

Financial Analysis of Commercial Banks in Nepal

**(A comparative study on Standard Chartered Bank Nepal
Ltd. and Nabil Bank Ltd.)**

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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

Sita Pun

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

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Declaration

I hereby declare that the work in this thesis entitled “**Financial Analysis of Commercial Banks in Nepal (A comparative study on Standard Chartered Bank Nepal Ltd. and Nabil Bank Ltd.)**”, submitted to Lumbini Banijya Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Studies under the supervision of Mr. Krishna Prasad Gautam, Associate Professor of Lumbini Banijya Campus, Tribhuvan University.

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Acknowledgement

This study is mainly focused on the financial analysis of two leading banks of Nepal viz., Standard Chartered Bank Nepal Ltd. and Nabil Bank Ltd. As there is no research made on the analysis in other factors addition to profitability on these banks, so I think this research will be helpful to those who want to know which bank is performing well. I am hopeful that this research will be helpful to the policymakers and strategists of the concerned banks. Likewise, this research can also be helpful for those who want to make further research on the related topic.

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Date:

Sita Pun

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List of Abbreviations

A.D.	Anno Domini
BOK	Bank of Kathmandu Ltd.
B.S.	Bikram Sambat
d.f.	Degree of freedom
EBL	Everest Bank Ltd.
ed.	Edition
EPE	Earning per employee
etc.	Etcetera
FI	Financial Institution
Fig.	Figure
HBL	Himalayan Bank Ltd.
i.e.	That is
Ltd.	Limited
NABIL	Nabil Bank Ltd.
NIBL	Nepal Investment Bank Ltd.
NRB	Nepal Rastra Bank

Rs.	Rupees
SCBNL	Standard Chartered Bank Nepal Ltd.
T.U.	Tribhuvan University
viz.	Namely

Chapter One

Introduction

1.1 Background

The economic development of any country largely depends on the development of financial sector of the country. For the rapid development of the country, competitive financial services should reach in nooks and corners of the country. The people of the country should have easy access on the financial services. The financial sector of any country comprises of banks, cooperative societies, insurance companies, finance companies, stock markets, foreign exchange markets, mutual funds, provident funds etc. Among them commercial banks occupy a prominent place in the financial market because it provides capital for the development of industry, trade and business by investing the savings collected as deposits. Beside that these banks render a numerous services to their customer with a view of facilitating them in their economic and social life. The basic function of commercial bank is to collect scattered savings from all over the country and mobilize or channelize these savings by making investment in different enterprises of national economy. Commercial bank is defined as, “A privately owned bank that provides a wide range of financial services both to the general public and to firms. The principal activities are operating cheque current accounts, receiving deposits, taking in and paying out notes and coin, and making loans. Additional services include trustee and executor facilities, the supply of foreign currency, the purchase and sale of securities, insurance, a credit card system, and personal pensions. They also compete with the finance houses and merchant banks by providing venture capital and with building societies by providing mortgages.” (Oxford Dictionary of Finance and Banking, 2005:68). “Till mid-January, 2011 the total deposits of the commercial banks comprise of NPR 627091.80 million and the total loan and advances comprise of NPR 505183.70 million.” (Banking and Financial Statistics, Mid-January, 2011: No. 56).

The history of Nepalese financial sector is not too old as compared to that of western countries. Banking in Nepal in true sense started with the inception of Nepal Bank Ltd on 1937 A.D. with 51% of government's equity. At the beginning of 1980s when financial sector was not liberalized there were only two commercial banks and two development banks performing banking activities in Nepal. In last two decades Nepal has experienced tremendous growth in the number of financial institutions. After the liberalization, financial sector of Nepal has made quite satisfactory progress both in terms of number of financial institutions and beneficiaries of financial services. At present there are 31 commercial banks, 87 development banks and 79 finance companies that are operating in Nepalese financial market.

Today the world has turned into small village due to the revolution in the information technology. This has created greater competition in the market. In order to survive in the market every organization should be financially sound. The organization with well combination of the factors affecting its performance can be said as the successful one. The organization with good financial performance can compete with its competitors but the organization with poor financial performance will have its natural death. Whether the organization is moving in right track or not will be reflected by its performance. To meet the objectives, the overall performance of the organization should be well adjusted with each other. Only the well combined factors assist in good performance.

Profit is one of the basic indicators of sound financial performance. It is usually the result of sound business management, cost control, risk management and efficiency in operation. Profit is essential for every organization for its survival and growth. Profit is only possible if the organization performs well. As banking is the service industry profit solely cannot be regarded as sound performance of bank. There is also other factors addition to the profit that should be considered for the better performance of the bank. Financial analysis shows the strengths and weaknesses of the organization. It helps to take advantage of opportunities present in the external environment by matching them with the strengths of the organization. On the other hand financial analysis points out the weaknesses of the organization which can be corrected in time if know earlier. Financial analysis clearly shows the financial condition of the organization. It is like making an organization standing in front of the mirror.

Well financial performance is not only making high profit but also well combination of all the factors. Organization should make itself well build so that it can survive in the critical situation. The failure of different financial institutions was due to poor performance

and management of the factors. Since 2010 A.D. Nepal government has opened the door of Nepalese market for the foreign banks. This has caused threat for the financial institutions of Nepal. Due to mushrooming of financial institutions in Nepalese market there is a tough competition among themselves but once the foreign banks cross Nepali border for the business, the competition would be steeper. The Nepalese banks should build themselves in the strong position so that they can compete with the veteran international banks.

Brief Profile of the banks under study

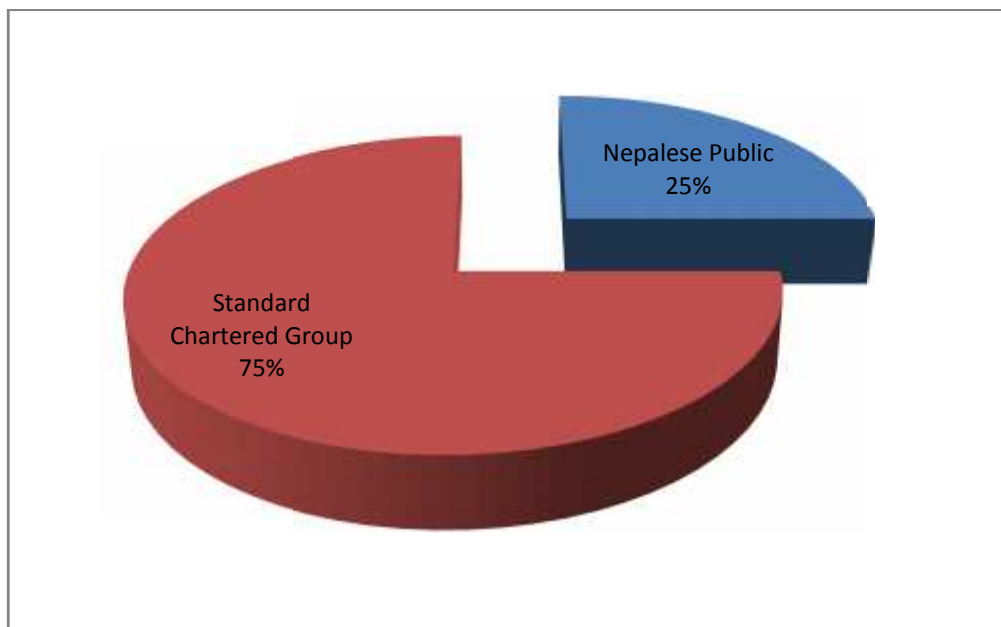
1. Standard Chartered Bank Nepal Ltd.

Standard Chartered Bank Nepal Ltd has been in operation in Nepal since 1987 A.D. when it was initially registered as a joint venture operation. The bank enjoys the status of the largest international bank currently operating in Nepal. Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest growing market with an extensive global network of over 1750 branches (including subsidiaries, associates and joint ventures). In over 70 countries in the Asia pacific region, south Asia, the middle east, Africa, the United Kingdom, and the Americas. The bank has globally employed people from every country so the diversity lies at the heart bank's values and supports the bank's growth as the world increasingly becomes one market. With 18 points of representation the bank serve its customer through an extensive domestic network. In addition global network of Standard Chartered groups gives the bank a unique opportunity to provide truly international banking services in Nepal.

The bank has been a pioneer in introducing the customer focused product and services in the countries and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first bank in Nepal that has implemented the Anti Money Laundering policy and applied the Know Your Customer procedures on all the customer accounts. At present the bank is an integral part of Standard Chartered group having an ownership of 75% in the company with 25% shares owned by the Nepalese Public.

Figure 1.1

Pie diagram showing the ownership of SCBNL



Details of capital structure are given below.

Table 1.1
Capital Structure of SCBNL

Authorised Capital (20,000,000 ordinary shares of NPR 100 each)	NPR 2,000,000,000.00
Issued capital (13,984,836 ordinary shares of NPR 100 each)	NPR 1,398,483,600.00
Paid up capital (13,984,836 ordinary shares of NPR 100 each)	NPR 1,398,483,600.00
Proposed bonus share	NPR 209,772,540.00

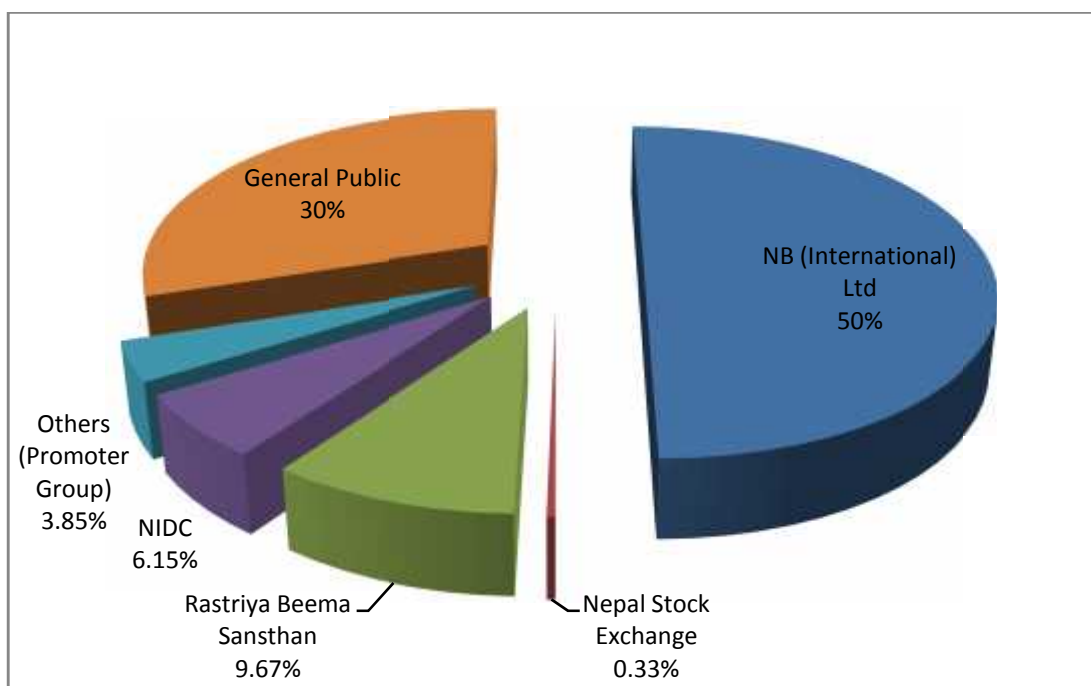
Source: Annual Report Accounts 2009-2010 of SCBNL.

2. Nabil Bank Ltd.

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides full range of commercial banking services through its 47 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Figure 1.2
Pie diagram showing the ownership of NABIL



Details of capital structure are given below.

Table 1.2
Capital Structure of NABIL

Authorised Capital (16,000,000 ordinary shares of NPR 100 each)	NPR 1,600,000,000.00
Issued capital (14,491,240 ordinary shares of NPR 100 each)	NPR 1,449,124,000.00
Paid up capital (14,491,240 ordinary shares of NPR 100 each)	NPR 1,449,124,000.00
Proposed bonus share	NPR 579,649,600.00

Source: Annual Report and Accounts 2009-2010 of NABIL.

1.2 Statement of the problems

Today the world has become a competitive market. Everywhere there is a competition. So in order to survive in the market the organization should overcome its competitors. In the context of Nepal many financial institutions are mushroomed all over the country. As a result, there is a tough as well as bottle neck competition among themselves. So, every organization should do their best in order to survive in the market and establish their image.

Financial analysis can be regarded as a mirror that shows the weaknesses and strengths of the organization. It shows how well the organization is performing. Financial performance analysis can also be used as a measure to compare the performance of two organizations. A well performance resembles the well combination of all the factors. An organization with sound financial performance can be said as successful organization. Thus an organization with better financial performance can beat its competitors and establish its own image in the market.

During the past few years Nepal has witnessed unstable political scenario. This has contracted the investment opportunities for the banks. The economic liberalization and privatization policy adopted by the government has created both opportunities and threats to the banking sector. As a result due to increasing in number of financial institutions Nepalese market is being narrower. In this study two leading commercial banks viz., SCBNL and NABIL of Nepal are analyzed. As SCBNL and NABIL are also a part of Nepalese financial market, they also cannot remain isolate in the competitive Nepalese market.

The banks which have been considered for the study are found to be associated with some specific problems.

1. The operating expenses of NABIL are found to be higher compared to SCBNL. This has affected on the profitability of the bank.
2. Looking at the five years data it is found that SCBNL has less utilized its deposits on loans. NABIL to some extent has been able to mobilize its deposits on loan. This directly affects in generating income of the banks.
3. The data of five years period shows that SCBNL has been able to cut off its nonperforming loans compared to NABIL. As increase in non-performing loans cuts down the profit of banks, they have to try their best to decrease their non-performing loans.
4. The interest margin shows that NABIL has lower margin in all the five years under study than that of SCBNL. This shows that SCBNL has higher interest generating assets compared to NABIL.
5. SCBNL has maintained higher loan loss reserves on non performing loans compared to NABIL during the five years under study. This shows that SCBNL has provisioned higher for the loan loss compared to NABIL. This implies provisioning higher will adversely affect the profitability of the banks.

Considering above financial shortcomings, following major research questions are identified for the study

1. What is the comparative financial performance of SCBNL and NABIL over the years?
2. Is there any role of deposits, lending, non performing assets in determining bank's performance?
3. Do the sample banks have achieved sustainable growth in their operation?
4. Are the sample banks capable of minimizing non performing loan?

1.3 Objectives of the study

Commercial banks can be regarded as a pre-requisite for the economic development of a country. This study aims at analyzing the financial viability of the commercial banks. The main objective of this study is to compare the financial performance of two commercial banks viz., SCBNL and NABIL.

The major objectives of this study are exhibited below.

1. To examine the performance of selected commercial banks.
2. To identify the factors that affect the banks performance.
3. To identify the key elements of bank's success.
4. To find out the net worth of the banks.
5. To identify the strategies adopted by the banks.

1.4 Hypothesis formulation

To make study on the present topic, one way analysis of variance (ANOVA) is used to analyze and find out whether there is difference or not between the average ratios of two selective banks. Test of significance is made on the following relation i.e., there is a relationship between performances of two selected commercial banks. ANOVA test is made to test the following null hypotheses on two selected banks i.e., SCBNL and NABIL.

1. H_0 : There is no significant difference in total loan and total deposits ratios of the banks.
2. H_0 : There is no significant difference in total operating expenses and total revenues ratios of the banks.
3. H_0 : There is no significant difference in return on average equity of the banks.
4. H_0 : There is no significant difference in non-performing loan and total loan ratios of the banks.

1.5 Significance of the study

As Nepal is small and underdeveloped country there is less investment opportunities. Businessmen and industrialists hesitate to make investment due to small market. Due to lack of opportunities Nepalese entrepreneur prefer to remain ideal rather than to operate business by borrowing funds from the financial institutions. After the economic liberalization financial institutions are mushrooming in the Nepalese market which has created tough competition among them. Commercial banks are facing bottleneck competition from other developments banks, finance companies, cooperatives and so on. Therefore the study of commercial banks regarding their financial viability has become an indispensable subject matter in the present context. The study tries to understand how well the commercial banks are managing their factors of operation for their sustainable life. This study mainly aims to detect the strengths and weaknesses of two selected commercial banks. In this study not only the profit but also other factors are considered for the measurement of the performance of the banks. This study will be helpful to the shareholders of the respective banks as they will be aware of the performance of the banks they had invested. Besides that other beneficiaries of the study can be categorized as below.

-) Depositors of the banks i.e., SCBNL and NABIL.
-) Management, Policy makers & board of directors of the banks mentioned above.
-) Academicians and Researchers.
-) General interested public.
-) Regulator and Nepal Government for making plans and policies.

Last but not the least researcher herself cannot be ignored as one of the beneficiaries of the study. She being a management student and interested in finance, this study will prove to be very important milestone for growing her skill, career and helps to face challenges in the field of finance in coming days.

1.6 Limitations of the study

No study can be free of constraints such as economic, time, access etc. Best efforts have been made to make this study accurate and to the point but following limitations proved to be huddles while making this study.

1. Out of thirty one commercial banks, only two commercial banks i.e., SCBNL and NABIL have been taken into consideration for the study.
2. The study covers only the time period of 5 years i.e., from 2005/06 to 2009/10. At the time of research both the banks had not published their annual reports of 2010/11. So, this study does not incorporate the data of F.Y. 2010/11.
3. The study is heavily relied on secondary data provided in annual reports of the respective banks.
4. Only the financial aspects are considered for comparisons of performance of the banks.
5. Limited financial and statistical tools have been used for the analysis so the drawbacks of these tools may affect outcome of the study.

1.7 Organization of the study

The study has been organized in such a way that the stated objectives can be achieved. The study is organized into five chapters. The arrangements of the study are illustrated below. **Chapter One** deals with the Introduction that includes Background of the study, Profile of the concerned banks, Statement of the problems, Objectives, Significance of the study, Limitations, Hypothesis made and Scheme of the study.

Chapter Two deals with the Literature review of the related material available. It includes review of books, articles and Master degree theses.

Chapter Three will explain the Research Methodology used in the study, which include Research Design, Nature and source of data, Population and Sample and method of data analysis.

Chapter Four will include the presentation and analysis of data using financial and statistical tools such as CAMEL analysis, Correlation, Average, Hypothesis testing etc.

Chapter Five will deal in summary of the study, Conclusion, Recommendations and suggestions for the future improvement.

Chapter Two

Review of Literature

Review of the literature is focused and directed towards specific purposes. It is a selective subject. A researcher has to select the kind of literature to be reviewed and determine the purpose. It starts with the selections of a problem for research, continues through the various stages of the research process and end with report writing.

Reviewing different available literature from various sources is the major objective of this chapter. The prime focus for collecting external literacy information through various textbooks, research journals and research thesis. Various articles relating to different aspects of commercial bank will help to conduct the study smoothly.

2.1 Conceptual Framework/Theoretical Review

Financial decisions are very sensitive and important and cannot be taken blindly or in vacuum. Financial decisions must be based on proper financial analysis by using financial tools such as financial ratios to measure the financial performance of the company.

“Financial analysis is process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet, which represents analysis snapshots of the firm’s financial position analysis at analysis moment in time and next, income statement, that deposits analysis summary of the firm’s profitability overtime.”(Vanhorn & Watchowloz, 1997:120)

“It is the process of determining the significant operating and financial statements. The goal of such analysis is to determining the efficiency and performance of the firm’s management, as reflected in the financial records and reports.” (Hampton, 1998:98)

“Financial analysis is to analyze the achieved statement to see if the result meet the objectives of the firm, to identify problems, if any in the past, present and /is likely to be in the future, and to provide recommendation to solve the problems” (Pradhan, 2000:120)

In financial analysis, certain guideline or criteria are included:

- a. Historical evidence of performance as a base of financial performance analysis.
- b. Economic consideration such as trend and averages of price level, business profit interest rates, dividend policy, security price movements.

Financial statement gives insight knowledge on the firm's financial position at a point of time and on its operations over some past companies regarding what they have performed financially. Financial report is reporting about what the company has done in terms of assets, liability, income and expenses. On the other hand financial statement also highlights other aspects of company such as liquidity, activity, capital structure and market.

“Financial statement analysis involves a comparison of analysis firm's performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify the current strengths and weakness and to suggest actions the might enable the firm to take advantage of the strength and correct its weakness.” (Westorn, Besley & Brigham, 1996:78)

“Financial ratios are the powerful tools of financial analysis. They provide a technique for assessing financial performance of the firm. The particular ratio to be computed depends upon proposed in view”. (Pradhan, 2004: 54)

2.2 Development of Banking in Nepal

Banking concept existed even in the ancient period when the rich people used to issue the common people against the provider of safe keeping of their valuable items on the presentation of the receipt. The depositors would get bank their gold and valuables by paying a small amount for safe keeping and saving.

The history of banking in Nepal can be described as a component of gradual and economic sphere of the Nepalese life. Even the financial system is still in evolutionary phase. Though establishment of banking industry was very recent, some crude bank operation was in practice even in ancient times. In Nepalese chorine, it was recorded the “Shankhadhar” a merchant introduced the new era known as “Nepalese Sambat” from Kantipur in 880 A.D. after having paid all the outstanding debt of the country. This shows basic of money lending

practice in ancient Nepal. In 11th century during Malla Regime there was an evidence of professional money lenders and bankers. It is further believed that money lending business particularly for financing the foreign trade with Tibet became quite popular during regime of Mallas. However, in the absence of any regulatory measures, the unscrupulous money lenders were known to have charged exorbitant rate of interest and other extra dues on loans advanced.

The establishment of the “Tejarath Adda” by Prime minister “Ranoddip Singh” during the year 1877 A.D. was fully subscribed by government of Kathmandu valley, which played vital role in the banking system, was regarded as the father of the modern banking institution in Nepal. The prime task of “Tejarath Adda” was granting of loans and safeguarding of total national deposits. At that time, Indian currency was commonly used in most part of Terai. The primary task of the “Tejarath Adda” was to attract the deposits in government exchequer at the beginning but later on public was also allowed to take the loan at the same rate of interest with gold and silver ornaments as securities and collateral. Although the institution did not accept any deposits, it had played an important role in development process of banking system in Nepal. (Shrestha, 2007:3)

The main defects of this institution showed that there was no further financial institution set-up and there was no effect to expand the services. Above all the defects the main defect was that this institution did not accept any deposit from the public. In the absence of saving mobilization, the “Adda” faced financial problems. Udhog Parishad (Industrial Development Board) was constituted in 1936 A.D. One year after

its establishment, it formulated the “Company Act” and “Nepal Bank Act” in 1937 A.D.

In the year 1937 A.D. the establishment of Nepal Bank Limited, with the Imperial Bank of India came into existence under “Nepal Bank Act, 1936” as the first commercial bank of Nepal. At that time Nepalese economy was characterized by the existence of dual currency system (Indian and Nepalese), which was effecting economic stability and development of nation. Thus, the central bank of country was established on 1956 A.D. under NRB Act, 1955 with the authorized capital of Rs.10 million fully subscribed by government. (Shrestha, 2007:3)

Integrated and speedy development of the country is possible only when the competitive banking services reach nooks and corners of the country. To cope this situation government setup Rastriya Banijya Bank in 1966 A.D. as a fully government owned commercial bank. With the come up of RBB, banking services spread to both urban as well as rural area. Agriculture Development Bank was established for the promotion of agriculture sector in country. When the government adopted liberal and market oriented economic policy in the mid 80's Nepal allowed the entry of foreign banks of joint venture basis with foreign capital, technology and experience. Nepal Arab Bank Ltd. was the first joint venture bank established on 1984 A.D. under the Commercial Bank Act, 1974. With the opening of NABIL bank the door of opening joint venture banks was opened to the private sector. (Nepal Rastra Bank, Arunodya, 2000)

2.3 Concept of Commercial Bank

Bank that undertakes the business to earn profit is known as commercial bank. It is a profit seeking organization. It collects scattered saving from all over the country and mobilizes or channelizes that savings to the borrowers or users of the funds. This facilitates the flow funds in the market. It offers different types of accounts in order to collect savings as deposits. It also makes investment by buying the securities of other organizations or government. Along with advancing loans in other sectors it also contribute certain position of its total loan in the deprived sectors as directed by the central bank of the country. It not only accepts deposits and advance loan but also performs other financial activities like dealing with foreign exchange, issuing guarantee, remittance of funds, financial foreign trade etc.

In Nepal commercial banks are categorized as “A” class financial institutions as classified in Banks and Financial Institutions Act, 2006. Nepal Bank Ltd. is the oldest commercial bank of Nepal which was established on 1937 A.D. At present there are 31 commercial banks that are operated in Nepal.

“Commercial Banks are hearts of financial system; they hold the deposits of many person, government, establishment, business unit. They make fund available through their lending and investing activities to borrowers, individuals, business firms and services for the producers to customers and the financial activities of the government. They provide the large portion of the medium of exchange and they are media through which monetary policy is

affected. These facts show that the commercial banking system of nation is important to the functioning of the economy.” (Reed, Cotler, Will & Smith, 1976: 39)

In context of Nepal, commercial banks are operated under “Commercial Bank Act, 1974”. In addition to Commercial Bank Act, Nepal Rastra Bank also lays down other many directives for their smooth functioning.

2.4 Functions of Commercial Banks

Commercial Bank performs different types of the functions. Functions can be classified into two types-Primary functions and Secondary functions.

Under primary functions commercial banks collect scattered savings as deposits from the savers. They offer different accounts to collect deposits from the savers. This helps savers to earn return on their idle savings. They mobilize or channelize the deposits collected to the borrowers or users by advancing loans. This makes productive use of the funds. They advances loans to the borrowers as term loan, overdraft etc. This helps to promote industry, trade, commerce, agriculture and so on. They also make investment in securities of other organizations and government like shares, bonds, debentures, treasury bills etc. Likewise, they create credit by depositing loan amount in the customer’s account. This enables customer withdraw

cash from the deposit created by the bank. Commercial banks also help in financing foreign trade. They issue guarantee and letter of credit that ensure the payments to the foreign traders. This helps in smooth foreign trade. People can trade internationally without physically crossing the national border. Apart from these functions commercial banks also help to transfer funds from one country to another country or from one place to another place by remitting the funds. They also buy and sell the foreign currencies.

Along with the primary functions commercial banks also perform secondary functions like functions of an agent. They perform on the behalf of their customers. It involves collection of cheques, receipts of interest and dividend, payment of bills of electricity, telephone, insurance premium etc. They also play an intermediary role in purchase and sale of securities in the primary market. They also help in the payment of taxes in the tax office. Commercial banks also provide general utility services like locker facility, issuing travelers cheque etc. They issue the cards like debit card, credit card that makes their customers easier

for the payment or withdrawal of funds. They also involve in collection of data related to trade, industry, commerce etc. they provide necessary data to the public and interest parties about the present market scenario and performance of the banks. (Paudel, Baral, Gautam & Rana, 2009: 35)

2.5 Review of Books, Journals and Dissertations

Under the various books, articles and dissertations have been reviewed for the purpose of clarification of financial statement and performance of the company under consideration.

2.5.1 Review of Related Books

Commercial banks are the institutions that transfer capital from the savers to the needy one. As a source of income, commercial banks collect deposits from the general public and same deposits are mobilized to the needy customers. Bank should pay some return on deposits made by the customers and as an income it charges some interest on the money lend. So, the banks should be efficient enough to accomplish its tasks. Likewise, the banks should be financially healthy in order to meet the needs of their stakeholders. Only the commercial banks with better financial performance can survive in the market, sustain and even expand its market share. So, it is essential to analyze the financial performance of the banks in order to know their efficiencies, capabilities, strengths, weaknesses and so on. In the course of this study various books written by different writers have been studied. Among them only the books relevant to this study are taken into consideration. Different writers have given their own views on the financial analysis in various books, which are illustrated below.

“Financial analysis is a science and an art.” (Weston & Copeland, 1992:186)

“Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Financial analysis can be undertaken by management of the firm, or the parties outside the firm, viz. owners, creditors, investors and others. The nature of analysis will differ depending on the purpose of the analyst.” (Pandey, 1996:103)

“Financial statement analysis involves a comparison of a firm’s performance with that of other firms in the same line of business, which often is identified by the firm’s industry classification. Generally speaking, the analysis is used to determine the firm’s financial position in order to identify its current strengths and weaknesses and to suggest actions that might enable the firm to take advantage of its strengths and correct its weaknesses.” (Weston, Besley & Brigham, 1996:78)

“If management is to maximize a firm’s value, it must take advantage of the firm’s strengths and, simultaneously, correct its weaknesses. Financial statement analysis helps by (1) comparing the firm’s with that of other firms in the same industry and (2) evaluating trends in operations over time. These studies help management identify deficiencies and then take actions to improve performance.” (Brigham, Gependski & Ehrhardt, 2001:72)

“The focus of financial analysis is on key figures in the financial statements and the significant relationship that exists between them. The analysis of financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of the firm’s position and performance.” (Khan & Jain, 2003:4.1)

2.5.2 Review of Related Articles

Bhatta (2005), in an article “Financial policies to prevent financial Crises”, Nepal Rastra Bank Samachar, has suggested that the financial markets have become an exciting, challenging and ever changing sector in the recent years. The emergence of global financial institutions as a result of increased economic liberalization has raised a host of questions for financial planners and policy markers. The growth of financial markets has caused complexities in the management and if they are not managed and addressed properly with appropriate policies, then the result is the financial crisis. The financial crisis, which took place in Chile in 1992, Mexico in 1994, South Asian countries 1997, Russian federation in 1998, Ecuador and Brazil in 1999 and Argentina in the late 2001 were the result of an abrupt growth in the size of financial markets posing serious challenges to their management.

According to the author of an article, the financial crises in most of the markets particularly in emerging market undergo several stages. The initial stage is emergence of numerous financial institutions and the second stage is currency crisis. The third stages are a further determination of financial and non-financial balance sheets as a result of the currency

crisis. This stage is the one that caused the economy to full-fledged financial crises with its devastating consequences.

Sapkota (2011) in an article “Core of Banking Crisis”, Republica, has stated that the Nepalese financial institutions are facing cut throat and tough competition due to popping up of numerous financial institutions. This has created unhealthy competition in the market. Numerous financial institutions with limited depositors and investment opportunities has caused liquidity crunch in the economy. The desire to earn higher profitability has closed the eyes of the financial institutions. Due to this reason they are also mobilizing the funds in unproductive sectors. As a result borrowers are failed to honor interests and principals in due time. This has also added fuel in liquidity crunch. Evidence showed that countries that had few financial institutions with strong regulatory and supervisory capabilities like Canada and Australia escaped the financial crisis pretty much unharmed. So, in Nepal also in a pathetic situation like liquidity crisis and limited investment opportunities only the strong financial institutions with better performance and well balanced factors can survive and even beat the competition.

2.5.3 Review of Unpublished Theses

Karki (2005), in his thesis entitled “A comparative analysis of financial performance of NABIL and SCBNL”, has pointed out following objectives.

- a) To evaluate liquidity position of both banks.
- b) To analyze comparative financial performance of both banks.
- c) To study the comparative position of both banks.
- d) To offer a package of suggestion to improve the financial performance.
- e) To identify the relationship between interests earned and operating profit.

Major findings of this study are as follows:

- a) SCBNL has efficiently operated its long-term fund, deposit and assets to generate more profits.
- b) Liquidity position of NABIL bank is favorable in many cases it seems excessive. The proposed recommendation for these banks are to reduce its excessive non-performing assets (Cash and bank balance) and invest on the income generating current assets (Treasury bills), while SCBNL must strength the liquidity position.
- c) Comparatively SCBNL’s profit ability position is better than of NABIL.

Thapa (2005) had conducted a research on topic of “A Comparative Financial Statement Analysis of Himalayan Bank Limited and Standard Chartered Bank Nepal Limited” with the main objectives of:

To study the liquidity, profitability , activity, capital structure and invest ability position of both SCBNL and HBL, to examine the trend of deposit and loan and advances and to suggest and recommend some measures by evaluating and finding financial performance of both banks. The major findings he had presented were as follows:

The current ratios of both the banks are always below the normal standard 2:1 which is the indication of unsatisfactory liquidity position, though SCBNL is found slightly better as compared to HBL in this regard. HBL has been found utilizing their total deposits successfully in the form of extending loan and advances for profit generating purpose as compared to SCBNL. Return on investment of SCBNL has always found higher in all fiscal years of study as compared to HBL (i.e. 4.3%>2.11%). EPS of both the banks were found in fluctuating trend through divided pre share of HBL has found always lower in all fiscal years. Both the banks were suggested to reduce the operating expenses to maximize the profit.

Pali (2006), in his thesis paper entitled, “Financial Evaluation and Analysis of Nepal Investment Bank Ltd and Standard Chartered Bank Nepal Ltd”, has made an attempt to highlight the strengths and weaknesses of above two mentioned banks. He concluded that they should search the new areas of lending and move to rural areas in search of new lending areas as well.

Sadula (2007), in his thesis entitled “Financial performance of commercial banks and returns to investors: With special reference to BOK, EBL, SCBNL, NIBL and NABIL has pointed out following objectives.

- a) To evaluate liquidity position of these banks.
- b) To analyze comparative financial performance of these banks.
- c) To study comparative position of selected banks.
- d) To offer a package of suggestion to improve the financial performance.

Major findings of this study are as follows:

- a) Commercial Bank except SCBNL and NABIL are not maintaining constant DP ratio so as to have the confidence of general shareholders.
- b) Net income of SCBNL is the highest and that of BOK is lowest during the study period. SCBNL has highest EPS and that of BOK is the lowest. SCBNL and NABIL are continuously paying the dividend maintaining higher DP ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.

Atreya (2009), in her thesis entitled “Analysis of Financial Performance of Himalayan Bank Ltd. and Standard Chartered Bank Nepal Ltd.” has concluded that personal expenses and office operating expenses have increased in SCBNL in comparison to HBL, whereas total income and operating income have been increased similarly. SCBNL seems much better in terms of offering dividend to its shareholders in compared to HBL. In terms of return on capital employed SCBNL has better position than HBL. SCBNL has utilized capital fund efficiently. HBL has been successfully utilized their total deposits in the form of extending loan and advances for profit generating purpose as compared to SCBNL. Short term solvency positions of both the banks are found below the normal standard. Both the banks have been efficient in utilizing most part of their total assets in profit generating purpose but in comparison HBL has better performance than SCBNL for utilizing assets.

Pandey (2010) in his thesis entitled, “A Comparative Financial Performance Analysis of Commercial Banks (with special reference to Nabil Bank Ltd., Nepal Investment Bank Ltd. and Standard Chartered Bank Nepal Ltd.)”, had concluded that the current ratio of NABIL, NIBL and SCBNL is greater than 1 out of which NABIL bank has the highest current ratio. It means Nabil Bank’s solvency position is better than NIBL and SCBNL. SCBNL has mobilized highest percentage of its total deposit into total investment. From income analysis, NIBL has highest net interest income than other banks. Similarly exchange income of SCBNL is greater than other sampled banks. From correlation & regression analysis NIBL & SCBNL have positive coefficient of correlation between net profit & total deposit but Nabil bank has negative coefficient of correlation.

2.6 Research Gap

The researches carried out by the previous researchers on financial analysis of banks are quite useful and appreciable. They are highly appreciated by the concerned people such as academicians, shareholders, general public and so on. In the present context, commercial banks play vital role in the economic development of the country. So research made on the financial analysis of these banks has been successful in finding strength & weakness of the banks. The recommendation and suggestion provided by these resources have been guidelines to the decision makers in order to take necessary steps wherever and whenever required and to make the banks walk in right path.

Previous studies associated with banks were basically based on the profitability of the banks. The researchers were mainly relied on the ratio analysis in order to analyze the financial aspects of the banks. As banks are the service industries, only the profit cannot be considered as their measuring tool. There are also other various financial aspects that should be analyzed in order to see true picture. So, this study is trying to fill the gap by analyzing the financial aspects of the banks through CAMEL analysis. This analysis was propounded by the American regulators. So, by using this analysis the researcher is trying to find out the real performance of the banks. The study is mainly focused on the analysis of two leading banks of Nepal i.e., Standard Chartered Bank Nepal Ltd. and Nabil Bank Ltd.

Chapter Three

Research Methodology

Research Methodology is the road map or way to conduct the research. It shows the direction way to go in order to solve research problem and accomplish the objective. Once the research methodology is set it would be possible to conduct research smoothly. Research methodology describes the methods and processes applied in the research. “Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view.” (Kothari, 1990:3)

3.1 Research Design

This study is purely financial research as it is based on the analysis of financial performance and condition of two leading commercial banks viz., SCBNL and NABIL. This study analyses the banks from different aspects. It can also be said as historical research as it studies the past transactions of the banks. In fact it is a case study research. It is the specific presentation of the various steps in research process. These steps include the selection of a research problem, presentation of the problem, formulation of hypothesis, methodology, review of literature and documentation, data collection, interpretation, report writing and bibliography.

In order to achieve the objective of the study a descriptive and analytical research design has been employed. The study is descriptive in that the study attempts to describe the financial performance of the selected organization on the basis of available data & the study is analytical in that the data have been analysis in order to draw true picture of available performance

3.2 Population and Samples

Banks are mushrooming day by day due to financial liberalization. In whole financial system of the country the number of banks and financial institutions are increasing. Till mid-July 2011 there are 31 commercial banks operating all over the country. In every part of the

country they had spread their branches. This research is mainly concentrated on two leading commercial banks of Nepal. In context of Nepal almost in every accessible district commercial banks are operated. It is impossible and difficult to study whole population so a part of the population is drawn in order to draw conclusion of the whole population. This process is called sampling and the part drawn from the population is called sample. On the other hand, it is also not possible to study all the transactions of all the commercial bank established in Nepal due to lack of time. So, while making this study all the commercial banks established in Nepal are considered as population and two leading commercial banks SCBNL and NABIL are taken as samples.

Population

1. Nepal Bank Ltd.
2. Rastriya Banijya Bank Ltd.
3. Agriculture Development Bank Ltd.
4. Nabil Bank Ltd.
5. Nepal Investment Bank Ltd.
6. Standard Chartered Bank Nepal Ltd.
7. Himalayan Bank Ltd.
8. Nepal SBI Bank Ltd.
9. Nepal Bangladesh Bank Ltd.
10. Everest Bank Ltd.
11. Bank of Kathmandu Ltd.
12. Nepal Credit and Commerce Bank Ltd.
13. Lumbini Bank Ltd.
14. Nepal Industrial & Commercial Bank Ltd.
15. Machhapuchhre Bank Ltd.
16. Kumari Bank Ltd.
17. Laxmi Bank Ltd.
18. Siddhartha Bank Ltd.
19. Global Bank Ltd.
20. Citizens Bank International Ltd.
21. Prime Commercial Bank Ltd.
22. Sunrise Bank Ltd.
23. Bank of Asia Nepal Ltd.

24. DCBL Bank Ltd.
25. NMB Bank Ltd.
26. Kist Bank Ltd.
27. Janata Bank Nepal Ltd.
28. Mega Bank Nepal Ltd.
29. Commerz & Trust bank Nepal Ltd.
30. Civil Bank Ltd.
31. Century Commercial Bank Ltd.

Samples

1. Standard Chartered Bank Nepal Ltd
2. Nabil Bank Ltd.

Selection Criteria

Out of 31 populations 2 are taken as samples due to following reasons.

-) Two leading commercial banks of Nepal
-) NABIL-first joint venture bank of Nepal, SCBNL-first multinational company.
-) SCBNL was awarded “Bank of the year 2009 Nepal” by ‘The Banker’ of the financial times.

3.3 Sources of Data

Secondary data are the data which are borrowed from others who have collected them for some other purpose. In other word any data that have been collected earlier for some purpose are secondary data for the individuals who are using them. This study is basically based on the secondary data of the respective commercial banks.

Sources of data for the study are-

-) Annual reports of 2005/06-2009/10 of SCBNL and NABIL
-) Articles, Journals related to financial performance study
-) Previous research reports
-) Prospectus of the respective banks

) Articles, Journals published by NRB

) Websites

3.4 Data collection procedures, techniques and tools

Only collecting the data is not sufficient. Those collected data should be arranged properly for the analysis purpose. Since data collected are in the raw form, the data should be processed in the ready form so that analysis would be easy and smooth. “The facts and figures collected are to be processed with a view to reducing them to manageable proportions. Only by such a careful and systematic processing, the data collected will lend itself for statistical treatment and meaningful interpretation leading to formulation of theory or finding. Thus the data processing comprises of editing, coding, categorization and tabulation, is an intermediary stage between the collection, analysis and interpretation of data.” (Joshi, 2003:93)

Therefore, before analysis the data should be tabulated, classified, arranged, edited and coded. After that when the raw data are converted into ready form, they are considered for the analysis.

Here in this study the raw data collected from the respective banks are processed into required form. Different tables are used for the presentation of the data. In this study data are analyzed through financial and statistical tools for the performance analysis of selected two banks.

3.5 Variables and measures

In this study financial performance of the selected banks is regarded as a dependent variable and the financial as well as statistical measures are regarded as independent variables, which will determine the financial performance of the selected banks. After processing the data collected, different financial and statistical measures are used for the analysis purpose in order to obtain the outputs. Here in this study following measures are used to analyze the processed data.

3.5.1 Financial Measures

Financial measures are the tools, which are used for the analysis of the organization's transactions. Financial tools mainly focus on the financial statements such as Balance sheet, Profit and Loss account, Income statement etc. They are used to analyze data, through which the organization strengths or weaknesses can be known. In this research following financial tools are used in order to analyze data.

CAMEL

The CAMEL approach was developed by bank regulators in the United States as a means of measurement of the financial condition of a financial institution. CAMEL framework system looks at five major aspects of an FI: capital adequacy, asset quality, management soundness, earnings and liquidity.

The acronym CAMEL stands for:

-) Capital Adequacy
-) Asset Quality
-) Management
-) Earnings (Profitability)
-) Liquidity and Funding

1. Capital Adequacy ratios

The first component, capital adequacy ultimately determines how well FIs can manage with shocks of their balance sheets. Thus it tracks capital adequacy ratios that take into account the most important financial risks-foreign exchange, credit and interest rate risks- by assigning risk weightings to the institutions assets. Capital adequacy is a measurement of a bank to determine if solvency can be maintained due to risks that have been incurred as a course of business. Capital allows a financial institution to grow, establish and maintain both public and regulatory confidence, and provide a cushion (reserves) to be able to absorb potential loan losses above and beyond identified problems. A bank must be able to generate capital internally, through earnings retention, as a test of capital strength.

Key ratios of capital adequacy are as follows.

a. Equity Capital ratio = $\frac{\text{Equity capital}}{\text{Total average assets}}$

b. Tier 1 capital to Total risk weighted assets ratio = $\frac{\text{Tier 1 capital}}{\text{Total risk weighted assets}}$

c. Total capital to Total risk weighted ratio = $\frac{\text{Total capital}}{\text{Total risk weighted assets}}$

2. Asset Quality

Asset quality evaluates risk (and there must be some risk to earn a return), controllability, adequacy of loan loss reserves, and acceptable earnings; and the affect of off-balance sheet earnings and loss. The quality of bank's assets hinges on their ability to be collected during and at maturity. Thus, one must examine the portfolio quality, the portfolio classification system (aging schedule and the methodology to classify a receivable) and the fixed assets (the productivity of the long-term assets, for instance the branch network). It is also necessary to determine the liquidity and the maturity structure of various assets. Investing in assets is how a bank primarily earns a return. How well are these assets going to perform?

Credit risk is one of the factors that affect the performance of an individual FI. The extent of the credit risk depends on the quality of assets held by an individual FI. The quality of assets held by an FI depends on exposure of specific risks, trends in non-performing loans, and the health and profitability of bank borrowers-especially the corporate sector.

Key ratios for examining asset quality are as follows.

a. Loan loss reserves to Total loans ratio = $\frac{\text{Loan loss reserves}}{\text{Total loans}}$

$$b. \text{ Coverage ratio} = \frac{\text{Loan loss reserves}}{\text{Non performing loans}}$$

$$c. \text{ Non performing loans to Total loans ratio} = \frac{\text{Non performing loans}}{\text{Total loans}}$$

3. Management ability

Sound management is a key to bank performance but is difficult to measure. It is primarily a qualitative factor applicable to individual institutions. Several indicators however, can jointly serve as an indicator of management soundness. Expenses ratio and earning per employee can be used as a proxy of the management quality.

Key ratios for examining management ability are as follows.

$$a. \text{ Operating expense ratio} = \frac{\text{Total operating expenses}}{\text{Total operating revenues}}$$

$$b. \text{ Earning per employee (EPE)} = \frac{\text{Net operating income}}{\text{No of employees}}$$

4. Earnings (Profitability)

Earnings determine the ability of a bank to increase capital (through retained earnings), absorb loan losses, support the future growth of assets and provide a return to investors. The largest source of income for a bank is net interest revenue (interest income from lending activity less interest paid on deposits and debt). The second most important source is from investing activity. A substantial source of income also comes from foreign exchange and precious metal trading, and commissions or transaction fees and trust operations.

Earning capacity or profitability keeps up the sound health of a FI. Chronically unprofitable FI risks insolvency on one hand and on the others, unusually high profitability

can reflect excessive risk taking of an FI. There are different indicators of profitability. Return on assets, return on equity, interest –spread ratio, operating profit margin and net profit margin are commonly used profitability indicators. NRB uses return on total assets as an indicator of profitability of a commercial bank.

Key ratios for examining profitability are as follows.

a. Net interest margin =
$$\frac{\text{Net interest income}}{\text{Average interest earning assets}}$$

b. Return on Average Assets (ROAA) =
$$\frac{\text{Net operating income after taxes}}{\text{Total average assets}}$$

c. Return on Average Equity (ROAE) =
$$\frac{\text{Net operating income after taxes}}{\text{Total (average) equity}}$$

5. Liquidity

Liquidity is what a bank requires if funding is interrupted and the bank must still be able to meet certain obligations (bank's ability to repay depositors and other creditors without incurring excessive costs). Liquidity implies liability structure or composition of the institutions liabilities, including their tenor, interest rate, payment terms, sensitivity to changes the macroeconomic environment, types of guarantees' required on credit facilities, sources of credit available to the institution and the extent of resource diversification.

Liquidity refers to reserves of cash, securities, a bank's ability to convert an asset into cash, and unused bank lines of credit. Faster the conversion into cash is referred as more liquid asset. Liquidity is a risk in which a bank might not be able to convert the asset to cash when most needed. Moreover having to wait for the sale of an asset can pose an additional risk if the price of the asset decreases while waiting to liquidate. Thus, if loans or assets are illiquid then liquidity is also limited, especially if the loans exceed stable deposits and available lines of credit. Liquidity must be sufficient to meet all maturing unsecured debt obligation due within a one-year time horizon without incremental access to the unsecured markets.

Key ratios for examining liquidity.

a. Loans to Total Deposits ratio = $\frac{\text{Total loans}}{\text{Total deposits}}$

b. Liquid Assets to Total Deposits ratio = $\frac{\text{Liquid assets}}{\text{Total deposits}}$

3.5.2 Statistical Measures

Statistical measures can be regarded as the mathematical techniques that facilitate the analysis and interpretation of the numerical data. By the help of statistical measures even the complex and complicated problem can be studied in a simple way. They help to convert abstract problems into figures and complex data in the form of tables. The term statistics is considered synonymous with figure or data. Statistics also refers to a subject, just as mathematics refers to a subject as well as to symbols, formulae and theorems, and accounting refers to principles and methods as well as to accounts, balance sheet and income statements. Thus a word statistics refers either to quantitative information or to a method of dealing with quantitative information. Statistics deals with the collection, presentation, analysis and interpretation of the quantitative information. The methods by which data are analysed are called statistical methods. Statistical methods in general are nothing but a refinement of everyday thinking. Statistics is usually not studied for its own sake rather it is widely employed as tools in the analysis of problems in nature, physical and social sciences. Statistical methods are used by government bodies, private business firms, and research agencies as an indispensable aid in forecasting, controlling and exploring.

By using statistical tools in the research, it becomes easier to analyze the data. They help to know the averages and trend through which the analysis of data becomes easier and meaningful understanding can be obtained. By the help of statistical tools the hypothesis can be formulated and tested. In this research various statistical tools are used in order to analyze the data. They are as follows.

1. Average

An average is the single value that represents the group of values. It shows the characteristics of whole group. As it represents whole group, it becomes easier to make comparison between two groups. The most widely used average is arithmetic mean, which is obtained by dividing the sum of all the observations by the number of observations. It can be calculated as-

$$\text{Arithmetic Mean} = \frac{\text{Sum of all the observations}}{\text{Number of observations}}$$

$$\text{or, } \bar{\varepsilon} = \frac{\phi\varepsilon}{\rho}$$

where,

$\bar{\varepsilon}$ = Arithmetic Mean or Average

$\phi\varepsilon$ = Sum of all the observations

ρ = Number of observations

2. Index number

Index number is a tool that measures the proportion or percentage change in the relative value compared to its base year. It indicates by how much proportion the value has increased or decreased as compared to the base year. It can be calculated as-

$$\text{Index number} = \frac{\text{Value in current year}}{\text{Value in base year}} | 100$$

3. Correlation Analysis

“Correlation analysis is defined as the statistical technique which measures the degree and direction of relationship (or association) between/among the variables. In other words, it helps in studying the covariance of two or more variables. Correlation analysis does not tell anything about cause and effect relationship i.e. if there is a high degree of correlation

between the variables, we cannot say which is the cause and which is the effect.” (Shrestha & Silwal, 2000:314)

So, by the help of correlation analysis the relationship between two items or variables can be known which is very useful in this research. The most widely used formula or method to find correlation coefficient is Karl Pearson’s coefficient of correlation. The Pearson’s coefficient of correlation is denoted by the symbol ‘r’ and is calculated as:

$$\text{Coefficient of correlation (r)} = \frac{xy}{\sqrt{x^2 | y^2}}$$

where, $x = X - \bar{X}$

$y = Y - \bar{Y}$

r = Correlation coefficient

The results obtained by using above formula are interpreted as follows:

-) The result lies always between -1 to +1.
-) When $r = +1$, there is perfect positive correlation.
-) When $r = 0$, there is no correlation.
-) When $r = -1$, there is perfect negative correlation.
-) When r lies between (0.7 to 0.999) or, (-0.7 to -0.999), there is a high degree of positive or negative correlation.
-) When r lies between (0.5 to 0.699) or (-0.5 to -0.669), there is a moderate degree of correlation.
-) When r is less than 0.5 or -0.5, there is low degree of correlation.

4. Test of Significance or Hypothesis

A quantitative statement about the population parameter is called a hypothesis. In other words, hypothesis is an assumption about the parameter of population or any relationship between the variables. The assumption can be true or false. Generally two complementary hypotheses are set up at one time. If one of the hypotheses is accepted then the other hypothesis is rejected and vice versa.

Null hypothesis and Alternative hypothesis are types of hypothesis. Under null hypothesis true value and expected value are assumed to be equal. The hypothesis under the assumption that the difference between true and expected values is equal to zero is known as Null hypothesis. Under alternative hypothesis true and expected values are assumed to be unequal. Alternative hypothesis is complementary to null hypothesis.

Under this study testing of hypothesis are made to show the relationship between the following variables of two selected banks.

) **Testing of hypothesis of Total Loans to Total Deposits ratio of the banks under study.**

Null hypothesis

$H_0: \mu_S = \mu_N$ i.e., there is no significance difference in average Total Loans to Total Deposits ratio of two banks.

) **Testing of hypothesis of Total operating expenses to Total operating revenues ratio of the banks under study.**

Null hypothesis

$H_0: \mu_S = \mu_N$ i.e., there is no significance difference in average Total expenses to Total revenues ratio of two banks.

) **Testing of hypothesis of Return on average equity of the banks under study**

Null hypothesis

$H_0: \mu_S = \mu_N$ i.e., there is no significance difference in average return on equity of two banks.

) **Testing of hypothesis of Non-performing Loan to Total Loans ratio of the banks under study.**

Null hypothesis

$H_0: \mu_S = \mu_N$ i.e., there is no significance difference in average Non-performing Loan to Total Loans ratio of two banks.

In this research Analysis of Variance (ANOVA) is used for test of significance or hypothesis.

Analysis of Variance (ANOVA)

Analysis of Variance (ANOVA) is a powerful statistical tool for test of significance to evaluate difference among the parameters of several groups. It can also be said as a statistical technique specially designed to test whether the means of more than two quantitative populations are equal. It helps to know whether the samples have come from the same normal population having the same mean. In this research one way ANOVA is used to analyse and find out whether there is difference or not between the average ratios of two districts. It can be calculated as-

Total variation = Variation between sample + Variation within sample

Total sum of squares = Sum of squares between samples + Sum of squares within samples

or, $SST = SSB + SSW$

Now, mean sum of squares should be calculated, which can be calculated as-

$$MSB = \frac{SSB}{k - 1}$$

$$MSW = \frac{SSW}{n - k}$$

$$\text{Then, } F = \frac{MSB}{MSW}$$

Here, degree of freedom (d.f.) = (k - 1, n - k)

Likewise, level of significance is assumed to be 5%.

If calculated value of F is less than or equal to tabulated value of F, then null hypothesis will be accepted. But, if calculated value of F is greater than tabulated value of F, then alternative hypothesis will accepted.

Chapter Four

Presentation and Analysis of Data

This chapter can be considered as a heart of the research. It is gist of the research. Whole research is dependent on this part. In this part the objectives set earlier would be accomplished. In this chapter detailed analysis and interpretation of data are made. Here the filtered data are presented and analyzed. Various tables are used to present the data. Likewise data are analyzed by using various financial and statistical tools. Since this research is mainly concentrated on comparative financial analysis of two leading commercial banks of Nepal, the analysis of data is made in order to find out the strengths and weaknesses of these banks.

4.1 Performance of the selected banks

Financial ratios are the basis through which the comparison can be made. Here various financial ratios are used to compare the performance of the banks. The research is mainly focused on the CAMEL analysis of the banks. The financial ratios which are used for the analysis of data are as follows.

4.1.1 Capital adequacy

Capital adequacy measures the bank's solvency position. In course of business banks face many risks so they have to maintain proper level of solvency position. Capital allows a financial institution to grow, establish and maintain both public and regulatory confidence and provides cushion in case it incur losses. A bank should generate capital internally by retaining adequate level of earnings. The key ratios to measure the capital adequacy of the banks are as follows.

a. Equity capital to Total assets ratio

This ratio shows the portion of equity capital in the total assets of an organization. Higher portion of equity gains confidence of the public on the bank. Bank has to maintain

proper level of this ratio in order maintain its capital strength. The equity capital to total assets ratio of the banks under study are as follows.

Year	SCBNL	NABIL
2005/06	0.0677	0.0840
2006/07	0.0740	0.0755
2007/08	0.0748	0.0656
2008/09	0.0762	0.0714
2009/10	0.0838	0.0735
Average	0.0753	0.0740

Table 4.1 Equity capital to Total assets ratios

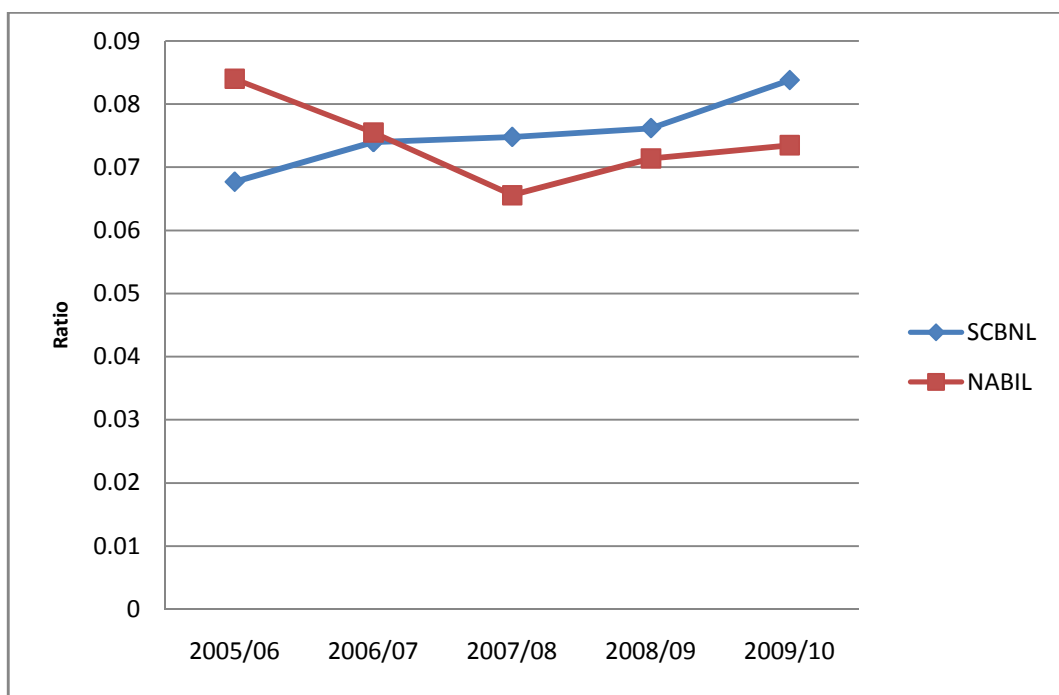


Figure 4.1 Trend lines showing Equity capital to Total assets ratios of the banks.

Table 4.1 and figure 4.1 show that the equity capital to total assets ratios of SCBNL is in increasing trend whereas the trend of the ratios in case of NABIL is fluctuating. In 2005/06 and 2006/07 the ratio of NABIL has higher than that of SCBNL. Likewise from 2007/08 to 2009/10 SCBNL has the higher ratios than that of NABIL. Looking an average also SCBNL has maintained higher ratio compared to NABIL. This implies that on an average SCBNL has high proportion of equity capital on total assets compared to NABIL.

b. Tier 1 Capital to Total risk adjusted assets ratio

This ratio shows the portion of tier 1 capital in total risk adjusted assets of an organization. A bank has to maintain proper level of this ratio. Tier 1 capital comprises of equity capital and disclosed reserves. As per Unified Directives, 2011 issued by NRB the banks should always maintain a tier 1 capital of not less than 6 percent of total risk weighted exposure. The banks maintaining equal to or greater than 6 percent is considered as well capitalized. The tier 1 capital to total risk adjusted assets ratios of the banks under study are as follows.

Year	SCBNL	NABIL
2005/06	0.1299	0.1074
2006/07	0.1377	0.1040
2007/08	0.1215	0.0875
2008/09	0.1305	0.0874
2009/10	0.1261	0.0877
Average	0.1292	0.0948

Table 4.2 Tier 1 capital to total risk adjusted assets ratios

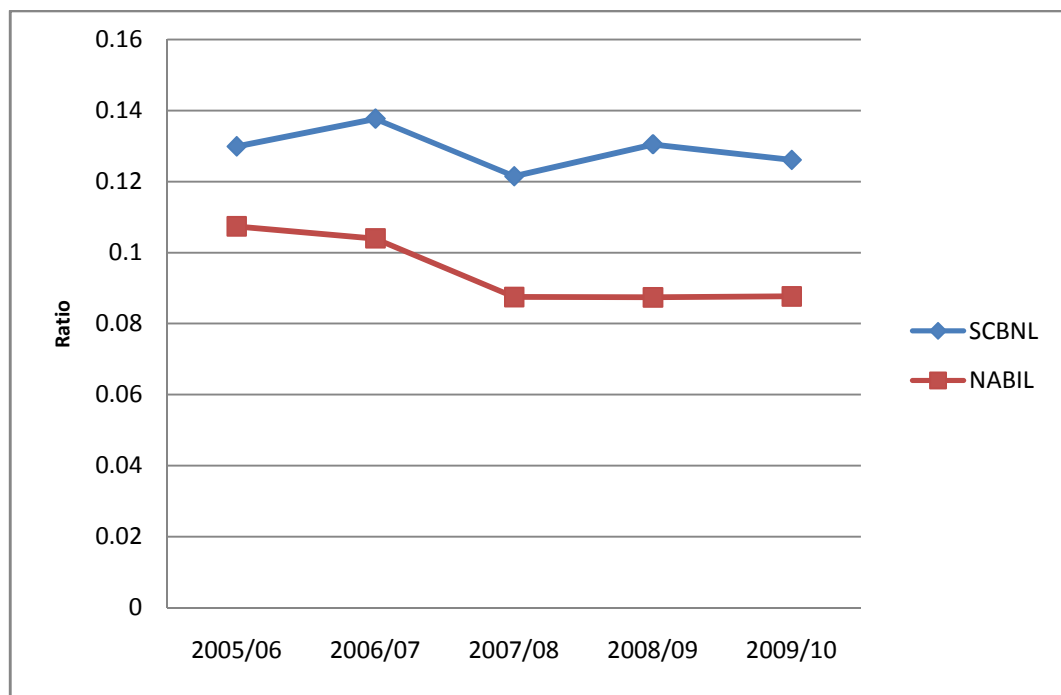


Figure 4.2 Trend lines of Tier 1 capital to Total risk adjusted assets ratios of the banks.

Table 4.2 and figure 4.2 show that the trend of tier 1 capital to total risk adjusted assets ratios of both the banks is fluctuating. The ratios of SCBNL are higher than that of NABIL. This indicated that SCBNL has higher proportion of tier 1 capital in total risk

adjusted assets compared to NABIL. On an average also SCBNL has maintained higher ratio. This shows that the capital strength of SCBNL is stronger than that of NABIL. But as per criteria set by NRB i.e., 6 % both the banks have been able to maintain this criteria. So considering this criterion it can be said that both the banks are well capitalized.

c. Total capital to total risk adjusted assets ratio

This ratio shows the proportion of total capital in total risk adjusted assets. Total capital comprises of total of tier 1 capital and tier 2 capital. Tier 1 capital comprises of equity capital and disclosed reserves. Likewise tier 2 capital includes reserves which though unpublished have been passed through the profit and loss account and all other capital instruments eligible and acceptable for capital purposes. As per Unified Directives, 2011 issued by NRB the banks should maintain all times a total capital fund of not less than 10 percent of total risk weighted exposure. The banks maintaining equal to or greater than 10 percent is considered as well capitalized. The total capital to total risk adjusted assets ratios of the banks under study are as follows.

Year	SCBNL	NABIL
2005/06	0.1493	0.1231
2006/07	0.1571	0.1204
2007/08	0.1400	0.1110
2008/09	0.1470	0.1070
2009/10	0.1460	0.1050
Average	0.1479	0.1133

Table 4.3 Total capital to total risk adjusted assets ratios

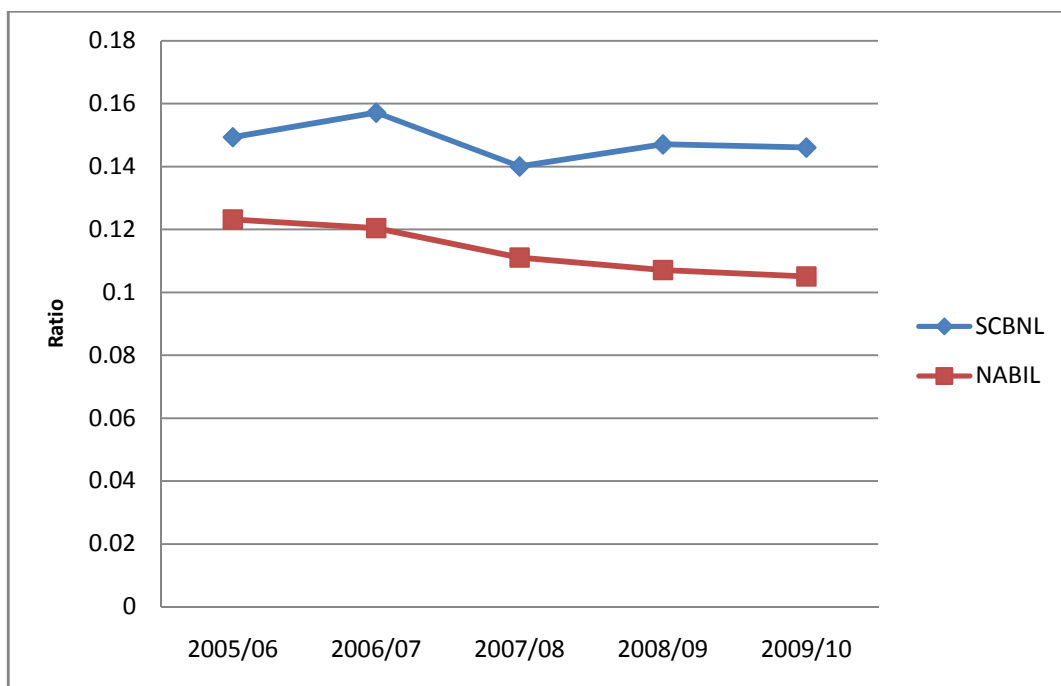


Figure 4.3 Trend lines of total capital to total risk adjusted assets ratios of the banks.

Table 4.3 and figure 4.3 show that the total capital to total risk adjusted assets ratio of SCBNL is fluctuating whereas in the case of NABIL the trend is in decreasing trend. The ratios of SCBNL are higher than that of NABIL. On an average also SCBNL has maintained higher ratio. This implies that SCBNL is considered as well capitalized compared to NABIL. But as per criteria set by NRB i.e., 10% both the banks have been able to maintain this criteria. So considering this criterion it can be said that both the banks are well capitalized.

4.1.2 Asset Quality

Assets quality evaluates the risk, controllability, adequacy of loan loss reserves and the acceptable returns. The deposits collected by the banks are liabilities to them. They convert their liabilities into assets by the process of lending. Bank should be efficient enough to utilize their deposits in proper lending. Through well management of assets only bank can be able to make profit and survive in this competitive market. The key ratios for examining the asset quality of the banks are as follows.

a. Loan loss reserves to Total loan ratio

This ratio shows the portion of loan loss reserves on total loan of the bank. Loan loss reserves are the provision made by the bank in order to minimize the risk occurred due to loan disbursement. Loan loss reserves affects on the profitability of the bank. Greater the loan loss reserves to total loan ratio more the bank is safer. But on the other hand more the loan loss reserve more will be the non performing loan. Bank has to make provision of loan loss reserve as directed by NRB, which states that more provision should be made depending on severity of the loan. The ratios for loan loss reserves to total loan are as follows.

Year	SCBNL	NABIL
2005/06	0.0050	0.0002
2006/07	0.0035	0.0002
2007/08	0.0035	0.0023
2008/09	0.0041	0.0009
2009/10	0.0048	0.0110
Average	0.0042	0.0029

Table 4.4 Loan loss reserves to Total loan ratios

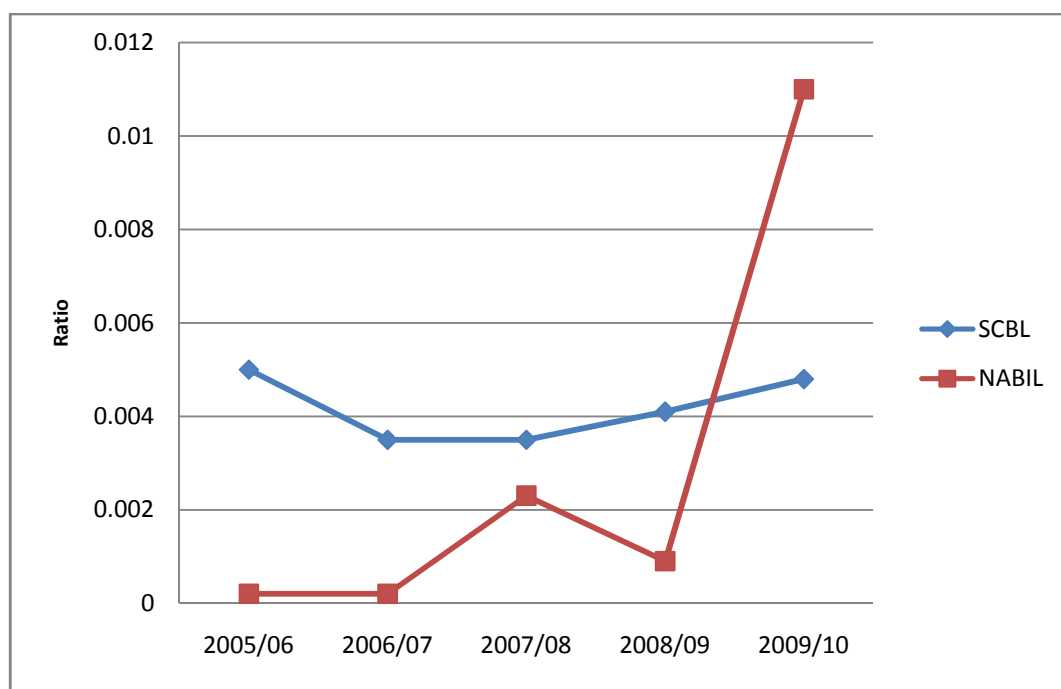


Figure 4.4 Trend lines showing the loan loss reserves to total loan ratios of the banks.

Table 4.4 and figure 4.4 show that the ratios of loan loss reserve to total loan of NABIL are fluctuating more than that of SCBNL. The trend in case of SCBNL is found to be somewhat steady. In four years i.e., from 2005/06 to 2008/09 the ratios of SCBNL are more

than that of NABIL. This shows that SCBNL has provisioned more on total loan in these years compared to NABIL. In 2009/10 NABIL has the trend line of the ratio upward showing that it has provisioned more loan loss compared to SCBNL. On an average SCBNL has provisioned more compared to NABIL.

b. Coverage ratio

This ratio shows portion of loan loss reserve that is maintained in respect of non performing loans. As non performing loan is not good for the health of bank, the bank has to make provision of certain amount. More the non performing loan more will be the loan loss reserves. This provisioning adversely affects the profit of the bank. The coverage ratios of the banks are as follows.

Year	SCBNL	NABIL
2005/06	0.2283	0.0170
2006/07	0.1868	0.0180
2007/08	0.3769	0.2996
2008/09	0.6221	0.1071
2009/10	0.7844	0.7371
Average	0.4397	0.2347

Table 4.5 Coverage ratios

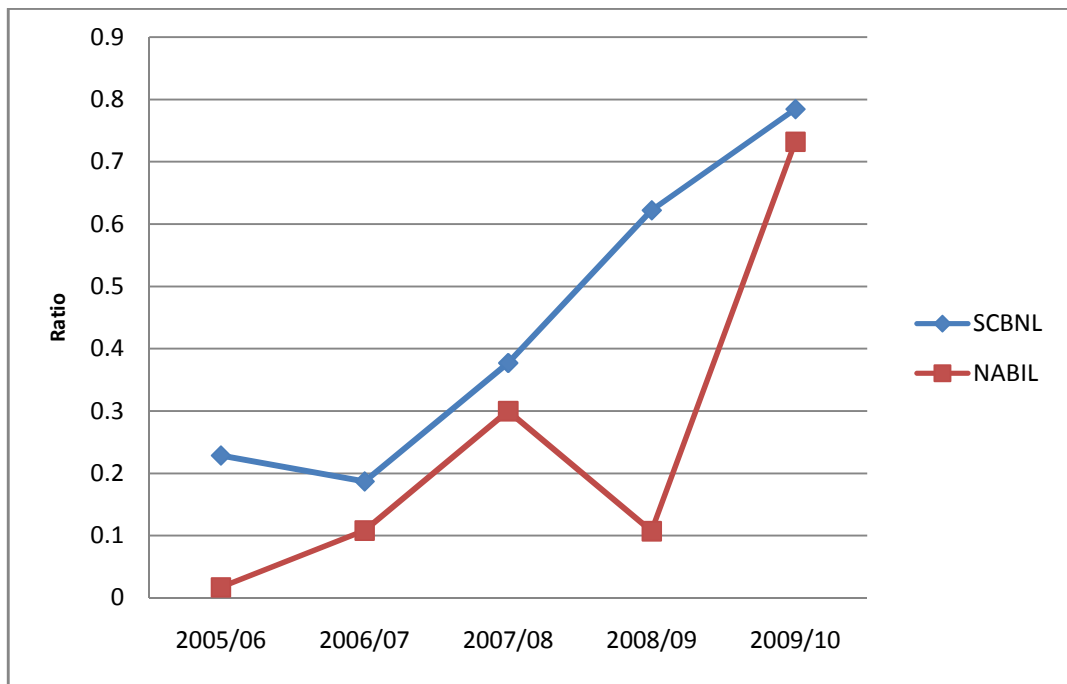


Figure 4.5 Trend lines of coverage ratios of the banks.

Table 4.5 and figure 4.5 show that the coverage ratios of SCBNL are higher than that of NABIL. Except in 2006/07 SCBNL has the increasing trend of coverage ratio. Likewise in the case of NABIL except in 2008/09 coverage ratio has increasing trend. On an average also SCBNL had higher coverage ratio. This shows that SCBNL has provisioned more for the non performing loans as compared to that of NABIL.

c. Non performing loans to Total loans ratio

This ratio shows the portion of non performing loans in the total loan of the bank. According to Unified Directives, 2011 issued by NRB three months overdue loans are categorized as non performing loans. Non performing loans consist of substandard, doubtful, loss and rescheduled or restructured loans. Non performing loans affect the performance of the banks. An increase in non performing loans is not good for the health of banks. An increase in non performing loans increases the loan loss provision which affects the profitability of the banks. The ratios for non performing to total loans ratios are as follows.

Year	SCBNL	NABIL
2005/06	0.0219	0.0141
2006/07	0.0188	0.0115
2007/08	0.0094	0.0075
2008/09	0.0067	0.0081
2009/10	0.0062	0.0151
Average	0.0126	0.0113

Table 4.6 Non performing loans to Total loans ratios

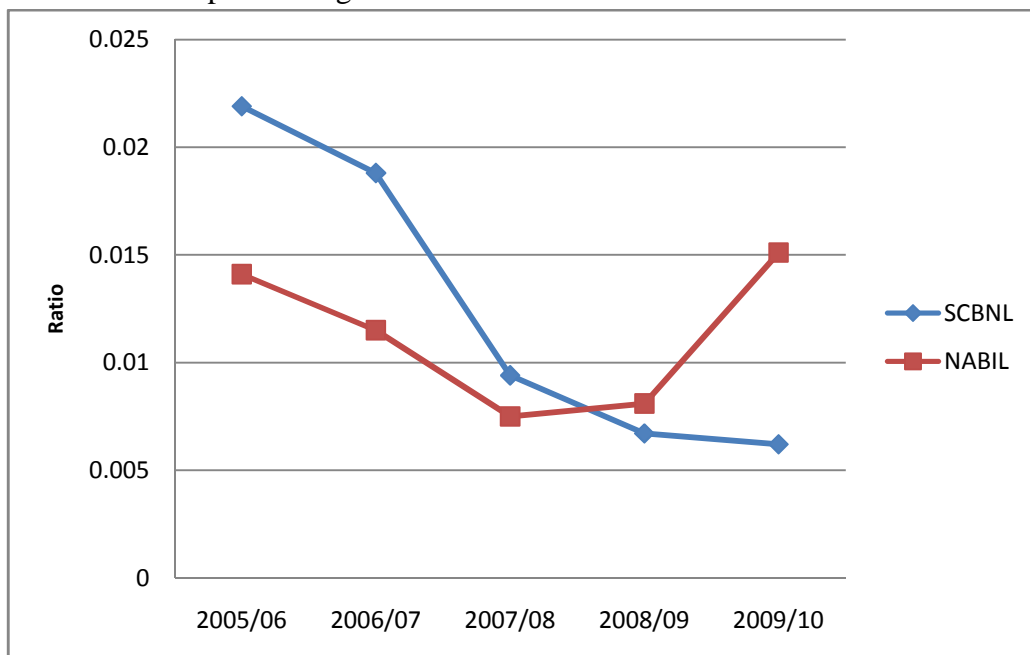


Figure 4.6 Trend lines of non performing loans to total loans ratios of the banks.

Table 4.6 and figure 4.6 show that the trend of non performing loans to total loans ratio of SCBNL is in increasing trend whereas in the case of NABIL it is in fluctuating trend. This shows that every year SCBNL has been able to reduce its non performing loans from its total loans. From 2005/06 to 2007/08 the ratio of SCBNL is higher showing that in these years the non performing loans of SCBNL were greater than that of NABIL's. In 2008/09 and 2009/10 NABIL has the higher ratio stating that in these years it has the higher non performing loans compared to SCBNL. On an average SCBNL has the higher ratio indicating that in an average of five years data it has the higher non performing loans in total loans compared to NABIL.

4.1.3 Management ability

The management of every organization should be good enough to manage its organization. It should drive an organization effectively and efficiently. This helps organization survive in this competitive market. The key ratios to examine the management efficiency are as follows.

a. Operating expense ratio

This ratio shows the proportion of operating expenses in total operating revenues earned by the bank. For every organization to earn more either it has to increase its revenue or decrease its expenses. The management of this organization has to try its best to decrease this ratio. Higher ratio indicates more operating expenses which adversely affects the profitability of an organization. Operating ratios of the banks are as follows.

Year	SCBNL	NABIL
2005/06	0.4023	0.4425
2006/07	0.4268	0.4835
2007/08	0.4130	0.5114
2008/09	0.4071	0.5211
2009/10	0.4121	0.5633
Average	0.4123	0.5043

Table 4.7 Operating expense ratios

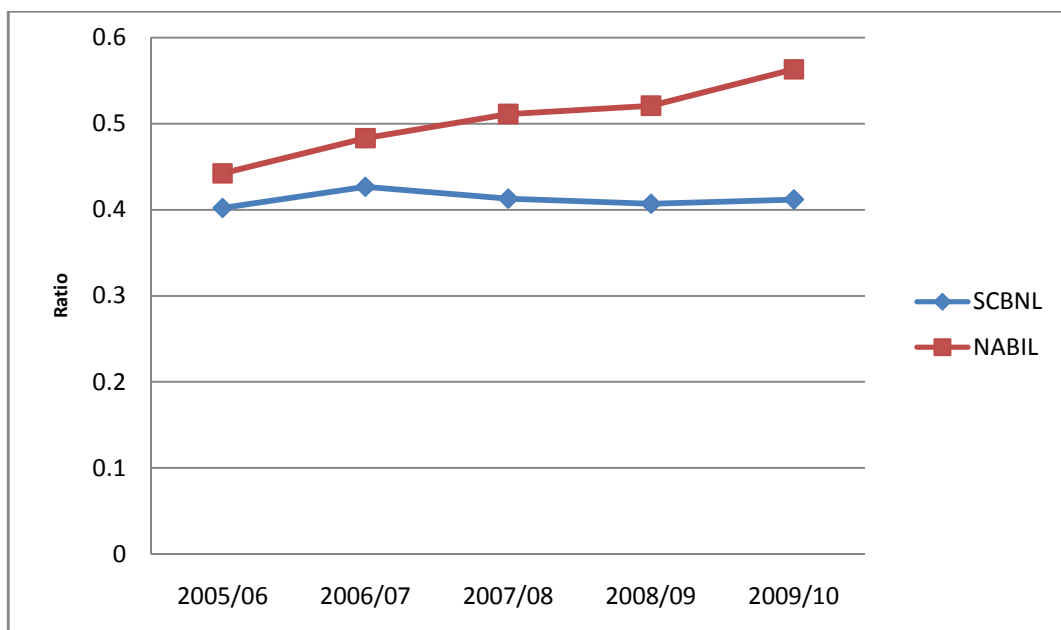


Figure 4.7 Trend lines showing operating expenses ratios of the banks.

Above table 4.7 and figure 4.7 show that the operating expense ratios of NABIL is higher than that of SCBL. The ratio of NABIL is in increasing trend whereas in the case of SCBNL the trend is found to be steady. In five years periods SCBNL has been able to maintain this ratio from approx. 40 % to 42%. The trend of this ratios shows that SCBNL has been able to minimize its operating expenses compared to NABIL. In an average also SCBNL has been able to maintain lower operating expense ratio as compared to NABIL.

b. Earning per Employee

Employees are the resources of an organization. It is an employee of an organization who drives it. Only the efficient employee can run an organization effectively and efficiently. Earning per employee shows how much an employee has contributed in net operating income of the banks.

Year	SCBNL	NABIL
2005/06	NPR 284,405,866.96	NPR 216160051.25
2006/07	NPR 311,386,834.76	NPR 242,999,275.18
2007/08	NPR 331,149,136.34	NPR 269,883,156.25
2008/09	NPR 384,211,443.37	NPR 310,931,613.07
2009/10	NPR 375,866,483.45	NPR 306,487,015.98
Average	NPR 337,403,952.97	NPR 269,292,222.34

Table 4.8 Earning per employee

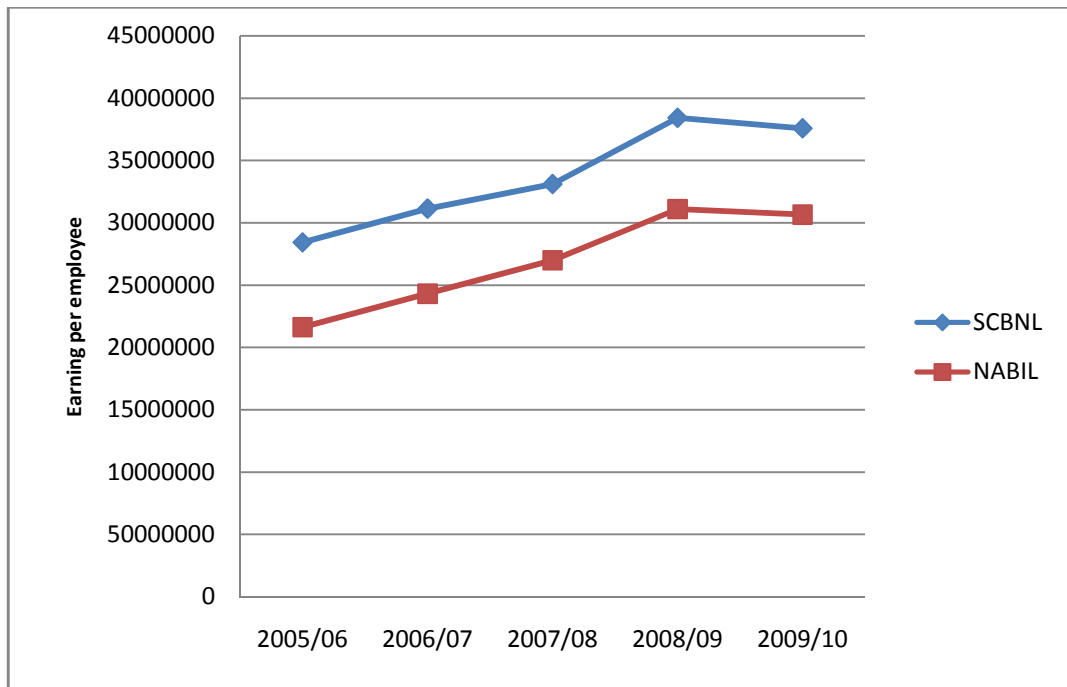


Figure 4.8 Trend lines showing earning per employee of the banks.

Figure 4.8 and table 4.8 show that the earning per employee of SCBNL is higher than that of NABIL. The trend of EPE is same in both the banks. From 2005/06 to 2008/09 EPE is in increasing trend in both the banks. But in 2009/10 both banks' EPE has decreased compared to 2008/09. An average EPE indicates that in an average contribution of an employee in operating income of SCBNL is higher than that of NABIL.

4.1.4 Earning/Profitability

Profit is very essential for the growth and survival of an organization. Profit is an ultimate output of an organization. It is difference between revenue and expenses over a period. An organization failed to make sufficient profit has no future. Here the operating efficiency of an organization is examined. It shows the ability of the management in generating surplus income. Key ratios for examining earning or profitability of the banks are as follows.

a. Net interest margin

This ratio is used to measure margin of interest on total interest earning assets. As interest is main source of income so it is essential to measure interest margin. More the margin

indicates that the bank has mobilized its deposits in a productive way. Net profit margins of the banks are as follows.

Year	SCBNL	NABIL
2005/06	9.92	7.37
2006/07	9.51	6.64
2007/08	8.16	5.71
2008/09	9.82	5.96
2009/10	9.19	6.47
Average	9.32	6.43

Table 4.9 Net interest margin

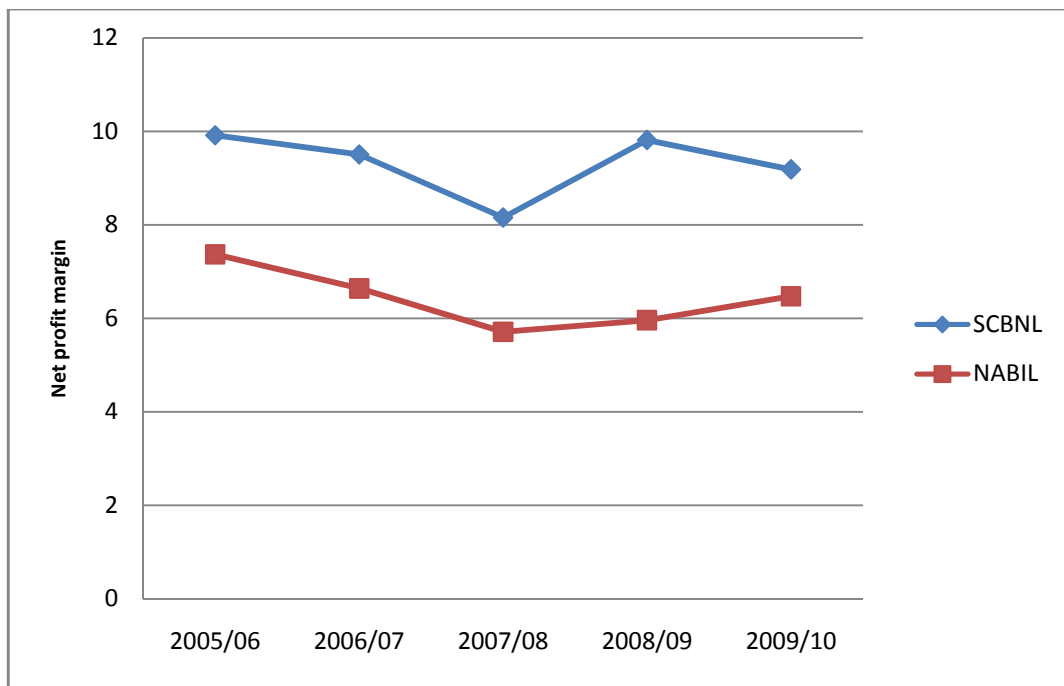


Figure 4.9 Trend lines showing the net interest margin of the banks.

Table 4.9 and figure 4.9 show that the net interest margin of SCBNL is higher than that of NABIL. In case of both the banks net interest margin is fluctuating. The net interest margin of SCBNL indicates that its net interest income in respect of its average interest earning assets is higher than that of NABIL. In an average SCBNL has the higher net interest margin as compared to NABIL. This shows that SCBNL has allocated its deposits more productively than that of NABIL.

b. Return on average assets (ROAA)

This ratio is used to measure the proportion of net operating income after taxes on total average assets that an organization has owned. Net operating income refers to the profit after interest and taxes. Average assets refer to average assets calculated from current and

preceding years. Higher ratio indicates higher efficiency and profitability. The ratios of ROAA of the banks are as follows.

Year	SCBNL	NABIL
2005/06	2.77	3.23
2006/07	2.54	2.72
2007/08	2.64	2.32
2008/09	2.79	2.55
2009/10	2.71	2.37
Average	2.69	2.64

Table 4.10 Return on average assets

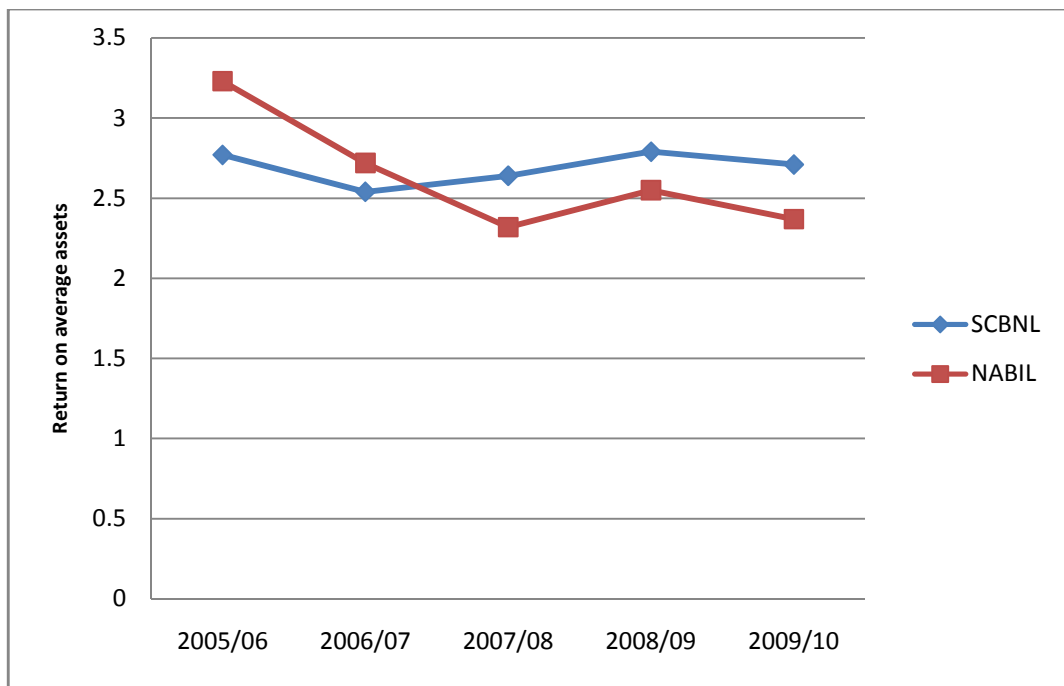


Figure 4.10 Trend lines showing return on average assets of the banks.

Table 4.10 and figure 4.10 show that the trend of return on average assets of both the banks is fluctuating. Looking at all the ratios it is found that in 2005/06 and 2006/07 the ratio of NABIL is higher than that of SCBNL. In the remaining years from 2007/08 to 2009/10 the ratios of SCBNL are higher than that of NABIL. As the SCBNL has a higher ratio in 2009/10 this shows that SCBNL has higher net operating income after taxes on its total average assets. In an average also SCBNL has the higher ratio in comparison to NABIL. This implies that SCBNL has managed its assets more effectively, efficiently and profitably.

c. Return on average equity (ROAE)

This ratio is used to measure the amount of net operating income after taxes to a rupee of shareholders fund received. Shareholders equity is the funds invested by the shareholders.

So, it is essential to know whether the shareholders receive reasonable return on the funds they had invested or not. ROAE is calculated to see the profitability of the shareholders investment. Higher ROAE refers to high return to each rupee invested by the shareholders and vice versa. In this research this ratio is used to measure how much return has the shareholders of the banks under study received in turn of their investment. The ROAE of the banks are as follows.

Year	SCBNL	NABIL
2005/06	37.77	33.88
2006/07	32.68	32.76
2007/08	32.85	30.63
2008/09	33.58	32.94
2009/10	32.22	29.70
Average	33.82	31.98

Table 4.11 Return on average equity

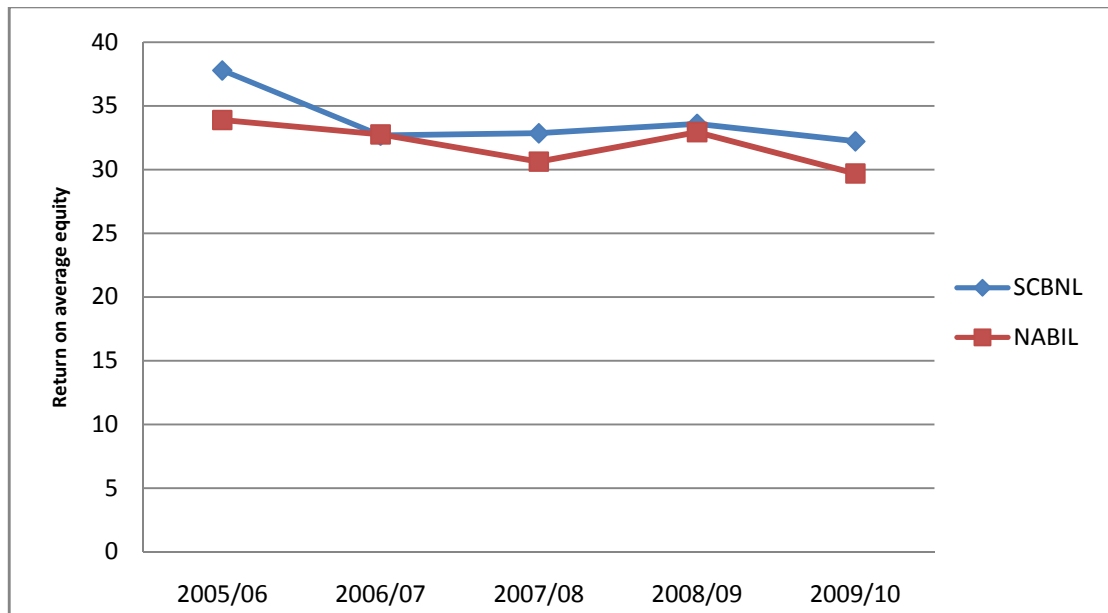


Figure 4.11 Trend lines showing ROAE of the banks

Table 4.11 and figure 4.11 show that the trend of ROAE of both the banks is fluctuating. ROAE of SCBNL is higher than that of NABIL in all the fiscal years except in 2006/07. There is a slight difference in this year. As the average return on average equity of SCBNL is higher than that of NABIL it can be said that SCBNL has contributed more to its shareholders compared to NABIL.

4.1.5 Liquidity

Liquidity measures the ability of an organization, whether it can meet its current obligations or not. An appropriate liquidity is essential for an organization because it affects the creditworthiness as well as performance of an organization. As both excessive and lack of liquidity are harmful for an organization it is necessary to maintain a proper balance between high liquidity and lack of liquidity. Following key ratios are used to measure liquidity of the banks under study.

a. Total loans to Total Deposits ratio

This ratio measures the proportion of total loans in total deposits. As deposits are liabilities to the bank, it has to proper maintain proper level of this ratio. This helps banks to maintain proper level of liquidity. The bank should not be more aggressive in lending as it may loose its liquidity position. So, 70% to 80% of this ratio is considered to be better. The total loans to total deposits ratios of the banks under study are as follows.

Year	SCBNL	NABIL
2005/06	0.3875	0.6679
2006/07	0.4261	0.6660
2007/08	0.4612	0.6694
2008/09	0.3870	0.7387
2009/10	0.4535	0.6953
Average	0.4231	0.6875

Table 4.12 Total loans to Total deposits ratios

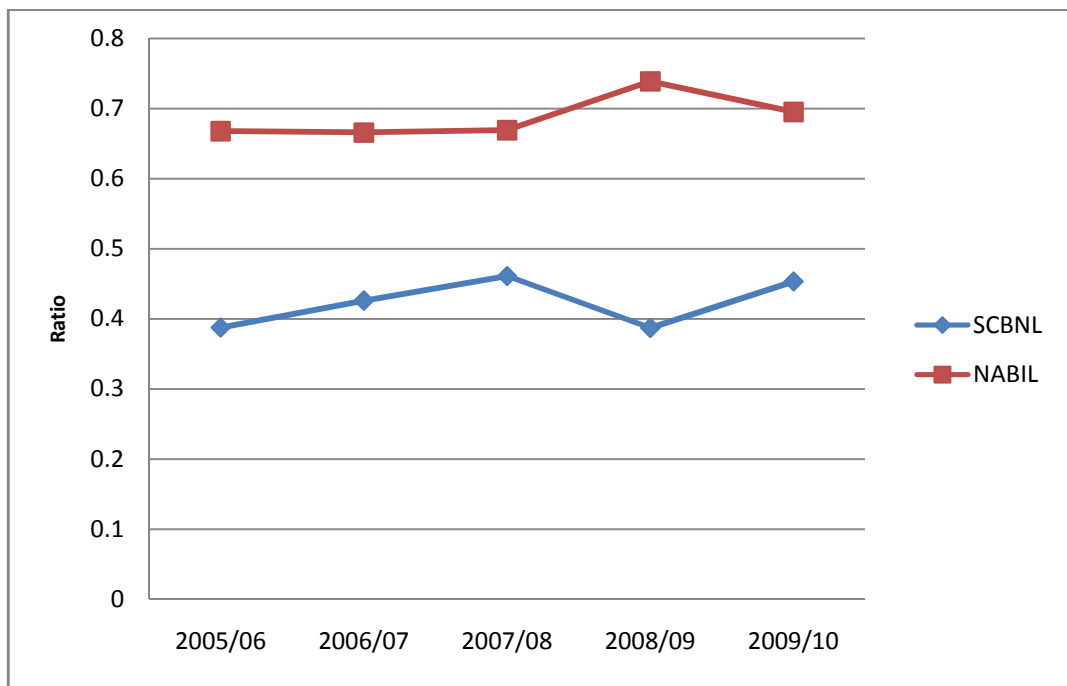


Figure 4.12 Trend lines showing Total loans to Total deposits ratios of

the banks

Table 4.12 and figure 4.12 show that the trend of total loans to total deposits ratios of both the banks are fluctuating. The ratios of SCBNL are found be lower than that of NABIL. This shows that SCBNL has maintained excessive liquidity compared to NABIL. Looking at an average of five fiscal years data SCBNL has maintained excessive liquidity compared to NABIL as its ratio is half of the NABIL's.

b. Liquid assets to Total deposits ratio

This ratio is used to measure the liquidity position of an organization. It shows proportion of liquid assets that a bank has in order to pay back its depositors in short notice. Deposits are liabilities for the banks. So it is essential to know liquid assets available in order to pay back the deposits in case demanded by the customer. The liquid assets to total deposits ratios of the banks under study are as follows.

Year	SCBNL	NABIL
2005/06	0.1411	0.1222
2006/07	0.1535	0.0841
2007/08	0.1428	0.1449
2008/09	0.1469	0.1051
2009/10	0.1023	0.0974
Average	0.1373	0.1107

Table 4.13 Liquid assets to Total deposits ratios

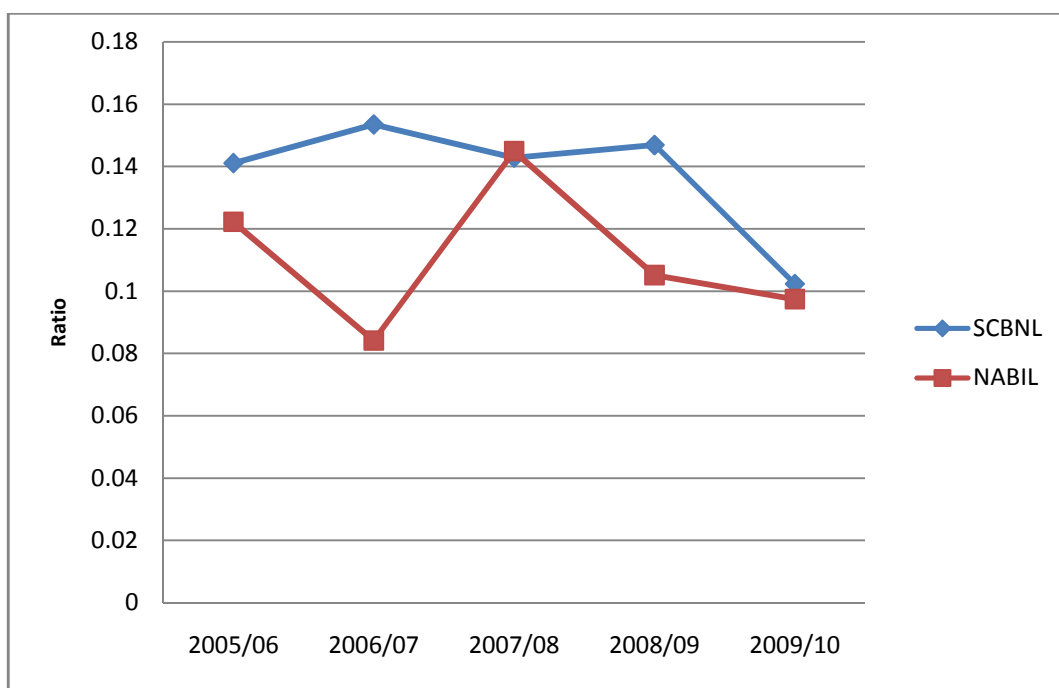


Figure 4.13 Trend lines of liquid assets to total deposits ratios of the banks

Table 4.13 and figure 4.13 show that trend of liquid assets to total deposits ratios of both the banks are fluctuating. The ratios of SCBNL are higher than that of NABIL except in 2007/08. This implies that overall during five years period SCBNL has been able to maintain higher liquid assets compared to the total deposits. On an average also SCBNL has been able to maintain higher ratio compared to NABIL.

4.2 Factors affecting the performance of the selected banks

Analyzing the selected variables in absolute term is measurement of the characteristics of each variable individually. The ratio analysis only describes the ratio between two variables but it does not tell about the absolute value of those variables. So, in this section, only the selected variables are analyzed in absolute term. The variables are analyzed on the basis of the value of the base year i.e., 2005/06. The following tables show the value of the selected variables in absolute term and the index (%) of two banks i.e., Standard Chartered Bank Nepal Ltd. and NABIL Bank Ltd.

Standard Chartered Bank Nepal Ltd:

(Rs. in millions)

Year	Deposits	Index (%)	Loans	Index (%)	Profit	Index (%)	Non performing loan	Index (%)
2005/06	23,061.0	100.0	8,935.42	100.0	658.76	100.0	195.93	100.0
	3	0		0		0		0

2006/07	24,647.0 2	106.8 8	10,502.6 4	117.5 4	691.67	105.0 0	197.02	100.5 6
2007/08	29,744.0 0	128.9 8	13,718.6 0	153.5 3	818.92	124.3 1	128.72	65.70
2008/09	35,350.8 2	153.2 9	13,679.7 6	153.1 0	1,025.1 1	155.6 1	91.04	46.47
2009/10	35,182.7 2	152.5 6	15,956.9 6	178.5 8	1,085.8 7	164.8 4	98.14	50.09

Table 4.14 Table showing the amount and index of the selected variables of SCBNL

NABIL Bank Ltd:

(Rs. in millions)

Year	Deposits	Index (%)	Loans	Index (%)	Profit	Index (%)	Non performing loan	Index (%)
2005/06	19,347.4 0	100.0 0	12,922.5 4	100.0 0	635.26	100.0 0	182.62	100.0 0
2006/07	23,342.2 9	120.6 5	15,545.7 8	120.3 0	673.96	106.0 9	178.29	97.63
2007/08	31,915.0 5	164.9 6	21,365.0 5	165.3 3	746.47	117.5 1	161.09	88.21
2008/09	37,348.2 6	193.0 4	27,589.9 3	213.5 0	1,031.0 5	162.3 0	224.82	123.1 1
2009/10	46,410.7 0	239.8 8	32,268.8 7	249.7 1	1,139.1 0	179.3 1	486.28	266.2 8

Table 4.15: Table showing the amount and index of the selected variables of NABIL

The tables 4.14 and 4.15 illustrate the amount (Rs. in million) and index (%) of different variables viz., Deposits, Loans, Profit and Non-performing loan of five years of SCBNL and NABIL. Looking at the deposits, the deposits of both the banks are in increasing trend. But in comparison NABIL has the deposits higher. In 2009/10, NABIL have increased its deposits by 239.88% compared to 2005/06 whereas the SCBNL have increased the deposits by 152.56%. So, it can be said that in 2009/10, NABIL has increased its deposits more than that of SCBNL as compared to 2005/06. Likewise, looking at the funds mobilized i.e., loans both the banks have an increasing trend. In the case of NABIL, it is found that the increasing rate of making investments in loan is higher than that of SCBNL. Although both the banks have increased their loan every year compared to 2005/06, NABIL have made more investment in loan than that of SCBNL. This implies that NABIL have mobilized more funds as loan compared to SCBNL. In the case of profit, it is found that the profit of both the banks SCBNL and NABIL is also in increasing trend. Looking as amount wise in 2005/06 SCBNL has earned more profit than that of NABIL. But looking at the index (%) in 2009/10, NABIL has earned more profit than SCBNL as compared to 2005/06. The non-performing

loan in the case of NABIL is fluctuating. Likewise, in the case of SCBNL has gradually decreased its non performing loans. In 2009/10 the non-performing loans of SCBNL has decreased to 50.09%. This shows that SCBNL have been able to cut off non-performing loans by half as compared to base year 2005/06. On the other hand, in the case of NABIL in 2009/10 the non-performing loan has been increased by 266.28% compared to base year 2005/06, which is highest among all the years. This may adversely affect the health of NABIL.

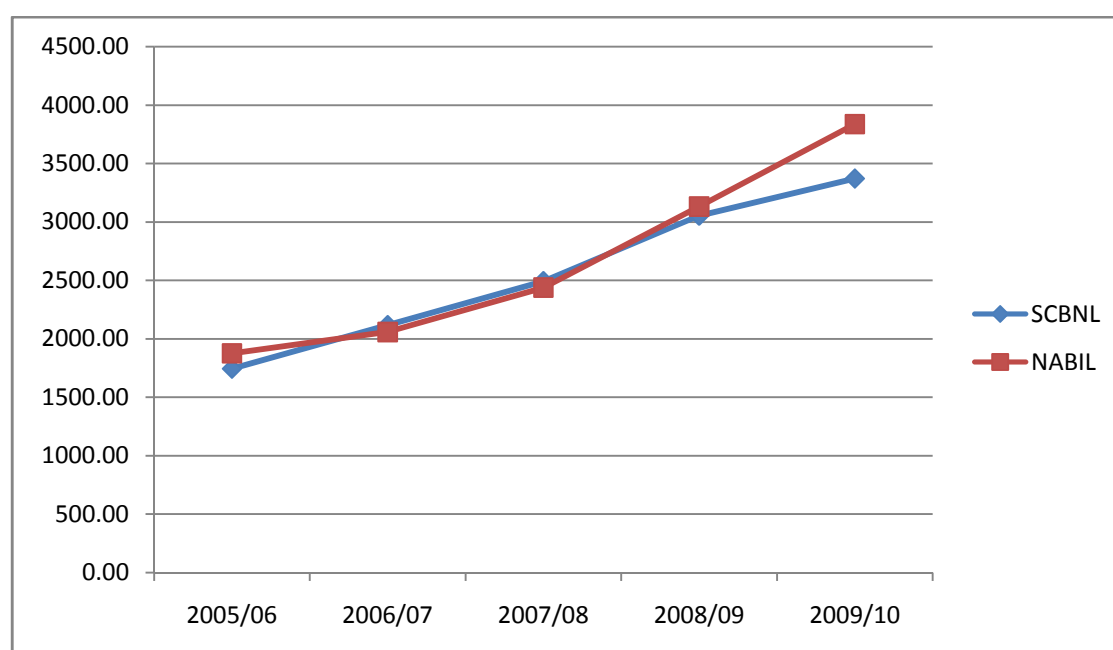
4.3 Net worth of the selected banks

Net worth represents the owners' or shareholders' contribution of the firm. It is difference between total assets and total liabilities of a firm. It comprises of the share capital and retained earnings. Various factors like bank's performance, profitability affects the net worth of the banks. The net worth determines the credit worthiness. The banks with good net worth will be trusted by all the stakeholders. The net worth of the selected banks is as follows.

(Rs. in millions)

Year	SCBNL	Index (%)	NABIL	Index (%)
2005/06	1,744.14	100	1,874.99	100
2006/07	2,116.35	121.34	2,057.05	109.71
2007/08	2,492.55	142.91	2,437.20	129.98
2008/09	3,052.47	175.01	3,130.24	166.95
2009/10	3,369.71	193.20	3,834.75	204.52

Table 4.16 Table showing the net worth of the selected banks.



Figure

4.14 Trend lines showing the net worth of the selected banks.

Table 4.16 and figure 4.14 show the net worth of the selected banks and its trend. Index is calculated on the basis of base year 2005/06. Above table and figure show that both the banks' net worth is in increasing trend. Except in 2006/07 and 2007/08 NABIL has the higher net worth compared to SCBNL. Looking at the index (%) in 2009/10 it is found that the net worth of NABIL is higher than that of SCBNL.

4.4 Testing of hypotheses

4.4.1 Total Loans to Total Deposits ratio

From Annex 2(A), it is found that calculated F is greater than tabulated F, so alternative hypothesis should be accepted. This means there is significance difference in average Total Loans to Total Deposits ratio of the banks under study i.e., SCBNL and NABIL.

4.4.2 Total operating expenses to Total operating revenues ratio

From Annex 2(B), it is found that calculated F is greater than tabulated F, so alternative hypothesis should be accepted. This means there is significance difference in average Total operating expenses to Total operating revenues ratio of the banks under study i.e., SCBNL and NABIL.

4.4.3 Return on average equity ratio

From Annex 2(C), it is found that calculated F is less than tabulated F, so null hypothesis should be accepted. This means there is no significance difference in average return on equity of the banks under study i.e., SCBNL and NABIL.

4.4.4 Non-performing Loans to Total Loans ratio

From Annex 2(D), it is found that calculated F is greater than tabulated F, so alternative hypothesis should be accepted. This means there is significance difference in average Non-performing Loans to Total Loans ratio of the banks under study i.e., SCBNL and NABIL.

4.5 Correlation Analysis

4.5.1 Correlation co-efficient between total deposits and total loans of SCBNL

From Annex 3(A), it is found that there is a high degree of positive correlation between total deposits and total loans of SCBNL. Thus an increase in deposits results in an increase of loans.

4.5.2 Correlation co-efficient between total deposits and total loans of NABIL

From Annex 3(B), it is found that that there is perfect positive correlation between deposits and loans of NABIL. Thus an increase in deposits results in an increase of loans.

4.5.3 Correlation co-efficient between non performing loans and total loans of SCBNL

From Annex 3(C), it is found that there is a high degree of negative correlation between non performing loans and total loans of SCBNL. Thus an increase in total loans has not resulted in an increase of non performing loans.

4.5.4 Correlation co-efficient between non performing loans and total loans of NABIL

From Annex 3(D), it is found that there is a high degree of positive correlation between non performing loans and total loans of NABIL. Thus an increase in total loans has resulted in an increase of non performing loans.

4.6 Major findings of the study

After the analysis of various financial aspects of the banks under study, following major findings have been obtained, which are explained on the following headings.

1. Capital adequacy

In this research in order to measure the capital adequacy of the banks under study three key ratios had been examined.

) In equity capital to total assets ratio SCBNL has an increasing trend. It has increased from 0.0677 to 0.0838, whereas NABIL has a fluctuating trend. It has fluctuated from 0.0656 to 0.0840. So, looking at the five years trend SCBNL has been able to maintain higher level of equity capital on total assets i.e., 0.0753 compared to NABIL i.e., 0.0740. Only in 2005/06 and 2006/07 NABIL has been able to maintain higher level of equity on total assets than that of SCBNL. Rest of the years i.e., 2007/08 to 2009/10 SCBNL has been able to maintain higher equity capital on total assets as compared to NABIL. On an average SCBNL has been able to maintain higher equity capital to total assets by 0.0013 than that of NABIL.

) In all the years i.e., from 2005/06 to 2009/10 tier 1 capital to total risk adjusted assets ratio and total capital to total risk adjusted assets ratio SCBNL has maintained higher level of tier 1 capital and total capital on total risk adjusted assets compared to NABIL. This shows that SCBNL's capital strength is much stronger than NABIL. Looking at the criteria set by NRB on these ratios i.e., 6% and 10%, it is found that both the banks has met and even exceeded the criteria. So, on the basis of this it can be said that both the banks are well capitalized. On an average SCBNL has maintained higher tier 1 capital to total risk adjusted assets and total capital to total risk adjusted assets by 0.0344 and 0.0346 respectively than that of NABIL.

2. Assets quality

In this part how well the assets are managed by the banks is examined.

) In loan loss reserves to total loans ratio, SCBNL has the highest ratio except in 2009/10 i.e., 0.0048 than that of NABIL. On an average SCBNL has maintained higher loan loss reserves to total loans ratio by 0.0013 than that of NABIL.

) The trend of coverage ratio i.e., loan loss reserves to non performing loan ratio of SCBNL and NABIL is fluctuating. In case of SCBNL it has fluctuated from 0.1868 to 0.7844 and in case of NABIL it has fluctuated from 0.0170 to 0.7871. SCBNL has maintained higher level of loan loss reserve on non performing loans exceeding by 0.205 compared to NABIL.

) Looking at the non performing loans to total loans ratio it is found that SCBNL has a decreasing trend. It has decreased from 0.0219 to 0.0062. On the other hand NABIL has a fluctuating trend. It has fluctuated from 0.0075 to 0.0151. On an average data of five years, NABIL has been able to maintain lower level of non performing loans on total loans by 0.0013 than that of SCBNL.

3. Management ability

) The operating expenses ratio shows that SCBNL has the lower ratio compared to NABIL. In all the data of fiscal years under study it is found that SCBNL has been able to maintain lower operating expense ratio than that of NABIL. SCBNL has been able to lower operating expense ratio by 0.0920 as compared to NABIL.

) Earning per employee also shows that employees of SCBNL have generated more earning compared to NABIL's employees. The earning generated by the employee of SCBNL is in increasing trend. It has increased from NPR 284,405,866.96 to NPR 375,866,483.45 whereas the earning per employee of NABIL is in increasing trend from 2005/06 to 2008/09 but in 2009/10 it has decreased by NPR 4,444,597.10 compared to previous year. On an average also earning per employee of SCBNL is greater than that of NABIL by NPR 68,111,730.60.

4. Earning (Profitability)

) The net profit margin of SCBNL is found to be higher than that of NABIL in all the fiscal years under study. The ratio in all the five years is found to be fluctuating in case of both the banks. Looking at an average also it is found that the net interest margin of SCBNL is higher by 2.89 than that of NABIL.

) The return on average assets of both the banks is in fluctuating trend. In the case of SCBNL it has fluctuated from 2.54 to 2.79. Likewise, in the case of NABIL it has fluctuated from 2.32 to 3.23. In 2005/06 and 2006/07 the ratios of NABIL are higher than that of SCBNL. In rest of the years i.e., from 2007/08 to 2009/10 the ratios of SCBNL are higher than that of NABIL. Looking at an average it is found that SCBNL has the higher return on average assets by 0.05 in comparison to NABIL.

) Except in 2006/07 the return on average equity of SCBNL is higher than that of NABIL. The trend of the ratio is fluctuating in the case of both banks. In case of SCBNL it has fluctuated from 32.22 to 37.77. Likewise, in the case of NABIL it has fluctuated from

29.70 to 33.88. Looking at an average SCBNL has the higher return on average equity by 1.84 compared to NABIL.

5. Liquidity

) The loan to deposits ratios of both the banks are in fluctuating trend. In the case of SCBNL it has fluctuated from 0.3870 to 0.4612. Likewise in the case of NABIL it has fluctuated from 0.6660 to 0.7387. In all the fiscal years under study this ratio is higher in the case of NABIL as compared to SCBNL. On an average also NABIL has higher ratio by 0.2644 as compared to SCBNL.

) In liquid assets to total deposits both the banks has the fluctuating trend in all the fiscal years under study. In case of SCBNL it has fluctuated from 0.1023 to 0.1535. Likewise in the case of NABIL it has fluctuated from 0.0841 to 0.1449. Except in 2007/08 SCBNL has the higher ratio in all the fiscal years as compared to NABIL. Looking at an average SCBNL has the higher ratio by 0.0266 in comparison to NABIL.

6. Factors affecting performance of the selected banks

Analysis of various variables in absolute term shows that the deposits of the banks are in increasing trend. In the case of loans also both the banks have increasing trend. Both the banks have been able to increase their deposits and loans each year. In comparison to base year 2005/06 NABIL has been to increase its deposits and loans as compared to SCBNL. The profit of both the banks is also in increasing order. While comparing in 2009/10 NABIL has made higher profit compared to the base year 2005/06. The non performing loans of the both the banks are in fluctuating trend. As compared to the base year 2005/06 SCBNL has been able to cut off its non performing loans. But in the case of NABIL its non performing loans had been doubled.

7. Net worth of the selected banks

Net worth of both the banks is found to be in increasing trend. In comparison NABIL's net worth is higher than that of SCBNL except in 2006/07 and 2007/08. In comparison index shows that NABIL's net worth is more increased in 2009/10 compared to base year 2005/06 than that of SCBNL.

8. Testing of hypotheses

- a. There is significance difference in average Total Loans to Total Deposits ratio of the banks under study i.e., SCBNL and NABIL.
- b. There is significance difference in average Total operating expenses to Total operating revenues ratio of the banks under study i.e., SCBNL and NABIL.
- c. There is no significance difference in average return on equity of the banks under study i.e., SCBNL and NABIL.
- d. There is significance difference in average Non-performing Loans to Total Loans ratio of the banks under study i.e., SCBNL and NABIL.

9. Correlation analysis

- a. There is a high degree of positive correlation between total deposits and total loans of SCBNL. This implies that an increase in deposits results in an increase of loans.
- b. There is a perfect positive correlation between deposits and loans of NABIL. This implies that an increase in deposits results in an increase of loans.
- c. There is a high degree of negative correlation between non performing loans and total loans of SCBNL. So an increase in total loans has not resulted in an increase of non performing loans.
- d. There is a high degree of positive correlation between non performing loans and total loans of NABIL. This implies that an increase in total loans has resulted in an increase of non performing loans.

10. Strategies adopted by the selected banks

After analysis of both the banks under study by various financial and statistical tools the researcher has concluded that both the banks are efficient in using various factors. Comparatively SCBNL has minimized its non performing loans, which has added fuel in its better performance. NABIL comparatively has invested its liabilities in loans, which implies that it has productively utilized its deposits. As both the banks have maintained excessive capital they both are able to maintain the criteria set by NRB so they are said to be well capitalized. Comparatively SCBNL has maintained higher loan loss reserves, which shows

that it has excessively covered its total loan and non performing loan risks. NABIL has also made excessive provision in order to cover its loan risk.

Chapter Five

Summary, Conclusion and Recommendations

5.1 Summary

The primary function of the banks is to collect scattered savings from all over the country and mobilizes these savings into different productive sectors. The contribution of the banking industry in the economic development of the country cannot be ignored. As competition has become tougher in the present situation every bank has to be financially sound and healthy in order to perform well and compete with the competitors. They should focus on providing competitive as well as quality services to their customers. The main objective of the bank should be to satisfy its customers and attract new customers so that they can operate efficiently and smoothly. This study is basically based on the comparison on financial analysis of two leading banks viz, Standard Chartered Bank Nepal Ltd. and Nabil Bank Ltd. For this purpose descriptive cum analytical research design has been adopted. Out of total population of thirty one commercial banks, these two banks are taken as samples using judgmental sampling method. Only the secondary data have been used in this study. Annual reports and other publications of respective banks, various publications of NRB etc. are the sources of secondary data. The data collected from various sources are presented systematically and various appropriate financial as well as statistical tools are used to analyze the data. The data of five consecutive years of the banks are analyzed to meet the objectives of the study.

The trend of equity capital to total assets of SCBNL is increasing whereas in the case of NABIL it is fluctuating. Looking at an average SCBNL has been able to maintain higher equity capital to total assets ratio in comparison to NABIL. During five years SCBNL has also been able to maintain higher tier 1 capital to total risk adjusted assets and total capital to total risk adjusted assets as compared to NABIL. Both the banks have been able to meet the criteria set by the NRB on tier 1 capital to total risk adjusted assets ratio and total capital to total risk adjusted assets ratio.

Loan loss reserves to total loans ratios of SCBNL are found to be higher from 2005/06 to 2008/09. In F.Y. 2009/10 only NABIL has maintained the higher ratio. On an average SCBNL has maintained higher ratio in comparison to NABIL. The coverage ratio

shows the ratio of loan loss reserves on total non performing loans. In five years period it is found that SCBNL has maintained higher ratios as compared to NABIL. On an average also SCBNL has maintained higher ratio than that of NABIL. The trend of non performing loans to total loans ratio of SCBNL is in decreasing trend but in the case of NABIL this ratio is in fluctuating trend. SCBNL have higher non performing loans to total loans ratio from 2005/06 to 2007/08 than that of NABIL. From 2008/09 SCBNL has been able to cut off its non performing loans compared to NABIL. On an average SCBNL have higher non performing loans on total loans as compared to NABIL.

The trend of operating ratio of NABIL is in increasing trend whereas in the case of SCBNL it is found to be somewhat steady. The ratio of NABIL is higher in all the fiscal years as that of SCBNL. On an average also NABIL has the higher operating ratio. This shows that NABIL has more operating expenses than that of SCBL. The earning per employee of SCBNL is found to higher than that of NABIL. On an average also SCBNL has the higher earning per employee than that of NABIL. This shows that the employees of SCBNL have been able to generate more earning as compared to NABIL's employees.

Net interest margin of both the banks is in fluctuating trend. The trend of net interest margin shows that SCBNL has the higher net interest margin compared to NABIL. In all the five consecutive years it has exceeded the net profit margin of NABIL's. On an average also it has exceeded the NABIL's net profit margin. The trend of return on average assets is found to be fluctuating in the case of both banks. Only in two years i.e., 2005/06 and 2006/07 NABIL has the higher return on average assets. After that i.e., from 2007/08 to 2009/10 SCBNL has the higher return on average assets than that of NABIL. On an average the return on average assets of SCBNL has exceeded the return on average assets of NABIL. Return on average equity is found to be in fluctuating trend in the case of both banks. Only in 2006/07 SCBNL has the lower return on average equity as compared to NABIL. Other than that year SCBNL has maintained higher return on average equity as compared to NABIL. On an average also SCBNL has maintained higher return on average equity in comparison to NABIL.

The total loans to total deposits ratio of SCBNL is found to be lower than that of NABIL. On an average also SCBNL has lower ratio as compared to NABIL. The trends of liquid assets to total deposits ratio are found to be fluctuating in the case of both the banks. Only in the 2007/08 NABIL has maintained higher ratio. In remaining four years the ratio of SCBNL has exceeded the NABIL's.

Looking at amount as well as index, NABIL has collected more deposits and invested more in loans than SCBNL. The amount of profit is found to be higher from 2007/08 to 2009/10 in the case of NABIL than that of SCBNL. In 2005/06 and 2006/07 SCBNL has higher profit compared to NABIL. Looking at an index of 2009/10 NABIL has been able to earn more profit than SCBNL as compared to base year 2005/06. Likewise, looking at non performing loans NABIL has higher non performing loans compared to SCBNL. In five years period SCBNL has been able to minimize its non performing loans but NABIL has a fluctuating situation. In 2009/10 NABIL's non performing loans is found to higher than SCBNL as compared to base year 2005/06.

Net worth of both the banks is in increasing trend. Except in two years 2006/07 and 2007/08 NABIL has the higher net worth as compared to SCBNL. In 2009/10 NABIL has been able to increase its net worth as compared to base year 2005/06. In this case SCBNL stands behind the NABIL by 11.32%.

From testing of hypotheses it is found that there is significance difference in total loans to total deposits ratio, total operating expenses to total operating revenues ratio and non performing loans to total loans ratio of both the banks. Likewise, there is no significance difference in average return on equity of both the banks.

From correlation analysis it is found that there is a high degree of positive correlation between total deposits and total loans of SCBNL. This shows that if total deposits increase, loans also increase and vice versa. Likewise there is a perfect correlation between total deposits and total loans of NABIL. This also indicates that if total deposits increase, loans also increase and vice versa. In the case of SCBNL it is found that there is a perfect negative correlation between non performing loans and total loans. This implies that an increase in loans has not resulted in an increase of non performing loans. On the other hand NABIL has a high degree of positive correlation between non performing loans and total loans. This implies that an increase in total loans has resulted in an increase in non performing loans.

From the analysis of various data by using various financial and statistical tools, it is found that both the banks are efficient enough to utilize their factors. SCBNL is found to be efficient to reduce its non performing loans. Likewise, NABIL has been able to utilize its deposits in loans as comparatively it has mobilized its deposits excessively. As both the banks have maintained the criteria set by NRB in case of maintaining capital, both the banks are said to be well capitalized.

5.2 Conclusion

After the economic liberalization in the country there had been tremendous growth in the number of banks and financial institutions. Banks have to face tougher competition from other development banks; financial institutions and among them also there is cut throat competition. So, for the survival commercial banks should show outstanding performance. They should be able to make remarkable image in the market. In this study only the performance of two leading banks are analyzed. So, whole research revolves round the performance of these banks. As in Nepali market there are numerous banks and financial institutions, these banks have to compete with them in order to sustain and expand their market share.

After the analysis of various ratios and amount of various variables, it is found that the performance of SCBNL and NABIL is satisfactory. But, comparatively SCBNL has shown better performance than that of NABIL in many aspects, which are explained as follows.

1. The capital adequacy ratio of both the banks shows that both the banks are well capitalized. They both had met the criteria set by NRB on capital adequacy. On an average both banks' equity capital on total assets are found to be some what equal, which indicates that both bank's capital strength is some what equal.

2. SCBNL has maintained higher loan loss reserves on total loans compared to NABIL. Likewise, the loan loss reserves on total non performing loans of SCBNL is found to be higher than that of NABIL. This shows that SCBNL has covered its total loans and non performing loans risk by provisioning more on loan loss reserves than that of NABIL. In case of NABIL also the provision of loan loss is satisfactory. The non performing loans of NABIL are found to be higher than that of SCBNL. During five years SCBNL has been able to cut off its non performing which is a good sign for the bank.

3. The operating expense ratio indicates that SCBNL has lower operating expenses compared to NABIL. This shows that SCBNL has been able to cut off its operating expenses as compared to NABIL. The operating expenses of NABIL are also not in a panic situation. It has also been able to maintain its operating expenses. The earning per employee of SCBNL is found to be better than that of NABIL. So, looking at this ratio in comparison it can be said that the employees of SCBNL are more efficient than that of NABIL's.

4. SCBNL has been able to mobilize its deposits more effectively as its net profit margin is higher than that of NABIL. NABIL has also mobilized its deposits productively. Its net profit margin is found to be satisfactory. But in comparison with SCBNL it has lower net

profit margin. As the returns on average assets of both the banks are somewhat equal it can be said that both the banks have same return on their average assets. The return on average equity shows that both the banks' contribution to their shareholders investments is satisfactory. But on comparison SCBNL has contributed more to its shareholders.

5. The lending of SCBNL is found to be little conservative as compared to NABIL. Due to this reason SCBNL has hold excess liquidity as compared to NABIL. As both the banks holds less than 80% of total loans to total deposits ratio it can be said that both the banks have maintained balance liquidity position. It is also found that SCBNL has held more liquid assets as compared to NABIL. This implies that in comparison SCBNL can repay its current liabilities quicker than NABIL.

6. From the analysis of various variables in absolute term it is found that comparatively NABIL is superior to SCBNL in terms of amount. But, looking at the index SCBNL has also shown better performance. In the case of non-performing loans SCBNL has been able to cut off its non-performing loans remarkably. Likewise, in other analyzed variables except non-performing loans NABIL has performed well compared to SCBNL.

7. While looking at net worth it is found that NABIL has the higher net worth as compared to SCBNL. SCBNL has also satisfactory net worth but in comparison in 2009/10 it stands behind SCBNL. So SCBNL has to try its best to build up its net worth in order to gain its competitive position.

8. Testing of hypotheses shows that both the banks have contributed to their shareholders investment. Likewise, the testing of hypothesis also shows that there is significance difference in the total deposits and total loans; total operating expenses and total operating expenses; and non performing loans and total loans. The correlation analysis shows that in the case of both banks as total deposits are increased; loans are increased. Similarly, in the case of SCBNL increase in loan has not resulted in an increase in non performing loan. But in the case of NABIL it is found reverse situation.

9. Both the banks are found to be adopting various strategies in order to attain their objectives. SCBNL is found to be reducing its non performing loans gradually. NABIL has mobilized its excessive deposits into loans. This has helped NABIL to generate more profit. Both the banks exceeded the criteria set by NRB in maintaining capital. This has helped both the banks to gain confidence of public and stakeholders.

5.3 Recommendations

On the basis of analysis made, following recommendations are put forward to both the banks in order to overcome their weaknesses and inefficiencies.

1. NABIL should control over its non-performing loans. Its non-performing loans are in increasing trend, which may adversely affect its performance in the long run.

2. SCBNL is found very conservative in lending. So, it is advised to SCBNL to lend more in the productive sectors.

3. SCBNL is suggested to maintain proper balance of liquidity because excessive liquidity may adversely affect its performance.

4. NABIL is suggested to control its operating expenses as savings on expenses will be added to its profit.

5. SCBNL is advised to build up its net worth so as to gain its competitive position in the market.

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Annex 1

Data of SCBNL and NABIL from 2005/06 to 2009/10

Equity Capital

Yr.	SCBNL	NABIL
2005/06	1,744,138,777.00	1,874,994,417.00
2006/07	2,116,353,361.00	2,057,049,715.00
2007/08	2,492,547,996.00	2,437,198,989.00
2008/09	3,052,469,731.00	3,130,240,637.00
2009/10	3,369,709,444.00	3,834,754,525.00

Total Assets

Yr.	SCBNL	NABIL
2005/06	25,767,352,068.00	22,329,971,078.00
2006/07	28,596,689,451.00	27,253,393,008.00
2007/08	33,335,788,326.00	37,132,759,149.00
2008/09	40,066,570,593.00	43,867,397,504.00
2009/10	40,213,319,926.00	52,150,237,343.00

Loan Loss Reserves

Yr.	SCBNL	NABIL
2005/06	44,729,780.00	3,101,975.00
2006/07	36,808,665.00	3,208,260.00
2007/08	48,510,338.00	48,262,511.00
2008/09	56,634,631.00	24,086,679.00
2009/10	76,974,254.00	355,829,115.00

Total Loans

Yr.	SCBNL	NABIL
2005/06	8,935,417,810.00	12,922,543,153.00
2006/07	10,502,637,135.00	15,545,778,730.00
2007/08	13,718,597,132.00	21,365,053,318.00
2008/09	13,679,756,990.00	27,589,933,041.00
2009/10	15,956,955,268.00	32,268,873,283.00

Non Performing Loans

Yr.	SCBNL	NABIL
2005/06	195,932,315.00	182,624,480.00
2006/07	197,017,153.00	178,293,983.00
2007/08	128,719,782.00	161,085,995.00
2008/09	91,041,656.00	224,817,413.00
2009/10	98,135,727.00	486,281,521.00

Total operating Expenses

Yr.	SCBNL	NABIL
2005/06	692,515,774.00	759,638,570.00
2006/07	841,284,229.00	984,054,714.00
2007/08	927,557,304.00	1,242,094,358.00
2008/09	1,073,168,778.00	1,758,335,998.00
2009/10	1,184,009,468.00	2,661,234,168.00

Total operating revenues

Yr.	SCBNL	NABIL
2005/06	1,721,445,795.00	1,716,673,937.00
2006/07	1,971,060,684.00	2,035,867,984.00
2007/08	2,245,874,886.00	2,428,863,474.00
2008/09	2,635,912,267.00	3,374,263,078.00
2009/10	2,873,450,936.00	4,724,195,961.00

Net operating income

Yr.	SCBNL	NABIL
2005/06	981,200,241.00	953,265,826.00
2006/07	1,092,967,790.00	1,037,606,905.00
2007/08	1,248,432,244.00	1,122,713,930.00
2008/09	1,506,108,858.00	1,570,204,646.00
2009/10	1,612,467,214.00	1,707,132,679.00

No. of employees

Yr.	SCBNL	NABIL
2005/06	345	441
2006/07	351	427
2007/08	377	416
2008/09	392	505
2009/10	429	557

Net interest income

Yr.	SCBNL	NABIL
2005/06	886,404,538.00	952,837,196.00
2006/07	998,926,715.00	1,032,048,605.00
2007/08	1,119,465,826.00	1,220,260,515.00
2008/09	1,343,434,657.00	1,645,206,144.00
2009/10	1,466,368,662.00	2,087,617,754.00

Average interest earning assets

Yr.	SCBNL	NABIL
2005/06	8,935,417,810.00	12,922,543,153.00
2006/07	10,502,637,135.00	15,545,778,730.00
2007/08	13,718,597,132.00	21,365,053,318.00
2008/09	13,679,756,990.00	27,589,933,041.00
2009/10	15,956,955,268.00	32,268,873,283.00

Net operating income after taxes

Yr.	SCBNL	NABIL
2005/06	658,755,881.00	635,262,349.00
2006/07	691,668,064.00	673,959,698.00
2007/08	818,921,008.00	746,468,394.00
2008/09	1,025,114,536.00	1,031,053,098.00
2009/10	1,085,871,694.00	1,139,099,399.00

Average assets

Yr.	SCBNL	NABIL
2005/06	23,774,515,810.00	19,697,026,585.50
2006/07	27,182,020,759.50	24,791,682,043.00
2007/08	30,966,238,888.50	32,193,076,078.50
2008/09	36,701,179,459.50	40,500,078,326.50
2009/10	40,139,945,259.50	48,008,817,423.50

Total Loans

Yr.	SCBNL	NABIL
2005/06	8,935,417,810.00	12,922,543,153.00
2006/07	10,502,637,135.00	15,545,778,730.00
2007/08	13,718,597,132.00	21,365,053,318.00
2008/09	13,679,756,990.00	27,589,933,041.00
2009/10	15,956,955,268.00	32,268,873,283.00

Total Deposits

Yr.	SCBNL	NABIL
2005/06	23,061,032,081.00	19,347,399,440.00
2006/07	24,647,020,755.00	23,342,285,327.00
2007/08	29,743,998,794.00	31,915,047,467.00
2008/09	35,350,823,711.00	37,348,255,840.00
2009/10	35,182,721,454.00	46,410,700,628.00

Liquid Assets

Yr.	SCBNL	NABIL
2005/06	3,253,512,423.00	2,365,140,531.00
2006/07	3,782,172,568.00	1,963,358,483.00
2007/08	4,247,780,814.00	4,623,501,755.00
2008/09	5,192,712,535.00	3,925,400,768.00
2009/10	3,598,766,520.00	4,518,241,804.00

Annex 2(A)

Testing of hypothesis of Total Loans to Total Deposits ratio of the banks under study.

Step I: Null hypothesis

$H_0: \mu_S = \mu_N$ i.e., there is no significance difference in average Total Loans to Total Deposits ratio of two banks.

Step II: Alternative hypothesis

$H_1: \mu_S \neq \mu_N$ i.e., there is significance difference in average Total Loans to Total Deposits ratio of two banks.

Step III: Calculation and ANOVA table

Banks	Ratio					Total
	2005/06	2006/07	2007/08	2008/09	2009/10	
SCBNL	0.3875	0.4261	0.4612	0.3870	0.4535	2.1153
NABIL	0.6679	0.6660	0.6694	0.7387	0.6953	3.4373
						Total (T) = 5.5526

Here,

$$n = 10$$

$$\text{correlation factor (c.f.)} = \frac{T^2}{n} = \frac{(5.5526)^2}{10} = 3.0$$

$$\begin{aligned}
\text{Total sum of square (SST)} &= (0.3875)^2 + (0.4261)^2 + (0.4612)^2 + (0.3870)^2 + \\
&\quad (0.4535)^2 + (0.6679)^2 + (0.6660)^2 + (0.6694)^2 + \\
&\quad (0.7387)^2 + (0.6953)^2 - \text{c.f.} \\
&= 3.2667 - 3.0831 \\
&= 0.1836
\end{aligned}$$

$$\begin{aligned}
\text{Sum of square between the districts (SSB)} &= \frac{(2.1153)^2}{5} + \frac{(3.4373)^2}{5} - \text{c.f.} \\
&= 3.2579 - 3.0831 \\
&= 0.1748
\end{aligned}$$

$$\begin{aligned}
\text{Sum of square within the districts (SSW)} &= \text{SST} - \text{SSB} \\
&= 0.1836 - 0.1748 \\
&= 0.0088
\end{aligned}$$

One way ANOVA table

Sources of variations	Sum of square	d.f.	Mean sum of square	F-ratio
1. Between banks	SSB = 0.1748	k - 1 = 2 - 1 = 1	MSB = $\frac{0.1748}{1}$ = 0.1748	F = $\frac{\text{MSB}}{\text{MSW}}$ = $\frac{0.1748}{0.0011}$ = 158.91
2. Within banks	SSW = 0.0088	n - k = 10 - 2 = 8	MSW = $\frac{0.0088}{8}$ = 0.0011	
3. Total	SST = 0.1836	n - 1 = 10 - 1 = 9	-	

Step IV: Level of significance, degree of freedom and critical value

Let level of significance (α) = 5% = 0.05

d.f. = (1, 8)

From table, tabulated $F_{0.05(1,8)} = 5.32$

Step V: Decision

Since calculated F is greater than tabulated F, alternative hypothesis, H_1 should be accepted. This means there is significance difference in average Total Loans to Total Deposits ratio of the banks under study.

Annex 2(B)

Testing of hypothesis of Total operating expenses to Total operating revenues ratio of the banks under study.

Step I: Null hypothesis

$H_0: \mu_S = \mu_N$ i.e., there is no significance difference in average Total expenses to Total revenues ratio of two banks.

Step II: Alternative hypothesis

$H_1: \mu_S \neq \mu_N$ i.e., there is significance difference in average Total expenses to Total revenues ratio of two banks.

Step III: Calculation and ANOVA table

Banks	Ratio					Total
	2005/06	2006/07	2007/08	2008/09	2009/10	
SCBNL	0.4023	0.4268	0.4130	0.4071	0.4121	2.0613
NABIL	0.4425	0.4834	0.5114	0.5211	0.5633	2.5217
						Total (T) = 4.5830

Here,

$$n = 10$$

$$\text{correlation factor (c.f.)} = \frac{T^2}{n} = \frac{(4.5830)^2}{10} = 2.1$$

$$\begin{aligned}
\text{Total sum of square (SST)} &= (0.4023)^2 + (0.4268)^2 + (0.4130)^2 + (0.4071)^2 + \\
&\quad (0.4121)^2 + (0.4425)^2 + (0.4834)^2 + (0.5114)^2 + \\
&\quad (0.5211)^2 + (0.5633)^2 - \text{c.f.} \\
&= 2.1300 - 2.1004 \\
&= 0.0296
\end{aligned}$$

$$\begin{aligned}
\text{Sum of square between the districts (SSB)} &= \frac{(2.0613)^2}{5} + \frac{(2.5217)^2}{5} - \text{c.f.} \\
&= 2.1216 - 2.1004 \\
&= 0.0212
\end{aligned}$$

$$\begin{aligned}
\text{Sum of square within the districts (SSW)} &= \text{SST} - \text{SSB} \\
&= 0.0296 - 0.0212 \\
&= 0.0084
\end{aligned}$$

One way ANOVA table

Sources of variations	Sum of square	d.f.	Mean sum of square	F-ratio
1. Between banks	SSB = 0.0212	k - 1 = 2 - 1 = 1	MSB = $\frac{0.0212}{1}$ = 0.0212	F = $\frac{\text{MSB}}{\text{MSW}}$ = $\frac{0.0212}{0.0011}$ = 19.27
2. Within banks	SSW = 0.0084	n - k = 10 - 2 = 8	MSW = $\frac{0.0084}{8}$ = 0.0011	
3. Total	SST = 0.0296	n - 1 = 10 - 1 = 9	-	

Step IV: Level of significance, degree of freedom and critical value

Let level of significance (α) = 5% = 0.05

d.f. = (1, 8)

From table, tabulated $F_{0.05(1,8)} = 5.32$

Step V: Decision

Since calculated F is greater than tabulated F so alternative hypothesis, H_1 should be accepted. This means there is significance difference in average Total operating expenses to Total operating revenues ratio of the banks under study.

Annex 2(C)

Testing of hypothesis of Return on average equity of the banks under study.

Step I: Null hypothesis

$H_0: \mu_S = \mu_N$ i.e., there is no significance difference in average return on equity of two banks.

Step II: Alternative hypothesis

$H_1: \mu_S \neq \mu_N$ i.e., there is significance difference in average return on equity of two banks.

Step III: Calculation and ANOVA table

Banks	Ratio					Total
	2005/06	2006/07	2007/08	2008/09	2009/10	
SCBNL	0.3777	0.3268	0.3285	0.3358	0.3222	1.6910
NABIL	0.3388	0.3276	0.3063	0.3294	0.2970	1.5991
						Total (T) = 3.2901

Here,

$$n = 10$$

$$\text{correlation factor (c.f.)} = \frac{T^2}{n} = \frac{(3.2901)^2}{10} = 1.0825$$

$$\begin{aligned}
\text{Total sum of square (SST)} &= (0.3777)^2 + (0.3268)^2 + (0.3285)^2 + (0.3358)^2 + \\
&\quad (0.3222)^2 + (0.3388)^2 + (0.3276)^2 + (0.3063)^2 + \\
&\quad (0.3294)^2 + (0.2970)^2 - \text{c.f.} \\
&= 1.0866 - 1.0825 \\
&= 0.0041
\end{aligned}$$

$$\begin{aligned}
\text{Sum of square between the districts (SSB)} &= \frac{(1.6910)^2}{5} + \frac{(1.5991)^2}{5} - \text{c.f.} \\
&= 1.0833 - 1.0825 \\
&= 0.0008
\end{aligned}$$

$$\begin{aligned}
\text{Sum of square within the districts (SSW)} &= \text{SST} - \text{SSB} \\
&= 0.0041 - 0.0008 \\
&= 0.0033
\end{aligned}$$

One way ANOVA table

Sources of variations	Sum of square	d.f.	Mean sum of square	F-ratio
1. Between banks	SSB = 0.0008	k - 1 = 2 - 1 = 1	MSB = $\frac{0.0008}{1}$ = 0.0008	F = $\frac{\text{MSB}}{\text{MSW}}$ = $\frac{0.0008}{0.0004}$ = 2
2. Within banks	SSW = 0.0033	n - k = 10 - 2 = 8	MSW = $\frac{0.0033}{8}$ = 0.0004	
3. Total	SST = 0.0731	n - 1 = 10 - 1 = 9	-	

Step IV: Level of significance, degree of freedom and critical value

Let level of significance (α) = 5% = 0.05

d.f. = (1, 8)

From table, tabulated $F_{0.05(1,8)} = 5.32$

Step V: Decision

Since calculated F is less than tabulated F so null hypothesis, H_0 should be accepted.

This means there is no significance difference in average return on equity of the banks under study

Annex 2(D)

Testing of hypothesis of Non-performing Loan to Total Loans ratio of the banks under study.

Step I: Null hypothesis

$H_0: \mu_S = \mu_N$ i.e., there is no significance difference in average Non-performing Loan to Total Loan ratio of two banks.

Step II: Alternative hypothesis

$H_1: \mu_S \neq \mu_N$ i.e., there is significance difference in average Non-performing Loan to Total Loan ratio of two banks.

Step III: Calculation and ANOVA table

Banks	Ratio					Total
	2005/06	2006/07	2007/08	2008/09	2009/10	
SCBNL	0.0219	0.0188	0.0094	0.0067	0.0062	0.0630
NABIL	0.0141	0.0115	0.0075	0.0081	0.0151	0.0563
						Total (T) = 0.1193

Here,

$n = 10$

correlation factor (c.f.) = $\frac{T^2}{n} = \frac{(0.1193)^2}{10} = 0.0014$

$$\begin{aligned}
\text{Total sum of square (SST)} &= (0.0219)^2 + (0.0188)^2 + (0.0094)^2 + (0.0067)^2 + \\
&\quad (0.0062)^2 + (0.0141)^2 + (0.0115)^2 + (0.0075)^2 + \\
&\quad (0.0081)^2 + (0.0151)^2 - \text{c.f.} \\
&= 0.0017 - 0.0014 \\
&= 0.0003
\end{aligned}$$

$$\begin{aligned}
\text{Sum of square between the districts (SSB)} &= \frac{(0.0630)^2}{5} + \frac{(0.0563)^2}{5} - \text{c.f.} \\
&= 0.00143 - 0.0014 \\
&= 0.00003
\end{aligned}$$

$$\begin{aligned}
\text{Sum of square within the districts (SSW)} &= \text{SST} - \text{SSB} \\
&= 0.0003 - 0.00003 \\
&= 0.0003
\end{aligned}$$

One way ANOVA table

Sources of variations	Sum of square	d.f.	Mean sum of square	F-ratio
1. Between banks	SSB = 0.00003	k - 1 = 2 - 1 = 1	MSB = $\frac{0.00003}{1}$ = 0.0003	F = $\frac{\text{MSB}}{\text{MSW}}$ = $\frac{0.0003}{0.00004}$ = 7.5
2. Within banks	SSW = 0.0003	n - k = 10 - 2 = 8	MSW = $\frac{0.0003}{8}$ = 0.00004	
3. Total	SST = 0.0003	n - 1 = 10 - 1 = 9	-	

Step IV: Level of significance, degree of freedom and critical value

Let level of significance (α) = 5% = 0.05

d.f. = (1, 8)

From table, tabulated $F_{0.05(1,8)} = 5.32$

Step V: Decision

Since calculated F is greater than tabulated F so alternative hypothesis, H_1 should be accepted. This means there is significance difference in average Non-performing Loans to Total Loans ratio of the banks under study.

Annex 3(A)

Calculation of correlation co-efficient between Total deposits and Total

Loans of SCBNL.

Let X = Total deposits of SCBNL

Y = Total loans of SCBNL

(Rs. in million)

Year	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2005/06	23,061.03	8,935.42	-6,536.09	-3,623.26	42,720,436.91	13,127,977.21	23,681,911.28
2006/07	24,647.02	10,502.64	-4,950.10	-2,056.04	24,503,476.19	4,227,282.93	10,177,579.61
2007/08	29,744.00	13,718.60	146.88	1,159.92	21,573.57	1,345,424.30	170,369.02
2008/09	35,350.82	13,679.76	5,753.70	1,121.08	33,105,113.77	1,256,829.61	6,450,386.60
2009/10	35,182.72	15,956.96	5,585.60	3,398.28	31,198,950.76	11,548,323.28	18,981,453.30
	XX	YX			$x^2 =$	$y^2 =$	xy =
	147,985.60	62,793.36			131,549,551.20	31,505,837.33	59,461,699.81

$$\bar{X} = \frac{X}{n} = \frac{147985.60}{5} = 29,597.12$$

$$\bar{Y} = \frac{Y}{n} = \frac{62793.36}{5} = 12,558.67$$

$$\begin{aligned} \text{Correlation co-efficient (r)} &= \frac{xy}{\sqrt{x^2} \mid y^2} = \frac{59,461,699.81}{\sqrt{131,549,551.20 \mid 31,505,837.33}} \\ &= 0.92 \text{ (approx.)} \end{aligned}$$

Therefore, correlation co-efficient (r) = 0.92 (approx.) implies that there is a high degree of positive correlation between total deposits and total loans of SCBNL. Thus an increase in deposits results in an increase of loans.

Annex 3(B)

Calculation of correlation co-efficient between Total deposits and Total

Loans of NABIL.

Let X = Total deposits of NABIL

Y = Total loans of NABIL

(Rs. in million)

Year	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2005/06	19,347.40	12,922.54	12,325.34	-9,015.89	151,913,964.22	81,286,329.33	111,123,933.18
2006/07	23,342.29	15,545.78	8,330.45	-6,392.66	69,396,437.41	40,866,070.87	53,253,729.72
2007/08	31,915.50	21,365.05	242.31	-573.38	58,714.00	328,768.05	138,936.27
2008/09	37,348.82	27,589.93	5,675.52	5,651.50	32,211,505.70	31,939,415.36	32,075,172.01

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2009/10	7	268	14,737.9	10,330.4	217,207,55	106,717,92	152,249,59
	0	.87	6	4	0.08	8.16	6.79
		Y			$x^2 =$	$y^2 =$	$xy =$
	1	109			470,788,17	261,138,51	348,563,49
	5	,69			1.40	1.80	5.40
	8	2.1					
	,	8					
	3						
	6						
	3						
	.						
	6						
	9						

$$\bar{X} = \frac{X}{n} = \frac{158363.69}{5} = 31,672.74$$

$$\bar{Y} = \frac{Y}{n} = \frac{109,692.18}{5} = 21,938.44$$

$$\text{Correlation co-efficient (r)} = \frac{xy}{\sqrt{x^2} \sqrt{y^2}} = \frac{348563495.40}{\sqrt{470788171.40} \sqrt{261138511.80}}$$

$$= 1 \text{ (approx.)}$$

Therefore, correlation co-efficient (r) = 1 (approx.) implies that there is perfect positive correlation between deposits and loans of NABIL. Thus an increase in deposits results in an increase of loans.

Annex 3(C)

Calculation of correlation co-efficient between Non performing loans and Total loans of SCBNL.

Let X = Non performing loans of SCBNL

Y = Total loans of SCBNL

(Rs. in million)

Year	X	Y	x = X - \bar{X}	y = Y - \bar{Y}	x^2	y^2	xy
2005/06	195.93	8,935.42	53.76	3,623.26	2,890.46	13,127,977.21	-194,797.02
2006/07	197.02	10,502.64	54.85	2,056.04	3,008.28	4,227,282.93	-112,769.09
2007/08	128.72	13,718.60	-13.45	1,159.92	180.89	1,345,424.30	-15,600.45
2008/09	91.04	13,679.76	-51.13	1,121.08	2,614.04	1,256,829.61	-57,318.42
2009/10	98.14	15,956.96	-44.03	3,398.28	1,938.96	11,548,323.28	-149,638.61
	ΣX 710.89	ΣY 62,793.36			$\Sigma x^2 =$ 10,632.63	$\Sigma y^2 =$ 31,505,837.33	$\Sigma xy =$ -530,123.59

$$\bar{X} = \frac{\Sigma X}{n} = \frac{710.89}{5} = 142.17$$

$$\bar{Y} = \frac{Y}{n} = \frac{62793.36}{5} = 12,558.67$$

$$\text{Correlation co-efficient (r)} = \frac{xy}{\sqrt{x^2} \sqrt{y^2}} = \frac{Z530123.59}{\sqrt{10632.63} \sqrt{31505837.33}}$$

$$= -0.92 \text{ (approx.)}$$

Therefore, correlation co-efficient (r) = -0.92 (approx.) implies that there is a high degree of negative correlation between non performing loans and total loans of SCBNL. Thus an increase in total loans has not resulted in an increase of non performing loans.

Annex 3(D)

Calculation of correlation co-efficient between Non performing loans and Total loans of NABIL.

Let X = Non performing loans of NABIL

Y = Total loans of NABIL

(Rs. in million)

Year	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2005/06	182.62	12,922.54	-64.00	-9,015.89	4,095.51	81,286,329.33	576,982.89
2006/07	178.29	15,545.78	-68.33	-6,392.66	4,668.54	40,866,070.87	436,789.17
2007/08	161.09	21,365.05	-85.53	-573.38	7,316.18	328,768.05	49,044.13
2008/09	224.82	27,589.93	-21.80	5,651.50	475.38	31,939,415.36	-123,221.08
2009/10	486.28	32,268.87	239.66	10,330.44	57,437.32	106,717,928.16	2,475,801.23
	XX	YX			$x^2 =$	$y^2 =$	xy =
	1,233.10	109,692.18			73,992.93	261,138,511.76	3,415,396.33

$$\bar{X} = \frac{X}{n} = \frac{1233.10}{5} = 246.62$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{109692.18}{5} = 21,938.44$$

$$\text{Correlation co-efficient (r)} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{3415396.33}{\sqrt{73992.93} \sqrt{261138511.76}}$$

$$= 0.78 \text{ (approx.)}$$

Therefore, correlation co-efficient (r) = 0.78 (approx.) implies that there is a high degree of positive correlation between non performing loans and total loans of NABIL. Thus an increase in total loans has resulted in an increase of non performing loans.

EMAILING ADDRESS: C/O BIR BHADUR PUN, RAMNAGAR, BUTWAL-12, RUPANDEHI DISTRICT, NEPAL. PERMANENT ADDRESS: RAMKOT, WARD NO 2, KHILJI VDC, ARGHAKHANCHI DISTRICT, NEPAL.

SITA PUN

CARRIER OBJECTIVE

To seek a challenging position with the state of making a carrier in friendly atmosphere where my skills, knowledge and best efforts can be put in for the betterment of the organization and myself.

ACADEMICS

Master's Degree in Business Studies

- Thesis to be completed

Bachelor Degree in Business Administration

- Tilottama Campus, 2003-2007

Higher Secondary Education

- Manimukunda H. S. School, 2059-60 B.S.

School Leaving Certificate

- Deep Boarding High School, 2057 B.S

WORK EXPERIENCES

2005 – Till date

- Standard Chartered Bank Nepal Ltd., Butwal Branch

2004 - 2005

- Teacher, Apex Boarding School

OTHER

Diploma in Application Programming

- College of Software Engineering, Butwal

Basic course of Tally

- Datasoft Academic, Butwal

STRENGTHS

- Young and healthy.
- Good communication skills, Optimistic, honest and hardworking.
- Ability to manage and work with groups and individuals with diverse background.
- Ability to work in high pressure and work load.

REFERENCE

- **Mr. Shiva Prasad Gyawali**

Lecturer, Tillottama Campus, Campus

- **Pro. Dr. Ishwor Gautam**

Campus Chief, Lumbini Banijya Campus, Butwal

PERSONAL VITAE

Date of Birth	October 3 rd
Father's name	Mr. Bir Bahadur Pun
Sex	Female
Marital Status	Single
Nationality	Nepalese
Permanent Address	Ramnagar, Ward no. 12, Butwal, Rupandehi, Lumbini

I hereby declare that the above-mentioned information are true to the best of my knowledge and can produce my testimonials whenever asked for.

Date: 15th December, 2011

Sita Pun