

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Finance works most basically through individuals and business organizations depositing money in a bank. The bank then lends the money out to other individuals or corporations or consumption or investment and charges interest on the loans.

Financial performance analysis can be considered as a heart of the financial decision. The growth and development of any enterprises is directly influenced by the financial policies. Rational evaluation of the financial performance of the financial management in public enterprise is too much involved in record keeping, raising necessary funds and maintaining relationship with the bank or other financial institutions. But financial aspect is one of the most neglected aspects of public enterprises in Nepal. However joint venture banks have analyzed financial performance for their corrective actions. But their analysis is limited within the banks themselves.

Financial performance as a part of the financial management is the main indicator of the success or failure of the firm. There are different persons/institutions that affect or are affected by the decision of the firm. Financial condition of business firm should be sound from the point of view of shareholder, debenture holders, financial institution and nation as whole.

History of Nepalese Banks in Nepal

The word "Bank" came from Italian word "Banco" which means the bench in which Italian merchants did the transaction of money. The first bank in the world

was also established in Italy in 1157 A.D named "The Bank of Venice". The second bank was the Bank of England established in 1844 A.D.Nepal also had a trade transaction with Tibet and India before many centuries. But the traders felt much difficulty in the process of transaction. As foreign trade spread, Nepal also tried to involve in the tie of banking services. In this ground steps were taken by 'Ranadip Singh' who was the prime minister of Nepal from 1879 to 1885 A.D. He took a concrete step by establishing a government financial institution known as 'Tezarath'. This institution supplied easy and cheap credit to the public at 5% interest on the security of gold and silver ornaments. In the later years, this service extended to a large extent.

The concept of banking system was introduce in Nepal with the establishment of Nepal Bank Ltd. in 1937.The financial scenario has changed with the introduction of joint ventures banks in 1984.The number of commercial banks has been increasing so is the investment volume and opportunity in various sectors that extends to agriculture industry, commercial and social sectors. Today each and every managerial decision- making is based on financial analysis .It covers the acquisition, utilization, control and administration of fund. "Managerial finance is an interesting, existing and dynamic area of study, and its importance to the long run success of today's business is unquestioned. Financial management leads to the decision-making most skillfully. Finance has become an important branch of any economy of which share market is leading sector. Securities raise funds in capital market that certainly helps to expand the national economy. After 2041 BS His Majesty's Government (HMG) made & implemented the liberal policy in banking and allowed joint venture banks to accelerate the pace of the economic development of the nation. As a result, numbers of joint ventures are established in the country;

The definitions of bank can be varying according to its functions, services and role. A Bank is one who in the ordinary course of his business receives money which he pays by honoring cheques of persons from whom or whose account receives.

“A Bank is an establishment of the custody of money which it pays out on customer order (*Concise Oxford Dictionary*)”.

"Bank is an establishment which makes to individuals such as advantages of money as may be required and safety made to and to which individual's entrust money when not requires by them for use (*The Encyclopedia American Vo 13 Grolier Incorporated 1984*)”.

By these definitions, bank can easily be defined as custodian of deposits, which regulates the money of people by making some charge. The Banking System helps business entrepreneurs, industrialists and other people to get loan as they need. Therefore a Bank is an institution which accepts deposits from the public by providing the with certain rate of interest and in turns advances loans to needy customers charging them certain rate of interest and earns some profit by doing this intermediation. Investment policy is one fact of the overall range of policies that guide banks investment operation. A healthy development of any bank depends upon its investment policy. A good policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. The commercial banks have several guided principles to provide loan such as profitability, liquidity, safety, purpose, length of time etc. These fundamental principles of commercial bank's investment are considered while making investment policy.

Effective and efficient fund mobilization and investment policy are two major factors for any developing country aspiring for a sustainable economic development. Investment activity is the one of the major activity of any financial institution because only deposit collection carries no meaning. The success and prosperity of the bank relies heavily upon the successful investment of collected resources to the important sectors of economy. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of commercial banks. Good investment policy has a positive impact on economic development of the country and vice versa. So, the investment policy of commercial banks should be in accordance with the spirit of the economic upliftment of the people.

There is much impression in the investment policies of commercial bank of Nepal, which affects their performance to the great extent. It becomes everybody's concern when their performance does not seem so satisfactory in terms of utilization of its resources efficiently in productive sectors. The study of commercial bank's investment policy focusing on interest rate structure, portfolio management and credit management will strive to disclose the internal weakness and furnish the ideas for improvement. Therefore the study has undertaken to study and analyze the performance of commercial banks and point out the defects inherent in it and provide package of suggestions for its improvement. Formulation of sound investment polices and a coordinated and planned effort pushes forward the forces of economic growth.

In Nepal, Banks are managed and controlled by government. Nepal Bank Limited is the oldest commercial bank of Nepal. It was established in 1937AD (30th Kartik 1994 B.S) which marked the beginning of an era of formal banking in Nepal. The Bank is also one of the largest in Nepal with 109 branches in the 55 districts of the Country (www.nrb.np).

Only the NBL was not able to provide services all over the country. Integrated and speedy growth of the country is possible only when competitive banking sector reaches every corner of the country with increased banking needs of the economy. The second commercial bank Rastriya Banijya Bank came into existence on 8th Shrawan 2023B.S. with 100% government ownership. These two commercial banks are operating as the model of banks.

Nepal Rastra Bank adopted laissez-faire policy and provided many facilities to feasible bankers of Nepal. Nepal Arab Bank Limited was established in the 1984 A.D. as the first joint venture bank of Nepal. In 1985 and 1986, two other joint venture bank, Viz. Nepal Indosuez bank and Nepal Grindlays bank limited (which is now known as standard chartered bank Nepal limited) started their operation. At present, many commercial banks are in operation to provide banking facilities, to generate employment etc. For this respect, commercial banks play vital role in the economic development of the country. Banking sector is going to be very competitive than ever. Beside the existing number of banks, some other banks are in the process of opening. So, the competition in the banking sector is going to be higher than ever before. To exist in the competitive market, banks are trying to introduce different schemes and advantages to the customer to hold greater share.

Whether the banks are well moving or not will be reflected through their performance. Specially, for banks profitability position, liquidity position, turnover position of reserve, capital structure policy should be effective and sound.

To meet the objectives, the overall performance of the bank should be soundly adjusted with each other. When performance will be well, the output will generally be sound. It helps bank to proceeds in its track.

As there has been number of commercial banks established the present aim is to analyze the financial performance of Standard Chartered Bank Limited, just to be assured whether they can put equal contribution in the economic growth of the country.

1.2 Profile of Sample Bank

As the commercial bank act SCBL also follows the policies and functions. With 19 points of representation, 20 ATMs across the country and with more than 400 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal. With the current slowdown in the economy due to domestic and international factors, and recently introduced changes in the Nepal Rastra Bank directives, the bank has taken following strategies:

-) Follow the standard banking practices.
-) To have the largest deposit base among the private sector banks.
-) Increase the profitability and shareholders wealth.
-) Dominate cards acquiring market.
-) Expand delivery channels to stimulate additional fee revenue.
-) Increase consumer bank contribution – ATM, Consumer loans, Mortgages, Personal loans, Insurance etc.
-) To become bigger, more profitable and efficient to compete with biggest competitors.

1.3 Focus of the Study

The focus of this study is "The Financial Performance of Standard Chartered Bank Limited". Financial performance covers the financial analysis and other portfolios

of the SCBNL. Financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statements. The goal of financial analysis is to determine the efficiency and the performance of the firms' management as reflected in the financial records and reports (Hampton, 1983: 121). Besides the financial analysis, the study is also focused on Income and expenditure analysis and statistical analysis.

Financial ratio has helped the researcher to make a qualitative analysis about the financial performance of the bank. The income and expenditure analysis is the percentage in relation to total assets or total sales, which has helped the researcher to study trends in financial statements over time. The statistical analysis refers either to quantitative information or to a method of dealing with quantitative information.

1.4 Statement of the Problem

Financial management aspect is considered to be the vital and integral part of overall management of any enterprise, ensuring financial strength through adequate cash flow, liquidity and better utilization of assets. Commercial joint venture banks set up in Nepal seem to need greater funds in terms of financing to the expansion of their assets because of growing number of new establishment of joint venture banks in the country. These banks deal with other people's deposits, most of which are payable on demand. There is no doubt that the survival of the existing commercial banks and other financial institutions depend upon how they manage their assets and liabilities to maximize their profits with the minimum exposure of assets to risk, and are guided by three important conflicting criteria of solvency, liquidity and profitability. Therefore, the financial management is the main indicator of the success or failure of any business firm. Financial condition of the business firm should be sound from the point of view of shareholders, debenture holders, financial institutions and nation as a whole.

Standard Chartered Bank Nepal Limited (SCBNL) has achieved a remarkable success in banking sector in terms of market share and profitability compared to other joint venture banks because of its reliable and professional services. Since, SCBNL has been able to maintain its position as one of the market leaders in the banking industry, it cannot be predicted that the bank would continue to maintain its profitability and stability of earnings because of the tough competition in this sector. In the context of open market economy, the Bank is prone to both external and internal threats. The economy of the country cannot be termed as bright in recent past years. Financial sector has really suffered because of the continuous decline owing to the poor performance of industrial, trading, tourism and other fronts of the economy. The vicious circle of low income, low savings and low investment, which is the key factor responsible for low growth rate of the country, enhances the need for vigorous efforts to increase the level of saving. Saving mobilization and effective credit management system is must for economic development especially for a country like Nepal where the economic growth rate is very low. In this regard, the good banking system can play a vital role in accelerating the pace of economic development through the mobilization of scattered savings and channeling it in the productive sector of the economy. The adaptation of open and free market economic and financial policies is believed to generate more savings as well as improve investment opportunities. Adequate infrastructure development in saving mobilization and investment is therefore the demand of the day. Therefore, the Bank can contribute a lot by serving in the path of economic development through proper mobilization of savings and investing it in the productive and development sector of the economy as well as ensuring qualitative banking services for the development of the economy of Nepal through banking in appropriate and new innovative banking technologies.

This study attempts to evaluate the financial performance of the bank with the help of various financial and statistical tools. This study also attempts to recommend some suggestions for improvement in financial performance aspect.

-) Has the bank been using its capital efficiently?
-) What is the liquidity position of the bank?
-) What are the financial performance trends of the bank during the study period?
-) What is the level of profitability of the bank?
-) How effectively the bank has utilized its assets in generating interest earnings?

1.5 Objectives of the Study

The objective of the study is to evaluate the financial performance of SCBNL with the help of ratio analysis and other measuring tools. Besides, the following specific objectives are to support the evaluation and comparison of the efficiency and progress of this bank:

-) To see liquidity, leverage, profitability and ownership ratios of the bank and to see the position at deposit and loan and advances.
-) To examine the income and expenditure statements of the bank.
-) To provide suggestions and recommendations based on the findings of the analysis.

1.6 Limitations of the Study

This study has attempted to evaluate the financial performance of the SCBNL. Every study has its own limitations. This study is also not an exception. The following are the limitations of the study:

-) This study has been carried out based on the published financial documents such as balance sheets, profit and loss accounts, related journals, magazines and books. These published documents have their own limitations.
-) The study has been based on the secondary data only.
-) The study has been focused on the financial performance of SCBNL with the help of financial tools.
-) It covers the financial performance of SCBNL for the periods from 2006/07-2010/11 only.
-) No comparison has been made with other commercial banks.
-) The conclusion drawn up from this study may or may not be applicable to other commercial banks in Nepal.

1.7 Organization of the Study

This study includes only five chapters are as follows:

Chapter: I Introduction

This includes background of the study, profile of sample bank, statement of problem, objective of study, limitation of the study and scheme of study.

Chapter: II Literature Review

This Chapter Includes review of books, review of legislations related to commercial banks, review of other relevant books, review of bank's report and review of pervious thesis.

Chapter: III Research Methodology

This Chapter used in the study, which includes research designs, nature and sources of data, data collection and data analysis technique.

Chapter: IV Presentation and Analysis of Data

This chapter is the main part of the body which includes presentation and analysis of data using financial and statistical tools such as ratio analysis and statistical analysis.

Chapter: V Summary, Conclusions and Recommendations

This chapter includes suggestions, summary of main findings, recommendation and suggestions for further improvement and conclusions of the study.

CHAPTER – II

REVIEW OF LITERATURE

A literature review is a body of text that aims to review the critical points of current knowledge and or methodological approaches on a particular topic. It is secondary sources, and as such, do not report any new or original experimental work. It usually precedes a research proposal and results section. Its ultimate goal is to bring the reader up to date with current literature on a topic and forms the basis or another goal, such as future research that may be needed in the area. All those studies related to this thesis works are categorized into two parts: first conceptual frame work which covers the area of the research work and theoretical concepts developed by various scholars writers. The second part refers review of relates studies. It includes review of empirical studies, review of articles and review of thesis. All the reviewed literatures have been presented orderly as follows:

2.1 Finance

Finance is the science of funds management. The general areas of finance are business finance, personal finance and public finance. Finance includes saving money and often includes lending money. The field of finance deals with the concepts of time, money and risk and how they are interrelated. It also deals with how money is spent and budgeted.

Finance works most basically through individuals and business organizations depositing money in a bank. The bank then lends the money out to other individuals or corporations or consumption or investment and charges interest on the loans.

Loans have become increasingly packaged or resale meaning that an investor buys the loan (debt) and collect the interest or sell the debt on a secondary market. Banks are the main facilitator of funding through the provision o credit, although private equity, mutual funds, hedge funds and other organizations have become important as they invest in various forms of debt. Financial assets known as investments are financially managed with careful attention to financial risk management to control financial risk. Financial instruments allow many forms of securitized assets to be traded on securities exchanges such as stock exchanges, including debt such as bonds as will as equity in publicly-traded corporations.

Central Banks act as leader of last resort and control the money supply which affects the interest rates charges. As money supply increases interest rates decrease.

2.2 Conceptual Frame Work

Conceptual frameworks are a type of intermediate theory that has the potential to connect to all aspects of inquiry. Conceptual frameworks act like maps that give coherence to empirical inquiry. The framework covers the area of research work and theoretical concepts developed by various scholars. It is presented in details as follows:

2.2.1 Concept of Financial Performance

Financial performance analysis can be considered as a heart of the financial decision. The growth and development of any enterprises is directly influenced by the financial policies. Rational evaluation of the financial performance of the financial management in public enterprise is too much involved in record keeping, raising necessary funds and maintaining relationship with the bank or other financial institutions. But financial aspect is one of the most neglected aspects of public enterprises in Nepal. However joint venture banks have analyzed financial

performance for their corrective actions. But their analysis is limited within the banks themselves.

Financial performance as a part of the financial management is the main indicator of the success or failure of the firm. There are different persons/institutions that affect or are affected by the decision of the firm. Financial condition of business firm should be sound from the point of view of shareholder, debenture holders, financial institution and nation as whole.

Though, the type of analysis varies according to the specific interest of the party involved, shareholders of the firm are concerned principally with the present and expected future earnings, the stability of the earnings as well as their variations with the earnings of other enterprises. This indicates that they concentrate their analysis on the profitability of the firm.

Management of the firm is interested in all aspects of financial analysis to adopt a good financial management system for the internal control of the enterprise. Similarly, trade creditors are primarily interested in the liquidity position of the firm. Long-term creditors are more interested in the cash flow ability of the enterprises to service debt over a long run. Similarly, all the concerned groups are directly or indirectly interested about the financial performance of the firm.

The absolute accounting figures are reported in the financial statement- the Balance Sheet, the Profit and Loss Account and the other statements do not provide a meaningful understanding of the performance and financial position of the firm. An accounting figure conveys meaning, when it is related to some other relevant information. A qualitative judgment about the firm's financial position and performance should be made from the point view of the firm's investment. Thus, financial analysis is the main qualitative judgment process of identifying the

financial strengths and weaknesses of the firm by properly establishing the relationship between the items of the Balance-Sheet and Profit and Loss Account.

Ratio analysis is a powerful tool of financial analysis. A ratio is designed as "the indicated quotient of two mathematical expressions" and as "the relationship between two or more things".

In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm (*Pandey; 1989:104*).

In the financial world, a bank's performance has mainly focused on financial performance decision. A commercial bank's performance is to be examined for various reasons. Bank regulators identify banks that are experiencing severe problems so that they can give remedy to them.

Joint Venture Banks in Nepal are profit making business institutions. So, the profit earned by a Joint Venture Commercial Bank in Nepal is the main financial performance indicator of the Bank. However, it cannot solely predict the performance of the Bank by analyzing the profitability status only. Every aspect of the financial analysis is to be considered for financial performance of the Bank. An analysis of income and expenditure of the bank is also the important indicator of the Bank's performance.

2.2.2 Theories of Financial Analysis

Financial analysis is the process of identifying the financial strength and weaknesses of the firm by properly establishing relationship between the items of the Balance Sheet and the Profit and Loss Account (*Pandey; 1989: 104*).

Financial analysis is the selection, evaluation and interpretation of financial data along with other pertinent information to assist in investment and financial

decision-making. Financial analysis may be used internally to evaluate issues such as employee performance, the efficiency of operations and credit policies and externally to evaluate potential investments and the credit-worthiness of borrowers among other things.

Financial analysis can be undertaken by management of the firm or by parties outside the firm via owners, creditors, visitors and others. The nature analysis will differ depending on the purpose of the analyst. For example, trade creditors are interested in the fact that the firm should be able to meet their claims over a very short period of time; the suppliers in the firm are interested in long term solvency and survival. So, financial analysis is undertaken by outsiders, creditors, and investors and also by the firm itself. Thus, the various parties according to the particular interest of the analyst undertake the type of financial analysis.

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as the indicated quotient of two mathematical expressions and as the relationship between two or more things.

The yardstick frequently used is a ratio or index relating two pieces of financial data to each other. Analysis and interpretation of various ratios should give an experienced skilled analyst a better understanding of a financial condition and performance of the firm than the individual would obtain from analysis of the financial data alone. So, financial analysis depends to a very large extent on the use of ratios though there are other equally important tools of such analysis. Thus, a direct examination of the magnitude of two related items is somehow informative but the comparison great facilitated by expressing the relationship as a ratio.

Ratio is simply one number expressed in terms of another, it is an expression or relationship spelt out by dividing one figure into the other. The relationship between two accounting figures expressed mathematically is known as a ratio. A ratio helps the analyst to make qualitative judgment above the firm's financial position and performance. However, quantitative relations represented by ratio analysis are not an end in them but are means to understanding a firm's financial position. Quantitative ratio analysis is not capable of providing precise answers to all the problems faced by the Financial Manager or a potential fund supplier unless several ratios related to one another are computed. And then, the ratio analysis acquires some significance from the point of view of its users.

So, a financial analysis through ratio analysis assists in identifying the major strengths and weaknesses of the Bank. It indicates whether the Bank has enough cash to meet its obligations and ability to utilize their available resources properly. All of which are necessary if the firm is to achieve the goal of maximizing shareholder's wealth. Financial analysis can also be used to assess the Bank's viability, as an ongoing enterprise and determine whether a satisfactory return is being earned for the risk taken.

2.2.3 Use and Users of Financial Ratios

There are basically two uses of financial ratio analysis: to track individual firm performance over time, and to make comparative judgments regarding firm performance. Firm performance is evaluated using trend analysis —calculating individual ratios on a per-period basis, and tracking their values over time. This analysis can be used to spot trends that may be cause for concern, such as an increasing average collection period for outstanding receivables or a decline in the firm's liquidity status. In this role, ratios serve as red flags for troublesome issues, or as benchmarks for performance measurement.

Another common usage of ratios is to make relative performance comparisons. For example, comparing a firm's profitability to that of a major competitor or observing how the firm stacks up versus industry averages enables the user to form judgments concerning key areas such as profitability or management effectiveness. Users of financial ratios include parties both internal and external to the firm. External users include security analysts, current and potential investors, creditors, competitors, and other industry observers. Internally, managers use ratio analysis to monitor performance and pinpoint strengths and weaknesses from which specific goals, objectives, and policy initiatives may be formed.

1) Short-Term Creditors and Depositors

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

2) Long-Term Creditors

Long-term creditors hold bonds or mortgages against the firm who are mainly interested in the cash flow ability of the firm to serve debt over the long run. They may evaluate the ability by analyzing the capital structure of the firm. In case of commercial banks, the central bank and other foreign banks are more concerned in capital structure of the banks.

3) Equity Investors

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

4) Management of a Firm

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

5) Central Bank

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

2.3 Review of Related Studies

It gives the detail information about different books, journals and thesis reviewed by the researcher. This section examines recent research studies that act as a basis for the researcher's study. The reviewed studies are defined as follows:

2.3.1 Review of Journals and Articles

Poudel (2000), entitled "*Financial Statement Analysis: An Approach to Evaluate Banks Performance*" has indicated that balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the banks. It needs to understand the major characteristics of bank's balance sheet and P/L account. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account forms a small

portion of the total assets. Financial innovations which are generally contingent in nature are considered as off balance sheet item.

Interest received on loans and advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other resources of income are fee, commission, discount and service charges. The users of the financial statements of a bank need relevant, reliable and comparable information which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decision. The requirements of bank's financial statement have been expressly laid down in the concerned act. The Commercial Banking Act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

The principle objectives of analyzing financial statement are to identify: liquidity, profitability and solvency. Most of users of the financial statements are interested in assessing the bank's overall performances which are affected by the following factors:

-) The structure of balance sheet and profit and loss account.
-) Operating efficiency and internal management system
-) Managerial decision taken by top management regarding rate, exchange rate, lending policies etc.
-) Environmental changes (technology, government, competition and economy)
-) The other factors to be considered in analyzing the financial statements of a bank are to assess the capital adequacy ratio and liquidity position. In the line of adequacy, a bank is assessed on the basis of risk weighted assets. It indicates a bank's strength and solvency. Bank facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base.

Liquidity is measured by the speed with which a bank's assets can be converted into cash to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of a bank.

Pandey (2003), made “*A Study on a Topic of a Study of Financial Analysis on HBL*”, the study was conducted to analyze and evaluate the financial position of HBL in order to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis and some statistical tools like average, CV, trend analysis, coefficient of correlation, probable error in his study. And he found that overall liquidity and capital structure position of the bank is not satisfactory. Overall profitability condition was highly appreciable profit generating capability through loans and advances appeared satisfactory. Trend of deposit collection showed that the bank was in a higher risk with respect to saving deposit as against the fixed deposit.

Bhetwal (2007) in his article “*Financial Liberalization and Financial Development in Nepal*” writes, an efficient financial system can effectively mobilize and allocate resources leading to robust economic growth. Financial liberalization improves the functioning of financial system by increasing the availability of funds and allowing risk diversification and increased investment. The indices of financial liberalization and financial development, generated by the principal component analysis, depict a gradual process of financial liberalization and a continuous financial sector development. The paper finds the presence of bi-directional causal relationship between the liberalization of financial sector and level of financial development in Nepal.(NRB, 2007, 23)

Gautam (2008) writes in an article, “*WTO and Challenges of Financial Services Liberalization in Nepal*” has put his opinion in the context of financial service liberalization and financial reform in Nepal. According to him “the process of

financial services liberalization in Nepal is very recent phenomenon. It has been gathering pace gradually, the process of liberalization was started with the financial sector reform in mid eighties. It was surged up after the initiation of structural Adjustment Program and Enhanced Structural Adjustment Program with respective loan and assistance of the World Bank and International Monetary Fund. Financial sector reform was implemented on a phase wise basis. It was designed to address the institutional deficiencies and closed and controlled financial system. Various macroeconomic policies were modified and adjusted during the period to facilitate the liberalization process. The procedural relaxation on the entry of joint venture banks (with collaboration), determination of interest rate (first, in 1986 with certain limit and then in 1989 without any limit) and operation of various financial transactions are mainly attributable for the reform. (NRB, 2008, 62)

Maskay and Subedi (2009) in their article “*Development of the Nepalese Financial System*” write that, A healthy financial sector is essential to facilitate sustainable economic growth. Theoretically, the channel by which financial development supports economic growth is via enhancing financial intermediation, for example, moving funds from savers to investors in a cost-effective manner which motivates individuals towards more efficient resource allocation decisions .In the literature, there are four channels by which financial development affects economic growth:

-) by improving the screening of funds-seeking investors and their subsequent monitoring, and thereby channeling the allocation of resources for its most profitable investments;
-) by encouraging the mobilization of savings by means of providing diverse instruments that match the differing preferences of savers;
-) by lowering the transaction, screening, and monitoring costs through economies of scale;

) by enhancing various options of risk and liquidity management. Each of these four financial functions influences savings and investment decisions of economic agents and ultimately results in higher economic growth.(NRB, 2009, 31)

2.3.2 Review of Thesis

Various thesis works have been done in different aspects of commercial banks such as lending policy, investment policy, financial performance analysis, resources mobilization and capital structure. The review of some previous study, which is relating to the Nepalese banking sector, is the most relevant sources and assistant for this research.

Malla (2007) has conducted thesis entitled, “*Financial Performance of Commercial Bank with Special Reference to Himalayan & NABIL Bank Ltd.*” The main objective of the study is to analyze the liquidity position & the profitability of these two banks. The specific objectives of the study are;

-) To measure the liquidity position of the banks.
-) To analyze the efficiency of the banks.
-) To evaluate the capital structure of the banks.
-) To gauge the profitability of the banks.

In this study, the researcher has used exploratory techniques to achieve the objectives. The study is based only on the secondary data analysis. The study has used mainly the annual reports of the observed banks as the main source of secondary data. Mainly the liquidity ratios, including current ratio, cash reserve ratio and cash and bank balance to total deposit ratio, the leverage ratio, including debt equity ratio, the efficiency ratio, including loan and advances to total deposit ratio and non-performing loan to total loan, and the profitability ratio, including

return on equity, earning per share and return on total deposit, have been extensively used as financial tools.

The study has found that the high liquidity ratios are maintained by these banks. The measurement of assets management has revealed that the total liability to total assets of HBL has the highest ratio than of NABIL. The study has also found that considering EPS, performance of HBL is better than NABIL but comparing net profit and shareholders' equity, the performance of NABIL is better. The study concludes that the overall liquidity ratio of NABIL is better; it has low degree of surviving capacity in the adverse liquidity position caused by interest sensitive deposit.

Yadav (2007) conducted on the “*A Comparative Study on the Financial Performance of Standard Chartered Bank Nepal and Himalayan Bank Limited*” is conducted with the following objects

-) To analyze the financial strength and weakness of Standard Chartered Bank and Himalayan Bank Limited.
-) To examine the financial performance.
-) To study the comparative financial position of these two banks.

The major findings of the study are:

-) Short-term solvency position of both the banks is found below than normal thought the study period. In the FY 2003/04 short term solvency position is seem better in SCBL than in HBL.
-) SCBL has better position in utilizing its properties of deposits as compared with HBL. Debt to total assets ratio HBL is better than SCBL.
-) SCBL is more succeed to generate more return on its shareholders fund than that of HBL.

-)] Both the banks have been able to generate profit from deposits. But the rate of profitability is not satisfied from lower rate of return.
-)] It is better from investor point of view in SCBL. SCBL seems much better in term of offering dividends to its shareholders as compared with HBL.
-)] Dividend payout ratio of SCBL has more than HBL from the view of shareholders. SCBL has reflected better scenarios although it has also retained a higher position of earnings on an average.

Luitel (2008) made research entitled “*A study of financial performance analysis of Everest Bank Limited*” and her main research objectives were as follows.

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

The major findings of the study are;

-)] EBL bank is strong enough to maintain the liquidity position to meet the cash requirement of clients.
-)] The operating efficiency of the bank is decreasing every year and bank is not able to mobilize its deposits.
-)] The debt management ratio of the bank is very high which is not preferable.
-)] The correlation coefficient of deposit and loan and advances, deposit and investment and total assets and net profit is found to be positive indicating the positive relationship between the respective variables.

Shrestha (2009), has made a study on, “*A Comparative Study on Financial Performance Between the Commercial Banks.*” The main objective of the study is

to examine the financial performance of SBI bank and NBBL bank. The other objective are;

-) To study the liquidity position of both the banks.
-) To analyze the lending position of both the banks.
-) To examine marketability position and the efficiency ratio of SBI and NBBL.

The major findings of the study are;

-) The analysis of liquidity position of these commercial banks shows different position. The current ratio measures only total rupees worth of current assets and total rupees worth of current liabilities, i.e. it indicates the availability of current assets in rupees for every one rupee of current assets than current liabilities.
-) The average current ratio of SBI (1.05) is greater than that of NBBL (0.98). Therefore, the liquidity position of SBI bank is in normal standard and NBBL is also trying to gain that position.
-) From the analysis of turnover of these two banks, NBBL has better different. The overall calculation seems to be better for NBBL. Though certain ratio like dividend per share, dividend payout ratio etc better for SBI Bank. The writer has also conducted that earning per share of NBBL is better than that of SBI bank.

Thapaliya (2010), has made a study on, “*Financial Performance of Commercial Banks: A comparative Case Study of Nepal Bangladesh Bank Ltd. Himalayan Bank Ltd. and Everest Bank Ltd.*” The main objective of study is to reveal the comparative financial performance of NBBL, HBL and EBL. The other specific objectives are;

-)] To analysis and compare the liquidity, portability, stability and market value positions among three commercial banks.
-)] To analyze and compare solvency ratio such as total capital fund.
-)] To analyze the financial strength and weakness of these banks.

The major findings of the study are;

-)] The saving deposit to total deposit ratio of NBBL has been recorded the lowest of all. It indicates the better liquidity position of the bank to meet short-term obligation.
-)] Analysis of activities ratio reveals that all the banks have been able to utilize the resources satisfactorily.
-)] Total debt to equity ratio of all banks reveals that the claims of the outsiders exceed far more than those of the owners over the banks assets.
-)] Comparatively Himalayan Bank has more levered capital structure. Profitability ratio indicates the degree of success in achieving desired profit level.
-)] All the banks need lot of exercise in more credit creation and reducing the interest rate for loan and advance. This helps them to remain more competitive.

Raut (2010) has made a study on, “*Financial Performance and Investors’ Return on Listed Commercial Banks.*”

Main objectives:

-)] To analyze the performance of listed companies and return to their investors.
-)] To find out the investors' preferences in choice of the financial instruments.
-)] To find out the performance of listed companies.
-)] To evaluate the investment return of commercial banks.

-)] To trace the stock price movement with special reference to the performance of the company.
-)] To see the relationship between earning and return to investors of selected companies.

The major findings of the study are:

-)] The liquidity position of SCBNL, NABIL, EBL, BOK and NSBI reveals that NSBI has maintained the higher liquidity. Further, cash and bank balance in liquidity position of SCBNL is more consistent than EBL & NSBI.
-)] In overall, the mean ratio of investment in government securities to current assets ratio of SCBNL is higher than NSBI, EBL, BOK and NABIL.
-)] In overall mean ratio of loan and advances to total deposit ratio of BOK is higher than that of NSBI, EBL, NABIL and SCBNL, in side of co-efficient of variation of above banks EBL has 4.55% which is comparatively lower than NABIL, SCBNL, BOK and NNSBI i.e. 4.59%, 6.95%, 7.45% and 16.15%.
-)] The mean ratio of Net profit to Net worth ratio of SCBNL is higher than NABIL, EBL, BOK and NSBI. Similarly, the mean ratio of Total Interest Earned to Total Working fund ratio of NABIL is higher than other four banks.
-)] NSBI is utilizing a highest debt among the sample banks. EBL has more consistency than other sample banks. The mean ratio of Debt-equity ratio of SCBNL is lowest mean ratio than other, it declared that SCBNL has lowest debt cost and higher investment from equity fund.
-)] The mean ratio of market price per share of SCBNL is higher than other four banks and it is more consistent than other sampled banks. Likewise, the mean ratio of earnings per share of SCBNL is higher than other four banks. It shows that SCBNL has the better has more consistent than other four banks.

Adhikari (2011) has conducted a study on, “*Comparative Analysis of Financial Performance Nepal Bank Limited and NABIL Bank Limited.*”

Main objectives:

-) To compare the financial performance between government owned bank and private sector bank.
-) To ascertain the strengths and weaknesses of the observed banks.
-) To suggest the necessary reforms for the effective and efficient performance.
-) To evaluate the relevant financial position and investment position of sample banks.

The major findings of the study are:

-) Liquidity position of NBL is comparatively better than NABIL. It has the highest cash and bank balance to total deposit, cash and bank balance to current assets and loan and advances to current assets ratio. NBL is in a better position to meet its daily cash requirement. NABIL has a higher current ratio, which justifies that it is also capable enough to meet its current obligations. NBL's mean investment in government securities is better than NABIL. The higher degree of variability in investment in government securities of NBL during the study period shows lack of concrete policy of the bank in this regard.
-) NABIL has been more successful in mobilization of its total deposit as loan and advances, whereas NBL seems more successful to invest its deposit. On the other hand, the non performing loan ratio of NBL is higher than NABIL, which reveals higher amount of loan in passive in terms of profit generating aspect. The loan loss ratio of NBL is much higher than NBL, which means the chances to recovery of loan is very less than NABIL which has less loan loss ratio.

) Though the banks are using more debt than equity, the capital structure position of NBL is worse than NABIL. NABIL has been more successful in maintaining its higher return on loan and advances and total assets and also successful to meet its shareholders expectation than NBL. In terms of profitability concern NBL seems very weak in every aspect with compare to NABIL.

2.4 Research Gap

Though there are several researches performed under the topic “*Financial Performance Analysis of Commercial Banks.*” Those analyses expressed all items in the statement in the form of amount. The previous researchers did not disclose the practical comparative analysis, which is practiced by the commercial banks. The previous researches can’t represent the financial performance in Nepalese companies, especially to service sector. These studies can’t identify financial and statistical tools are practicing and which financial tools are not practicing till now? What might the reason behind the non practicing of financial tools as well as statistical in Nepalese joint ventures companies. To fulfill these gaps, the research has been done. Thus to fulfill this gap the present research is conducted. It covers commercial bank from the source of NEPSE. The analysis is based on modern approach to evaluate the performance analysis. Financial analysis of such practical comparative analysis of a bank is always fruitful to a wide range of stakeholders. So, the updated information on banks’ profitability would be of great advantage to the researcher, the bank concerned, as well as to the public at large who has any kind of stake in that organization.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain object in view. Thus the main purpose of this chapter is to stress on the different research methods and conditions, which are used while conducting this study.

“Research is an original contribution to the existing stock of knowledge making for its advancement. It is the pursuit of truth with the help of study observation, comparisons and experiment. In short, the search for knowledge through objective and systematic method of finding solution to a problem is research” (*Kothari; 1994*).

The basic objective of this study is to compare financial performance of SCBNL. To achieve these objectives, the following methodology have been adopted which includes research design, sources of data, data collection, analysis technique and so on.

3.1 Research Design

The main object of the study is to analyze, examine and interpret the financial performance of Standard Chartered Bank Limited by analyzing the financial statements. This study is an intensive study based on the analysis of past five year's financial performance of Standard Chartered Bank Nepal Limited. Descriptive research design has been used to make the analysis more conclusive.

3.2 Sources of Data

The data of SCBNL have been collected from the secondary sources. The secondary data are the related publications of commercial banks and central bank as well as other related publications from the financial institute and consultants. Likewise, newspapers, journals, periodicals, magazines, reports and unpublished thesis has been taken in account during the study.

3.3 Data Collection, Processing and Tabulating Procedure

The required financial data and information have been collected from the balance sheet and profit and loss account of the bank. The collected secondary data were compiled and processed in order to achieve the objective of the study. The data are tabulated on the following sequences:

-) The financial data have presented according to time series, which are of five years starting from the fiscal year 2006/07 to 2010/11.
-) The data is analyzed with the help of ratios, percentage, average and time changes.

3.4 Data Analysis Technique

The tabulated data were analyzed with the help of various fundamental financial and statistical tools. The following financial ratios and tools have been used to analyze the data:

3.4.1 Financial Ratio Analysis

A) Liquidity Ratios

Liquidity ratios measure the firm's ability to meet current obligations. In fact, analysis of liquidity needs the preparation of cash budgets and cash and fund flow statements; but liquidity ratios, by establishing a relationship between cash and

other current assets to current obligation, provides a guide measure of liquidity (*Pandey; 1989:103*).

Banks can experience lack of liquidity when cash outflow (due to deposit, withdraws, loans etc.) exceed cash inflows (new deposits loan repayments etc.) They can resolve any cash deficiency by either creating additional liabilities or by selling assets. To analyze the ability of banks, the following selected ratios are calculated.

1. Current Ratio

The current ratio is the ratio of total current assets to total current liabilities. It is calculated by dividing current assets by current liabilities which is expressed as follows:

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

Current assets represent those assets which can be converted into cash and bank balance within accounting period such as cash and bank balance, investment in treasury bills, money at call or placement, loans and advances, bills purchased and discount, inter branch account, other short-term loans, receivable and pre-paid expenses etc.

Current Liabilities refer to the short-term maturing obligations. This includes all deposit liabilities, intra-bank reconciliation account, bills payable, tax provision, staff bonus, Dividend payable, Bank overdrafts, provisions and accrued expenses, etc.

2. Cash and Bank Balance to Current Asset Ratio

Cash and bank balance is the most liquid form of the current assets. The cash and bank balance ratio indicates the percentage of readily available funds within the bank. The cash and bank balance to current asset ratio is calculated by using the following formula:

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

3. Loan and Advances to Current Assets Ratio

Bank loans and advances are the main assets used as a source of income in the commercial banks. This ratio shows the proportion of current assets, which are invested as loans and advances to generate the income. It is expressed as:

$$\text{Loan and advances to Current Assets Ratio} = \frac{\text{Loan and Advances}}{\text{Current Assets}}$$

4. Fixed Deposit to Total Deposit

Fixed deposit is the high interest bearing deposit, which can be withdrawn only after its maturity. It- is calculated by dividing the amount of fixed deposits by the amount of total deposit, which is given below:

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

5. Saving Deposit to Total Deposit

Saving deposits is the low interest bearing deposit than the fixed deposit. These deposits are not as freely withdrawal as current deposit. This ratio is calculated in order to find out the proportion of total deposit which is interest bearing and short-

term. It can be calculated by dividing the amount of saving deposits by the amount of total deposits. It is expressed as:

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

6. Cash and Bank Balance to Total Deposit (Cash Reserve Ratio)

In countries where capital market is not well developed, the cash reserve requirement can be used not only to control the commercial bank credit but also to influence the investment portfolio of the commercial banks.

Regarding cash reserve, Nepal Rastra Bank had guided all the commercial Banks to maintain at least 12% of their deposit liabilities as reserve. Vault cash is 4% and the central bank balance is 13% of total deposits (*NRB, Directives*).

Cash Reserve Ratio (CRR) is calculated by dividing the cash and bank balance by the amount of total deposits, which is presented below:-

$$\text{Cash Reserve Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposits}}$$

B) Leverage or Capital Structure Ratio

Leverage ratio or capital structure ratio measures outsider's capital in financing the firm's assets, and are calculated by establishing relationships between borrowed capital and equity capital. Higher leverage ratio indicates larger amount of borrowed funds used by the firm to finance its assets and it also indicates increasing obligations and known as risky firm. A firm must have sufficient margin of equity to pay the fixed charges and refund the borrowed funds in the maturing date. The following ratios have been used to measure the long-term

solvency position of Standard Chartered Bank Nepal Limited with the help of financial data of past ten years of the bank.

-) Total Debt to Shareholder's Equity Ratio
-) Total Debt to Total Assets Ratio
-) Shareholder's Equity to Total Assets Ratio

1. Total Debt to Shareholder's Equity Ratio

The debt-equity ratio indicates the relationship between the long-term funds provided by creditors and those provided by the firm's owners. It is commonly used to measure the degree of financial leverage of the firm and is calculated as follows:

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

2. Total Debt to Total Assets Ratio

Total debt to total asset ratio is the relationship between creditors funds and owner's capital. This ratio shows the proportion of outsiders fund used in financing total asset. This ratio is calculated by dividing the total debt of the bank by its total assets, which is presented below.

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

3. Shareholder's Equity to Total Assets Ratio

Shareholder's Equity to Total Assets Ratio indicates the proportion of the assets which is financed from ownership capital of the firm. This ratio also exhibits the relationship between shareholders fund and owner's capital. This ratio shows the share of shareholders on the total assets. It can be expressed as follows:

$$\text{Shareholder's Equity to Total Assets} = \frac{\text{Shareholder's Equity}}{\text{Total Assets}}$$

C) Profitability Ratio

Profit is the difference between total revenues and total expenses over a period of time. Profit is the ultimate output of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the bank in terms of profits. The profitability ratios in this study are calculated to measure the operating efficiency and performance of Standard Chartered Bank Nepal Limited. Following are the major profitability ratios calculated in this study.

-) Interest Earned to Total Asset Ratio
-) Net Profit to Total Deposit Ratio
-) Net Profit to Total Asset Ratio
-) Net Profit to Net worth Ratio
-) Net Operating Profit to Total Asset Ratio
-) Net Profit to Risk Asset Ratio

1. Interest Earned to Total Asset Ratio

Interest earning is the major source of a commercial bank. This ratio is calculated to find out percentage of the interest earned in comparison to total assets. The ratio can be calculated by using the following formula:

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

2. Net Profit to Total Deposit Ratio

The collected deposits are mobilized in investment and loans to get profit. This ratio indicates the percentage of profit earned by using the total deposit. It is

calculated by dividing the amount of net profit by the amount of total deposits which is presented below:

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

3. Net Profit to Total Asset Ratio

This ratio is a useful measurement of the profitability of all financial resources invested in the banks assets. The return on asset (ROA) or profit to assets ratio is calculated by dividing the amount of net profit by the amount of total assets.

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

4. Net Profit to Net Worth (Return on Equity)

Net Worth or shareholders equity refers to the owner's claim on the assets of the bank. The ROE measures the earned on the owners' investment. This ratio indicates how well the banks have used the resources of the owners. It is calculated by dividing net profit after tax by net worth,

$$\text{Net Profit to Net Worth} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

5. Net Operating Profit to Total Asset

Net operating profit is the profit before interest and taxes (EBIT). When financial charges are significant, then it is appropriate for the comparative study to compute the net operating profit to total asset ratio rather than the return on assets ratio. This ratio is useful to measure the profitability ratio before interest and taxes of all financial resources invested in the banks assets. The following formula has been used to calculate the net operating profit to total asset ratio:

$$\text{Net Operating Profit to Total Assets Ratio} = \frac{\text{Earning before Interest and Taxes}}{\text{Total Assets}}$$

6. Net profit to Risk Asset Ratio

Risk assets refer to those assets, which are invested in loans and advances and bill purchased and discounted. The ratio is calculated by dividing the amount of net profit by the amount of risk assets which is expressed as:

$$\text{Return on Risk Assets} = \frac{\text{Earning before Interest and Taxes}}{\text{Risk Assets}}$$

D) Ownership Ratio

The true owners of business firms are the common stockholders, who invest their money in the firm because of their expectation of future returns. The common stockholders are referred as a residual owner, who receives what is left after all other claims on the firm's income and assets have been satisfied. As a result of this generally uncertain position, the common stockholder expects to be compensated with adequate dividends and ultimately capital gains. From the point of view of the shareholders, the following; financial ratios indicate the financial performance of the firm in a given period of time.

-) Earnings per Share (EPS)
-) Dividend per Share (DPS)
-) Dividend Payout Ratio (DPR)

Therefore, the above financial ratios have been included in this study to make the research effective and conclusive.

1. Earning Per Share (EPS)

The EPS represents the amount earned on behalf of each outstanding, share of common stock. They are closely watched by the investing public and are

considered an important indicator of the firm's success. EPS is calculated as follows:

$$\text{EPS} = \frac{\text{Net Profit after Taxes}}{\text{No. of Common Shares Outstanding}}$$

2. Dividend per Share (DPS)

Dividend per Share is calculated to know proportion of the earnings distributed to the shareholder per share. DPS is calculated with the help of following formula:

$$\text{DPS} = \frac{\text{Earning Paid to Shareholders}}{\text{No. of Common Shares Outstanding}}$$

3. Dividend Payout Ratio (DPR)

This ratio represents the percentage of the profits distributed as dividend and the percentage retained as revenue and surplus for the growth of the bank. It is determined by dividing dividend per shares (DPS) by earning per shares (EPS) as expressed below:

$$\text{Dividend Payout Ratio (DPR)} = \frac{\text{Dividend per Share}}{\text{Dividend Payout Ratio (DPR)}} \times 100$$

3.4.2 Income and Expenditure Analysis

Income and expenditure are the main indicators of the financial performance of the business firm. The income and expenditure statement provides a financial summary of the firm's operating results during the period specified. Therefore, the attempts have been made to analyze the income and expenditure statement of Standard Chartered Bank Nepal Limited of five financial years from 2006/07 to

2010/11 to know the financial performance of the bank. In this study the analysis of operating income and expenditure has been made as per the following details;

1. Operating Income

The sources of operating income are interest earnings, exchange earnings, commission earnings and other operating incomes.

2. Operating Expenses

The expenditure heads of the bank are interest expense, personnel expense and other operating and non-operating expenses.

3.4.3 Statistical Analysis

The word statistics refers either to quantitative information or to a method of dealing with quantitative information” (*Gupta; 1833*)

The relationship between different variable related to the study would be drawn out using statistical tools. There are various statistical tools that can be used to analyze the data for example mean, standard deviation, coefficient of variation, correlation analysis, regression analysis etc. Hence correlation analysis is presented below:

1. Correlation Analysis

Correlation is a statistical tool that measures the relationship between/among variables; it shows the degree and direction of such relationship. The relation between the data may be either positive or negative. It can be presented by different ways such as graphical representation, formula method etc. When both the variables move in the same direction, it is said to be the condition of positive correlation and if the condition is vice-versa then the condition is said to be

negative correlation. The main purpose of the study is to find out the correlation between selected rations with each other. The correlation coefficient is denoted by symbol 'r' and we use the following formula.

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

Where,

r = coefficient of correlation between variable x and y.

N = Number of pairs in observation

$\sum xy$ = Sum of the product of the variables x and y.

$\sum x$ = Sum of x

$\sum y$ = Sum of y

$\sum x^2$ = Sum of square of x

$\sum y^2$ = Sum of square of y

The value of coefficient of correlation as obtained by the formula shall always lie between +1 and -1. When $r=+1$, means there is perfect positive correlation between the variables. When $r=-1$, means there is perfect negative correlation between the variables. When $r=0$, it means there is no relationship between the two variable. However in practices such values of r as +1, -1 and 0 are rare.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

The main aim of this chapter is presentation and analysis of data according to research methodology to attain the objective of this study. In this chapter, an attempt has been made to analyze the financial performance of SCBNL for its operational period of five years that is 2006/07 to 2010/11. The data for this study are presented in tabular form and are analyzed with the help of financial tools viz. ratio analysis, income and expenditure statement analysis and statistical tools such as correlation as described in chapter 3.

4.1 Ratio Analysis

Ratio analysis involves the methods of calculating and interpreting financial ratios in order to assess the firm's performance and status. The basic input of ratio analysis is the firm's income and expenditure statement and balance sheet for the periods to be examined. The following ratios are used to analyze the financial performance of SCBNL.

4.1.1 Liquidity Ratio

The liquidity of a business firm is measured by its ability to satisfy its short-term obligations as they come due. Liquidity refers to the solvency of the firm's overall financial position. The following ratios are used to measure the liquidity position of SCBNL with the help of financial data of past five years of the bank.

-) Current Ratio
-) Cash and Bank balance to Current Assets
-) Loan and advance to Current Assets
-) Fixed Deposit to Total Deposit
-) Saving Deposit to Total Deposit

) Cash and Bank balance to Total Deposit

A. Current Ratio

The current ratio, one of the most commonly cited financial ratio, measures the firm's ability to meet its short-term obligations. It is expressed as follows.

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

The Current Ratio of SCBNL is exhibited in table 4.1 and figure 4.1 below.

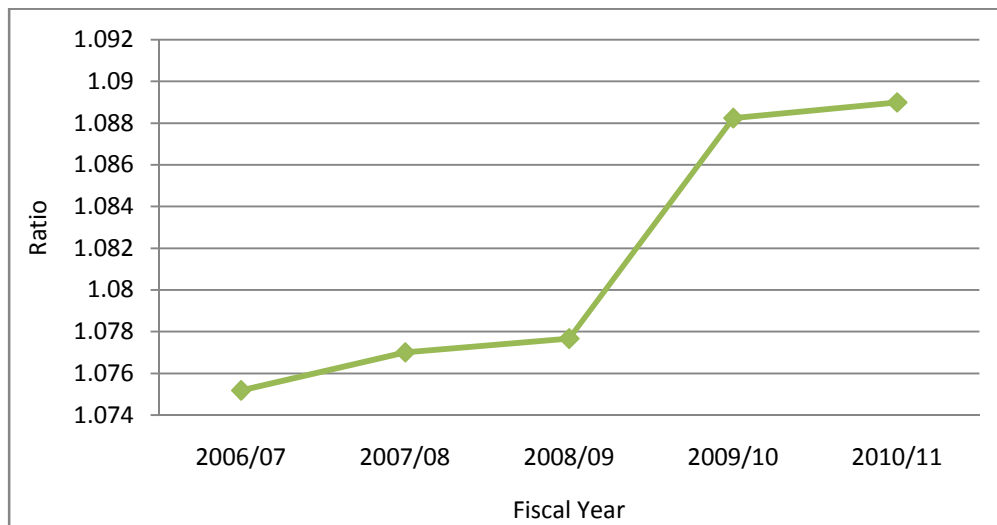
Table 4.1
Current Ratio of SCBNL

(Rs in'000')

Fiscal Year	Current Assets (Rs)	Current Liabilities (Rs)	Current Ratio (in terms of time)
2006/07	28471098	26480336	1.075
2007/08	33218516	30843240	1.077
2008/09	40450175	37534998	1.078
2009/10	40094780	36843610	1.088
2010/11	43704447	40132743	1.089
Average	37187803	34366985	1.081

Source: Balance Sheet: SCBNL

Figure 4.1
Current Ratio



The above table and figure shows that the current ratio of SCBNL has always in the increasing trend. Current assets of SCBNL has always exceeded current liabilities for the study period of 2006/07 to 2010/011. The bank has the highest current ratio of 1.089 and lowest current ratio of 1.075 with an average current ratio of 1.081 during the study period. If the current assets of a company are more than twice the current liabilities then that company is generally considered to have good short-term financial strength. If current liabilities exceed current assets then the company may have problems meeting its short-term obligations. In general, the SCBNL is able to meet its short-term obligations.

B. Cash and Bank Balance to Current Asset

Cash and bank balance are the most liquid form of the current assets. The cash and bank balance ratio indicates the percentage of readily available funds within the bank. The cash and bank balance to current asset ratio is calculated by using the following formulas:

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

The cash and bank balance to current assets ratio of SCBNL for the period of 2006/07-2010/11 is presented in Table 4.2 and figure no 4.2 below:

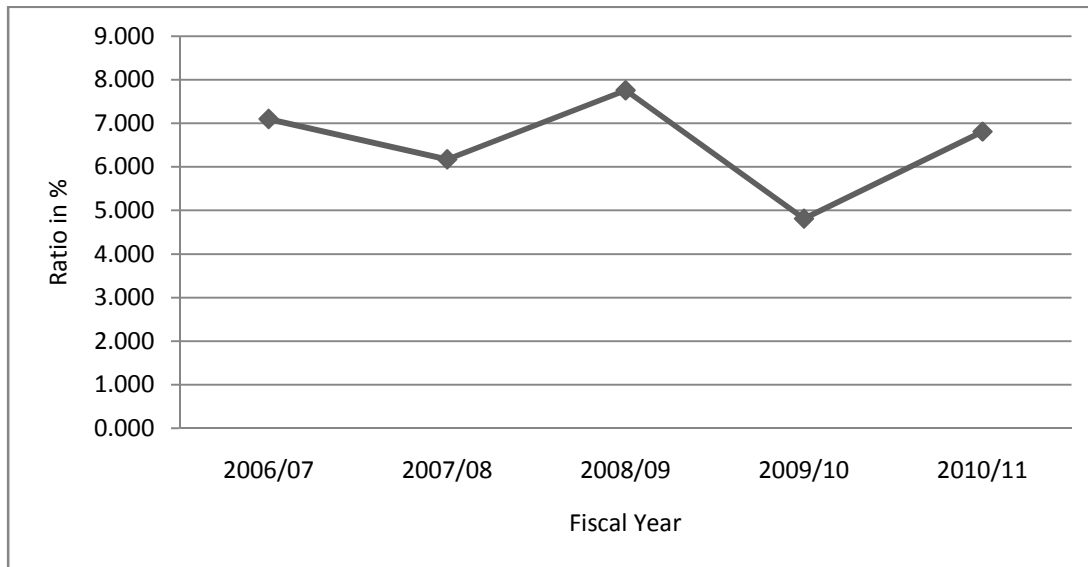
Table 4.2
Cash and Bank Balance to Current Assets Ratio

(Rs in'000')

Fiscal Year	Cash and bank balance (Rs)	Current assets (Rs)	Ratio (in %)
2006/07	2021021	28471098	7.099
2007/08	2050243	33218516	6.172
2008/09	3137164	40450175	7.756
2009/10	1929307	40094780	4.812
2010/11	2975795	43704447	6.809
Average	2422706	37187803	6.529

Source: Balance Sheet: SCBNL

Figure 4.2
Cash and Bank Balance to Current Assets



The above table and figure shows that cash and bank balance to current assets ratio of the bank was maximum (i.e. 7.756%) in year 2008/09 and minimum (i.e. 4.812%) in year 2009/10. It has increased in the year 2010/11. It seems that this

ratio has been fluctuating five years of observation period due to high/low cash and bank balance and current assets.

C. Loan and Advances to Current Assets Ratio

Loans and advances are the bills purchased and discounted, local and foreign currencies, loan and advances and overdrafts. Bank loans and advances are the main assets used as a source of income in the commercial banks. This ratio is calculated to determine the proportional of current assets, which are interested as loans and advances to generate the income for the bank. It is expressed as:

$$\text{Loan and Advance to Current Assets Ratio} = \frac{\text{Loan and advance}}{\text{Current assets}}$$

The loan and advances to current assets ratio of SCBNL for the period of 2006/07-2010/11 is presented in the table 4.3 figure 4.3 below:

Table 4.3
Loan and Advance to Current Assets Ratio

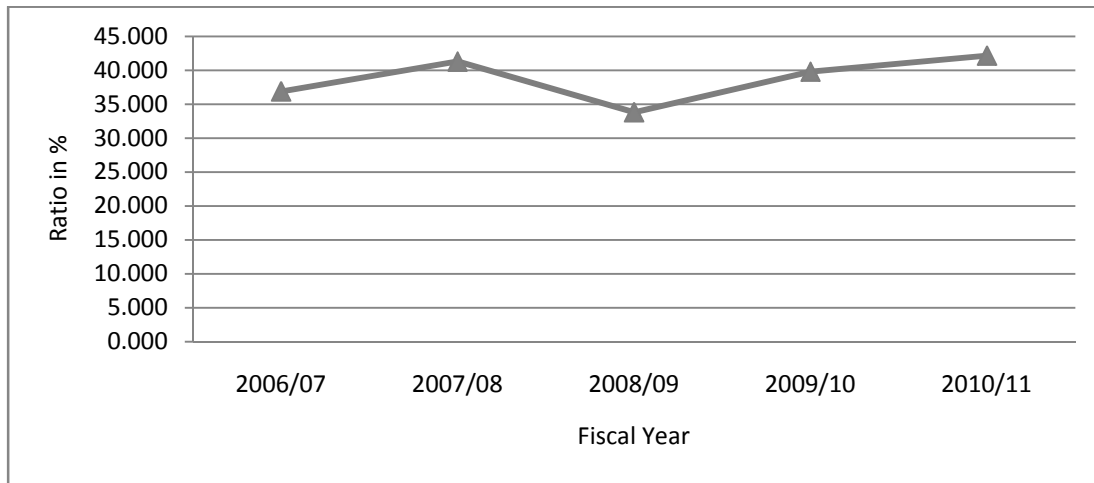
(Rs in'000')

Fiscal Year	Loan and Advances (Rs)	Current Assets (Rs)	Ratio (In %)
2006/07	10502637	28471098	36.889
2007/08	13718597	33218516	41.298
2008/09	13679756	40450175	33.819
2009/10	15956955	40094780	39.798
2010/11	18427270	43704447	42.163
Average	14457043	37187803	38.793

Source: Balance Sheet: SCBNL

Figure 4.3

Loan and Advance to Current Assets



The above table and figure shows that loan and advances to current assets ratio of the bank was maximum of 42.163% in year 2010/11 and minimum of 33.819% in year 2008/09 with an average of 38.793% during the study period. The analysis indicates that the loans and advances to current assets ratio are fluctuating. In year 2010/11 the ratio is high in comparison to other this is due to high loan and advances given to customer and the financial institution.

D. Fixed Deposit to Total Deposit Ratio

Fixed deposit is the high interest bearing deposit and can be withdrawn only after its maturity. This ratio is calculated in order to find out the proportion of fixed deposit with respect to the total deposit. It is calculated by dividing the amount of fixed deposits by the amount of total deposit, which is given below:

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

The fixed deposit to total deposit of SCBNL for the period of 2006/07-2010/11 is presented in the table 4.4 and figure 4.4 below:

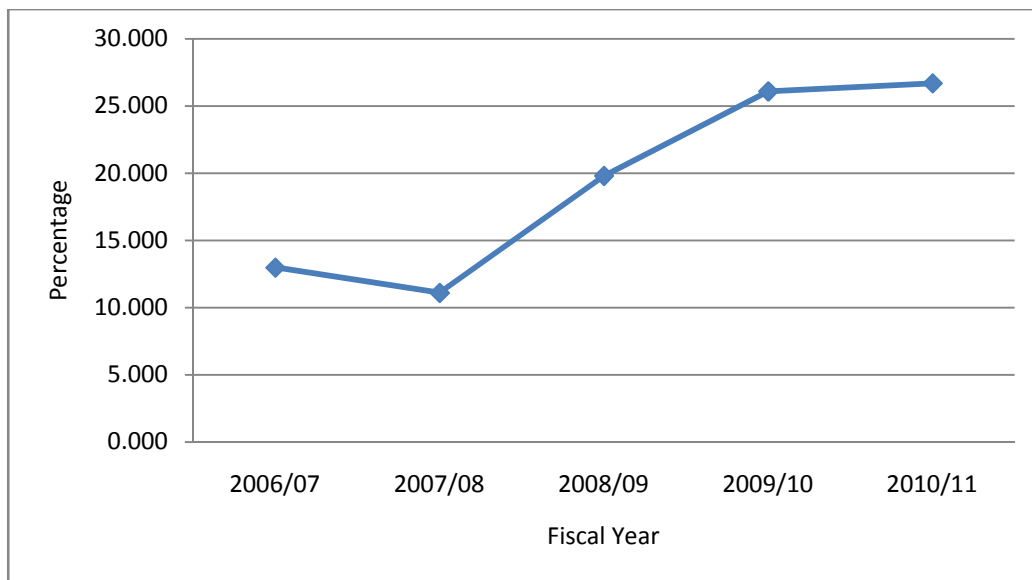
Table 4.4
Fixed Deposit to Total Deposit

(Rs in'000')

Fiscal Year	Fixed Deposit (Rs)	Total Deposit (Rs)	Ratio (in %)
2006/07	3196490	24647021	12.969
2007/08	3301013	29743998	11.098
2008/09	7101697	35871721	19.797
2009/10	9175070	35182721	26.078
2010/11	10136244	37999242	26.675
Average	6582103	32688941	19.324

Source: Balance Sheet: SCBNL

Figure 4.4
Fixed Deposit to Total Deposit



The above table and figure shows that fixed deposit to total deposit ratio of the bank varies from maximum of 26.675% in year 2010/11 to minimum of 11.098% in year 2007/08 with an average of 19.324% during the study period of five years. The analysis indicates that share of fixed deposit in total deposit has been gradually increasing till the end of study period.

E. Saving Deposit to Total Deposit Ratio

Saving deposit stand midway between current and fixed deposit. These deposits are not as freely withdrawal as current deposit. It can be calculated by dividing the amount of saving deposit by the amount of total deposit which is presented below:

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

The saving deposit to total deposit ratio of SCBNL for the period of 2006/07-2010/11 is presented in the table below:

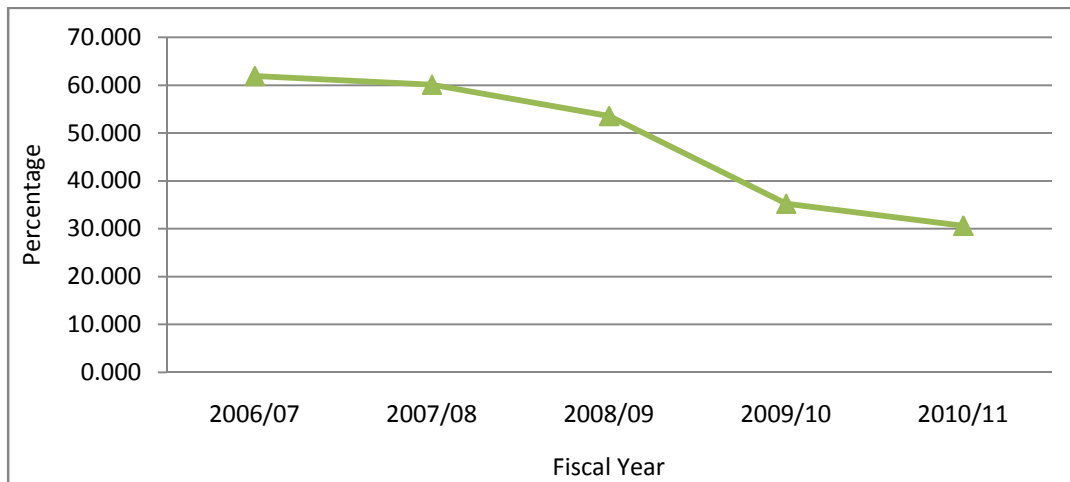
Table 4.5
Saving Deposit to Total Deposit

(Rs in'000')

Fiscal Year	Saving Deposit (Rs)	Total Deposit (Rs)	Ratio (in %)
2006/07	15244385	24647021	61.851
2007/08	17856134	29743998	60.033
2008/09	19187636	35871721	53.490
2009/10	12430009	35350823	35.162
2010/11	11619814	37999242	30.579
Average	15267597	32722561	48.223

Source: Balance Sheet: SCBNL

Figure 4.5
Saving Deposit to Total Deposit



The above table and figure shows that saving deposit to total deposit ratio of the bank varies from maximum of 61.851% in year 2006/07 to the minimum of 30.579% in year 2010/11 with an average of 48.223% during the study period of five years. In year 2010/11 ratio is lower due to low saving deposited by the customer and financial institution or may be the higher investment related to total deposit.

F.Cash and Bank Balances to Total Deposit (Cash Reserve Ratio)

The cash reserve requirement in the most developed and developing countries have been used extensively as a means to control commercial banks credit. Especially in countries where capital market is not well developed, cash reserve requirement can be used not only to control the commercial bank credit but also to influence the investment portfolio of the commercial banks.

Cash Reserve Ratio (CRR) is calculated by dividing the cash and bank balance by the amount of total deposit, which is presented below:

$$\text{Cash Reserve Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Table 4.6

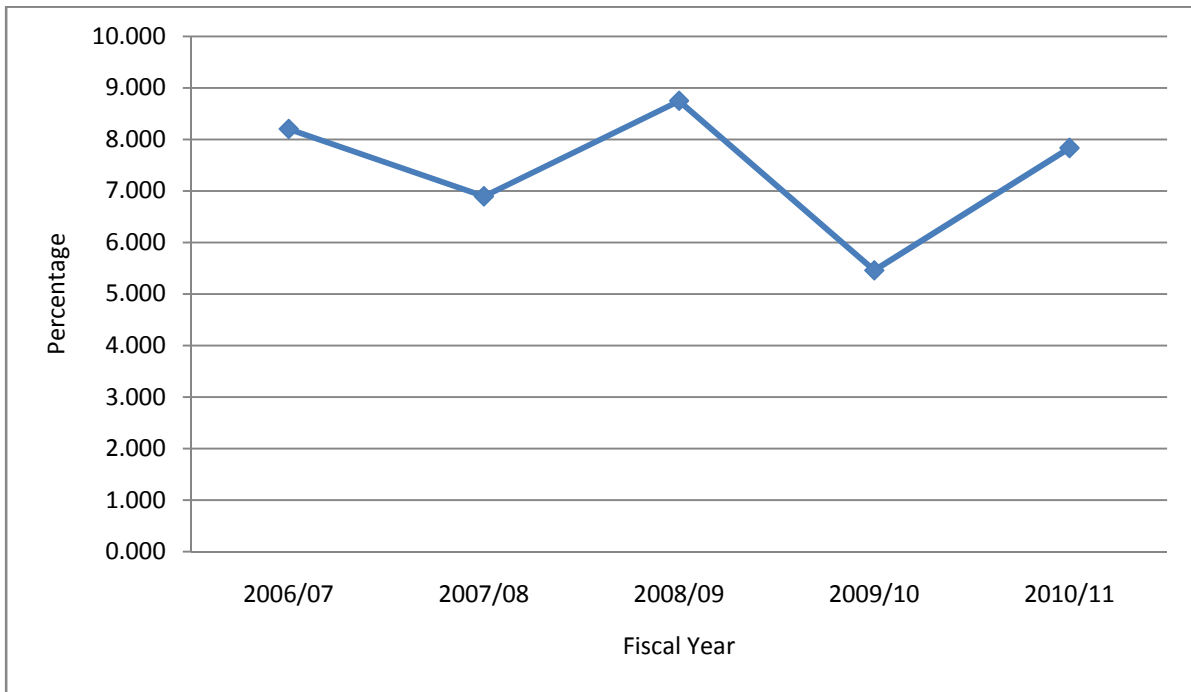
Cash and Bank Balance to Total Deposit Cash Reserve Ratio

(Rs in'000')

Fiscal Year	Cash and Bank Balance.(Rs)	Total Deposit(Rs)	Ratio (in %)
2006/07	2021021	24647021	8.200
2007/08	2050243	29743998	6.893
2008/09	3137163	35871721	8.746
2009/10	1929306	35350823	5.458
2010/11	2975795	37999242	7.831
Average	2422706	32722561	7.425

Source: Balance Sheet: SCBNL

Figure 4.6
Cash Reserve Ratio



The above table and figure shows that cash reserve ratio of the bank varies from maximum of 8.75% in year 2008/09 to minimum of 5.46% in year 2009/10 with an average of 6.97% during the study period of five years. Ratios are fluctuating may be the central bank has indicate the higher cash reserve ratio to all the banks or may be the higher cash and bank balance of the SCBNL.

4.1.2 Capital Structure Ratio (Leverage Ratio)

Capital structure ratio or leverage ratio measures the proportion of outsider's capital in financing the firm's assets, and are calculated by establishing relationships between borrowed capital and equity capital. A firm should have a strong short- term liquidity as well as long- term financial position. Higher leverage ratio indicates larger amount of borrowed funds used by the firm to finance its assets and it also indicates increasing obligations and known as risky firm. A firm must have sufficient margin of equity to pay the fixed charges and refund the borrowed funds in the maturing date. The following ratios are used to

measure the long- term solvency position of SCBNL with the help of past five year's financial data of the bank.

-) Total Debt to Shareholder's Equity Ratio
-) Total Debt to Total Assets Ratio
-) Total Shareholder's Equity to Total Assets Ratio

A. Total Debt to Shareholder's Equity Ratio

The Debt- equity ratio indicates the relationship between the long-term funds provided by creditors and those provided by the firm's owners. The total debt refers to the total current liabilities plus the borrowing form other banks. It is commonly used to measure the degree of financial leverage of firm and is calculated as follows:

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

The total debt to shareholder's equity ratio of SCBNL for the period of 2006/07 till 2010/11 is presented in the Table and figure below.

Table 4.7

Total Debt to Shareholder's Equity Ratio

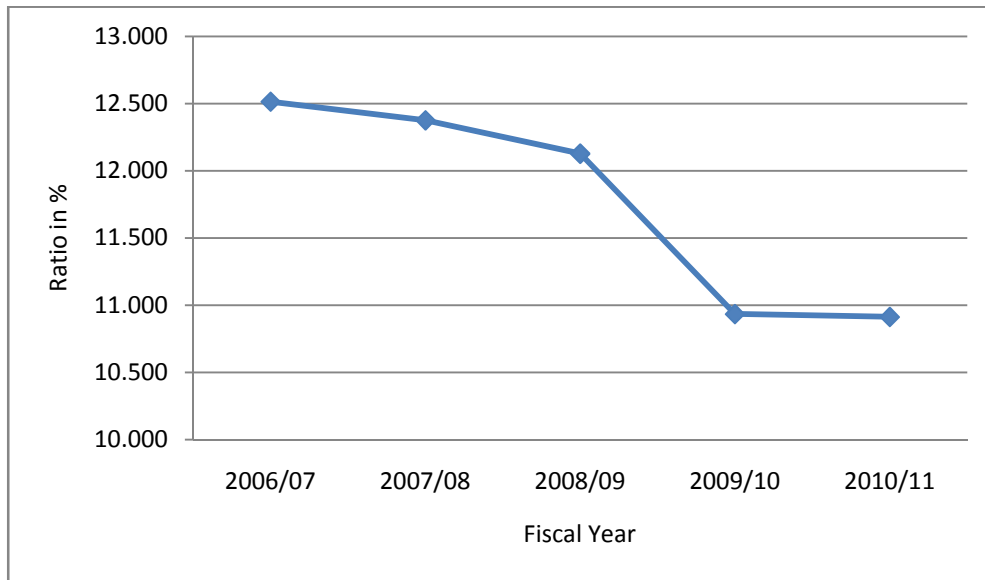
(Rs in'000')

Fiscal Year	Total Debt (Rs)	Shareholder's Equity (Rs)	Ratio
2006/07	26480336	2116353	12.512
2007/08	30843241	2492547	12.374
2008/09	37014101	3052469	12.126
2009/10	36843610	3369709	10.934
2010/11	40132743	3677777	10.912
Average	34262806	2941771	11.772

Source: Balance Sheet: SCBNL

Figure 4.7

Total Debt to Share Holder's Equity Ratio



The above table and figure below shows debt to equity ratio varies from maximum of 12.512% in year 2006/07 to the minimum of 10.912% in year 2010/11 with an average of 11.772% during the study period of five years. The analysis indicates that the bank has the high debt equity ratio, which means the creditors have invested more in the banks than owners.

B. Total Debt to Total Assets Ratio

This ratio exhibits the relationships between creditors funds and owners capital. This ratio shows the proportion of outsiders fund used in financing total assets. This ratio is calculated by dividing the total debt of the bank by its total assets, which is presented below.

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

The total debt to total assets ratio of SCBNL for the period of 2006/2007 to 2010/11 is presented in the table and figure below:

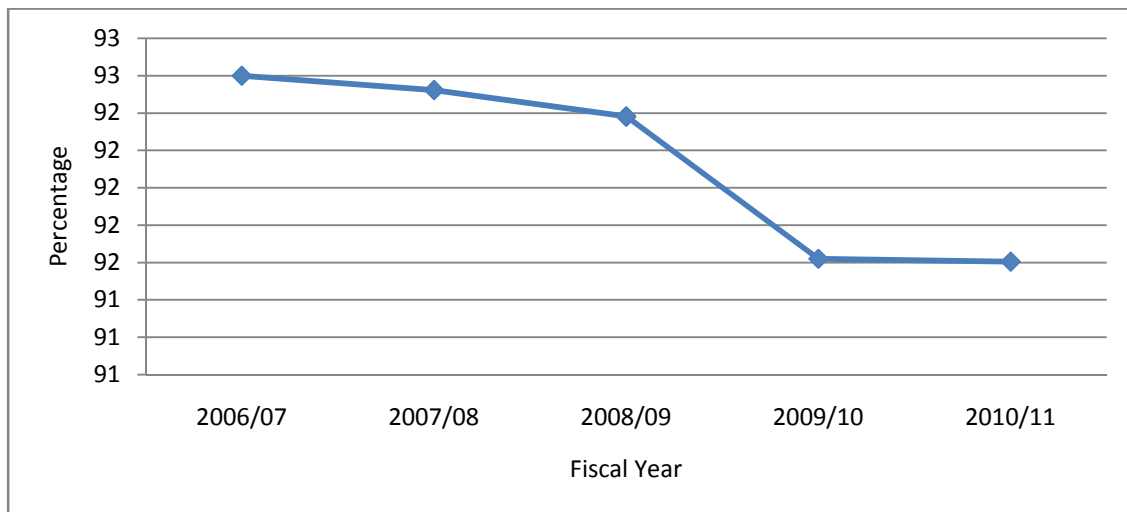
Table 4.8
Total Debt to Total Assets Ratio

(Rs in'000')

Fiscal Year	Total Debt(Rs)	Total Assets (Rs)	Ratio (in %)
2006/07	26480336	28596689	92.599
2007/08	30843241	33335788	92.523
2008/09	37014101	40066570	92.382
2009/10	36843610	40213320	91.620
2010/11	40132743	43810520	91.605
Average	34262806	37204577	92.146

Source: Balance Sheet: SCBNL

Figure 4.8
Total Debt to Total Assets Ratio



The above table shows that Debt to Total assets of the bank varies from maximum of 92.599 in year 2006/07 to the minimum of 91.605% in year 2010/11 with an average of 92.146% during the study period of 5 years. The analysis of 92.146% of total assets of the bank is financed through debt capital.

C. Total Shareholder's Equity to Total Assets Ratio

Shareholder's Equity to total assets ratio indicates the proportion of the assets, which is financed from ownership capital of the firm. This ratio also exhibits the relationship between shareholders fund and owner's capital. This ratio shows the share of shareholders on the total assets. It can be expressed as follows:

$$\text{Total Shareholder's Equity to Total Assets Ratio} = \frac{\text{Total Shareholder's Equity}}{\text{Total Assets}}$$

Table 4.9

Total Shareholder's Equity to Total Assets Ratio

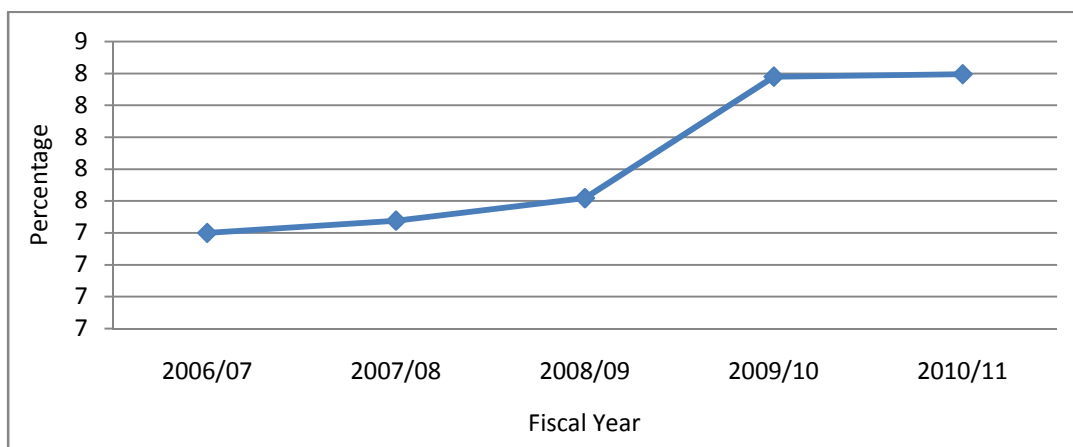
(Rs in'000')

Fiscal Year	Shareholder's Equity	Total Assets (Rs)	Ratio (in %)
2006/07	2116353	28596689	7.401
2007/08	2492547	33335788	7.477
2008/09	3052469	40066570	7.618
2009/10	3369710	40213320	8.380
2010/11	3677777	43810520	8.395
Average	2941771	37204577	7.854

Source: Balance Sheet: SCBNL

Figure 4.9

Total Shareholder's Equity to Assets Ratio



The above table and figure shows that the shareholder's equity to total assets of the bank varies from maximum of 8.395% in year 2010/11 to minimum of 7.401% in year 2006/07 with an average of 7.854% during the study period of 5 years. The analysis indicates that an average of 7.854% of the total assets of the bank is financed through equity capital and remaining from debt capital.

4.1.3 Profitability Ratio

There are many measure of profitability. Each relates the returns of the firm to its sales, assets, and equity or share value. As a group, these measures allow the analyst to evaluate firm's earning with respect to given level of sales, a certain level of assets, the owners investments or share value.

Profit is the difference between total revenues and total expenses over a period of time. Profit is the ultimate output of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the bank in terms of profits. The profitability ratios in this study are calculated to measure the operating efficiency ratios calculated in this study.

-) Interest Earned to Total Assets Ratio
-) Net Profit to Total Deposit Ratio
-) Net Profit to Total Assets Ratio
-) Net Profit to Net worth Ratio
-) Net Operating Profit to Total Assets Ratio
-) Net Profit to Risk Assets Ratio

A. Interest Earned to Total Assets Ratio

Interest earning is the major source of income of a commercial bank. This ratio is calculated to find out percentage of the interest earned in comparison to total assets. The ratio can be calculated by using the following formula:

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

The interest earned to total assets ratio of SCBNL for the period of 2006-2011 is presented in the Table and figure below:

Table 4.10
Interests Earned to Total Assets Ratio

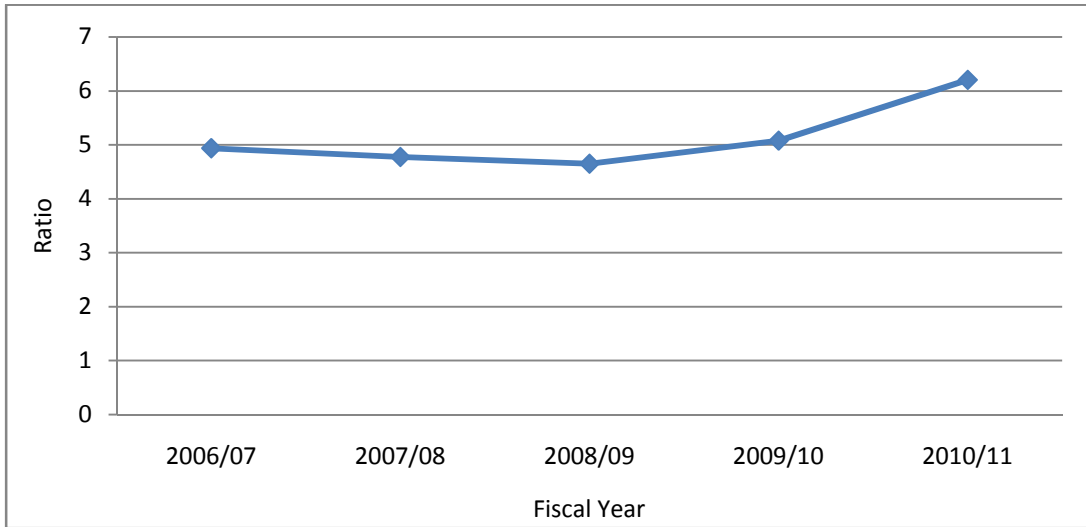
(Rs in'000')

Fiscal Year	Interest Earned(Rs)	Total Assets (Rs)	Ratio (in %)
2006/07	1411982	28596689	4.938
2007/08	1591195	33335788	4.773
2008/09	1887221	40587468	4.650
2009/10	2042109	40213320	5.078
2010/11	2718699	43810520	6.206
Average	1930241	37308757	5.129

Source: Profit & loss A/C: SCBNL

Figure 4.10

Interests Earned to Total Assets Ratio



The above table shows the interest earned to total assets of the bank varies from maximum of 6.206% in year 2010/11 to the minimum of 4.650% in year 2008/09 with an average of 5.129% during the study period of 5 years. The analysis indicates that the ratio is in fluctuating trend in the previous years and in increasing trend in final years of observation period.

B. Net Profit to Total Deposit Ratio

The calculated deposits are mobilized in investment and loans to get profit. This ratio indicates the percentage of profit earned by using the total deposit. It is calculated by dividing the amount of net profit by the amount of total deposits which is presented below:

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

The net profit to total deposit ratio of SCBNL for the period of 2007-2011 is presented in the table below:

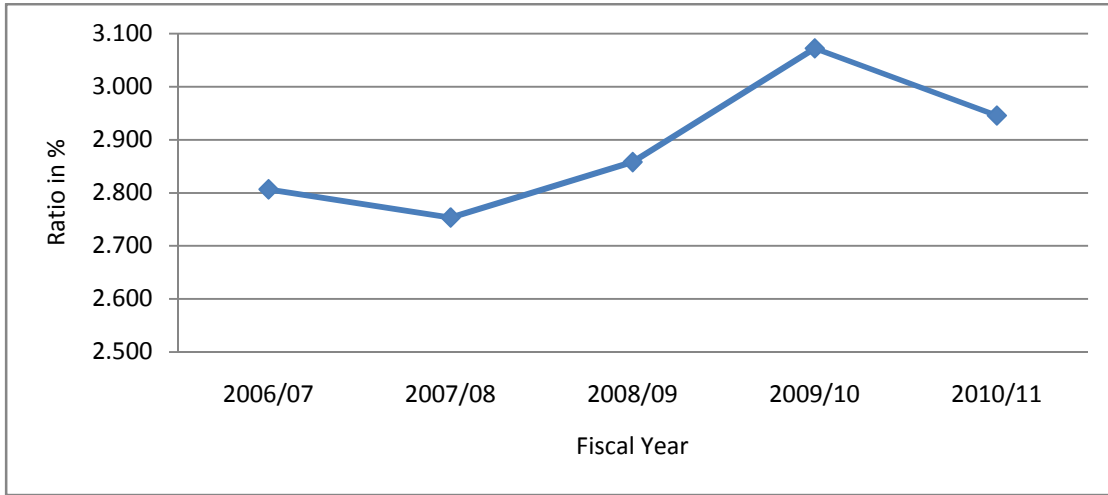
Table 4.11
Net Profit to Total Deposit

(Rs in'000')

Fiscal Year	Net Profit(Rs)	Total Deposit (Rs)	Ratio (in %)
2006/07	691688	24647021	2.806
2007/08	818921	29743998	2.753
2008/09	1025114	35871721	2.858
2009/10	1085872	35350823	3.072
2010/11	1119171	37999242	2.945
Average	948153	32722561	2.887

Source: Profit & loss A/C: SCBNL

Figure 4.11
Net Profit to Total Deposit



The above table shows that Net profit to total deposit of the bank varies from maximum of 3.072% in year 2009/10 to the minimum of 2.753% in year 2007/08 with an average of 2.887% during the study period of 5 years. The analysis indicates that the calculated ratio shows the fluctuating trend.

C. Net Profit to Total Assets Ratio

This ratio is a useful measurement of the profitability of all financial resources invested in the banks assets. The return of assets (ROA) or profit to assets ratio is calculated by dividing the amount of net profit by the amount of total assets.

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

The net profit – to total assets ratio of SCBNL for the period of 2007-2011 is presented in the Table and figure below:

Table 4.12

Net Profit to Total Assets

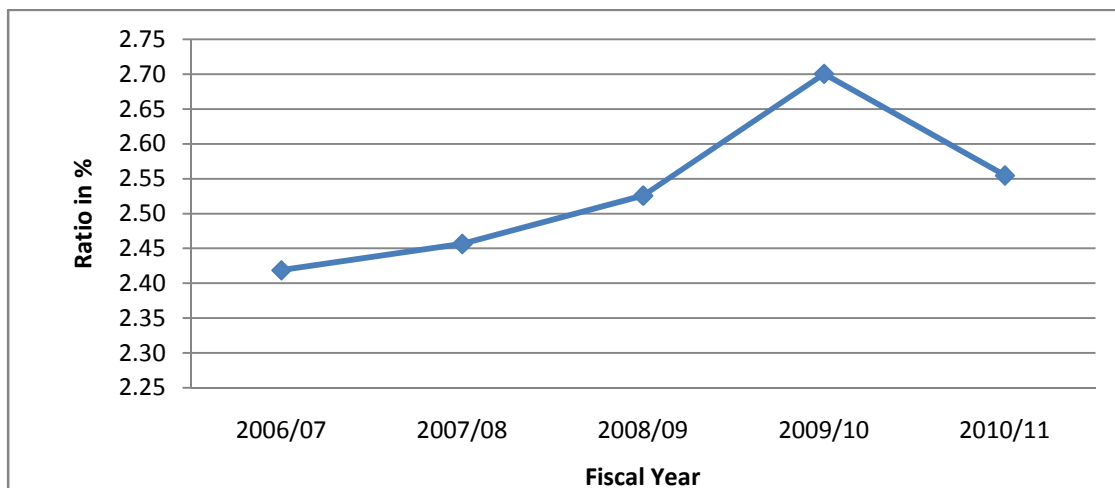
(Rs in'000')

Fiscal Year	Net Profit(Rs)	Total Assets (Rs)	Ratio (in %)
2006/07	691688	28596689	2.419
2007/08	818921	33335788	2.457
2008/09	1025114	40587468	2.526
2009/10	1085872	40213320	2.700
2010/11	1119171	43810520	2.555
Average	948153	37308757	2.531

Source: Profit & loss A/C: SCBNL

Figure 4.12

Net Profit to Total Assets



The above table and figure shows that Net profit to total assets of the bank varies from maximum of 2.700% in year 2009/10 to the minimum of 2.419% in year 2006/07 with an average of 2.531% during the study period of 5 years. The analysis indicates that the net profit earned in comparison to total assets is in fluctuating trend.

D. Net Profit to Net Worth (Return on Equity) Ratio

Net worth or shareholders equity refers to the owner's claim on the assets of the bank. The ROE measures the earned on the owner's investment. This ratio indicates how well the banks have used the resources of the owners. It is calculated by dividing net profit after tax by net worth.

$$\text{Net Profit to Net Worth Ratio} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

The net profit to net worth ratio of SCBNL for the period of 2006/07-2010/11 is presented in the table below:

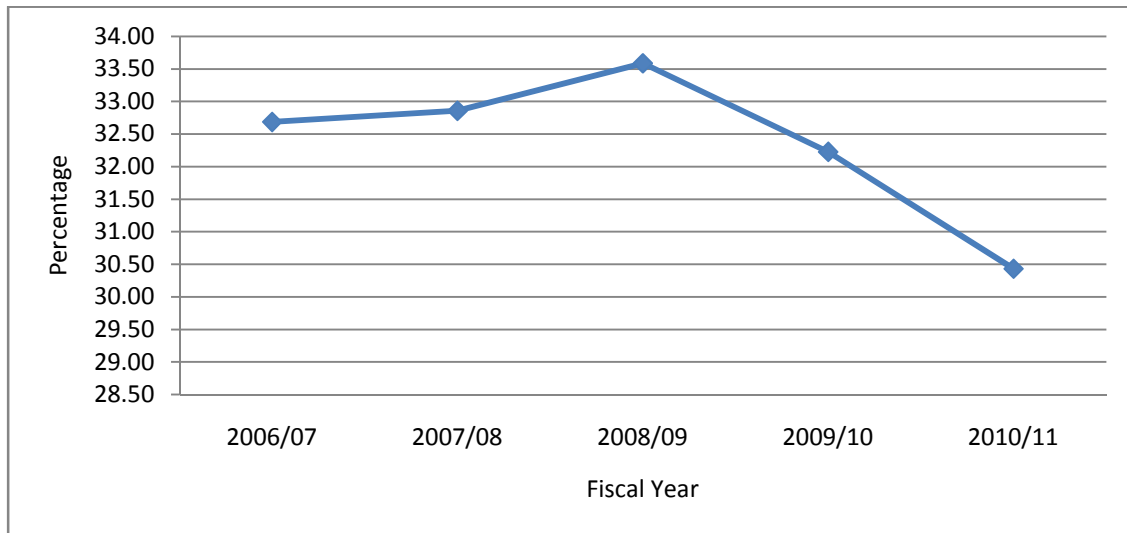
Table 4.13
Net Profit to Net worth Ratio

(Rs in'000')

Fiscal Year	Net Profit (Rs)	Net worth (Rs)	Ratio(in %)
2006/07	691688	2116353	32.683
2007/08	818921	2492547	32.855
2008/09	1025114	3052469	33.583
2009/10	1085872	3369709	32.225
2010/11	1119171	3677777	30.431
Average	948153	2941771	32.355

Source: Profit & Loss A/C: SCBNL

Figure 4.13
Net Profit to Net Worth Ratio



The above table and figure shows that return on equity of the bank varies from maximum of 33.583% in year 2008/09 to the minimum of 30.431% in year 2010/11 with an average of 32.355% during the study period of 5 years. Due to the high payment rate of interest on deposit.

E. Net Operating Profit to Total Assets Ratio

Net operating profit is the profit before interest and taxes (EBIT). When financial charges are significant then it is appropriate for the comparative study, to compute the net operating profit to total assets ratio rather than the return on assets ratio. This ratio is useful to measure the profitability ratio before interest and taxes to all financial resources invested in the banks assets. The following formula is used to calculate the net operating profit to total assets ratio:

$$\text{Net operating Profit to Total Assets Ratio} = \frac{\text{Earning before Interest and Taxes}}{\text{Total Assets}}$$

The net operating profit to total assets ratio of SCBNL for the period of 2007-2011 is presented in the table and figure below:

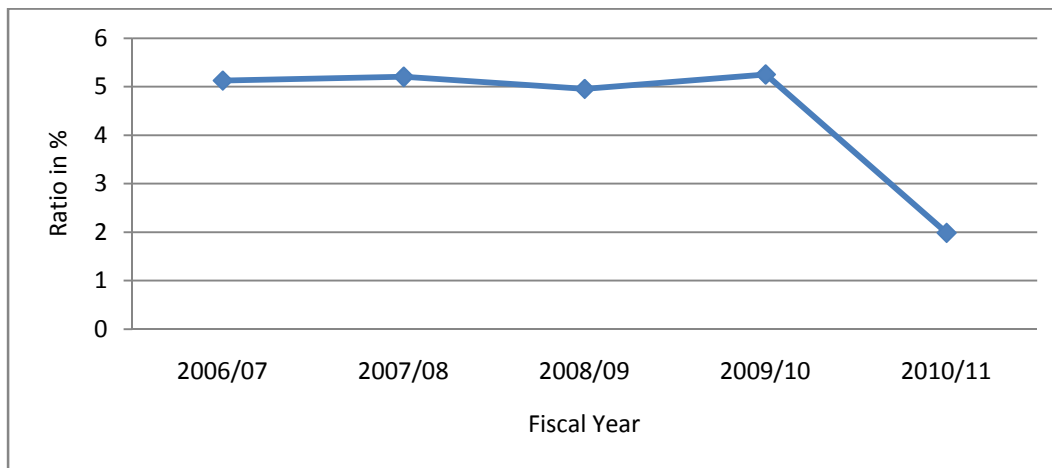
Table 4.14
Net operating Profit to Total Assets Ratio

(Rs in'000')

Fiscal Year	Net Profit before Interest and Tax (Rs)	Total Assets (Rs)	Ratio (in %)
2006/07	1465959	28596689	5.126
2007/08	1734988	33335788	5.204
2008/09	2010992	40587468	4.955
2009/10	2112108	40213320	5.252
2010/11	870103	43810520	1.986
Average	1580742	35386686	4.588

Source: Profit & loss A/C: SCBNL

Figure 4.14
Net Operating Profit



The above table shows that net operating profit to total assets of the bank varies from maximum of 5.252% in year 2009/10 to the minimum of 1.986% in year 2010/11 with an average of 4.588% during the study period of 5 years. The analysis indicates that the net operating profit to total assets shows increasing trend in previous years but decreasing trend in final years of observation period.

F. Net profit to Risk Assets Ratio

Risk asset refer to those assets, which are invested in loans and advances, bill purchased and discounted. The ratio is calculated by dividing the amount of net profit by the amount of risk assets which is expressed as:

$$\text{Return on risk assets} = \frac{\text{Net Profit after Interest and Taxes}}{\text{Risk Assets}}$$

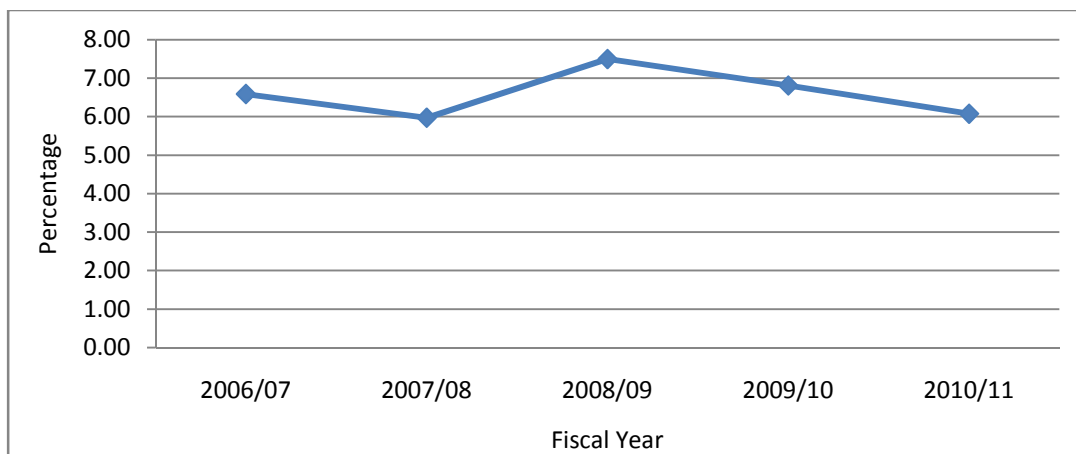
Table 4.15
Return on Risk Assets

(Rs in'000')

Fiscal Year	Net Profit After Interest and Tax (Rs)	Loan and Advances	Ratio (in %)
2006/07	691688	10502637	6.586
2007/08	818921	13718597	5.969
2008/09	1025114	13679756	7.494
2009/10	1085872	15956955	6.805
2010/11	1119171	18427270	6.073
Average	948153	14457043	6.585

Source: Profit & loss A/C: SCBNL

Figure 4.15
Return on Risk Assets



The above table and figure shows that return on risky assets of the bank varies from maximum of 7.494% in year 2008/09 to minimum of 5.969% in year 2007/08 with an average of 6.585% during the study period of 5 years. The analysis indicates that the SCBNL has made considerable profit from the risky assets.

4.1.4 Ownership Ratio

Unlike creditors, the true owners of business forms are the common stockholders, who invest their money in the firm because of their expectation of future returns. The common stockholders referred as a residual owner, since in essence he/she receives what is left after all other claims on the firm's income and assets have been satisfied. As a result of this generally uncertain position, the common stockholder accepts to be compensated with adequate dividends and ultimately, capital gains. From the point of view of the shareholders, the following financial ratios indicate the financial performance of the firm in a given period of time.

-) Earning Per Share (EPS)
-) Dividend Per Share (DPS)
-) Dividend payout Ratio (DPR)

Therefore, the above financial ratios have been included in this study to make the research effective and conclusive.

A. Earning Per Share (EPS)

The firm's Earning per Share are generally of interest to present or prospective stockholders and management. The EPS represents the amount earned on behalf of each outstanding share of common stock. They are closely watched by investing public and are considered an important indicator of the firm's success. EPS is calculated as follows:

$$\text{EPS} = \frac{\text{Net Profit after Taxes}}{\text{No. of Common Share Outstanding}}$$

The following table shows the earning per share of SCBNL of time financial years.

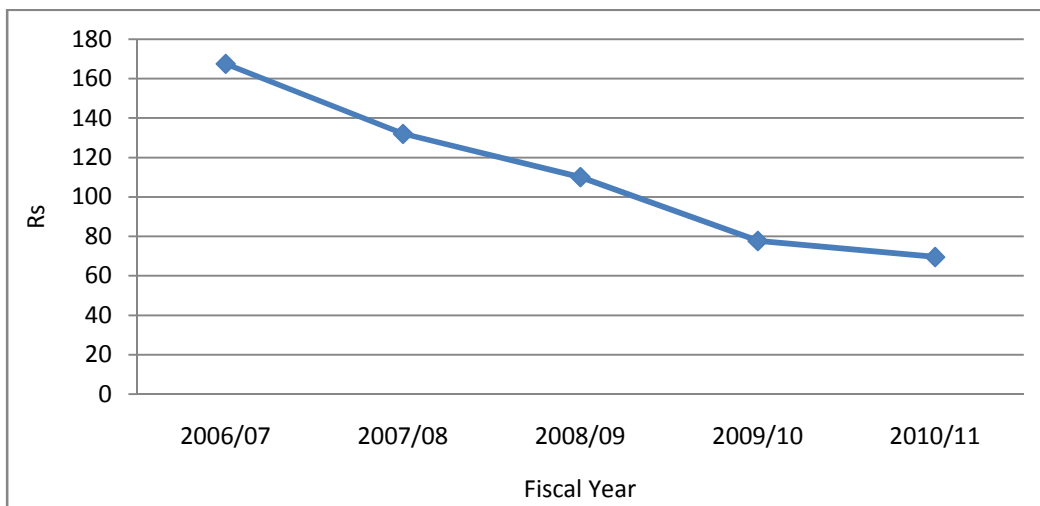
Table 4.16
Earning Per Share

(Rs in'000')

Fiscal Year	Net Profit After Interest and Tax(Rs)	No. of share O/S	EPS (in Rs)
2006/07	691688	4132	167.398
2007/08	818921	6207	131.935
2008/09	1025114	9320	109.991
2009/10	1085872	13985	77.645
2010/11	1119171	16102	69.505
Average	948153	9949	111.295

Source: Annual Report of SCBNL (2006/2010)

Figure 4.16
Earning Per Share



The above table and figure shows that EPS of the bank varies from maximum of Rs.167.398 in year 2006/07 to minimum of Rs69.505 in year 2010/11 with an

average of Rs.111.295 during the study period. The above analysis indicates that EPS of SCBNL is quite good.

B. Dividend Per Share (DPS)

Dividend per share is calculated to know proportion of the earnings distributed with the help of following formula:

$$\text{DPS} = \frac{\text{Earning Paid to Shareholder}}{\text{No. of Common Shareholders Outstanding}}$$

The following table shows the dividend per share of SCBNL of time financial years.

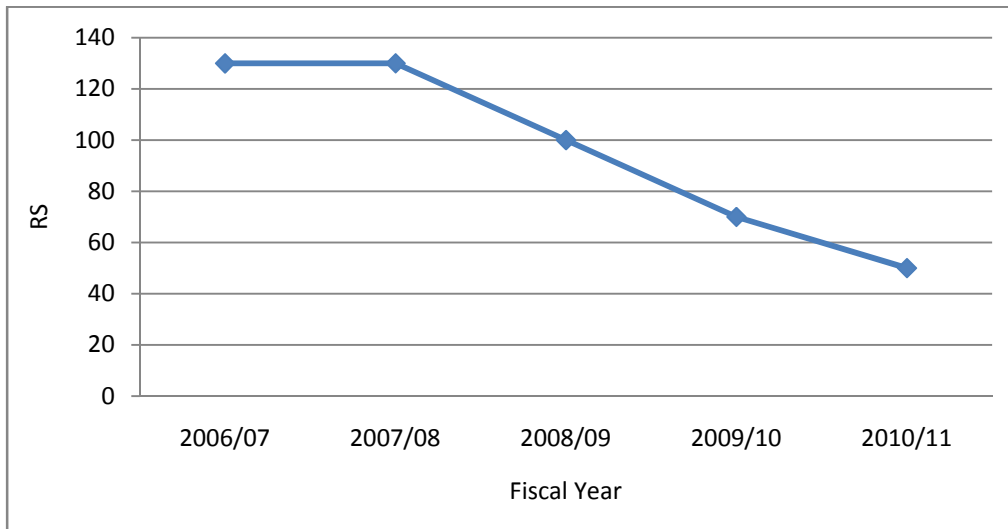
Table 4.17
Dividend Per Share

(Rs in'000')

Fiscal Year	Earning paid to Shareholders (Rs)	No. of share o/s	DPS(in Rs)
2006/07	537160	4132	130
2007/08	807019	6207	130.02
2008/09	931966	9320	100
2009/10	978950	13985	70
2010/11	805100	16102	50
Average	650021	7478	101

Source: Annual report of SCBNL (2010/2011)

Figure 4.17
Dividend Per Share



The above table shows DPS of bank varies from maximum of Rs130.02 in year 2007/08 to minimum of Rs.50 in year 2010/11 with an average of Rs101.00 during the study period of 5 years. The above analysis indicates that the dividend per share of SCBNL is satisfactorily and the shareholders are being compensated with good return. EPS and DPS is much more lower in the year 2010/11 may be due to economical and political situation.

C. Dividend Payout Ratio (DPR)

The ratio represents the percentage of the profit distributed as dividend and the percentage retained as revenue and surplus for the growth of the bank. It is determined by dividend per shares (DPS) by earning per shares (EPS), as expressed below:

$$\text{Dividend Payout Ratio (DPR)} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}} \times 100$$

The following table shows that dividend payout ratio of SCBNL of time financial years.

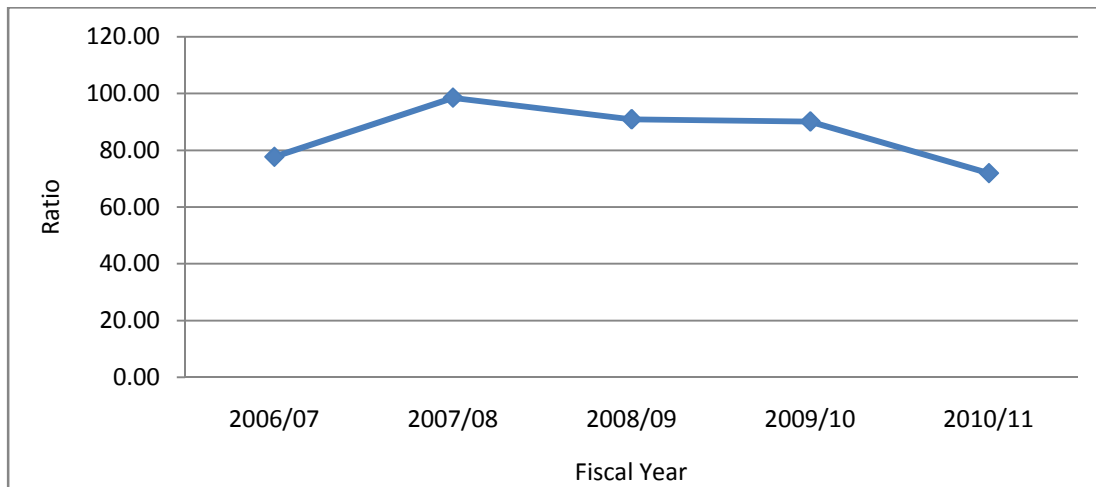
Table 4.18
Dividend Payout Ratio

(Rs. in 000)

Fiscal Year	DPS(in Rs)	EPS(Rs)	DPR (in %)
2006/07	130	167.398	77.659
2007/08	130.02	131.935	98.548
2008/09	100	109.991	90.917
2009/10	70	77.645	90.153
2010/11	50	69.505	71.937
Average	96.004	111.295	85.843

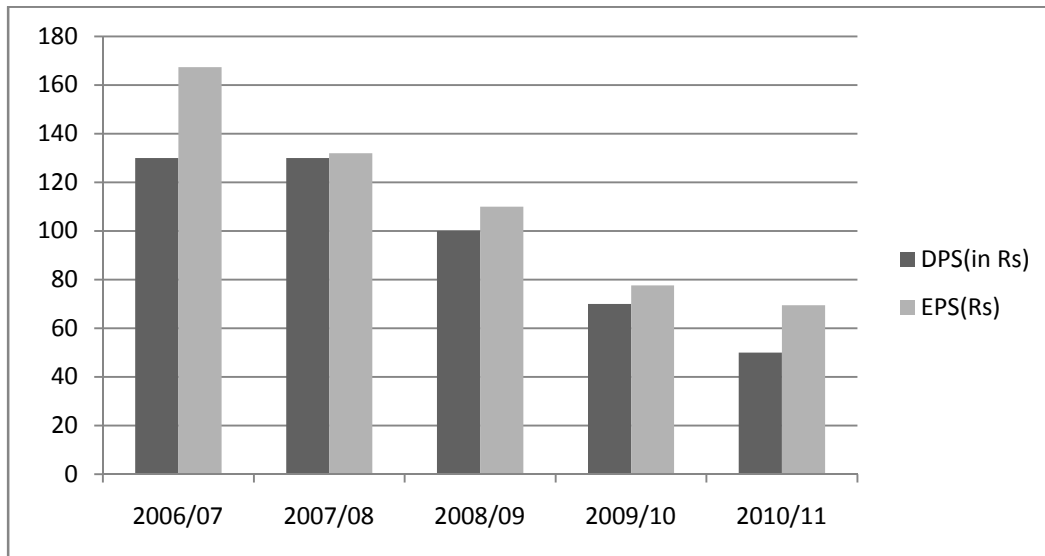
Source: Annual Report of SCBNL (2006/2010)

Figure 4.18
Dividend Payout Ratio



The above table and figure shows that dividend payout ratio of the bank varies from maximum of 98.548% in year 2007/08 to minimum of 71.937% in year 2010/11 with an average of 85.843% during the study period of 5 years. The above analysis indicates that dividend paid is regular and ratio is increasing that means company is concentrated to give regular return to the shareholders.

Figure 4.19
EPS and DPS



The above bar diagram shows the years in x-axis and EPS and DPS (in rupees) in y-axis. The highest EPS and DPS are in the year. The bar diagram shows positive correlation between EPS and DPS. When earnings of the bank increases dividend per share also increase and vice versa. The above analysis indicates that dividend paid is regular and ratio is increasing that means company is concentrated to give regular return to the shareholders.

4.2 Income and Expenditure Analysis

Income and expenditure are the main indicators of the financial performance of the business firm. The income and expenditure statement provides a financial summary of the firm's operating results during the period specified. Therefore, all attempts have been made to analyze the income and expenditure statement of SCBNL of 5 financial years from 2006/07 to 2010/11. In this study the analysis of operating income and expenditure has been made and as detailed below.

4.2.1 Operating Income

The incomes in percentage received from various sources are presented in below table. The sources of the operating income are interest earning, commission earnings and other operating incomes.

Table 4.19
Contribution of Different Sources in Total Income

(Rs. in terms of Percentage)

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11	Average
Income Statement						
Interest Earnings	70.75	70.80	71.00	72.20	76.75	72.30
Exchange Earnings	15.49	15.38	18.06	15.11	12.95	15.40
Commission Earnings	11.08	12.30	8.86	10.18	9.08	10.30
Other Operating Income	2.21	1.45	1.25	1.22	1.04	1.43
Other Non-Operating Income	0.48	0.07	0.83	1.28	0.18	0.57
Gross Income	100.00	100.00	100.00	100.00	100.00	100.00

Source Appendix 2, Annual report of SCBNL

The interest earning is the main source of income of the bank. The interest earnings are from loans, advances and overdrafts, government securities and others as per the data presented in the above table. The total income of the bank largely depends on the interest earned. The average of 72.30% of the total income is covered by the interest earned. The high rate of income from the interest received indicates the better operational efficiency of the bank.

The second main income source of the bank is from foreign exchange earnings. This consists of gain on sale of foreign exchange and revaluation of gain. The average of 15.40% of the total income comes from the exchange earnings.

The income from commission earnings constitutes the third highest income source of the bank. Commission and discount are received from the letter of credit, letter of guarantee, fees collection, remittance fees and other commissions associated with the service provided by the bank. The average earnings from commission and

discount are 10.30% of the total income of the bank during the study period of ten years. This concludes that bank is providing efficient and effective service to its clients. The operating income from other sources contributes an average of 1.43% of the total income of the bank Overall the bank's operating profit is in increasing trend.

4.2.2 Operating Expenses

The operating expenses of bank (in percentage) in different items are presented in table. The operating expenses heads of the bank are interest expenses, personnel expenses and other operating and non- operating expenses.

Table 4.20
Expenses of the Bank in Different Items

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11	Average
Expenditure Statement						
Interest Expenses	43.81	50.86	50.67	48.63	59.91	50.77
Personnel Expenses	31.96	24.28	23.58	26.43	21.86	25.62
Other Operating Expenses	24.23	24.86	25.75	24.94	18.23	23.60
Other Non-Operating Expenses						
Total Expenditure	100.00	100.00	100.00	100.00	100.00	100.00

Source Appendix 2, Annual Report of SCBNL

The interest expenses are the main heading of the expenses of the bank. The interest expenditure is interest paid to depositors, loans and advances and short-term borrowings from other financial institution. As per the data presented in the above table, the interest expenses is 50.77% of the total expenditure on an average. The high rate of expenditure in interest indicates that the bank has collected more deposits.

The second important heading for the operating expenditure is other operating expenses, which includes rent, utilities, insurance, maintenance, legal, stationery expenses etc., to run the bank smoothly and effectively. The heading constitute, on an average of 25.62% of the total expenses.

The third expenditure heading of the bank is personnel expenses, which includes salary of staff, bonus, facilities, gratuity, provident fund and other allowances etc. The personnel expenses constitute 23.60% on an average of the total expenditure.

The following table shows that Income to Expenditure ratio of SCBNL of five financial years.

$$\text{Income to Expenditure} = \frac{\text{Income}}{\text{Expenditure}}$$

Table 4.21
Income to Expenditure

(Rs. in 000)

Fiscal Year	Income(Rs)	Expenditure(Rs)	Ratio (times)
2006/07	1,137,180	632,455	1.798
2007/08	1,376,645	993,357	1.386
2008/09	1,408,402	1,168,907	1.205
2009/10	1,325,366	1,295,401	1.023
2010/11	1,141,204	1,096,797	1.040
Average	1,277,759	1,037,383	1

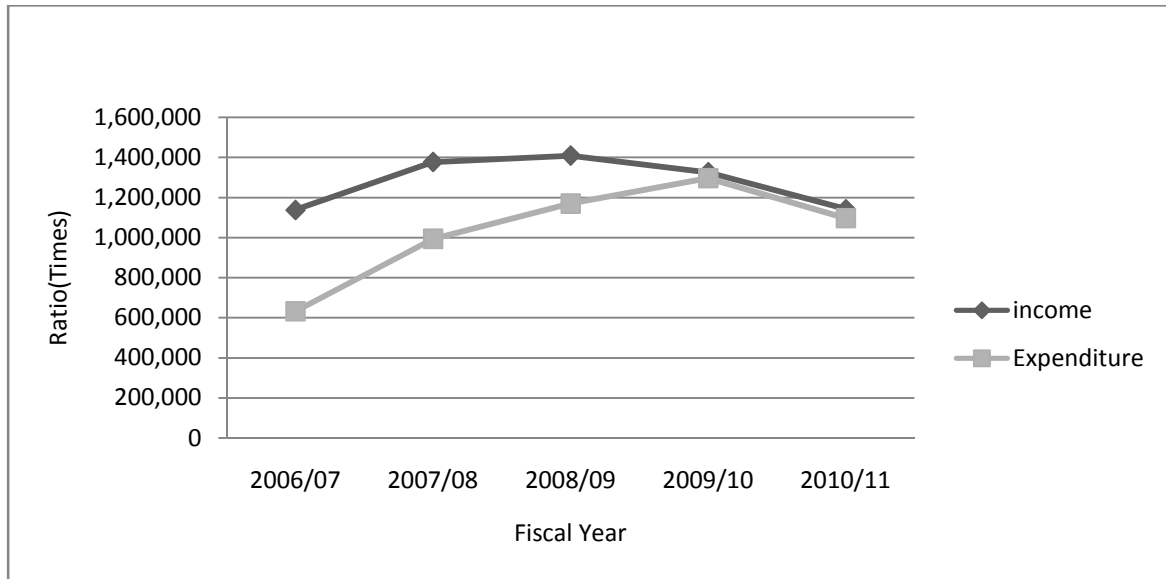
Source: Annual report of SCBNL (2007/2011)

The above table shows that income to expenditure ratio of the bank varies from maximum of 1.798 times in year 2006/07 to minimum of 1.023 times in year

2009/10 with an average of 1.00 times during the study period of 5 years. The above analysis indicates SCBNL is making a profit through out the study year.

Figure 4.20

Income to Expenditure



The above bar diagram shows the years in x-axis and Income and Expenditure (in rupees) in y-axis. The highest Income is in the year 2008/09 i.e. Rs. 1,408,402 and The highest expenditure is in 2009/10 i.e. Rs 1,295,401 respectively. The above analysis indicates that expenditure is increasing but the income is decreasing. however in the year 2009/10 even though the expenditure higher in comparison to other fiscal year the income is also higher then expenditure for the same year.

4.2.3 Non Performing Loan to Total Loan

This ratio measures the degree of risk on credit and advances granted. The higher the ratio indicates higher the risk on credit and advances, and higher chances of turning performing loan in sub-standard, doubtful and finally in loss loan.

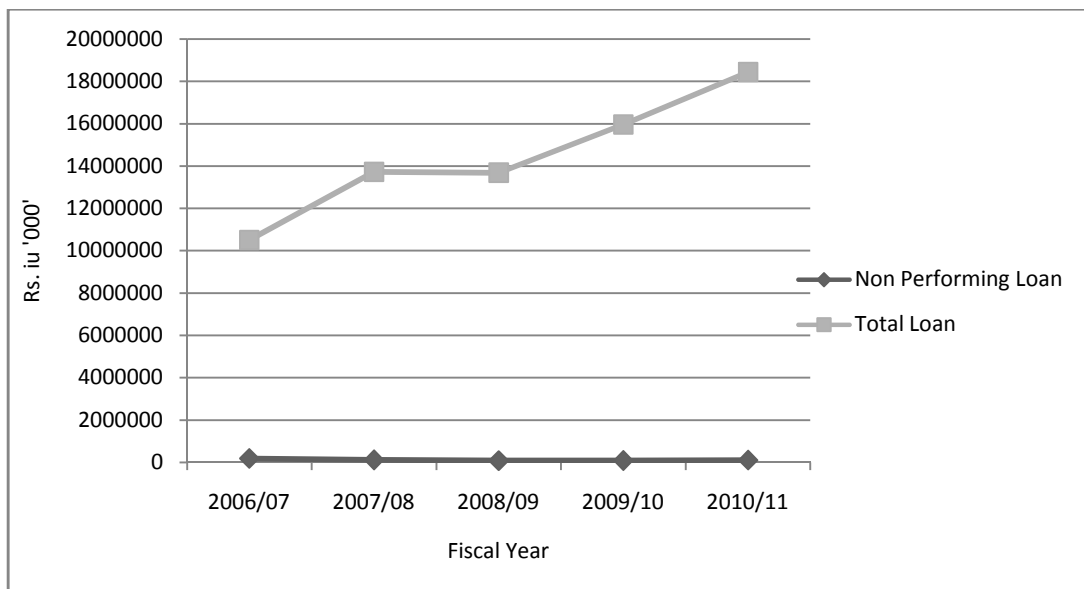
Table 4.22
Non Performing Loan to Total Loan

(Rs. in 000)

Fiscal Year	Non Performing Loan	Total Loan	NPA (%)
2006/07	192198	10502637	1.83
2007/08	126211	13718597	0.92
2008/09	90286	13679756	0.66
2009/10	97337	15956955	0.61
2010/11	114249	18427270	0.62
Average	124056.4477	14457043	0.928

The above table has revealed the risk of total loan of four sampled bank in term of loan loss provision kept. The loan loss provision to total loan and advances of SCBN is in decreasing trend. The ratio is 7.46% in the fiscal year 2005/06 and has subsequently followed decreasing trend and has finally reached to 4.80% in the fiscal year 2009/10. In average, SCBN has kept 4.84% of the total loan and advances as loan loss provision and the coefficient of variation in the ratio was 41.29%.

Figure 4.21
Non Performing Loan to Total Loan



In overall, it can be concluded the bank is successful to reduce the loan loss provision on total loan and advances by decreasing the non-performing loan.

4.3 Statistical Analysis

“The word statistics refers either to quantitative information or to a method of dealing with quantitative information” (*Gupta; 1833*).

The relationship between different variable related to the study would be drawn out using statistical tools. There are various statistical tools that can be used to analyze the data for example mean, standard deviation, coefficient of variation, correlation analysis, regression analysis etc. The statistical tool used in this analysis is as follows:

4.3.1 Correlation Analysis

Correlation is a statistical tool that measures the relationship between/among variables; it shows the degree and direction of such relationship for the total deposit and loan and advances.

The relation between the data may be either positive or negative. It can be determined by different ways such as graphical representation, formula method etc. When both variables deviate in the same direction, it is said to be the condition of positive correlation and vice versa is said to be negative. The correlation coefficient is denoted by symbol ‘r’ and following table is used for the calculation of coefficient of correlation.

Table 4.23
Co-efficient of Correlation between Total Deposit and Loan
and Advances of SCBNL

(Rs. in 000000)

Fiscal Year	Total Deposit (X)	Loan and Advances (Y)	X²	Y²	XY
2006/07	24647.021	10502.637	607475644.2	110305384	258858714.7
2007/08	29743.998	13718.597	884705417	188199903.6	408045921.7
2008/09	35871.721	13679.756	1286780368	187135724.2	490716390.6
2009/10	35350.823	15956.955	1249680687	254624412.9	564091491.8
2010/11	37999.242	18427.27	1443942393	339564279.7	700222292.1
Total	163612.805	72285.215	5472584508	1079829704	2421934811

Source: Annual report of SCBNL (2010/11)

Source : Appendix 5

We have,

r = coefficient of correlation between variable x and y

N = 5 (Number of pairs in observation)

xy = 2421934811 (Sum of the product of the variables x and y)

x = 163612.805 (Sum of the x)

y = 72285.215 (Sum of the y)

x² = 5472584508 (Sum of square of x)

y² = 1079829704 (Sum of square of y)

Correlation coefficient “r” can be calculated by using following formula and the calculation is done in the Appendix 5. The calculation of Probable Error (P.E(r)) is also done in the same appendix using the below formula

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

r^2 = Coefficient of determination

Calculation of Probable Error P.E(r)

$$P.E(r) = 0.6745 \times \frac{(1-r^2)}{N}$$

If, $|r| < P.E.$, then r is not significant

If, $|r| > 6P.E.$, then r is significant

The analysis shows the degree of relationship between total deposit and total loan and Advance. The independent variable is total deposit (X) and the dependent variable is Loan and Advances(Y). The purpose of computing the coefficient of correlation is to observe to what extent and in which direction the Loan and advances is associated with total deposit. In other words, to what degree loan and advances(Y) is affected by a unit change in total deposit(X). The coefficient correlation between total deposit and Loan and Advances is 0.88.

The coefficient of determination (r^2) of SCBNL is 0.774 which indicates that variation in the dependent variable (Loan and Advances) has been explained by the independent variable (total deposit). Moreover by considering the probable errors, the value of r (0.88) is greater than 6P.E. (0.408) so it can say that there is significant relationship between deposits and Loan and Advances.

4.4 Major Findings of the Study

On the basis of the data analysis presented in sections 4.1, 4.2 and 4.3 of this chapter, the following are the findings of the study:

4.4.1 Findings from the Ratio Analysis

Ratio analysis involves the methods of calculating and interpreting financial ratios in order to assess the firm's performance and status. The following are the finding from the ratios analysis:

-) SCBNL has the highest current ratio of 1.089 in 2010/11 and the lowest current ratio of 1.075 in 2006/07 with an average current ratio of 1.081 during the study period 2006/07-2010/11. The current ratio analysis of the bank over the five years period indicates that the bank is able to meet its short- term obligations and has sound liquidity position.
-) The cash and bank balance to current asset ratio of SCBNL varies from maximum is 7.756% in year 2008/09 and minimum is 4.812% in year 2009/10 with an average of 6.529% during the study period of five years. The analysis indicates that the cash and bank balance proportion with respect to the current assets is in erratic trend.
-) Loans and advances are the bills purchased and discounted, local and foreign currencies, loan and advances and overdrafts, which are the main sources of income in the commercial banks. The loan and advances to current asset ratio of the SCBNL varies from maximum of 42.163% in year 2010/11 and minimum of 33.819% in year 2008/09 with an average of 38.793% during the study period of five years. The analysis indicates that the loans and advances disbursement respect to the current asset is fluctuating.
-) Fixed deposit is the high interest bearing deposit and can be withdrawn only after its maturity. The total deposit ratio of SCBNL varies from maximum of 26.675% in year 2010/11 to minimum of 11.098% in year 2007/08 with an average of 19.324% during the study period of five years. The analysis indicates that the share of fixed deposit is low in the total deposit. The low share of fixed deposit in the total deposit shows decreasing trend.
-) Saving deposit stand midway between current and fixed deposits. These deposits are not as freely withdrawal as current deposit. The saving deposit to total deposit ratio of SCBNL varies from maximum of 61.85% in year 2006/07 to the minimum of 30.579% in year 2010/11 with an average of 48.223% during the study period of five years. The analysis indicates that the share of saving deposit is higher than the fixed deposit in the total deposit.

This means, main investment source of SCBNL is the saving deposit, which is the lowest interest bearing source of deposit.

- J The cash reserve requirement in most of the developed and developing countries has been used extensively as a means to control commercial banks credit. Regarding cash reserve, Nepal Rastra Bank has guided all the commercial banks to maintain at least 12% of their deposit liabilities as reserve (vault cash in 4% and central bank balance is 8% of total deposit). The cash reserve ratio of the SCBNL varies from maximum of 8.746% in year 2008/09 to minimum of 5.458% in year 2009/10 with an average of 7.425% during the study period of five years. The analysis indicates that the bank has invested large amounts in various business sectors.
- J The debt-equity ratio indicates the relationship between the long – term funds provided by creditors and those provided by the firm's owners. The above table shows that Debt to equity ratio of the bank varies from maximum of 12.512% in year 2006/07 to the minimum of 10.912% in year 2010/11 with an average of 11.772% during the study period of five years. The analysis indicates that the bank has the high debt- equity ratio, which means the creditors have invested more in the bank than the owners.
- J Total debt to total asset exhibits the relationship between creditors fund and owners capital. This ratio shows the proportion of outsiders' fund used in financing total asset. The debt to total assets of the bank varies from maximum of 92.599 in year 2006/07 to the minimum of 91.605% in year 2010/11 with an average of 92.146% during the study period of 5 years. The analysis indicates that the bank has the high debt- equity ratio, which means the creditors have invested more in the bank than the owners.
- J Shareholder's equity to total assets ratio indicates proportion of assets, which is financed from ownership capital of the firm. The total shareholder's equity to total asset of the bank varies from maximum of 8.395% in year 2008/09 to minimum of 7.401% in year 2006/07 with an average of 7.854% during the

study period of 5 years. The analysis indicates that an average of 7.854% of total assets of the bank financed through equity capital and the remaining from debt capital. This implies that the shareholder's stake in the bank is very low. The creditors have dominated in the bank's financial mix.

- J Interest earning is the major source of income of a commercial bank. Interest earned to total assets ratio reflects the proportion of interest earned by the bank from the total income. The interest earned to total assets of the bank varies from maximum of 6.206% in year 2010/11 to the minimum of 4.938% in year 2006/07 with an average of 5.129% during the study period of 5 years. The analysis indicates that the bank has the high debt- equity ratio, which means the creditors have invested more in the bank than the owners.
- J Net profit to total deposit ratio indicates the percentage of profit earned by using the total deposit. The net profit to total deposit of the bank varies from maximum of 3.072% in year 2009/10 to the minimum of 2.753% in year 2007/08 with an average of 2.887% during the study period of 5 years. The analysis indicates that the net profit earned in comparison to total deposit is in fluctuating trend.
- J The return on asset (ROA) or profit to total assets ratio is a useful measurement of the profitability of all financial resources invested in the assets. Net profit to total assets of the bank varies from maximum of 2.700% in year 2009/10 to the minimum of 2.419% in year 2006/07 with an average of 2.531% during the study period of 5 years.
- J Net worth or shareholder's equity refers to the owner's claim on the assets of the bank. The net profit to net worth (ROE) measures the income on the owner's investment. This ratio indicates how well the banks have used the resources of the owners. The return on the equity of the bank varies from maximum of 33.583% in year 2008/09 to the minimum of 30.431% in year 2010/11 with an average of 32.355% during the study period of 5 years. The analysis indicates that the profit earning in relation to the shareholder's equity

of SCBNL is in better position, which exhibits the better utilization of shareholder's resources.

- J Net operating profit is the profit before interest and taxes (EBIT). Net operating profit to total assets ratio is useful to measure the profitability ratio before interest and taxes invested in the assets. The net operating profit to total asset of the bank varies from maximum of 5.252% in year 2009/10 to the minimum of 1.986% in year 2010/11 with an average of 4.588% during the study period of 5 years. Risk assets refer to those assets, which are invested in loans and advances and bill purchased and discounted. The return on the risk assets of the bank varies from maximum of 7.494% in year 2008/09 to the minimum of 6.073% in year 2010/11 with an average of 6.585% during the study period of five years.
- J The firm's earning per share is generally of interest to present or prospective stockholders and management. The EPS represents the amount earned on behalf of each outstanding share of common stock. The EPS of the bank varies from maximum of Rs.167.398 in year 2006/07 to the minimum of Rs.69.505 in year 2010/11 with an average of Rs.111.295 during the study period of five years. The above analysis indicates that the earning per share of SCBNL is quite good.
- J Dividend per share is calculated to know proportion of the earning distributed to the share holders per share. The DPS of the bank varies from maximum of Rs130.02 in year 2007/08 to minimum of Rs.50 in year 2010/11 with an average of Rs101.00 during the study period of 5 years. The above analysis indicates that the dividend per share of SCBNL is satisfactory and the shareholders are being compensated with good return.
- J Dividend payout ratio represents the percentage of the profits distributed as dividend and the percentage retained as revenue and surplus for the growth of the bank. The dividend payout ratio of the bank varies from maximum of 98.548% in year 2007/08 to minimum of 71.937% in year 2010/11 with an

average of 85.843% during the study period of 5 years. The above analysis indicates that the payout ratio of the bank is high.

4.4.2 Findings from the Income and Expenditure Analysis

-) Income and expenditure are the main indicators of the financial performance of the business firm. The income and expenditure statement provides a financial summary of the firm's operating results during the period specified. The interest earning is the main sources of income of the bank. The interest earning is from loans, advances and overdrafts, government securities, treasury bills, investment on debentures and others. The average of 72.30% of the total income is covered by the interest earned. The high rate of income from the interest received indicates the better efficiency of the bank. The second main income source of the bank is from the foreign exchange earnings. The average of 15.40% of the total operating income comes from the exchange earnings. The income source earning constitutes the third highest income source of the bank. The average earnings from the commission and discount are 10.30% of the total operating income of the bank. This concludes that bank is providing efficient and effective services to its average of the total income of the bank.
-) The expenditure heads of the bank are interest expenses, personnel expenses and other operating and non – operating expenses. The interest is the main heading of the expenses of the bank. The interest expenses are 50.77% of the total expenditure. On an average the high rate of expenditure in interest indicates that the bank has collected more deposits. The second main expenditure heading of the bank is office operating expenses. The office operating expenses constitutes 25.62% of the total expenditure on an average. The third important heading for the operating expenditure is the personnel expenses. The bank is spending 23.60% of the total operating expenditure in the personnel expenses on an average.

4.4.3 Findings from the Statistical Analysis

) Correlation coefficient is one of the statistical tools used to find out the relationship between two variables. The correlation coefficient between total deposit and loan and advance is 0.88. It means there is high degree positive relation between deposit and loan and advance. By application of the coefficient of determination, it indicates that 0.774 of the variation in the loan and an advance has been explained by the deposit. Moreover by considering the probable errors, the value of r (0.88) is greater than 6P.E. (0.406), so it can say that there is significant relationship between deposits and Loan and Advances.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The present study has been undertaken to examine and evaluate the financial performance of Standard Chartered Bank Nepal Limited. The researcher had used the financial tools and statistical tools to make this study more effective and informative. This study has covered 5 years data from 2006/07 to 2010/11 of the bank. In this section, the researcher has tried to summarize the financial performance of SCBNL.

The bank has been able to maintain its position in the country as one of the leading joint venture commercial banks. Moreover, competition in the financial sector is getting tougher day by day. Instead of political instability, domestic unrest and threats, the bank is making all possible efforts to consolidate its business portfolio and cut down the cost in all operating areas to maintain the profitability.

The principal activities of the bank in the past 5 years continued to be consumer and corporate banking, trade finance, credit card services and foreign exchange dealing. The bank has successfully installed and launched Automated Teller Machine (ATM). The number of cards issued by the bank is increasing and the bank now has critical mass in its account base. The capital base figure of the bank is more than adequate and exceeds both NRB's capital adequacy requirements (i.e. NRP 1000 million) and internationally recognized standards, enabling it to deal with unpredictable economic environment of the country.

The profitability of the bank has been good and increasing during the study period of 5 years. However the grown rate is fluctuating. As per the data analysis deposits

increased tremendously, it is greater in last year of observation in comparison to first year of observation. However the rate of the increment is fluctuating during the study period. The total investment of the bank has been increasing over the year(refer Annex -1), which is mainly due to the bank's strategy of safe lending and also as a result of increase in customer deposits and limited opportunities in present scenario with increase in loans and advances, the bank has been holding adequate provisions for loan loss.

The income expenditure analysis shows that the bank's main income sources are interest income, foreign exchange and commission earning where its main expenditure items are interest expenses, office expenses and personnel expenses. Analyzing the credit sector and the bank guarantee, the bank is trying to avoid unnecessary risk, thus categorizes itself as a risk avert bank. By mobilizing its funds more in loans and advances, the bank could have increased its profit. But from the tabulated figures, it is evident that SCBNL had preferred to invest in secured sectors like government securities, share and debentures than in lending.

The statistical analysis shows the coefficient of correlation between the deposit and loan and advance. The correlation coefficient between total deposit and loan and advance is positive. By application of the coefficient of determination, it indicates that 30.00% of the variation in the loan and advances has been explained by the deposit. Moreover by considering the probable errors, the value of r is greater than 6P.E. So it can say that there is significant relationship between deposits and Loan and Advances.

5.2 Conclusions

During the study period of past 5 years, that is, from 2006/07 to 2010/11 various ratio analysis have been performed to find out the financial performance of

SCBNL. The major findings of the study are listed Chapter-4, section 4.4 of this report. Based on the findings, the conclusions have been drawn.

The current ratio of the bank over the 5 years is 1.081 on an average. The current ratio of 2.0 is occasionally cited as acceptable, but acceptability of the value depends on the industry in which a firm operates. For the banks and the utility firms, current ratios of 1.081 or above would be considered acceptable" Therefore, the liquidity position in terms of current ratio of SCBNL is in normal standard. The loans and advances are the bills purchased and discounted, local and foreign currencies, loan and advances and overdrafts, which are the main sources of income in the commercial banks. The result of the analysis indicates that the loans and advances disbursement with respect to the current assets is satisfactory. The low share of fixed deposit in the total deposit indicates that the bank is minimizing its cost of fund, because the fixed deposit is the highest interest bearing deposit of the bank. The analysis also reveals that the share of saving deposit is higher than the fixed deposit in the total deposit, which again indicates that the bank is reducing its interest expenses. The cash and bank balance to total deposit ratio shows that the bank is maintaining its cash reserve as per the central bank directives. The result of the analysis also indicates that the investment of the funds is high. Overall, the liquidity position of SCBNL is good and bank is able to meet its short-term obligations.

Loan and advances to total deposit ratio measures the extent to which the bank is successful to utilize the outsider's fund (total deposit) in profit generating purpose. The result indicates that the bank is mobilizing its total deposit in loans and advances satisfactorily. Loan and advances to highest interest bearing deposit is utilized for income generating purpose. The result of the analysis indicates that the bank has better mobilization of, its saving deposit in loans and advances for income generating purpose. Loans and advances to fixed deposit ratio measures

how many times the amount is used in loans and advances in comparison to fixed deposit. The result of the analysis indicates that the bank has the best mobilization of its fixed deposit in loans and advances for income generating purpose. Overall, the activity ratio of SCBNL indicates that the bank has utilized its resources in a best way to maximum its wealth.

The debt-equity ratio indicates the relationship between the long-term funds provided by creditors and those provided by the firm's owners. The result of the analysis indicates that the bank has the high debt-equity ratio, which means the creditors have invested more in bank than owners, total debt to total asset exhibits the proportion of outsiders' fund used in financing total asset. The result of the analysis indicates that the bank has the high debt-total assets ratio, which again reveals that the creditors have invested more in the bank than the owners. Shareholder's equity to total assets ratio indicates the proportion of the assets, which is financed from ownership capital of firm. The result of the analysis indicates that 11.772% of the total assets of the bank are financed through equity capital and remaining from debt capital. This implies that the shareholder's stake in the bank is very low. The creditors have dominated in the bank's financial mix.

Interest earning is the major source of income of a commercial bank. Interest earned to total assets ratio reflects the proportion of interest earned by the bank from the total income. The result of the analysis indicates that the interest earned in comparison to the assets is quite low. Net profit to total deposit indicates the percentage of profit earned by using the total deposit. The result of the analysis indicates that the net profit earned in comparison to the total deposit is in fluctuating trend. The return on asset (ROA) or profit to assets of all financial resources invested in the assets. The result of analysis indicates that the net profit earned in comparison to the total assets is quite low. Net worth or shareholder equity refers to the owner's claim on the assets of the bank. The net profit to net

worth (ROE) measures the income on the owners' investment. This ratio indicates how well the banks have used the resources of the owners. The result of the analysis indicates that the profit earning in relation with the shareholders' equity of SCBNL is in better position, which exhibits the better utilization of shareholders' resources. Net operating profit is the profit before interest and taxes (EBIT). The result of the analysis indicates that the net operating profit earned in comparison to the total assets is quite low. Risk assets refer to those assets, which are invested in loans and advances and bill purchased and discounted. The result of the analysis indicates that the SCBNL has superior quality to earn profit on the risky assets. Therefore, the result of the profitability ratio analysis of SCBNL indicates that the overall performance of the bank is effective in generating the profit and hence maximizing its wealth.

The EPS represents the amount earned on behalf of each outstanding share of common stock. The result of the above analysis shows that the earnings per share of SCBNL are quite good. Dividend per share is calculated to know proportion of the earnings distributed to the shareholder per share. The result of the analysis indicates that the dividend per share of SCBNL is satisfactory and the shareholders' are being compensated with good return. Dividend Payout Ratio represents the percentage of the profits distributed as dividend and the percentage retained as revenue and surplus for the growth of the bank. The result of the analysis indicates that the dividend payout ratio of the bank is high.

Income and expenditure are the main indicators of the financial performance of the business firm. The income and expenditure statement provides a financial summary of the firm's operating results during the period specified. The interest earning is the main source of income of the bank. The second main income source of the bank is from the foreign exchange earnings. The income from commission earnings constitutes the third highest income source of the bank. This concludes

that bank is generating maximum profit from the interest earning and sale of foreign exchange. The bank is earning profit from commission and discount by providing efficient and effective services to its clients.

The expenditure heads of the bank are interest expenses, personnel expense and other operating and non-operating expenses. The interest expense is the main heading of the expenses of the bank. The high rate of expenditure in interest indicates that the bank had collected more deposits. The second main expenditure heading of the bank is office operating expenses. The third important heading for the operating expenditure is the personnel expenses.

The operating income and expenditure analysis indicates that the bank is reducing its operating expenditure and increasing its profit year by year to maximize the shareholder's equity.

Statistical tools are one of the most important tools to analyze the data. Correlation analysis and coefficient of determination are used as statistical tools in this research. The coefficient of correlation indicates that there is a positive correlation between total deposit and loan and advances i.e. 0.88. Similarly coefficient of determination reflect its variation is 0.774 .And there is a significant relation between deposit and loan and advance.

5.3 Recommendation

On the basis of various analyses, the researcher came out with the following recommendations:

-) The bank should try to gain major share of public deposits.
-) The bank should hold stars such as foreign exchange to preserve market-share.

-) Focus on business such as credit cards, debit cards, wealth management, global market and cash management. As these are all high returns businessman. If possible, diversify wealth management business to include a range of retail foreign exchange products.
-) Broaden the range of products and services offered to the customers, at the same time identifying those which can make a real contribution to profits.
-) Lending continues to be very important part of business but is not the sole driver behind a corporate relationship. Increase emphasis on cross-selling and lending with higher value products, in order to increase the overall relationship.
-) Focus more on non-risky lending such as mortgages, housing loans and personal loans.
-) Focus more on INGO and new project accounts to generate non-interest bearing deposits.
-) Venture extension countries in the prime business locations all over the country, especially in large cities.
-) The bank has been maintaining excess liquid funds which should be reduced and invested in earning assets.
-) Focus on consortium financing

BIBLIOGRAPHY

Books:

- Bhandari, D.R. (2008). *Principles and Practice of Banking and Insurance*. Kathmandu: Aayush Publication.
- Dahal, S. & Dahal, B. (2056). *A handbook of Banking*. Kathmandu: Taleju Prakashan.
- Dangol, R.M. (2000). *Accounting for Financial Analysis and Planning*. Kathmandu: Taleju Publication.
- Gitman, L.J. (1990). *Principles of Managerial Finance*. New York: Harper & Row Publishers"
- Gupta, S.P. (1833). *Elementary Statistical Methods*. New Delhi: S Chand & Sons.
- Hampton, J.J. (1983). *Financial decision Making*. USA: Rostan Publishing Co. Inc. Kothari, C.R. (1994). *Quantitative Technique*. (5th ed). New Delhi: Vikash Publishing House Pvt. Ltd.
- Madum, J. (1989). *Bank Management*. New York: Harper & Row Publisher.
- Pandey, LM. (1989). *Financial Management*. New Delhi: Vikash Publishing House of India.
- Pradhan, R.S. (1994). *Financial Management Practices in Nepal*. New Delhi Vikash Publishing House.
- Shrestha, M.K. (1991). *Commercial Banks Comparative Performance Evaluation*. Karmacharya Sanchay Kosh Publication.
- Van Horne, J.C. (1999). *Financial Management and Policy*. New Delhi: Prentice Hall of India.

Journals and Others:

- Bajaracharya, B.B. (1991). *Monetary Policy and Deposit Mobilization in Nepal*.

Kathmandu: Rajat Jayanti Smarika, RBB.

Beaver, W.H. (1996). *Financial Ratios and Predictors of Failure*. An Empirical Research in Accounting Selected Studies Supplement to Journal of Accounting Research.

Chopra, S. (1990). *Role of Foreign Banks in Nepal*. NRB Samachar.

Dambolena, I.G. & Khoury, S.J. (1980). *Ratio Stability & Corporation Failure*. Journal of Finance.

Gilles, S. (1990). *The Role of Commercial Banks in Nepalese Context*. Kathmandu: Rajat Jayanti Smarika, RBB.

Horrigan, J.O. (1996). *The determination of Long Term credit standing with Financial Ratios*. An Empirical Research in Accounting: Selected Studies Journal Accounting Research.

Orgler, Y.E. (1970). *A Credit Scoring Model for Commercial Loans*. Journal of Money, Credit and Banking.

Shrestha, M.K. (1980). *Financial Management Theory and Practice*. Kathmandu: CDCTU.

Shrestha, M.K. (1991). *Commercial Banks Comporative Performance Evaluation*. Kathmandu: Karmachary Sanchaya Kosh.

Shrestha, R.L. (1990). *Capital Adequacy of Bank-The Nepalese Context*. Kathmandu: NRB Samachar.

Thesis:

Malla (2007). *Financial Performance of Commercial Bank with Special Reference to Himalayan & NABIL Bank Ltd*. An Unpublished Master Degree Thesis, Submitted to Central Department of Management, TU.

Yadav (2007). *A Comparative Study on the Financial Performance of Standard*

Chartered Bank Nepal and Himalayan Bank Limited. An Unpublished Master Degree Thesis, Submitted to Central Department of Management, TU.

Luitel (2008). *A study of financial performance analysis of Everest Bank Limited.* An Unpublished Master Degree Thesis, Submitted to Central Department of Management, TU.

Shrestha (2009). *A Comparative Study on Financial Performance Between the Commercial Banks.* An Unpublished Master Degree Thesis, Submitted to Central Department of Management, TU.

Thapaliya (2010). *Financial Performance of Commercial Banks: A comparative Case Study of Nepal Bangladesh Bank Ltd. Himalayan Bank Ltd. and Everest Bank Ltd.* An Unpublished Master Degree Thesis, Submitted to Central Department of Management, TU.

Raut (2010). *Financial Performance and Investors' Return on Listed Commercial Banks.* An Unpublished Master Degree Thesis, Submitted to Central Department of Management, TU.

Adhikari (2011). *Comparative Analysis of Financial Performance Nepal Bank Limited and NABIL Bank Limited.* An Unpublished Master Degree Thesis, Submitted to Central Department of Management, TU.

Websites:

www.nrb.np

www.standardchartered.com/np

www.nepse.com

Appendix 1
Standard Chartered Bank Nepal Limited
Consolidated Balance Sheet
Fiscal Year 2006/07 to 2010/11

Rs. in '000

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Capital and Liabilities:					
Shareholder's fund	2,116,353	2,132,719	2,504,675	3,001,724	1,840,042
Paid up capital	413,255	620,784	931,966	1,398,484	1,610,168
General Reserve	826,509	990,294	1,195,317	1,412,491	1,636,325
General Loan Loss Provision	165,236	138,353	137,897	160,784	185,467
Profit (loss) account balance	504,275	383,288	239,495	29,965	44,407
Capital Adjustment Fund	74,928	0	0	0	0
Current Liabilities	26,480,336	30,843,240	37,534,998	36,843,610	40,132,743
Deposits	19,335,095	29,743,998	35,871,421	35,182,721	37,999,242
Current Account	4,356,337	6,174,560	6,202,861	9,763,155	11,545,604
Saving Account	13,030,929	17,856,134	19,187,636	12,430,009	11,619,814
Fixed Account	1,416,384	3,301,014	7,101,697	9,175,070	10,136,244
Calls and Short Deposits	294,865	1,938,245	3,001,566	3,563,245	4,405,894
Margin Account	236,580	474,043	377,959	251,242	291,683
Bills Payable	36,168	87,397	72,941	89,220	65,966
Other Liabilities	1,049,804	503,426	809,776	820,089	1,783,500
Loans and Advances from banks	10,502,637	13,718,597	13,679,756	15,956,955	18,427,270
Total Capital and Liabilities	39,099,326	46,694,556	53,719,429	90,985,010	98,399,297
Current Assets	28,471,098	33,218,516	39,929,277	40,094,780	43,704,447
Cash and Bank Balance	202,1022	2050244	3137164	1929307	2975795
Money at call	1761151	2197537	2055549	1669460	4280888
Investment	13553233	13902819	20236121	19847511	17258692
Loans Advances and Overdrafts	10502637	13718597	13679756	15956955	18427270
Other Assets	633055	1349319	820687	691547	761812
Fixed Assets	125590	117272	137292	118540	106071
Total Assets	28996688	33335788	40066569	40213320	43870518

Appendix 2
Standard Chartered Bank Nepal Limited
sources of income and expenditure
Fiscal Year 2006/07 to 2010/11

(Rs. in thousand)

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Income statement:					
Interest Earning	1,411,982.00	1,591,195.00	1,887,221.00	2,042,109.00	2,718,698.00
Exchange Earning	309,086.00	345,653.00	480,031.00	427,468.00	458,564.00
Commission Earning	221,207.00	276,432.00	235,469.00	288,031.00	321,771.00
Other Operating Income	44,030.00	32,594.00	33,191.00	34,479.00	36,753.00
Other Non-Operating Income	9,492.00	1,682.00	22,098.00	36,268.00	6,445.00
Gross Income (A)	1,995,797.00	2,247,556.00	2,658,010.00	2,828,355.00	3,542,231.00
Expenditure Statement					
Interest Expenses	413,055.00	471,730.00	543,787.00	575,741.00	1,003,100.00
Personnel Expenses	199,778.00	225,256.00	253,055.00	312,964.00	365,986.00
Other Operating Expenses	228,451.00	230,571.00	276,327.00	295,305.00	305,215.00
Other Non-Operating Expenses	-	-	-	-	-
Total Expenditure (B)	841,284.00	927,557.00	1,073,169.00	1,184,010.00	1,674,301.00
Profit before Tax and Provision (C = A - B)	1,154,513.00	1,319,999.00	1,584,841.00	1,644,345.00	1,867,930.00
Tax and Provision (D)	361,236.00	818,921.00	1,025,114.00	1,085,871.00	1,119,171.00
Net Profit (Loss) after Tax and Provision	793,277.00	501,078.00	559,727.00	558,474.00	748,759.00

Appendix 4
Standard Chartered Bank Nepal Limited
Expenses of the Bank in Different Items
Fiscal Year 2006/07 to 2010/11

(Rs. in terms of Percentage)

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11	Average
Expenditure Statement						
Interest Expenses	43.81	50.86	50.67	48.63	59.91	50.77
Personnel Expenses	31.96	24.28	23.58	26.43	21.86	25.62
Other Operating Expenses	24.23	24.86	25.75	24.94	18.23	23.60
Other Non-Operating Expenses						
Total Expenditure	100.00	100.00	100.00	100.00	100.00	100.00

Appendix 5

**Co-efficient of Correlation between Total Deposit and Loan
and Advances of SCBNL. (Rs. in 000000)**

Fiscal Year 2006/07 to 20010/11

Year	Total Deposit (X)	Loan and advances(Y)	X ²	Y ²	XY
2006/07	24647.021	10502.637	607475644.2	110305384	258858714.7
2007/08	29743.998	13718.597	884705417	188199903.6	408045921.7
2008/09	35871.721	13679.756	1286780368	187135724.2	490716390.6
2009/10	35350.823	15956.955	1249680687	254624412.9	564091491.8
2010/11	37999.242	18427.27	1443942393	339564279.7	700222292.1
Total	163612.805	72285.215	5472584508	1079829704	2421934811

We

have,

r = coefficient of correlation between variable

N = 5 (Number of pairs in observation)

and y)

$\sum x = 163612.805$ (Sum of the x)

$\sum y = 72285.215$ (Sum of the y)

$\sum x^2 = 5472584508$ (Sum of square of x)

$\sum y^2 = 1079829704$ (Sum of square of y)

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

$$= \frac{5(2421934811) - (163612.805)(72285.215)}{\sqrt{5(5472584508) - (163612.805)^2} \sqrt{5}}$$

$$= \frac{282887268.8}{321425232.3}$$

$$= 0.880102868$$

$r^2 = 0.774$ (Coefficient of

$$P.E(r) = 0.6745 \times \frac{(1-r^2)}{\sqrt{N}}$$

$$= \frac{0.152437}{2.236067977}$$

$$= 0.068171899$$

If, $|r| < P.E.$, then r is not

If, $|r| > 6P.E.$, then r is

or, $0.88 > 6 \times 0.068$

or, $0.88 > 0.408$