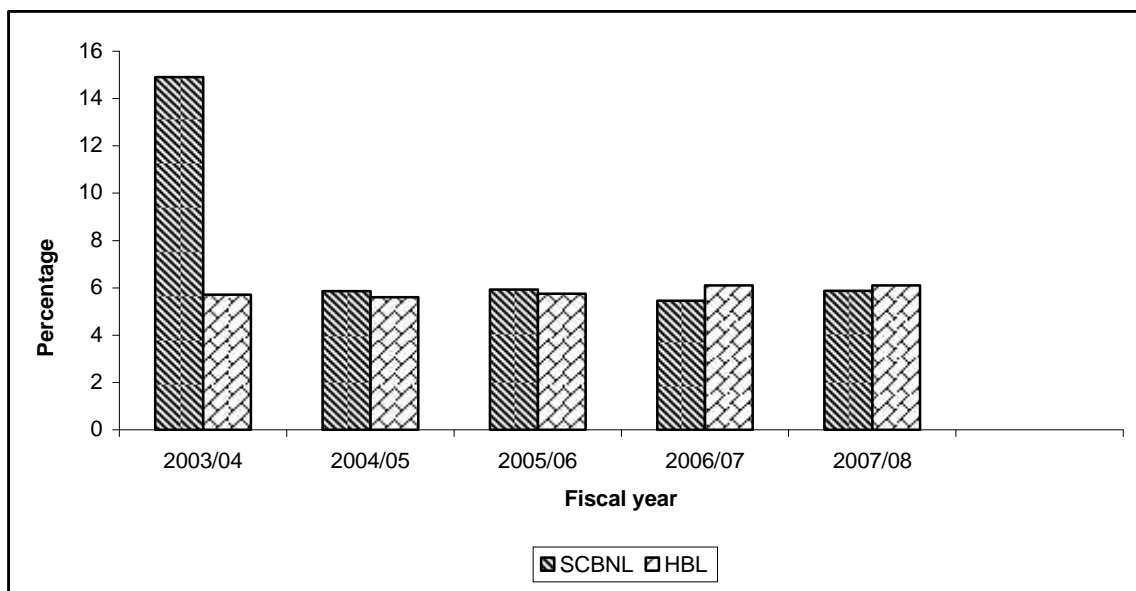
Fiscal Year	SCBNL	HBL
2003/04	14.9	5.71
2004/05	5.86	5.61
2005/06	5.93	5.75
2006/07	5.46	6.1
2007/08	5.87	6.1
Mean	7.60	5.85
S.D	4.08	0.23
C.V.	53.63%	3.23%

Sources: Appendix No. 1(xiii)

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

Figure 4.14

Total Interest Earned to Total Outside Assets



Implication: SCBNL has recorded a high ratio of 14.9% in F/Y 2003/04 and a low ratio of 5.46% in F/Y 2006/07. HBL has had a high ratio of 6.10% in F/Y 2006/07 and 2007/08 and a low ratio of 5.61% in F/Y 2004/05.

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

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

V. Total Interest Paid to Total Working Fund Ratio

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

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

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

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

Table 4.15

Total Interest Paid to Total Working Fund Ratio(%)

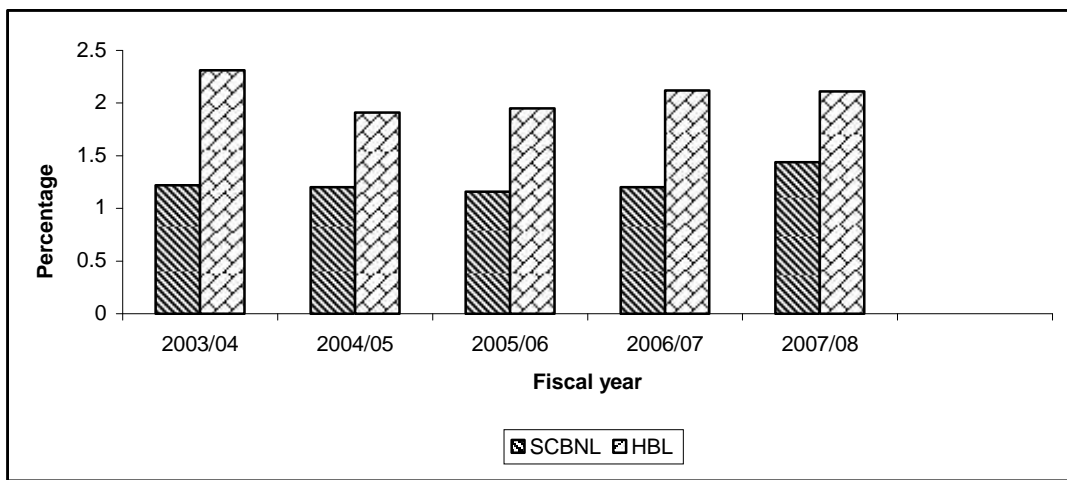
Fiscal Year	SCBNL	HBL
2003/04	1.22	2.31
2004/05	1.2	1.91
2005/06	1.16	1.95
2006/07	1.2	2.12
2007/08	1.44	2.11
Mean	1.24	2.11
S.D	0.11	0.18
C.V.	8.98%	8.31%

Source: Appendix No. 4.15 (xv)

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

Figure 4.15

Total Interest Paid to Total Working Fund



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

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

4.1.5 Analysis of Growth Ratios

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

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

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

Table 4.16
Growth Ratio of Total Deposit(%)

Fiscal Year	SCBNL	HBL
2003/04	18756	21007
2004/05	21161	22010
2005/06	19.335	24814
2006/07	23061	26490
2007/08	24647	30048
Growth Ratio(%)	7.06%	9.36%

Figure 4.16
Growth Ratio of Total Deposit

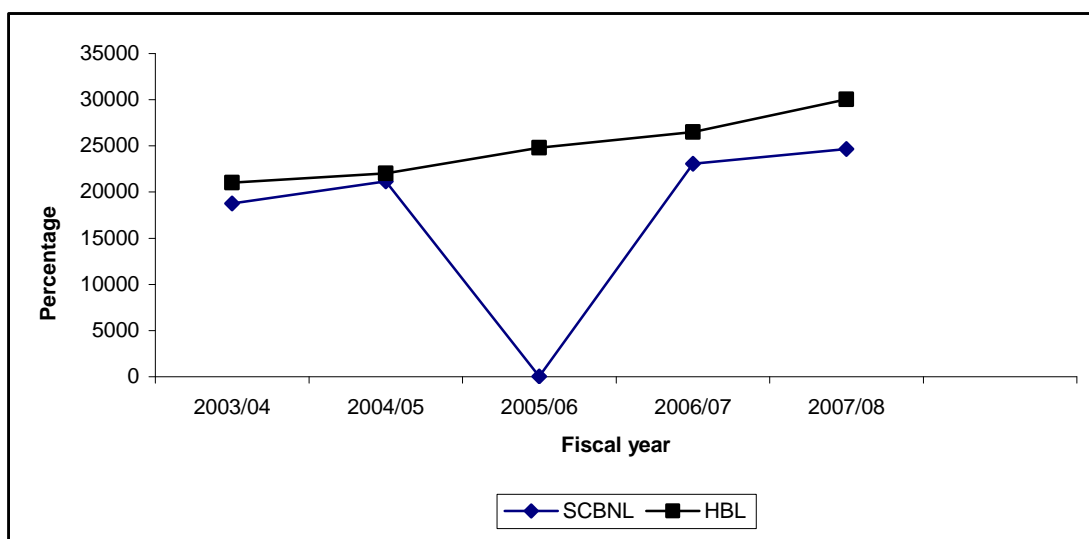


Table 4.17

Growth Ratio of Loan and Advances

Fiscal Year	SCBNL	HBL
2003/04	5696	10845
2004/05	6410	12920
2005/06	8143	13451
2006/07	8935	15762
2007/08	10502	16998
Growth Rate(%)	16.53%	13.18%

Figure 4.17

Growth Ratio of Loan and Advances

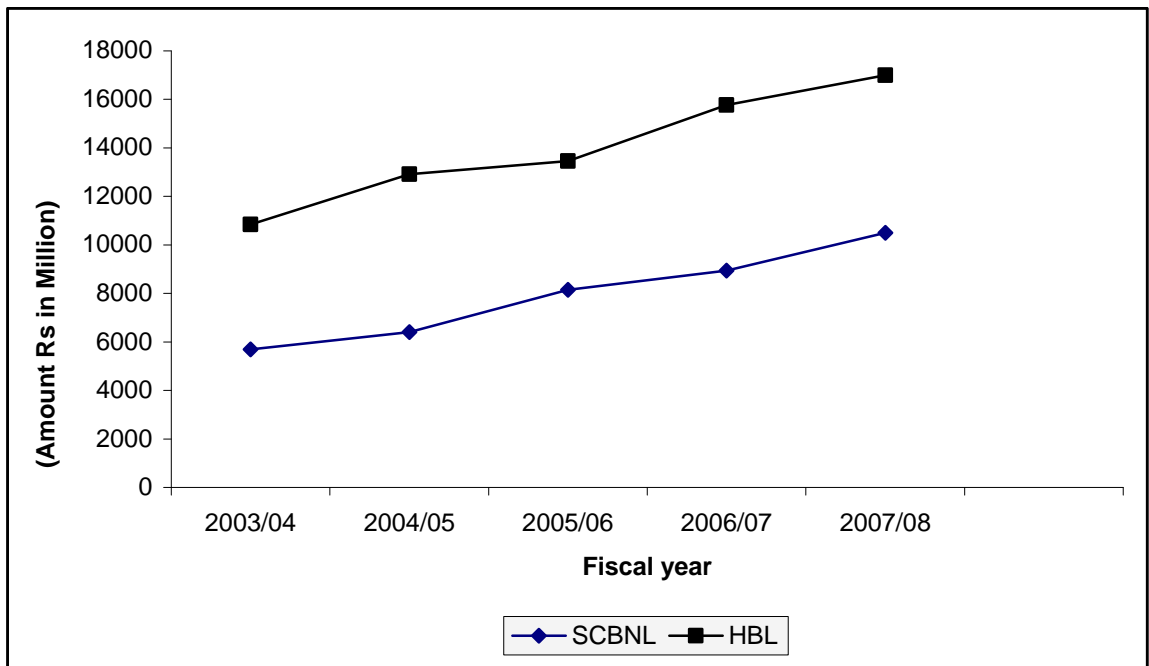


Table 4.18
Growth Ratio of Total Investment

(Rs in million)

Fiscal Year	SCBNL	HBL
2003/04	10216	10175
2004/05	11360	9292
2005/06	9702	11692
2006/07	12847	10889
2007/08	13553	11823
Growth Rate(%)	7.32%	3.82%

Figure 4.18
Growth Ratio of Total Investment

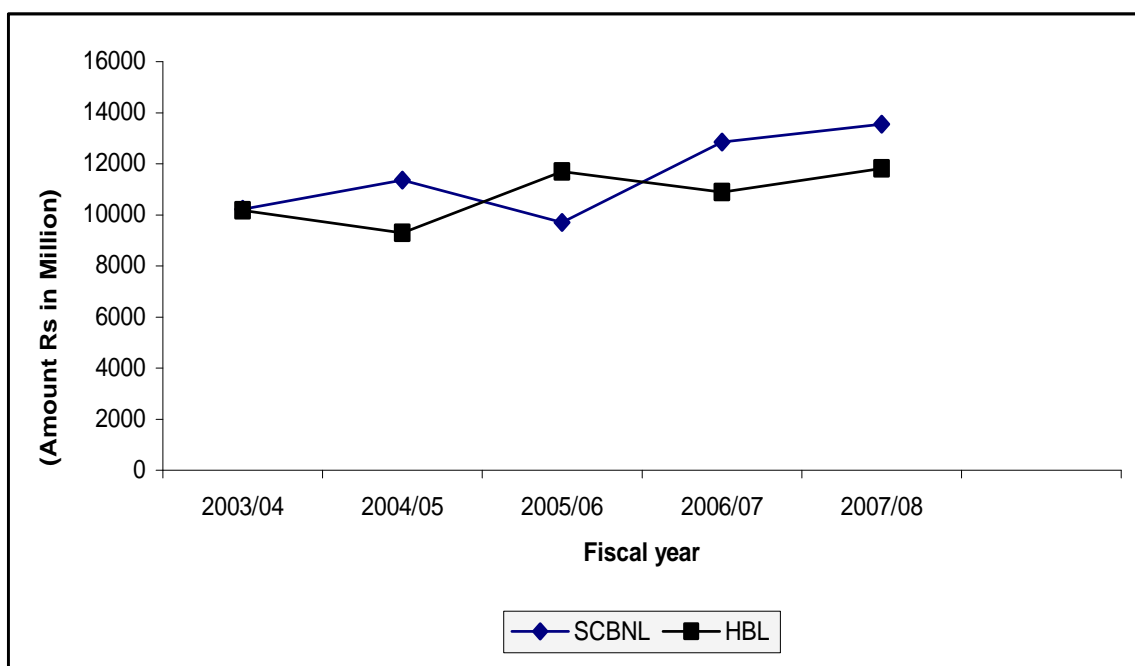


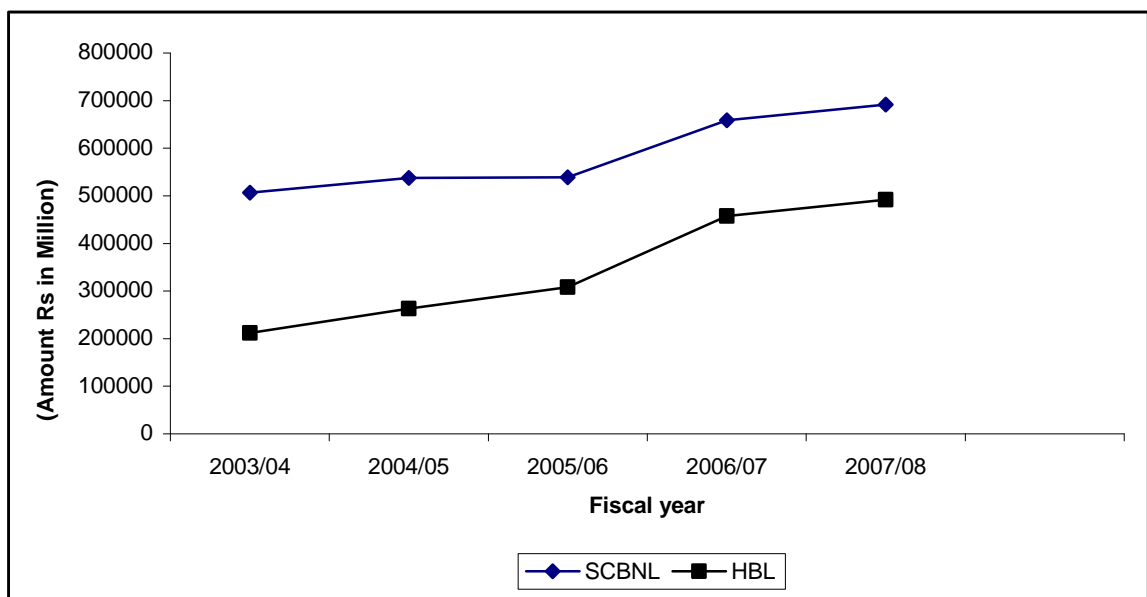
Table 4.19
Growth Ratio of Net Profit

(Rs in Million)

Fiscal Year	SCBNL	HBL
2003/04	506932	212132
2004/05	537800	263052
2005/06	539204	308277
2006/07	658756	457458
2007/08	691668	491823
Growth Rate(%)	8.08%	23.43%

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

Figure 4.19
Growth Ratio of Net Profit



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

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

The growth rate of total investment of HBL is in a fluctuating trend but growth rate of total investment of SCBNL is in highly increasing trend except in F/Y 2005/06.

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

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

4.2 Statistical Tools

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

Interpretation of correlation co-efficient

- It lies always between +1 to -1.
- When $r = -1$ there is perfect positive correlation
- When $r = 0$, there is no correlation.

- When r lies between 0.7 to 0.999, (-0.7 to 0.9999) there is a high degree of positive or negative correlation.
- When r lies between 0.5 to 0.6999, there is moderate degree of correlation.
- If $r < 6 \text{ P.E.}$, then the value of ' r ' is not significant.
- If $r > 6 \text{ P.E.}$, then the value of ' r ' is definitely significant.

4.2.1 Coefficient of Correlation Analysis

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

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

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

Table 4.20

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

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

Source: Appendix No.2(i)

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

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

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

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

II. Coefficient of Correlation between Total Deposit and total Investment

Coefficient of correlation between deposit and investment measures the degree of relationship between these two variables. here,

deposit is taken as independent variable (x) and the variable dependent on deposit on deposits is total investment, which is denoted by (y). The purpose of calculating 'r' is to judge whether deposits are significantly mobilized as investments or not.

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

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

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

Source: Appendix No.2(ii)

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

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

that there is a significant relationship between deposits and total investment.

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

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

The coefficient of correlation 'r' between total outside asset net profit measures the degree of relationship between these two variables. here, total outside assets is independent variable (x) and net profit is dependent variable (y). The main purpose of calculating between these two variable is to justify whether net profit is significantly correlated with total outside assets or not.

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

Table 4.23

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

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

Sources: Appendix No.2(iii)

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

there exists a significant relationship between outside assets and net profit.

The coefficient of correlation 'r' between total outside assets and net profit in case of HBL is 0.9565, which indicates a positive relationship between the two variables. The coefficient of determination (r^2) is 0.9149. This indicates that 91.49% of the variation of the dependent variable has been explained by independent variable. Moreover 'r' is greater than six times P.E. which further states that there is significant relationship between outside assets and net profit.

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

4.2.2 Trend Analysis

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

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

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

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

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

Under this topic, an effort has been made to calculate the trend values of total deposit and loan and advances of SCBNL and HBL for five years from FY 2003/04 to 2007/08 and forecast for next five years till FY 2012/13.

This following table shows the trend value of 10 years from 2003/04 to 2012/13.

Table 4.24
Trend values of Total Deposit and Loan and Advances of SCBNL and HBL

(Rs. in million)

Years	Trend Values of Total Deposit SCBNL	Trend Value of Total Deposit HBL	Trend Value of SCBNL	Trend Value of HBL
2003/04	104223.75	2061.68	55097.06	109652.86
2004/05	105591.99	22618.54	67235.86	124801.60
2005/06	106960.23	24875.40	79374.66	13950.34
2006/07	108328.47	27132.26	91513.46	155099.08
2007/08	109696.71	29389.12	10365.26	170247.82
2008/09	111064.95	31645.98	11571.06	185396.56
2009/10	112433.19	33902.84	127929.86	200545.30
2010/11	113801.43	36159.70	140068.66	21569.04
2011/12	115169.67	38416.56	152207.46	230842.78
2012/13	116537.94	40673.42	164346.26	24991.52

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

From the above comparative table it is clear that a trend value of SCBNL is in an increasing trend. If other things remain unchanged the total deposit of SCBNL is predicated to be Rs. 116537.91 million and that of HBL to be less than deposit of SCBNL by the end of FY 2012/13, i.e. Rs. 40673.42 million.

- Trend value of total deposit SCBNL.

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

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

The above table clearly shows that the loan and advance of both the banks are in an increasing trend. Assuming that other things will remain constant, the loan and advances of SCBNL at the end of FY 2012/13 is predicted to be Rs. 164346.26.

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

4.2.2.2 Analysis of Trend Value of Total Investment and Net Profit

Under this topic, an attempt has been made to analyze total investment and net profit of SCBNL and HBL for five years is FY 2003/04 to 2007/08 and forecast is made for next five years till FY 2012/13.

Table 4.25
Trend Value of Total Investment and Net Profit and
SCBNL and HBL

(Rs. Million)

Years	Trend Value of Total Investment SCBNL	Trend Value of Total Investment HBL	Trend Value of Net Profit SCBNL	Trend Value of Net Profit HBL
2003/04	9903.71	9795.98	488.79	195.79
2004/05	10719.84	10285.18	537.83	271.17
2005/06	11535.97	10774.38	586.87	346.55
2006/07	12352.10	11263.58	635.91	421.93
2007/08	13168.23	11752.78	684.95	497.31
2008/09	13984.36	12241.48	733.99	572.69
2009/10	14800.49	12731.18	783.03	648.07
2010/11	15616.62	13220.38	832.07	723.45
2011/12	16432.75	13709.58	881.11	798.83
2012/13	17248.88	14198.78	930.15	874.21

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

From the above table, it is clear that the trend value of both the banks are in an increasing trend. If other things remain unchanged total investment of SCBNL is predicted to be Rs. 17248.88 in FY 2012/13 and that of HBL to be Rs. 14198.78 million. These value are highest under the review period.

The above table, reveals that SCBNL total investment is higher than that of HBL through out the trend projection period. It can be said

that both SCBNL and HBL have followed the policy of maximizing their investment.

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

From the above comparative table, it is clear that the trend value of both the banks are in increasing trend. Other things remaining the same the trend value of both the banks are in increasing trend. The trend value of SCBNL will be highest in FY 2012/13 i.e. Rs. 930.15 million. In case of HBL net profit will be Rs. 874.21 million in FY 2012/13, which is the highest under the review period.

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

4.3 Major Findings of the Study

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

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

Liquidity Ratio

The liquidity position of SCBBL and HBL reveals that

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

The above results shows that the liquidity positions of HBL and SCBNL are satisfactory. But we can conclude that the liquidity position of HBL is comparatively better than SCBNL. It has the highest cash and bank balance to total deposit, cash and bank balance to current total deposit, cash and bank balance to current assets. HBL is in a better position to meet its daily cash requirement. HBL has a better position to

meet its daily cash requirement. HBL has a higher current ratio, which justifies that it is also capable enough to meet its current obligations. SCBNL mean investment in government securities is better than HBL. The highest degree of variability in investment in government securities of SCBNL during the study period shows lack of concrete policy of the bank in this regard asset. enlargement ratio.

The asset management ratio of SCBNL and HBL reveals that:

- The mean ratio of loan and advances to total deposit ratio of HBL is higher than SCBNL. In terms of consistency both have been stable in their ratios.
- The mean ratio of total investment to total deposits of SCBNL is higher than HBL. The ratios of SCBNL are more consistent and less variable than HBL.
- The mean ratio of loan and advance to fixed deposit of SCBNL is higher than HBL. The ratios of SCBNL are less variable and more consistent than HBL.
- HBL has been more successful in identifying profitable investment sectors and increasing its earning. The same does not hold true for SCBNL, whose efforts seem to be more focused on investing in risk free assets, rather than increasing its loan and advances volume and subsequent earnings from it.
- HBL has a higher fixed deposit to total deposit ratio than SCBNL, HBL has the maximum fixed charge bearing deposit than SCBNL. From viewpoint of cost minimizing more is not favorable other hand from viewpoint of liquidity greater portion of fixed. deposit maybe termed as favorable one.
- SCBNL has a higher saving deposit to total deposit ratio than HBL. If the total deposit of SCBNL is 1 then saving deposit will be 61.92.

The accurate saving deposit to total deposit ratios of SCBNL has the maximum saving charge bearing deposit than HBL. From view point of cost minimizing more is not favorable other hand, from view point of liquidity greater portion of saving deposit maybe treed as favorable are.

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

Profitability Ratio

The profitability ratios of SCBNL and HBL reveals that,

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

- The mean ratio of total interest earned to total outside assets of HBL is higher than SCBNL. The ratios of SCBNL are more consistent than HBL.

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

Growth Ratios

The growth ratio of SCBNL and HBL reveals that,

- SCBNL ratios were higher variable than HBL. The growth rate of total loan and advances of both the banks are in increasing trend. The average growth rate of total loan and advances of SCBNL is better than HBL.
- The average growth rate of deposits of HBL are significantly higher than SCBNL.
- The growth rate of total investment of HBL is in a fluctuating trend but growth rate of total investment of SCBNL is in highly increasing trend except in FY 2005/06.
- The growth rate of net profit of both the banks has in increasing trend. The mean growth rate of HBL is higher than SCBNL i.e. 23.43% > 8.08%.

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

Co-efficient of Correlation Analysis

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

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

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

Trend analysis and projection for Next Five years:

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

- The deposits of both the banks have an increasing trend. The total deposit of SCBNL is predicted to be Rs. 116537.91 million and that of HBL to be Rs. 40637.42 million at the end of F/Y 2012/13. The deposit collection of SCBNL is much better than HBL.

- The loan and advance of both the banks have an increasing trend. The total loan and advance of SCBNL is predicted to be Rs.164346.26 million and that of HBL to be Rs. 245991.52 million at the end of F/Y 2012/13. The loan and advance of HBL is much better compared to SCBNL.
- The loan and advance of both the banks have an increasing trend. The total loan and advance of SCBNL is predicted to be Rs. 164346.26 million and that of HBL to Rs. 245991.52 million at the end of F/Y 2012/13. the loan and advance of HBL is much better compared to SCBNL.
- The total investments of both the banks have an increasing trend. The total investment of SCBNL is projected at Rs. 18044.78 million and that of HBL at Rs. 14198.78 million by the end of F/Y 2012/13. SCBNL seems to have a much focused policy with regards to total investment than HBL.
- The net profits of both the banks are in an increasing trend. The net profit of SCBNL and HBL is predicted at Rs. 930.15 million and Rs. 874.21 million respectively by the end of F/Y 2012/13. The position of SCBNL with regard to utilization of the fund to earn profit is better than HBL.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

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

5.1 Summary

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

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

The primary objectives of the study is to analyze the overall performance of SCBNL and HBL, however the other objectives are to examine the overall performance of SCBNL and HBL in terms of liquidity, activity, profitability, coverage and capital adequacy ratio to study the achievement of SCBNL and HBL, to evaluate the effectiveness of collection of deposit and their utilization to examine the causes of gap existing between deposits and loan, investment etc, to provide suggestion and recommendation for the improvement of future performance and maximum utilization of deposit.

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

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

which various findings have shown in above chapter from that finding conclusion have been drawn which are presented as below.

5.2 Conclusion

This study reveals that the current ratio of HBL is greater than 1 and SCBNL current ratio is less than 1, which should be considered satisfactory for HBL but not satisfactory for SCBNL. The liquidity position of HBL is better than SCBNL. The cash and bank balance of HBL with respect to deposits is greater than SCBNL. In this situation, HBL is in a better position with respect to meeting customer requirements than SCBNL. In contrast, a high ratio of non-earning cash and bank balance is an indication of bank's unavailability to invest its funds 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 requirements but that does not mean SCBNL cannot meet its daily customer cash requirements. HBL needs to invest its funds in more productive sectors. SCBNL's mean investment in government securities is better than HBL. The higher degree of variability in investment in government securities of SCBNL during the study period shows lack of concrete policy of the bank in this regard.

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

SCBNL from interest payment point of view. HBL has paid higher interest than SCBNL, whereas the latter seems to have collected its funds from cheaper sources than HBL.

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

The growth rate of total loan and advance of SCBNL and HBL the banks are in increasing trend. The average growth rate of total loan and advances of SCBNL is better than HBL. The growth rate of total investment of HBL is in a fluctuating trend but growth rate of total investment of SCBNL is in highly increasing trend except in F/Y 2005/06. The growth rate of net profit of both the banks has in increasing trend. The mean growth rate of HBL is higher than SCBNL i.e. $23.43\% > 8.08\%$. This ratio can be misleading in the sense that the ratio of loan and advance to current assets, total deposits, and total working fund of HBL is comparatively less than that of SCBNL.

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

The trend value of deposits, loan and advances, investment and net profits of SCBNL and HBL are in an increasing trend. The trend values of deposits, net profit and investment of SCBNL are proportionately

higher than HBL in all the years. The trend value of loan and advances of HBL is proportionately better than SCBNL in all the years.

5.3 Recommendation

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

- Current ratio of the bank is found below the standard. So, it is recommended that the bank should increase the current assets to meet the short-term obligation of the bank. Otherwise there may arise question to the credit worthiness of the bank at any point of time.
- Cash and bank balance of total deposit ratio of the bank were fluctuation order. Since it is the most liquid asset some provision regarding on this should be made to have consistency. It is recommended to have moderate level of cash and bank balance to meet unanticipated calls on current savings call and other deposits.
- The proportion of saving deposit to the total deposit is very low. It is recommended to increase the saving deposits of the bank to moderate the risk and return in the current situation.
- The main source of commercial banks is collecting deposit from public who don't need that fund recently. So, it is recommended to collect more amounts as deposits through large variety of deposits schemes and facilities, like cumulative deposit scheme, prize bonds scheme, gift cheque scheme, recurring deposit scheme (life insurance), monthly interest scheme, house building scheme, direct finance housing scheme, education loan scheme and many others.

- The banks should be very careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and its all customers. HBL is strongly recommended to gain highest profit margin. Also it should reduce its expense. Profitability position of SCBNL is satisfactory and should try to maximize it.
- It is recommended to adopt innovation approach to marketing. In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strength and activates its marketing function as it is an effectively tools to attract and retain the customers for the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way be optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The bank is also required to explore the new market areas. For this purpose, it is recommended to form a strong marketing department in its central level, which deals with the banking products, places, price and promotion.
- Integrated and speedy development of the country is possible only when competitive banking services reaches nooks and corners of the country. SCBNL and HBL have shown not more interest to pen branches in rural areas. Both the banks are recommended to expand their branches and banking services and facilities in rural areas and communities to accelerate their economic development. NRB should implement policies to encourage banks, which provide extensive services while disincentive Sings banks, which provide extensive services while disincentive Sings those who are not responsive to the banking needs of the community including the underprivileged.

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

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