CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Finance, the art and science of managing money, affects the lives of every person and every organization. Finance is concerned with the process, institutions, markets, and instructions involved in the transfer of money among and between individuals, businesses, and governments. Managerial Finance (Which is concerned with the duties of the financial manager in the business firm) is important in all types of businesses including banks and other financial institutions, as well as industrial and retail firms. It is important in government operations, schools, and hospital and highway departments.

While the specifics vary among organizations, the key finance functions are the investment, financing, and dividend decisions for an organization. Funds are raised from external financial sources and allocated for different uses. The flow of funds within the enterprise is monitored. Benefits to financing sources take the form of returns, repayments, products, and services. These functions must be performed in business firm, governments, banks, agencies, and non-profit organizations alike.

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

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

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

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

1.1.1 Profile of the Banks

Standard Chartered Bank Nepal Limited

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

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

Share Capital of Standard Chartered Bank Limited

a. Authorized capital

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

b. Issued capital

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

c. Paid up capital

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

Share Holder Pattern:	**Percent**
1. SCBL, Australia	50%
2. SCBL, UK	25%
3. General Public	25%

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

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

Himalayan Bank Limited

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

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

Share Capital of Himalayan Bank Ltd.

a. Authorized capital

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

b. Issued capital

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

c. Paid up capital

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

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

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

1.2 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 banks 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 JBs 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 business. 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. In this context, financial analysis helps them to arrange for future plan and position. Not only to the management but financial analysis is useful to the common stock shareholders, equity investors, creditor and other common people also. As discussed earlier one of the common and most efficient method of financial analysis is ratio analysis.

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;

- Strengths and weakness of the banks in terms of liquidity, profitability, leverage and other ratios.
- Satisfaction of depositors, investors, shareholders with the efficiency of banks
- Variance of the ratios during past years.

1.3 Focus of the Study

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

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

1.4 Objective of the Study

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

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

- To analyze the financial strengths and weakness of the sample financial institution.
- To evaluate its financial positions.
- To analyze the banks deposit mobilization and investment procedures.
- To make relevant suggestions and recommendation for their effective and efficient future performance.

1.5 Significance of the Study

Analysis of financial performance of any company is very important. Actually, on the basis of the financial analysis we can say that the concerned company is strong or not. 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 finds different strength and weakness of the selective banks which is recommended to the banks for their further improvement.

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 finding out the financial performance of concerned selected commercial banks and Government of Nepal to make plans and policies.
- This study certainly input the policymakers of concerned selected banks for making plans and policies of the effective banking system.

1.6 Limitation of the Study

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

- The study deals only with two joint venture banks namely SCBNL and HBL. The finding drawn may or may not be applicable to other various JVBs of Nepal.
- Time and financial constraint are also major limitation of the study. The report has to be submitted within certain time period so this hinders the study to cover a large area.
- The researcher being a beginner in this area, this report cannot remain without flaws. But effort will be maid to make the report with minimum error.
- Being almost impossible to draw the final product error is also a major limitation of the study.
- Study being based on the secondary data the result of this study resides on the accuracy of the sources.

1.7 Scheme of the Study

This study has been organized over altogether five chapters. Starting from Introduction, Review of Literature, Research Methodology, Presentation & Analysis of Data and Summary, to Conclusion & Recommendation as get of the entire study. A brief outline of this chapter has been outlined as under.

The first chapter entitled **"Introduction"** introduces the subject; present the research problem, reason for studying, objective of the study, along with limitation.

The second chapter entitled **"Review of Literature"** concerned with the study of financial performance have been reviews & presented.

The third chapter discussed the **"Research Methodology"** used in the study. It comprises research design, nature & source of data, data gathering method and analytical tools used.

The fourth chapter deals with the **"Presentation & Analysis"** of data & scoring the empirical finding out the study through definite course of research methodology.

The last chapter i.e. **"Summary conclusion and recommendation"** of the study, which is followed by the basic conclusion of the study based in the fourth chapter on the basic of these conclusion and recommendation has also been presented for consideration.

CHAPTER - II

REVIEW OF LITERATURE

Review of literature is an essential part of all studies. It is a way to discover what other research in the area of our problem has uncovered. Scientific research must be based on past knowledge. The previous studies can not be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies.

2.1 Conceptual Review

2.1.1 Investment

The word investment sounds very good & attractive that is why every individual in the world is interested in it. In Layman's sense, there is always a return if there is investment. This may be favorable as well as unfavorable to the investor's stand point.

Investment brings forth vision of profit, risk, speculation & wealth. For the uninformed, investing may result in disaster. In general sense; investment means to pay out money to get more. But in the broadest sense, investment means the sacrifice of current money for future money. Two different attributes are generally involved time & risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain (Sharpe, Alexander & Baily; 2003:1). Shrestha (2002) write investment as utilization of saving for something that is expected to produce profit or benefits. Investment is employment of funds with the aim of achieving addition income or growth in value. It involves the commitment of resources that have been saved or put away from current consumption, in the hope that some benefits will acure in the future.

Investment generally involves real assets and financial assets. Real assets investment involves some kinds of tangible assets such as building, land, machinery; factory etc. and financial assets investment are pieces of paper representing an indirect claim to real assets held by someone else. Real assets are generally less liquid than financial assets.

According to Reilly " Investment is the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time funds are committed, for the expected rate of inflation and also for uncertainty involved in the future flow of the funds."(Frank & Reilly; 1992:1)

According to Gitman and Joehnk, "Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generated positive returns."(Gitman & Joehnk; 2000:256)

F. Amling "Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period."

Dr. Preeti Singh defined investment as "Investment is the employment of funds with the aim of achieving additional income or growth in value."

A banker does not prefer to invest his funds in company shares and debentures. The shares and debentures may be very easily sold on the stock exchange. But the bank will incur a loss if the market value of the securities falls. Unlike the government securities there is no maturity date for shares. The income from shares depends upon the prosperity of the company issuing the shares. If the company becomes insolvent the banker loses heavily. If a bank has certain amount of funds

which can be left undisturbed for a number of years, investment in long term government securities becomes profitable proposition". (Radhaswamy; 1979:549)

2.1.2 Financial Performance

Profit is one of the indicators of sound performance, which indicates the result of sound business management. "Profit earned by the firm is the main financial performance indicators of a business enterprise". (Ronald; 195: 21-22). Business organization is mostly inspired to generate profit. Profit is the major indicators of a good-financial performance of the company. Financial performance is the heart of financial decision. It is the main indicator of success and failure of a firm. So, that the management should take appropriate action towards its weakness and maintain good performance in the strong areas. The main purpose of bank performance analysis is to evaluate its progress to meet the goals and objectives set forth by management and to compare the performance of the bank relative to that of similar other banks.

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

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

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

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

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

"The major functions of financial management are raising funds, investing them in assets and distributing return earned from assets to shareholders, which are respectively known as financing investing and dividend decision. While

performing these functions a firm should balance cash outflow and inflow, which is know as liquidity decision" (Pandey; 1999:5).

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

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

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

There are many parties concerned with the bank i.e. shareholders, creditors, investors, governments, management, central bank, general public etc. Short-term creditors are interested in the liquidity of the bank. They examined the ability of the bank to pay the amount of interest. Long-term creditors like debenture holders,

financial institutions etc. are more concerned with the bank's long-term financial strength of solvency while evaluating the financial performance business concerning with resource mobilization.

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

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

2.1.3 Market Efficiency

Market efficiency means that the market price of a security represents the market consensus estimate of the value of the security. If the market is efficient, it uses all information available to it in setting a price. Investors who choose their information lead them to think that the security is worth at least its current market price. Those who do not purchase the stock interpret their information as a lower appraisal.

An efficient financial market exist when security price reflect all available public information about the economy about financial market and about the specific

involved. The implication is that the market price of individual security adjusts very rapidly to new information. As a result security price are said to fluctuate randomly about their intrinsic value.

A market is efficient with respect to a particular set of information if it is impossible to make abnormal profit by using this set of information to formulate buying & selling decision. That is in an efficient market investors should expect to make only normal profits and earn a normal rate of return on their investment. Test of efficiency are essential test of whether the three general type of information, past price, other public information and inside information can be used to make above average profit on investment.

A market would be described as having weak form efficiency if it is impossible to make abnormal profit by using past price.

This is taken as the oldest statement of the hypothesis. It holds that present stock market price reflect all information with respect to past stock price trends and volume. Thus it asserts that past data cannot be used to predict future stock price. Weak form hypothesis approximate a random walk of the stock price, since the walk is random a knowledge of past price change does nothing to inform the analyst about whether the price in future will be higher or lower.

The semi strong hypothesis centers on how rapidly and effectively market price adjusts to new publicity available information. If the efficiency is semi strong, one cannot outperform the market by using the available information. Different financial reports and audited financial information filed with the security exchange are readily available to the investor.

This background information about corporation provides the perspective needed to evaluate new information. Financial newspapers and news service compete to deliver new information as quickly as possible so that investor can obtain information so that they can obtain the latest news quickly at minimal cost when news affect the value of security it causes reevaluation and security trading that begins immediately and affect price at once.

The strong form hypothesis is concerned with whether or not certain individual or group posses inside information that can be used to make above average profit. It holds that stock price react very quickly to all public and inside information. One obvious to check the validity of the strongly efficiently market hypothesis is to examine the profitability of trades in security made by insiders to see if the insiders access to valuable information allow them to earn statistically significant trading profit.

Since strongly efficient market hypothesis suggests that all information, public or not fully reflect in the security price. This idealistic economy situation result in a perfectly efficient market where price & value are always equal as they fluctuate randomly together in response to the arrival of new information.

2.1.4 Investment Environment

Investment environment in our country is not providing favourable due to non performing character of the public limited companies. However, by definition, the investment environment refers to all internal & external forces affecting investment decisions of investors. It covers all kinds of marketable securities that they are bought and sold through the brokers' network and financial intermediaries. Thus, securities, security markets and financial institutions form the scope & coverage of investment environment. Existence of a favourable

environment is the medium which direct the pool of saving into the productive sector.

2.1.4.1 Securities

Securities are financial assets that form the part of an investor's wealth, common stocks, preferred stocks, bonds, convertibles, warrants, options, rights, futures are examples of securities. Securities represent specific claim on a stream of income and/or particular assets. Bonds and mortgage are typical debt securities, ownership securities include common stock. Preferred stock is a hybrid security that entails a mixture of both ownership and creditor ship privilege highly liquid debt securities that have short term until they mature and involve little or no risk of default are called money market securities.

There are involvement of many parties in the development of securities market in Nepal like government, SEBO/N, NEPSE, financial intermediaries, market makers, investors, brokers and the office of the company registrar.

2.1.4.2 Security Markets

Security markets are mechanisms for channeling savings from savers to the ultimate investors who invest in real assets. They bring buyers and sellers of securities together and facilitate the flow of funds in the economy. The flotation of the shares and debentures by public limited companies, trading on mutual funds by an investment company and the auction of treasury bills by governments take place in security markets.

The security markets are classified into:

i) Money market and capital market

ii) Primary market and secondary market.

Money Market and Capital Market

In money markets, all financial assets with a term to maturity of one year or less than one year are traded. For example, treasury bills are issued and traded in money market. The main function of money market is to provide short term loans to the business loan to the government and loans to households.

The government and business organizations requiring short term funds sell securities and investors who have surplus money buy securities in this market. Financial assets traded in capital market have maturity of more than one year. For example, financial such as stocks, corporate bonds, government bonds etc. are issued and traded in the capital market.

Primary and Secondary Market

The security markets consist of primary and secondary market. When firms need capital, they may sell new securities. These new securities are sold in primary markets. Investment bankers help market these new issues of stocks, bonds or other securities to the public. The issue of securities in the primary market leads to direct transfer of money from the savers to the issuer of the securities. Thus the primary market helps transfer the funds from savers to investors to make the capital available for new investments in building, equipment, stock of necessary goods. The existing securities are bought and sold in the secondary market.

2.1.4.3 Valuation

Various mathematical models have been developed to include variable that determines value which over simplify the valuation process. In reality many factors determine the market price of a common stock. These factors may change and the relationship between these factors may change No models can consider the complexities of the real world process. These models however can provide a useful framework for the analysis.

Mathematical models imply precision and accuracy and it is essentially a quantitative procedure. However common stock valuation is an out. Models are useful to the analyst but are not the substitute for judgment and common sense. Models can be used in making accurate forecast. Therefore models should be viewed as tools for decision making. Finance theory indicates that the value of common stock is essentially a function of future income the stock can provide and the risky ness of the income stream.

V_n = f (income, risk)

Where, V_n = Intrinsic value of the common stock in period n.

Equity management assumes that all historical and current information is not fully and correctly reflected in the current price of every stock. Hence there exist stocks that are undervalued and overvalued.

2.1.5 Investment Decision

Investment decision theory analyzes how to get from investors' preferences to the optimal investment decisions. Decision is made after the completion of analysis. The general model of decision making is to compare the estimate expected return and estimate requires holding period return.

Expected return $E(HPR)_1 = \frac{V_1 - P_0 + D_1}{P_6}$

Where, $E(HPR)_1$ = Expected holding period return

V_1 = Value at the end over one year

P_0 = Price at the beginning of the year

D_1 = Dividend paid at the end of the year

And, the estimated required rate of return as suggested by CAPM.

$E(r_j) = r_f + b_i[E(r_m) - r_f]$

Where,

$E(r_j)$ = Expected required period return

r_f = Risk free return

b_i = Beta for the stock

$E(r_m)$ = Expected market return

The analyst should compare E(HPR) and $E(r_j)$ and if $E(HPR)>E(r_j)$ the analyst should invest for long term and if $E(HPR)< E(r_j)$ should invest for a short plan.

2.1.6 Investment Strategies

In an extremely competitive market, exceptional performance of one investor comes at the expense of other investors. In a competitive market security price are likely to accurately reflect available information and responses very rapidly to available information, as degree of efficiency is the crucial matter of concern, which has to be addressed while going for an investment strategy. If the market is less than perfectly efficient some strategies may result in risk adjusted excess return. The degree of market efficiency has been the subject of considerable debate. The debate has resulted into two strategies:

- Passive Strategy
- Active Strategy

A passive strategy leads to earn what just the market determined, it does not try to outperform the market or earn risk adjusted excess return. Investors select stocks for investment randomly since in a perfectly efficient market the selected stock would be correctly valued. Portfolio investment could be done to reduce any uncertain risk. Investment horizon would be long term. Passive investment

strategy incurs low transactional cost. The cost of trading or for acquiring and analyzing information is avoided.

An active investment strategy is pursued on the ground that market inefficiency exists. It assumes that some investors have an advantage over other. Following three advantages are possible:

- Timing: Use of accurate time is the basic to gain extra return. Investors who can accurately predict movement in individual security or the market can achieve superior return.
- Selection: Inefficiency leads to the existence of undervalued and overvalued stocks in the market.
- Investment Philosophy: Investment philosophy requires a commitment to a specific area of investment approach.

An individual has a large advantage over institution and professional investors including the following.

Individual investors engage in small trades that can be executed quickly.

- Individual have the flexibility to invest in small companies.
- If they wish individual investors can put all or most of their eggs in one basket.
- Individual have the flexibility to use short sale and margin trading.

2.2 Reviews from Previous Studies

2.2.1 Review of Article

Article written by **Deepak Raj Kafle** *"Capital Market in Nepal"* in the newsletter of the Nepal Chartered Accountant has been reviewed. According to that, Nepalese capital market got a proper structure only in the year 1993. In this year securities board was established as regulator and stock trading commenced through the member brokers adopting upon outcry auction system. Stock exchange

in its usual role was their expected to develop as a powerful mechanism to mobilize savings for long term investments.

Today stock exchange has gained as experience of over a decade. It is now a place where the financial products of 115 companies are traded. These listed companies make a market capitalization in the tune of 45 billions rupees 8.5% of GDP. During this period, a cumulative total of seven hundred thousand shareholders have acquired stock ownership in the listed companies. A broad based initial offer market where more than seven billion rupees were raise contributes the proliferation in the share ownership.

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

There are sufficient reasons to be enthusiastic for the growth of the private sector and subsequently argue in favor of vast potential of the growth of the stock market in Nepal. However, realizing such potentials is possible only when supported by requisite changes in the legal and institutional infrastructure telecom and aviation sector, new mega investment hydro and physical infrastructure projects are likely to come up and absorb huge investment resources. Furthermore, some well performing closely held companies are also showing interest to come to the capital

market. These potential investment sectors can play a catalytic role to trigger further market growth.

We believe that the limited fund deployment needs in the domestic market and limited investment avenues are temporary phenomena that will get rectified as the economy becomes confident to come out from the prevailing conflict situation.

Some basic reforms in the capital markets are already taking shape in Nepal. Effective regulation of products and intermediaries, appropriate regulation with effective enforcement, market operations and transparent standards are some of the key reform agendas. Further the infrastructural developments including information dissemination and order routing mechanism, trading by stem linkages and settlement and clearing arrangement fundamental to a well functioning market have been visualized.

A book about capital market by **Dr. R. S. Mahat** entitled *"Capital markets financial flows and Industrial finance in Nepal"* was written in the early period of the development of capital market and before the establishment of stock exchange. So Dr, Mahat made the first priority to establish stock exchange for the development of stock market. He has also written that Nepalese stock market is still in infancy stage and some drawbacks to the development of stock markets are strong historical and social reasons as well as mass poverty and illiteracy in Nepalese society. He further pointed out that some conscious and educated people of urban areas are also not investing in the industrial sector instead they are investing on the real estate especially in building construction. Although the book was written in the early stage of the development of stock market, the limitations of Nepalese society regarding the investment in stock market is still reality of Nepalese capital market.

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

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

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

Mr. Narayan Prasad Poudel, (2053) in his article "*Financial Statement Analysis: An Approach to Evaluate Bank's Performance*" published in NRB Samachar said that the balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss account. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets accounts form a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans/advances and investments and

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

Mr. Raj Kumar K.C. (June 6, 2003**),** in his article *"Financial Sector Reforms – Still a Long Way to Go"* published in "The Rising Nepal" concluded that the financial sector has a direct impact in the national economy. It is oblivious that any slight change in the financial sector triggers a significant impact in the economy. Following the implementation of the financial sector reform policy, the country's economy has experienced a sea change.

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

and contributing for the nations accelerate developments. On the contrary, if the JVBs use their straight against trading in to the cumbersome path of the development along with the domestic banks and government.

In the journal of Financial Economics, summer 1996, entitled *"Commonality in the Determinants of Expected Stock Returns"* by Robert A. Haugen and Nardin L. Baker, they presented with evidence that the determinants of the cross section of expected stock return were stable in their identify and influence from period to period and from country. The determinants were related to risk, liquidity, price level, growth potential and stock price history. Out of sample predications of expected returns, using moving average values for the pay-offs to these firm characteristics were strongly and consistently accurate. Two findings, however, distinguished their paper form others in the contemporary literature. First, the stock with higher expected and realized rate of return was unambiguously of lower risk than the stocks with lower returns. Second, they found that the important determinants of expected stock returns were strikingly common to the major equity markets of the world. Given the nature of the texts, it was highly unlikely that those results may be attributed to bias or data snooping. Consequently, the result seems to reveal a major failure in the efficient market hypothesis.

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

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

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

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

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

During the recently held meeting of the World Bank and the International Monetary Fund, the donor community has strongly raised the issue of slow pace of loan recovery by the defaulters of the bank. Consequently, the government has vowed to take harsh measures, which includes seizing the passports of willful defaulters, if the concerned line institutions make formal request through the NRB essential to recover loans from defaulters to ensure the success of financial sector reforms. Due to the tendency of non-repayment for loans, the risk of taking the provision has increased thereby lessening the possibility of reducing the interest rate between deposit and lending. Taking into consideration these adversities, Debt Recovery Act, Debt Recovery Tribunal and the Umbrella Act related with banking have been in operation.

2.2.2 Review from Thesis

It has found that there are no more studies performed in this topic. However, there are some which is related to this conducted for the partial fulfillment of Master's Degree in Tribhuvan University.

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

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

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

Mukti Aryal (1995), has conducted research on "***The General Behaviour of stock market prices"***, the main objectives of this study were to discuss the main objectives of this study were to discuss the movement of stock market prices and develop the empirical probability distribution of successive price change of an individual common stock and a stock market as a whole. This study is based on secondary information obtained from Nepal Stock Exchange. This study converts almost 8 months period and took about 21 stocks listed in NEPSE. He has applied run test as statically tools to analyze the data and get results. He has conducted that the assumption of independence, as predicted by random walk model of security price behaviour, has been refuted at least for Nepalese context as the first approximation even in the rough way for curly days of stock market operation. This rejection of hypothesis made clear that the knowledge of past and now become useful in predicting the future movements of stock market prices. The investors, on the floor of stock exchanges for security, can make higher expected price in the future based on these historical price series. In other words, the dependence nature of price series produced by general market fluctuation statistically implied, today's price change is positively depending upon yesterday price change. This implied that there is a sufficient lack of financial and market analysis who are sophisticate and superior in analyzing the general market fluctuations, predicting the occurrence of future potential and economic events that their eventual affects on price series."

Apar Neupane (2004), made a research entitled ***"Determinants of Stock Price in NEPSE"*** and tried to explore the factors that have significant influence on the stock price in NEPSE. He concluded his study by quoting;

- Nepalese investors have not adequate education about the capital market. They do not have good knowledge and information to analyze the scenario and to forecast share price. Perhaps due to this reason stock price in NEPSE rather shows irrational behavior.
- In NEPSE, DPS, BPS & EPS individually do not have constituent relationship [with the market price of the share among the listed companies. The pricing behavior varies from one company to another. But EPS, BPS & DPS, jointly have significant effect in market price of the share. So, there may be other major factors affecting the share price significantly. NEPSE is in its primary stage, adopting open out cry system for stock trading and stockbrokers lack professionalism to create investing opportunities in NEPSE.
- Commercial banking sector has dominated the overall performance of NEPSE. Manufacturing & processing, trading and hotel sectors have weak performance. So, financial intermediaries are strong but their ultimate investment is suffering.
- Companies' performances (earning, dividend, book value, risk etc) information disclosed , timely AGM , political stability, national economy, demand & supply situation, strikes, demonstrations, ceasefire and peace talks (and their outbreak) are the major factors affecting the share price in NEPSE, according to the respondent of survey. Interest rate, retention ratio, cost of equity, tax rate, gold price , value of US $, global economy, market liquidity, season, day of the weak, size of the firm, change in the management do not significantly affect the price of the share in NEPSE.
- There is deficiency of proper laws and policies regarding the capital market. Shareholders are feeling unsecured to invest in security markets due to poor regulatory mechanism to protect shareholders interests. The implementation of existing laws is weak.

- Listed companies do not provide sufficient information (financial as well as non financial) to their shareholders and they are not able to act according to the shareholders' interests. The performance of most of the listed companies is not transparent.
- Since NEPSE is in increasing trend, in spite of unfavorable environment for investment, Nepalese citizens have a huge amount of scattered fund remained unproductive, which can be used in the industrial development through capital market to accelerate the economic growth of the nation.
- With the existing Maoist problem, industrial development and capital market development is impossible. So, the peaceful solution of the Maoist problem is preliminary condition for capital market and economic development in Nepal.

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

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

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

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

The turnover of the commercial banks is the main indication of income generating activities. These ratios are used to judge how efficiently the firm is using its resources. From the analysis of turnover of these two banks, NBB has better turnover than SBI in terms of loans and advances to total deposit ratio. Thus NBB has better utilization of resources income generating activities than SBI bank; which definitely lead the bank to increase in income and thus making an increment profit for the organization. Despite the fluctuating trend in the ratio of cash and bank balance to total deposit SBI bank is more efficient than NBB in cash management i.e. it is more able to keep more cash balance against its various deposits.

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

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

A study conducted by **Nabin Kishore Luintel** (2003) revels in the thesis, ***"A Study on Financial Performance Analysis of Nepal Bank Limited"*** that, the NBL has not maintained a balanced ratio among its deposit liabilities during the second period of the study. As compared the second period with the first period, the bank is seemed to be unable to utilize its high cost resources in high yielding investment portfolio. During both the periods there are negative operating profit for two years. But both the years of the first period enjoyed positive net profits due to the non-operating incomes. Hence, there is a demarcation between operational and non –

operational activities of the bank and performance and result of the first period shows that the bank is more inclined towards non-operating activities. Furthermore, the liquidity position of the bank is also not satisfactory during both periods. It is even worse during the second period. Various current ratios have fluctuated during both the periods .it shows lack of specific policy of holding various types of current assets. Thus it can be said that the financial position of the NBL is worse during the second period due to its inefficiency in risk management .the overall financial position on the bank is unsatisfactory during the both periods

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

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

The major findings of the study were as follows:

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

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

Return on investment, interest earned to total assets ratio and commission and discount earned to personnel expenses ratio of NB bank is higher than NABIL

bank and HBL, while return on shareholder's equity is higher in HBL and interest income to interest expense ratio is higher in NABIL bank.

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

Sudeep Upadhaya (2002), in the title of ***"Risk and Return on common stock investment of commercial bank in Nepal".*** In his research paper he would apply the five-year data from 1997 to 2002.

Upadhaya focused on; In general, most people see stock market investment as a black art that they know little about. Many people have unrealistically optimistic a pessimistic expectations. About stock market investment or perhaps a fear of the unknown. As over all economy Nepalese stock market is in emerging state. Its development is accelerating since the political charge in 1990 in effect of openness and other part if the stock market is influence due to the Mousiest problem faced by the county. And other But due to the lack of information and poor knowledge, Nepalese individual investor can not analyze the securities as well as market properly." Upadhaya, Sudeep, risk return on common stock investment of commercial bank in Nepal.

In addition, Upadhaya added that: proper analysis of individual security, Industry and over all market is always needed. General knowledge about economic, political and technological trend will be advantageous. To win the market, shares should be hold when the market is rising and hold safer investment when it is falling.

J.B. Sapkota (1999), has conducted research on ***"Risk and Return Analysis in Common Stock Investment"*** with special reference to banking industry relevant to this study. The major objective of the study was to analyze the risk and return of the common stocks in Nepalese stock market.

After analyzing the secondary data, Sapkota summarized, "Banking industry is the biggest one in terms of market capitalization and turnover. Expected return on the common stocks of Nepal Bank Limited is maximum (i.e. 66.99%) and common stock of SBI Bank Ltd. is found minimum. In this regard, common stock of Nepal Bank Ltd. is most risky and common stock of SBI Bank Ltd. is least risky. In the context of industries, expected return of finance and insurance industry is found highest. Expected return of banking industry is 60.83%."

CHAPTER - III

RESEARCH METHODOLOGY

This is the most sensitive part of the research and the base on which our conclusion was drawn is included. The first part of this chapter relates to the research design, where as in the second part describes the population and sample. The sources and types of data and technique applied for the collection of data are placed on third and fourth part of the chapter. The most significant aspect of the chapter, which in depth has analyzed the data analysis tool used in the research, has been included in the fifth part. Limitation of the methodology has been revealed at the end of this chapter.

3.1 Research Design

Research design in the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme, the paradigm of the operation of the variables. When we draw diagrams that outline the variable and their relation and just a position, we build structural schemes for accomplishing operational research purposes. Strategy, as used here, is also more specific than plan. In other words, strategy implies how the research objectives will be reach and how the problems encountered in the research will be tackled.

By research design we mean an overall framework or plan for the collection and analysis of data. The research design serves as a framework for the study, guiding the collection and analysis of the data. The research design then focuses on the

data collection methods, the research instruments utilized, and the sampling plan to be followed. Specifically speaking, research design describes the general plan for collecting, analyzing and evaluating data after identifying what the researcher wants to know and what has to be dealt with in order to obtain the required information. The research design is an organized approach and not a collection of loose, unrelated parts.

It is an integrated system that guides the researcher in formulating, implementing and controlling the study. Useful research design can produce the answer to the proposed research questions. The research design is thus an integrated frame that guides the researcher in planning and executing the research works.

3.2 Population and Sample

This study has been totally confined to the institutions listed in the Nepal stock exchange. Total number of organizations listed in the NEPSE is 199 as per the Nepal Stock Exchange website (www.nepalstock.com). These listed organizations according to their nature of business are categorized into eight groups/sectors.

1. Commercial Banks
2. Manufacturing & Processing
3. Hotels
4. Others
5. Trading
6. Insurance
7. Finance
8. Development Bank Ltd.

This study has been limited to the commercial banking sector, which has a large impact on the total performance. Total no. of financial institution listed in the stock exchange is 78. These 78 financial institutions totally form the population of

study. The banks included in the study are two in number. The selection is based as stratified random sampling. A total effort has been exerted to overcome the sampling error, so that the result of the study can be representative. The banks included in the study are:

1. Standard Chartered Bank Ltd.
2. Himalayan Bank Ltd.

3.3 Nature and Sources of Data

This study mainly based on secondary data of the concerned banks, Nepal Rastra Bank, SEBO, and different library are the providers of the data. The review of literature of the proposed study was based on the text books, official publications, journals, unpublished thesis, web site etc. The necessary data and information at macro level have been collected from relevant institutions and authorities such as NRB Ministry of Finance, NEPSE, SEBO and their respective publications similarly the required micro level data derived from annual reports of selected banks, SEBO and NEPSE. In addition to above, supplementary data and information were collected from different library such as library of Shankar Dev Campus, T.U. Central library, SEBO etc. The major sources of data and information are as follows;

NRB Economic Report, NRB
Non-Banking Financial Statistics, NRB
Banking and Financial Statistics, NRB
Economic Survey, Ministry of Finance
Annual Reports of Concern Commercial Banks (from 2002/03 to 2007/08)
Annual Report of SEBO Nepal
Trading Report of NEPSE
Journal of Finance
Journal of Business

Previous Research Studies, Dissertation and Articles on the Subject

Various Text Books

Different Library

Different Website Related to study

3.4 Methods of Analysis

To achieve the objective of the study, various financial and statistical tools have been used. The analysis of data will be done according to the pattern of data available. Due to limited time and resources, simple analytical statistical tools such as percentage, graph, Karl Pearson's coefficient of correlation are used in this study. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

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 results.

3.4.1 Financial Tools

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

Ratio Analysis

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

A. Liquidity Ratios

Liquidity ratios are used to judge the ability of banks to meet its short- term liabilities that are likely to mature in the short period. From them, much insight can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of adversities. It is measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations.

i. Current Ratio

The current ratio is the ratio of total current assets and current liabilities. It shows the relationship between current assets and current liabilities.

Mathematically it is represented as:

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

Where,

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

The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business ratio.

ii) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets of a firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be presented as,

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

Where, total deposits consist of deposits on current account; saving account; fixed account, money at call and other deposits.

iii) Cash and Bank Balance to Current Assets Ratio

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

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

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

iv) Investment on Government Securities to Current Asset Ratio

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds. This ratio can be calculated dividing the amount of investment on government securities by the total amount of current assets and can be stated as follows,

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

v) Loan and Advances to Current Assets Ratio

Bank's major earning source is loan. Loans are also taken as current assets as most of them are maturing within a period of one year and represent short term disbursement. A Bank should not allocate all funds in loan and advances so it must maintain in an appropriate level. In order to calculate the proportion of loan and advances to total current assets, the ratio is obtained by dividing loan and advances by current assets.

$$\text{Loan \& Advances to Current Assets Ratio} = \frac{\text{Total Loan \& Advances}}{\text{Current Assets}}$$

B. Assets Management Ratios (Activity Ratios)

Asset management ratio is used to indicate how efficiently the selected banks have arranged and invested their limited resources .The following financial ratios related to investment policy is calculated under asset management ratio and interpretations are made by these calculations.

i) Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks and finance companies are utilizing their total collections/deposits on loan and advances for the purpose of earning profit.

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

ii) Total Investment to Total Deposit Ratio

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

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

iii) Loan and Advances to Total Working Fund Ratio

The main element of total working fund is loan and advances. This ratio indicates the ability of selected banks and finance companies in terms of earning high profit from loan and advances. Loan and advances amount by total working fund. That is formulizing as;

$$\text{Loan \& Advances to Total Working Fund Ratio} = \frac{\text{Total Loan \& Advances}}{\text{Total Working Fund}}$$

Where, total working fund include total amount of assets given balance sheet which refers to current assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items i.e., letter of credit, letter of guarantee etc.

iv) Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage. It can be obtained by;

$$\text{Investment on Government Securities} = \frac{\text{Investment on Govt. Securities}}{\text{Total Working Fund}}$$

v) Investment on Shares and Debentures to Total Working Fund Ratio

Investment on shares and debentures to total working fund ratio shows the investment of Banks and finance companies on the shares and debentures of obtained dividing on shares and debentures by total working fund. That can be calculated as;

$$\text{Investment on Shares and Debentures to Total Working Fund Ratio} = \frac{\text{Investment on Share \& Debenture}}{\text{Total Working Fund}}$$

C. Profitability Ratios

Profitability ratios are calculated to measure the efficiency of operation of a firm on term of profit. It is the indicator of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of the bank and vice versa. Profitability position can be evaluated through following different way.

i) Return on Total Assets

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

$$\text{Return on Assets} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

ii) Total Interested Earned to Total Outside Assets

This ratio shows the relationship between interests earned amount and total outside assets borrowed by the Bank. Total interest earned is that amount which is earned investing in different sectors by the Bank in an accounting year. Whereas,

total outsiders assets include loans (short term as well as long term), borrowings and bond amounts. This ratio is calculated as follows;

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

iii) Return on Loan and Advances Ratio

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

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

iv) Total Interest Earned to Total Working Fund Ratio

Total interest earned to total working fund is calculated to find out the percentage of interest earned to total assets. Higher the ratio indicates the better performance of financial institutions in the form of interest earning on the better working fund. This ratio is calculated diving total interest earned from investment by total working fund and is mentioned as below;

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

v) Total Interest Paid to Total Working Fund Ratio

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

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

vi) Return on Equity Ratio (ROE)

The ratio measures how efficiently the banks have used the funds of the owners. The ratio is calculated by dividing net profit by total equity capital (net worth). This can be started as,

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

3.4.2 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 & advances or investment on other companies. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical tools such as standard deviation, Karl Pearson's coefficient of correlation, trend analysis adopted which are as follows:

Coefficient of Correlation (r)

Correlation analysis contributes to the understanding of economic behaviour, 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 the paths through which stabilizing forces may become effective. (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 values of the other variable. In this study coefficient of correlation is calculated between a MVPS and BVPS, ROE and HPR. The degree of association between the two variables, say x and y and is defined by correlation coefficient (r).

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

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

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

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.

Trend Analysis

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

Trend analysis of total deposit, loan and advances, total investment and net profit

The trends of related variables can be calculated as, Y= a + bx

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

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

4.1 Financial Tools

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

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

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

4.1.1 Liquidity Ratio

Raito analysis express quantitative relation of two mathematical variables as it is a financial tool. Ratio is taken to judge an accounting figure in relation to the other accounting balances. There are different types of ratios used to measure a firm's financial position. Liquidity ratio presents liquidity position of a firm. Liquidity position is calculated taking relation to the different portfolios of the firm. It may vary based on nature of business. In this study following ratios are mentioned of the concerned financial institutions.

i) Current Ratio

Current ratio measures short term liabilities maturing before one year. This is a broad measurement tool to analyze liquidity position of a financial institution. It indicates Bank's ability to discharge current obligation. The ratio is obtained by dividing current assets by current liabilities.

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

Table No. 4.1
Current Ratio (Times)

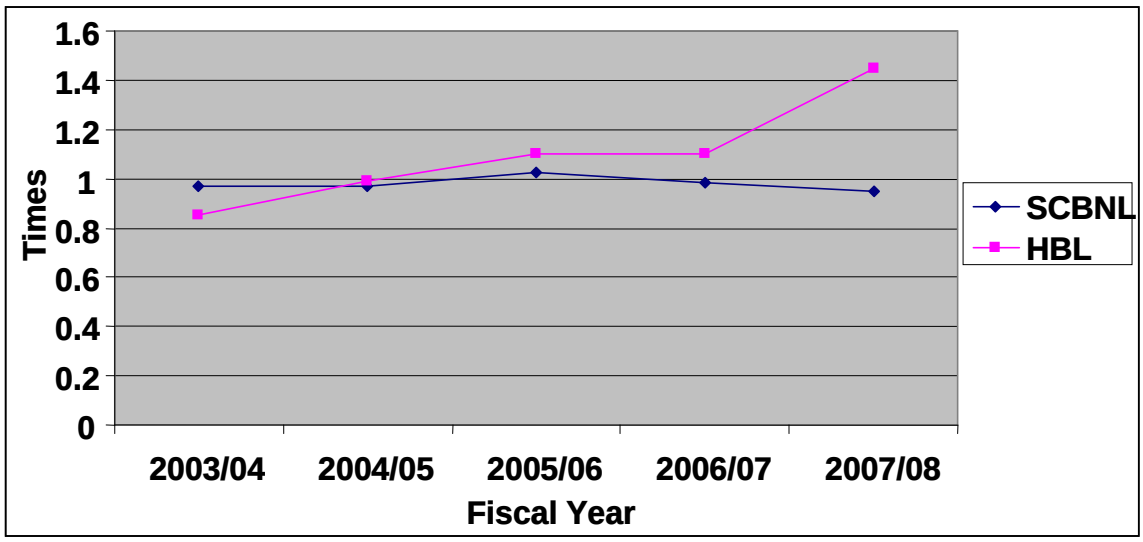
Fiscal Years	SCBNL	HBL
2003/04	0.971	0.854
2004/05	0.9688	0.993
2005/06	1.0226	1.098
2006/07	0.981	1.103
2007/08	0.946	1.446
Mean	**0.98**	**1.10**
S.D.	**0.03**	**0.22**
C.V.	**2.87%**	**19.92%**

Sources: Appendix No. 1 (i)

It is clear from the above table that both SCBNL have not maintain current assets less than their current liabilities and HBL have maintained current assets more than their current liabilities. This is a sign that HBL bank is capable enough to pay their current obligations. HBL has the highest current ratio in F/Y 2007/08 i.e., 1.446 and the lowest in F/Y 2003/2004 i.e., 0.854.

Figure No. 4.1

Current Ratio



Similarly SCBNL has a high current ratio of 1.0226 in F/Y 2005/2006 and a low of 0.946 in F/Y 2007/2008. The averages mean ratio of HBL is higher than SCBNL; i.e. 1.10 >0.98. This shows that HBL liquidity position is better than that of SCBNL. The lower degree of standard deviation and coefficient of variation suggest that both the banks have maintained consistency in their ratios. Though as per the conventional rule current ratio should be 2:1 but for banks any current ratio above 1 also considered healthy and sound.

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

ii) Cash and Bank Balance to Total Deposit Ratio

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

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

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

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

Fiscal Years	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%**

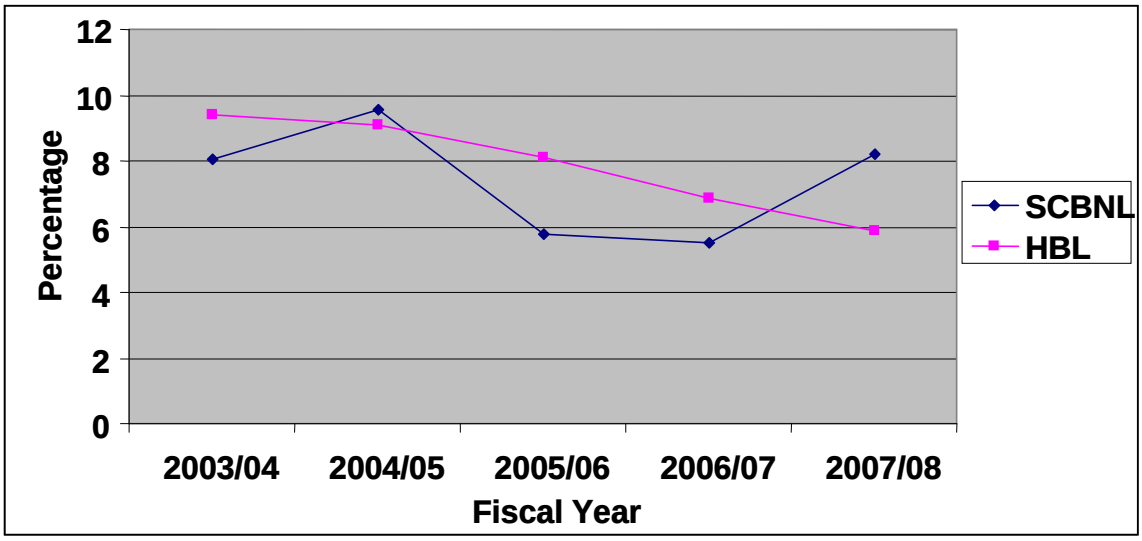
Sources: Appendix No. 1 (ii)

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

period. SCBNL had a high ratio of 9.56% in F/Y 2004/2005 and a low ratio of 5.53% in F/Y 2006/2007. Similarly, HBL has a high of 9.42% in F/Y 2003/2004 and a low of 5.85% in F/Y 2007/2008. The averages mean ratio of HBL is slightly higher than SCBNL i.e., 7.86%>7.42%. This shows, HBL readiness to meet customer requirement better than SCBNL. The C.V. of HBL of is slightly lower than that of SCBNL i.e., 19.18% < 23.31%. On its basis, it can be concluded that SCBNL ratios are more consistent than that of HBL.

Figure No. 4.2

Cash and Bank Balance to Total Deposit



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

iii) Cash and Bank Balance to Current Assets Ratio

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

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

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

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

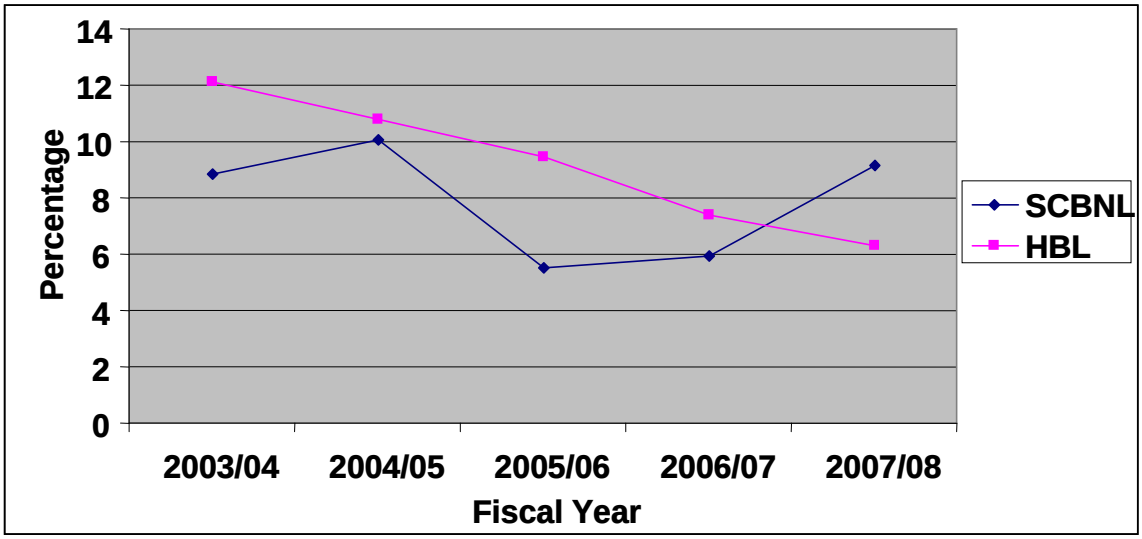
Fiscal Years	SCBNL	HBL
2003/04	8.85	12.14
2004/05	10.07	10.76
2005/06	5.529	9.45
2006/07	5.94	7.42
2007/08	9.18	6.33
Mean	**7.91**	**9.22**
S.D.	**2.04**	**2.37**
C.V.	**25.83%**	**25.75%**

Sources: Appendix No. 1 (iii)

The above table shows that the cash and bank balance to current assets of SCBNL is in fluctuating trend & HBL has decreasing trend during the study period. SCBNL has maintained a high ratio of 10.07% in F/Y 2004/05, and a low ratio of 5.529% in 200/506. 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 2007/2008.

Figure No. 4.3

Cash and Bank to Current Assets



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

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

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

This ratio shows that out of total current assets, how much percentage of it has been occupied by the investment on government securities by total current assets.

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

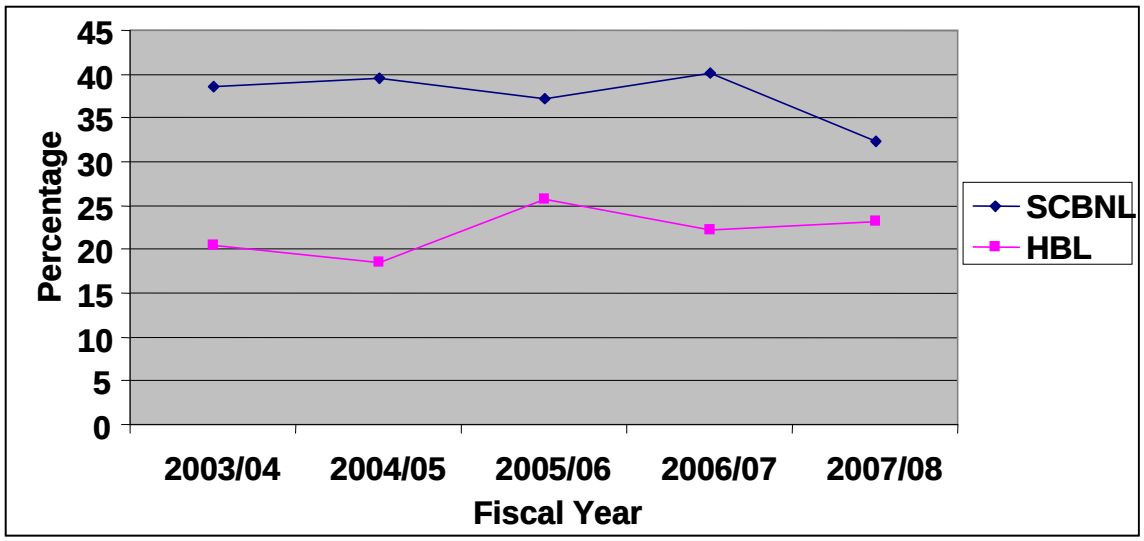
Table No. 4.4
Investment on Government Securities to Current Assets Ratio

Fiscal Years	SCBNL	HBL
2003/04	38.52	20.54
2004/05	39.56	18.45
2005/06	37.28	25.65
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)

The above table clearly depicts that the investment on government securities to current assets of SCBNL and HBL have a fluctuating trend. Never the less, SCBNL have tried to maintain consistency from F/Y 2004/2005 onwards.

Figure No. 4.4
Investment on Government Securities to Current Assets



From the above five year Figure, it is evident that the average mean ratio of SCBNL is higher than that of HBL i.e. 37.57%>22.02%. This shows that a greater portion of current assets of SCBNL comprises of government securities. Also, SCBNL investments in government securities to current assets have an increasing trend over the years. From the point of view of C.V. SCBNL ratios have been more consistent. SCBNL has been more consistent in its ratio post F/Y 200/065. From the above analysis it is clear that HBL has made lesser investment in government securities as it has injected more funds on other productive sectors. The reason behind SCBNL higher ratio could be attributed to more deposit collection and unavailability of other secured and profitable investment sectors.

4.1.2 Asset Management Ratio

Asset management ratio measures how effectively a firm is managing its assets. These ratios are designed to answer this question: “Does the total amount of each type of asset as regard on the balance sheet seem reasonable, too high or too low, in the view of current assets and operating levels?” Either a company or a Bank must borrow or obtain fund from other sources to acquire assets. If it has too many

assets, its interest expenses will be too high and hence its profits will be depressed and on the other hand, if assets are too low, profitable sales may be lost. Following ratio need to be calculated under this study.

i) Loan and Advances to Total Deposit Ratio

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

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

Table No. 4.5
Loan & Advances to Total Deposit Ratio

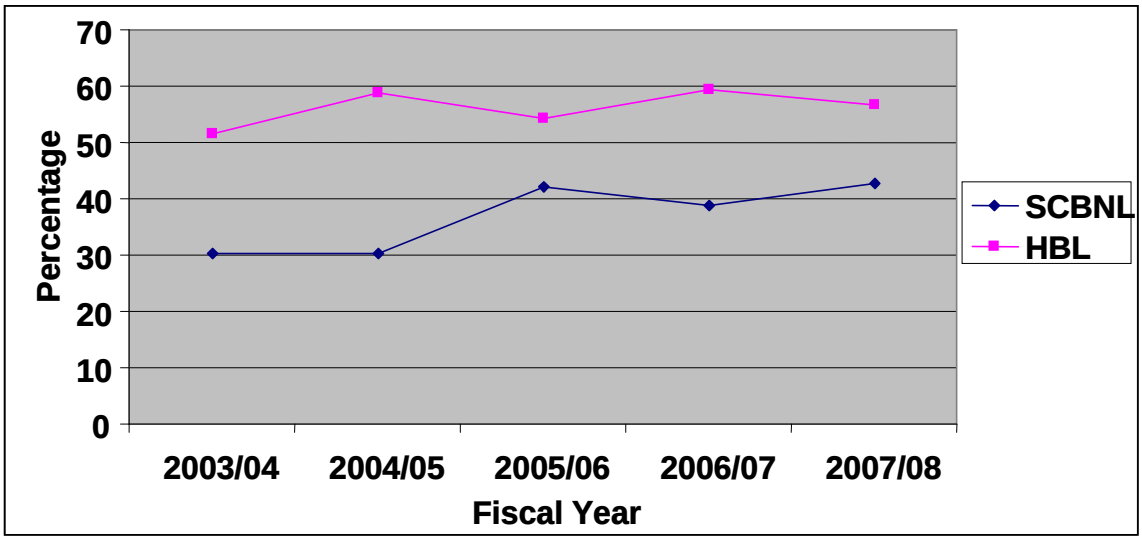
Fiscal Years	SCBNL	HBL
2003/04	30.36	51.62
2004/05	30.3	58.7
2005/06	42.12	54.21
2006/07	38.75	59.5
2007/08	42.61	56.57
Mean	**36.83**	**56.12**
S.D.	**6.12**	**3.25**
C.V.	**16.60%**	**5.79%**

Sources: Appendix No. 1 (v)

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 59.50% 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 as loan and advances when compared to SCBNL.

Figure No. 4.5

Loan and Advances to Total Deposit



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

ii) Total Investment to Total Deposit Ratio

A commercial bank may mobilize its deposit by investment its fund in different securities issued by government and other financial or non-financial companies. Now efforts has been made to measure the extend, of which the bank are successful in mobilizing the total deposit on investment. In the process of portfolio management of banks, various factors such as availability of fund, liquidity

requirements, central bank norms etc are to be considered in general. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice-versa. Total investment includes investment on government securities, priority deprive sector, loan to industries and business houses, personal loans etc.

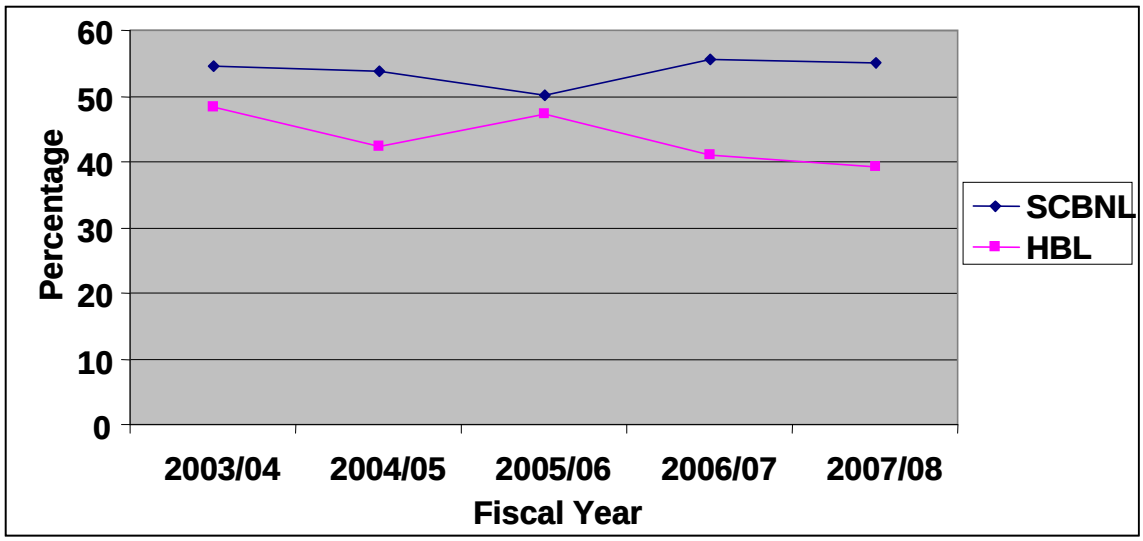
Table No. 4.6
Total Investment to Total Deposit Ratio

Fiscal Years	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	**53.83**	**43.66**
S.D.	**2.17**	**3.96**
C.V.	**4.04%**	**9.06%**

Sources: Appendix No. 1 (vi)

The above table shows a highly fluctuating trend in total Investment to total deposit of SCBNL and HBL. SCBNL has a high ratio of 55.71% and a low ratio of 50.18%. HBL, on the other hand had a high ratio of 48.44% and a low ratio of 39.35% in F/Y2003/04 and 2007/08 respectively.

Figure No. 4.6
Total Investment to Total Deposit



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

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

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

iii) Loan and Advances to Fixed Deposit Ratio

A commercial bank's fixed deposit play significant role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their fixed deposit on loan and advances for the purpose

of income generation. A high ratio indicates a better mobilization of fund as loan & advances and vice-versa.

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

$$\text{Loan and advance to working fund ratio} = \frac{\text{Loan and advances}}{\text{Fixed Deposit}}$$

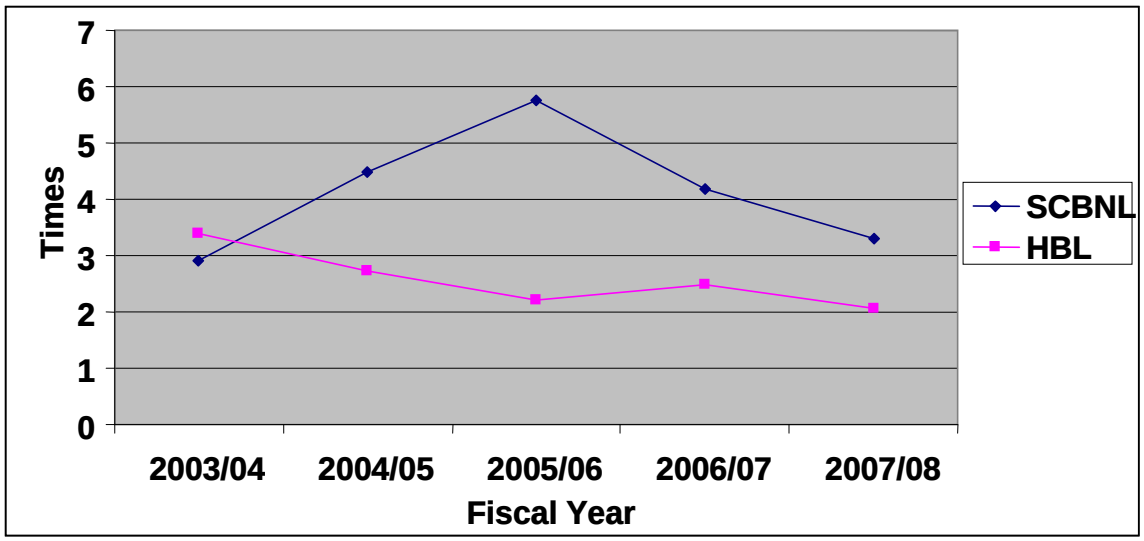
Table No. 4.7
Loan & Advances to Fixed Deposit Ratio

Fiscal Years	SCBNL	HBL
2003/04	2.92	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.	**26.90%**	**20.19%**

Sources: Appendix No. 1 (vii)

The above table shows a fluctuating trend of loan and advances to fixed deposit of SCBNL and HBL. SCBNL has maintained highest ratio of 5.75% in F/Y 2005/06 and a low ratio of 2.92% in F/Y 2003/04. Similarly, HBL has 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 No. 4.7
Loan and Advances to Fixed Deposit



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 Advance to Saving Deposit Ratio

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

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

In the present study loan and advance represent to local and foreign bills discounted purchased and loan, cash credit and overdraft in local currency as well as inconvertible foreign currency. To make high profit by mobilizing its fund in the best way, a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan and advance to the

customers. If sufficient loan and advances cannot be granted, it should pay interest on those unutilized deposit funds and may lose some earning. But high loan and advances may also be harmful to keep the bank in most liquid position because they can only be collected at the time of maturity only.

Table No. 4.8
Loan & Advance to Saving Deposit Ratio

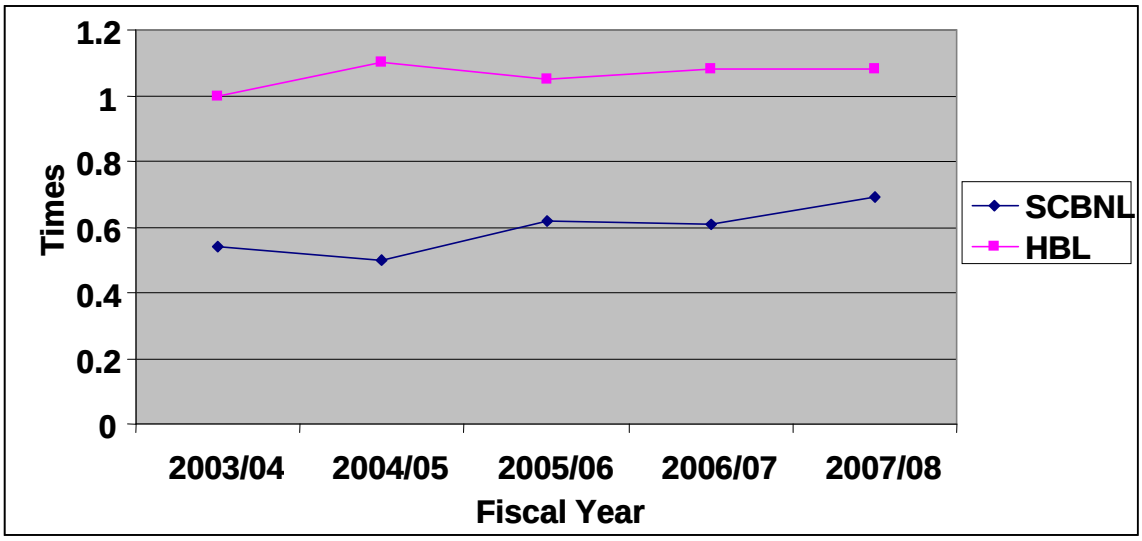
Fiscal Years	SCBNL	HBL
2003/04	0.54	1
2004/05	0.5	1.1
2005/06	0.62	1.05
2006/07	0.61	1.08
2007/08	0.69	1.08
Mean	**0.59**	**1.06**
S.D.	**0.07**	**0.04**
C.V.	**12.49%**	**3.67%**

Sources: Appendix No. 1 (viii)

The above table clearly shows favorable fluctuated trend of loan and advances of SCBNL during the study period. The average mean ratio of HBL is higher compared to SCBNL i.e. 1.06%>0.59%. HBL has experienced an increasing trend of loan and advances up to F/Y 2007/2008. SCBNL had a high ratio of 0.69% in 2007/08 and a low ratio of 0.50% in F/Y 2004/2005. Similarly HBL has experienced a high ratio of 1.08% in F/Y 2006/2007 and 2007/08 and a low of 1% in F/Y 2003/2004.

Figure No. 4.8

Loan and Advance to Saving Deposit



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

v) Fixed Deposit to Total Deposit Ratio

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

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

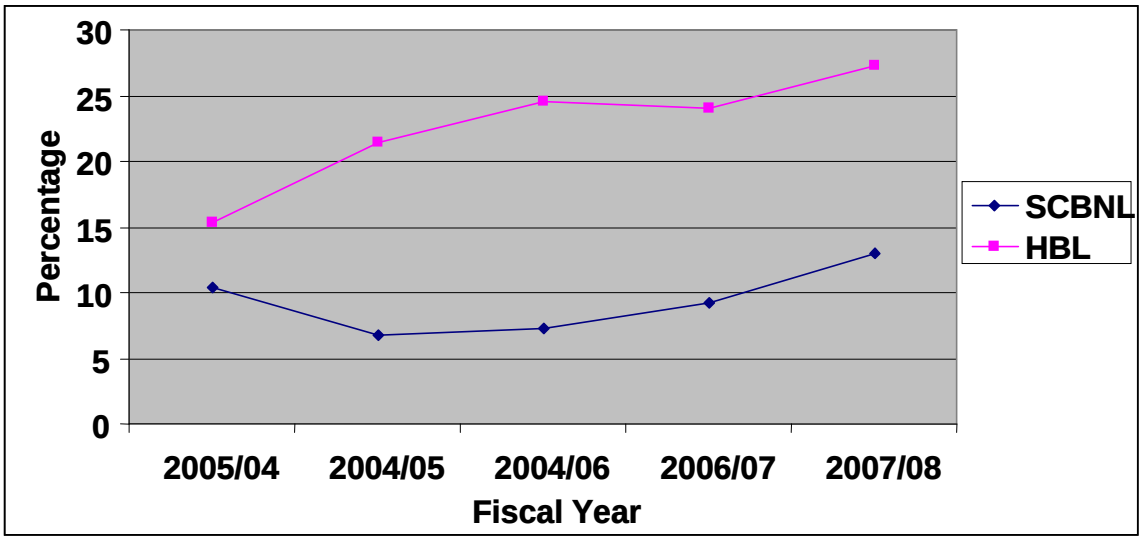
Table No. 4.9
Fixed Deposit to Total Deposit Ratio

Fiscal Years	SCBNL	HBL
2003/04	10.39	15.26
2004/05	6.75	21.4
2005/06	7.33	24.61
2006/07	9.26	23.97
2007/08	12.97	27.29
Mean	**9.34**	**22.51**
S.D.	**2.50**	**4.56**
C.V.	**26.78%**	**20.26%**

Sources: Appendix No. 1 (ix)

Above table shows the amount of fixed deposit to total deposit and their ratios of SCBNL and HBL along with their average standard deviation and C.V of ratios. HBL has a higher fixed deposit to total deposit ratio than SCBNL. If the total deposit of HBL is 1 than fixed deposit will 22.51. The average fixed deposit to total deposit ratios 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 viewpoint of liquidity greater portion of fixed deposit may be termed as favorable one.

Figure No. 4.9
Fixed Deposit to Total Deposit Ratio



vi) Saving Deposit to Total Deposit Ratio

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

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

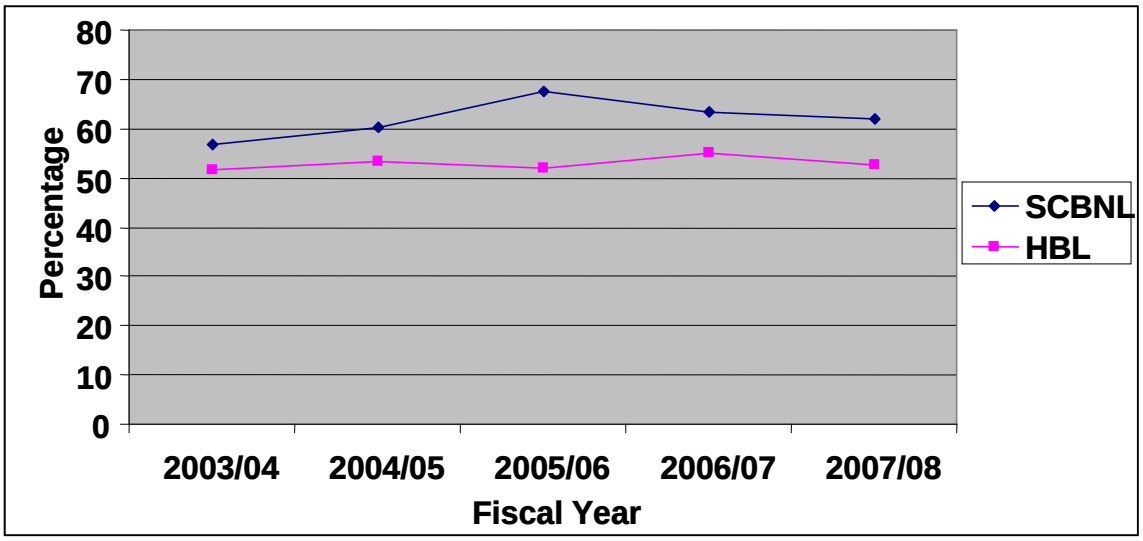
Table No. 4.10
Saving Deposit to Total Deposit Ratio

Fiscal Years	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%**

Sources: Appendix No. 1 (x)

Above table shows the amount of saving deposit to total deposit and their ratios of SCBNL and HBL along with their average standard deviation and C.V of ratios. SCBNL has a higher saving deposit to total deposit ratio than HBL. If the total deposit of SCBNL is 1 than saving deposit will 61.92. The average saving deposit to total deposit ratios of SCBNL and HBL are 61.92 and 52.91. It clearly states that SCBNL has the maximum saving charge bearing deposit than HBL. From viewpoint of cost minimizing more is not favorable other hand, from viewpoint of liquidity greater portion of saving deposit may be termed as favorable one.

Figure No. 4.10
Saving Deposit to Total Deposit Ratio



4.1.3 Profitability Ratios

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

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

i) Return on Total Working Fund Ratio

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

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

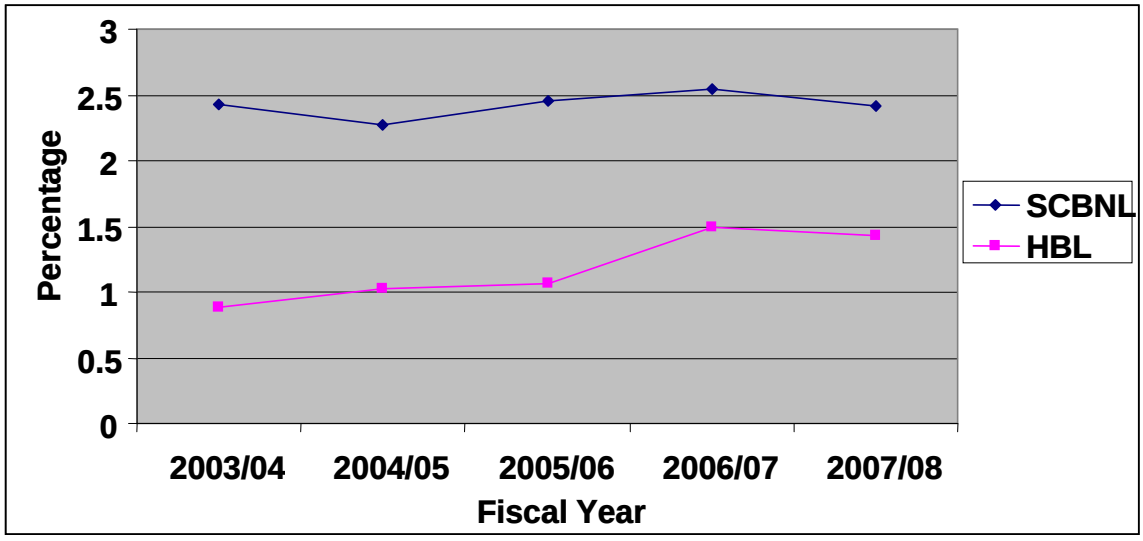
Table No. 4.11
Return on Total Working Fund Ratio (%)

Fiscal Years	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.	**0.10**	**0.27**
C.V.	**4.17%**	**23.05%**

Sources: Appendix No. 1 (xi)

The above table reveals that the ratio of return on total working fund is fluctuated in case of SCBNL and 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 No. 4.11
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.

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

ii) Total Interested Earned to Total outside Assets Ratio

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

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

Table No. 4.12
Total Interest Earned to Total Outside Assets Ratio (%)

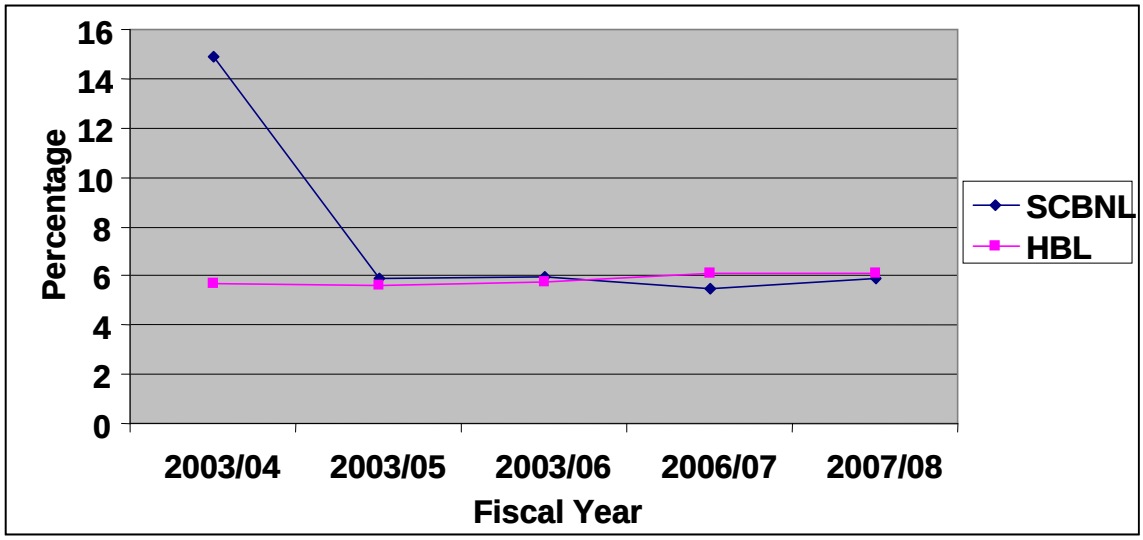
Fiscal Years	SCBNL	HBL
2003/04	14.9	5.71
2004/05	5.86	5.61
2005/06	5.93	5.75
2006/07	5.46	6.1
2007/08	5.87	6.1
Mean	**7.60**	**5.85**
S.D.	**4.08**	**0.23**
C.V.	**53.69%**	**3.93%**

Sources: Appendix No. 1 (xii)

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

Figure No. 4.12

Total Interest Earned to Total Outside Assets



SCBNL has recorded a high ratio of 14.90% 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 FY 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.

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.

iii) Return on Loan and Advances Ratio

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

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

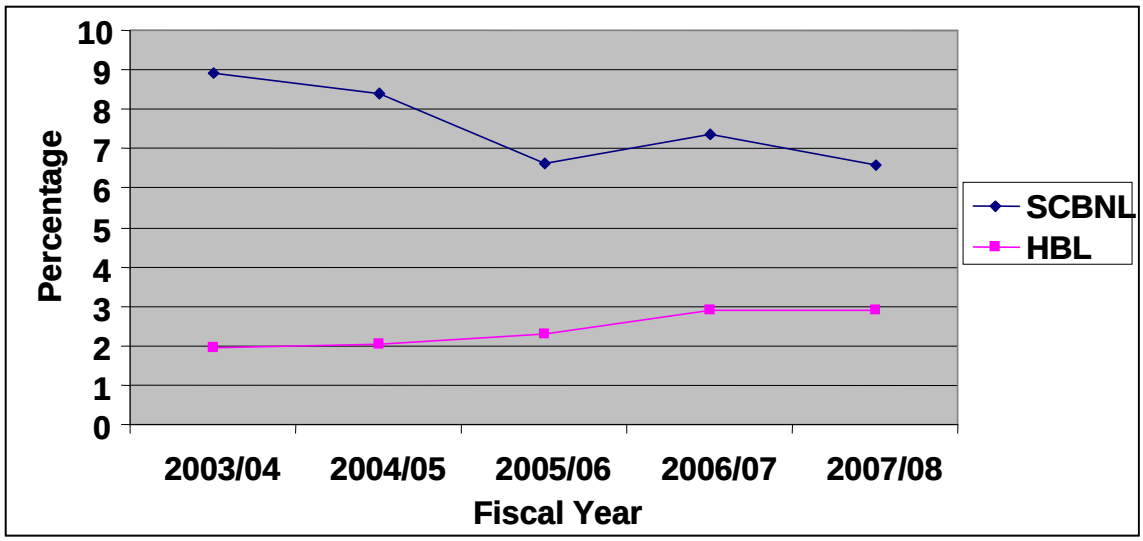
Table No. 4.13
Return on Loan and Advances Ratio (%)

Fiscal Years	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 (xiii)

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, thereafter they have an increasing trend. SCBNL has recorded a high ratio of 8.90% in F/Y 2003/04, and a low ratio of 6.60% 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 No. 4.13
Return on Loan and Advances Ratio (%)



The comparison of mean ratio reveals that SCBNL has a higher ratio than HBL i.e., 7.58%>2.42%. This shows that SCBNL has been more successful in maintaining its higher return on 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 in weaker compared to SCBNL, but nevertheless HBL is making significant improvements in this regard.

iv) Total Interest Earned to Total Working Fund Ratio

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

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

Table No. 4.14

Total Interest Earned to Total Working Fund Ratio (%)

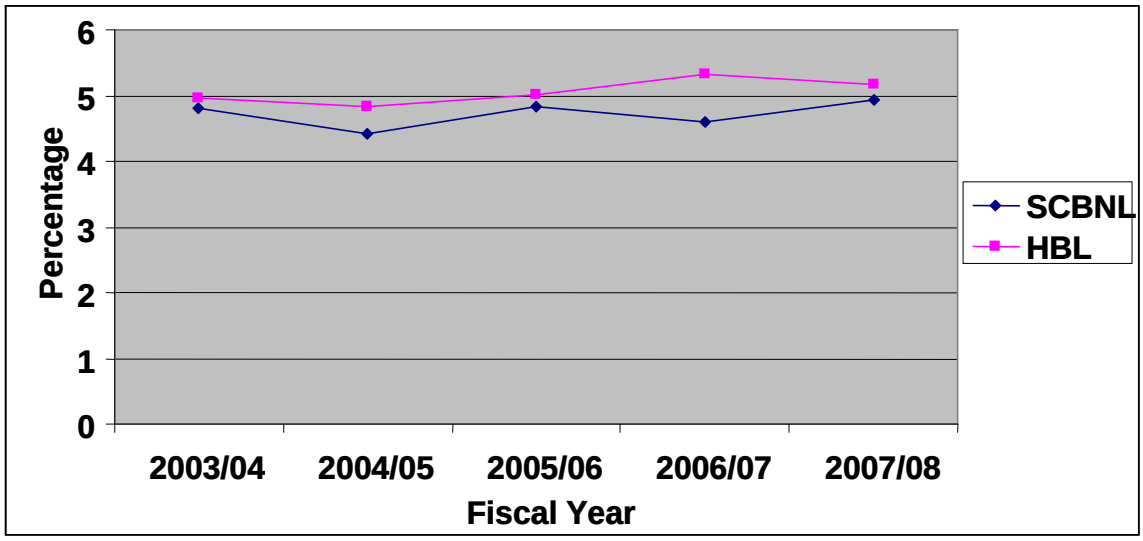
Fiscal Years	SCBNL	HBL
2003/04	4.81	4.96
2004/05	4.41	4.84
2005/06	4.83	5.01
2006/07	4.61	5.32
2007/08	4.94	5.17
Mean	**4.72**	**5.06**
S.D.	**0.21**	**0.19**
C.V.	**4.45%**	**3.71%**

Sources: Appendix No. 1 (xiv)

The above table reflects a fluctuated trend in interest earning ratio of SCBNL and HBL. SCBNL has had a high ratio of 4.94% in F/Y 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 No. 4.14

Total Interest Earned to Total Working Fund



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

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

v) Total Interest Paid to Total Working Fund Ratio

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. This ratio reveals the relationship between total interests paid amount and total employed. The formula is as follows;

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

Table No. 4.15
Total Interest Paid to Total Working Fund Ratio (%)

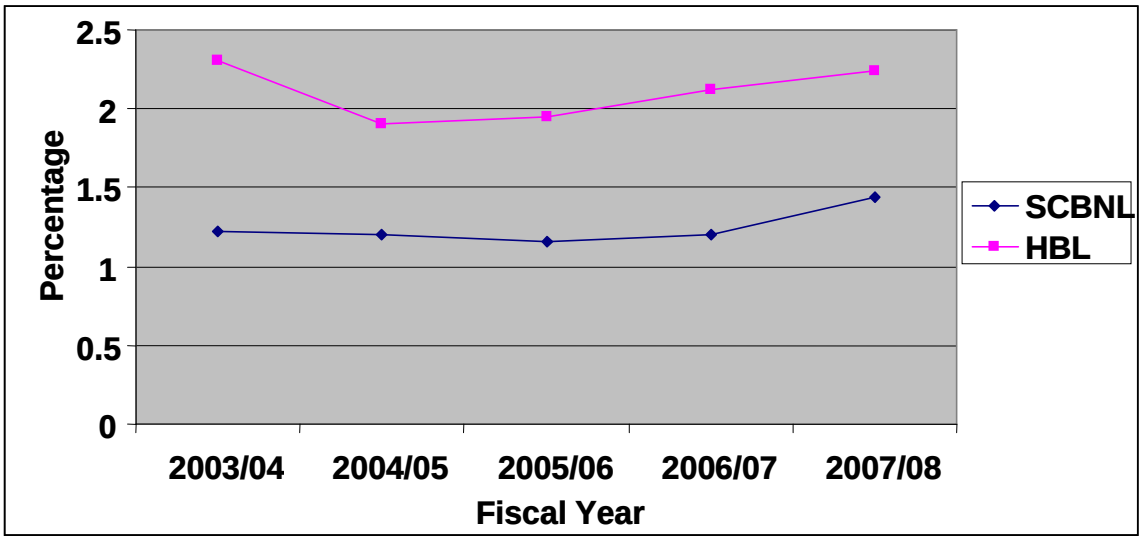
Fiscal Years	SCBNL	HBL
2003/04	1.22	2.31
2003/05	1.2	1.91
2005/06	1.16	1.95
2006/07	1.2	2.12
2007/08	1.44	2.24
Mean	**1.24**	**2.11**
S.D.	**0.11**	**0.18**
C.V.	**8.98%**	**8.31%**

Sources: Appendix No. 1 (xv)

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

Figure No. 4.15

Total Interest Paid to Total Working Fund



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

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

vi) Return on capital employed

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

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

Where capital employed=total assets – current liabilities

Table No 4.16

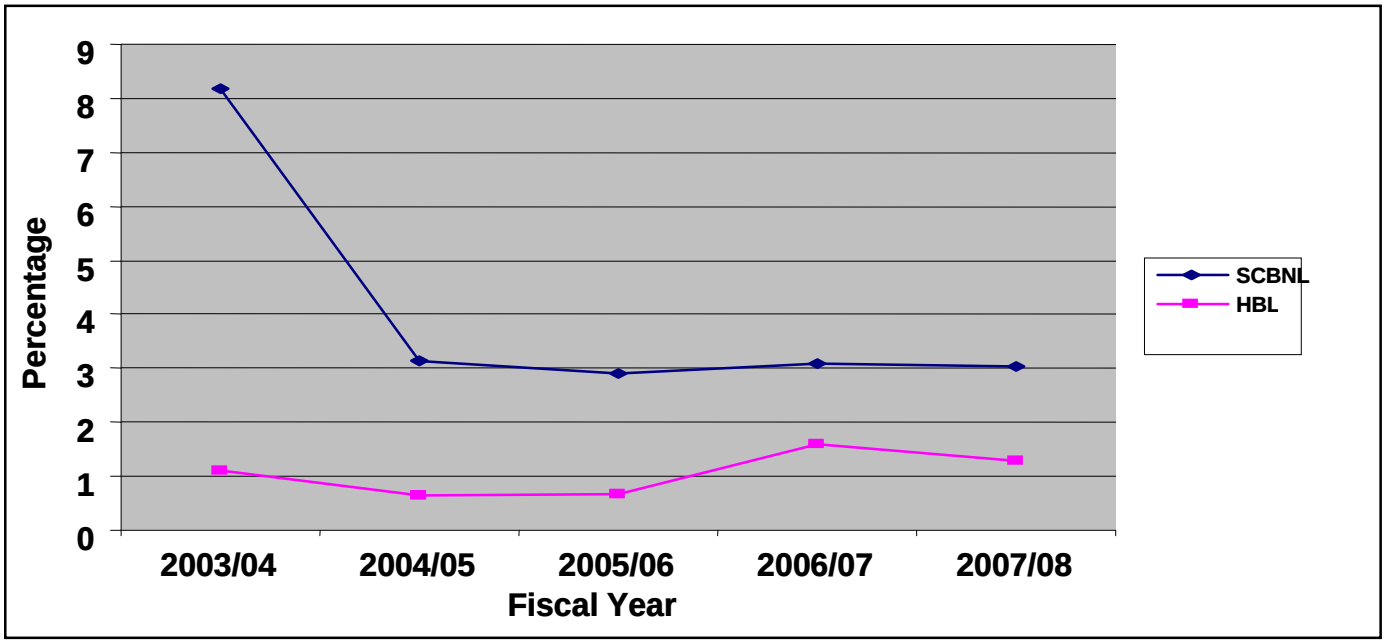
Return on Capita Employed

Fiscal Years	SCBNL	HBL
2003/04	8.17	1.1
2004/05	3.15	0.64
2005/06	2.9	0.67
2006/07	3.09	1.59
2007/08	3.04	1.29
Mean	**4.07**	**1.08**
S.D.	**2.02**	**0.37**
C.V.	**49.64%**	**34.26%**

Sources: Appendix No. 1 (xvi)

Figure No. 4.16

Total capital employed



The comparison of mean ratio revels that SCBNL has higher ratio than HBL. This shows that SCBNL has been more successful in maintaining the efficiency of the firm on the utilization of total capital. A higher ratio is an indication of the better utilization of capital employed.

4.1.4 Growth Ratios

Growth ratio measures the increment and decrement of present year's figure in comparison to previous year's figure. Growth rate analysis of the banks involves analysis of growth in deposits, loans, investments and net profit. The rate of growth is self explanatory for the performance of a bank. Growth analysis ascertains how much growth in deposit liability is supported by growth in assets.

The analysis also concerns which asset portfolio has significant increment corresponding to the increment in deposit liability and investment policy. The formula to calculate growth ratio and average ratio are as follows;

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

Table No. 4.17
Growth Ratio of Total Deposit

(Rs. in Million)

Fiscal Years	SCBNL	HBL
2003/04	18756	21007
2004/05	21161	22010
2005/06	19335	24814
2006/07	23061	26490
2007/08	24647	30048
Growth Rates (%)	**7.06%**	**9.36%**

Sources: Appendix No. 1 (xvii)

Figure No. 4.17
Growth Ratio of Total Deposit

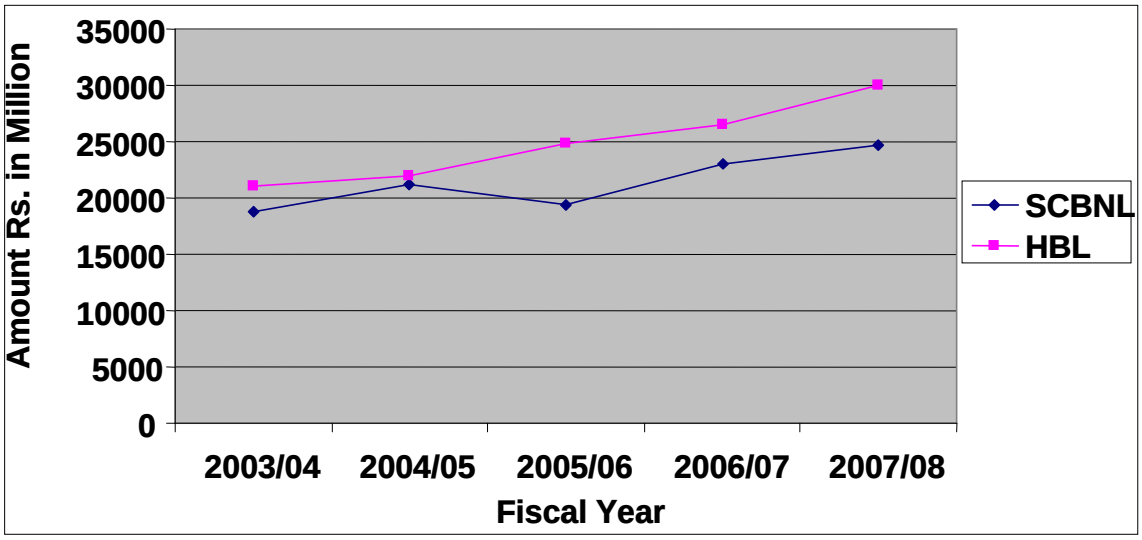


Table No. 4.18
Growth Ratio of Loan and Advances
(Rs. in Million)

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

Figure No. 4.18
Growth Ratio of Loan and Advances

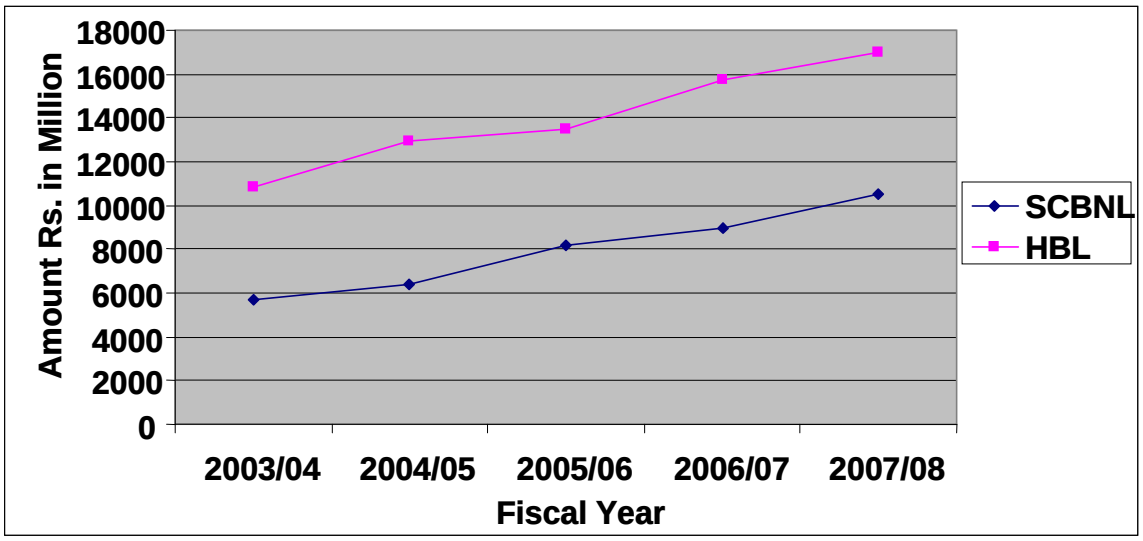


Table No. 4.19
Growth Ratio of Total Investment
(Rs. in Million)

Fiscal Years	SCBNL	HBL
2003/04	10216	10175
2004/05	11360	9292
2005/06	9702	11692
2006/067	12847	10889
2007/08	13553	11823
Growth Rates (%)	**7.32%**	**3.82%**

Figure No. 4.19
Growth Ratio of Total Investment

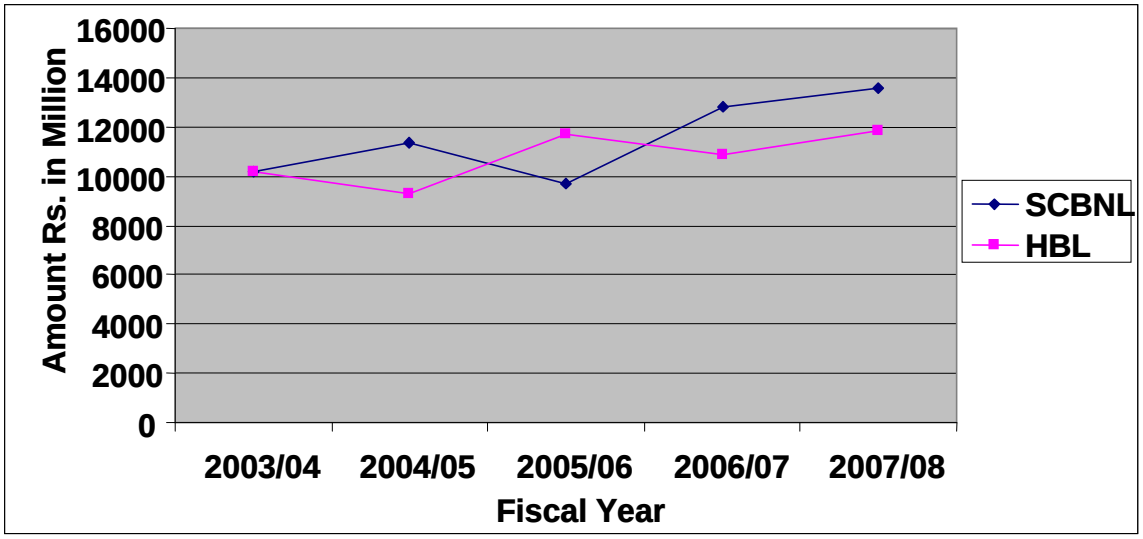


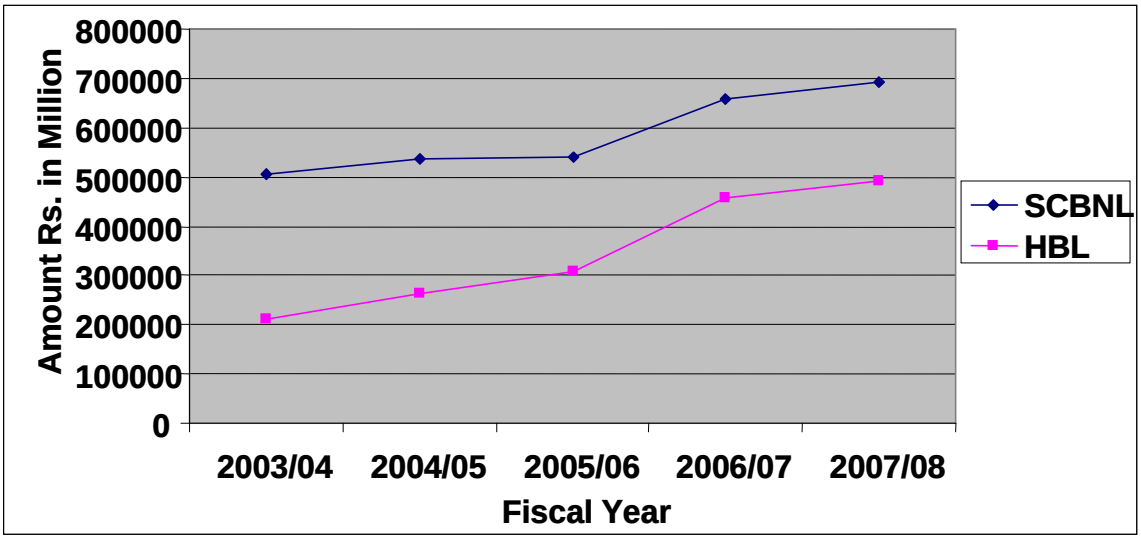
Table No. 4.20
Growth Ratio of Net Profit
(Rs. in Million)

Fiscal Years	SCBNL	HBL
2003/04	506932	212132
2004/05	537800	263052
2005/06	539204	308277
2006/07	658756	457458
2007/08	691668	491823
Growth Rates (%)	**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 No. 4.20

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 advances 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 is 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 FY 2004/05.

SCBNL has been successful in increasing its investment year after year. The average growth ratio of investment of SCBNL seems to be higher than HBL i.e., 7.32%>3.82%. This is due to a massive growth in SCBNL 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

4.2.1 Coefficient of Correlation Analysis

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

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

Interpretation of Correlation Co-efficient

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

- When r lies between 0.7 to 0.999, (-0.7 to -0.999) there is a high degree of positive or negative correlation.
- When r lies between 0.5 to 0.6999, there is moderate degree of correlation.
- When r is less than 0.5, there is a low degree of correlation.

Probable Error

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

4.2.1.1 Correlation Between Total Deposit and Total Investment

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

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

Table No. 4.21
Statement Showing Correlation between Total Deposit and Total Investment Evaluation Criterion

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

Sources: Appendix No. 2 (i)

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

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

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

4.2.1.2 Correlation between Total Deposit and Loan & Advances

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

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

Table No. 4.22
Statement Showing Correlation between Total Deposit and Loan & Advances Evaluation Criterion

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

Sources: Appendix No. 2 (ii)

In the above table the coefficient of correlation between deposit and 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 advances because 'r' is greater than six times P.E. i.e. 0.8257>0.5758. The coefficient of correlation 'r' between deposits and loan and advances 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) has been explained by the independent variable (deposits). The value of 'r' is greater than six times P.E. i.e. 0.9584>0.1476. This further shows that the value of 'r' is significant. In other words, there is significant relationship between deposit and loan and advances.

From the above analysis, we can conclude that both the banks show positive relationship between deposits 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.

4.2.1.3 Correlation between Total outside Assets and Net Profit

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

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

Table No. 4.23

Statement Showing Correlation Between Total Outside Assets and Net Profit Evaluation Criterion

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

Sources: Appendix No. 2 (iii)

The coefficient of correlation 'r' between total outside assets and net profit in case of SCBNL is 0.8308, which indicates a positive correlation between outside assets and net profit. Coefficient of determination (r^2) is 0.6903. This means 69.03% of variation of the dependent variable has been explained by independent variable. The value of 'r' i.e. 0.8308 is also greater than six times

P.E. This states that there exists a significant relationship between outside assets and net profit.

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

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

4.2.2 Trend Analysis

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

Here, trend analysis of deposit, loan & 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 other things are remaining the same.
- The forecast will be true only when a limitation of least square method is carried out.
- The bank will run is present position.
- The economy will remains in the present stage.
- Nepal Rastra Bank will not change its guideline to commercial Banks.

4.2.1 Analysis of Trend Value on Total Deposit and Loan & Advances

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

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

Table No. 4.24
Trend Values of Total Deposit and Loan & Advances of SCBNL and HBL
(Rs. in million)

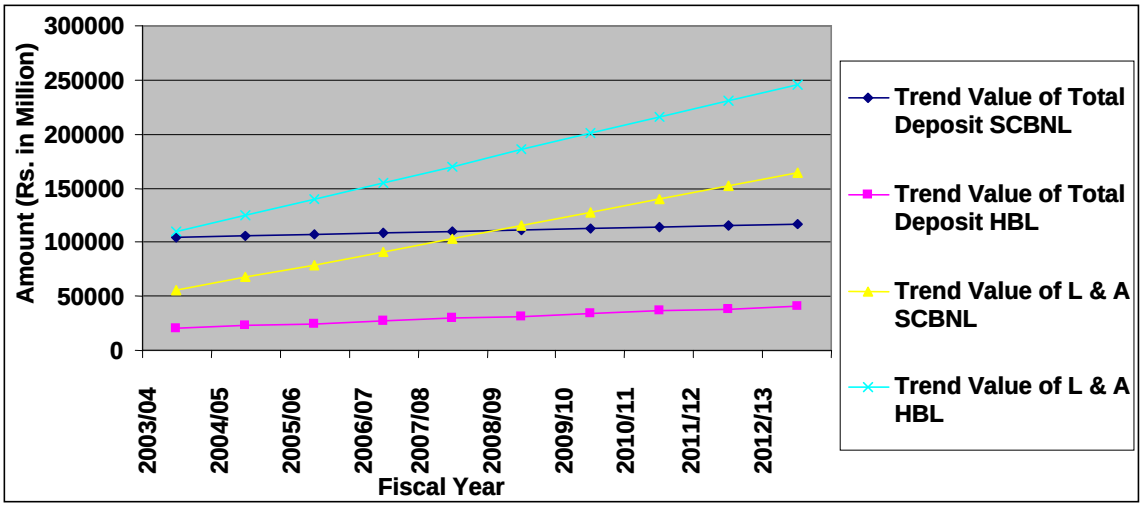
Years	Trend Value of Total Deposit SCBNL	Trend Value of Total Deposit HBL	Trend Value of L & A SCBNL	Trend Value of L & A HBL
2003/04	104223.75	20361.68	55097.06	109652.86
2004/05	105591.99	22618.54	67235.86	124801.60
2005/06	106960.23	24875.40	79374.66	139950.34
2006/07	108328.47	27132.26	91513.46	155099.08
2007/08	109696.71	29389.12	103652.26	170247.82
2008/09	111064.95	31645.98	115791.06	185396.56
2009/10	112433.19	33902.84	127929.86	200545.30
2010/11	113801.43	36159.70	140068.66	215694.04
2011/12	115169.67	38416.56	152207.46	230842.78
2012/13	116537.91	40673.42	164346.26	245991.52

Sources: Appendix No. 3 (i &iv)

From the above comparative table it is clear that a trend value of SCBNL is in an increasing trend. If other things remain unchanged the total deposit of SCBNL is predicted to be Rs. 116537.91 million and that of HBL to be less than deposit of SCBNL by the end of F/Y 2012/2013 i.e. Rs. 40673.42 million.

Figure No. 4.21

Trend Values of Total Deposit and Loan and Advances of SCBNL and HBL



From the above trend analysis, it is quite obvious that SCBNL deposit collection is proportionately much better than HBL from F/Y 2003/2004 onwards. The trend values of total deposit of both SCBNL and HBL are fitted in the trend lines given in figure no.

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 F/Y 2012/2013 is predicted to be Rs. 164346.26 million. Similarly, the projection for HBL at the end of F/Y 2012/2013 is Rs 245991.52 million.

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

4.2.2 Analysis of Trend Value of Total Investment and Net Profit

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

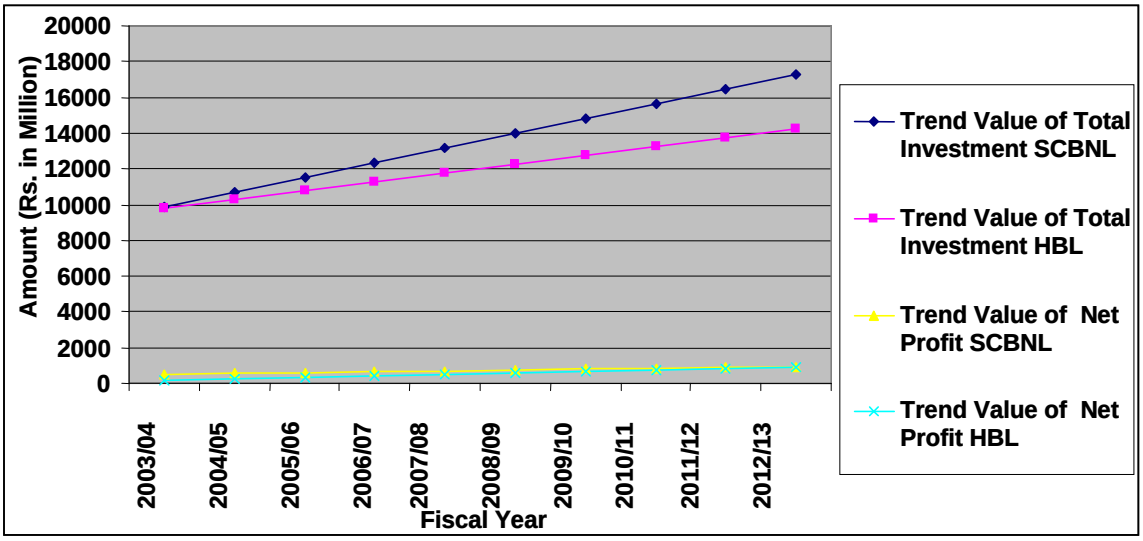
Table No. 4.25
Trend Values of Total Investment & Net Profit of SCBNL and HBL
(Rs. in million)

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	12241.98	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

From the above table it is clear that the trend value of both the banks are in an increasing trend. If other things remain uncharged total investment of SCBNL is predicted to be Rs. 17248.88 in F/Y 2012/2013 and that of HBL to be Rs. 14198.78 million. These values are highest under the review period.

The above table reveals that SCBNL total investment is higher than that of HBL through out the trend projection period. It can be said that both SCBNL and HBL have followed the policy of maximizing their investment. The above calculated trend values of SCBNL and HBL are fitted in the trend line given in figure.

Figure No. 4.22
Trend Values of Total Investment & Net Profit of SCBNL and HBL



From the above comparative table it is clear that the trend value of both the banks are in increasing trend. Other things remaining the same the trend value of both the banks are in increasing trend. The trend value of SCBNL will be highest in F/Y 2012/2013 i.e. Rs. 930.15 million. In case of HBL net profit will be Rs 874.21 million in F/Y 2012/2013, which is the highest under the review period.

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

4.2.3 Regression Analysis

Simple regression analysis is the basis for this chapter because the analysis part is fully covered by regression analysis. Under this analysis, influences of other

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

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

Table 4.26
Regression Equation of Total Investment on Total Deposit by Using the Method of t-Test (TI = a + bTD)

S. No.	Name of Company	Regression Coefficient					
		Constant (a)	Slope (b)	r^2	Calculated Value (t)	Tabulated Value (t)	Result
1	SCBNL	-2409196.748	0.652	0.958	8.231	3.182	Insignificant
2	HBL	5038257.231	0.231	0.619	2.210	3.182	Significant

Source: Appendix 4

Table 4.25 deficits the major output of simple regression between total investment and total deposit of the two banks by using the method of t-test. The regression coefficient (b) of SCBNL and HBL are positive of 1.469 and 2.686 respectively. They indicate that there exists positive relationship between total investment and total deposit.

The prediction of total investment is strong only for SCBNL and HBL because the respective coefficient of determination (r^2) are 0.958 and 0.619 which indicates

that the change in total investment is due to change of total deposit are 0.958 and 0.619 units respectively and the remaining variables is due to the effect of other factor.

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

An exceptional case is recorded in the case of SCBNL where the calculated value t > tabulated value of t at 0.05 level of significance and their H_1 (Alternative Hypothesis) is accepted in this case of SCBNL. It shows that total investment and total deposit are significantly correlated which can be recognized as a positive indicator of the development of the entire sector in the country.

4.2.3.1 Regression Equation of Loan & Advances on Total Deposit by Using the Method of t-Test (L&A= a + bTD)

Table 4.27
Regression Equation of Loan & Advances on Total Deposit by Using the Method of t-Test (L&A= a + bTD)

S. N.	Name of Company	Regression Coefficient					
		Constant (a)	Slope (b)	r^2	Calculated Value (t)	Tabulated Value (t)	Result
1	SCBNL	-5840558.023	0.644	0.682	2.536	3.182	Significant
2	HBL	-1952947.415	0.641	0.918	5.814	3.182	Insignificant

Source: Appendix 4

Table 4.26 deficits the major output of simple regression between loan & advances and total deposit of the two banks by using the method of t-test. The regression

coefficient (b) of SCBNL and HBL are positive of 0.644 and 0.641 respectively. They indicate that there exists positive relationship between loan & advances and total deposit. If loan and advances increases by 0.644 and 0.641 unit then heads to increase total deposit by 1unit and vice-versa.

The prediction of loan and advances is strong for SCBNL and HBL because the respective coefficient of determination (r^2) are 0.682 and 0.918 which indicates that the change in loan and advances is due to change of total deposit are 0.682 and 0.918 units respectively and the remaining variables is due to the effect of other factor.

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

A case is recorded in the case of HBL where the calculated value t > tabulated value of t at 0.05 level of significance and their H_1 (Alternative Hypothesis) is accepted in this case of HBL. It shows that loan & advances and total deposit are significantly correlated which can be recognized as a positive indicator of the development of the entire sector in the country.

4.3 Major Findings of the Study

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

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

Liquidity Ratio

The liquidity position of SCBNL and HBL reveals that:

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

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

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

Asset Management Ratio

The asset management ratio of SCBNL and HBL reveals that:

- The mean ratio of 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 advances to fixed deposit of SCBNL is higher than HBL. The ratios of SCBNL are less variable and more consistent than HBL.
- HBL has been more successful in identifying profitable investment sectors and increasing its earning. The same does not hold true for SCBNL, whose efforts seems to be more focused on investing in risk free assets, rather than increasing its loan and advances volume and subsequent earnings from it.
- HBL has a higher fixed deposit to total deposit ratio than SCBNL. HBL has the maximum fixed charge bearing deposit than SCBNL. From viewpoint of cost minimizing more is not favorable other hand, from viewpoint of liquidity greater portion of fixed deposit may be termed as favorable one.
- SCBNL has a higher saving deposit to total deposit ratio than HBL. If the total deposit of SCBNL is 1 than saving deposit will 61.92. The average saving deposit to total deposit ratios of SCBNL and HBL are 61.92 and 52.91. It clearly states that SCBNL has the maximum saving charge bearing deposit than HBL. From viewpoint of cost minimizing more is not favorable other hand, from viewpoint of liquidity greater portion of saving deposit may be termed as favorable one.

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

Profitability Ratios

The profitability ratios of SCBNL and HBL reveal that,

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

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

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

Growth Ratios

The growth ratio of SCBNL and HBL reveals that,

- The average growth rate of deposits of HBL are significantly higher than SCBNL
- SCBNL ratios were highly variable than HBL. The growth rate of total 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 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

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

- The co-efficient of correlation between deposits and total investment of HBL is slightly higher than SCBNL.
- HBL is slightly higher than SCBNL of coefficient of correlation between deposits and loan and advances.
- The co-efficient 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 & advances and total outside assets and net profit in case of SCBNL. Incase of HBL, three exists a significant relationship between deposits and total investment, deposit and loan and advances and total outside assets and net profit.

Trend Analysis and Projection for Next Five Years

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

- The deposits of both the banks have an increasing trend. The total deposit of SCBNL is predicted to be Rs. 116537.91 million and that of HBL to be Rs. 40673.42 million at the end of F/Y 2012/2013. 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 2012/2013. The loan and advances of HBL is much better compared to SCBNL.
- The total investments of both the bank 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 2012/2013. 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 2012/2013. The position of SCBNL with regard to utilization of the fund to earn profit is better than HBL.

Regression Analysis

- The regression coefficient (b) of SCBNL and HBL are positive of 1.469 and 2.686 respectively. They indicate that there exists positive relationship between total investment and total deposit. In case of t-test, the calculated value of t < tabulated value of t in case HBL which indicates that the relationship is not statistically significant of t at 0.05 level of significance and their H_o is accepted. The acceptance of Null Hypothesis shows that total investment and total deposit are not significantly correlated. An exceptional case is recorded in the case of SCBNL where the calculated value t > tabulated value of t at 0.05 level of significance and their H_1 (Alternative Hypothesis) is accepted in this case of SCBNL. It shows that total investment and total deposit are significantly correlated.

- The regression coefficient (b) of SCBNL and HBL are positive of 0.644 and 0.641 respectively. They indicate that there exists positive relationship between loan & advances and total deposit. If loan and advances increases by 0.644 and 0.641 unit then heads to increase total deposit by 1unit and vice-versa. In case of t-test, the calculated value of t < tabulated value of t in case of SCBNL which indicates that the relationship is not statistically significant of t at 0.05 level of significance and their H_o is accepted. The acceptance of Null Hypothesis shows that loan & advances and total deposit are not significantly correlated. A case is recorded in the case of HBL where the calculated value t > tabulated value of t at 0.05 level of significance and their H_1 (Alternative Hypothesis) is accepted in this case of HBL. It shows that loan & advances and total deposit are significantly correlated.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

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

5.1 Summary

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

The evolution of the organized financial system in Nepal has a more recent history than in other countries of the world. In Nepalese content, the history of development of modern banks started from the establishment of Nepal bank limited in 1937 A.D. nowadays there are 26 CBs operating in Nepal financial market which is in increasing due to the country moved towards economic liberalization, financial scenario has changed, and foreign banks were invited to operate in Nepal. For the better performance of CBs, successful formulation & effective implementation of investment policy is the prime requisite. Nowadays there is a very high competition in the banking industries but very less opportunity to make investment. The opportunities are hidden. Thus these CBs should take

initiative action in search of the new opportunities. So that, they can easily survive in this competitive banking business world & earn profit. A bank manager its investment has a lot to do with the economic health of the country because the bank loans support the growth of new business & trade empowering the economic activities of the country.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector which deals in the process of channeling the available resources in the needed sector. It plays the role of agent between the deficit and surplus of financial resources. Financial institutions like banks are a necessity to collect scattered saving and put them into productive channels. In the absence of such institution it is possible that the saving will not be safely and 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 other objectives are to examine the overall performance of SCBNL and HBL in terms of liquidity, activity, profitability, leverage 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.

At last but not least we can conclude that financial analysis is done to determine the banks financial position in order to identify its current strength and weaknesses and to suggestion that might enable the firm to take advantage of its strengths and correct its weaknesses. The study is about the financial performance of the SCBNL and HBL based on its financial data of five years. By using financial and

statistical tools, the overall financial performance of the bank has tried to analyze. The various ratios have revealed the financial condition of the bank over the five years. Income and expenditure analysis ahs 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 affect 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. By mobilizing its funds more in loans and advances, the bank could have increased its profit. But form the tabulated figures, it is evident that SCBNL and HBL had preferred to invest in secured sectors like government securities and shares and debentures than in lending. From which various finding have shown in above chapter from that finding conclusion have been drawn which are presented as below.

5.2 Conclusion

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

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

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

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

The average growth rate of deposits of HBL is significantly higher than SCBNL. SCBNL ratios were highly variable than HBL. The growth rate of total 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 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.

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

The regression coefficient (b) of SCBNL and HBL are positive of 1.469 & 2.686 and 0.644 & 0.641 respectively. They indicate that there exists positive relationship between total investment and total deposit and loan & advances and total deposit. In case of t-test, the calculated value of t < tabulated value of t in case HBL which indicates that the relationship is not statistically significant of t at 0.05 level of significance and their H_o is accepted. The acceptance of Null Hypothesis shows that total investment and total deposit are not significantly correlated. An exceptional case is recorded in the case of SCBNL where the calculated value t > tabulated value of t at 0.05 level of significance and their H_1 (Alternative Hypothesis) is accepted in this case of SCBNL. It shows that total investment and total deposit are significantly correlated which can be recognized as a positive indicator of the development of the entire sector in the country.

In case of t-test, the calculated value of t < tabulated value of t in case of SCBNL which indicates that the relationship is not statistically significant of t at 0.05 level of significance and their H_o is accepted. The acceptance of Null Hypothesis shows that loan & advances and total deposit are not significantly correlated such a

situation is not a healthy indicator for the entire sector in the country. A case is recorded in the case of HBL where the calculated value t > tabulated value of t at 0.05 level of significance and their H_1 (Alternative Hypothesis) is accepted in this case of HBL. It shows that loan & advances and total deposit are significantly correlated which can be recognized as a positive indicator of the development of the entire sector in the country.

5.3 Recommendation

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

- Current ratios of the banks were found below the standard. So it is recommended that the bank should increase the current assets to meet the short-term obligation of the bank. Otherwise there may arise question to the creditworthiness of the bank at any point of time.
- Cash and bank balance of total deposit ratio of the banks were fluctuation order. Since it is the most liquid assets some provisions regarding on this should be made to have consistency. It is recommended to have moderate level of cash and bank balance to meet unanticipated calls on current Savings 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 banks to moderate the risk and return in the current situation.
- The banks should be very careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and 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.

- The main source of commercial banks is collecting deposit from public who don't need that fund recently. So, it is recommended to collect more amounts as deposits through large variety of deposits schemes and facilities, like cumulative deposit scheme, prize bonds scheme, gift, cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme, house building scheme, direct finance housing scheme, education loan scheme and many others.
- It is recommended to adopt innovative approach to marketing. In the light of growing competition in the banking sector, the business of the bank should be customer oriented. 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, prices and promotion.
- Integrated and speedy development of the country is possible only when competitive banking services reaches nooks and corners of the country. SCBNL and HBL have shown not more interest to open branches in rural areas. Both the banks are recommended to expand their branches and banking services and facilities in rural areas and communities to accelerate their economic development. NRB should implement policies to encourage banks, which provide extensive services while disincentive sings those who are not responsive to the banking needs of the community, including the underprivileged.

ANNEXURE - 1

i. Current Ratio Times

SCBNL

Fiscal year	2003/04	2004/05	2005/06	2006/07	2007/08
Current Assets	17084409	20093715	19322679	21472350	22025802
Current Liabilities	17594654	20740829	18895638	21888227	23283089
Ratios	0.971	0.9688	1.0226	0.981	0.946

HBL

Fiscal Year	2003/04	2004/05	2005/06	2006/07	2007/08
Current Assets	16297019	18602009	21326260	23153115	27775530
Current Liabilities	19083160	18733141	19422823	20991038	19208530
Ratio	0.854	0.993	1.098	1.103	1.446

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

SCBNL

Fiscal Year	2003/04	2004/05	2005/06	2006/07	2007/08
Cash and Bank Balance	1512304	2023164	1111117	1276241	2021021
Total Deposit	18755635	21161442	19335095	23061032	24647021
Ratio	8.06	9.56	5.75	5.53	8.21

HBL

Fiscal Year	2003/04	2004/05	2005/06	2006/07	2007/08
Cash and Bank Balance	1979209	2001184	2014471	1717352	1757341
Total Deposit	21007379	22010333	54814012	26490852	30048418
Ratio	9.42	9.092	8.12	6.84	5.85

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

SCBNL

Fiscal Year	2003/04	2004/05	2005/06	2006/07	2007/08
Cash and Bank Balance	1512304	2023164	1111117	1276241	2021021
Current Assets	17084409	20093715	19322679	21472350	22025802
Ratio	8.85	10.07	5.529	5.94	9.18

HBL

Fiscal Year	2003/04	2004/05	2005/06	2006/07	2007/08
Cash and Bank Balance	1979209	2001184	2014471	1717352	1758191
Current Assets	16297019	18602009	21326260	23153115	27775530
Ratio	12.14	10.76	9.45	7.42	6.33

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

SCBNL

Fiscal Year	2003/04	2004/05	2005/06	2006/07	2007/08
Investment Got. Securities	6581348	7948217	7203066	8635875	7107937
Current Assets	1708440	20093715	19322679	21472350	22025802
Ratio	38.52	39.56	37.28	40.22	32.27

HBL

Fiscal Year	2003/04	2004/05	2005/06	2005/07	2007/08
Investment Got.	3347102	3431728	5469729	5144312	6454873

Securities					
Current Assets	16297019	18602009	21326260	23153115	27775330
Ratio	20.54	18.45	25.65	22.22	23.24

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

SCBNL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Loan and Advances	5695823	6410242	8143208	8935418	10502637
Total Deposit	18755635	21161442	19335095	23061032	24647021
Ratio	30.36	30.30	42.12	38.75	42.61

HBL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Loan and Advances	10844599	12919631	13451168	15761977	16997797
Total Deposit	21007379	22010333	24814012	26490852	30048418
Ratio	51.62	58.70	54.21	59.50	56.57

vi. Total Investment to Total Deposit Ratio (%)

SCBNL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Total Investment	10216199	11360328	9702553	12847536	13553233
Total Deposit	18755635	21161442	19335095	23061032	24647021
Ratio	54.47	53.68	50.18	55.71	55.10

HBL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Total Investment	10175435	9292103	11692342	10889031	11822985

Total Deposit	21007379	22010333	24814012	26496852	30048418
Ratio	48.44	42.22	47.20	41.10	39.35

vii. Loan and Advances to Fixed Deposit Ratio

SCBNL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Loan and Advances	5695823	6410242	8143208	8935418	10502637
Fixed Deposit	1948596	1428495	1416383	2136307	3196490
Ratio	2.92	4.49	5.75	4.18	3.29

HBL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Loan and Advances	10844599	12919631	13451168	15761977	16997797
Fixed Deposit	3205373	4710177	6107431	6350202	8201135
Ratio	73.38	2.74	2.20	2.48	2.07

viii. Loan and Advances to Saving Deposit Ratio (Rs. in 000)

SCBNL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Loan and Advances	5695823	6410242	8143208	8935418	10502637
Saving Deposit	10633162	12771826	13030929	14597674	15244385
Ratio	0.54	0.50	0.62	0.61	0.69

HBL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**

Loan and Advances	10844599	12919631	13451168	15761977	16997797
Saving Deposit	10870542	11759602	12852415	14582855	15784770
Ratio	1.00	1.10	1.05	1.08	1.08

ix. Fixed Deposit to Total Deposit Ratio (%)

SCBNL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Fixed Deposit	1948596	1428495	1416383	2136307	3196490
Total Deposit	18755635	21161442	19335095	23061032	24647021
Ratio	10.39	6.75	7.33	9.26	12.97

HBL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Fixed Deposit	3205373	4710177	6107431	6350202	8201135
Total Deposit	21007379	22010333	24814012	26490852	30048418
Ratio	15.26	21.40	24.61	23.97	27.29

x. Saving Deposit to Total Deposit Ratio (%)

SCBNL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Saving Deposit	10633162	12771826	13030929	14597674	15244385
Total Deposit	18755635	21161442	19335095	23061032	24647021
Ratio	56.69	60.35	67.40	63.30	61.85

HBL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**

Saving Deposit	10870542	11759602	12852415	14582855	15784770
Total Deposit	21007379	22010333	24814012	26490852	30048418
Ratio	51.75	53.43	51.79	55.05	52.53

xi. Return Total Working Fund Ratio (%)

SCBNL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Net Profit	506932	537800	539204	658756	691668
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	2.424	2.27	2.46	2.55	2.42

HBL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Net Profit	212132	263052	308277	457458	491823
Total Working Fund	24197974	25729787	28871343	30579808	34315868
Ratio	0.88	1.02	1.06	1.50	1.43

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

SCBNL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Total Interest Earned	1001359	1042175	1058677	1189603	1411942
Total Outside Assets	6722023	17770570	17845761	21782954	24055870
Ratio	14.90	5.86	5.93	5.46	5.87

HBL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Total Interest Earned	1201233	1245895	1446468	1626474	1775583

Total Outside Assets	21020034	22211734	25143510	26651008	29616709
Ratio	5.71	5.61	5.75	6.10	6.10

xiii. Return on Loan and Advances (%)

SCBNL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Net Profit	506932	537800	539204	658756	691668
Loan and Advances	5695823	6410242	8143208	8935418	10502637
Ratio	8.9	8.41	6.62	7.37	6.6

HBL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Net Profit	212132	263052	308277	457458	491823
Loan and Advances	10844599	12919331	13451168	15761977	16997997
Ratio	1.96	2.03	2.30	2.90	2.89

xiv. Total Interest Earned to Total working fund Ratio (%)

SCBNL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Total Interest Earned	1001359	1042175	1058677	1189603	1411982
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	4.81	4.41	4.83	4.61	4.94

HBL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**

Total Interest Earned	1201233	1245895	1446468	1626474	1775583
Total Working Fund	24197974	25729787	28871343	30579808	34315868
Ratio	4.96	4.84	5.01	5.32	5.17

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

SCBNL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Total Interest Paid	255154	275809	254127	303198	413055
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	1.22	1.2	1.16	1.20	1.44

HBL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Total Interest Paid	554128	491543	561964	648842	167411
Total Working Fund	24197974	25729787	28871343	30579808	34315868
Ratio	2.31	1.91	1.95	2.12	2.24

xvi. Return on capital employed Ratio (%)

SCBNL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Net profit	506932	537800	539204	658756	691668
Capital employed	621178	17123456	18272802	21367077	22798583
Ratio	8017	3015	209	3.09	3.04

HBL

Fiscal Year	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**

Total Interest Earned	212132	263052	308277	457458	491823
Total Outside Assets	18233893	40813743	46469770	28813085	38183709
Ratio	1.17	0.64	0.67	1.59	1.29

xvii. Sample Calculation of Growth Rate of Total Deposit of SCBNL and HBL

Growth rate is calculated from

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

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

D_o = Total deposit of initial year.

G = Growth rate.

N = Number of year.

$D_{2007/08}$=24647 $D_{2003/04}$=18756 N=5

$D_{2007/08} = D_{2003/04}(1+g)^{n-1}$ or, $24647 = 18756\ (1+g)^{5-1}$

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

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

Other growth ratios are same as above methods.

Hundred	Tens	Ones
9	9	5

ANNEXURE - 2

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

SCBNL

F/Y	Total Deposit	Total Investment	
2003/04	18755635	10216199	
2004/05	21161442	11360328	
2005/06	19335095	9702553	
2006/07	23061032	12847536	
2007/08	24647021	13553233	
R			**0.9786**
r^2			**0.9576**
P.E.			**0.0128**
6P.E.			**0.0768**

Himalayan Bank Ltd

F/Y	Total Deposit	Total Investment	
2003/04	21007379	10175435	
2004/05	22010333	9292103	
2005/06	24814012	11692342	
2006/07	26490852	10889031	
2007/08	30048418	11822985	
R			**0.7870**
r^2			**0.6194**
P.E.			**0.1148**
6P.E.			**0.6889**

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

SCBNL

F/Y	Total Deposit	Loan and Advances	
2003/04	18755635	5695823	
2004/05	21161442	6410242	
2004/05	19335095	8143208	
2006/07	23061032	8935418	
2007/08	24647021	10502637	
R			**0.8257**
r^2			**0.6818**
P.E.			**0.0960**
6P.E.			**0.5758**

Himalayan Bank Ltd

F/Y	Total Deposit	Loan and Advances	
2003/04	21007379	10844599	
2004/05	22010333	12919631	
2005/06	24814012	13451168	
2006/07	26490852	15761977	
2007/08	30048418	16997797	
R			**0.9584**
r^2			**0.9185**
P.E.			**0.0246**
6P.E.			**0.1476**

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

SCBNL

F/Y	Total Outside Assets	Net Profit	
2003/04	6722023	506932	
2004/05	17770570	537800	
2005/06	17845761	539204	
2006/07	21782954	658756	
2007/08	24055870	691668	
R			**0.8308**
r^2			**0.6903**
P.E.			**0.0934**
6P.E.			**0.5605**

Himalayan Bank Ltd

F/Y	Total Outside Assets	Net Profit	
2003/04	21020034	212132	
2004/05	22211734	263052	
2005/06	25143510	308277	
2006/07	26651008	457458	
2007/08	29616709	491823	
R			**0.9565**
r^2			**0.9149**
P.E.			**0.0257**
6P.E.			**0.1540**

ANNEXURE – 3

i. Trend Value of Total Deposit of SCBNL

(Rs. In Million)

Fiscal Year (t)	Total Deposit (y)	x = (t-2006)	X^2	Xy
2003/04	18755.64	-2	4	-37511.28
2004/05	21161.44	-1	1	-21161.44
2005/06	19335.10	0	0	0
2006/07	23061.03	1	1	23061.03
2007/08	24647.02	2	4	49294.04
N = 5	**106960.23**	**0**	**10**	**13682.35**

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

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

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$$Y_c = 106960.23 + 1368.24x$$

Year	x = (t-2004)	Trend Value $Y_c = 106960.23 + 1368.24x$
2003/04	-2	104223.75
2004/05	-1	105591.99
2005/06	0	106960.23
2006/07	1	108328.47
2007/08	2	109696.71
2008/09	3	111064.95
2009/10	4	112433.19
2010/11	5	113801.43
2011/12	6	115169.67
2012/13	7	116537.91

ii. Trend Value of Total Deposit of HBL

(Rs. In Million)

Fiscal Year (t)	Total Deposit (y)	x = (t-2006)	X^2	Xy
2003/04	21007.38	-2	4	-42014.76
2004/05	22010.33	-1	1	-22010.33
2005/06	24814.01	0	0	0
2006/07	26496.85	1	1	26496.85
2007/08	30048.42	2	4	60096.84
N = 5	**124376.99**	**0**	**10**	**22568.6**

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

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

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$$Y_c = 24875.40 + 2256.86x$$

Year	x = (t-2004)	Trend Value $Y_c = 24875.40 + 2256.86x$
2003/04	-2	20361.68
2004/05	-1	22618.54
2005/06	0	24875.40
2006/07	1	27132.26
2007/08	2	29389.12
2008/09	3	31645.98
2009/10	4	33902.84
2010/11	5	36159.70
2011/12	6	38416.56
2012/13	7	40673.42

iii. Trend Value of Loan and Advances of SCBNL

(Rs. In Million)

Fiscal Year (t)	Loan and Advances (y)	x = (t-2006)	X^2	xy
2003/04	56958.23	-2	4	-113916.46
2004/05	64102.42	-1	1	-64102.42
2005/06	81432.08	0	0	0
2006/07	89354.18	1	1	89354.18
2007/08	105026.37	2	4	210052.74
N = 5	**396873.28**	**0**	**10**	**121388.04**

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

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

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$$Y_c = 79374.66 + 12138.800x$$

Year	x = (t-2004)	Trend Value $Y_c = 79374.66 + 12138.80x$
2003/04	-2	55097.06
2004/05	-1	67235.86
2005/06	0	79374.66
2006/07	1	91513.46
2007/08	2	103652.26
2008/09	3	115791.06
2009/10	4	127929.86
2010/11	5	140068.66
2011/12	6	152207.46
2012/13	7	164346.26

iv. Trend Value of Loan and Advances of HBL

(Rs. In Million)

Fiscal Year (t)	Loan and Advances (y)	x = (t-2006)	X^2	xy
2003/04	108445.99	-2	4	-216891.98
2004/05	129196.31	-1	1	-129196.31
2005/06	134511.68	0	0	0
2006/07	157619.77	1	1	157619.77
2007/08	169977.97	2	4	339955.94
N = 5	**699751.72**	**0**	**10**	**151487.42**

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

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

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$$Y_c = 139950.34 + 15148.74x$$

Year	x = (t-2004)	Trend Value $Y_c = 139950.34 + 15148.74x$
2003/04	-2	109652.86
2004/05	-1	124801.60
2005/06	0	139950.34
2006/07	1	155099.08
2007/08	2	170247.82
2008/09	3	185396.56
2009/10	4	200545.30
2010/11	5	215694.04
2011/12	6	230842.78
2012/13	7	245991.52

v. Trend Value of Total Investment of SCBNL

(Rs. In Million)

Fiscal Year (t)	Total Investment (y)	x = (t-2006)	X^2	Xy
2003/04	10216.20	-2	4	-20432.4
2004/05	11360.33	-1	1	-11360.33
2005/06	9702.55	0	0	0
2006/07	12847.54	1	1	12847.54
2007/08	13553.23	2	4	27106.46
N = 5	**57679.85**	**0**	**10**	**8161.27**

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

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

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$$Y_c = 11535.97 + 816.13x$$

Year	x = (t-2004)	Trend Value $Y_c = 11535.97 + 816.13x$
2003/04	-2	9903.71
2004/05	-1	10719.84
2005/06	0	11535.97
2006/07	1	12352.10
2007/08	2	13168.23
2008/09	3	13984.36
2009/10	4	14800.49
2010/11	5	15616.62
2011/12	6	16432.75
2012/13	7	17248.88

vi. Trend Value of Total Investment of HBL

(Rs. In Million)

Fiscal Year (t)	Total Investment (y)	x = (t-2006)	X^2	Xy
2003/04	10175.44	-2	4	-20350.88
2004/05	9292.10	-1	1	-9292.1
2005/06	11692.34	0	0	0
2006/07	10889.03	1	1	10889.03
2007/08	11822.99	2	4	23645.98
N = 5	**53871.9**	**0**	**10**	**4892.03**

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

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

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$$Y_c = 10774.38 + 489.20x$$

Year	x = (t-2004)	Trend Value $Y_c = 10774.38 + 489.20x$
2003/04	-2	9795.98
2004/05	-1	10285.18
2005/06	0	10774.38
2006/07	1	11263.58
2007/08	2	11752.78
2008/09	3	12241.98
2009/10	4	12731.18
2010/11	5	13220.38
2011/12	6	13709.58
2012/13	7	14198.78

vii. Trend Value of Net Profit of SCBNL

(Rs. In Million)

Fiscal Year (t)	Net Profit (y)	x = (t-2006)	X^2	xy
2003/04	506.93	-2	4	-1013.86
2004/05	537.80	-1	1	-537.8
2005/06	539.20	0	0	0
2006/07	658.76	1	1	658.76
2007/08	691.67	2	4	1383.34
N = 5	**2934.36**	**0**	**10**	**490.44**

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

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

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$$Y_c = 586.87 + 49.04x$$

Year	x = (t-2004)	Trend Value $Y_c = 586.87 + 49.04x$
2003/04	-2	488.79
2004/05	-1	537.83
2005/06	0	586.87
2006/07	1	635.91
2007/08	2	684.95
2008/09	3	733.99
2009/10	4	783.03
2010/11	5	832.07
2011/12	6	881.11
2012/13	7	930.15

viii. Trend Value of Net Profit of HBL

(Rs. In Million)

Fiscal Year (t)	Net Profit (y)	x = (t-2006)	X^2	xy
2003/04	212.13	-2	4	-424.26
2004/05	263.05	-1	1	-263.05
2005/06	308.28	0	0	0
2006/07	457.46	1	1	457.46
2007/08	491.82	2	4	983.64
N = 5	**1732.74**	**0**	**10**	**753.79**

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

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

The Equation of the Straight Line Trend is;

$$Y_c = a + bx$$

$$Y_c = 346.55 + 75.38x$$

Year	x = (t-2004)	Trend Value $Y_c = 346.55 + 75.38x$
2003/04	-2	195.79
2004/05	-1	271.17
2005/06	0	346.55
2006/07	1	421.93
2007/08	2	497.31
2008/09	3	572.69
2009/10	4	648.07
2010/11	5	723.45
2011/12	6	798.83
2012/13	7	874.21

ANNEXURE – 4

Regression Analysis of Total Investment and Total Deposit of SCBNL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	TD[a]	.	Enter

a All requested variables entered.
b Dependent Variable: TI

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.979[a]	.958	.943	392955.58069

a Predictors: (Constant), TD

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10460376618829.930	1	10460376618829.930	67.742	.004[a]
	Residual	463242265188.867	3	154414088396.289		
	Total	10923618884018.800	4			

a Predictors: (Constant), TD
b Dependent Variable: TI

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2409196.748	1703401.756		-1.414	.252
	TD	.652	.079	.979	8.231	.004

a Dependent Variable: TI

Regression Analysis of Total Investment and Total Deposit of HBL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	TD[a]	.	Enter

a All requested variables entered.
b Dependent Variable: TI

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.787[a]	.619	.493	756535.45343

a Predictors: (Constant), TD

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2794214072125.874	1	2794214072125.874	4.882	.114[a]
	Residual	1717037676894.927	3	572345892298.309		
	Total	4511251749020.800	4			

a Predictors: (Constant), TD
b Dependent Variable: TI

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	5038257.231	2618032.255		1.924	.150
	TD	.231	.104	.787	2.210	.114

a Dependent Variable: TI

Regression Analysis of Loan & Advances and Total Deposit of SCBNL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	TD[a]	.	Enter

a All requested variables entered.
b Dependent Variable: LA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.826[a]	.682	.576	1260236.45462

a Predictors: (Constant), TD

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10211128945104.260	1	10211128945104.260	6.429	.085[a]
	Residual	4764587764628.930	3	1588195921542.979		
	Total	14975716709733.200	4			

a Predictors: (Constant), TD
b Dependent Variable: LA

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5840558.023	5462930.407		-1.069	.363
	TD	.644	.254	.826	2.536	.085

a Dependent Variable: LA

Regression Analysis of Loan & Advances and Total Deposit of HBL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	TD[a]	.	Enter

a All requested variables entered.
b Dependent Variable: LA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.958[a]	.918	.891	799407.88962

a Predictors: (Constant), TD

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21599036805025.710	1	21599036805025.710	33.799	.010[a]
	Residual	1917158921981.491	3	639052973993.830		
	Total	23516195727007.200	4			

a Predictors: (Constant), TD
b Dependent Variable: LA

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1952947.415	2766394.661		-.706	.531
	TD	.641	.110	.958	5.814	.010

a Dependent Variable: LA

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