# CHAPTER-I

## Introduction

### 1.1 Background of the Study.

Nepal is a least developed country with very low per capita income. Nepal is also called landlocked country surrounding by the east, west and south by republic India and north by the republic of china. Out of total population 81% of people depending on agriculture and rest 19% of people are depending on profession industry and commerce. So we can say that Nepal has an agro based economy is attributed to its geographical constructions, where major portion of the country is composed of hills and Tarai (very suitable for agriculture)

The history banking system in Nepal in the form of money lending can be traced back in the reigning period of Gunakama Dev, the king of Kathmandu. (NBL patrika, 2037;31)

Tankadhari, a special class of people was established to deal with the leading activities of money towards the end of fourteen century at the ruling period of king Jayasthiti Malla.(NBL,patrika,2011;32)

During the period of "Rannodip Singh",prime minister of Nepal, on financial institution was established to give loan facilities to the government staff and afforded loan facilities to the public in general in the term of 5% interest.(NBL,patrika,2040;40)

Now a day, when we talk about bank, normally we mean a commercial bank. A bank is an ordinary banking business consists of charging cash for bank deposit, and bank deposit for cash, transferring bank deposit from one person, corporation to another, giving bank deposit in the exchange, government bonds, the secure unsecured premises of business men to repay.

A bank is an institution for keeping lending and exchange of money. With the passes of times entrance of bank takes place in different countries. Bank development has been introduced from money lending business since the 19th century. Only the modern banking system exist in 20th century on observed development of various banking institutions which accept deposit of persons, institutions and giving loans against securities. They provide working capital needs of trade industry and even to agriculture sectors. Moreover commercial banks also provide technical and administrative assistance to industries, trade and business enterprise.

The commercial bank act 2031B.S.has further pointed out that commercial bank act whenever necessary for trade and commerce. They take deposit from public and grant loans in different forms, they purchase discount bills and exchange promissory notes and exchange foreign currency. They discharge various functions on behalf of this service.

On 30th Kartik 1994, Nepal bank limited was established as first financial institutions to modern and organized banking facilities. Nepal rostra bank established on 14th Baishak 2013 under the NRB act 2012 with the function of controlling and monitoring banking activities as a central bank of Nepal. Similarly Rastra Banijya bank established in 2022. Nepal also took joint venture banking policy.

A joint venture bank is the joining a force between two or more enterprises for the purpose of carrying out a specific operation industrial and commerce investment, production or trade. When government permitted the establishment of foreign joint venture banks as a result numbers of joint venture banks increased dramatically, among them H.B.L., S.B.I., N.B.B.L., Bank of Kathmandu limited, Everest bank limited and N.C.C. bank etc.

The management of these JV'S is mainly held by foreign bank. They are providing modern technology, efficient service to the country & they are getting better performances than other government bank.

## 1.2 Focus of the Study

The economic development of the nation depends largely upon the development of its economic growth. Bank is an institution, which helps in collecting and mobilization of savings. The role of commercial banks in the uplifting of the economic growth of the country is very important. And the internal management of the bank greatly influences in the development of the comparative study on financial performance of Himalayan bank limited & Standard chartered bank limited. The brief profile of thesis, bank is given below. The main objective of study of bank is to provide modern banking facilities and loan to agriculture, commerce and industrial sectors.

## 1.3 Introduction of Himalayan Bank Ltd.

Himalayan bank limited was incorporated in 1992(2049-12-5) by the distinguished business personalities of Nepal in partnership with employees provident fund and Habib bank limited on of the largest commercial bank of Pakistan. Banks operations were commenced from 18-01-1993. It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sector. Besides commercial activities the bank also offers industrial and merchant banking. Nepal bank limited and Rastriya Banijya bank were the only commercial banks operating over the three decades in Nepal before opening of joint venture banks. Today there are altogether 29 commercial banks in Nepalese financial market.

The Himalayan bank limited was established with an authorized shares capital of Rs.24croers. It issued capital was Rs.12croers with a paid up capital of Rs.6croers.Out of total issued capital, the bank promoters hold 51%,the employee's provident funds 14%,the Habib bank limited Pakistan holds 20%,and the remaining 15%,share are hold by general public.

The bank at present has six branches in kathmandu velly, namely Thamel (central office), New road, Bhaktapur, Maharajgunj, Pulchowk and Nagarkot. Besides it has many branches outside kathmandu valley namely: Siddhartha Nagar, Narayanghat, Pokhara,Dharan, Biratnagar, Birgunj, Hetuda, Banepa, Tandi etc

The bank has a very aggressive plan of establishing more branches in deferent parts of country in future.

### 1.4 Introduction of Standard Chartered Bank Ltd

Head office of SCBNL is new Baneshwor, Kathmandu. SCBNL is Nepal's second joint venture bank and was established in 1985AD under the company act 1964, joint venture with associate company of Australia and NewZealand banking group. The authorized capital of the bank has Rs.339,548,800 called up capital Rs.339,548,800 and paid up capital is same. Its ownership is composed of ANZ Grindlays Bank50%, Nepal bank limited 33.34% and Public 16.66%.(sources  annual report 2003 of SCBNL

The main objective of bank is to provide modern banking facility and loan to agriculture, commerce and industrial sectors.

### 1.5 Statement of the problem.

The development of the financial sector is vital for economic development of a country. Generally, banks play vital role in capital formation and proper utilization of collected fund, providing services in domestic and international trade. The commercial banks consequently have a specific role to in the long process of economic growth.

There is an important stage of joint venture bank in Nepal due to open economy and globalization. In global perspective, joint ventures are the made up of trading through partnership and with negotiation between countries, industries, enterprises, traders and mercantile to achieve mutual exchange of goods, services and modern technology for sharing comparative advantages and benefit.

According to Nancy Wall (1998) "when two or more independent firms mutually decide to participate in a business venture, contribute to the total equity or more or less capital and established a new organization, is known as joint venture".

Out of 29 commercial banks, most of them are established with joint venture of two or more institution. Some are established with the joint ventures with foreign banks.

The important of both banks i.e. HBL and SCBNL are to carryout modern banking activities and services along with accepting various deposits and providing loans to industries, commerce and transportation etc. Thus, they help to uplift not only the economic condition of the general people. Hence, it is impossible to imagine modern economic system without banks.

At present, most of the joint venture banks are operating in financial sector, especially in banking, insurance, finance, leasing, industries etc. Among the joint venture commercial banks, HBL and SCBNL have their own position and impact on general public, financial analysts and academicians. Their financial evaluation has been conducted periodically by different concerned sides. It is also virtual fact that the changes that take place in the global sphere make efforts on financial performance of the bank from time to time. Therefore, once evaluated, financial positions of these service organizations need to be re-evaluated in the intervals of time.

Therefore, the study concentrates on finding out answer of the following problems:

a) What is the relationship between firm's ratios and their financial performance?
b) How much efficiently the banks are managing their position in relation to liquidity, assets management, and capital structure and capital adequacy?
c) Are the financial positions of the both banks sound in relation to their profitability?

## 1.6 Objective of the study

This study is undertaken basically with the objective of discussing, examining and evaluating the financial operation and position of the HBL and SCBNL. The primary objectives of this study are to have true insight into financial performance of HBL and SCBNL to recommend suggestions for the improvement of economic and financial position.

The specific objectives are as follows;

a) To study the present position of the two joint venture banks (HBL & SCBNL).
b) To study the liquidity, profitability, activity, capital structure and invisibility position of both HBL and SCBNL.

c) To examine the trend of deposit and loan advance of HBL and SCBNL.
d) To examine the assets management efficiency and profitability ratios.
e) To suggest, recommend and evaluate financial performance of both JVB's.
f) To examine the different between co-rrelation co-efficient and probable error of both JVB's

## 1.7 Significance of the study

To the researcher knowledge financial analysis of HBL & SCBNL has much Significance. This study helps to know the financial performance of two join venture banks, so it will be useful manager, shareholders, government, customers and public who take simply interest in banks. So this research has the significances to following persons and parties, who identify their hidden weakness after the study.

a) To management of its self & of both JVB'S.
b) To the shareholders of them.
c) To the investors.
d) To the general public.
e) To the policy formulator
f) To the government.
g) To the further research.

So the study helps in determining any topics of organizations or financial institutions.

## 1.8 Limitation of the study

Every study has its own limitation. All the necessary data may not available due to business secrecy. This study has some limitations which can present below.

a) This study covers only financial analysis of HBL & SCBNL.
b) The study is based only on the financial report of the company for last five years period.
c) This study is based on secondary data published by bank annual reports.
d) This study is based on published related journals, magazine, bulletins etc only these are not sufficient to cover the study.
e) This project work has been conducted to fulfill the requirement of M.B.S. course.

f) This study is conducted only for suggestion, not for directing.

g) This study is limited to the comparative study of only two joint venture banks.

## 1.9 Organization of the Study

The entire study is divided into five chapters. The financial statement analysis of Himalayan bank and Standard Chartered bank limited is presented in organized form. The whole research reports in divided into different five chapters, they are as follows;

**Chapter 1) Introduction:** - The first chapter introduction chapter consists of the background focus of the statements of the problems, objectives of the study, significance of the study and limitation of the study.

**Chapter 2) Review of Literature**: - It is the documentation of a comprehensive review of the published and unpublished work from secondary resources of data and information. This chapter reviews the existing literature in relevant areas and review of the earlier studies too.

**Chapter 3) Research Methodology**: - This chapter consists of research methodology used in the study and included research design, sources of data, population, sample and method of data analysis.

**Chapter 4) Presentation and Analysis of Data**: - This chapter is for presentation and analysis of relevant data and information various analytical tools have been used to analysis and interpret the result.

**Chapter 5) Summary, Conclusion and Recommendation**: - This chapter is for finding summary conclusion and recommendations of the study for the improvement is to be followed for those organization in practical for future.

# CHAPTER-II

## REVIEW OF LITERATURE

Literature refers to the detail about matters and it's resources. It is an analytical experience on the concerned topics. In this section relevant contents, related with the topic of the quality are mentioned like, concepts of bank, commercial bank, JVB brief profile of HBL and SCBNL The materials required for the study are taken from book, Journal, Annual reports, Publications, Unpublished dissertation, Publications by the Nepal Rastra bank and others.

### 2.1 Bank

Bank is a financial institution dealing with monetary truncation. It performs financial, economic of money functions. It is an institution which deals with the offering of deposit collected in providing the loan for commercial purposes.

A bank performs mainly following purposes.

a) Accepting deposits from public.

b) Providing loan and advance to person or organization.

### 2.2 Commercial Bank

Commercial bank specially deals with the activity of trade, commerce & Industry and agriculture. Moreover commercial banks also provide technical and administrative assistance to industries, trade and business enterprises. The main objective of the commercial bank is to mobilize idle sources in productive area after collecting the scattered sources for profit maximization.

"A commercial bank is a bank which exchange money, deposit money, accepts deposits, grant loan and performs commercial bank functions and which is not a bank meant for cooperative agriculture, industries as per such specific functions."(Commercial bank acts 2031 6th additions)

A commercial bank performs four major functions like, "receiving and handling deposits, handling payment for clients, granting loan and investment and creating money by extension of credit"(AIB Principle of bank operation 1st editions)

Functions of commercial banks generally can be stated as follows.

a) To accept deposits

   Commercial bank accepts deposits of public organization and institution on three different accounts,

   i) Currents accounts,

   ii) Saving accounts.

   iii) Fixed deposit accounts.

b) Provide loans.

c) Credit creation

d) Discounting loans.

e) To transfer money.

f) To serve agency function.

g) To exchange foreign currency.

h) To provide the service of latter of credit.

i) To help in issuance of capital.

## 2.3 Joint Venture Bank

### 2.3.1 Concept

Joint venture means "a business contract of management effort between two persons, companies or organization involving risk and benefit sharing."

In above definition, A joint venture is an association of two or more persons or parties undertaken to make the operation highly effective with their collective efforts. This short of financial intuitions under the combined capital of persons or between organization's are meant to work for the development of trade, commerce & industry.

All the JVB'S in Nepal are established and operated under the rules, regulations and guidance of Nepal Rastra Bank. NRB has issued a certain direction to those banks for an example regarding the mandatory credit allocation to priority sector. "HMG'S deliberate policy of allowed foreign JVB's to operate in Nepal is basically targeted to encourage local traditionally run commercial banks to enhance their balanceable capacity through competition efficiency, modernizations, mechanization, Via computer ratio and prompt customer service."

Generally, JVB's between two or more companies within a country may take place for one or more  of these reasons.(a)Enable new technology(b)Smaller firms joining hands may be able to compute with large organization(c)Reduce high risk into join venture(d)Provide service easily.

Some objective of joint venture banks.
i) To provide new services.
ii) To create and competitive investment.
iii) To introduces new methods and technology in banking services.
iv) To provide more resources for investment.

2.3.2 **Role/ Important Of Joint venture Bank for Developing Countries**

JVB's are the backbones for the economic development of a country. With the establishment of the JVB's foreign capital, experience, technology, skill and art can be achieved. These bones can reduce poverty and backwardness of the country. Beside the role of JVB's cannot be ignored in a country like Nepal.

JVB's have been adopting new banking technique and management like hypothecations, syndication, lending policies, credit card, master card from international banking technique. They have well experienced and skilled personnel, providing efficient quality service to customer in the present context of market centered, liberalized and laissez-faire economy policy adopted by his majesty government. It is possible through joint venture system.

Further more JVB's are creating keen competition to the local banks by providing higher rate interest on demand deposit and lower rate of interest on demand deposit and lower rate on credit than local bank.

However, government should give social and political atmosphere to foreign investors. Government should take care on their financing rules and regulations providing by Nepal Rastra Bank. Now a day in Nepal, JVB's are acting as commercial banks operating and performing their work under the direction of NRB. JVB's are expected to be media for economic development and uplifting the economic of the community.

All JVB's are working under commercial banking act.2031 B.S. and have established under new revised company act.2053 B.S. JVB's collect idle fund from public and invest them for the promotion of trade, commerce and other priority sectors directed by NRB.

"The government is committed to encourage every type of investment which can ultimately contribute for the industrial development of the country."

## 2.4 Commercial and Joint Venture Banks in Nepal

In Nepal, Nepal Rastra Bank, this bank formulate policy to control the function carried by the banks. NRB has made in mandatory for commercial banks to invest at least 40% of their total loan disbursement in the productive sector of which 12% has to be invested in poverty sector.

At present, NRB has introduced some fundamental changes in its interest rate policy. It has allowed the commercial banks to fix the interest on deposit as well as credit on the basic of cost and availability of financial resources. This policy framework has introduced an element of competitiveness in the financial sector.

The commercial bank is contributing in the economic development, it's resources for economic development, it maintains economic confidence in various segments and extend credit to people.

In Nepal, "Nepal bank limited" was first commercial bank established in 1994 B.S. under the Nepal bank 1993 B.S. Under the Banijaya bank act 2021 B.S. the government launched "Rastra Banijaya Bank". It has full investment capital employed by government resources. Again the government established the third bank "Agriculture Development Bank". This bank is fully owned by government for purpose of developing agriculture.

When government permitted the establishment of foreign joint venture bank, in early 1980's three joint venture banks ie. Nepal Grindlays Bank(presently SCBNL),Nepal Indosuez Bank limited and Nepal Arab Bank limited established by the end of first half of the 1980's. After restoration of democracy elected government adopted the liberalization and market oriented policy. As result a number of joint venture bank increase dramatically.

The management of these joint venture bank is mainly held by foreign bank. They are providing modern banking technology, efficient modern services to the country.

***List of licensed commercial banks have been presented***

| **S.no.** | **Commercial Bank** | **B.S.** | **Head office** |
|---|---|---|---|
| 1 | Nepal bank limited | 1994/07/30 | Katmandu |
| 2 | Rastriya Banijya bank | 2022/10/10 | " |
| 3 | Agriculture dev bank | 2024/10/17 | Ramshah path |
| 4 | Nabil bank ltd | 2041/03/29 | Kantipath,ktm |
| 5 | Nepal investment bank ltd | 2042/11/26 | Darbarmarg, |
| 6 | Himalayan bank ltd | 2049/10/05 | " |
| 7 | Standard charterd bank | 2043/10/16 | Newbaneshwor |
| 8 | Nepal SBI bank ltd | 2050/03/23 | " |
| 9 | Nepal Bangladesh bank ltd | 2051/02/23 | |
| 10 | Everest bank ltd | 2051/07/10 | " |

| | | | |
|---|---|---|---|
| 11 | Bank of Katmandu ltd | 2051/11/28 | Newbaneshw |
| 12 | NCC bank ltd (cylon) | 2053/06/28 | Bhairahawa |
| 13 | Lumbini bank ltd | 2055/4/1 | Narayangadh |
| 14 | Nepal industrial &commercial bank | 2055/04/05 | Biratnagar |
| 15 | Machhapuchre bank ltd | 2057/06/17 | Pokhara. Kaski |
| 16 | Kumari bank ltd | 2057/12/21 | Putalisadak,ktm |
| 17 | Laxmi bank ltd | 2058/12/21 | Birgunj,Parsa |
| 18 | Siddhartha bank ltd | 2059/09/9 | Kamladi,ktm |
| 19 | Globle bank ltd | 2063/09/18 | Birgunj,Parsa |
| 20 | Citizen bank int. ltd | 2064/01/7 | Kamladi,ktm |
| 21 | Prime commercial bank ltd | 2064/06/7 | Nayasadak,ktm |
| 22 | Sunrise bank ltd | 2064/06/25 | Gairidhara,ktm |
| 23 | Bank ofAsia Nepal ltd | 2064/06/25 | Tripureswor,ktm |
| 24 | DCBL bank ltd | 2065/02/12 | Kamladi,ktm |
| 25 | NMB bank ltd | 2065/02/20 | Dabarmahal.ktm |
| 26 | Kist bank ltd | 2066/01/24 | Anamnagar,ktm |
| 27 | Janata bank | 2066/12/23 | Newbaneswor |
| 28 | Megha bank ltd | 2067 | Kathmandu |

***Sources: Nepal Rastra bank's financial reports.***

Above list clearly indicate increasing number of banks in Nepal can play an effective role in mobilizing scattered house hold saving and putting them in to productive channels. So many empirical analyses indicate that banks have been involving in over all economic advancement of country.

## 2.5 Financial Performance:

### 2.5.1 Concepts of Financial Performance:

Financial performance can be defined as the heart of financial decision. The achievement and development of a firm is fully affected by the financial performance. Financial performance of enterprises is correct when the true figures and data are input

Financial performance, as a part of financial management is the main indicator of success and failure of a firm. Financial conditions of a firm should be sound from viewpoints of shareholders, debenture holders and other parties.

"Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly established relationship between the items of the balance sheet and the profit and loss account".

"Profit us essential for every enterprise to serve in the long run as well as to maintain capital adequacy through retaining earnings. It is also necessary to accept market for both debts and equity to provide funds for increased assistance to the productive sector."

A quantitative judgment of the financial performance and financial position of the form should be made from viewpoint of the firm's investment. Thus financial analysis is the main qualitative judgment process of identifying the financial strengths and weakness of the firm by properly established the relationship between the items of balance sheet and profit& loss account. "A ratio is defined as the indicated quotient of two mathematical expressions and as the relationship between two or more figure".

"In financial analysis, ratio analysis is used for evaluating the financial position and performance of the firm".

Ratio analysis is such a powerful tool of financial analysis through its economic and financial position of a business until it can be fully x-rayed.

There are many parties concerned with bank (i-e short term creditors, long terms creditors, shareholders, potential investors, management, governments, central bank, general public and others.)

Short term creditors are interested in the liquidity of the bank. They examine the ability of the bank to pay the amount of interest. Long term creditors and bank holders are interested in the cash flow ability and profitability of the bank and they analyze the ability of the bank to pay the interest in time & also the capital structure of the bank.

Similarly, shareholders want the growth of the retained earnings and at the same time stability in earning. They are concerned with strong financial position of the bank so that it can pay regular dividend to its shareholders with no chances of bank ruptcy. Likewise management of the bank concerned about the overall position of the bank like liquidity, profitability, solvency, growth, goodwill and so on, thus the management should analyze all types of financial indicators, which will help in both internal and external analysis of the bank.

So financial performance analysis of a firm consists of different kinds of indicators out of which financial statement analysis, ratio analysis, sources of uses of fund are the major indicators to measure the strength and weakness of a firm. But in this  financial position & performance of the bank.

## 2.6 Review of Thesis

After visiting several libraries, the following research works made previously by various researchers were identified. Generally, review of Nepalese studies cab be divided into two categories:

- Reviews of books & journal
- Review of different master's thesis.

**Review of Books and journals**

Very few articles relating directly or indirectly with financial performance of commercial banks in Nepalese perspective are published in Nepal. Some of them are drawn in this section for research.

*D.r.M.K. Shrestha*, in 1990 has made a study on “Commercial banks comparative performance evaluation", a publication of karmachari sanchaya  kosh.

The major findings of the study are:

- Joint venture banks are operationally more efficient having superior performance while comparing with local commercial banks.
- Better performance of joint venture banks is due to their advance technology, skilled personnel, modern banking method and proper management.
- Local commercial banks do not have good performance due to the government branching policy in rural areas.

*Yogendra Timilsina*, has made a study on "Capital market development and stock price behavior in Nepal".

The major objectives of study are:

- To analyze the capital market condition in Nepal.
- To determine the factors on which market price of share depends upon.
- To determine the stock price behavior in Nepal.

The major findings of the study are as follows:

- The market price of share depends upon EPS as well as on DPS.
- DPS is more prices sensitive and it will have direct ad immediate response in the market.
- Market value of share computed on the thesis of EPS is near to the observed market price of equity share.

*Radhe Shyam Pradhan*, in 1993 has conducted research on the topic “Stock market behavior on a small capital market a cases in Nepal”.

The major objective of the study are:

- To examine the relationship of market equity, market value to book value, price earning and dividend with liquidity, profitability, leverage, assets turn over and interest coverage.
- To assess stock market behavior in Nepal.

The major findings of the study are as follows.

- DPS and MPPS are positively correlated.
- Positive relationship between dividend payout ratio and turn over ratio, liquidity, interest coverage.
- Higher the earning on stock lesser the ratio of dividend per share to market price per share.

**Review of Different Master's Thesis**

The researchers have concluded various studies in the field of financial performance of commercial banks or joint venture banks. Some previous thesis related to joint venture banks/ commercial banks are presented here.

**Mr. Gyanendra Acharya in (1997)** in his study entitled "A comparative study of financial performance of joint venture Bank in Nepal especially on Nepal Arab bank limited and Indosuez bank limited" concludes that the liquidity position of both bank is below than that normal standard 2:1 comparatively, this ratio of NIBL is better on average. Both banks are found to be efficient in utilizing of their total assets capital structure ratio is highly leveraged. Capital adequacy ratio of NIBL and profitability ratio of both banks is not recorded as satisfactory based on the finding of analysis the researcher suggest to find out the root cause of weak liquidity position and to improve liquidity position of both bank similarly both bank are suggest to maintain improved capital structure by increasing equity base to external loan and advance utilize more of the total deposits to minimize operational expenses and mobilize resources more efficiently and to extend their banking facilities even in the rural areas.

Likewise, **Mr. Shiva Prasad Rimal (2000)** "A comparative study of financial performance of Nepal Bangaladesh bank and Nepal SBI bank limited" concludes that the liquidity position of NB bank is stronger then SBI bank profitability ratio of SBI bank is better than NB bank. He also found that SBI bank is more efficient to utilize its assets then NB bank the financial indicators like EPS, DPS and TPS of SBI bank have better then NB bank. He also found that both banks had in satisfactory turnover position.

**Mr. Shanta Man Ghale (2001)** in his thesis entitle "A study on comparative analysis of financial performance of joint venture banks in Nepal ;NABIL&NBBL", complied the objectives to evaluate the financial performance of NABIL & NBBL comparatively. The cash and bank balance to current assets ratio and the loan and advance to current assets ratio of NBBL is higher than NBBL on average, both banks have efficient utilized their assets the average EPS of NABIL is higher than NBBL due to lower capital base in NABIL in compared to NBBL.

Similarly the operating expenditure shows that NBBL is paying more of its income for interest, commission and other general expenses the rate of change on EPS of positive which indicates improving growth for NBBL where the DPS trend for NABIL is positive and grater than NBBL.

**Mr. Hiralal Prasad Sharma (1999)** in his thesis entitled ,:A comparative study on the financial performance of Nepal Indosuez bank limited and Nepal grindlays bank ltd" concludes that both banks are in a sound financial position. NGBL has been able to gain a higher market share in case of deposit or in compare to NIBL. The liquidity position of NGBL is too higher than NIBL however, it should be noted that NGBL has more current deposits funds as a result its loan and advance to total deposit ratio are significantly lower than NIBL. NIBL's performance is comparatively better from the point of views of profitability as well as investment.

A study performance by **Mr. R. Paudel (1985)** "A study on capital and assets structure on Nepal bank ltd "concluded that the proportion of loan and advance offered varied widely from year to year return on assets has been decreasing trend where capital structure is highly geared. He suggest for increase the net worth to invest in productive sector & reduce of operating expensive.

**Mr. Keshav Raj Joshi's(1989)** "A study of financial performance of commercial banks" concludes that liquidity position of commercial bank is satisfactory their debt to equity ratio is high which doubt on solvency debt to equity ratio of local commercial bank for assets utilization that is why more investment is done in loans and advance. Two third of the total assets have used for earning purpose. The main source of income for these banks are interest from loan and advances and all profitability position of NABIL is better than others commercial banks. He recommend that dividend pay out ratios of commercial bank should be determined keeping in mind the shareholder expectation and growth requirement of the bank.

**Mr. Dev Raj Adhikari (1993)** entitled "Evaluation the financial performance of Nepal bank ltd" concluded that the bank is not able to utilize its fund effectively and efficiently for the uplifrment of the economy investment portfolio management of Nepal bank limited is not satisfactory as the investment in form of loans and advance have been found to be decreased operational efficiency of the bank is not satisfactory due to operational losses the researcher suggest to the banks to the manage its investment portfolio efficiently by the creating new business and service ideas which will certainly help for better utilization of ideal resources and for the economic development of the country.

**Mr. Vikram Chandra Gurung (1995)** "A financial study of joint venture banks in Nepal, a comparative study of NGBL &NBIL " after analyzing the seven years data reveals that the liquidity position in terms of current ratio of both banks is below than normal standard ratio of 2:1, which indicates then NGBL. The capital structure of both banks is extremely leveraged. Both banks are found to be able to maintain round adequacy ratio as directed by NRB. Activity ratios of both banks are efficient in utilization of their total assets. Profitability record of both banks has registered an increasing trend during the first half in the study period and has registered there after. The researcher has suggests maintain improve capital structure by increasing equity base. The researcher further suggest to both banks for extending their banking facilities even in the rural areas by establishing its branch.

Similarly, **Mr. Bindeshwor Mahato(1997)** in his thesis entitled "A comparative study of financial performance of NBIL & NIBL concludes that both banks remains in adequate liquidity position to meet short term obligation but primary and secondary reserve position of NABIL is better than NIBL. NABIL is utilizing more deposits in income generation purpose. NABIL utilizing low cost bearing deposit efficiently than NIBL. NIBL is following conservative and safe deposits and selective lending policy than NABIL, though the capital adequacy requirements are meeting by both of them.

**Mr. Ajay Kumar Jha (2002)** " A comparative study of financial performance of Nepal Grindlays bank limited and Nepal SBI bank limited" shows that the liquidity position of both bank is below than normal standard ratio. But cash bank balance to deposits ratio to Grindlays bank is higher than SBI bank from the point of view of assets utilization in profit generation sector both bank have been able to utilize & manage the available resources or assets satisfactorily, how ever the Grndlays bank has been efficiently utilizing the assets better than SBI bank. The capital structure of the bank is highly leverage.

In the context of the capital adequacy ratio the Grindlays bank has sufficient capital as prescribed by the center bank has not able to maintain margin as directed by Nepal Rastra bank for the last three years(i.e. 1996/97 and 98/99)profitability positions of both banks is quite satisfactory level. Similarly EPS &DPS ratio of Grindlays bank is high in comparison to SBI bank.

**Rajendra lamsal** has conducted **(1999)** "A comparative financial statement analysis of HBL & Nepal grindlays bank limited" he concluded that the liquidity position of HBL is better that of grindlays bank limited. HBL has sufficient cash and bank balance to meet its current and fixed deposits. From the analysis of utilization of ratio of these two banks found that HBL has better turnover than Nepal Grindlays bank limited in term's loan and advance to total deposit ratio. But in terms of investment to total deposit ratio Nepal Grindlays bank limited is better than that of HBL. Resulting, it is able to pay higher dividend per share to its investment than HBL.

**Mr. Govinda Kadel (2002)** in his thesis "A comparative study of financial performance of Nepal Grindlays bank limited and Himalayan bank limited concludes that liquidity performance of both banks is below than normal standard 2:1 it indicates that liquidity position of both banks but comparatively HBL is found slightly better position than NGBL on an average, HBL has better utilization of their deposit in form of extending loan and advance profit generating purpose in compare to NGBL similarly, NGBL has show better performance than HBL for utilizing their assets. profitability position of both banks not in satisfactory level likewise both banks are highly leverage comparatively HBL has highly leveraged than NGBL other financial indicators EPS are in decreasing trend of both banks where dividend payout of ratio of NGBL has more than HBL.

In case of income and expenses for both banks are interest payment where HBL is paying more interest and commission for than NGBL its office operating expenses and provision for bonus are higher than HBL interest earning of HBL is higher as compare to NGBL. Foreign exchange has very nominal contribution in total income for both banks.

Similarly, **Mr. Bishnu Prasad K.C.(1999)** in his thesis entitled "A comparative study on the financial performance of NIBL and NGBL" conclude that the ratio of loan and investment to total deposit of NIBL is higher than NGBL, which implies that NIBL is more active in creating investment opportunities. The mean ratio of loans and advance to total deposit of NIBL is significantly higher than NGBL. Similarly profitability position of NGBL is quit better than BIBL.

**Mr. Jhalak Bahadur Oli (2001)** in his thesis entitled "A comparative study on financial performance of Himalayan bank limited, Nepal SBI bank limited and Nepal Bangladesh bank limited" concluded that the liquidity position of NBBL is better than SBI and HBL.

Capital adequacy ratio of HBL is higher than SBI bank &NB bank. He also shows that HBL is always capable to meet any windfall in comparison to SBI bank& NB bank. Similarly NB bank has been successfully utilized their total deposit in the turn of extending loan advance for profit generation sector. Likewise HBL has shown better turnover & efficiently utilizing fixed deposit in loan and advance than SBI bank and NB bank. NB bank has been efficiently utilize saving deposit in loan and advance than HBL & SBI bank. The investment by total deposit ratio of banks are successful in utilizing their overall deposit for income generating sector but in comparing to HBL and SBI bank are better utilized than NB bank. The capital structure of three joint venture bank is highly leveraged.Profitability position of three joint venture bank is not satisfactory. However, HBL'S profitability position is better than NB bank & SBI bank.

Likewise **Mr, Shyam Kumar Udas (2001)** conducted his study entitled "A comparative appraisal on financial performance on Nepal Bangladesh bank limited and Bank of kathmandu limited" fund that both banks Bank of kathmandu has higher profit of cash and bank balance out of its current assets than NB bank. NB bank is better position in terms of utilizing depositors than Bank of kathmandu, similarly profitability position of NB bank is quite better than the Bank of kathmandu. Both banks are highly leveraged whereas Bank of kathmandu is highly leveraged than NB bank. The earning per share of NB bank is higher than Bank of kathmandu.

**Mr Padam Raj Uprati (2001)** has conducted his study entitled "A comparative study on financial performance of Himalayan bank limited and Nepal grindlays bank limited " conducted that the short term solvency position of both banks are not satisfactory. Both banks are not able to invest their total deposits amounts efficiently in the profitable sectors.

Similarly both banks have been able to earn profit on shareholders equity but not on satisfactory level. In comparison, NGBL has got more success to generate more return on its shareholders funds than HBL. The return on total assets ratio of NGBL is higher than HBL. Earning per share of NGBL is quite better than HBL. However both banks earning per share is not in satisfactory level.

Another study conducted by **Mr. B. R. Bohara (1992)** "A comparative study of the financial performance of Nepal Arab bank limited and Nepal Indosuez bank limited" concludes that both banks have been maintaining adequate liquidity to meet their short term obligation and utilizing of deposit in satisfactory level, both bank are highly leverage capital adequacy of bank has maintained in excess than the actual requires.

**Mr. Jitendra Man Joshi (2004)** has submitted thesis on "financial analysis of Nepal commerce bank" with the objectives of finding the comparative financial strength and weakness of various commercial banks return rate and expected return to the shareholders systematic and unsystematic risk of the banks and providing recommendation on the basis of research finding by using financial ratios. He concluded that lending condition of banks is in decreasing trend. Strength banks are holding good customers and discoursing low rated and less amount loans instead of that they are initiated towards remittance bank guarantees and other commission generating activities. While other banks are showing aggressive and are spontaneously increasing loan loss provision deposits in the banks are also decreasing, while some banks are holding enough funds. His recommendation for SCBNL was utilizing the maximum of the higher than on investment sector. Loan loss provision of SCBNL is comparatively higher. It is recommended to control while sanctioning loan outflows. So the bank should improve credit management.

**Pokhrel** has conducted "financial performance of Nepal Bangladesh bank ltd" in her study she has defined her objective of the study as to study the contribution of NB bank and to provide suggestions to the bank for improving its investment policy. She used financial as well as statistical tool for conducting her thesis. She concluded that the cash and bank balance is higher than directive of NRB resources mobilization of the bank is efficient. Higher rate of the investment is the indicate of the higher profitability in the future. The bank has achieved good growth in the operating profit. She recommended that idle fund should not be maintained. Instead of maintain high cash balance to remain liquid, it is suggested to provide short term loan.(Yojana pokhrel 2004).

**D.R. Shakya,(1995,T.U.)** in his study, "Financial analysis of joint venture banks in Nepal" has given conclusion as Nepal Grindlays Bank Limited is comparatively better in liquidity position than Nepal Arab Bank Limited. Nepal Arab Bank Limited is comparatively more successful in assets utilization than as Nepal Grindlays Bank Limited. Nepal Grindlays Bank Limited Limited's capital structure position is more risk than that of Nepal Arab Bank Limited.

A study written by **R.P. Siwakoti (T.U., 1998)"** A study on an appraisal of financial position of Grindays Bank Limited" concludes that liquidity position of the bank is below the normal standard and average ratio is affected by the large value of deposits which shows the financial of using debts. The capital structure of the bank is extremely leveraged and found for the capitalization of the bank. By outsider is favorable to the bank because interest payable to long term debt is very less than earning from share holders. Coverage ratio is low and fluctuating in nature over the analysis period, this indicates high profitability of the bank being unable to pay debt interest and may ultimately lead the bank to the worth situation. So the bank is not utilizing its resource's in more efficient manner, because the major position of assets is blocked in cash and bank balance and fixed assets, which does not generate income.

Another dissertation preformed by **Mahendra Mandal, (T.U., 1996)** in his thesis "A comparative financial analysis of Nepal Indosuez Bank Limited, Nepal Arab Bank Limited and Nepal Grindlays Bank Limited" has found that the satisfaction of the bank is quite different than that of general business enterprises. More ever, from the point of view of working capital policy Nepal Arab Bank Limited and Nepal Grindlays Bank Limited have followed aggressive working capital policy than Nepal Indosuez Bank Limited but from the point of view of liquidity position net profit to total assets ratio in the cash of Nepal Arab Bank Limited has registered better performance by utilizing its over all resources for earning more profit than other two banks (Nepal Arab Bank Limited and Nepal Grindlays Bank Limited).

The thesis submitted by **Kamal Raj Pathak (T.U., 1999)** "A comparative case study between Nepal Indosuez Bank Ltd and Nepal Grindlays Bank Limited relating to capital structure and profitability" has found and recommended that the capital structure of both banks (Nepal Indosuez Bank Limited and Nepal Grindlays Bank Limited) is highly leveraged. The proportion of debt and equity capital should be decided keeping in mind the effects of tax advantage and financial distress. The bank when it is difficult to pay interest and principle ultimately lead to liquidation or bankruptcy. MR Pathak further recommends that the banks are suggested to collect the funds through issuing share. Return on debt and return on assets ratio satisfactory in the both banks. Having geared up capital structure position and insufficient return represent the weak as pact of these two banks. Both the banks are suggested to use the resources into the most profitability sector.

A study undertaken by **Pramod Dhungana (T.U., 1994)** on a study of Joint Venture Banks profitability concludes that the profitability ratio of all the JVB's ie. Nepal Arab Bank Limited, Nepal Insosuez Bank Limited and Nepal Grindlays Bank Limited has been satisfactory, there efficiency is also satisfactory in utilizing the deposits. However, they have begen to mobilize saving from different parts of the country. The profit as indicated in their financial statements is an inflated one, fluctuation in the foreign currency being the main reason.

Deepak Joshi concluded a study entitled "A study on commercial bank of Nepal with special reference to financial analysis of Rastra Banijya Bank" he concluded that the bank has lower liquidity position than necessary. Capital structure is highly geared and there is a gradual increase in the amount of funded debt. The return on assets is not satisfactory. He suggests that the bank shall invest resources in more productive sectors and equity financing should be emphasized.

**Mr.Ganesh Regmi (2001)** has done research on “A comparative study of financial performance of Himalayan Bank Limited and Bangladesh Bank Limited". He concluded a study between HBL and NBBL. Some of the findings of the researcher are that HBL has better profitability position than NBBL, so it is recommended to NBBL to utilize its resource more deficiently. Capital structures of both the banks are highly leveraged, so both should maintain mix of debt and owners equity by increasing shares. Comparatively, NBBL is not maintaining adequate liquidity position than HBL. HBL should improve the efficiency in utilizing the deposits in loan and advances for generating profit. He has further suggested that both the banks should extend their resource to rural areas to promote development.

**Ms. Sheela Chettri**, performed study on "Profitability position of NABIL Bank Limited". The study was concluded from fiscal year 1996/97 to 2000/01.Main objective was to find the profitability position of NABIL bank. For this purpose the writer compared in with Nepal standard chartered bank. Main tools used were ratio analysis and Karl Pearson’s correlation coefficient. It was comparatively more successful in assets utilization, NABIL has less risky position but SCBNL is utilizing more outside finds, NABIL has better capital adequacy position but SCBNL's profitability position was better than NABIL’s. The writer recommended that NABIL should follow liberal lending position increase its cash and bank balance, follow constant financing strategy, and alter their present investment portfolios and reduce their expenses to become more profitable.

**Mr. Sahadev Bhatta (2001),** in his study entitled "A comparative study of Nepal Grinland Bank Ltd. and Himalayan Bank Ltd.". He conclude that the deposit growth rate of both banks are not rapidly in increasing. The growth rate of NGBL is 1.09%, where as growth rate of HBL is 1.49% on 1995/96. Like wise it is 2.27% for NGBL and 4.64% for HBL on 1999/2000. This fact clearly indicates that the HBL is more strongly recommended to provide incentive for attracting a large variety of fixed as well as saving deposit schemes.

About various study of financial study of commercial banks have been given more emphasis on liquidity position, profitability and capital structure of the banks. The study is only macro laves study. Now in present study various financial tools have been used for financial study of SCBNL and HBL.

# CHAPTER -III

## RESEARCH METHODOLOGY

The main purpose of this study is to evaluate the financial performance of JVS" of Nepal especially the sample bank Himalayan bank and SCBNL under this study. This chapter studies how researcher is to be performed, what are the sources of research to be conducted, how the research is to made effective and what are the steps of research so the study and goal of the related study can be easily achieved.

### 3.1 Research Design

A comparative analysis of financial performance of two joint venture banks HBL bank & SCBNL is based on descriptive and analytical research design. Secondary data are taken to support the study.

### 3.2 Sources of Data

To conduct this study, secondary data are taken from annual reports of related office in which balance sheet, profit & loss a/c, financial statement are the main one to support this study. Besides related bulletins, books, journals, interviews, questionnaires to concern officials and directives to commercial banks from Nepal Rastra Bank are also taken.

### 3.3 Populations and Sample

The two joint venture banks ie. Himalayan bank ltd & Standard chartered bank Nepal ltd. have been selected as sample for the present study.

### 3.4 Method of data analysis

For the purpose of analysis, financial statement of concerned institution the profit and loss account and balance sheet of the bank have been analyzed for the analysis the following financial as well as statistical tools have been used.

### 3.4.1 Financial Tools

A ratio is defined as "The indicated quotient of two mathematical expression" and as the relationship between two or more things.

#### 3.4.1.1 Liquidity Ratio

Liquidity ratio is employed to measure the company's ability to meet short term obligations. These ratios provide insight in to the present cash solvency in the event of adverbs financial conditions. This ratio is used to measure the company's short term obligations with short term resources available at a given point of time.

**a. Current Ratio**

This ratio measures the short term solvency, ie. It is ability to meet short term obligations. As a measure of creditors reuse current assets. It indicates each rupee of current liability. It is compound by diving current assets by current liabilities.

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

CA's normally comprised with cash and bank balance, in treasuring bills discounted, overdraft other short term loans, foreign currency loans, bills for collection, customer acceptance liability and other receivable and pre paid expenses, etc.

The current liabilities include those obligations which mature with in one year from the data of their financial statements. They are current payments, cash and margin, current saving deposit, inter bank reconciliation account, bills payable, provision for overdrafts, accrued expenses, bills for collections and customer's acceptances out standing expenses, etc.

**b. Cash and Bank Balance to Total Deposit Ratio**

This ratio is employed to measure whether bank and cash balance is sufficient to cover its current calls margin including deposits. It is calculated by dividing cash and bank balances in bank by saving and current deposits.

This ratio is calculated as;

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Deposit (except fixed deposit)}}$$

**C. Cash and bank Balance to Current Assets Ratio**

This ratio is calculated to find the ability of bank to pay total calls made on current deposits. It is computed diving cash and bank balance by current assets as.

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

It is hidden fact that the depositors would not withdraw the total deposit, in case at a time so the bank keeps a certain margin of cash. This ratio indicates that, if the ratio is higher, there is higher margin and if lower the bank is less liquid. These ratio not only analyze the use of total resources of the firm but also the use of various components of total assets.

**3.4.1.2 Activity/ Turnover ratio**

"Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. These ratios are also called turnover ratio because they indicate the speed with which assets are being converted or turned over in to profit generating assets".(I.M.Pandey,1995)

The following ratios are calculated under this group.

a) Loans advance (including bills purchased and discounted to total deposit)

$$\text{Loans advance (including bills purchased and discounted to total deposit)} = \frac{\text{Loan and advance}}{\text{Total deposits}}$$

b) Investment to total deposits

$$\text{Investment to total deposits ratio} = \frac{\text{Investment}}{\text{Total deposit}}$$

c) Total income generating to total assets

$$\text{Total income generating to total assets} = \frac{\text{Total income generating income}}{\text{Total assets}}$$

**3.4.1.3 Profitability Ratio**

Profitability is a measure of efficiency and the search for it provides and incentive to achieve efficiency. Profitability also indicates public acceptance of the product and shows that the firm can product competitively. Moreover profits provide the money for repaying the debt, incurred to finance the project and resources for the internal financing expansion. The profitability of a form can be measured by its profitability ratio. (Khan MY and PK i.e. "financial management)

Here, profitability ratios can determined on the basic of investment. The following are the major profitability ratios used in this study.

a) Net Profit to Total Assets Ratio

This ratio is very much crucial for measuring the profitability of funds inverted in the bank's assets. It measures the returns on assets. It is computed dividing the net profit tax by total assets. The formula used for computing this is as;

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

b) Net Profit to Total Deposit Ratio

This is used for measuring the internal rate of return from deposits it is computed dividing the net profit by total deposits. The following formula is Used as.

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

Higher ratio indicates the return from investment on loans and advances are desirable and lower ratio indicates the funds are not properly mobilizing.

c) Return on Investment

Return on investment measures the company's return from investment, return means net profit after tax, investment covered both owners equity as well as loans and different titles long term, short term investment.

$$\text{Return on Investment (RIO)} = \frac{\text{Net Profit After Tax}}{\text{Total Investment}}$$

**3.4.1.4 Capital Structure Ratio or Leverage Ratio**

The long term financial position of the firm is judge by capital structure or leverage ratio. The capital structure ratio are calculated to measures the financial risk and firms ability to using debt on the benefit of the shareholders. These ratios measures the proportion of outsiders fund and owner's capital used in the bank. The following ratio are used.

a) Total Debt to Shareholder Equity Ratio.

This ratio is assessed as borrowing funds and owner's capital that is a popularly measure the long term financing saliency of firm. It is reflected to relative claims creditors and shareholders against the assets of its.

$$\text{Total Debt to Shareholder Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Shareholder Equity}}$$

b) Total Debt to Assets Ratio

Debt to assets ratio or simply debt ratio reflects the financial contribution at outsiders and owners on total assets of the firm. It also measures the financial security to the outsiders generally creditors prefer a low debt ratio and owner's prefer high debt ratio in order to magnify their earnings on the one hand and to maintain their concentrated control over the firm on the other.

$$\text{Total Debt to Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

In this study total debt includes short term loans, long term loans and all kind of deposit, similarly total assets including all the assets shown on the right hand side of the balance sheet.

c) Return on Capital Employed Ratio;

Profit is related to the total capital employed, ie. total long terms funds supplied by the creditors and owners of the concern. It could be computed with the help of the following financial tools.

$$\text{Return on Capital Employed Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Capital Employee}}$$

d) Long Term Debt to Total Assets Ratio

Long term debt to total assets ratio reflects percentage of total assets that has been financial by long term debt. If the firm used more long term debt it is said to have adopted not creative financing policy and it has less risk of facing the problem of shortage funds. Similarly, if the firm uses less long terms debt and more short terms debt it is said to have adopted aggressive financing policy. An aggressive financing policy makes the firm more risky.

$$\text{Long Term Debt to Total Assets Ratio} = \frac{\text{Long Term Debt}}{\text{Total Assets}}$$

e) Return on Shareholder Equity

Return on shareholder's equity is the most vital tools to judge to whether a concern has earned a satisfactory return to its owners or not. This ratio is able to judge by comparing it with the records of the same nature of concern inter firm comparing with the overall industry average. The following tools compute this ratio.

$$\text{Return on Shareholder Equity (ROSE)} = \frac{\text{Net Profit After Tax}}{\text{Shareholder's Equity}}$$

#### 3.4.1.3 Invisibility Ratio

Investors contemplating to invest share in company would be keen to know. Analysis of invisibility ratio helps the investors to know the invisibility of the company.

a) Earning Per Share

This ratio is computed by earning available to the common stock holders by the total number of common share outstanding. Symbolically

$$\text{Earning Per Share} = \frac{\text{Net Profit After Tax}}{\text{No of Shareholders}}$$

b) Dividend Per Share ( DPS)

DPS is basically displayed that portion earning which is allocated to its shareholder on the basis of each share. It is calculated by dividing the earning paid to common shareholders by the total numbers of common shares issued DPS is computed by the following formula.

$$\text{Dividend Per Share (DPS)} = \frac{\text{Earning Paid Owner's}}{\text{No. of Common Shares}}$$

c) Dividend Payout Ratio

This ratio reflects at what percentage of the net profit is to be distributed in terms of divided and what percentage is to be retained in firm as retaining earning that earning is needed foe business to growth and expand. This ratio is calculated with the help of dividing dividend per share by earning per share, for it we can employ the follows formula.

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

#### 3.4.1.6 Income and Expenditure Analysis

In profit and loss account of a company there are so many items in debit & credit side. In this analysis here, we specially concerned within what percentage of operating income profit and operating expenses that are computed to find our how much percentage of operating income and expenditure are made in these two joint venture banks, Himalayan bank limited and standard charted bank limited.

### 3.4.2 Statistical Tools

### 3.4.2.1 Correlation Analysis

Other general mathematical of measuring correlation, the Karl Pearson's method is popularly known as Pearson's coefficient, is most widely used in practices. The formula for computing Karl Pearson's correlation coefficient(r) using direct method is as follows.

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

Here,

N= Number of pairs of X and Y absorbed

X= Value of loans and advance

Y= Value of total deposits

R= Karlpearsons correlation coefficient

$\sum XY$= Sum of product of variable X &Y

In the present study, correlation coefficient is calculated to measure the relationship between return and net worth of HBL & SCBNL or in other words. It is calculated to justify whether the net worth is significant. The value of the coefficient of correlation shall always be between ±1.Where r = +1 it means there is perfect positive correlation between the variables where r = −1 it means there is perfect negative correlation between the variables where r =0 it means there is no relationship between the two variables. However in practice such value of r =+1,−1 and 0 rate.

### 3.4.2.2 Probable Error

The probable error the co-efficient of correlation helps in interpreting it's value. It is obtained using the following formula.

$$PEr = 06745 \quad \frac{1-r^2}{N}$$

If the value of 'r' is less than PEr, there is no evidence of correlation ie. Value of 'r' is not at all the significant. Thus if the value of 'r' is more than six times the probable error the coefficient of correlation is practically certain ie., the value of 'r' is significant.

# CHAPTER-IV

## Presentation and Data Analysis

In this chapter the researcher analyze and interprets the relevant and analyze data of HBL and SCBNL according to the research mythology as mentioned in the previous chapter.

### 4.1 Financial Tools

#### 4.1.1 Liquidity Ratio

To analyze the financial performance of the firm, liquidity ratio is one of the powerful tools. Whether the company is able to meet its current obligation is judge by liquidity ratio. A high liquidity ratio shows the financial strengthens of the firms.

##### 4.1.1.1 Current Ratio

Current ratio measures the short term solvency of the firm. It is computed as dividing current assets by current liabilities.

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

Current assets represents the amount of liquid, i-e , cash and near cash assets available to the business, which can be converted into cash with in a year.

Current liabilities given an indication of the upcoming cash requirements there area payable with in a year from current assets.

In this study, current assets refer to cash and bank balance, investment, money, at call, bills for collection, loan and advance, customers acceptance and discount, purchased bills and other assets.

Similarly current liabilities refers to borrowing deposits liability (excepts fixed deposit),bills payable, loan and advance from other banks agency, accrued expenses, bills for collection customer's acceptance, other liability, inter- branch reconciliation amount.

**Table 4.1 current ratio (in times)**

"000"

| **Year** | **2005** | **2006** | **2007** | **2008** | **2009** | **Yearly av.** |
|---|---|---|---|---|---|---|
| HBL | 1.15 | 1.13 | 1.12 | 1.13 | 1.163 | 1.13 |
| SCBNL | 1.26 | 1.29 | 1.27 | 1.26 | 1.19 | 1.25 |

The above table shows clearly liquidity position of the banks namely SCBNL and HBL in terms of current assets to current liabilities ratio. The table indicate that the ratio of both the banks are always below\ above than normal standard 2:1.

In general current ratio is better when it is in 2;1 but here both of banks do not meet that norms.

The higher ratio of SCBNL is 1.29 and lower ratio is 1.19 an average is 1.25 times. However the highest ratio of HBL is 1.16 and lower ratio is 1.12 an average 1.13 which is lower ratio than SCBNL.

We have found from the above analysis that both the banks have poor liquidity position because current ratio is under the standard is 2;1. Considering the average ratio, SCBNL is found slightly better liquidity position than HBL on an average. And also SCBNL is better short terms solvency position as compared with HBL due to the increasing trend over the review period.

**4.1.1.2 Cash and bank balance to total deposit ratio**

This ratio measure the capital of banks to meet unexpected demand made by depositors ie, current account. This ratio is computed by using following formula.

$$\text{Total Cash to Total Deposit Ratio} = \frac{\text{Total cost}}{\text{Total deposit (excluding fixed deposit)}}$$

A higher ratio indicates the greater ability to meet their all types deposits. To high ratio of cash and bank balance to total deposits may be unsuitable and harmful because it affects their profitability position. To low ratio is unfavorable as capital will be tied up and opportunity cost will be higher.

**Table 4.2 cash and bank balance to total deposit ratio**

**''000''**

| **Year** | **2005** | **2006** | **2007** | **2008** | **2009** | **Yearly av.** |
|---|---|---|---|---|---|---|
| HBL | 57 | 47 | 45 | 31 | 48.34 | 45.7 |
| SCBNL | 73 | 72 | 59.4 | 47 | 51 | 60.4 |

The ratio of HBL is fluctuating trend. The low ratio of HBL is 31% in f\y 2008 and higher ratio is 57% in f\y in 2005. It has 45.7%, of average ratio.

The ratio of SCBNL is also fluctuating as HBL. The table of SCBNL shows that the ratio of 47% in the f\y 2008, which represents the least portion of the cash and bank balance to total deposits over the study period. The higher ratio of SCBNL is found in f\y 2005, 73% on an average the ratio of SCBNL is 60.4%.

Comparing annually, SCBNL shows slightly higher ratio than HBL. This shows that the ability of SCBNL to covers their total deposit is slightly better than the HBL. The short terms solvency positions of SCBNL to meet the all types of deposits, is strong in comparison with HBL.

#### 4.1.1.3 Cash and bank balance to current assets ratio

Cash and band balance to current assets ratio reflects the portions of cash and bank balance in total of current assets.

Cash and bank balance are highly liquid assets than other in currents assets proportion so this ratio visualize higher liquidity position than current ratio.

In the present study cash and bank balance represents total of local currency, foreign currencies, cheques in hand and various balance in local as well as foreign banks and money at call.

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

**Table 4.3 cash and bank balance to current assets ratio**

'ooo'

| Year | 2005 | 2006 | 2007 | 2008 | 2009 | Yr av. |
|---|---|---|---|---|---|---|
| HBL | **7** | **6** | **5.2** | 4 | 7 | 6 |
| SCBNL | **18** | **17.2** | **13.88** | 10 | 11.1 | 14 |

In the case of HBL the ratio has ranged 7% in (005\009) to 4% (2008). It is also fluctuating trend and on average 6%.

In the case of SCBNL the case and bank balance to current assets ratio has ranged between 18% to 10% and on average 14%.

Both bank has lower ratio in 2008(HBL, 4%, SCBNL has 10%). But less percentage it has utilized its fund more efficiently.

### 4.1.2 Activity/ turnover ratio

Activity ratios are the indicators of a concern with regard to its efficiency in assets management, here they are often referred to its efficiency ratios.

#### 4.1.2.1 Loans and advances (including bill purchased and discounted) to total deposit ratio

This ratio measures the extent to which the banks are successful in utilizing outsides fund ( ie total deposits) in the form of extending loans and advances.

A high ratio represents the banks ability to utilize the deposits. The ratio is calculated as dividing loans and advances by total deposits.

$$\text{Loan and advance to total deposit} = \frac{\text{Loan and advance}}{\text{Total deposit (including fixed assets)}}$$

**Table 4.4 loan and advance to total deposit ratio**

'000'

| Year | 2005 | 2006 | 2007 | 2008 | 2009 | Y.ave |
|---|---|---|---|---|---|---|
| HBL | 51.33 | 49.05 | 47.99 | 42.42 | 35.76 | 45.31 |
| SCBNL | 33.87 | 31.24 | 32.04 | 35.43 | 33.86 | 33.28 |

The table reveals that loans and advance to total deposit ratio of HBL the ratio has ranged between 35.76% to 51.33% on an average 45.31%.It has decreasing trends. HBL'S ratio in all the f/y's is greater than SCBNL in corresponding fiscal years as shown by the table. The average ratio of HBL is higher than SCBNL. In the case of SCBNL the ratio has ranged between 31.24% to 35.43% on an average 33.282%. It has fluctuating trends.

This analysis indicates that HBL has better efficiency in utilizing the outsiders fund as main income generating assets. i e, loan and advance than SCBNL.

**4.1.2.2 Investment to total deposit ratio**

This ratio measures the mobilization of percentage amount of total deposits on investment. It is calculated by dividing the amount of investment by the amount of total deposit.

$$\text{Investment to total deposit ratio} = \frac{\text{Investment}}{\text{Total deposit ( including fixed deposit)}}$$

**Table 4.5 investment to total deposit ratio.**

'000'

| Year | 2005 | 2006 | 2007 | 2008 | 2009 | Yearly av |
|---|---|---|---|---|---|---|
| HBL | 13.34 | 7. 98 | 1 3.90 | 46.87 | 48.59 | 26.13 |
| SCBNL | 16.22 | 18.59 | 37.10 | 42.63 | 44.98 | 31.90 |

The above table reveals that the ratio is increasing trend for both HBL (except 2006) and SCBNL. The average ratio of SCBNL is higher than that of HBL. This ratio is better in SCBNL. SCBNL has better position in utilizing its proportion of deposits. Both the banks are suggested to improve their investment by total deposit ratio in subsequent year. They may not accept deposit when they are idle funds.

#### 4.1.2.3 Total income generating assets to total assets ratio

This ratio measures the extent to which the banks have been successful in utilizing their assets for profit generating purpose.

Total income generating assets refers to the total assets those are invested in loans advances, bills purchased and discounted investment money at call or short notice. This ratio can be calculated as dividing total income generating assets by total assets.

$$\text{Total income generating assets to Total assets ratio} = \frac{\text{Income generating assets}}{\text{Total assets}}$$

**Table 4.6 total income generating assets to total assets ratio**

'000'

| Year | 2005 | 2006 | 2007 | 2008 | 2009 | Yearly av |
|---|---|---|---|---|---|---|
| HBL | 70 | 72 | 67 | 66 | 81 | 71.2 |
| SCBNL | 65.6 | 67.22 | 68 | 83 | 85 | 73.76 |

The above table clearly indicates that the total income generating assets to total assets has fluctuated over both banks.

It is ranged between 70% to 81% for HBL and 65.6% to 85% for SCBNL. SCBNL's ratio is better in an average ratio than that HBL.

According to above analysis that both the bank have been efficient in utilizing most part of their total assets in profit generating purpose but comparing both banks SCBNL has lightly better performance than HBL for utilizing assets.

### 4.1.3 Profitability Ratio

Profit is the difference between revenues and expenses over a period of time. A company should earn profits to survive and grow over a long period of time. So profits are essential but profit earning is not the ultimate aim of company and it should never be at the cost of employees, customers and society. Profitability ratio are two types these showing profitability in relation to sales and those showing profitability in relation to investment together. These ratio indicate the firms efficiency of operation.

#### 4.1.3.1. Net profit to Total assets ratio ( Return on total assets)

Net profit refers profit after interest and taxes. Total assets comprise those assets which appear on the assets side of the balance sheet. Net profit to total assets ratio is computed with the following formula. ie

$$\text{Net profit to Total assets} = \frac{\text{Net profit after tax}}{\text{Total assets}}$$

**Table 4.7 Net profit to Total assets ratio**

'000'

| Year | 2005 | 2006 | 2007 | 2008 | 2009 | Yr.ave. |
|---|---|---|---|---|---|---|
| HBL | 1.06 | 1.49 | 1.43 | 1.72 | 1.71 | 1.48 |
| SCBNL | 1.73 | 1.76 | 1.85 | 1.70 | 1.71 | 1.74 |

In HBL the return to total assets showed fluctuating trend, indicating an unsatisfactory performance of the banks. And also SCBNL shows same situation. As compared to the performance of the bans, SCBNL has higher rate of return on total assets than HBL.

#### 4.1.3.2 Net profit to total deposit ratio

This ratio measures the degree of NPAT earned by using total deposit. In other words, it reveals the relationship between net profit after tax and total deposits with an explanation of the ability of management in efficient utilization of deposits. This ratio is a mirror of banks overall financial performance as well as its success in profit generation the reason is that deposit and earning by utilizing there are the main aspect of joint venture commercial

$$\text{Net profit to total deposit} = \frac{\text{Net profit after tax}}{\text{Total deposit}}$$

**Table 4.8 Net profit to total deposit**

'000'

| **Year** | **2005** | **2006** | **2007** | **2008** | **2009** | **Ye.ave.** |
|---|---|---|---|---|---|---|
| HBL | 1.24 | 1.72 | 1.63 | 1.99 | 2.0 | 1.71 |
| SCBNL | 2.10 | 2.02 | 1.97 | 1.81 | 1.87 | 1.95 |

The table shows that the ratio of HBL has ranges 1.24% to 2.0% at last period, where as the ratio of SCBNL ranges with decreasing trend with 2.10% to 1.87%. Thus, after studying table we can say that SCBNL have been able to generate profitability from deposit more than HBL. The rate of profitability is not satisfied from lower rate of return. In comparatively in average SCBNL is better than HBL.

#### 4.1.3.3 Return on investment

Basically, ROI measures the company's return from investment. Return means net profit after tax. Investment covers the investor's, both owners equity as well as loans on different titles long and short term investment.

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

**Table 4.9 Net profit to total investment ratio (ROI)**

'000;

| Year | 2005 | 2006 | 2007 | 2008 | 2009 | Yr.ave. |
|---|---|---|---|---|---|---|
| HBL | 2.63 | 4.20 | 4.15 | 4.76 | 4.55 | 4.05 |
| SCBNL | 2.54 | 2.19 | 2.01 | 1.31 | 1.27 | 2.06 |

Table represent return on investment of two joint venture banks. In HBL, the ROI is increasing trends which lies between 2.15% to 4.55%. Where SCBNL, ROI is decreasing trend, it lies between 1.27% to 2.54%.

ROI measures the capacity of bank to generate profit on its investment. The reason for declining the return may be due to idle deposit. As compared ROI appears better in HBL than SCBNL.

### 4.1.4 Capital structure ratio/ leverage ratio

Financial leverage or capital structure ratio are calculated to judge the long-term financial position of the firm. These ratio indicate mix of funds provided by owners and lenders. As a general rule there should be an appropriate mix of debt and owners equity in financing the firms assets.

#### 4.1.4.1 Total debt to share holder's equity ratio

Generally very high debt to equity ratio is unfavorable to the business because the debt gives third parties legal claims on the company. These claims are for tersest payments at regular internals.

An accounting ratio obtained by dividing total debt to total equity or fund balance is called debt to total equity. This ratio relates all external liabilities to owners recorded claims. It is also known as external equity ratio. It is determined to measure the firms obligation to creditors in relation to the funds invests by owners. So it is great test of the financial strength of the company.

On the other hand, a very low debt to equity ratio is also unfavorable for shareholders point of view, they want this ratio to be high so that they can have better return with small capital. Here total debt includes customers deposit, loan advance from banks and other liabilities. Shareholders equity consists of paid of capital, reserve and surplus and undistributed profits.

$$\text{Total debt to equity ratio} = \frac{\text{Total debt}}{\text{Total shareholder equity}}$$

**Table 4.10 total debt to shareholders equity ratio**

'ooo'

| **Year** | **2005** | **2006** | **2007** | **2008** | **2009** | **Yr av.** |
|---|---|---|---|---|---|---|
| HBL | 10.24 | 9.59 | 10.66 | 10.53 | 10.58 | 10.32 |
| SCBNL | 10.55 | 10.62 | 10.43 | 10.00 | 9.77 | 10.27 |

The above table shows that clearly that the HBL is highly going everyday from 2007. And SCBNL is going low since 2007.

The ratio of SCBNL has ranged 9.77 to 10.62 times, the average debt equity 10.27 means that debt capital shareholders equity within the bank. Similarly HBL is adopting highly aggrieve strategy with 10.32 average equity. The ratio of SCBNL is lower than the yearly average throughout the study period where the same ratio of HBL is lightly higher than the yearly average.

From the above analysis it is concluded that the joint venture banks are highly leverage. This both banks have lower ratio of shareholders equity over total claims of creditors.

### 4.1.4.2 Total debt to total assets ratio

This ratio signifies the extent of debt financing on the total assets and measures the financial security to the creditors.

Creditors prefer a low ratio because it represents security to creditors in extending credit. But very low ratio is not favorable to share holders when a firm earns to rate higher than the interest rate on the invested funds.

This ratio is calculated dividing total debt by total assets. Total debts included short terms and long-term loans and total deposits. Similarly total assets includes all the assets of right hand side of the balance sheet.

$$\text{Total debt to total assets ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

**Table 4.11 Total debt to total assets ratio**

'ooo'

| Year | 2005 | 2006 | 2007 | 2008 | 2009 | Yr.ave |
|---|---|---|---|---|---|---|
| HBL | 91.10 | 90.56 | 91.42 | 91.33 | 89.32 | 90.74 |
| SCBNL | 90.76 | 90.38 | 91.46 | 82.73 | 79.72 | 87 |

Above table shows that both bank's ratio is slightly decreasing trend. Total debt to total assets ratio is not more then 90%. Both banks uses insider funs, because there is not more then 90% debt ratio. If total debt to total assets ratio is more than 90% of the assets are financed by the outsider funds.

From the above analysis, it can be said that the proportion of debt financing in relatively to total assets is relatively more in HBL than in SCBNL. When the rate of return is less than interest payable or when the bank is incurred loss, this ratio is unfavorable to the bank.

### 4.1.4.3 Return on capital employed (ROCE)

Profit depends upon the total capital employed in the business. Return on capital employed basically assets the profit related to the long term sources of funds. Capital employed means the use of long term funds supplied by creditors and owners of the firm. Here returns means NPAT and capital employed means total paid up capital, reserve and surplus, undistributed profit, long term debt or capital employed consists long-term debt and share holders equity, ROCE is calculating with the following tools.

$$\text{Return on Capital Employed} = \frac{\text{Net Profit After Tax}}{\text{Total capital employee}}$$

**Table 4.12 return on capital employed**

'ooo'

| Year | 2005 | 2006 | 2007 | 2008 | 2009 | Av. yrs |
|---|---|---|---|---|---|---|
| HBL | 4.98 | 5.13 | 5.33 | 6.46 | 6.51 | 5.68 |
| SCBNL | 9.62 | 8.99 | 9.35 | 8.81 | 8.83 | 9.12 |

This ratio measures the efficiency of a firm to utilize its equity for profit purpose. This ratio provides test profitability related to the sources of long term funds. It also reveals much the creditors fund and owner equity is efficiency utilize by bank. Higher the ratio implies the more efficiency in utilizing the capital employed and vice- versa.

The above table shows that return on capital employed ratio of HBL bank has increasing trend between 4.98% to 6.51%, with 5.68% average. But SCBNL has fluctuated trend between 8.81% to 9.62% with 9.12% average. Although both banks have not better performance, SCBNL'S performance is better than HBL bank. It is suggested to bank to utilize optimally its equity fund and long- term fund.

### 4.1.4.4 Return on shareholders equity (ROSE)

ROSE basically, measures the company's returns towards the invested by owners of the company. Return means the funds after subtraction of all expenses including tax (NPAT) which is actually belongs to the owners, ROSE reveals how well the company uses the resources of owners, ROSE is computed as following formula.

$$\text{Return on shareholders equity} = \frac{\text{Net Profit After Tax}}{\text{Shareholders equity}}$$

**Table 4.13 return on shareholders equity**

'000'

| **Year** | **2005** | **2006** | **2007** | **2008** | **2009** | **Yr. av.** |
|---|---|---|---|---|---|---|
| HBL | 12 | 15.85 | 16.71 | 19.89 | 19.87 | 16.81 |
| SCBNL | 20.18 | 20.7 | 21.12 | 20.62 | 20.96 | 20.72 |

The above table shows that return on shareholders equity of HBL is increasing trend and SCBNL's return is fluctuating trend. HBL has registered that ranges between 2% to 19.89%. It means HBL has ingressive on ROCE. Which has earned these amount among 5 years.

SCBNL has registered range between 20.18% to 20.96%. it means that SCBNL has earned these amount in 5 yrs. Higher ratio means better capacity of utilizing the owners fund. In conclusion on an average SCBNL has better position than HBL in terms of return an shareholders equity.

### 4.1.4.5 Long term debt to total assets ratio

This is the ratio, which measures the portion of long term debts financial in assets of the firm. If the firm uses more long term debt it is said to be following conservative financing policy with risk of facing the problem of shortage of funds. Similarly, if the firm uses less long term debt and more shot term debt it is said to be following aggressive financing policy which makes firms more risky.

$$\text{Long-term debt to total assets ratio} = \frac{\text{Long Term Debt}}{\text{Total Assets}}$$

**Table 4.14 long term debt to total assets ratio**

'000'

| **Year** | **2005** | **2006** | **2007** | **2008** | **2009** | **Yr av.** |
|---|---|---|---|---|---|---|
| HBL | 25.33 | 24.8 | 22.72 | 21.42 | 20.94 | 23.02 |
| SCBNL | 21.4 | 21.76 | 21.3 | 19.7 | 18.75 | 20.48 |

Above tables shows that long term debt to total assets ratio of HBL bank is ranged decreasing which is between 25.33% to 20.94% with 23.02% average. At the same time SCBNL has also decreasing there trends between 21.4% to 18.75% with 20.48% average. Both of banks has consider to use long term debt in this same time. Although they are equally to use long term debt, HBL bank has uses long term debt then SCBNL according average.

### 4.1.5 Invisibility Ratio

#### 4.1.5.1 Earning per share (EPS)

EPS is one of the most widely quoted static's when there is a discussion of a company's performance or share values, it is the profit after tax (NPAT).figure that is divided by the number of common shares to calculated the value of earning per share. This figures tell us what profit has been earned by the common shareholders for every share held. A company can decided whether to increase or reduce the no of shares on issue. This decision will automatically alter earning per share.

$$\text{Earning Per Share} = \frac{\text{Net Profit After Tax}}{\text{No of Shares}}$$

**Table 4.1.5 earning per share (EPS)**

'ooo'

| Year | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| HBL | 47.9 | 59.24 | 60.66 | 62.74 | 63.66 |
| SCBNL | 75.5 | 71.2 | 74 | 76.62 | 81.62 |

The above the table reveals that this ratio of both banks was increasing over the study period. The ratio of HBL bank has ranged between the least Rs 47.9 to the highest Rs 63.66, while ratio of SCBNL is lowest is Rs 71.2 to highest is Rs 81.62. The ratio of SCBNL is higher than HBL bank.

According to the above table, SCBNL has better signal from investor's point of view. However, EPS does not reveals how much amount out of the earning is paid to the owners as dividing or how much of the earnings are retained in the business.

#### 4.1.5.2 Dividend per share (DPS)

Dividend implies that portion of net profit, which is allocated to shareholders as their returns in terms of cash. DPS is the portion of EAT that cash amount is allocated to shareholders dividend by total numbers of ordinary shares outstanding. This is calculated by using following formula.

$$\text{Dividend per share} = \frac{\text{Earning Per Shareholder}}{\text{No of Common Share Issue}}$$

**Table 4.16 dividend per share**

'000'

| **Yrs** | **2005** | **2006** | **2007** | **2008** | **2009** | **Mean** |
|---|---|---|---|---|---|---|
| HBL | 11.58 | 30 | 15 | 25 | 31.32 | 22.58 |
| SCBNL | 42.44 | 51.89 | 54.08 | 64.14 | 64.14 | 55.33 |

The above table of HBL shows that its dividend trends are not equal as this period. It has fluctuation trend. SCBNL bank has increased dividend in all fiscal years. SCBNL has dividend per share is always higher than HBL. On the average also DPS of SCBNL is higher than that of HBL. Which shows better signal for investor.

#### 4.1.5.3 Dividend Payout Ratio ( DPR)

Dividend payout ratio is also said payment ratio. DPR indicates how much of amount to be paid to shareholders out of EPS. It is also calculating as dividend per share dividend by earning per share.

$$\text{Dividend payout ratio} = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

**Table 4.1.7 Dividend payout ratio (DPR)**

'ooo'

| Yrs | 2005 | 2006 | 2007 | 2008 | 2009 | average |
|---|---|---|---|---|---|---|
| HBL | 24.17 | 50.64 | 24.72 | 39.84 | 49.19 | 37.71 |
| SCBNL | 56.21 | 72.87 | 73.08 | 83.71 | 78.59 | 72.90 |

The above table reflects that the DPR of HBL has increase in 2006, but after it again decrease at 24.72% at 2007 then after also other bank is same trends. The average dividend payout ratio of HBL has ranged 37.71%.

The table shown by the SCBNL bank has increasing trends from the first to last position. The average trend of SCBNL has 72.90% which is greater than HBL.

In brief, DPR is more in SCBNL than HBL from the view of shareholders. SCBNL has reflected a better scenario although it has also retained a higher portion of earning on an average.

In fact, there is no hard and fast rule regarding the ideal dividend payout ratio and it is a controversial issue as well. So the management should maintain a trade off between paying and retaining in order to achieve shareholders satisfactions and banks sustainable growth.

### 4.1.6 Income and expenses analysis

#### 4.1.6.1 Income analysis.

It is an important indicators of financial performance of business firms. Income refers to the value created by the use of resources. Thus, this analysis is made as per proportional major income to total income of the two major competitive joint venture bank namely SCBNL and HBL. The major income of the banks including, interest earned, commission and discounts, earning from foreign exchange and others miscellaneous income.

**Table 4.18 income in % of HBL** 'ooo'

| Income sources | 2005 | 2006 | 2007 | 2008 | 2009 | average |
|---|---|---|---|---|---|---|
| interest received | 82.15 | 79.56 | 82.04 | 80.77 | 81.09 | 81.12 |
| Exchange received | 7.78 | 8.09 | 8.92 | 8.34 | 8.10 | 8.25 |
| Commission on disc | 7.54 | 9.69 | 7.00 | 7.92 | 8.82 | 8.19 |
| Other operating exp. | 2.34 | 2.55 | 1.86 | 2.55 | 1.92 | 2.24 |
| Non-operating exp. | 0.15 | 0.09 | 0.16 | 0.39 | 0.43 | .244 |
| Total | 1760681 | 2044264 | 2164266 | 2430939 | 2895466 | |

**Table 4.19 income in % of SCBNL** 'ooo'

| Income sources | 2005 | 2006 | 2007 | 2008 | 2009 | average |
|---|---|---|---|---|---|---|
| Interest received | 75.6 | 77.34 | 74.85 | 78.82 | 76.88 | 76.70 |
| Exchange received | 15.8 | 11.33 | 12.98 | 10.08 | 13.54 | 12.60 |
| Commission on disco. | 8.51 | 10.37 | 10.74 | 9.7 | 8.24 | 9.51 |
| Other operating exp. | 0.19 | 0.37 | 0.77 | 0.78 | 0.65 | 0.55 |
| Non operating exp. | 0.62 | 0.59 | 0.66 | 0.62 | 0.69 | 0.636 |
| **Total** | **1955619** | **2267995** | **2578869** | **2899728** | **3072668** | |

**a) Interest Income**

The above tables reveals that interest income has taken more space on total on total income for both joint venture banks. In above table interest income includes interest received from loan and advance, overdraft; inter bank loan, investment in government securities and investment in debenture etc.

Interest income has fluctuating of HBL on a average the bank has 81.12% interest income over the study period. Similarly, interest income of SCBNL has fluctuating trend. On an average the SCBNL has 76.70% of interest income. The major income of both banks is interest received. HBL has found higher percentage than that of SCBNL on an average income.

**b) Foreign Exchange Earning**

Income from foreign exchange includes income through the sale of exchange currency and revaluation gain. Foreign exchange received by HBL 7.78% to 8.92%, which is in fluctuating trend throughout study period. On an average the bank has 8.25% exchange earning out of total income during the study period.

Similarly the ratio of SCBNL has decreasing trends, which has ranged 10.08% to15.08%. It has an average 12.60%. According to above analysis concluded that SCBNL is higher than that of HBL throughout the study period. SCBNL is successes to earn more from foreign exchange.

**c) Commission and Discount Earning**

Commission and discount include income received as commission and discount from letter of credit, drafts, bank transfer, guarantee, selling of share, remittance charge; other charges and commission are other prominent items of commission and discount. The above table concluded that commission and discount to total income is higher in SCBNL as compared to HBL. It means SCBNL has extended better service to its customers than that of HBL.

**d) The operating Earning (Operating and non operating earning income)**

The table reveals that other income has very normal contribution in the total income for both the banks. The above analysis shows that the operating income of HBL 2.24% is higher then SCBNL.

**4.1.6.2 Expenses Analysis**

The cost have been occurred in producing revenue are called expenses. This analysis shows the proportionate expenses under the different headings.

The total operating expenses in two JVB's include interest on deposit liabilities, interest on loan and advances, staff expenses, office operating expenses and providing for staff bonus.

**Table 4.20 expenses in percentage for HBL**

**'ooo'**

| **Expenses heading** | **2005** | **2006** | **2007** | **2008** | **2009** | **Avg.** |
|---|---|---|---|---|---|---|
| Interest expenses | 45.38 | 47.29 | 53.03 | 55.57 | 54.73 | 51.12 |
| Office operating exp. | 34.28 | 30.49 | 28.58 | 26.14 | 26.16 | 29.13 |
| Staff expenses | 14.42 | 17.10 | 20.10 | 20.74 | 20.03 | 18.49 |
| Provision for staff | 4.68 | 4.90 | 4.95 | 6.40 | 6.11 | 5.41 |
| Non operating exp | 1.21 | .21 | (6.98) | (8.87) | (7.03) | (4.292) |
| **Total** | 1238139 | 1371865 | 1446863 | 1482102 | 1546478 | |

**Table 4.21 expenses in percentage for SCBNL**

**'ooo'**

| **Expenses heading** | **2005** | **2006** | **2007** | **2008** | **2009** | **Avg.** |
|---|---|---|---|---|---|---|
| Interest expenses | 58.70 | 59.55 | 56.30 | 53.49 | 43.49 | 54.31 |
| Office operating exp. | 20.72 | 18.23 | 22.28 | 25.35 | 27.69 | 22.85 |
| Staff expenses | 10.11 | 11.07 | 10.03 | 10.00 | 16.35 | 11.51 |
| Provision for staff | 8.47 | 10.15 | 9.39 | 9.63 | 10.46 | 9.44 |
| Non operating ex. | 2.00 | 1.00 | 2.00 | 1.53 | 2.01 | 1.71 |
| **Total** | **1425193** | **1578163** | **1698231** | **1700128** | **1852132** | |

**a) Interest Expenses**

Interest expenses are the major expenses of banks. In the above table interest has covered high expenses on total expenses. In this study interest and commission paid denotes the interest paid on deposits, borrowings, fees loans and advances and commission paid

The above table shows that interest expenses of HBL has ranged in increasing trend except the year of 2009.It has trend between 45.38% to 55.57% with an average 51.12%. SCBNL has decreasing trend at different years. It has trend between 43.49% to 59.55% and the average expenses is 54.31%.

According to above five years table that on average expenses of SCBNL is more than HBL. It indicates that it has more outsiders fund.

**b) Office Operating Expenses**

Office operating expenses, includes house rent, water and electricity charges, telephone, fax, telex, insurance, traveling allowance, printing and stationary, fuel etc.

It has second major expenses of total expenses on both banks. The expenses of HBL is decreasing trend. It has 26.16 to 36.28% expenses of total expenses on an average 29.13%. But SCBNL has fluctuating trends. Which has trend between 18.23% to 27.69%.It has average expenses is 22.85%.

It concluded comparatively, office expenses of HBL are found higher than SCBNL. It is suggested both bank to control of this expenses for increasing profit.

**c) Staff Expenses**

Staff expenses refer salary and allowance providing by bank and banks contribution providing fund, staff training expenses etc.

The table reveals HBL has ranged between14.42% to 20.03% with average 18.49%. It has increasing trends.

Similarly SCBNL has ranged between 10.00% to 16.35% with average 11.51%. It has fluctuation trends. It has decreasing at first four year but increased at last In brief this study concludes that HBL spend more amounts in staff expenses above this study period than SCBNL.

**d) Provision for Staff Bonus**

Bonus is a result of earning enough profit. Both the bank have been distribution bonuses to the staffs. SCBNL has paid more amounts as bonus than HBL in each years. It concluded that SCBNL has provide more facility to staff, which is the reasonable.

### 4.1.6.3 Trend Analysis

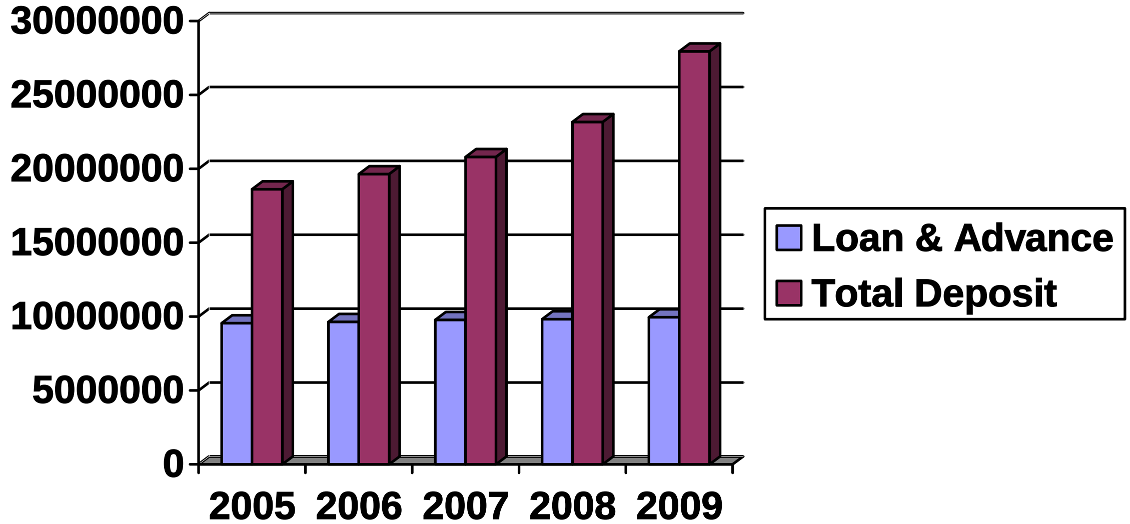
Trend analysis is a statistical tool, which will highlight the previous trend of the financial performance and helps in forecasting the future financial resects of these JVB's .Trend shows the trend of deposits collection shows a banks efficiency in performance. Of efficient utilization of the same indicates its success and profitability. The total deposit, loan advance and deposits utilization of SCBNL and HBL is presented below.

**Table 4.22 Utilization Ratio**

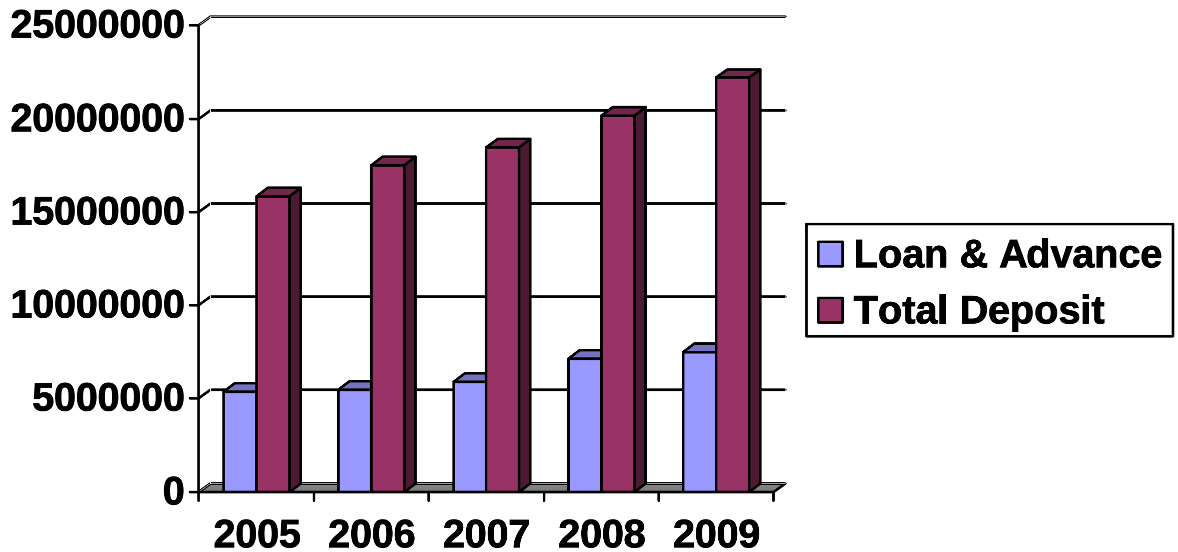
**SCBNL** **HBL** '000'

| Fiscal Year | Loan & Advance | Total Deposit | Deposit Utilization Ratio | Loan & Advance | Total Deposit | Deposit Utilization Rat. |
|---|---|---|---|---|---|---|
| 2005 | 5364005 | 15835747 | 33.87 | 9557137 | 18619375 | 51.33 |
| 2006 | 5465825 | 17511664 | 31.24 | 9642482 | 19658372 | 49.05 |
| 2007 | 5912456 | 18451623 | 32.04 | 9785463 | 20821354 | 47.99 |
| 2008 | 7145163 | 20163219 | 35.43 | 9826758 | 23161826 | 42.42 |
| 2009 | 7486928 | 22196712 | 33.86 | 9946968 | 27921753 | 35.76 |
| | | | Avg. → 33.28 | | Avg. → | 45.31 |

**HBL**


30000000
25000000
20000000
15000000
10000000
5000000
0
2005
2006
2007
2008
2009
Loan & Advance
Total Deposit

**SCBNL**


25000000
20000000
15000000
10000000
5000000
0
2005
2006
2007
2008
2009
Loan & Advance
Total Deposit

## 4.2 Statistical Tools

### 4.2.1 Karl Persons coefficient of correlation.

It is most widely used statistical tools which measures the significant of the relationship between two variables during the study period. Correlation coefficient is calculated to measure the relationship between return and net wroth of SCBNL and HBL. The value of correlation of coefficient shall always be between ±1. Where r = +1 it means there is perfect positive correlation between the variables, r = - 1, it means there is negative correlation between the variables.

The formula for computing Karl Person's coefficient of correlation us as follows.

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

Here ,

N = No. of pairs of X and Y absorbed.

X = value of net profit after tax.

Y = value of shareholder equity.

r = Karl person's coefficient of correlation.

$\sum XY$ = Sum of product of variable X and Y

Coefficient of correlation of HBL

Here,

N = 5

$\sum X = 253.86$

$\sum X^2 = 1483.82$

$\sum Y = 13668.25$

$\sum Y^2 = 443309.60$

$\sum XY = 76854.8$

We have,

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

$$= \frac{5\times 76854.8 - 253.86 \times 1483.82}{\sqrt{[5 \times 13668.25 - (253.86)^2]}\ \sqrt{[5 \times 443309.60 - (1483.82)^2]}}$$

$$= \frac{384274 - 376682.54}{\sqrt{[68341.25 - 64444.89]}\ \sqrt{[2216548 - 2201721.8]}}$$

$$= \frac{7591.46}{\sqrt{3896.36}\ \sqrt{14826.2}}$$

$$= \frac{7591.46}{62.42 \times 121.76}$$

$$r = 0\cdot 9988$$

Above calculation of the coefficient of correlation between returns and shareholders equity of HBL is 0.9988. This analysis indicates there is a positive correlation between net profit after tax and share holders equity.

Coefficient of correlation of SCBNL

$N = 5$

$\sum X = 348.42$

$\sum X^2 = 24450.36$

$\sum Y = 1680.5$

$\sum Y^2 = 567859.8$

$\sum XY = 117819.03$

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

$$= \frac{5\times117819 - 348.44 \times 1680.5}{\sqrt{[5 \times 24450.36 - (348.44)^2]}\ \sqrt{[5 \times 567859.8 - (1680.5)^2]}}$$

$$= \frac{589095- 585553.42}{\sqrt{[122251.8 - 121410.43]}\ \sqrt{[2839299- 2824080.3]}}$$

$$= \frac{3541.58}{\sqrt{[841.37]}\ \sqrt{[15218.7]}}$$

$$= \frac{3541.58}{29 \times 123.36}$$

$r = 0.9899$

Above calculation of the coefficient of correlation of between net profit after tax and shareholders equity of SCBNL is 0.9899. This analysis indicates there is a positive correlation between NPAT and shareholders equity.

4.2.2 **Computation of probable error**

Formula

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

If the value of r less then PER there is no evidence of correlation ie . value of 'r' is not at all the significant. This, if the value of 'r' is more than fix time the probable error, the co-efficient of correlation is practically ie the value of 'r' is significant.

Probable error of HBL

There

$r = 0.9988$

$N = 5$

We have

$$Per = 0.6745 \; \frac{1- (0.9988)^2}{N}$$

$$= \; 0.6745 \; \frac{0.02398}{2.236}$$

Per = 0.6745 × 0010725

= 0.00155

Since the value of 'r' is more than 5 times of probable error (ie5×0.0015=0.00775< 0.9988). The value of 'r' is significant. It reveals that deploying more worth in the capital structures seems to be benefited in terms of profitability for HBL.

Probable error of SCBNL.

Here,

r = 0.9899

N = 5

We have

$$Per = 0.6745 \; \frac{1 - r^2}{N}$$

$$= 0.6745 \; \frac{1 – (0.9899)^2}{2.236}$$

= 0.6745 × 0.00402

= 0.0606

Since the value of ‘r’ is more then 5 times of probable error (ie.5×0.0606=0.303<0.98899). The value of ‘r’ is significant. It reveals that management can prepare a promotion planning of increasing the worth to crease the return.

## 4.2 Major finding of the study

The presentation & data analysis of data provides the clear picture in terms of financial strength and weakness of the banks. The major findings of the analysis are as follows:

**a) Liquidity Ratio**

The current ratio according to HBL, the higher ratio is 1.16 and lower ratio is 1.12, and an average is 1.13. However the highest ratio of SCBNL is 1.29 and lower ratio is 1.19 and an average is 1.25 times which is higher than HBL. We have found from the above analysis that both the banks have poor liquidity position because current ratio is under the standard is 2:1. Considering average ratio, SCBNL is found slightly better liquidity position than HBL on an average. And also SCBNL is better short term solvency position as compared with HBL. Similarly, cash and bank balance to total deposit, cash and bank balance to current assets ratio is not so good. Low liquidity position shows that the current assets utilized in some profit generating sector.

**b) Profitability Ratio**

The analysis shows that the net profit to total assets ratio of both bank are like similarly. As compared to the performance of banks, SCBNL has higher rate of return on total assets than HBL. Net profit to total deposit ratio shows that the ratio of HBL has increasing trend where as the ratio of SCBNL ranges with decreasing trends. Thus we found that SCBNL have been able to generate profitability from deposit more than HBL. The rate of profitability is not satisfied from lower rate of return. In comparatively in average SCBNL is better than HBL.

According to table of return on investment, the ratio of HBL is increasing 2.63% to 4.76%, where as SCBNL's ratio is decreasing trend, it lies between 1.27% to 2.54%, the ROI measures the capacity of the bank to generate profit on its investment. The reason for decreasing the return may be due to idle deposit. As compared of ROI, HBL is better than SCBNL.

**c) Activity ratio**

The analysis shows that the loan and advance to total deposit ratio of HBL and SCBNL. HBL is fluctuating. It has decreasing trends. But HBL's ratio in all the f/years is greater than SCBNL in corresponding fiscal years as shown by the tables. The average ratio of HBL is higher than that of SCBNL. The analysis indicates that HBL has better efficiency un utilizing the outsiders fund as main income generating assets. According to investment to total deposit ratio, table shows SCBNL is better than HBL. SCBNL has better position in utilizing its proportion of deposit. Both of banks are suggested to improve their investment by total deposit ratio.

**d) Capital Structure Ratio**

The analysis shows that the total debt to share holders equity ratio of HBL is highly going everyday from 2007 and SCBNL is going low since 2007. The ratio of SCBNL is lower than the yearly average throughout the study period, where the same ratio of HBL is lightly higher than the yearly average. From the above analysis it is concluded that the joint venture banks are highly leverage. This both banks have lower ratio of shareholders equity over total claims of creditors. The total debt to total assets ratio both of bank's ratio is mot more than90%. Both banks use outsider's funds. From the above analysis, it can be said that the proportion of debt financing in relatively to total assets is relatively more in HBL than in SCBNL. When the rate of return of is less than interest payable or when the bank is incurred loss, this ratio is unfavorable to the bank. The return on capital employed, the table shows that the ratio of HBL has increasing trend but SCBNL has fluctuated trend. Although both banks have not better performance, SCBNL's performance is better than HBL. It is suggested to bank to utilize optimally its equity fund and long-term fund. The return on shareholder equity, the table shows that return on shareholder equity of HBL is increasing trend and SCBNL's return is fluctuating trend in their 5 years. Higher ratio means better capacity of utilizing the owner's fund. In conclusion on an average of SCBNL has better position than HBL in term of return on shareholders equity.

**e) Invisibility Ratio**

The analysis shows that the ratio of earning per share of HBL bank range has between the lowest Rs.47.9 to the highest Rs.63.60, while ratio of SCBNL is lowest is Rs. 71.2 to higher is Rs.81.62, after comparing of both SCBNL is higher than HBL bank. According to the both table, it shows that SCBNL has better signal from investor's point of view. The dividend per share ratio of HBL trends are not equal, it is fluctuating trend. SCBNL has increase dividend in all fiscal years. SCBNL has dividend per share is always high, which shows better signal for investors. The dividend payout ratio of HBL is fluctuating however the ratio of SCBNL has increasing trends. DPR is more in SCBNL from the view of shareholders. Infect, there is mo hard and fast rule regarding the ideal dividend payout ratio and it is a controversial issue as well.

**f) Trend Analysis**

The trend analysis conducted in term of loan and advance, total deposit and deposit utilization ratio. It shows the deposit utilization ratio of both banks. Both banks has deposit utilization ratio trend is fluctuating. The deposit utilization ratio of HBL is relatively high than SCBNL.

**g) Income and Expenditure Analysis**

From the analysis of joint venture banks. HBL and SCBNL, it is found that the interest income is the major part of total income of banks. The interest income of HBL is 71.12% and SCBNL's is 76.70% in an average. The income from foreign exchange, HBL has 8.25% and SCBNL has 12.60% in average, where SCBNL has high level. The income from the commission on discount of HBL has 8.19% and SCBNL has 9.51%, which seems high than HBL. From the expenditure analysis, it is found that interest expenses of both banks are high. However the percentage of staffs expenses of HBL is higher than SCBNL. Provision for staff expenses of HBL are 5.41% where as SCBNL's expenses is 9.44% which seems high.

**h) Co-efficient of Correlation analysis**

Based on the analysis of coefficient of correlation between profit after tax and shareholders equity of HBL is 0.99 shows highly positive relationship between profit after tax and shareholders equity. The profit after tax and shareholders equity of SCBNL is 0.98 shows the positive relationship between the net profit after tax and shareholder equity of SCBNL. Thus, it can be concluded that the degree of relationship between net profit after tax and shareholders equity of HBL and SCBNL are significant. Both are equal, but on compare HBL is slightly more successfully own net profit after tax than SCBNL. The value of 'r' of HBL and SCBNL, which is more than five times of probable error, which seems significant. It reveals that management can prepare a promotion planning of increasing the worth to create the return.

# CHAPTER – V

## SUMMARY, CONCLUSION AND RECOMMENDATIONS

### 5.1 Summary conclusion

Economic development of a country cannot be imagined without development of commerce and industry. No doubt, banking promotes the development of commerce to its extreme, as banking itself is the part of commerce. Though the economic growth was as snail speed in early year, it has caught its full selling with the restoration democracy in the country. At present, though political instability still exits all the ruling parties have paid their affiliation to achieve fully liberalized economy coupled with liberalized political scenario.

There are many commercial banks have been competing with each other in their business when the government adopted liberal policy, as a result many commercial banks especially joint venture bank, Nepal Indosuez bank ltd, standard charted bank, Nepal bank ltd etc. These banks are mainly concentrated themselves on financing foreign trade, commerce and industries and other sectors. Banking helps to mobilize the small saving collectivity to the huge capital investment though the banking is considered as the platform of money market and capital markets. Commercial banks basically help to promote the money market by providing qualitative managerial skills, customers satisfaction objective so using of advanced technology.

In this study of the objective functions, polices and strategies of joint venture banks have been emphasized and analysis of their financial performance is made. Here the main finding of the study is financial performance of these two sample joint venture banks has been presented. The financial performance data statement of five consecutive years ie.2005 to 2009 has been examined for purpose of the study. The study is mainly based on the secondary data, which have been processed first and analyzed comparatively. From this analysis of financial performance of both the banks the following finding are made.

### 5.1.1 Financial Tools

#### 5.1.1.1 Liquidity Position

The study reveals that the current ratio of HBL is found within the range from 1.12 (2007) to 1.16 (2009). Similarly the ratio of SCBNL is found within the range from 1.19 (2009) to 1.29 (2006). The yearly average of SCBNL is (1.25) is higher than yearly average of HBL which is 1.13.

It reveals that the current ratios of both banks are always below than normal standard 2:1. It is the indication of unsatisfactory liquidity position. Comparatively SCBNL is found slightly better position than HBL on an average. Considering the yearly average of SCBNL is also better position as compared with HBL due to the increasing trend over the review period.

Liquidity position is terms of cash bank balance position with respect to total deposit ratio of SCBNL. SCBNL is found higher ie 60.4% than that HBL ie 45.7% on an average, which seems that SCBNL has sufficient cash and bank balance to cover its total deposit in comparison to HBL.

It is concluded that in the case of SCBNL against the readiness than that of HBL to serve its customers.

In the case of cash and bank balance to current ratio of both banks are equal, slightly SCBNL is higher 14% than that HBL on an average. It indicates that actually both banks has not sufficient cash and bank balance with respect to total current assets of the bank. It is concluded SCBNL is seem relatively better than that HBL although both the banks liquidity position is not satisfactory.

#### 5.1.1.2 Utilization of Assets

The study reveals from the analysis of utilization ratio of these two banks in terms of loan and advance to total deposit ratio. The ratio of HBL is found higher in 2005 (51.33%) and lower in 2009 (35.76%) whereas the same ratio of SCBNL is seen higher in 2008 (35.43%)

and lower in 2006 (31.24%). In the yearly average of HBL is higher 45.31% as compared with the SCBNL (33.28%)

It is concluded that HBL has better efficiency than SCBNL. HBL has been successfully utilized their total deposit in the form of extending loan and advances for profit generating purpose on compared to SCBNL.

When studying interims of investment to total deposit ratio is found SCBNL is higher ratio (31.9%) than that of HBL (26.13%) on an average.

It concludes SCBNL has better position in utilizing its properties of deposits as compared with HBL. Efficiency ratio in terms income generating assets if found slightly higher in SCBNL (73.76%) than HBL (71.2%)on an average

It conclusion, both the banks have been efficient in utilizing most part of their total assets in profit generating purpose but comparing both banks, SCBNL has better performance than HBL for utilizing assets.

**5.1.1.3 Profitability Position**

In the case of net profit to total assets return as total assets ratio of HBL is found with in the range between 1.06%(2005) to 1.71%(2009) where the same ratio of SCBNL is found with in ranged between 1.65%(2007) to 1.76%(2006). The yearly ratio of average of HBL is1.48% which is lower than HBL 1.74%.

It can conclude that the return on total assets ratio in case of SCBNL is found better performance by utilizing overall resources but the generated profit is found lower for the overall resources in both the joint venture banks.

Net profit to total deposit ratio of HBL is found higher in (2.00%) 2009 and lower is 2005 (1.24%). Similarly the same ratio of SCBNL is found within the range from 2.02 % (2006) to 1.81% (2008). The yearly average ratio of SCBNL is also found higher (1.95%) than the yearly average of HBL (1.71%). This shows that SCBNL has been able to generate more profit with respect to total deposit than HBL.

The conclusion is that both the banks have been able generate profit from deposit. But the rate of profitability is not satisfied from lower rate of return.

Another study of return on investment, rate of return on investment, rate of return of HBL is higher than SCBNL. In yearly average HBL has higher rate of return (4.05%) than that of SCBNL (2.06%).

In conclusion return on investment comparatively declared that the SCBNL has idle deposit, due to the lowest return as compared with SCBNL.

**5.1.1.4 Capital Structure Ratio**

From the analysis in the case of total debt to share holders equity, the research has found in HBL has ranged between 9.59 times (2006) to 10.66 times (2007) on an average 10.32 times. Similarly SCBNL is found between 9.77 times (2009) to 10.62 times (2006) on an average 10.27 times. Comparatively decided that HBL has higher ratio than SCBNL.

It is concluded, both the banks are highly leveraged. Comparatively HBL seems relatively more .Thus both bank the banks have lower ratio of shareholders equity over total claims of creditors.

Total debt to total assets ratio of HBL is found above 90% which indicates that more than 90% of the assets are financed by the outsider's funds. The average ratio of HBL is 90.74% where as the average ratio of SCBNL is 87% which is lower than HBL.

It is concluded the proportions of debt financing in relatively to total assets is more HBL than SCBNL which implies that HBL is riskier debt financing position as compared with SCBNL. When the rate of return is than interest payable this ratio is unfavorable to the bank.

In term of return of on capital (ROCE), HBL has ranged between 4.98%(2005) to 6.51% (2009) on yearly average it has 5.68%. Similarly SCBNL has ranges between 8.81 % (2008) to 9.62% (2005) and yearly average 9.12%. In all the fiscal years SCBNL has succeed to earn more profit than HBL.

It is concluded that SCBNL has better position than HBL SCBNL has utilized in efficient its capital fund.

Return on shareholders equity ratio of SCBNL is found higher 20.72% than HBL 16.8% on yearly average.

SCBNL is more succeed to generate more return on its shareholders fund than that of HBL. Both the banks have been able to earn profit on shareholders equity but not satisfactory level.

The researcher has found in long terms debt to total assets ratio is just equal ratio.

**5.1.1.5 Invisibility Position**

Earning per share in case of HBL has ranged between Rs. 63.66(2009) to Rs. 47.9. It has increasing trend for each year. In all year bank has been able to earn more. Similarly EPS of SCBNL has ranged between Rs. 75.5(2005) to Rs.81.61 (2009). It has found higher EPS for all the fiscal year.

Both the bank's EPS is found fluctuating trend. In the case of dividend per share HBL has lower in all fiscal year than SCBNL. Higher dividend attracts investor towards the banks which ultimately helps to enhance the market value of share.

It can be concluded that SCBNL seems much better in term of offering dividend to its shareholders as loan period with HBL.

Another research of dividend payout ratio SCBNL has more than HBL. From the view of shareholders SCBNL has reflected a better scenario although it has also retained a higher. Portion of earning on average.

### 5.1.1.6 Income and Expenses Analysis

Interest income is main sources of banks. The interest income of HBL has ranged between 82.15 %( 2005) and 79.56%(2006) where the interest income of SCBNL has ranged between 74.85%(2007) and 78.82%(2008) over the study period. Comparatively HBL has found higher percentage than that of SCBNL.

In case of income received from exchange earning HBL found range between 8.92% (2007) and 7.78%(2005).It has decreasing in last two years. like wise income received from exchange earning of SCBNL has ranged between 15.08% (2005) to 10.08% (2008) and it also has fluctuating trend. Conservatively SCBNL has found more earning from exchange earning.

It care of commission and discount earning both banks have fluctuating trend throughout the study period. SCBNL has higher than that HBL. It is concluded that it is higher percentage earning in SCBNL as loan pared to HBL. It means SCBNL has extended better service to its customers than of SCBNL.

The other income from perverting earning and non overeating earning it reveals it has very normal contribution the total income for both the banks.

The major expenses for both the banks are interest payment. HBL is paying more interest and commission than SCBNL comparatively. It indicates that it has more outsiders' funds.

## 5.2 Recommendations

1. Since the current ratios of both the banks are not satisfactory it is below the standard level 2:1. Both the banks are suggested to improve current ratio.

2. The two banks have improved increasing investment by total deposit ratio. They may not accept deposit when there are idle funds.
3. Profitability ratio in both banks such as return on investment returns on total assets and net profit to total deposit ratio are not satisfactory. If resources held idle banks have to bear more cost and result would be lower profit margin. It recommends utilizing its resources more profitability sector.
4. Both banks are highly leveraged on shareholders equity. Higher debt capital is unfavorable to the banks when interest payable is higher than the rate of return the profit would be declined so both banks are suggested to use low debt capital.
5. The major resources of income of both the banks are found interest income SCBNL has been investing more in government securities rather than investing loan and advance. So SCBNL is re loan mended to invest more is the most earning assets like loan and advances.
6. Both the banks are suggested to involve in social responsibility by investing a part of profit.
7. Both banks are suggested to reduce the operating expenses to maximize the profit.

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# Appendix – 1

## Liquidity Ratio

***Table 4.1 current Ratio (In time)***

| HBL | | | | SCBNL | | |
|---|---|---|---|---|---|---|
| year | Current Asset | Current Liabilities | Ratio | Current Assets | Current Liabilities | Ratio |
| 2005 | 28575521 | 24814012 | 1.25 | 31279651 | 25426651 | 1.26 |
| 2006 | 30038983 | 26490852 | 1.13 | 34867122 | 26897042 | 1.29 |
| 2007 | 33740808 | 30048418 | 1.12 | 36098312 | 28241352 | 1.27 |
| 2008 | 36131938 | 31842789 | 1.13 | 40526744 | 31928668 | 1.26 |
| 2009 | 37171569 | 31958627 | 1.16 | 41079893 | 34465542 | 1.19 |
| | | Average | 1.14 | | Average | 1. |

***Table 4.2 Cash and Bank Balance to Total Deposit***

| HBL | | | | SCBNL | | |
|---|---|---|---|---|---|---|
| year | Cash at bank | Total deposit | Ratio% | Cash at bank | Total deposit | Ratio% |
| 2005 | 2014471 | 3481401 | 57 | 5686279 | 7786691 | 73 |
| 2006 | 1717352 | 3649085 | 47 | 6002071 | 8296254 | 72 |
| 2007 | 1757341 | 3904841 | 45 | 5013452 | 8435210 | 59.4 |
| 2008 | 1448143 | 4584278 | 32 | 4073055 | 8640231 | 47 |
| 2009 | 2432865 | 5032651 | 48.34 | 4587228 | 8943029 | 51 |
| | | Average | 45.7 | | Average | 60.4 |

***Table 4.3 Cash and Bank balance to Current Assets***

| HBL | | | | SCBNL | | |
|---|---|---|---|---|---|---|
| year | Cash and Bank | Current Assets | Ratio% | Cash and Bank | Current Assets | Ratio% |
| 2005 | 2014471 | 28575521 | 7 | 5686279 | 5686279 | 18 |
| 2006 | 1717352 | 30038983 | 6 | 6002071 | 6002071 | 17.2 |
| 2007 | 1757341 | 33740808 | 5.2 | 5013452 | 5013452 | 13.88 |
| 2008 | 1448143 | 36131938 | 4 | 4073055 | 4073055 | 10 |
| 2009 | 2432865 | 37171569 | 7 | 4587228 | 4587228 | 11.16 |
| | | Average | 6 | | Average | 14 |

## Appendix – 2

Activity turnover ratio

***Table 4.4 Loan and Advances (including bill purchase and discounted)to total deposit ratio.***

| HBL | | | | SCBNL | | |
|---|---|---|---|---|---|---|
| year | Loan &advance | Total deposit | Ratio% | Loan & advance | Total deposit | Ratio% |
| 2005 | 9557137 | 18619375 | 51.33 | 5364005 | 15835747 | 33.87 |
| 2006 | 9642482 | 19658372 | 49.05 | 5465825 | 17511664 | 31.24 |
| 2007 | 9785463 | 20821354 | 47.99 | 5912456 | 18451623 | 32.04 |
| 2008 | 9826758 | 23161826 | 42.42 | 7145163 | 20163219 | 35.43 |
| 2009 | 9946968 | 27921753 | 35076 | 7486928 | 22196712 | 33.86 |
| | | Average | 45.31 | | | 33.28 |

***Table 4.5 Investment to Total Deposit Ratio***

| HBL | | | | SCBNL | | |
|---|---|---|---|---|---|---|
| year | Investment | Total Deposit | Ratio% | Investment | Total Deposit | Ratio% |
| 2005 | 2485635 | 18619375 | 13.34 | 2569854 | 15835747 | 16.22 |
| 2006 | 1569781 | 19658372 | 7.98 | 5256896 | 17511664 | 18.59 |
| 2007 | 2895634 | 20821354 | 13.90 | 6845699 | 18451623 | 37.10 |
| 2008 | 10856951 | 23161826 | 46.97 | 8596783 | 20163219 | 42.63 |
| 2009 | 13569682 | 27921753 | 48.59 | 9985968 | 22196712 | 44.98 |
| | | Average | 26.13 | | | 31.90 |

***Table 4.6 Total Income Generating Assets to Total Assets Ratio***

| HBL | | | | SCBNL | | |
|---|---|---|---|---|---|---|
| year | Income gene. | Total assets | Ratio% | Income gene. | Total assets | Ratio% |
| 2005 | 20139516 | 28871343 | 70 | 23251689 | 35441220 | 65.6 |
| 2006 | 21937456 | 30579808 | 72 | 24851692 | 36965568 | 67.22 |
| 2007 | 22869245 | 34314868 | 67 | 25825312 | 38169267 | 68 |
| 2008 | 24312782 | 36858006 | 66 | 35586952 | 42885242 | 83 |
| 2009 | 30992546 | 38462503 | 84 | 38764586 | 45561271 | 85 |
| | | Average | 7.1.2 | | Average | 73.76 |

## Appendix- 3

Profitability Ratio

***Table 4.7. Net Profit to Total Assets Ratio***

| HBL | | | | SCBNL | | |
|---|---|---|---|---|---|---|
| Year | NPAT | Total Assets | Ratio% | NPAT | Total Deposit | Ratio% |
| 2005 | 308277 | 28871334 | 1.06 | 6153166 | 35441220 | 1.73 |
| 2006 | 457458 | 30579808 | 1.49 | 651286 | 36965568 | 1.76 |
| 2007 | 491823 | 34314868 | 1.43 | 706812 | 38169267 | 1.85 |
| 2008 | 635869 | 36858006 | 1.72 | 731686 | 42885242 | 1.70 |
| 2009 | 658317 | 38424516 | 1.71 | 779256 | 45561271 | 1.71 |
| | | Average | 1.48 | | Average | 1.74 |

***Table 4.8 Net Profit to Total Deposit Ratio***

| HBL | | | | SCBNL | | |
|---|---|---|---|---|---|---|
| year | NPAT | Total Deposit | Ratio% | NPAT | Total Deposit | Ratio% |
| 2005 | 308277 | 24814012 | 1.24 | 615366 | 29251486 | 2.10 |
| 2006 | 454758 | 26490852 | 1.72 | 651286 | 32165845 | 2.02 |
| 2007 | 491823 | 30048418 | 1.63 | 706812 | 35764520 | 1.97 |
| 2008 | 635869 | 31842789 | 1.99 | 731686 | 40236548 | 1.81 |
| 2009 | 658317 | 32061216 | 2.0 | 779256 | 41551226 | 1.87 |
| | | Average | 1.71 | | Average | 1.95 |

***Table 4.9, NPAT to Total Income Ratio***

| HBL | | | | SCBNL | | |
|---|---|---|---|---|---|---|
| year | NPAT | Total Investment | Ratio% | NPAT | Total Investment | Ratio% |
| 2005 | 308277 | 11692342 | 2.63 | 615366 | 24181765 | 2.54 |
| 2006 | 454758 | 10889031 | 4.20 | 651286 | 29685560 | 2.19 |
| 2007 | 491823 | 11822985 | 4015 | 706812 | 35124846 | 2.01 |
| 2008 | 635869 | 13340177 | 4.76 | 731686 | 55785416 | 1.31 |
| 2009 | 658317 | 14159218 | 4.55 | 779256 | 60951127 | 1.27 |
| | | Average | 4.05 | | Average | 2.06 |

# Appendix- 4

## Capital Structure Ratio/ Leverage Ratio

***Table 4.10, Total Debt to Shareholders Equity Ratio***

| HBL | | | | SCBNL | | |
|---|---|---|---|---|---|---|
| year | Total Debt | Shareholder equity | Ratio% | Total Debt | Shareholder equity | Ratio% |
| 2005 | 26302948 | 2568395 | 10.24 | 32168536 | 3048127 | 10.55 |
| 2006 | 27694215 | 2885593 | 9.59 | 33412612 | 3145638 | 10.62 |
| 2007 | 31372641 | 2942226 | 10.66 | 34911762 | 3345623 | 10.43 |
| 2008 | 33662540 | 3195466 | 10.53 | 35481625 | 3548162 | 10.00 |
| 2009 | 34356350 | 3246531 | 10.58 | 36321517 | 3717152 | 9.77 |
| | | Average | 10.37 | | Average | 10.27 |

***Table 4.11, Total Debt to Total Assets Ratio***

| HBL | | | | SCBNL | | |
|---|---|---|---|---|---|---|
| year | Total Debt | Total Assets | Ratio% | Total Debt | Total Assets | Ratio% |
| 2005 | 26302948 | 28871343 | 91.10 | 32168536 | 35441220 | 90.76 |
| 2006 | 27694215 | 30579808 | 90.56 | 33412612 | 36965568 | 90.38 |
| 2007 | 31372641 | 34314868 | 91.42 | 34911762 | 38169267 | 91.46 |
| 2008 | 33662540 | 36858006 | 91.33 | 35481625 | 42885242 | 82.73 |
| 2009 | 34356350 | 38462503 | 89032 | 36321517 | 45561271 | 79.71 |
| | | Average | 90.74 | | Average | 87 |

***Table 4.12, Return on Capital Employed***

| HBL | | | | SCBNL | | |
|---|---|---|---|---|---|---|
| year | NPAT | Capital Employed | Ratio% | NPAT | Capital Employed | Ratio% |
| 2005 | 308277 | 6189010 | 4.98 | 615366 | 6392077 | 9.62 |
| 2006 | 457458 | 8916515 | 5.23 | 651286 | 7239402 | 8.99 |
| 2007 | 491823 | 9218162 | 5.33 | 706812 | 7553256 | 9.35 |
| 2008 | 635869 | 9842387 | 6.46 | 731686 | 8301215 | 8.81 |
| 2009 | 645216 | 9900121 | 6.51 | 779256 | 8821535 | 8.83 |
| | | average | 5.68 | | average | 9.12 |

*Table 4.13, Return on Shareholders Equity*

| HBL | | | | SCBNL | | |
|---|---|---|---|---|---|---|
| Year | NPAT | Shareholder Equity | Ratio% | NPAT | Shareholder Equity | Ratio% |
| 2005 | 308277 | 2568395 | 12 | 615366 | 3048127 | 20.18 |
| 2006 | 457458 | 2885593 | 15.85 | 651286 | 3145638 | 20.7 |
| 2007 | 491823 | 2942226 | 16.71 | 706812 | 3345623 | 21.12 |
| 2008 | 635869 | 3195466 | 19.89 | 731686 | 3548162 | 20.62 |
| 2009 | 645216 | 3246531 | 19.87 | 779256 | 3717152 | 20.96 |
| | | Average | 16.86 | | Average | 20.72 |

*Table 4.14, Long term Debt to Total Asset Ratio*

| HBL | | | | SCBNL | | |
|---|---|---|---|---|---|---|
| Year | LTD | Total Assets | Ratio% | LTD | Total Assets | Ratio% |
| 2005 | 7286945 | 28871343 | 25.23 | 7584582 | 35441220 | 21.4 |
| 2006 | 7598415 | 30579808 | 24.8 | 8045362 | 36965568 | 21.76 |
| 2007 | 7798436 | 34314868 | 22.72 | 8145688 | 38169267 | 21.3 |
| 2008 | 7896456 | 36858006 | 21.42 | 8245148 | 42885242 | 19.22 |
| 2009 | 8055862 | 38462503 | 20.94 | 8276968 | 45561271 | 18.75 |
| | | Average | 23.02 | | Average | 20.48 |

# Appendix-5

***Table 4.15, Earning Per Share (EPS)***

| HBL | | | | CBNL | | |
|---|---|---|---|---|---|---|
| Year | NPAT | No. Shares | Ratio% | NPAT | No. Shares | Ratio% |
| 2005 | 308277000 | 6435000 | 47.9 | 615366000 | 8145600 | 75.5 |
| 2006 | 457458000 | 7722000 | 59.24 | 651286000 | 9145600 | 71.2 |
| 2007 | 491823000 | 8108100 | 60.66 | 706812000 | 9548500 | 74 |
| 2008 | 635869000 | 10135130 | 62.74 | 731686000 | 9548500 | 76.62 |
| 2009 | 645216000 | 10135130 | 63.66 | 779256000 | 9548500 | 81.61 |
| | | | | | | |

***Table 4.16, Dividend Per Share (DPS)***

| HBL | | | | SCBNL | | |
|---|---|---|---|---|---|---|
| Year | TD+PD | No.of Shares | Ratio% | TD+PD | No.of Shares | Ratio% |
| 2005 | 74511000 | 6435000 | 11.58 | 345697000 | 8145600 | 42.44 |
| 2006 | 23166000 | 7722000 | 30 | 474642000 | 9145600 | 51.89 |
| 2007 | 121622000 | 8108100 | 15 | 516345000 | 9548500 | 54.08 |
| 2008 | 253378000 | 10135130 | 25 | 612413000 | 9548500 | 64.14 |
| 2009 | 317412000 | 10135130 | 31.32 | 612413000 | 9548500 | 64.14 |
| | | | | | | |

***Table 4.17, Dividend Payout Ratio(DPR)***

| HBL | | | | CBNL | | |
|---|---|---|---|---|---|---|
| Year | DPS | EPS | Ratio% | DPS | EPS | Ratio% |
| 2005 | 11.58 | 47.9 | 24.17 | 42.44 | 75.5 | 24.17 |
| 2006 | 30 | 59.24 | 50.64 | 51.89 | 71.2 | 50.64 |
| 2007 | 15 | 60.66 | 24.72 | 54.08 | 74 | 24.72 |
| 2008 | 25 | 62.74 | 39.84 | 64.14 | 76.62 | 39.84 |
| 2009 | 31.32 | 63.66 | 49.19 | 64.14 | 81.59 | 49.19 |
| | | | | | | |

# Appendix – 6

***Table 4.18, Income in % For HBL***

| Income sources | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Interest received | 82.15 | 79.56 | 82.04 | 80.77 | 81.09 |
| Exchange earning | 7.78 | 8.09 | 8.92 | 8.34 | 8.10 |
| Commission discount | 7.54 | 9.69 | 7.00 | 7.92 | 8.82 |
| Other operating earning | 2.34 | 2.55 | 1.86 | 2.55 | 1.92 |
| Non operating earning | 0.15 | .09 | 0.16 | 0.39 | 0.43 |
| Total | 1760681 | 2044264 | 2164266 | 2430939 | 2895466 |

***Table 4.19, Income in % For SCBNL***

| Income sources | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Interest received | 75.6 | 77.34 | 74.85 | 78.82 | 76.88 |
| Exchange earning | 15.08 | 11.33 | 12.98 | 10.08 | 12.61 |
| Commission discount | 8.51 | 10.37 | 10.74 | 9.7 | 9.51 |
| Other operating earning | 0.19 | 0.37 | 0.77 | 0.78 | 0.55 |
| Non operating earning | 0.62 | 0.59 | 0.66 | 0.62 | 0.64 |
| Total | 1955619 | 2267995 | 2578869 | 2899728 | 3072668 |

# Appendix -7

***Table 4.21, Expenses in % for HBL***

| Headings | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Interest expenses | 45.38 | 47.29 | 53.03 | 55.57 | 54.73 |
| Staff expenses | 14.42 | 17.10 | 20.10 | 20.74 | 20.03 |
| Operating expenses | 34.28 | 30.49 | 28.58 | 26.14 | 26.16 |
| Provision for staff | 4.68 | 4.90 | 4.95 | 6.40 | 6.11 |
| Non operating expenses | 1.21 | 0.21 | (6.98) | (8.87) | (7.03) |
| Total | 1239139 | 1371865 | 1446863 | 1482102 | 1546478 |