A STUDY ON FINANCIAL PERFORMANCE OF STANDARD CHARTERED BANK LIMITED

By

PRABHABATI LAMICHHANE

Shanker Dev Campus

TU. Registration No: 7-1-274-139-99

Campus Roll No: 626/062

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirement for the Degree of

Master of Business Studies (M.B.S)

Kathmandu, Nepal

November, 2009

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

PRABHABATI LAMICHHANE

Entitled:

A STUDY ON FINANCIAL PERFORMANCE OF STANDARD CHARTERED BANK LIMITED

has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

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Dr. Shilu Manandhar, Bajracharya **Prof. Bisheswor Man Shrestha** **Prof. Dr. Kamal Deep Dhakal**

(Thesis Supervisor) **(Head Research Department)**

(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by

PRABHABATI LAMICHHANE

Entitled:

A STUDY ON FINANCIAL PERFORMANCE OF STANDARD CHARTERED BANK LIMITED

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master Degree of Business Studies (M.B.S.)

Viva-Voce Committee

Head, Research Department **……………………..………**

Member (Thesis Supervisor) …..………………………..

Member (External Expert) …..………………………..

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Faculty of Management

Shanker Dev Campus

DECLARATION

I hereby declare that the work reported in this thesis entitled "A STUDY ON FINANCIAL PERFORMANCE OF STANDARD CHARTERED BANK LIMITED" **submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.) under the supervision of** Dr. Shilu Manandhar, Bajracharya **of Shanker Dev Campus.**

………………………………

Prabhabati Lamichhane

Researcher

TU. Registration No: 7-1-274-139-99

Campus Roll No: 626/062

ACKNOWLEDGEMENT

I wish to express deep gratitude to **Dr. Shilu Manandhar Bajracharya** of Shanker Dev Campus for her Cordial Co-operation and valuable supervision without which this thesis would not have come into existence. Her intellectual guidance was of immense inspiration for me.

I would like to thank Staff of Standard Chartered Bank Limited for providing necessary data to conduct this thesis.

I would be failing my duty if I do not express my gratitude to my husband, parents; brother, whose unending inspiration and immense love have carried me through to the present status.

Prabhabati Lamichhane

Researcher

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ABBREVIATIONS

CA	:	Current Assets
CAR	:	Capital Adequacy Ratio
CBB	:	Cash and Bank Balance
CBB/CA	:	Cash and Bank Balance to Current Assets
CBB/TD	:	Cash and Bank Balance to Total Deposit
CC	:	Core Capital
CE	:	Capital Employed
CL	:	Current Liabilities
CR	:	Current Ratio
DP	:	Dividend Payout
DPS	:	Dividend per Share
EPS	:	Earning per Share
FD	:	Fixed Deposit
FD/TD	:	Fixed Deposit to Total Deposit
FY	:	Fiscal Year
HBL	:	Himalayan Bank Limited
II	:	Interest Income
LA	:	Loan and Advances
LA/FD	:	Loan and Advances to Fixed Deposit
LA/TD	:	Loan and Advances to Total Deposit
LLP	:	Loan Loss Provision
LLP/LA	:	Loan Loss Provision to Loan and Advances
LTD	:	Long Term Debt
LTD/CE	:	Debt to Capital Employed
MPS	:	Market Price per Share
NP	:	Net Profit
NP/TD	:	Net Profit to Total Deposit
NPL	:	Non Performing Loan
NPL/TL	:	Non Performing Loan to Total Loan

NPM	:	Net Profit Margin
OE	:	Operating Expenses
OE/OI	:	Operating Expenses to Operating Income
OI	:	Operating Income
P/E	:	Price Earning
QA	:	Quick Assets
QR	:	Quick Ratio
ROA	:	Return on Assets
ROSE	:	Return on Shareholder’s Equity
SC	:	Supplementary Capital
SCBNL	:	Standard Chartered Bank Iimited
SE	:	Shareholder’s Equity
TA	:	Total Assets
TD	:	Total Deposit
TI	:	Total Investment
TI/TD	:	Total Investment to Total Deposit
TL	:	Total Loan
T.U	:	Tribhuvan University

CHAPTER-I
INTRODUCTION

Introduction of Bank

Bank is a financial institution, which plays vital role in the development of the country. Banks are the major contributor in the development of the national economy of the country. The function of banks are not only accepting deposits and granting loans but also, including wide range of services to the different strata of society, to facilitate the growth of trade, commerce, industry and agriculture of the national economy. In the absence and insufficiency of banking and financial facilities, the growth of the economic development becomes slow, it is not possible or it is very hard to get success in economic development without banking and financial facilities. We can't expect the condition of nation without banking and financial sector. It plays a vital role for developing nation. However, bank is a resource for economic development, which maintains the self-confidence of various segments of society and advances credit to the people. "Bank is the establishment for keeping money, valuables etc. safely, the money being paid out on the customer's order" (by means of cheques), (Oxford Advanced Learner's Dictionary) Similarly, a definition given in encyclopedia that "A bank is a business organization that receives and holds deposits of funds from others and makes loans or extends credits and transfers funds by written orders of deposits".

Commercial banks are the financial institutions which deal in accepting deposits from persons and institutions, provide interest formulate capitals and grant loans against securities that help to remove the deficiency of capital. They contribute significantly in the formation and mobilization of internal capital and developmental effort. They also furnish necessary working capital according to the requirements for trade, commerce, and industry and even to agriculture sectors. They also perform agency function to make life easier and play an important role in credit creation. Besides, they also provide technical and administrative assistance to industries, traders and business enterprises. So they are being the means for the enlistment of society. Their main objectives are to earn reasonable profit as reward for their service by proper mobilization of idle resources collecting them from different scattered sources, in particular productive sectors. They help to reduce the probability of inflations by increasing the interest rate while economy is in boom period and reduce the interest rate so that investors are interested for investment in case of depression period. More specifically, they collect required capital through float (issue) of different types of securities, specially shares and debentures. According to Nepal Commercial Bank Act 2031 B.S., "A commercial Bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank meant for cooperation, agriculture, industries or for such specific purpose." (*Nepal Commercial Bank Act 2031 B.S.)*

Bank of Venice was established, as the first commercial bank of the world, in 1157 AD and in Nepal, Nepal Bank Limited was established, as the first commercial bank in B.S. 1994. Before 1974 (*B.S. 2031*), there was no any existence of joint venture banks in the country, there were no provisions made in the old Commercial Bank Act, which facilitated to the establishment of joint venture banks in Nepal. The new commercial bank act 1974 has, however, made provisions to permit foreign banks to operate in the country by obtaining the approval of Nepal Rastra Bank. To accelerate economic activities towards growth, encourage proficient banking service, economic development, industrialization and growth of nation, three joint venture banks, Nepal Arab Bank Limited, Nepal Indosuez Bank Limited and Nepal Grind lays Bank Limited, were come into existence in 2041, 2042 and 2043 respectively. Similarly, when the democratically elected government adopted the liberal and market oriented economic policy, the number of joint venture banks has increased dramatically. Joint venture banks are established by joining different forces and ability to achieve a common goal with each of the partners. They are efficient and effective monetary financial institutions in modern banking fields than other old type of banks in Nepalese context. D.P. Gupta has defined the joint venture as, "A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial, investment, production or trade.)" **(***Gupta, 1984:15-24)*

Similarly, "A project or company in which two or more individuals or organizations participate, agreeing to share the risks and benefits according to some agreed formula " *(Abrol, 1993 India*). In Nepal, joint venture banks are playing vital role in the economic development of the country. They collect deposits from different sources under different accounts, create capital, and mobilize the resources in productive area.

1.1 Background of the Study

Bank is an establishment for depositing, withdrawing and borrowing money. Commercial banks are the institutions who pool to gather the scattered saving of the people and arrange for its productive use. In other words, they accept the surplus fund of people as deposit and supply it to meet the financial needs of modern business by various means.

In Nepal, for a very long time the banking sector was dominated by banks managed by government. The history of modern bank started after the establishment of Nepal bank limited (NBL), on 30th Kartik 1994 B.S. with 51% government equity. The NBL dominated the financial sector of the country for almost 30 years without any competitor

However, 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 banking Rastriya Banijya Bank come into existence on 8th Shrawan 2023B.S. with 100% government ownership. These two commercial banks operated on the model of banks in India.

To fulfill the growing credit requirement and also to collect more deposit for the development projects, Nepal Rastra Bank adopted liberal policy and provided many facilities to probable bankers of Nepal and abroad through new commercial bank act 1974 A.D. consequent to open commercial bank with foreign joint venture in 1984 A.D. Nepal Arab Bank Limited was established in the same year 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 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 on operation. So, the competition in the banking sector is going to be higher than ever before. To exist in 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 so that to hold greater share.

Whether the banks are well moving or not will be reflected through their performance. Specially, for banks are 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. Only the well combined factors assist in well performance. 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 aims to analyze the financial performance of standard chartered Bank Ltd. Just to be

assured whether they can put equal contribution in the economic growth of the country or not.

1.2 Profile of Standard Chartered Bank

The bank was originally established as a joint venture of Grindlays Bank PLC and Nepal Bank Limited in 1985 with the shareholding ratio of ANG Grindlays Bank Limited 50%, Nepal Bank Limited 33.34% and General public 16.64%.Along with the change of ownership to Standard Chartered Bank, the banking area of SCBNL saw the rise of a new dawn changing the general image of the Bank (….banking redefined).With this acquisition, SCBNL now owns 50% shares of Nepal Grindlays Bank Limited .In fiscal year 2003/04 one of the big shareholding organizations, Nepal bank limited, has sold its whole shares of 33.34% to the general public (8.34%) and to the Standard Chartered bank of UK (25%).

SCBNL has been in operation in Nepal since 1987. The bank is an integral part of standard chartered group having an ownership of 75% and the balance owned by the Nepalese public. The bank is the largest international bank currently operating in Nepal.

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets in over 70 countries. Standard Chartered employs almost 75,000 people, representing over 115 nationalities, worldwide. This diversity lies at the heart of the bank's values and supports the bank's growth as the world increasingly becomes one market.

The global network of standard chartered group gives the bank a unique opportunity to provide truly international banking services in Nepal. SCBNL offers a full range of banking products and services in wholesale and consumer banking. The bank has been the pioneer in introducing 'customer focused' products and services and aspires to continue to be a leader in introducing new products in delivering superior services.

With the mission statement "To be the leading international bank in our principal markets ", the bank operates the bank operates through12 branches and 17 ATM centers spread throughout Nepal and focuses mainly on corporate, consumer and commercial banking, providing services for international firms as well. The bank contributed to a large extent in the development of the country by way of loans to industrial projects, the priority and development sectors. Further it's been a major contributor to the governmental offices as the highest private corporate taxpayer in the kingdom. The following are the main objectives of SCBNL:-

- To promote to the Nepalese economy and expand the banking business in the country.
- To provide a whole range of International Banking services to facilitate Nepal's trade and tourism.
- To identify the business prospects not yet catered by then existing commercial banks and offer new banking products and services.
- To Introduce Modern banking technology facilitating bank and business operations and transactions.
- To be the bank of 1st choice.
- To provide maximum service in service sector rather than in lending money because there has been maximum lending transaction.
- To make aware to the customer about the safe deposit of their money.

The bank has 379 staffs as on 2007/08, they all are enough qualified, trained and dedicated to provide quality service to the consumers of the bank. Moreover, the bank is still trying to improve skills and knowledge of the staffs by providing various trainings and development works. 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, etc.
- To become bigger, more profitable and efficient to compete with biggest competitors.

1.3 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. It is because, among the various reasons, the government rules and regulations, ownership patterns, attitudes of management, forms of management may be the partial causes of such a situation**.** 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.

The research questions for this study are derived from some selected literatures containing financial analysis of the business firms as described in Chapter two

Review of Literature. This study was focused on the financial performances of SCBNL. Therefore, this study has aimed in answering the following research question:

- Has the bank been using its capital efficiently?
- What is the liquidity position of the bank?
- C. 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?

1.4 Focus of the Study

The main 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 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 (*Hampoton, 1983 : 121).* Besides the financial analysis, the study was also focused on Income and expenditure analysis and Bankruptcy Score 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. Bankruptcy Score is the statistical too to predict the financial status of the firm with the help of the financial ratios.

1.5 Objectives of the Study

Every part of activity have its own objectives. The objective of the study is to evaluate the financial performance of SCBNL with the help of ratio analysis and other portfolios. Besides, the following specific objectives are to support the evaluation and comparison of the efficiency and progress of this bank:

- To analyze liquidity, leverage, activity, profitability and ownership ratios of the bank.
- To asses profitability situation.
- To analyze the Bankruptcy Score of the bank.
- To provide a possible guideline and a package of suggestions on the basis of findings and analysis to overcome various issues and gaps.

1.6 Limitations of the Study

Every field of activity have their own limitation. No one can perform their activity by ignoring this limitation.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. No study can be free from its own limitations. So, the present study has also some limitations. Reliability of statistical tools used and lack of research experience are the major limitations. 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 SCBL with the help of financial tools. Similarly, Bankruptcy Score has been analyzed for the period of recent five years solely based on the Altman Statistical Model of Bankruptcy Score.

- The conclusion drawn up from this study may or may not be applicable to other commercial banks in Nepal.

1.7 Importance of the Study

The present study will be more helpful to aware the shareholder regarding financial performance of this bank. Besides that other beneficiaries of the study can be categorized as follows:

- Lenders and borrowers of this bank.
- Management of this bank.
- Policy maker of this bank.
- Academicians/Researchers.
- General interested public.
- And also to HMG for making plans and policies of the country.

1.8 Scheme of the Study

The study has been divided into five chapters which are as follows:

First chapter deals with the introduction that includes background of the study, importance of the study, profile of concerned bank, statement of problem, objective of study, limitation of the study and scheme of study.

Second chapter deals with the available literature review. It 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.

Third chapter explains the research methodology used in the study, which includes research designs, nature and sources of data, population and samples, methods of data analysis.

Fourth chapter is the hearth of the study. This chapter includes presentation and analysis of data using financial tools such as ratio analysis and statistical tools i.e. coefficient of correlation of different variables and trend lines.

Fifth and last chapter revolves with suggestion, which include the summary of main findings, recommendation and suggestions for further improvement and conclusions of the study.

CHAPTER-II

REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant propositions in past studies. This chapter refers to glance to the past studies and progress on similar field. 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 Conceptual Frame Work

2.1.1 Concept of Financial Performance

Financial performance means financial activity performs by commercial bank or every financial sector. 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, 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 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 and bankruptcy score of the Bank is also the important indicator of the Bank's performance.

2.1.2 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 can be undertaken by management of the firm or by parties outside the firm viz 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 expression an as the relationship between two or more things.

In financial analysis, a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm.

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 of the kind represented by ratio analysis are not an end in them but are means to understanding a firm's financial potion. 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 of 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. Whether the Bank has adequate capital structure to tackle financial risk and overall efficiency of the bank in terms of profit. 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.

2.1.3 Users of Financial Ratios

Different parties use different ratios depending upon the purpose in view. Mainly, short-term creditors, long-term creditors, equity investors and management of the firm are the users of financial ratios. This section briefly examines the different users and their motto.

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 lie 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 are popularly known as stockholders. They are concerned principally with present and expected future earnings and stability of these earnings.

4) Management of a Firm:

Management of the firm is interested in overall ratios, not particular 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.

2.1.4 Financial Tools

Many types of financial ratios, calculated from the accounting data, can be grouped into various classes according to financial activity or function to be evaluated. For our purpose, some selected financial ratios and tools applied in this study are as follows:

I) Financial Tools

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. **Total Current Ratio**

The Total current ratio is the ratio of total current assets to total current liabilities. It is calculated by dividing total current assets by total current liabilities .

2. **Cash and Bank Balance to Total 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.

3. **Loan and Advances to Total 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 total current assets, which are invested as loans and advances to generate the income.

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.

5. **Saving Deposit to Total Deposit**

Saving deposits is the low interest bearing deposit than the fixed deposit. These deposits arc 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.

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

Cash reserve process is control process by central bank for every commercial bank. 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 8%of total deposits).

Cash Reserve Ratio (CRR) is calculated by dividing the cash and bank balance by the amount of total deposits.

B) Activity Ratio

Activity ratios are used to measure the speed with which various accounts are converted into sales or cash. The following activity ratios are calculated and analyzed to determine the degree of utilization of available resources of the Standard Chartered Bank Nepal Limited.

1. Loans and Advances to Total Deposit Ratio
2. Loans and Advances to Saving Deposit Ratio
3. Loans and Advances to Fixed Deposit Ratio

1. Loan and Advances to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to utilize the outsiders' fund (total deposits) for the profit generating purpose on the loans and advance. It can be calculated by dividing the amount of loans and advances by the amount of total deposits.

2. Loan and Advances to Saving Deposit Ratio

This ratio measures how many times the amount is used in loans and advances in comparison to saving deposits. Saving deposit are the second high interest bearing obligation. Saving deposit is utilized for income generating purpose through loan and advance. This ratio can be calculated by dividing the amount of loans and advances by the amount of saving deposits.

3. Loan and Advances to Fixed Deposit Ratio

This ratio measures how many times the amount is used in loans and advances in comparison to fixed deposits. Fixed deposits are high interest bearing obligation whereas loans and advances are the major sources of investment to generate income for the commercial banks. This ratio is calculated by dividing the amount of loans and advances by fixed deposits.

C) Leverage or Capital Structure Ratio

Leverage ratio of capital Structure Ratio measure of 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.

1. Total Debt to Shareholder's Equity Ratio
2. Total Debt lo Total Assets Ratio
3. Shareholder's Equity to Total Assets Ratio

1. Total Debt to Shareholder's Equity Ratio

The debt-equity ratio indicates tie 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.

2. Total Debt to Total Assets Ratio

This ratio is the relationship between creditors funds and owners 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.

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.

D) Profitability Ratio

Profit is the main part of commercial bank. By looking profit status of bank investor can invest their money without any hesitation. 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.

1. Interest Earned to Total Asset Ratio
2. Net Profit to Total Deposit Ratio
3. Net Profit to Total Asset Ratio
4. Net Profit to Net worth Ratio
5. Net Operating Profit to Total Asset Ratio
6. 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.

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.

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.

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.

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 bank's 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.

E) Ownership Ratio

The true owners of business firms arc 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.

1. Earning per Share (EPS)
2. Dividend per Share (DPS)
3. 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.

2. Dividend per Share (DPS)

Dividend per Share is calculated to know proportion of the earnings distributed to the shareholder per share.

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) .

II) 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 ten financial years from 1998/99 to 2007/08 in. this study 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.

III) Bankruptcy Score (Statistical Tool)

Edward I. Altman developed a statistical model that found the financial ratios predicting bankruptcy. The bankruptcy score has been calculated and analyzed on the basis of the relevant information of the period of five financial years of Standard Chartered Bank Nepal Limited.

Bankruptcy Score - $1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 0.999x_5$

where,

x_1 = Net Working capital/ Total Assets

x_2 = Retained earnings/ Total Assets

x_3 = Earnings before interest and tax/ Total Assets

x_4 = Total market value of stock/ Book value of total debt

x_5 = Total Investment/ Total Assets

Altman has suggested the following criteria to analyze the result:

Criteria to analyze the Bankruptcy Score

Less than 1.81	Between 1.81 and 2.99	Greater than 2.99
Probability of failure -high	Probability of failure - may be (low)	Probability of failure -No
Predict failure	Predict failure if score is less than 2.675 predict success if score is greater than 2.675	Predict success

The above criteria signifies that a firm with a score less than 1.81 is likely to fail and will definitely go into Bankruptcy. Similarly, a firm with a score greater than 2.99 will never go into bankruptcy, that is of very rare chance of bankruptcy. However, the score in between 1.81 and 2.99 puts the analyst in a difficult situation to predict whether the firm will exist or not.

2.2 Review of Related Studies

2.2.1 Review of Empirical Studies

Different researches have approached financial analysis in different ways. A review of such studies is essential to develop an approach in order to adopt in the Nepalese Enterprises.

Several empirical studies have been undertaken to show promise for statistically testing the predictive power of financial ratios. The focus on empirical studies has been mostly done to ascertaining the predictive power of financial ratios that have been investigated in the various areas such as corporate bankruptcy/sickness, credit ratings, acquisition/merger targets, relationship of financial ratios to industry target.

In fact, number of ratios overlap with each other, and therefore, same common information can be obtained by using any one of the overlapping ratios. The manager is always at a loss to find out which ratios to use. Therefore the decision-maker always requires selective financial ratios without much loss of relevant and significant information with determining groups of overlapping ratios.

W.H. Beaver tested the ability of financial ratios to predict failure (*Beaver, 1996 : 77-111*).This study revealed five ratios, which could discriminate between failed and non-failed firms. The ratios are; cash flow to total debt; net income to total assets; total debt to total assets; working capital to total assets and current ratios. It was obvious that failed firms had more debt and low return on assets. They had less cash but more receivable as well as low current ratios. The stock was very low.

James O. Horrigan tested the power of financial ratios to predict corporate bond rating (*Horrigan, 1996 : 44-62*). His multiple regression analysis revealed that working capital to sales, net worth to total debt, sales to net worth and net operating profit to sales were best for predicting bond ratings.

Likewise, Y.E. Orgler used a multiple regression model to predict which loans bank examiners would criticize (*Orgler, 1970 : 435-445*). The principal financial ratio he used was the ratio of working capital to current assets. The model was only moderately successful in predicting criticized loans.

The main purpose of the study by Dambolena and Khoury on "Ratio stability and corporate failure"(*Dambolena and Khoury, 1980 : 1017-1025).* was to know the stability of all financial ratios over time, as well as the level of their rations as explanatory variables in the derivation of a discriminate function. The ratios used were: Profitability ratios; Activity and turnover ratios; liquidity ratios; Indebtedness ratios. The major findings of this study were as follows:

Standard deviations of ratios over times appeared to be the strongest measure of ratio stability.

The ratios of net profit to sales, net profit total asset, fixed assets to net worth, funded debt to net working capital, total debt to net working capital and fixed assets to net worth have shown to be relevant in predicting corporate failure.

In another empirical study Edward I. Altman (*Edward, 1968: 589-609*) employed financial ratio to predict corporate bankruptcy through multiple discriminate analysis. Out of the twenty-two financial ratios examined, Altman selected the five that did the best combine job in predicting bankruptcy. These ratios were working capital to assets, retained earnings to total assets, earning to total assets, earnings before interest and taxes t total assets, market value of enquiry t book value of total debt, and sales to total assets. Using these ratios, Altman found the discriminate model to be an accurate predictor of bankruptcy.

Like Altman, Robert O. Edmister (*Edmister,1964: 435-437)* employed discriminate analysis successfully to predict failure. However, he analyzed small business as opposed to large corporations, lending additional credence to the technique. Demister used a three year average of the following financial ratios: funds flow to current liabilities, equity to sales, working capital to sales, current liabilities to equity, inventory to sales and the trend of the quick ratio relative to the industry average.

On the basis of the above empirical studies, it appears that financial ratio analysis can be used as predictors of various events. Financial analysis will become more scientific than it is now.

In addition to financial performance, there are various researcher on financial aspects, which deal in the context of Nepalese commercial and joint ventures banks. The major findings of the approaches used in these important studies are reviewed briefly.

The article entitled "Capital adequacy of Bank- the Nepalese Context"(*Shrestha, 1990: 24-27)* has suggested the banks that deal in highly risky transaction to maintain strong capital base. He concludes that the capital base should neither be too much leading to inefficient allocation of scarce resources nor so weak so as to expose to extreme risk. The study accepts that the operations of banks and the degree of risk associated with them are subject to changes country wish, bank wish and time period wise.

Henceforth the study suggested preparing standard capital adequacy ratios for each individual bank keeping in mind the various reason factors.

Sunil Chopra(*Chopra, 1990: 1-2*) in his article" Role of foreign banks in Nepal " undoubtedly conduced that the Joint venture Banks are playing an increasingly dynamic and vital role in the economic development of the country.

Gilles Serra (*Gilles, 1990 : 31-36)* in his article "The role of commercial Banks in Nepalese Context "has conducted that due to the pressure of competition for public welfare, five commercial banks are improving their services.

Bodhi B. Bajaracharya (*Bajaracharya, 1991: 93-97)* in his article "Monetary policy and Deposit mobilization in Nepal"concloudes that the mobilization of domestic saving is one of the prime objective of the monetary policy in Nepal and for this purpose commercial banks are the vital active financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different sectors of the country

Dr. Manohar Krishna Shrestha(*Shrestha, 1980)* on" Financial Management-Theory Practice" has concluded that the bank has sufficient liquidity to meet the claim of depositors (excluding fixed deposits). The bank has a highly geared capital structure and is more depending on borrower funds. The bank has been able to meet the interest on deposits out of its profits. The rate of return on ownership capital is favorable. He further suggests that operational efficiency should be enhanced to achieve its higher profit goal for better performance.

Another study conducted by Dr. Manohar Kumar Shrestha (*Shrestha, 1991*) in his article "Commercial Banks comparative performance evaluation" clarifies that joint venture in Nepal are new and comparatively more efficient in operation and having superior performance amongst local banks. Due to their sophisticated technology, modern banking and skill, joint venture banks are performing better in comparison to local banks. Their better performance is also due to the burden of local banks, which are facing the burden of government's branching policy in rural areas and financing public enterprises. Local banks are efficient and expertise in rural sector. But having number of deficiencies, they have to face growing constrains of socio-economic political system on one hand spectrum that of issue and challenges of joint venture banks commanding significant banking in other hard spectrum.

Another study conducted by Sunity Shrestha(*Shrestha, 1992)* on "Portfolio of Commercial Bank in Nepal" has analyzed the financial performance of the commercial banks using both descriptive and diagnostic approach. In her study she has concluded in following points.

Per capita deposit as well as per capita credit in commercial banks has increased tremendously. The contribution of deposit in GDP has also been seen increasing. The assets holding of commercial banks are growing with 42.12% rate that is supposed to be higher for developing country. It can be concluded that the commercial banks in Nepal are performing their function of collecting the domestic property.

The structural ratio of commercial banks shows that banks chow that banks invest on the average 75% of their total deposit on the government securities and the shares.

The analysis of reserve position of commercial banks showed quite high percentage of deposit as cash reserve.

The debt-Equity Ratio of commercial banks is more than 100% in most of the time period under study –period. It lead to conclude that the commercial banks are highly leverage and highly risky. Joint venture banks had higher capital adequacy ratio but has been declining every year.

Return ratios of all the banks show that most of the time foreign banks have higher return as well as higher risk than the Nepalese banks

In case of the analysis of management achievement, foreign banks were found to have comparatively higher total management achievement index.

Among the commercial banks, Nepal Grindlays Bank seems to have highest growth rate of earning per share.

Thus, comparing all the banks throughout the time period, financial condition and performance are better in joint venture banks than local banks.

K. Pradhan in Nepal Ma Banija Banking: Upalabdhi Tatha Chunuti pointed out some major issues in our local commercial banks against recently established foreign joint venture banks. The study deals on the whole commercial banking system of Nepal in respect of their performance and profitability. His major findings may be relevant to our study. Some of the major findings are listed below:

- The deposit collection rate of local bank is very poor in comparison to foreign banks.
- The pattern of deposit is also different between these banks. The ratio of current deposit in local banks is 19.34% only whereas the same in the foreign banks is 52.5%. But the fixed deposit ratio is very high in local banks.
- The joint venture banks are in better position than the local banks in profit making.

2.2.2 Review of Previous 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.

Mr. Keshav Raj Joshi (*Joshi, 1989),* through his thesis "A study on financial performance of commercial banks" concluded that the liquidity position of commercial bank is satisfactory local commercial banks have been found relatively highly leveraged compared to the joint venture banks. Loan and advances have been their main form of the investment. Two third assets have been used for earning purpose. Profitability position of NABIL is stronger than others.

Mr. Pradhan (*Pradhan, 1994*) has done a research for which he carried out a survey of 78n enterprises. According to him" The most important finance function appeared to be working capital management while, the least important one appeared to be maintaining good relation with stockholder."

The finding reveals that banks and retained earnings are two most widely used financing sources most enterprises do not borrow from one bank only and they do switch between banks to banks which offers best interest rates most enterprises find that banks are flexible in interest rate. Further he said that among the bank loans, bank loan of less than one year are more popular in public sector whereas bank loan of 1-5 year are more popular in private sector. Similarly, he conclude that the banks interest rate is just right while the majority of non- traded sector fine that the same is one higher side.

Mrs. Ramala Bhattarai (*Bhattarai, 1978*), in her thesis paper entitled "lending Policy of commercial banks in Nepal." Had tried to examine the lending policy of the commercial banks and she has concluded that efficient utilization of resources is more important than collection of the same lower investment means lower capital formation that hampers economic development that banks showed emphasis on efficient utilization of resources.

Mr. Uttam Raj Panta (*Panta, 2033B.S.)* in his thesis paper entitled" A studies of commercial banks deposits and its utilization" had made an attempt to highest the discrepancy between resources collection and the resources utilization. He concluded that commercial banks failure in resources utilization is due to their lending confined for short-term only. So he recommended that commercial banks should give emphasis also on long term lending for better utilization of the deposits.

Mr. Acharya's (*Acharya, 1997*) study entitled" A comparative study of financial performance of JVBs in Nepal especially on NABIL and NIBL" concludes that the liquidity position of both the banks is below the normal standard of 2:1 (i.e. Unsatisfied), comparatively this ratio if NBL is better on an average. Both the banks are found to be efficient in utilized most of their total assets.

Based on the findings of analysis, the research suggest finding out the root cause of weak liquidity position to improve the liquidity position to improve the liquidity of both banks. Similarly both the banks are suggested to maintain improved capital structure in increasingly equity base to extend loan and advance to utilize more of the total deposit to minimize operational expenses or to mobilize resources more efficiently and to extend their banking facilities even in rural areas.

Mr. Adhikari (*Adhikari, 2001*) in this thesis "A comparative study of financial performance of NSBIBL and EBL" conclude that "EBL is found superior regarding the liquidity; quality assets they possessed and capital adequacy overall capital structure of NSBIBL appears more levered than that of EBL. But NSBIBL is found superior in terms of profitability and turn over comparatively interest remained more dominant in the total income and expense of NSBIBL than that of EBL. Regarding the test of hypothesis is (at 5% level of significance) the performance of the sampled banks significantly different with respect to the ratios, loan and advances to saving deposits. Loan loss provision of total deposits interest earned to total assets and tax per share correlation analysis signifies that EBL is successful to utilize its resources its resources more efficiently than NSBIBL.

The review of the above mentioned bunch of research works have definitely enriched the vision to come conduct meaningful analysis realistic term and thereby come with some conclusion and provide a few key suggestions to help improve the commercial banks. The review helped to collect more information and give view with new way.

CHAPTER-III

RESEARCH METHODOLOGY

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 ten year's financial performance of Standard Chartered Bank Nepal Limited. Descriptive research design had been used to make the analysis more conclusive.

3.2 Sources of Data

The data of SCBNL have been collected from the primary and 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 and staff of standard chartered has been taken in account during the study.

3.3 Data Collection, Processing and Tabulating Procedure

There is used both primary and secondary data collection. 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 were tabulated on the following sequences:

- The financial data have presented according to time series, which were of ten years starting from the fiscal year 1998/99 to which were of ten years starting from the Fiscal year 1998/99 to 2007/08.
- The data were analyzed with the help of ratios, percentage, average and time changes.

3.4 Technique and Analysis

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:

I. Financial Ratios

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)

Cash reserve ratio means the control by central bank to all commercial bank. Those 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 8%of total deposits).

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) Activity Ratio

Activity ratios are used to measure the speed with which various accounts are converted into sales or cash. The following activity ratios are calculated and analyzed to determine the degree of utilization of available resources of the Standard Chartered Bank Nepal Limited.

1. Loans and Advances to Total Deposit Ratio
2. Loans and Advances to Saving Deposit Ratio
3. Loans and Advances to Fixed Deposit Ratio

1. Loan and Advances to Total Deposit Ratio

Loan and advances to total deposit ratio measures the extent to which the banks are successful to utilize the outsiders' fund (total deposits) for the profit generating purpose on the loans and advance. It can be calculated by dividing the amount of loans and advances by the amount of total deposits, which is given below:

$$\text{Loans and Advances to total deposit} = \frac{\text{Loans and Advances}}{\text{Total Deposits}}$$

2. Loan and Advances to Saving Deposit Ratio

This ratio measures how many times the amount is used in loans and advances in comparison to saving deposits. Saving deposit are the second high interest bearing obligation. Deposit is utilizing for income generating purpose in loan and advance. This ratio can lie calculated by dividing the amount of loans and advances by the amount of saving deposits. The ratio is calculated as follows:

$$\text{Loans and Advances to saving Deposit} = \frac{\text{Loan and Advances}}{\text{Saving Deposit}}$$

3. Loan and Advances to Fixed Deposit Ratio

Loan and advances to fixed deposit ratio measures how many times the amount is used in loans and advances in comparison to fixed deposits. Fixed deposits are high interest bearing obligation whereas loans and advances are the major sources of investment to generate income for the commercial banks. This ratio is calculated by dividing the amount of loans and advances by fixed deposits that is given below:

$$\text{Loans and Advances to Fixed Deposit} = \frac{\text{Loans and Advances}}{\text{Fixed Deposit}}$$

C) Leverage or Capital Structure Ratio

Leverage ratio of capital Structure Ratio measure of 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.

1. Total Debt to Shareholder's Equity Ratio
2. Total Debt lo Total Assets Ratio
3. Shareholder's Equity to Total Assets Ratio

1.Total Debt to Shareholder's Equity Ratio

Total debt to shareholder's equity ratio indicates tie 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

This ratio is the relationship between creditors funds and owners 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

This 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:

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

D) Profitability Ratio

Profit plays a great role in commercial bank. The bank can't run without profit. 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.

1. Interest Earned to Total Asset Ratio
2. Net Profit to Total Deposit Ratio
3.Net Profit to Total Asset Ratio
4. Net Profit to Net worth Ratio
5. Net Operating Profit to Total Asset Ratio
6. Net Profit to Risk Asset Ratio

1. **Interest Earned to Total Asset Ratio**

There are different sources of earning; 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:

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

3. **Net Profit to Total Asset Ratio**

Net profit to total asset 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:

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

E) Ownership Ratio

The true owners of business firms arc 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.

1. Earning per Share (EPS)
2. Dividend per Share (DPS)
3. 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)

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. It is determined by dividing dividend per shares (DPS) by earning per shares (EPS) as expressed below:

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

II. 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 ten financial years from 1998/99 to 2007/08 in this study 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.

III. Bankruptcy Score (Statistical Tool)

Edward I. Altman developed a statistical model that found the financial ratios predicting bankruptcy. The bankruptcy score has been calculated and analyzed on the basis of the relevant information of the period of five financial years of Standard Chartered Bank Nepal Limited.

Bankruptcy Score - $1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 0.999x_5$

where,

x_1 = Net Working capital/ Total Assets

x_2 = Retained earnings/ Total Assets

x_3 = Earning before interest and tax/ Total Assets

x_4 = Total market value of stock/ Book value of total debt

x_5 = Total Investment/ Total Assets

Altman has suggested the following criteria to analyze the result:

Criteria to analyze the Bankruptcy Score

Less than 1.81	Between 1.81 and 2.99	Greater than 2.99
Probability of failure -high	Probability of failure - may be (low)	Probability of failure -No
Predict failure	Predict failure if score is less than 2.675 predict success if score is greater than 2.675	Predict success

The above criteria signifies that a firm with a score less than 1.81 is likely to fail and will definitely go into Bankruptcy. Similarly, a firm with a score greater than 2.99 will never go into bankruptcy, that is of very rare chance of bankruptcy. However, the score in between 1.81 and 2.99 puts the analyst in a difficulty situation to predict whether the firm will exist or not.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

Presentation and analysis of data means to show the accurate data and perform its presentation clearly or informatively. The main aim of this chapter is presentation and analyzing 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 ten years that is 1998/99 to 2007/08. 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 bankruptcy score as described in chapter 3.

4.1 Ratio Analysis

It 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

Liquidity ratio shows almost 30% financial activity of every commercial bank. 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 ten 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

This 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 below.

Table 4.1

Current Ratio of SCBNL.

(Rs in'000')

Year	Current Assets (Rs)	Current Liabilities (Rs)	Current Ratio (in terms of times)
1998/99	13304981	12178056	1.09
1999/00	16984214	13529476	1.26
2000/01	19581623	16650435	1.18
2001/02	18342039	16522903	1.11
2002/03	20808792	19552432	1.06
2003/04	23505826	22068038	1.07
2004/05	21822165	20255239	1.07
2005/06	25675030	24022193	1.07
2006/07	28471098	26080336	1.09
2007/08	33218516	30843241	1.08
Average	22171428.4	20170234.9	1.11

Source:-Annual Reports of SCBNL

The above table shows that the current ratio of SCBNL has always exceeded one that means current assets of SCBNL has always exceeded current liabilities for the study period of 1998/99 to 2007/08. The bank has the highest current ratio of 1.26 in 1999/00 and lowest current ratio of 1.06 in 2002/03 with an average current ratio of 1.11 during the study period. In general, it can be said that the bank is able to 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 1998/99-2007/08 is presented in Table 4. below:

Table 4.2

Cash and bank Balance to Current Assets Ratio

(Rs in'000')

Year	Cash and bank balance (Rs)	Current assets (Rs)	Ratio (in %)
1998/99	826145	13304981	6.21
1999/00	1020458	16984214	6.01
2000/01	961051	19581623	4.91
2001/02	825265	18342039	4.50
2002/03	1512305	20808792	7.27
2003/04	2023164	23505826	8.61
2004/05	1111117	21822165	5.09
2005/06	1276241	25675030	4.97
2006/07	2021021	28471098	7.10
2007/08	1730765	33218516	5.21
Average	1330753.2	22171428.4	6.00

Source:-Annual Reports of SCBNL

The above table shows that cash and bank balance to current assets ratio of the bank was maximum (i.e. 8.61%) in year 2003/04 and minimum (i.e. 4.50%) in year 2001/02. It seems that this ratio has been decreasing for first 5years of observation period. And it fluctuated till 2007/08 and finally reached to 5.21%.

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 1998/99-2007/08 is presented in the table 4.3 below:

Table 4.3

Loan and Advance to Current Assets Ratio

(Rs in'000')

Year	Loan and advances (Rs)	Current assets (Rs)	Ratio (in %)
1998/99	4051881	13304981	30.45
1999/00	4857172	16984214	28.60
2000/01	5763136	19581623	29.43
2001/02	5364005	18342039	29.24
2002/03	5695824	20808792	27.37
2003/04	6410242	23505826	27.27
2004/05	8143208	21822165	37.32
2005/06	8935418	25675030	34.80
2006/07	10502637	28471098	36.89
2007/08	13718597	33218516	41.30
Average	7344212	22171428.4	33.12

Source: - Annual Reports of SCBNL

The above table shows that loan and advances to current assets ratio of the bank was maximum of 41.30% in year 2007/08 and minimum of 27.27% in year

2003/04 with an average of 33.12% during the study period. The analysis indicates that the loans and advances to current assets ratio are fluctuating.

D. Fixed Deposit to Total Deposit Ratio:

Fixed deposit gives higher interest than other deposit in every commercial bank 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 1998/99-2007/08 is presented in the table 4. 4 below:

Table 4.4

Fixed Deposit to Total Deposit Ratio

(Rs in'000')

Year	Fixed Deposit (Rs)	Total Deposit (Rs)	Ratio (in %)
1998/99	2868911	11165165	25.70
1999/00	2651652	12568487	21.10
2000/01	3236033	15430051	20.97
2001/02	2264771	15835747	14.30
2002/03	1948596	18755635	10.39
2003/04	1428495	21161442	6.75
2004/05	1416383	19335095	7.33
2005/06	2136307	23061032	9.26
2006/07	3196490	24647021	12.97
2007/08	3301014	29743999	11.10
Average	2444865.2	19170367.4	12.75

Source:-Annual Reports of SCBNL

The above table shows that fixed deposit to total deposit ratio of the bank varies from maximum of 25.70% in year 1998/99 to minimum of 6.75% in year 2003/04 with an average of 12.75% during the study period of ten years. The analysis indicates that share of fixed deposit in total deposit has been decreasing since

1998/99 to 2003/04.And after that the ratio is gradually increasing till 2006/07 but in year 2007/08 again starting to decreasing.

E. Saving Deposit to Total Deposit Ratio:

Saving deposit is for general people in every commercial bank. Its purpose is mainly saving. 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 1998/99-2007/08 is presented in the table below table 4.5.

Table 4.5

Saving Deposit to Total Deposit Ratio

(Rs in'000')

Year	Saving Deposit (Rs)	Total Deposit (Rs)	Ratio (in %)
1998/99	5471681	11165165	49.01
1999/00	6632697	12568487	52.77
2000/01	8404611	15430051	54.47
2001/02	9441906	15835747	59.62
2002/03	10633162	18755635	56.69
2003/04	12771826	21161442	60.35
2004/05	13030929	19335095	67.40
2005/06	14597674	23061032	63.30
2006/07	15244385	24647021	61.85
2007/08	17856135	29743999	60.03
Average	11408500.6	19170367.4	59.51

Source:-Annual Reports of SCBNL

The above table shows that saving deposit to total deposit ratio of the bank varies from maximum of 67.40% in year 2004/05 to the minimum of 49.01% in year 1998/99 with an average of 59.51% during the study period of ten years.

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

Cash Reserve ratio is the ratio between Cash and Bank Balances to Total Deposit. 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:

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

The cash reserve ratio of SCBNL for the period of 1998/99-2007/08 is presented in the table below table 4.6.

Table 4.6

Cash Reserve Ratio

(Rs in'000')

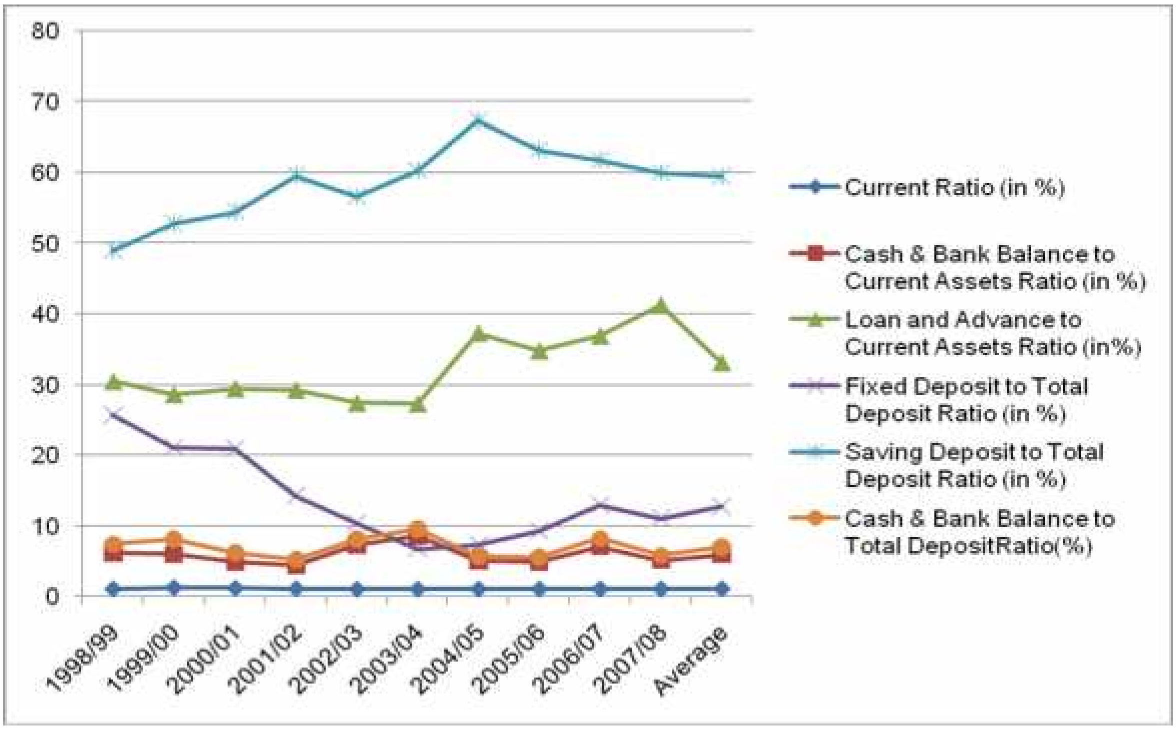
Year	Cash and bank balance	Total Deposit	Ratio(%)
1998/99	826145	11165165	7.40
1999/00	1020458	12568487	8.12
2000/01	961051	15430051	6.23
2001/02	825265	15835747	5.21
2002/03	1512305	18755635	8.06
2003/04	2023164	21161442	9.56
2004/05	1111117	19335095	5.75
2005/06	1276241	23061032	5.53
2006/07	2021021	24647021	8.20
2007/08	1730765	29743999	5.81
Average	1330753.2	19170367.4	6.94

Source:-Annual Reports of SCBNL

The above table shows that cash reserve ratio of the bank varies from maximum of 9.56% in year 2003/04 to minimum of 5.21% in year 2001/02 with an average of 6.94% during the study period of ten years.

Figure 4.1

Liquidity Ratios of SCBNL (1998/99-2007/08)



4.1.2 Activity Ratio

This ratio is used to measure the speed with which various accounts are converted into sales or cash. Therefore, the activity ratios are used to measure the ability of the bank in utilizing its available resources. The following activity ratios are calculated and analyzed to determine the degree the degree of utilization of available resources of the bank.

- Loans and Advances to Total Deposit Ratio
- Loans and Advances to Saving Deposit Ratio
- Loans and Advances to Fixed Deposit Ratio

A. Loan and Advances to Total Deposit Ratio:

Loan and advances to total deposit ratio measures the extent to which the banks are successful to utilize the outsiders fund (total deposit) for the profit generating purpose on the loan and advance. It can be calculated by dividing the amount of loans and advances by the amount of total deposits which is given below:

$$\text{Loan and advance to total deposit} = \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

The loan and advances to total deposit ratio of SCBNL for the period of 1998/99 - 2007/08 is presented in the table 4.7 below:

Table 4.7

Loan and Advance to Total Deposit Ratio

(Rs in'000')

Year	Loan and Advance(Rs)	Total Deposit(Rs)	Ratio (in %)
1998/99	4051881	11165165	0.36
1999/00	4857172	12568487	0.39
2000/01	5763136	15430051	0.37
2001/02	5364005	15835747	0.34
2002/03	5695824	18755635	0.30
2003/04	6410242	21161442	0.30
2004/05	8143208	19335095	0.42
2005/06	8935418	23061032	0.39
2006/07	10502637	24647021	0.43
2007/08	13718597	29743999	0.46
Average	7344212	19170367.4	0.38

Source:-Annual Reports of SCBNL

The above table shows that loan and advances to total deposit of the bank varies from maximum of 0.46 time in year 2007/08 to the minimum of 0.30 time in year 2002/03 and 2003/04 with an average of 0.38 times during the study period of ten years. The analysis indicates that the bank is mobilizing its total deposit in loans and advances satisfactorily.

B. Loan and Advances to Saving Deposit Ratio:

Loan and advances to saving deposit ratio measures how many times the second high interest bearing deposit is utilized for income generating purpose. This ratio can be calculated by dividing the amount of loans and advances by the amount of saving deposits. The ratio is calculated as follows:

$$\text{Loan and advance to total deposits} = \frac{\text{Loan and Advance}}{\text{Saving Deposit}}$$

The loan and advances to saving deposit ratio of SCBNL for the period of 1998/99 -2007/08 is presented in the table 4.8 below:

Table 4.8

Loan and Advance to Saving Deposit Ratio

(Rs in'000')

Year	Loan and advances (Rs)	Saving Deposit (Rs)	Ratio (in %)
1998/99	4051881	5471681	0.74
1999/00	4857172	6632697	0.73
2000/01	5763136	8404611	0.69
2001/02	5364005	9441906	0.57
2002/03	5695824	10633162	0.54
2003/04	6410242	12771826	0.50
2004/05	8143208	13030929	0.62
2005/06	8935418	14597674	0.61
2006/07	10502637	15244385	0.69
2007/08	13718597	17856134	0.77
Average	7344212.4	11408500.6	0.64

Source:-Annual Reports of SCBNL

The above table shows that loans and advances to saving deposit of the bank varies from maximum of 0.77 in 2007/08 to minimum of 0.50 in 2003/04 with an average of 0.64 time during the study period of ten years.

C. Loan and Advances to Fixed deposit Ratio:

Loan and advances to fixed deposit ratio means how many times the amount is used in loans and advances in comparison to fixed deposit. Fixed deposits are high interest bearing obligation whereas loans and advances are the major sources of investment to generate income for the commercial banks. This ratio is calculated by dividing the amount of loans and advances by fixed deposit that is given below:

$$\text{Loan and advance to fixed deposits} = \frac{\text{Loan and Advance}}{\text{Fixed Deposit}}$$

The loan and advances to fixed deposit ratio of SCBNL for the period of 1998/99– 2007/08 is presented in the Table 4.9 below:

Table 4.9

Loan and Advance to Fixed Deposit Ratio

(Rs in'000')

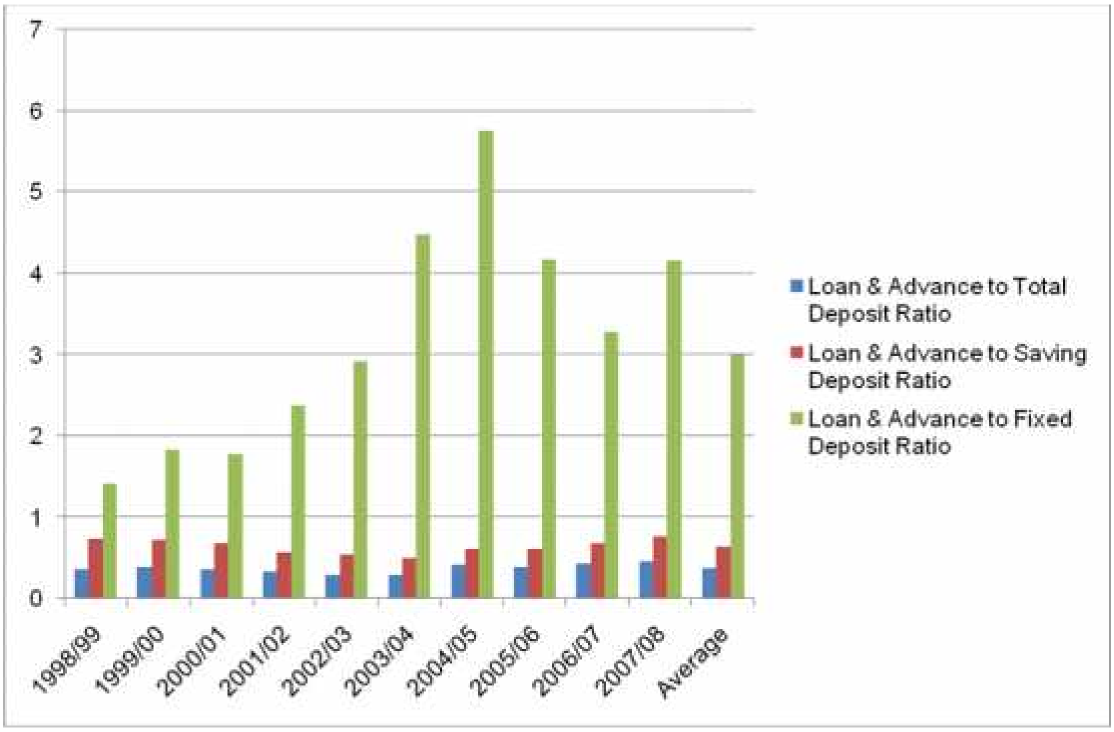
Year	Loan and advances (Rs)	Fixed Deposit (Rs)	Ratio (in %)
1998/99	4051881	2868911	1.41
1999/00	4857172	2651652	1.83
2000/01	5763136	3236033	1.78
2001/02	5364005	2264771	2.37
2002/03	5695824	1948596	2.92
2003/04	6410242	1428495	4.49
2004/05	8143208	1416383	5.75
2005/06	8935418	2136307	4.18
2006/07	10502637	3196490	3.29
2007/08	13718597	3301014	4.16
Average	7344212.4	2444865.2	3.00

Source:-Annual Reports of SCBNL

The fixed deposit of the bank varies from maximum of 5.75 in year 2004/05 to the minimum of 1.41, in the year 1998/99 with an average of 3.00 times during the study period of ten years. The analysis indicates that contribution of the fixed deposit in loans and advances is fluctuating.

Figure 4. 2

Activity Ratios of SCBNL (1998/99-2007/08)



4.1.3. Capital Structure Ratio (Leverage Ratio)

Capital structure ratio or leverage ratio measures the proportion of outsiders 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 ten 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

Total debt to shareholder's 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 1998/99-2007/08 is presented in the Table 4.10 below:

Table 4.10

Total Debt to Shareholder's Equity Ratio

(Rs in'000')

Year	Total Debt (Rs)	Shareholder's Equity (Rs)	Ratio (in times)
1998/99	12368139	1080413	11.45
1999/00	15959683	1195252	13.35
2000/01	18317148	1386282	13.21
2001/02	17207627	1235478	13.93
2002/03	19631595	1368908	14.34
2003/04	22146321	1495739	14.81
2004/05	20311163	1582415	12.84
2005/06	24022194	1754139	13.69
2006/07	26480336	2116353	12.51
2007/08	30843241	2492547	12.37
Average	20728744.7	1570752.6	13.20

Source:-Annual Reports of SCBNL

The above table shows debt to equity ratio varies from maximum of 14.81 times in year 2003/04 to 11.45 times in year 1998/99 with an average of 13.20 times during the study period of ten 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

Total debt to total assets ratio shows 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 1998-2007 is presented in the table 4.11 below:

Table 4.11

Total Debt to Total Assets Ratio

(Rs in'000')

Year	Total Debt(Rs)	Total Assets (Rs)	Ratio (in %)
1998/99	12368139	13448552	91.97
1999/00	15959683	17154935	93.03
2000/01	18317148	19703430	92.96
2001/02	17207627	18443105	93.30
2002/03	19631595	21000503	93.48
2003/04	22146321	23642060	93.67
2004/05	20311163	21893578	92.77
2005/06	24022194	25776332	93.19
2006/07	26480336	28596689	92.60
2007/08	30843241	33335788	92.52
Average	20728744.7	22299497.2	92.96

Source:-Annual Reports of SCBNL

The above table shows that Debt to Total assets of the bank varies from maximum of 93.67 in year 2003/04 to the minimum of 91.97% in year 1998/99 with an average of 92.96% during the study period of 10 years. The analysis of 92.96% of total assets of the bank is financed through debt capital.

C. Total Shareholder's Equity to Total Assets Ratio

Without shareholder equity commercial bank cannot performs its activity. 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 4.12:

Total Shareholder's Equity to Total Assets Ratio

(Rs in'000')

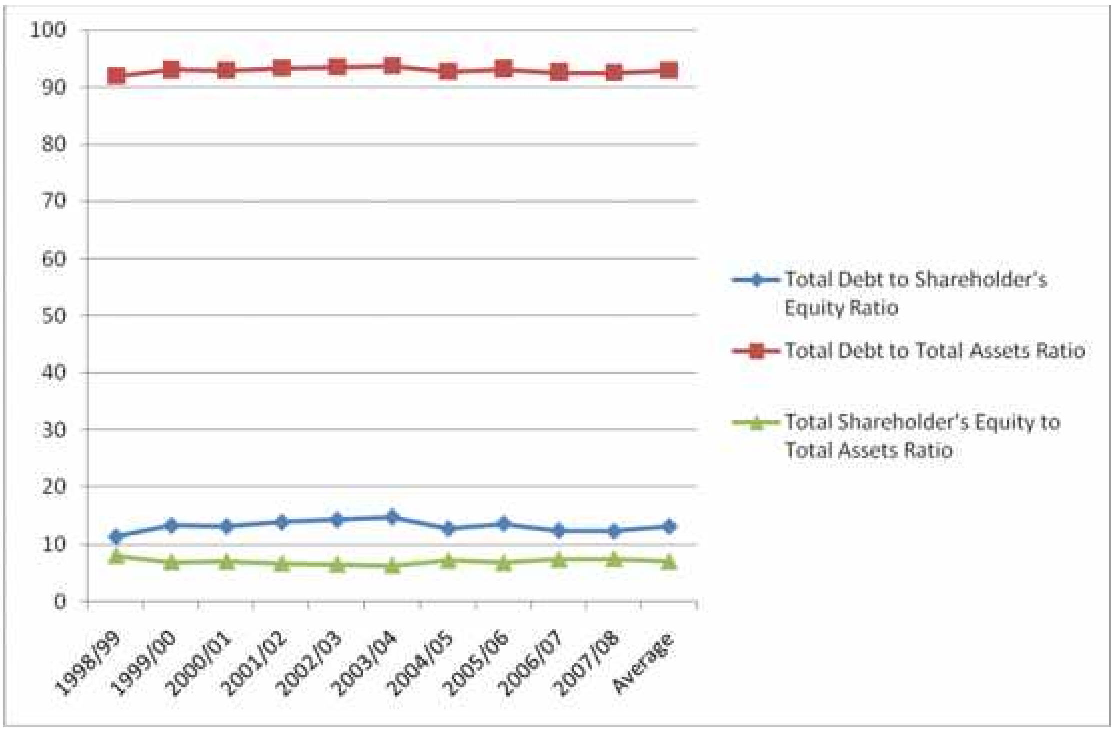
Year	Shareholder's Equity	Total Assets (Rs)	Ratio (in %)
1998/99	1080413	13448552	8.03
1999/00	1195252	17154935	6.97
2000/01	1386282	19703430	7.04
2001/02	1235478	18443105	6.70
2002/03	1368908	21000503	6.52
2003/04	1495739	23642060	6.33
2004/05	1582415	21893578	7.23
2005/06	1754139	25776332	6.81
2006/07	2116353	28596689	7.40
2007/08	2492547	33335788	7.48
Average	1570752.6	22299497.2	7.04

Source:-Annual Reports of SCBNL

The above table shows that the shareholder's equity to total assets of the bank varies from maximum of 8.03% in year 1998/99 to minimum of 6.33% in year 2003/04 with an average of 7.04% during the study period of 10 years. The analysis indicates that an average of 7.04% of the total assets of the bank is financed through equity capital and remaining from debt capital.

Figure 4 3

Leverage Ratios of SCBNL (1998/99-2007/08)



4.1.4 Profitability Ratio

Profitability is the mirror of success for every commercial bank. 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 to Total Assets Ratio.
- Net Profit to Risk Assets Ratio.

A. Interest Earned to Total Assets Ratio

There are different sources of income for financial sector or commercial bank 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:

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

The interest earned to total assets ratio of SCBNL for the period of 1998-2007 is presented in the Table 4.13 below:

Table 4.13

Interest Earned to Total Assets Ratio

(Rs in'000')

Year	Interest Earned(Rs)	Total Assets (Rs)	Ratio (in %)
1998/99	902450	13448552	6.71
1999/00	1052356	17154935	6.13
2000/01	1242919	19703430	6.31
2001/02	1013636	18443105	5.50
2002/03	1001360	21000503	4.77
2003/04	1042176	23642060	4.41
2004/05	1058678	21893578	4.84
2005/06	1189603	25776332	4.62
2006/07	1411982	28596689	4.94
2007/08	1591196	33335788	4.77
Average	1150635.6	22299497.2	5.16

Source:-Annual Reports of SCBNL

The above table shows the interest earned to total assets of the bank varies from maximum of 6.71% in year 1998/99 to the minimum of 4.41% in year 2003/04 with an average of 5.16% during the study period of 10 years. The analysis indicates that the ratio is in fluctuating trend in the previous years and in decreasing 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 1998/99-2007/08 is presented in the table 4.14 below:

Table 4.14

Net Profit to Total Deposit Ratio

(Rs in'000')

Year	Net Profit(Rs)	Total Deposit (Rs)	Ratio (in %)
1998/99	359453	11165165	3.22
1999/00	392593	12568487	3.12
2000/01	430831	15430051	2.79
2001/02	479207	15835747	3.03
2002/03	506932	18755635	2.70
2003/04	537800	21161442	2.54
2004/05	539204	19335095	2.79
2005/06	658756	23061032	2.86
2006/07	691688	24647021	2.81
2007/08	818921	29743999	2.75
Average	541538.5	19170367.4	2.82

Source:-Annual Reports of SCBNL

The above table shows that Net profit to total deposit of the bank varies from maximum of 3.22% in year 1998/99 to the minimum of 2.54% in year 2003/04 with an average of 2.82% during the study period of 10 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 1998/99-2007/08 is presented in the Table 4.15 below:

Table 4.15

Net Profit to Total Assets Ratio

(Rs in'000')

Year	Net Profit(Rs)	Total Assets (Rs)	Ratio (in %)
1998/99	359453	13448552	2.67
1999/00	392593	17154935	2.29
2000/01	430831	19703430	2.19
2001/02	479207	18443105	2.60
2002/03	506932	21000503	2.41
2003/04	537800	23642060	2.27
2004/05	539204	21893578	2.46
2005/06	658756	25776332	2.56
2006/07	691688	28596689	2.42
2007/08	818921	33335788	2.46
Average	541538.5	22299497.2	2.43

Source:-Annual Reports of SCBNL

The above table shows that Net profit to total assets of the bank varies from maximum of 2.67% in year 1998/99 to the minimum of 2.19% in year 2000/01 with an average of 2.43% during the study period of 10 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 1994-2004 is presented in the table 4.16 below:

Table 4.16

Net Profit to Net worth Ratio

(Rs in'000')

Year	Net Profit (Rs)	Net worth (Rs)	Ratio(in %)
1998/99	359453	1080413	33.27
1999/00	392593	1195252	32.85
2000/01	430831	1386282	31.08
2001/02	479207	1235478	38.79
2002/03	506932	1368908	37.03
2003/04	537800	1495739	35.96
2004/05	539204	1582415	34.07
2005/06	658756	1754139	37.55
2006/07	691688	2116353	32.68
2007/08	818921	2492547	32.85
Average	541538.5	1570752.6	34.48

Source:-Annual Reports of SCBNL

The above table shows that return on equity of the bank varies from maximum of 38.79% in year 2001/02 to the minimum of 31.08% in year 2000/01 with an average of 34.48% during the study period of 10 years. The analysis indicates that ROE of SCBNL is in better position which implies the better utilization of shareholder's equity.

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:

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

The net operating profit to total assets ratio of SCBNL for the period of 1998-2007 is presented in the table 4.17 below:

Table 4.17

Net operating Profit to Total Assets Ratio

(Rs in'000')

Year	Net Profit before interest and tax(Rs)	Total Assets (Rs)	Ratio (in %)
1998/99	461606	6570705	7.03
1999/00	628912	8102784	7.76
2000/01	761174	9959059	7.64
2001/02	815720	10441220	7.81
2002/03	922084	13448552	6.86
2003/04	1086799	17154935	6.34
2004/05	1249111	19703430	6.34
2005/06	1038347	18443105	5.63
2006/07	972648	21000503	4.63
2007/08	1072919	23642060	4.54
Average	900932	14846635	6.07

Source:-Annual Reports of SCBNL

The above table shows that net operating profit to total assets of the bank varies from maximum of 7.81% in year 1997/98 to the minimum of 4.54% in year 2003/04 with an average of 6.07% during the study period of ten 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 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 4.18

Return on Risk Assets Ratio

(Rs in'000')

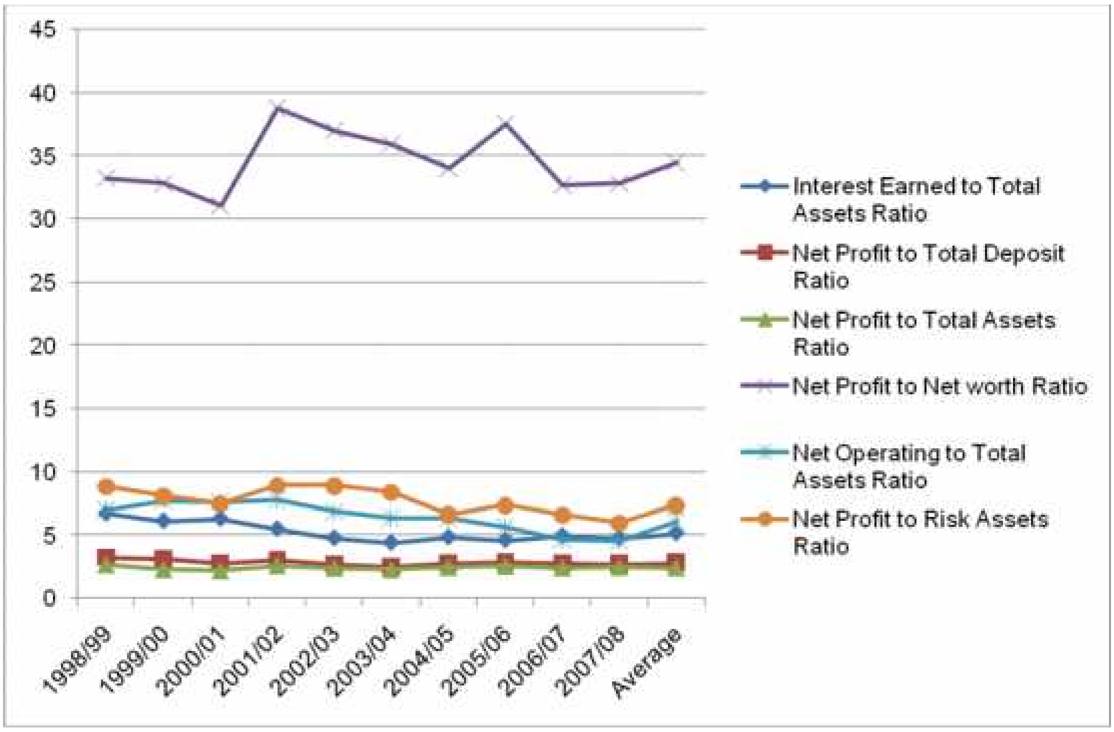
Year	Net Profit after interest and tax(Rs)	Loan and Advances	Ratio (in %)
1998/99	359453	4051881	8.87
1999/00	392593	4857172	8.08
2000/01	430831	5763136	7.48
2001/02	479207	5364005	8.93
2002/03	506932	5695824	8.90
2003/04	537800	6410242	8.39
2004/05	539204	8143208	6.62
2005/06	658756	8935418	7.37
2006/07	691688	10502637	6.59
2007/08	818921	13718597	5.97
Average	541538.5	7344212.4	7.37

Source:-Annual Reports of SCBNL

The above table shows that return on risky assets of the bank varies from maximum of 8.93% in year 2001/02 to minimum of 6.59% in year 2006/07 with an average of 7.64% during the study period of ten years. The analysis indicates that the SCBNL has made considerable profit from the risky assets.

Figure 4. 4

Profitability Ratios of SCBNL (1998/99-2007/08)



4.1.5 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 to 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:

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

The following table shows the earning per share of SCBNL of (1998/99 to 2007/08) ten financial years.

Table 4.19

Earning Per Share

(Rs in'000')

Year	Net Profit after interest and tax (Rs)	No. of share O/S	EPS (in Rs)
1998/99	359453	3395	105.88
1999/00	392593	3395	115.64
2000/01	430831	3395	126.90
2001/02	479207	3395	141.15
2002/03	506932	3395	149.32
2003/04	537800	3746	143.57
2004/05	539204	3746	143.94
2005/06	658756	3746	175.86
2006/07	691688	4132	167.40
2007/08	818921	6207	131.94
Average	541538.5	3855.2	140.47

Source:-Annual Reports of SCBNL

The above table shows that EPS of the bank varies from maximum of Rs.175.86 in year 2005/06 to minimum of Rs105.88 in year 1998/99 with an average of Rs.140.47 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:

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

The following table shows the dividend per share of SCBNL of (1998/99 to 2007/08) ten financial years.

Table 4.20

Dividend Per Share

(Rs in'000')

Year	Earning paid to shareholders (Rs)	No. of share o/s	DPS(in Rs)
1998/99	271639	3395	80.01
1999/00	339549	3395	100.01
2000/01	339549	3395	100.01
2001/02	339549	3395	100.01
2002/03	373504	3395	110.02
2003/04	412060	3746	110.00
2004/05	449520	3746	120.00
2005/06	524440	3746	140.00
2006/07	537160	4132	130.00
2007/08	806910	6207	130.00
Average	439388	3855.2	113.97

Source:-Annual Reports of SCBNL

The above table shows DPS of bank varies from maximum of Rs140.00 in year 2005/06 to minimum of Rs.80.01 in year 1998/99 with an average of Rs108.23 during the study period of ten years. The above analysis indicates that the dividend per share of SCBNL is satisfactorily and the shareholders are being compensated with good return.

C. Dividend Payout Ratio (DPR)

The dividend payout 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 dividing per shares (DPS) by earning per shares (EPS), as expressed below:

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

The following table shows that dividend payout ratio of SCBNL of(1998/99 to 2007/08) ten financial years.

Table 4.21

Dividend Payout Ratio

(Rs. in 000)

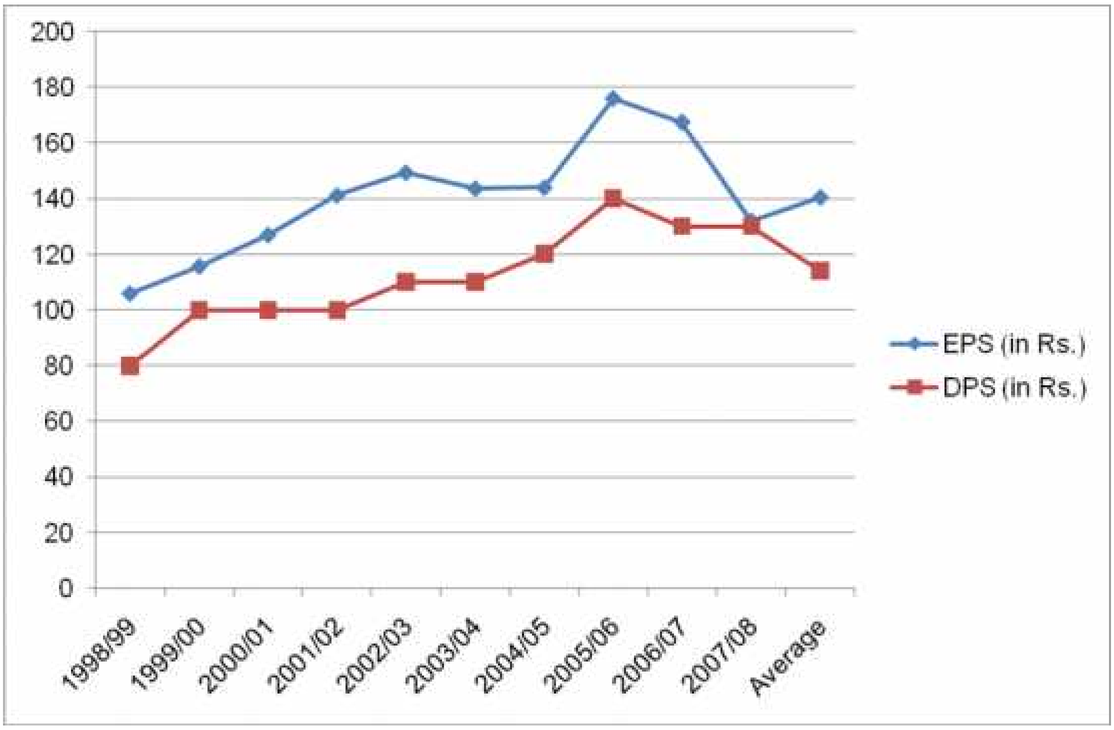
Year	DPS(in Rs)	EPS(Rs)	DPR (in %)
1998/99	80.01	105.88	75.57
1999/00	100.01	115.64	86.48
2000/01	100.01	126.9	78.81
2001/02	100.01	141.15	70.85
2002/03	110.02	149.32	73.68
2003/04	110	143.57	76.62
2004/05	120	143.94	83.37
2005/06	140	175.86	79.61
2006/07	130	167.4	77.66
2007/08	130	131.92	98.54
Average	112.01	140.16	79.92

Source:-Annual Reports of SCBNL

The above table shows that dividend payout ratio of the bank varies from maximum of 86.48% in year 1999/00 to minimum of 70.85% in year 2001/02 with an average of 79.92% during the study period of ten 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. 4.5

EPS and DPS of SCBNL (1998/99 to 2007/08)



4.2 Income and Expenditure Analysis

Income and expenditure are the important body of every financial sector. Without income and expenditure financial activity or financial sector fully incomplete. 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 has been made to analyze the income and expenditure statement of SCBNL of ten financial year from 1998/99 to 2007/08 in this study the analysis of operating income and expenditure have been made and as detailed below.

4.2.1 Operating Income

The income (in percentage received from various sources are presented in Annex-3. The sources of the operating income are interest earning, commission earnings and other operating incomes.

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 Annex-3. The total income of the bank largely depended on the interest earned. The average of 43.26% of the total income is covered by the interest earned (refer Annex-3). The high rate of income from 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 12.56% of the total income comes from the exchange earnings (refer Annex-3).

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 is 10.04% 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 1.18% of the total income of the bank Overall the bank's operating profit is in increasing trend (*refer Annex-3).*

4.2.2 Operating Expenses

The operating expenses (in percentage of the bank in different items are presented in Annex-4. The operating expenses heads of the bank are invest expenses, personnel expenses and other operating and non- operating expenses.

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 Annex-4, the interest expenses is 47.49% of the total expenditure in 2007/08 (*refer Annex-4*). 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 23.21% of the total expenses (referAnnex-4)

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 11.34% on an average of the total expenditure in 2007/08(*referAnnex-4*).

4.3 Bankruptcy Score

A study by Altman developed a statistical model that found the financial ratios predicting bankruptcy (Edmard I. Altman, corporate bankruptcy in American-Lexington malls: Health Lexington book). The bankruptcy score has been calculated and analyzed on the basis of the relevant information of five financial years of SCBNL.

The calculation of the bankruptcy score using Altman's model of SCBNL is presented in the Annex-6 of this study report. The calculation is based on the following equation using five financial ratios to predict the bankruptcy of SCBNL by year.

Bankruptcy score $=1.2x_1+1.4x_2+3.3x_3+0.6x_4+0.999x_5$

Where,

x_1 = Net working Capital / Total Assets

x_2 = Retain Earning / Total Assets

x_3 = Earning before interest and tax / Total Assets

x_4 = Total market value of stock / Book value of total debt

x_5 = Total investment / Total Assets

Altman has suggested the following criteria to analyzed the result

Table 4.22

Criteria to analyze the Bankruptcy Score

Less than1.81	Between 1.81 and 2.99	Greater than 2.99
Probability of failure - high	Probability of failure – may be (low)	Probability of failure - No
Predict failure	Predict failure if source is less than 2.675 Predict success if source is greater than 2.675	Predict success

The above criteria signifies that a firm with a score less than 1.81 is likely to fail and will definitely go into Bankruptcy. Similarly, firm with a score greater than 2.99 will never go into bankruptcy that is very rare chance of bankruptcy. However, the score in between 1.81 and 2.99 puts the analyst in a difficult situation to predict whether the firm will exist or not. As per the Annex- 5, the bankruptcy score of SCBNL for the last five year is presented in the Table 4.23 below:

Table 4.23

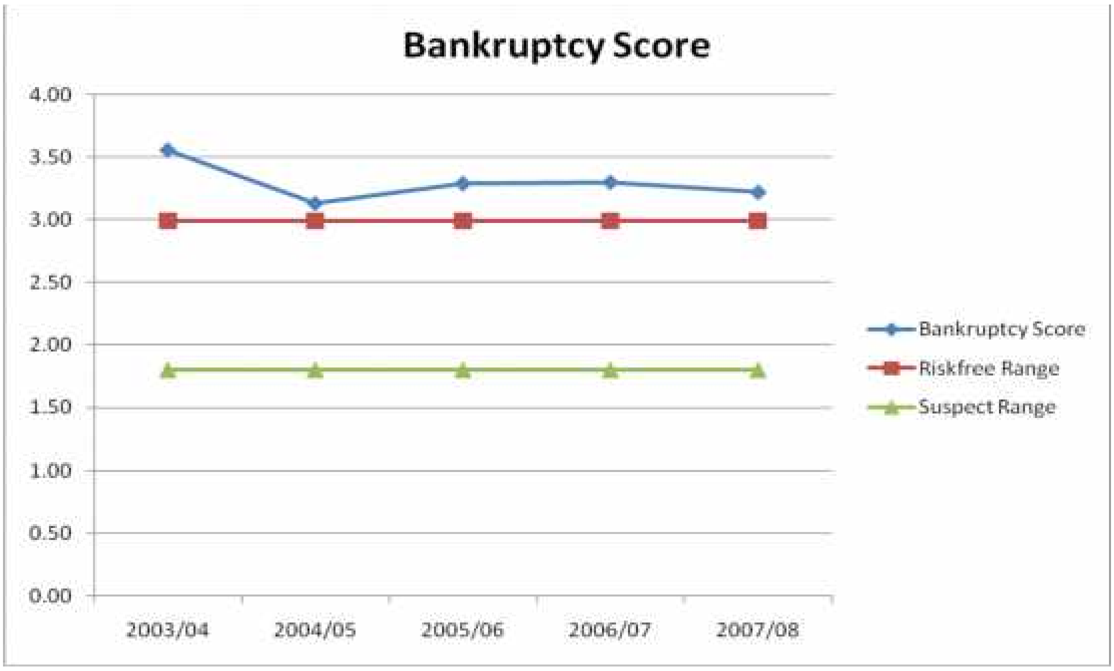
Bankruptcy score of SCBNL

Year	Bankruptcy Score
2003/04	3.56
2004/05	3.13
2005/06	3.29
2006/07	3.03
2007/08	3.09

The above table shows that bankruptcy score of the bank has crossed the given limit of 2.999 during the study period and it can be predict that there is only a very remote chance of failure of the bank.

Figure 4.6

Bankruptcy Score of SCBNL (2003/04 to 2007/08)



4.4 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:

a. SCBNL has the highest current ratio of 1.26 in 1999/00 and the lowest current ratio of 1.06 in 2002/03 with an average current ratio of 1.06 in 2002/03 with an average current ratio of 1.13 during the study period 1998/99-2007/08. The current ratio analysis of the bank over the ten years period indicates that the bank is able to meet its short- term obligations and has sound liquidity position.
b. The cash and bank balance to current asset ratio of SCBNL varies from maximum of 8.61% in year 2003/04 to minimum of 4.50% in year 2001/02 with an average of 6.00% during the study period of ten years. The analysis indicates that the cash and bank balance proportion with respect to the current assets is in erratic trend.
c. 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 41.30% in year 2007/08 to the maximum of 27.27% in year 2003/04 with an average of 33.12 during the study period of ten years. The analysis indicates that the loans and advances disbursement respect to the current asset is fluctuating.
d. 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 25.70% in year 1998/99 to minimum of 6.75% in year 2003/04 with an average of 12.75% during the study period of ten 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.
e. 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 67.40% in year

2004/05 to minimum of 49.01% in year 1998/99 with an average of 59.51% during the study period of ten 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.

f. 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 9.56% in year 2003/04 to minimum of 5.21% in year 2001/02 with an average of 6.94%during the study period of ten years. The analysis indicates that the bank has invested large amounts in various business sectors.

g. Loans and advances to total deposit ratio measures the extent to which the bank is successful to utilize the outsider fund (total deposits) in profit generating purpose on the loans and advances. The loan and advances to total deposit of the bank varies from maximum of 0.46 times in year 2007/08 to minimum of 0.30 times in year in year2002/03 and 2003/04 with an average of 0.38 times during the study period of ten years. The analysis the bank is mobilizing its and total deposit in loan and advances satisfactorily.

h. Loans and advances to saving deposit measures how many times the second high interest bearing deposit is utilized for income generating purpose. The loans and advances to saving deposits of the bank vary from maximum of 0.77 times in year 2007/08 to minimum of 0.50times in year 2003/04 with an average of 0.64 time as during the study period of ten years. The analysis indicates that the bank has better mobilization of its saving deposit in loans and advances for income generating purpose.

i. Loans and advances to fixed deposit measures how many times the amount is used in loans and advances in comparison to fixed deposits. Loans and advances to fixed deposit of the bank vary from maximum of 5.75 times in year 2004/05 to the minimum of 1.41 times in year 1998/99 with an average of 3.00 times during the study period of ten years. The analysis indicates that the bank has the best mobilization of its fixed deposit in loans and advances for income generating purpose.

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 14.81 times in year 2003/04 to the minimum of 11.45 times in year 1998/99 with an average of 13.20 times during the study period of ten 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.

k. 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 93.67% in year 2003/04 to the minimum of 91.97% in year 1998/99 with an average of 92.96% during the study period of ten 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.

l. 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 8.03% in year 1998/99 to the minimum of 6.33% in year 2003/04 with an average of 7.04% during the study period of ten years. The analysis indicates that an average of 7.04% of total assets of the bank financed through equity capital and the remaining from debt capital. This implies that the shareholder's shake in the bank is very low. The creditors have dominated in the bank's financial mix.

m. Interest earning is the major source of 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 6.71% in year 1998/99 to the minimum of 4.41% in year 2003/04 with an average of 5.16% during the study period of ten 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.

n. Net profit to total deposit indicates the percentage of profit earned by using the total deposit. The net profit to total deposit of the bank varies from maximum of 3.22% in year 1998/99 to the minimum of 2.54% in year 2003/04 with an average of 2.82% during the study period of ten years. The analysis indicates that the net profit earned in comparison to total deposit is in fluctuating trend.

o. 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. The above table shows that net profit to total assets of the bank varies from maximum of 2.67% in year 1998/99 to the minimum of 2.19% in year 2000/01 with an average of 2.43% during the study period of ten years.

p. 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 owners 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 38.79% in year 2001/02 to the minimum of 31.08% in year 2000/01 with an average of 34.48% during the study period of ten years. The analysis indicates that the profit earning in relation with the shareholder's equity of SCBNL is in better position, which exhibits the better utilization of shareholder's resources.

q. Net operating profit is the profit before interest and taxes (EBIT) when net operating profit to total assets ratio is useful to measure the profitability ratio before interest and taxes of all financial resources invested in the assets. The net operating profit to total asset of the bank varies from maximum of 7.81% in year 1997/98 to minimum of 4.54% in year 2003/04 with an average of 6.07 during the study period of ten years.

r. 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 8.93% in year 2001/02 to the minimum of 6.59% in year 2006/07 with an average of 7.64% during the study period of ten years.

s. 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. 175.86 in year 2005/06 to the minimum of Rs. 105.88 in year 1998/99 with an average of Rs. 140.47 during the study period of ten years. The above analysis indicates that the earning per share of SCBNL is quite good.

t. Dividend per share is calculated to know proportion of the earning distributed to the share holders per share. The DPS of the bank from maximum of Rs. 140 in year 2005/06 to the minimum of Rs. 80.01 in year 1998/99 with an average of Rs. 108.23 during the study period of ten years. The above analysis indicates that the dividend per share of SCBNL is satisfactory and the shareholders are being compensated with good return.

u. 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 86.48% in year 1999/00 to the minimum of 70.85% in year 2001/02 with an average of 79.92% during the study period of ten years. The above analysis indicates that the payout ratio of the bank is high.

4.4.2 Findings from the income and expenditure analysis

a. 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 75.06% of the total income is covered by the interest earned. The high rate of income from the interest received indicates the better operation efficiency of the bank.

The second main income source of the bank is from the foreign exchange earnings. The average of 12.88%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 10.45% of the total operating income of the bank. This concludes that bank is providing efficient and effective services to its average of 1.21% of the total income of the bank.

b. 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 57.60% 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 28.16% of the total expenditure on an average. The third important heading for the operating expenditure is the personnel expenses. The bank is spending 50.94% of the total operating expenditure in the personnel expenses on an average.

4.4.3 Finding from the bankruptcy score

On the based of the analysis of the bankruptcy score of the bank indicates the bank has crossed the limit of bankruptcy score of 2.99 and it can be predicted that it is very remote chance of failure of bank.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Summary, Conclusion and recommendation are the important part of every research or project. It shows main finding of research. 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, knowledgeable and informative. This study has covered 10 years data from 1998/99 to 2007/08 of the bank. In this section, the researcher has tried to summarize the financial performance of SCBNL.

Financial sector is growing very fast and making very competitive sector also. In this time also 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. Inspire 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 ten 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 Tellering Machine (ATM). The number of cards issued by the bank is increasing and the bank how 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 ten years. However the growth rate is fluctuating. As per the data analysis deposits increased tremendously, it is 38 times 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, which is mainly due to the bank's strategy of sate 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 categories 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.

5.2 Conclusions

During the study period of past ten years, that is, from 1998/99 to 2007/08 various ratio analyses have been performed to find out the financial performance of SCBNL. The major findings of the study are listed Chapter-Four, section 4.4 of this report. Based on the findings, the following conclusions have been drawn:

A. Conclusion on the liquidity ratio

On the based of the analysis of financial statement of SCBNL in terms of liquidity ratios are as follows:

Table 5.1

Summary of liquidity Ratio

Ratio	Minimum	Maximum	Average
Current ratio	1.06	1.26	1.13
Cash and bank to current assets	4.50%	8.61%	6.00%
Loan and advances to current assets	27.27%	41.30%	33.12%
Saving deposit to total deposit	49.01%	67.40%	59.51%
Fixed deposit to total deposit	6.75%	25.70%	12.75%
Cash and bank balance to total deposit	5.21%	9.56%	6.94%

The current ratio of the bank over the ten years is 1.13 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 1.0 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.

B. Conclusion on Activity Ratio

On the based of the analysis of financial statement of SCBNL in terms of activity ratios are as follows:

Table 5.2

Summary of Activity Ratio

Ratio	Minimum	Maximum	Average
Loan and advances to Total Deposit	0.3 times	0.46 times	0.38 times
Loan and advances to Saving Deposit	0.5 times	0.77 times	0.64 times
Loan and advances to Fixed Deposit	1.41 times	5.75 times	3 times

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.

C.Conclusion on Leverage Ratio

On the based of the analysis on financial statement of SCBNL in terms of leverage is as follows:

Table 5.3

Summary of Leverage Ratio

Ratio	Minimum	Maximum	Average
Total debt to shareholder's equity	11.45 times	14.81 times	13.20 times
Total debt to total assets	91.97%	93.67%	92.96%
Total shareholder's equity to total assets	6.33%	8.03%	7.04%

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' find 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 7.04% of the total assets of the bank is 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.

D. Conclusion on Profitability Ratio

On the based of the analysis of financial statement of SCBNL in terms of profitability ratios are as follows:

Table 5.4

Summary of Profitability Ratio

Ratio	Minimum	Maximum	Average
Interest Earned to Total asset	4.41%	6.71%	5.16%
Net profit to Total deposit	2.54%	3.96%	2.97%
Net profit to Total asset	2.19%	2.67%	2.43%
Net profit to net worth	31.08%	38.79%	34.48%
Net operating profit to Total asset	4.54%	7.81%	6.07%
Net profit to Risk asset	6.59%	8.93%	7.64%

Interest earning is the major source of a commercial bank. Interest earned to total assets ratio reflects the proportion of interest earned by the bank form 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 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.

E.Conclusion on Ownership Ratio

On the based of the analysis of financial statement of SCBNL in terms of ownership ratios are as follows:

Table 5.5

Summary of Ownership Ratio

Ratio	Minimum	Maximum	Average
Earning per share (EPS)	Rs. 105.88	Rs. 175.86	Rs. 140.47
Dividend per share (DPS)	Rs. 80.01	Rs.140	Rs. 108.23
Dividend payout Ratio (DPR)	70.85%	86.48%	79.92%

The EPS represents the amount earned on behalf of each outstanding share of common stock. The EPS was low in 1998/99 because the bank has provided 1:1 bonus shares to the shareholders in the two subsequent fiscal years, 1998/99. The result of the above analysis shows that the earnings per share of SCBNL is 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.

F. Conclusion on the Income and Expenditure Analysis

In every part of financial activity income and expenditure plays great role, financial activity doesn't complete without income and expenditure. 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 form commission earnings constitute 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.

G. Conclusion on the Bankruptcy Score

Bankruptcy is the negative part of every organization. The word bankruptcy is not a good word. It shows the failure of every financial organization. The analysis of the bankruptcy score of the bank concludes that the bank has crossed the limit of bankruptcy score of 2.99 and it can be predicted that it is very remote chance of failure of bank.

After analyzing the past performance, it can be said that no doubt Standard Chartered is the best bank in the Nepalese financial market. Still it has lot of untapped market and products and SCBNL can do much better and increase its profitability and in turn increase the shareholder's wealth adding to country's development.

5.3 Recommendation

By seeing 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.
- The bank should focus on business such as credit cards, debit cards, wealth management, global markets and cash management as these are all high return businessman. If possible, diversify wealth management business t include a range of retail foreign exchange products.
- Broaden the range of products and services offered to the customers, at the same identifying those which can make a real contribution to profits.
- Within wholesale banking, realign its business to gain improved returns through focus on less capital intensive products. 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 of the relationship.
- The bank should focus more on non- risky lending such as mortgages, housing loans and personal loans.
- The bank should focus more on INGO and new project accounts to generate non- interest bearing deposits.
- The bank should spread to 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.

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