Chapter- I
INTRODUCTION

1.1 General Background

The power of commercial banking system to create money is of great economic significance as it helps to create credit system that is necessary for economic progress. Payment mechanism is a part and parcel of commercial banks, which makes use of cheques and credit cards facilitating safe & efficient transaction. The commercial banks render very important service to all sectors of the economy, by providing facilities for the pooling of saving to be used for socially desirable purposes and the server is paid with interest on his deposits. The pooled fund is made available to others in the form of loans for some productive purpose. These banks efficiently arrange the amount of foreign exchange required by business organizations. Moreover, the issue of letter of credit has facilitated foreign trade transactions. And safe keeping is one of the oldest services rendered by commercial banks. They provide locker facilities to keep valuable and they are accepted by commercial banks.

In the present context the role and importance of the commercial bank has loomed large. In this connection, Nepalese economy has witnessed several changes in the financial system in the few years or so, for example, financial liberalization.

As there has been number of commercial banks established the present aims to appraise the financial performance of SCBNL just to be assured whether they can put contribution in the economic growth of the country or not.

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet & the profit & loss account. It can be undertaken by management of the firm, or the parties outside the firm, viz, owners, creditors, investors & other stakeholders.

In Financial analysis, a ratio is used as a benchmark for evaluating the financial position & performance of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance & financial position of a firm. An accounting figure conveys meaning when it is related to some other relevant information. The relation between two accounting figures, expressed mathematically, is known as a financial ratio. It helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance of the firm.

Financial analysis may be of two types. i.e. vertical analysis & horizontal analysis. When a financial statement like a balance sheet or a profit & loss account of a certain period is analyzed, the analysis is called vertical analysis. Since, it measures position of the business at a point of time, it is also known as static analysis. In horizontal analysis, a series of statement relating to a number of years are reviews and analyzed. It is also known as a dynamic analysis because it measured the change of position or trend of the business over a number of years. This study is base don horizontal analysis.

A method of performance measurement that was started by Du Pont Corporation in the 1920s and has been used by them ever since. With this method, assets are measured at their gross book value rather than at net book value in order to produce a higher return on equity (ROE) which is also known as DuPont Identity. Therefore, this study is conducted to appraise the financial performance of the Standard Charted Bank Nepal Limited with Du Pont approach.

Econometric model is a type of model to measure the relationship of financial variables with ROA & ROE. Correlation and Regression analysis is used to see the correlation between the financial variables & ROA & ROE & to test the hypothesis that whether they are significant or not.

1.1.1 Joint Venture Bank in Nepal

A joint venture is an association of two or more persons or enterprises to make the operation highly effective with their collective effort. Joint venture Banks are the commercial banks firmed the two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or traders to achieve mutual exchange of goods and services.

Joint venture bank (JVB) is an innovation in finance and it is growing stage, mostly in developing country, foreign investment plays a significant role for economic development by flowing capital, technologies, skills, managerial efficiency etc.
According to Gupta (1983), "A joint venture is joining of forces between two or more enterprises for the purpose of carrying out specific operations (industrial or commercial investment production or trade".

In the context of Nepal, JVBs plays very important role to national economy. Since, Nepal is follower of mixed economic policy, JVBs plays very important role in national economy. They bring foreign capital, skill, art, technique and experience. JVBs pose a serious challenge to the existence of the inefficient native banks as an opportunity to modernize themselves and sharpen their competitive zealous.

The joint venture banks have very few branch networks and are concentrated in urban centers. JVBs started to establish since mid-1980s (Poudel, 2005) and there are seven in Nepal (NRB, 2010) including; Nabil Bank Ltd (NABIL), Standard Charter Bank Ltd (SCBL), Himalayan Bank Ltd (HBL), Nepal SBI Bank Ltd (NSBI), Nepal Bangladesh Bank Ltd (NBBL) and Everest Bank Ltd (EBL). They have foreign equity participation (along with domestic) and management with good name with international reputation, conducting banking business professionally. They are well mechanized and supervised by their respective home country supervisory authorities. The share of total assets of the joint venture banks has been increased to about 50% of total commercial bank assets. The introduction of joint venture banks infused modern banking and financial technology and new financial instrument in the financial system. However, the spillover effect of their efficient management and modern banking skills was less in the domestic banks, as per expectation.

According to K.C. (2048), "A country to be benefitted from venture capital should have a favorable investment climate. In Nepal 3 of the dramatic reforms were carried out in 1980's. The major are allowing the foreign banks to operate as a joint venture banks lifting a control on interest rate and introduction of the auctioning of government securities"

1.1.2 Introduction of Sample Bank.

Here Standard Charted Bank Nepal Limited (SCBNL) is taken as a sample bank.
SCBNL was originally established as a joint venture of Grindlays Bank Private Ltd. company and Nepal Bank Limited in 1987 with the shareholding ratio of ANG Grindlays Banks Limited 50 percent, Nepal Bank Ltd 33.34 % & General public 16.64 percent. Along with the change of ownership to SCBNL, the banking area of SCBNL saw the rise of a new dawn changing the general image of the bank. With this aquition, SCBNL now the bank is an integral part of standard Charted Group having an ownership of 75 percent in the company with 25 percent shares owned by the Nepalese public. The bank enjoys the status of the largest international bank currently operating in Nepal.

An integral part of the only international banking Group currently operating in Nepal, the Bank enjoys an impeccable reputation of a leading financial institution in the country. With the mission statement "To be the leading international bank in our principle markets", the bank operates through 14 branches and 23 ATM centres spread throughout Nepal and focuses mainly on corporate, consumer and commercial banking, providing services for international firms as well. SCBNL is in a position to serve its customers through a large domestic network. In addition to which the global network of Standard Charted Group gives the Bank a unique opportunity to provide truly international banking in Nepal. Further it's been a major contributor to the governmental offices as the highest private corporate taxpayer in the kingdom.

Standard Chartered Bank Nepal Limited (SCBNL) is operational in Nepal since 1987 when it was initially registered as a joint-venture operation. Today, the Bank is an integral part of Standard Chartered Group having ownership of 75% in the company with 25% shares owned by Nepalese public. The Bank enjoys the status of the largest international banking system currently operating in Nepal. With 18 points of representation, 23 ATMs across the country and more than 350 local staff, Standard Chartered Bank, Nepal Ltd. is in a position to serve its customers through an extensive domestic network. Standard Chartered Bank has its branch in most of the cities of the country. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal (*http://www.standardchartered.com.np*).

Standard Chartered Bank Nepal Limited offers a full range of banking products and services in Consumer banking, Wholesale and Short Message Sending (SMS) Banking catering to a wide range of customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, government corporations, airlines, hotels as well as the District Office segment comprising of Embassies, AID agencies, Non-Government Organizations (NGO) and International on-Governmental Organizations (INGO) (*http://www.standardchartered.com.np*).

The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first Bank in Nepal that has implemented the Anti-Money Laundering policy and applied the 'Know Your Customer' procedure on all the customer accounts (*http://www.standardchartered.com.np).*

The bank has 400 staff as on 15th July 2012, they all are enough qualified, trained and dedicated to provide quality of services to the customer 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 the 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 loan, Mortgages, personal loan etc.
- To become bigger, more profitable and efficient to compete with biggest competitors.

Product and Services

- **Personal Banking**
  - **Deposits**
    - Saving accounts
    - Current account
    - Fixed deposits
    - Kiddy bank account
    - Acess bank account
    - Diva bank
    - Amulya Bachat Khata
  - **Cards**
    - Rupees Credit Card (Visa & Master)
    - Prepaid Cards (NPR & USD)
    - USD Credit Cards
    - Reward Scheme
  - **Loans**
    - Home Loan
    - Auto Loan
    - Personal Loan
    - Cash/Near cash backed loan
  - **Priority Banking**
  - **Insurance**
    - Secured Life Insurance
    - Secured Assets (Home/Vehicle Insurance)
  - **Other Services**
    - Automatic Teller Machines
    - Online Banking
    - Safe Deposit Lockers
    - Remittances

- **SME Banking**
    - **Deposit Management**
    - **Credit Facilities**
        - Overdraft
        - Short Term Loan
        - Demand Loan
        - Term Loan
        - Letter of Credit
        - Export Credit
        - Bank Guarantees
- **Wholesale Banking**
    - **Transaction Banking**
        - Cash Management
        - Trade Solutions
    - **Corporate and Institutional Lending**
    - **Financial Markets**

Modern marketing is a customer-oriented, integrated marketing and goal-oriented philosophy of business. This philosophy assumes that all the planning and operations should be customer-oriented i.e., the organization and its employees should first focus on determining customer needs and wants. In order to satisfy their needs and wants, all marketing activities (4ps or 7ps) should be coordinated in a coherent or marketing consistent way. And the marketer should try to earn profit only after the customers are satisfied. Though it is very difficult to talk for the marketers, if they want long-run survival and achieve long run goal, they should follow this principle.

A buyer behavior consists of activities that the people engage in when selecting, purchasing, and using products and services so as to satisfy needs and desires. Such activities involve not only physical actions but also mental and emotional processes. Here, the main theme is that the process of effective marketing must begin with the careful evaluation of the problems faced by potential customers, because a product or service that does not provide an answer to a buyer's problem, no matter how unimportant that problem may seem to others, will not be accepted by the customers. Therefore, it is more productive to find out what customers wants in a product, and then to offer them that product, rather than to present a product and hope to convince the customers that they need it.

A marketer can secure his long-term benefits only by satisfying customer needs and wants. So, the key to success for a marketer is to properly analyze the value and satisfaction that a customer receives from the marketer's offer of product because a customer makes purchase the product or service only, if s/he expects adequate benefits from the products compared to the cost he satisfies.

1.2 Statement of the Problems

Commercial banks are major financial institutions, which occupy important place in the frame wok of every economy. Due to lack of other specialized institutions the commercial banks have to bear more responsibility and to act as development banks, this has been major problem in almost all under-developed countries including Nepal.

Nepalese commercial banks lack appropriate, well managed and formulated policies to develop customer satisfaction in competitive market. They mainly rely upon the guideline instructions of Nepal Rastra Bank. There is lack of clear view toward sound financial performance and evaluation of the commercial banks. Furthermore, there are not any specific views and guidelines towards the customer service delivered by the commercials banks in Nepal.

Due to the lack of far sightedness in policy formulation such as hesitation to invest long term projects, unorganized interest structure and absence of strong commitment towards its proper implementation, causes many problems to commercial banks resulting in the increment of the dissatisfaction ratio to the customers of the banks.

Financial performance and conditions are important to judge bank operations. The essence of the financial soundness of a company lies in balancing its goals, commercial strategy, product market choices & resultant financial and statistical tools such as a financial ratios, income and expenditure statement analysis etc. Ratio analysis is a very useful analytical technique to raise pertinent questions on a number of managerial issues. Many questions relating to company overall profitability, liquidity position and long term solvency, operating efficiency, inter-firm comparison, and asset utilization should be answered while assessing the financial condition of the bank.

Mainly, this study seeks to analyze and evaluate the performance evaluation of the customer satisfaction of commercial banks taking a case of Standard Chartered Bank Nepal Limited, Kathmandu Branch. By analyzing the errors of commercial banks, this research aims to find out proper ways to that help to make proper decision.

The research questions of the study will examine the following:

1. What are the different types of services offered by Standard Chartered Bank Nepal Limited?
2. What is the profitability position of SCBNL?
3. What is the status of operating activities of SCBNL?
4. How are financial variables related with ROA & ROE?
5. What is the current level of the customer satisfaction from services provided by the bank?
6. Is there any relationship between customer satisfaction and financial performance of Standard Chartered Bank Nepal Ltd?

1.3 Objectives of the Study

The general objective of this research study is to analyze and examine the financial performance of SCBNL by applying Du Pont approach & econometric model approach. Another objective is to explain customer service provided by Standard Chartered Bank and to analyze the level of customer satisfaction based on the Kathmandu Branch of Standard Chartered Bank Nepal Ltd.

The specific objectives of the study are as follows:

1. To point out the different types of services and products provided by Standard Chartered Bank Nepal Limited.
2. To examine the profitability position of the bank.
3. To analyze the operating activities of the bank.
4. To evaluate the relationship of financial indicators with ROA & ROE
5. To access the current level of the customer satisfaction offered by the bank.
6. To examine the relationship of financial performance and level of customer satisfaction provided by the Standard Chartered Bank Nepal Limited.

1.4 Significance of the Study

This research aims to gain knowledge and so will add new knowledge to the existing literature. The significance of this study lies mainly in identifying problems or determining Financial Institutions (FIs), as well as categorizing institutions with deficiencies in particular component areas. Further it will assists in following safety and soundness trends and in assessing the aggregate strength and soundness of the financial industry. The research will be prepared in order to supplement present examination procedures applicable to FIs of Nepal. It would be helpful for the senior management involved in day-to-day activities operations. Bankers and examiners, alike can use this report to further their understanding of banks financial conditions.

This study will make researcher aware of the financial performance as well as consumer satisfaction level of the bank in the market. The comparison will help them to identity productivity of their resources utilized. The management would be benefited from the study as it will find out if the performance of the bank is better/ worse than that of the competitors. It will also be useful to the investor's share holders and policy formulations of the institution. In addition, this study will also provide a collective knowledge and analysis to the literature of financial Institution. Other beneficiaries of the study can be categorized as follows:

a) Lenders and borrowers of the bank
b) Management of the bank
c) Policy maker of the bank
d) All other interested individual and parties

On the other hand this study is important for the researcher to fulfill the academic requirement of Master's degree.

1.5 Limitations of the Study

This study will be focused on the performance evaluation and customer satisfaction of Standard Chartered Bank Nepal Limited Kathmandu Branch. It will also be required to fulfill the academic requirement of Master of Business Studies Degree. This study has limitations which are as follows:

1. This study will be focused on Standard Chartered Bank Nepal Limited, branch office New Baneshwor, Kathmandu only.
2. The sample size of this study will be selected up to 100 respondents.
3. In this research most of the data will be secondary for analyzing the overall performance of the bank & some data will be primary to measure the customer satisfaction. So accuracy depends upon the data collected and provided by the organization.
4. The data available in published annual reports have been assumed to be correct and true.
5. Although there are many commercial banks, the study limits to only SCBNL.
6. This study will cover only five fiscal years i.e. from 2007/08 to 2011/2012.

1.6 Organization of the Study

This study will be divided in 5 chapters. Prior to the body of the thesis several pages of preliminary materials such as title page, approval sheet, viva sheet, acknowledgements, table of contents, list of figure, list of table, abbreviation used etc. will be presented.

The first chapter will include introduction of the study, background of the study, statement of problems, significance of the study, objectives of the study, limitation of the study & organization of the study. The second chapter will include the review of literature; here the theoretical aspects as well as finding of the previous study will be included. Second chapter deals with the available literature. It includes review of books, relevant books, review of bank's report & review of previous thesis. This chapter will show the problems & their strategy of the previous researcher & writer. The third chapter will deal with the complete research methodology. Like, how the data will be collected? How the research questions will be designed? What are the analytical tools that will be used for the research? What are the methods of data analysis? What techniques will be used to find out the proper result? This chapter will also attempt to analyze and evaluate the data with help of analytical tools and interpret all the result. These questions will be answered on this chapter. Fourth chapter is linked with the third chapter. This chapter is the heart of the study. It presentation and analysis of data using financial & statistical tool. To assess the banking business and financial performance of the selected bank, this chapter analyzes the data using Du Pont approach and Econometric approach & calculates the financial ratios with relevant statistical tool. i.e. descriptive statistics and financial tools. Correlation and Regression analysis is used show the relationship between different variables. Fifth chapter revolves with the suggestions, recommendations which include the summary of main findings and conclusions of the study.

Chapter- II
Review of Literature

Review of literature is the study of previous research or articles or books in related field for finding the past studies conclusion and deficiencies that may be known for further research. In other words, we can say that the review of literature is basically a stock taking of available literature in the field of research. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of study. Review of exiting literature would help the researcher to find out what studies have been conducted and what remaining to go with.

According to Wikipedia, the free encyclopedia a literature review is a body of text that aims to review the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to a particular topic. Literature review are secondary sources, and as such, do not report any new or original experimental work.

A well structured literature review is characterized by a logical flow of ideas; current and relevant references with consistent, appropriate referencing style; proper use of terminology; and an unbiased and comprehensive view of the previous research on the topic. Wolf & Pant (1999) "The purpose of the reviewing the literature is to develop some expertise in one's area to see what new contribution can be made to review some idea for developing research design. Several books, Journals and articles and thesis have been reviewed while preparing the review of literature.

This chapter deals with the literature relevant to this study. It comprises review of books, previous studies received, article review and review of policy documents. It is divided into following headings.

2.1 Conceptual Framework

2.1.1 Concept of Financial Performance of Bank

Finance is the life blood of trade, commerce and industry. Now-a-days, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system. The term bank is derived from the French word *Banco* which means a Bench or Money exchange table. In olden days, European money lenders or money changers used to display coins of different countries in big heaps (quantity) on benches or tables for the purpose of lending or exchanging.

The basic finance functions must be performed in all types of organizations and in all types of economic system. The key finance functions are the investment, financing & dividend decisions of an organization.

A bank is a financial institution which deals with deposits and advances and other related. It receives money from those who want to save in the form of deposits and it lends money to those who need it. Oxford Dictionary defines a bank as "an establishment for custody of money, which it pays out on customer's order."

"A bank is a business organization that receives and holds deposits and funds from other, makes loans and extends credits, and transfer fund by written order depositors." (Lawson et al, 1997). The commercial bank can also be defined as "Investment bank". The investment banker is the link between the corporation in need of funds and the investor. As a middleman, the investment banker is responsible for designing and packaging a security offering and selling the securities to the public. (Block & Hirt, 1997).

Generally, an institution established by law, which deals with money and credits is called bank. It is obvious that in a common sense, an institution involved in monetary transaction is called bank. A bank simply carries out the work of exchanging money, providing loan, accepting deposit and transferring the money.

Importance of Bank

Bank plays a vital role for the economic development of the country. The need of the bank can be explained from following reasons.

- Banks finances priority sectors, the helping in economic development of the country
- Banks help the optimum utilization of resources by acting as an agent who collect saving from general people & distribute them to the entrepreneurs.
- Banks help to stabilize the economy
- Banks helps to promote capital formulation by mobilizing the scattered saving of people and making these available for investment in productive sector.
- Bank is useful in productive services, agency service, remittance services, issuance of letter of credit etc.
- Bank promotes balanced regional development especially in under development of the country.
- Bank help in expansion of credit to promote economic development more rapidly by making the possibility of the fund to be available.

An Overview of Nepalese Banking Industry

Bank plays an important role in Nepalese economy. Nepal has a short history of the modern banking practices that started from the establishment of Nepal Bank Limited as a first commercial bank in 1937. The establishment of Nepal Rastra Bank in 1956 as a central bank gave new dimension to Nepalese financial system. Nepal adopted financial sector liberalization process during 1980s. As a result, many joint venture and private banks entered into the market. By the end of mid-July 2009, 26 commercial banks were in operation in Nepal. Of the 26 commercial banks, 3 were state-owned and 23 were privately owned (17 domestic and 6 foreign joint-ventures). Banks play important role in Nepalese economy. The relatively high value for the ratio of total banking sector assets to real GDP signifies it. Banks are major lenders to private sectors because Nepalese capital market is in the initial state of development and banking financing is important source of financing for firms (Nepal Rastra Bank, 2009b; Gajurel, 2005). In contrast, the lending is very nominal to government sectors because government sector receives budget, loan or credit from government or other government owned financial institutions like Employment Provident Fund, Nepal Industrial Development Corporation, etc. The cumulative lending to private and government institutions is lower than deposits to GDP ratios, so reflects comparatively low level of credit to the household and firms. The low level of branch network/extension reflects lack of wider access to banking and higher geographic concentration of banks. Most of the banks' head office is located in Kathmandu and their branches are clustered around major cities of the country.

During the process of financial sector liberalization and reformation central bank initiated major changes in policy measures, e.g. deregulation of interest rate in 1989; moving from direct to indirect methods of monetary control, emphasizing open market operations as the main policy tool; abolishing the provision of statutory liquidity ratio in 1993; and permitting market-determined exchange rate of the Nepalese currency against convertible currencies and full convertibility of the Nepalese currency in the current account (Bhattarai, 2005). Moreover, central bank has continued to review the relevant legislations and regulations in order to put in place up-to-date regulatory framework that meets international standards and resolves the issues of the banking industry (Nepal Rastra Bank, 2009).

2.1.2 Characteristics / Features of a Bank

Characteristic/Features of a bank varies depending upon the type of bank. Some common features of bank are as follows:

- Dealing in Money: Bank is a financial institution which deals with other people's money i.e. money given by depositors.
- Individual/Firm/Company: A bank may be a person, firm or a company. A banking company means a company which is in the business of banking.
- Acceptance of deposit: A bank accepts money from the people in the form of deposits which are usually repayable on demand or after the expiry of a fixed period. It gives safety to the deposits of its customers. It also acts as a custodian of funds of its customers
- Giving advances: A bank lends out money in the form of loans to those who require it for different purposes
- Payment and Withdrawal: A bank provides easy payment and withdrawal facility to its customers in the form of cheques and drafts; It also brings bank money in circulation. This money is in the form of cheques, drafts, etc.

- Agency and utility services: A bank provides various banking facilities to its customers. They include general utility services and agency services.
- Profit and service orientation: A bank is a profit seeking institution having service oriented approach.
- Ever increasing function: Banking is an evolutionary concept. There is continuous expansion and diversification as regards the functions, services and activities of a bank.
- Connecting link: A bank acts as a connecting link between borrowers and lenders of money. Banks collect money from those who have surplus money and give the same to those who are in need of money
- Banking Business: A bank's main activity should be to do business of banking which should not be subsidiary to any other business.
- Name Identity: A bank should always add the word "bank" to its name to enable people to know that it is a bank and that it is dealing in money.

2.1.3 Bank Performance

To understand how well a bank is doing, we need to start by looking at a bank's income statement, the description of the sources of income and expenses that affect the bank's profitability.

Bank's Income Statement

Operating Income. Operating income is the income that comes from a bank's ongoing operations. Most of a bank's operating income is generated by interest on its assets, particularly loans. Interest income fluctuates with the level of interest rates, and so its percentage of operating income is highest when interest rates are at peak levels.

Noninterest income is generated partly by service charges on deposit accounts, but the bulk of it comes from the off-balance-sheet activities, which generate fees or trading profits for the bank. The importance of these off-balance-sheet activities to bank profits has been growing in recent years.

Operating Expenses. *Operating expenses* are the expenses incurred in conducting the bank's ongoing operations. An important component of a bank's operating expenses is the interest payments that it must make on its liabilities, particularly on its deposits. Just as interest income varies with the level of interest rates, so do interest expenses. Interest expenses as a percentage of total operating expenses reached a peak. Noninterest expenses include the costs of running a banking business: salaries for tellers and officers, rent on bank buildings, purchases of equipment such as desks and vaults, and servicing costs of equipment such as computers.

The final item listed under operating expenses is provisions for loan losses. When a bank has a bad debt or anticipates that a loan might become a bad debt in the future, it can write up the loss as a current expense in its income statement under the “provision for loan losses” heading. Provisions for loan losses are directly related to loan loss reserves.

Rank of Commercial Bank regarding Performance Measures

Table A provides measures of return on assets (*ROA*), return on equity (*ROE*), and the net interest margin (*NIM*) for all federally insured commercial banks from 2005-2010.

Table –A

Measures of Bank Performance, 2005- 2010

Bank		Measures of Bank Performance, 2005- 2010		
		Return on Assets (RoA) (%)	Return on Equity (ROE) (%)	Net Interest Margin (NIM)(%)
PSB	NBL	6	18	6
	RBBL	1	17	8
	ADBL	4	15	1
JVB	NABIL	3	3	4
	SCBL	2	2	10
	HBL	11	7	5
	NSBL	15	9	13
	NBBL	13	14	12
	EBL	9	4	2
DPB	NIBL	8	6	11
	BOK	5	5	9
	NCCBL	18	1	7
	LBL	7	16	3
	NIC	10	8	14
	MPBL	17	13	15
	KBL	14	10	16

Source: African Journal of Business Management, Vol 6(25), pp.7601-7611, 27 June 2012

2.1.4 Customer Service and Satisfaction:

Customer satisfaction is a long-term strategy. Just as it is difficult to radically alter perceptions of product quality over a short time horizon, so too is difficult to quickly cultivate a reputation for superior customer service. In the past few years, subject of satisfaction and dissatisfaction has received a great deal of attention from academic researchers. Engel & Blackwell (1982) defined satisfaction as an evaluation that the chosen alternative is consistent with prior beliefs with respect to that alternative. Satisfaction implies a conscious and deliberate evaluation of outcomes (Engel & Blackwell, 1982). If expectations are matched, the outcome, of course, is satisfaction. When alternative is perceived as falling short in significant ways, dissatisfaction is the result. Satisfaction and dissatisfaction, of course, represent extreme points on a continuum. High satisfaction or dissatisfaction also is a motivation for sharing with others (Engel, Blackwell, & Miniard, 1990)

There are many ways to improve customer satisfaction. Some strategies are: building relationships with customers, superior customer service, unconditional guarantees, efficient complaint handling. Customer satisfaction leads to competitive advantage in market place by differentiation, product quality, speed, unified corporate purpose etc. (Schnaars, 1991)

Customer Satisfaction issues in Nepalese Banking Sector

The number of commercial banks is increasing in Nepal due to the attractive market opportunity available in the country, especially after the advent of democracy. Nowadays, the performance of these commercial banks has come under question in terms of customer satisfaction. This study is designed to explore answer to this problem. The number of commercial banks including regional banks stood at seventeen at the end of 2003. Most of the commercial banks have their branches in Kathmandu valley. Their city branches are located in and around New-road, Kantipath, Baneshwor and Kamaladi. It is, therefore, quite imperative to assess their performance in terms of customer satisfaction. The main problem to be dealt with by the present research is the "question of performance in terms of customer satisfaction". Thus, the specific problems can be clearly explained by finding answers to the questions - a) what is the state of "customer orientation" of Nepalese commercial banks? b) What is the comparative situation of customer satisfaction in these banks? c) What are the factors that can lead to customers toward satisfaction?

Good customer service and satisfaction

Many companies have always put in their trademarks about putting people first. However, customer service is not very well offered the way it should be. In fact, with the many consumer groups criticizing low quality customer service support, many companies have put a lot of efforts on improving their respective customer care assistance to their customers.

With the competitive markets nowadays, the business that has great customer service is the one that can obtain a stable position and excel more than its business rivals. Having a great customer service means that you are exceeding the expectations of your customers and not only satisfying them. Others may think that customer service only involves the product or service you being offered but it also involves looking after for the people interested about the features you sell or service. Having great products and high quality service should be your first step to create a reputable and credible market. Every client looks out for the quality of a specific product. This can be tough especially when the product you sell has a reasonable price that is competitively priced with other similar products. If you are manufacturing your own product, make sure that you produce quality products by enhancing, improving and providing guaranteed satisfaction to the end users.

Customer service clients should care about customer care assistance in providing high quality assistance and support for customer satisfaction.

Here are some important things to remember in customer service.

1. As a seller, you should remain polite and use appropriate style in dealing with customers.

2. You should always remember that the customer is always right.

3. You may offer refunds if the problem is unfixable.

4. Make your customers feel free to ask questions.

5. Make sure to make follow up calls to ensure product efficiency.

Good customer service should be offered with politeness, respect, and understanding and with proper knowledge. It is proper to attend customer concerns promptly and accurately.

Make sure that every customer concern or questions are answered accordingly to ensure a guaranteed customer service satisfaction among customers

Competitive Advantage

In a highly competitive market, the shortest route to differentiation is through the development of brands and active promotion to both intermediaries and final consumers (Parasuraman, 1997). In the long run, however, branding, targeting and positioning would all be much more effective if the supplier had some tangible advantage to offer consumers (Baker, 1993). This is evident in the banking industry, where many banks are providing more or less the identical products for nearly the same price. Unless a bank can extend its product quality beyond the core service with additional and potential service features and value, it is unlikely to gain a sustainable competitive advantage (Chang, Chan, and Leck, 1997). Thus, the most likely way to both retain customers and improve profitability is by adding value via a strategy of differentiation (Baker, 1993) while increasing margins through higher prices. Today's customers do not just buy core quality products or services; they also buy a variety of added value or benefits. This forces the service providers such as banks to adopt a market orientation approach that identifies consumer needs and designs new products and redesigns current ones (Ennew and Binks, 1996; Woodruff, 1997). Further, competitive pressures then push other financial service firms to actively target consumer segments by integrating service quality, brand loyalty, and customer retention strategies (Ennew and Binks, 1996).

A competitive banking system promotes the efficiency and therefore important for growth, but market power is necessary for stability in the banking system (Northcott, 2004). Commercial bank holds a large share of economic activities of a country. The function of the commercial banks has been enhanced in Nepal to sustain the increasing need of the service sector and the economy in general (Economic Survey, 2008).

Measurement of customer service and satisfaction

Increasing competition (whether for-profit or nonprofit) is forcing businesses to pay much more attention to satisfying customers, including by providing strong customer service. It may help the reader to notice the role of customer service in the overall context of product or service development and management.

Customer Service basics:

Servicing a customer is a part of every purchase and interaction with internal and external contacts. It can last a few seconds up to hours. So if we all do it and experience it everyday in almost everything we do, why isn't good customer service the norm?

We all have stories about when we were treated exceptionally well or extremely poorly. We tend to share these extraordinary stories with others. We all know that word of mouth marketing can be the absolute best advantage or the worst drawback for a company.

A few basic rules about customer service:

- Break Glass in Case of Fire. Response Time
- Keeping it real. Set a Realistic Expectation
- R-E-S-P-E-C-T.

Top Five Customer Service Metrics

Service Level – For call centers, support, and service desks, first call resolution is the Holy Grail. For a shipping operation, product delivery and project implementation, on-time performance is the measuring stick. In a high transaction business, the first interaction with a customer will be a key determinant of whether the customer will return. Don't underestimate the importance of timeliness and thoroughness.

Customer Retention – Customer retention is an important element of banking strategy in today's increasingly competitive environment. Bank management must identify and improve upon factors that can limit customer defection. These include employee performance and professionalism, willingness to solve problems, friendliness, and level of knowledge, communication skills, and selling skills, among others. Furthermore, customer defection can also be reduced through adjustments in a bank's rates, policies and branch locations (Leeds, 1992). Clearly, there are compelling arguments for bank management to carefully consider the factors that might increase customer retention rates. Several studies have emphasized the significance of customer retention in the banking industry (Dawkins and Reichheld, 1990; Marple and Zimmerman, 1999; Page et al., 1996; Fisher, 2001). However, there has been little effort to investigate factors that might lead to customer retention.

Most of the published research has focused on the impact of individual constructs, without attempting to link them in a model to further explore or explain retention. If retention criteria are not well managed, customers might still leave their banks, no matter how hard bankers try to retain them.

Response time – You'd be surprised how many customer surveys come back with comments such as "your service is great, you got back to me right away…." "I was surprised with how quickly you responded to my inquiry and it made all the difference even if I didn't get the answer I was hoping for…" In today's world of electronic relationship management, response time is one of the only ways we can communicate our sense of urgency and concern for our customers and their experience with our product or service. What is your Response goal – within X hours? Set one and achieve it. You should know what your competition is doing and beat their goal.

Time with the Customer – Are your customer-facing employees incentivized to keep calls short or to move too quickly from customer to customer? If so, you are sending the wrong message and subsequently affecting the quality of the customer interaction. There is a definite happy medium between the overly chatty service provider and the thorough and efficient provider. Set your benchmarks for call duration and general time with the customer in relation to the ultimate goal of first call resolution, NOT the other way around.

Churn – Cancellations and returns are the equivalent to churn. If you don't know how much business you are losing, you won't be able to understand how much new business you will require to stay out of the red. As important as knowing how much, understands WHY you are losing customers. Take it to the next level and use follow-up surveys, phone calls, personalized 'how can we get you back' emails. This survey information is the real business insight for understanding your lost business.

By all means this is not a comprehensive list of key performance indicators. To expand further we would need to focus on a particular business model to provide a more granular perspective. Start measuring and start making changes. Continue to evolve your key metrics as your business evolves. Keep this process circular for continuous improvement.

Consumers’ Behavioral Intentions

To compete successfully in today’s competitive marketplace, banks must focus on understanding the needs, attitudes, satisfactions and behavioral patterns of the market (Kaynak and Kucukemiroglu, 1992). Consumers evaluate a number of criteria when choosing a bank. However, the prioritization and use of these criteria differs across countries, and thus cannot be generalized. Social and technological change has had a dramatic impact on banking. These developments, such as internationalization and unification of money markets and the application of new technologies in information and communications systems to banking, have forced banks to adopt strategic marketing practices. These have included offering extended services, diversification of products, entry into new markets, and emphasizing electronic banking .This greater range of services and products, along with improvements in communications efficiency, could have a significant impact on customer satisfaction and consequent behavioral intentions. As changes in the broad financial fields accelerate and business activities converge (i.e., the offering of insurance, financial planning, and share brokerage by a bank), it is imperative to differentiate banking products from other similar or complementary ones that are offered by bank affiliates or nonbanks

Customer Loyalty

Customer retention improves profitability principally by reducing costs incurred in acquiring new customers. A prime objective of retention strategies must therefore be “zero defections of profitable customers” (Reichheld, 1996a). There is, however, a distinction between customers who are simply retained and those who are loyal. The concept of consumer inertia implies that some customers are only being retained, rather than expressing loyalty. Truly loyal customers are usually portrayed as being less price-sensitive and more inclined to increase the number and/or frequency of purchases. They may become advocates of the organization concerned and play a role in the decision making of their peers or family. Satisfaction with a bank's products and services thus also plays a role in generating loyalty that might be absent in the retention situation. Customer loyalty is therefore not the same as customer retention, as loyalty is distinct from simple repurchase behavior. Loyalty is only a valid concept in situations where customers can choose other providers. Companies thus need to understand the nature of their consumers’ reasons for staying and must not assume that it is a positive, conscious choice (Colgate et al., 1996).

2.1.5 Bank Performance & Customer Satisfaction

In recent years, a number of studies have highlighted the effects of customer satisfaction on the performance of business organizations through empirical evidence across both developed and developing countries.Customer satisfaction is regarded as a key factor in the business strategy of every organization. It is a benchmark to which an organization must set its objectives. A company is successful when its products or services meet expectations and requirements of customers. If a company aims for customer retention, customer satisfaction is the best way to retain customers' future. Jamal and Naser (2003, p.31) stated, "Service quality has been described as a form of attitude that results from the comparison of expectations with performance". Individual needs, wishes and expectations with regard to the value of the product or service can be measured by some of the following elements, such as friendly and helpful salespersons, informed advice, reasonable price, high quality, and a long guarantee period. Many previous studies in the banking sector have found that bank profitability was derived from the quality of service and the higher quality leads to satisfied customers who use more of the services and the ability of customer retention becomes higher. Moreover, customer satisfaction and perceptions of service quality are decisive elements of customer loyalty which potentially brings about higher market shares, lowers staff turnover and operating costs, and improves employee morale, higher financial performance and profitability (Lewis, 1989; Lewis, 1993; Julian and Ramaseshan, 1994). Customers usually develop their perceptions on quality of service and make up standards of expected quality for service before they encounter actual quality of banking service. They in turn compare their expected quality of service and its actual quality when they use it, and this comparison will influence the degree of their satisfaction in using that service, leading to whether customers repurchase that service or not. Some other studies also found that convenience and competitiveness influence customer satisfaction. In fact, these two factors relate respectively to a place where banks or their branches are located and prices of service provided by banks. If banks are located in a place customers can easily access, they can do business with the bank more conveniently (Levesque and McDougall, 1996). In addition, competitiveness also makes prices of the provided service cheaper. Support for this argument comes from studies of Laroche and Taylor (1988) and Levesque and McDougall (1996). Customer satisfaction in retail banking is also likely to be influenced by the perceived competitiveness of the bank's interest rate.

2.2 Review of related studies

The related studies on "Financial performance of bank & its customer satisfaction in Nepal" have been analyzed as follow:

Before 1980

Berle and Means (1932), show that as firm size increases, ownership becomes diffused, thus leading to conflicts of interest between owners and managers. Jensen and Meckling and Berle and Means assume that the owner-manager is a single owner who has reduced his or her equity position in the firm. We know that in most circumstances this is not the case with the modern public corporation and management. Therefore, it is this relation, the one between management ownership and bank performance that is examined.

Jensen and Meckling (1976), propose that an inverse monotonic relation should exist between the owner manager's control and agency costs, and that, as ownership increases, there is increased incentive for the owner manager to maximize the value of the firm. He demonstrates that when the owner-manager sells equity in the firm to outsiders, and if both parties are utility maximizes, the owner-manager's interest will diverge from the new principals. He refers to this failure to maximize the welfare of the principal as residual loss, and feel it is likely to be the most important cost due to the principal/agent conflict.

1981- 2000

Oliver, (1981), Peterson and Wilson (1992), Westbrook (1980), Yi (1990), says that "virtually all self-reports of customer satisfaction possess a distribution in which a majority of the responses indicate that customers are satisfied and the distribution itself is negatively skewed"

Berger and Hannan (1989) showed that concentration is associated with lower deposit. Indeed, early studies often found a positive relationship between concentration and profits, which supports the assertion that market power is detrimental. The papers by Berger and Hannan (993) and Berger (1995) have given new empirical framework to test the structure- performance hypothesis.

Zeithaml *et al., (*1990), argues that customer satisfaction is the result of a customer's perception of the value received in a transaction or relationship – where value equals perceived service quality relative to price and customer acquisition costs.

Schnaars, (1991). Customer satisfaction is as competitive advantage that is sustainable over the long term

Peterson and Wilson (1992) offered various explanations for Customer satisfaction. These include:

(1) Individuals could in fact be very satisfied with what they consume and purchase; (2) satisfaction is caused by factors (such as expectations, performance), therefore its antecedents may influence the shape and level of the observed distributions, (3) satisfaction may possess a distribution that is different from what we know as a normal distribution; and (4) the level and shape of customer satisfaction ratings are a function of the research methodologies employed.

Berger (1992), Prior studies on firm ownership & performance have traditionally used accounting measures of corporate performance.

Gajurel Dinesh Prasad,(1993),The paper aims at testing the structure-performance hypotheses in the context of Nepalese banking industry for the period of 2001-2009 under the Berger and Hannan (1993) empirical framework. The empirical results suggest that traditional structure- conduct-performance hypothesis and quit life hypothesis are at work in explaining concentration-profitability relation and there are weak supports for efficiency structure hypotheses. The results of this study hold significant policy and managerial implications.

Petersen and Rajan (1995) used U.S. data to test their relationship-lending theory. Using concentration as an indication of market power, they found that young firms receive more credit in concentrated markets than do similar firms in less-concentrated banking markets; they also found that creditors in concentrated markets seem to smooth interest rates over the life cycle of the firm, charging lower rates when the firm is young, and higher rates when the firm is mature.

Goldberg Lawrence G. & Rai Anup,(1995) examined the relationship between market structure and performance has been studied extensively for American banking. In contrast, little work has been done to investigate this relationship for European banking. Two explanations of a positive correlation between profitability and concentration have been advanced the traditional structure-performance hypothesis (SCP) and the efficient-structure hypothesis. Previous empirical tests of the alternative hypotheses have yielded mixed results but the tests were not robust because they did not incorporate measures of efficiency directly in the model. This study applies a stochastic cost frontier as proposed by Aigner et al. (1977) to derive measures of X-inefficiency and scale-inefficiency, under the assumption that the errors are distributed half-normal.

Goldberg and Rai (1996) used the Berger and Hannan (1993) framework in European context and studied the relationship between market competition and performance considering efficiency. The authors did not find a positive and significant relationship between concentration and profitability for a sample of banks across the European countries over a four year period, 1988-91. However, they found to support one of the two versions of the efficient-structure hypothesis for banks located in countries with low concentration of banks. Therefore, the authors concluded that cross-border acquisitions and growth might not hamper the competition.

Anderson, Fornell and Rust (1997) found a negative effect of very high customer satisfaction scores on productivity and therefore future profitability (Fernandez, 2002). The result of this effect can depend greatly on the context of environment of every economy and economic regime or legislative framework of every nation. Thus, a specific study for every country or industry is imperative to quantify the effect.

Fogelberg & Griffith (2000) examined the relation between management ownership & firm performance for a sample of commercial bank holding companies. It was found that when an economic measure of performance is used, the relation between ownership & performance of commercial bank is not monotonic, but is significantly curvilinear. The further the findings are that the question of weather or not the CEO also holds the title of chairman of the board has no impact on bank performance.

Demirgüç-Kunt and Huizinga (2000) found that foreign ownership of banks to have a significant impact on banks' spreads and profitability. In their sample of banks worldwide, foreign owned banks realize higher interest revenues and higher profitability than domestic banks in developing countries. They also found that technology of foreign owned banks in developing countries is relatively strong; possibly strong enough to overcome any informational disadvantage. The banking system in developing countries is found relatively inefficient. However, foreign owned banks in developed countries are shown to be less profitable.

2001- to Date

Tripathee (2001) has conducted a study of "Financial performance of Nepal Bank Limited" as his master's thesis. The study is conducted on the basis of secondary data. The data are collected from the P/L accounts, Balance Sheet of NBL. Data are tabulated in the ease to the study. Some primary data are provided from personal interview from the officer of concerned department of the bank. The main objective of the study is to make comparatively analyze of the financial position of the Nepal Bank Limited for two different periods, the first period being from fiscal year 2047/2048 BS to 2051/2052 BS and the second period being from fiscal year 2052/2053 BS to 2056/2057 BS. The other objective of the study is to analyze the annual financial position, to analyze the financial strength and weakness of the bank. After conducting and using various tools to study financial performance of the bank, have drawn conclusions. He concluded that, as compared to 2nd period with the first period, the bank seemed to be unable to utilize its high cost resources in high yielding investment portfolio. During both periods there are negative operating profits for two years and both the years of the 1st period enjoyed positive net profits due to the non-operating incomes. Hence, there is a lack of determination between operational and non-operational activities of the bank. The second period at an average shows negative net profit and bank had failed to collect interest earned and matured loan. The study shows the liquidity position of the bank is also not satisfactory during both periods and it is even worse during the 2nd periods. Thus, it is concluded that the financial position of the NBL is worse during the 2nd period due to its failure to utilize its resources efficiently and due to its inefficiency in risk management. The overall financial position of the bank is unsatisfactory during the both periods. With above stated conclusion, he has also suggested some valuable suggestion. He has suggested to make books of accounts up to date, to published the financial statements regularly, to make supervision and inspection aspects to be effective and functional, to make management more effective and independent from the political pressure and to implement and enforce policies to foster sound banking.

Joshi (2004) concluded that the profitability ratio indicates the degree of success in achieving desired profit level. The result indicates that the banks has been able to generate profit by utilizing deposits but the generated profit is low, so additional efficiency is required to increase earnings. The analysis indicates that the profit earning in relation to shareholders equality of NBBL in better position, which exhibits better utilization of shareholders equality. Overall, it is concluded that NBBL is able to earn a positive profit but not to a satisfactory level. Analysis of ownership ratio concluded that in case of NBBL, the shareholders are being compensated with good returns either in the form of cash dividend or bonus shares. She suggests that the bank should come forward to increase the number of clients, develop the entrepreneurship, diversity their business with large number of clients, develop investors and come forward to meet the national objective of privatization by mobilization of more entrepreneurs. Most of the JVBs are found to be centralized in urban areas. So, it is suggested that bank should extend their bank facilities even in rural and sub rural areas as well as mid-western region of the country.

Naceur (2003) using a sample of ten Tunisian banks from 1980 to 2000 and a panel linear regression model, reported a strong positive impact of capitalization to ROA.There are number of studies, which examine the bank performance using CAMEL framework, which is the latest model of financial analysis.

Gautam, Thaneshwor, Dhital Sanjaya (2004)., The main objective of the study is to assess the commercial banks' performance in terms of "customer satisfaction". Moreover, the specific objectives of the study are: a) to investigate the level of satisfaction of customers of Nepalese commercial banks; b) to analyze the comparative performance of commercial banks in terms of customer satisfaction; and c) to analyze the reasons behind customers' satisfaction or dissatisfaction.

Ho and Zhu (2004) have reported that the evaluation of a company’s performance has been focusing the operational effectiveness and efficiency, which might influence the company’s survival directly.

Rahman et al. (2004) and Elyor (2009) noted that interest expenses divided to total loans can be measured as the bank management quality.

According to Kumar and Reinartz (2006), traditionally, customer satisfaction is a key mediator which leads to greater retention or loyalty, in turn resulting in greater profit for a firm. However, these relationships are not always strong all the time because in different industries they depend on environmental factors, such as the aggressiveness of competition, degree of switching cost, and the level of perceived risk (Kumar and Reinartz, 2006). Figure 1 shows the satisfaction-loyalty-profitability chain.

The study by Wong *et al.* (2007) used the Berger and Hannan (1995) approach to identify the major determinants of a bank's profit, and the general level of profitability of a banking market. The authors observed that in Hong Kong banking industry, market structure, such as market concentration and market shares of banks, is not a major contributory factor of performance. Cost efficiency of banks, which measures the ability of banks to optimize their input mix for producing outputs, is a major determinant of banks' profitability. They also observed that larger banks are more cost efficient than smaller banks; larger banks can offer services at lower prices to compete with smaller banks, yet attaining a similar or even higher level of profits. The authors conclude that smaller banks are more vulnerable to intense competitions in the loan market than larger banks, particularly in cut-throat price wars.

Gopinathan (2009) has presented that the financial ratios analysis can spot better investment options for investors as the ratio analysis measures various aspects of the performance and analyzes fundamentals of a company or an institution.

Gajurel (2010), empirically assessed structure-performance relation in Nepalese banking industry for the period of 2001-2009 using Berger and Hannan's (1993) empirical approach. From the results, it can be concluded that traditional structure-conduct- performance hypothesis and quit life hypothesis are at work in explaining concentration-profitability relation, although there are weak supports for efficiency structure hypotheses.

Raza et al., (2011), Tarawneh (2006): The empirical results of the researches explained that a company, which has better efficiency, it does not mean that always it will show the better effectiveness.

Alam et al. (2011) study concludes that ranking of banks differ as the financial ratio changes.

Bakar and Tahir (2009) in their paper used multiple linear regression technique and simulated neural network techniques for predicting bank performance. ROA was used as dependent variable of bank performance and seven variables including liquidity, credit risk, cost to income ratio, size and concentration ratio, were used as independent variables. They concluded that neural network method out performs the multiple linear regression method. However it needs

clarification on the factor used and they noted that multiple linear regressions, not withstanding its limitations, can be used as a simple tool to study the linear relationship between the dependent variable and independent variables.

Elyor (2009) and Uzhegova (2010) have used CAMEL model to examine factors bank profitability with success. The CAMEL Framework is the most widely used model (Baral, 2005). The Central bank of Nepal (NRB) has also implemented CAMEL Framework for performance evaluation of the banks and other financial institutions.

Bartaula (2008), in her thesis work entitled "Investment Policy of Everest Bank in comparison with Bank of Kathmandu" has tried to examine and evaluate the investment policy and strategies of EBL and BOK.The specific objectives of the study were to find out relationship between total investment, deposit, loan and advances, net profit and outside asset and compare.The study also focused on to analyze the trends of deposit utilization towards investment and loan and advances and its projective for next five yrs. Ms. Bartaula concluded with her saying that EBL is comparatively in better position that BOK in terms of liquidity and investing on secure portfolios but is less successful in its on balance sheet operation in comparison to BOK.

Bhatt (2009) submitted the thesis on "Interest rate and its effect on Deposit and Lending". The study was made by Bhatta; the disseminator tries to portrait the relation of interest rate with deposit and lending amount. The findings of the study was deposit rates of all sample banks under study are in decreasing trend, meaning that every year deposit rate of sample bank under study have decreased. Lending rates of all sample banks under study are also in decreasing trend, means that every year lending rates of sample banks under study have decreased. Analysis shows that interest rates on lending are far higher that deposit rates of sample banks.

Tregenna (2009) analyzed the effects of structure on profitability for the period of 1994-2005. Bank level panel data are used to test the effects of concentration, market power, bank size and operational efficiency on profitability. The author observed that efficiency is a strong determinant of profitability, whereas there was robust evidence for positive concentration- profitability relation. However, the proxy measure of efficiency was operating cost ratio.

Chung Kee H., Elder John, Jang-Chul Kim (2010) investigated the empirical relation between corporate governance and stock market liquidity. We find that firms with better corporate governance have narrower spreads, higher market quality index, smaller price impact of trades, and lower probability of information-based trading. In addition, we show that changes in our liquidity measures are significantly related to changes in the governance index over time. These results suggest that firms may alleviate information-based trading and improve stock market liquidity by adopting corporate governance standards that mitigate informational asymmetries. Our results are remarkably robust to alternative model specifications, across exchanges, and to different measures of liquidity.

Jiang George J. & Tian S. Yisong, (2010), empirically investigated the performance of using historical volatility to forecast long-term stock return volatility in comparison with a number of alternative forecasting methods. In analyzing forecasting errors and their impact on reported income due to option expensing, we find that historical volatility is a poor forecast for long-term volatility and that shrinkage adjustment toward comparable-firm volatility only slightly improves its performance. Forecasting performance can be improved substantially by incorporating both long memory and comovements with common market factors. We also experiment with a simple mixed-horizon realized volatility model and find its long-term forecasting performance to be more accurate than historical forecasts but less accurate than long-memory forecasts.

Manandhar (2010) has conducted a research on "Interest Rates and Deposit Mobilization in Nepalese Commercial Banks". The sample bank referred is Rastriya Banijya Bank, Nepal Bank Limited, Himalaya Bank Limited and Nepal Bangladesh Bank Ltd. The study focused on analysis of lending and interest rate together with analysis of inflation and interest rate. The major findings were the interest rates on both deposit and lending of all sample banks are in decreasing trend. The interesting part is deposit amount and lending amount is increasing every year except of fixed deposit of RBB and NBL. The government run bank's fixed deposit is found to be decreasing every year.

American Journal of Scientific Research ISSN (2011) examines the impact of the constructs of service quality and customer satisfaction in commercial banks operating in Jordan. Design/methodology/approach – The study uses qualitative methodology, a face to face survey was conducted to test the hypothesis, thirteen banks were chosen randomly in Jordan with their customers acting as respondents to survey, a sample includes 453 customers of Jordanian commercial banks. Findings – The study finds that the order of importance of the dimensions of service quality tested here is: Assurance; Reliability; tangibles; Empathy; and Responsiveness. Customer's satisfactions are mostly influenced by the service quality. Customers indicated high satisfaction with the five dimensions of service quality. This finding reinforces the need for banks managers to place an emphasis on the underlying dimensions of service quality, especially on Assurance, and should start with improving service quality in order to raise customer satisfaction.

Middle Eastern Finance and Economics ISSN (2011); The aim of this research was to examine the level of service quality as perceived by customers of commercial bank working in Jordan and its effect customer satisfaction, Service quality measure is based on modified version of SERVQUAL as proposed by Parasuraman et al. (1988), which involve five dimensions of Service quality, namely Reliability, Responsiveness, Empathy, Assurance, and Tangibles. The results of this study indicated that service quality is an important antecedent of customer satisfaction. It is apparent from the present study that managers and decision makers in Jordanian commercial banks to seek and improve the elements of service quality that make the most significant contributions on customer satisfaction.

Shrestha (2011), submitted thesis on "Loan management of Everest Bank Ltd and Himalayan Bank Limited". The major recommendation is the liquidity position of sample bank should be able to meet the daily cash transaction. Bank should not invest all the deposit as loan. According to policy of NRB some percentages should be kept in the banks for fulfilling the required demand the customers. The standard liquidity ratio is 2:1.

In this research none of the sample bank are able to maintain the standard ratio. They may fail to maintain the daily cash transaction if they do not increase the liquidity ratio. The ratio of loans and advances and investment to total deposit of HBL is the lowest and this has result in the highest ratio of interest expenses to total deposit. At the same time total deposits to total fund utilized is below the average and there is high chance of growth in deposit as compare to loans and advances.

Jha & Hui (2012) concluded that though financial ratios analysis compares the financial performance among commercial banks, the same bank had different ranks under the different financial ratios. The ROAs of public sector banks were higher than those of joint venture and domestic public banks due to having utmost total assets but the overall performance of public sector banks was not observed sound because other financial ratios including ROE, CDR, and CAR of most of the joint venture and domestic public banks were found superior.

High overhead costs, political interventions, poor management and low quality of collateral created continued deterioration in the financial health of the public sector banks.

2.3 Concluding Remarks

A study of Canadian customers in Montreal, Laroche and Taylor (1988) found that convenience is the principal reason for bank selection, followed by parental influence with respect to the status of the bank. In contrast, Kaynak and Kucukemiroglu's (1992) study of the Hong Kong banking market discovered that customers choose their banks because of convenience, long association, recommendations of friends and relatives, and accessibility to credit.

Bista (2002), Joshi (2003) has given conclusion from the analysis of Financial Ratios. It states the liquidity position of the NABIL is in normal standard, the cash and the bank balance proportion with respect to the current assets is moderate, the loans and advances disbursement with respect to the current assets is high. In general, the liquidity position of the bank is good enough to meet the short term obligations. The activity ratios of NABIL indicate the creditors have invested more in the bank than the owners. The interest earned by the bank is inadequate in comparison to the assets, the net profit earned in comparison to the total deposit is relatively low, the net profit earned in comparison to the total assets is fluctuating, the profit earning in relation with the shareholder's equity of NABIL is better. In general, the profitability ratios of the bank indicate that the overall performance of the bank is effective in maximizing its wealth.

Dangol (2009) has done thesis entitled "Impact of Interest Rate on Financial performance of commercial banks" concludes with saying most of the commercial banks contradict the general financial theories. The relation between amount of deposits and interest rate on deposit, in general concept, must be positive. But deposits are increasing despite the decrease in the general level of interest. The result of such phenomenon is that there are fewer investment opportunities for the banking sectors as well as general investors. The relation between total amount of loan and the lending rate is negative and significant. However, the change in the total amount of loan flow is not proportionate with the change in the lending rate. Correlation between interest rate and inflation is not significant. Not only is interest rate responsible to shape the profitability of bank but also the operation efficiency also has major influences on it.

GautamaThaneshwor, Sanjaya Dhital (2004) stated that customers are more satisfied with the second- generation joint venture banks. To be more specific, customers were found satisfied with those banks where customers had to spend less time on waiting, and the employees' behavior was good. The study of the cases of NSBI and EVR apparently shows the reason behind it may be quite these two banks better in both the categories. Customers were also found satisfied with HBL but reason behind it might be quite different. Customers reported that they opened account in this bank because of its facilities like credit card, automatic teller machine etc. NB bank and BOK were also found good in fast-correct functioning. EVR, NB, NGB and BOK were found good in office environment. NSBI, NB, & EVR were found good in terms of customers waiting time. Almost these entire commercial banks except NGB fall under second-generation joint venture category. It is, therefore, safe to conclude that second generation banks are more successful in their customer satisfaction performance than the first generation and non-joint venture banks. However, they have less ability to serve poor Nepalese people and were also found less reliable for future.RBB, NBL, and one joint-venture bank- NGB were found strong on reliability ground. NBL, RBB, and NIB were found strong in terms of their services to the poor. It is, therefore, 16 ascertained that NBL and RBB are reliable and they are also serving the poor Nepalese people. They also resulted that the big-current account holders are the highest and the big-saving account holders are the lowest in number. The reason behind this may be the provision of official accounts that usually come under the second category. The differences between both accounts holders was found significant c2 (df=1, $p < 0.01$).It is, therefore, obvious that there are more official current account holders.

Chapter - III
Research Methodology

3.1 Introduction

Research methodology is a way to solve the research problem systematically. The research methodology is wider than that of research methods i.e. research methods are a part of research methodology. The research methodology considers the logic behind the methods used in the context of research study and explains why particular methods or technique is used. It also highlights about how the research problem has been defined, what data have been collected, what particular methods has been adopted, why the hypothesis has been formulated etc. "Research methodology" refers to the various sequential steps (along with a rationale, of each such step) to be adopted by a researcher in studying a problem with certain object/objects in view. So, it is the methods, steps and guidelines, which are to be followed in analysis, and it is a way presenting the collected data with meaningful analysis. "Research Methodology" is a way for systematically solving the research problem. In other words, research methodology indicates the methods and processes employed in the entire aspects of the study. Some important factors in research methodology include validity of research data, Ethics and the reliability of measures most of your work is finished by the time you finish the analysis of your data.

This chapter highlights about the methodology adopted in the process of this study. This chapter starts with the introduction & follows with research design in the second section. The third section describes the population & samples; the fourth section explains data collection procedure. The fifth section involves for data analysis procedure & the sixth section points out the limitations of the study. It also focuses about the sources and limitations of the data, which are used in the present study.

3.2 Research Design

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is a framework or plan for a study that guides the collection and analysis of the data. Research design is the overall plan for connecting the conceptual research problems to the pertinent empirical research. In other words, the research design articulates what data is required, what methods are going to be used to collect and analyze this data, and how all of this is going to answer your research question. Basically, Descriptive cum Analytical research design has been used in this study.

When choosing the study design the first decision is usually whether to conduct a descriptive or an analytical research study. If the study aims to gain more information about a subject and use this to generate theories or hypothesis, then a descriptive study may be used. However, if the study aims to actually test preplanned hypotheses, based on existing knowledge or findings, then it need to use an analytical research method. Further. Therefore, descriptive studies are usually opportunistic and unplanned. Analytical research is usually pre-planned and tests one or more prestated hypothesis. Such studies are usually motivated by one or more hypothesis generating studies. Thus, descriptive cum analytical research design has been used in this study.

3.3 Population and Sampling

Population is the universe about which the study has aimed to enquire and the. A population is any entire collection of people, organizations or things from which we may collect data. It is the entire group we are interested in, which we wish to describe or draw conclusions about. In order to make any generalizations about a population, a sample, that is meant to be representative of the population, is often studied. For each population there are many possible samples. A sample statistic gives information about a corresponding population parameter.

Sample is the representative of the population. A sample is a group of units selected from a larger group (the population). By studying the sample it is hoped to draw valid conclusions about the larger group. A sample is generally selected for study because the population is too large to study in its entirety. The sample should be representative of the general population. This is often best achieved by random sampling.

The Bank in Nepal has very unique characteristics. Now, a day, a number of commercial bank has emerging rapidly. Some have established and other is in the process of establishment. The study of all the banks within this research was almost impossible. Hence, considering these numbers of banks as total population, 1 bank has been taken as a sample and tried to achieve the objective set out by analyzing the data.

In Nepal, we have 3 Public Banks and 28 Private Banks out of which 7 are joint Venture Banks. The financial health of the public banks was very poor and thus a reform program was initiated in these two banks under the Financial Sector Reform Project with the aid of the World Bank.

Banks

1. Agriculture Development Bank Ltd
2. Bank of Asia Nepal Ltd
3. Bank of Kathmandu Ltd
4. Century Commercial Bank Ltd
5. Citizens Bank International Ltd
6. Civil Bank Ltd
7. Commerz and trust Bank Nepal Ltd
8. Development Credit Bank Ltd
9. Everest Bank Ltd
10. Global Bank Ltd
11. Himalayan Bank Ltd
12. Janata Bank Nepal Ltd
13. Kist Bank Ltd
14. Kumari Bank Ltd
15. Laxmi Bank Ltd
16. Lumbini Bank Ltd
17. Machhapuchhre Bank Ltd
18. Mega Bank Nepal Ltd
19. Nabil Bank Ltd
20. Nepal Credit and Commerce Bank Ltd
21. Nepal Bangladesh Bank Ltd
22. Nepal Bank Ltd
23. Nepal Investment Bank Ltd
24. Nepal SBI Bank Ltd
25. Nepal Industrial and Commercial Bank Ltd
26. NMB Bank Ltd
27. Prime Commercial Bank Ltd
28. Rastriya Banijya Bank Ltd
29. Siddhartha Bank Ltd
30. Standard Charted Bank Ltd
31. Sunrise Bank Ltd.

As mentioned above, there are 31 commercial banks operating in Nepal. The study is made on SCBNL and the 7 years data is taken as a sample to examine the financial performance of the bank throughout the whole period.

3.4 Sources of Data and Data Collection Procedure

Data collection is any process of preparing and collecting data, for example, as part of a process improvement or similar project. A formal data collection process is necessary as it ensures that data gathered are both defined and accurate and that subsequent decisions based on arguments embodied in the findings are valid. The process provides both a baseline from which to measure from and in certain cases a target on what to improve. The purpose of data collection is to obtain information to keep on record, to make decisions about important issues, or to pass information on to others. Data are primarily collected to provide information regarding a specific topic. There are different ways through which you can collect data depending, upon whether it is primary or secondary data or whether it is quantitative or qualitative data. The most common procedures used for data collection are:

a) Primary Data Collection: This data can be collected through Questionnaire, Open ended Interviews, Focus Group Discussion, observation
b) Secondary Data Collection: Secondary data collection is basically collecting data from documents, records and reports of others.

Data collection usually takes place early on in an improvement project, and is often formalized through a data collection plan which often contains the following activity.

1. Pre collection activity — agree on goals, target data, definitions, methods
2. Collection — data collection
3. Present Findings — usually involves some form of sorting analysis and/or presentation

This study is based on both primary & secondary source of data provided by SCBNL. The primary data will be collected from the respondent through discussion, questionnaire etc. The secondary data has been collected from annual reports, prospectus, publications, journals and magazines etc. It constitutes mostly the prospects of the company and audited annual reports that contain balance sheet and profit and loss a/c. Other supplementary data and information have been obtained from various sources such as Nepal Rastra Bank, TU central library, previous dissertations, other publications and web-sites. Here the major source of data is Annual report of Standard Charted Bank Nepal Ltd.The accuracy of data depends on the data provided by the annual report.

The data is collected for fiscal year 2007/2008 – 2011/12. Here mostly secondary data has been used and some primary data has also been used to analyze customer satisfaction.

3.5 Data Analysis Procedure

Presentation and analysis of the collected data is one of the important part of the research work. Data collected from different sources will be in raw form and in the initial stage as judging independently does not help much. The collected raw data are first presented in systematic manner in tabular forms and then analyzed by applying different financial and statistical tools to achieve the research objective.

3.5.1 Financial Tools

As the study is related to financial performance analysis, analyzing financial tools are more useful to identify the financial strength and weakness of the firm inspite of various financial tools available the research has primarily stressed on ratio analysis assuming in the most suitable tools.

Financial ratios are an excellent way of determining the health of a business based on its financial performance. Ratios enable managers to make educated decisions on the future of their businesses depending on their status in the present. Financial ratios are unbiased, impartial measures of a business' success, which make them invaluable to analysts.

There are some specific financial ratios that use to examine the financial performance of the bank. These ratios include the following:

1. Liquidity Ratio
2. Activity Ratio
3. Capital Adequacy Ratio
4. Profitability Ratio
5. Assets Turn over Ratio

Liquidity Ratio

We can define liquidity ratio as a tool, which explain how well a business is able to meet its short-term financial obligations. Those lending the business money are often interested in this ratio because it lets them know how likely the business is to pay them back on time. There must be balance between high degree and low degree of liquidity. Important liquidity ratios have been used in the study as listed below:

a) **The current ratio**: The current ratio is the ratio of Total current assets to Total liabilities. Current ratio measures the short- term solvency, i.e. its ability is to meet short term obligation.

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

Quick Ratio = $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liability}}$

b) Cash and Bank balance to Total Deposit Ratio: Cash and Bank balance to Total deposits ratio measures the capacity of bank to meet unexpected demand made by depositors, i.e. current account holders, saving depositors, and other depositors. The ratio is calculated by using the following formula:

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

c) Fixed Deposit to Total Deposits: Fixed deposit is a long term and high interest bearing deposit. More fixed deposit may be an advantage if it can be invested in long term credit. This ratio is calculated in order to find out the proportion of fixed deposit in total deposit. Fixed deposits are long term deposit and bank can mobilize them on investment, loans and advances. It is calculated by dividing total fixed deposit by total deposit.

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

d) Saving Deposit to Total Deposit Ratio: Saving deposit is short term interest bearing deposit and it has medium rate of interest. It can be withdrawn without prior notice or with short notice. This ratio shows the proportion of saving deposit on total deposits. It is calculated as:

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

Activity Ratio

Activity ratio is concerned with measuring the efficiency in its assets management. The ratio measures the degree of effective use of resources of a firm. The ratios used under activity ratio are as follows:

a) Loan and Advance to Total Deposit Ratio

This ratio measures the bank's ability to mobilize the depositors fund to earn profit by providing loans and advances. The ratio is calculated by dividing loans and advances by total deposits.

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

b) Loan and Advance to total Assets Ratio

Loan and Advances to total assets ratio reflects the extent to which the bank is successful in mobilizing its assets on loan and advances for the purpose of income generating. It is calculated as:

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

c) Investment to Total Deposit Ratio

This ratio presents how efficiently the resources the bank have been utilized. High ratio shows managerial efficiency regarding the utilization of deposits and vice versa. The numerator includes government's treasury bills, developing bonds, company shares and other investments. It is calculated as:

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

Capital Adequacy Ratio

Capital is important for an organization to maintain every facility. Holding excess capital that required have higher holding cost and low return from investment, similarly holding too little capital may have inefficient in paying liabilities of a firm. So, a firm should maintain an optimum level of cash. The ratios used under capital adequacy ratio are as follows:

a) Net Worth to Total Assets Ratio

This ratio reflects the sufficiency of shareholder's fund against the total assets. This ratio is calculated as follow:

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

b) Net Worth to Total Deposit Ratio

It indicates the percentage of net worth in relations to the total deposits collected in the bank. The direction of the central bank has maintained or not by the bank, is the yardstick to measure the position.

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

Profitability Ratio

Profitability ratio measure how well a business can make a profit and it is the main goal of all organization. Its existence is not justified if it fails to make sufficient profit. Therefore, the company should continuously evaluate the efficiency of the company in terms of profit. This ratio is calculated as follow:

a) Return on Equity Capital (ROE)

ROE is a measure of the rate of return flowing to the bank's shareholders. It approximates the net benefit that the stockholders have received from investing their capital in the bank. Equity capital includes paid up equity, profit and loss account, various reserve, general loan, loss provision etc. To predict and observe the ratio following equation is used:

$$= \frac{\text{Net income after taxes}}{\text{Total equity capital}}$$

ROE = NPM X AU X EM

As the break down analysis of a bank's Return on Equity, following equations are considered for specific ratios:

(i) Net Profit Margin [NPM]:

NPM reflects effectiveness of expense management (cost control) and service pricing policies. It is the ratio of net income to total revenues.

$$= \frac{\text{Net income after taxes}}{\text{Total operating revenues}}$$

(ii) Asset Utilization [AU]

It reflects portfolio management policies, especially the mix and yield on the bank's asset. The bank's degree of assets utilization is the ratio of operating revenues to total assets. It is the ratio of a bank's operating revenue to total assets.

$$= \frac{\text{Total operating revenues}}{\text{Total assets}}$$

(iii) Equity Multiplier [EM]

Equity multiplier is assets-to-equity-capital ratio. The multiplier is a direct measure of the bank's degree of financial leverage. It represents financial risk of the bank. However, the larger the multiplier, the greater the bank's potential for high returns for its stockholders.

$$= \frac{\text{Total Assets}}{\text{Total equity capital accounts}}$$

b) Return on Assets (ROA)

The effectiveness in using the total fund supplied by the owners and creditors is judged by this ratio. Higher ratio shows the higher return on assets used in business thereby indicating effective use of the resources available and vice-versa.

$$\text{RoA} = \frac{\text{Net profit after taxes (NPAT)}}{\text{Total assets}}$$

c) Return on Total Deposits Ratio (RTDR)

This ratio measures the level of NPAT by using total deposits. It measures the relationship between NPAT and total deposits with an ability of a firm to utilize maximum of deposits to earn much profit. This ratio is computed as follow:

$$\text{RDTR} = \frac{\text{Net profit after taxes (NPAT)}}{\text{Total Deposit}}$$

d) Interest Income to Total Assets Ratio

This ratio shows how much interest has been generated by mobilizing the assets in the bank. Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa.

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

e) Interest Expenses to Interest Income Ratio

It revels the proportionate relationship between interest paid on different liabilities and interest income from different source. Higher ratio indicates that the bank has paid higher amount of interest on liabilities in relation to interest income.

$$\text{Interest Paid to Interest Income} = \frac{\text{Total Interest Expenses}}{\text{TotalInterest Income}}$$

f) Earning Per Share

The profitability of the common shareholders investment can also be measured in term of earning per share. The earnings per share are calculated as follow:

$$\text{EPS} = \frac{\text{Net profit after taxes (NPAT)}}{\text{No.of Common Shares}}$$

g) Dividend Per Share

This ratio shows per rupee earning actually distributed to common stock holders per share held by them. High ratio is favorable for the shareholders. It is calculated as follow:

$$\text{DPS} = \frac{\text{Total Dividend Paid}}{\text{No.of Common Shares}}$$

h) Dividend Payout Ratio

It indicates the percentage amount of dividend paid to shareholders out of earning per share, i.e. this ratio reflects at what percentage of net profit is to be retained in company as retained earnings. This ratio is calculated as:

$$\text{Dividend Payout Ratio} = \frac{\text{DPS}}{\text{EPS}}$$

3.5.2 Statistical Tools

Statistical tools are used in the analysis of data pertaining to economic activities such as production, consumption, distribution, banking and insurance, trade, transport etc.For presentation & analysis, the collected numerical data has to be classified and tabulated for statistical inquiry. For these, different types of statistical tools are used. Thus during the process of data analysis, descriptive statistics, arithmetic mean, correlations, and regressions have been used to measure the financial performance of banks. In this study, statistical parameters are calculated with the help of computer via data analysis tool pack of Microsoft Excel & SPSS 13.0.

Descriptive Statistics

The descriptive statistics are pertinent tools to have an idea of distributions of the variables and it helps to characterize the set of data. The main aim of descriptive statistics is to provide an accurate and valid representation of the factors or variables that pertain/ are relevant to research question. Some of the most commonly used descriptive statistics like minimum values, maximum values, mean, standard deviation, co-efficient of correlation have been used in this study, along with different graphs.

a) Arithmetic Mean

AM is a given set of observations divided by the number of observations. In such case, all the items are equally important.

Mean ($\bar{X}$) = $\frac{\sum X}{n}$

Where $\sum X$ = sum of all values of the observations

n = Number of observation

X = Value of variables

b) Standard deviation

To overcome the problem of dealing with squared units, statisticians take the square root of the variance to get the standard deviation.

The standard deviation is defined symbolically as:

$$s = \sqrt{\text{var}} = \sqrt{\frac{\Sigma\left(X - \overline{X}\right)^2}{N-1}}$$

c) Correlation

A very important part of statistics is describing the relationship between two (or more) variables. One of the most fundamental concepts in research, whether in psychological science or some other field, is the concept of correlation. If two variables are correlated, this means that you can use information about one variable to predict the values of the other variable.

- **Karl Pearson's Co-efficient of Correlation**

Out of several mathematical method of measuring correlation, the Karl Person's coefficient of Correlation is mostly used in practice to measure the degree of relationship between two variables. It can have value between -1 and 1.

The larger r, the stronger the association between the two variables and more accurately one can predict one variable from knowledge of the other variable. At its extreme, a correlation of 1 or -1 means that the two variables are perfectly correlated, meaning that it can predict the values of one variable from the values of the other variable with perfect accuracy. At the other extreme, an r of zero implies an absence of a correlation, there is no relationship between the two variables. This implies that knowledge of one variable gives you absolutely no information about what the value of the other variable is likely to be. It is measured by following formula using two variables of series X and Y.

$$R = \frac{\sum xy}{\sqrt{\sum x^2 \sqrt{\sum y^2}}}$$

Where,

X and y = variables

r = correlation coefficient between variables X and Y

$\sum xy$ = summation of multiple of mean deviation of variables X and Y

$\sum x2$ = summation of mean deviation squared of variable X

$\sum y2$ = summation of mean deviation squared of variable

- **Probable Error of Correlation**

  Probable error of correlation is an old method of testing the reliability of an observation value of correlation coefficient. It is calculated to find the extent to which correlation coefficient is dependable as it depends upon the condition of random sampling probable error of correlation coefficient denoted by P.E (r) is obtained as

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

Where,

r = the value of correlation coefficient

n= number of pairs of observation

P.E. (r) is less than its P.E, it is insignificant and i.e. there is no evidence of correlation. If (r) is more than its 6 P.E. (r> 6P.E.), it is significant or there is correlation.

d) Regression

Regression analysis is a statistical technique for studying linear relationships. It is also used for prediction. The goal of regression analysis is to determine the values of parameters for a function that causes the function to best fit a set of data observations that is provided. Linear regression, the function is a linear (straight-line) equation and its being by supposing a general form for the relationship known as a regression model.

3.5.3 Model

When the performance of Bank is examined, bank size- usually measured by total assets or total deposits – becomes a critical factor. Broader gauge of profitability for banks include ratios for measuring performance returns on utilized assets and capital (A.M. Best – 2005)

Specifically, Du Pont model is based on the Du Pont analysis model of financial performance. So, to examine the bank's performance over time, following basic models has been used:

ROA = (NPM) (AU)……………………………………….. (i)

ROE = (ROA) (EM)………………………………………… (ii)

Combining the equations (i) & (ii), equation (iii) can be formed as extended Du Pont equation.

ROE = (NPM) (AU)(EM)……………………………….(iii)

Thus, specifically this study is based on the Du Pont approach model and the relationship of aforementioned equations (i) (ii), and (iii) is presented as following model drawing.

Again, aforementioned equation (iii) and model drawing there of is elaborated as equation (iv) to analyze the performance of the bank in detail.

$$\text{ROE}=\frac{NP}{TOR} X \frac{\text{TOR}}{TA} X \frac{\text{TA}}{TE} \text{……………………………(iv)}$$

Econometric Model

Econometric models are statistical model used in econometrics. An econometric model specifies the statistical relationship that is believed to hold between the various economic quantities pertaining to a particular economic phenomenon under study. An econometric model can be derived from a deterministic economic model by allowing for uncertainty, or from an economic model which itself is stochastic. However, it is also possible to use econometric model that are not tied to any specific economic theory.

The study examines the effect of bank specific variables on:

$$ROA = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 + \sum \ldots\ldots\ldots\ldots \quad (1)$$

$$ROE = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 + \sum \ldots\ldots\ldots\ldots \quad (2)$$

Where X_1 –CAR (Tier 1 Capital + Tier 2 Capital/ risk weighted assets), X_2- NPL (non-performing loans/total loans), X_3- IETTL – Interest expense/ total loans, X_4 – NIM- Net interest margin, X_5 – CDR- credit to deposit ratio.

In the previous equation, B_0 is constant and B is coefficient of variables while $\sum$ is residual error of the regression. All estimations have been performed in the SPSS software programme whereas the ordinary calculations in excel.

Variables specifications & Hypothesis

The variables considered for analysis include ROA & ROE (profitability ratio) as dependent variables which each examines separately with same explanatory independent variables CAR, NPL, IETTL, d NIM & CDR.

Dependent Variables

a) Return on Assets (ROA)

The effectiveness in using the total fund supplied by the owners and creditors is judged by this ratio. Higher ratio shows the higher return on assets used in business thereby indicating effective use of the resources available and vice-versa.

$$RoA = \frac{Net\ profit\ after\ taxes\ (NPAT)}{Total\ assets}$$

b) Return on Equity

ROE is a measure of the rate of return flowing to the bank's shareholders. It approximates the net benefit that the stockholders have received from investing their capital in the bank. Equity capital includes paid up equity, profit and loss account, various reserve, general loan, loss provision etc.To predict and observe the ratio following equation is used:

$$RoE = \frac{Net\ income\ after\ taxes}{Total\ equity\ capital}$$

Independent Variables

a) Capital Adequacy Ratio

Capital adequacy ratio is the ratio which determines the capacity of a bank in terms of meeting the time liabilities and other risk such as credit risk, market risk, operational risk, and others. It is a measure of how much capital is used to support the banks' risk assets. It is calculated by:

CAR = $\frac{Capital}{Risk}$ = $\frac{Tier\ 1 + Tier2\ capital}{risk\ weighted\ Assets}$* 100%

Hypothesis: There is a significant relationship between capital adequacy ratios and performance of the banks.

Two types of capital are measured for this calculation. Tier 1 capital is the capital in the bank's balance sheet that can absorb losses without a bank being required to cease trading. Tier 2 capital can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors.

- **Tier 1 Capital**

  A term used to describe the capital adequacy of a bank. Tier I capital is core capital. this includes equity capital and disclosed reserves. Equity capital includes instruments that can't be redeemed at the option of the holder

- **Tier 2 Capital**

  Tier 2 capital is a supplementary capital; include a number of important and legitimate constituents of a bank's capital base. These forms of banking capital were largely standardized in the BaselI accord, issued by the Basel Committee on Banking Supervision and left untouched by the Basel II accord. National regulators of most countries around the world have implemented these standards in local legislation. In the calculation of regulatory capital, Tier 2 is limited to 100% of Tier 1 capital.

- **Risk Weighted Asset**

  Risk weighted assets is a measure of the amount of a banks assets, adjusted for risk. The nature of a bank's business means it is usual for almost all of a bank's assets will consist of loans to customers. Comparing the amount of capital a bank has with the amount of its assets gives a measure of how able the bank is to absorb losses. If its capital is 10% of its assets, then it can lose 10% of its assets without becoming insolvent**.** By adjusting the amount of each loan for an estimate of how risky it is, we can transform this percentage into a rough measure of the financial stability of a bank. It is not a particularly accurate measure because of the difficulties involved in estimating these risks. These difficulties are exacerbated by the motivation banks have to distort it.

b) Non performing loan ratio (NPL)

A sum of borrowed money upon which the debtor has not made his or her scheduled payments for at least 90 days. A nonperforming loan is either in default or close to being in default. Once a loan is nonperforming, the odds that it will be repaid in full are considered to be substantially lower. If the debtor starts making payments again on a nonperforming loan, it becomes a reperforming loan, even if the debtor has not caught up on all the missed payments. It is calculated as:

$$\text{NPL}= \frac{\text{non performing loan}}{\textit{Total Loan}}$$

Hypothesis: There is a significant relationship between assets quality ratios and performance of a bank

c) Interest expense to Total Loan (IETTL):

Interest expense is the cost of debt that has occurred during a specified period of time. Higher the IETTL, more efficient the bank is considered to be. It is calculated as:

$$\text{IETTL} = \frac{\text{Interest expense}}{\textit{Total Loan}}$$

d) Net Interest Margin (NIM):

Net interest margin is the interest income earned on assets less interest expense paid on liabilities and capital. Net interest margin is the gross margin for financial institutions. It is calculated as:

$$\text{Net Interest Margin} = \frac{(\text{Interest Received} - \text{Interest Paid})}{\text{Average Invested Assets}} = \frac{(\text{Net Interset Income})}{\text{Average Invested Assets}}$$

It is always expressed as a percentage.

Hypothesis: There is a significant relationship between earning ratios and performance of a bank.

e) Credit to Deposit Ratio (CDR)

The credit to deposit ratio (CDR) is a major tool to examine the liquidity of a bank and measures the ratio of fund that a bank has utilized in credit out of the deposit total collected. Higher the CDR, more the effectiveness of the bank to utilize the fund it collect. It is calculated as:

$$\text{CDR} = \frac{\text{Credit/loan}}{deposits}$$

It is also expressed in percentage.

Hypothesis: There is a significant relationship between liquidity ratios and performance of a bank.

All these ratios would help to indicate the condition of capital, assets quality, management, and earning and liquidity position of SCB.

Chapter- IV
Presentation and Analysis of Data

4.1 Introduction

The basic objective of analyzing the financial performance and interpretation is to highlight the strength and weakness of the business. This chapter presents relevant financial data and analysis has been made with different financial ratio as well as statistical tools as proposed. Accordingly, this chapter has been divided into four basic sections. A section 1 is concentrated to describe the data with the help of descriptive statistics. Section 2 analyzes different financial ratios using the variables fixed by Du Pont model. Relevant financial data are computed from the collected secondary data of SCBNL to assess the financial performances. Percentage relatives (Indexes) and different graph charts has been used to proceed this section. Section 3 describes the econometric model that examines the effect of bank's specific variables on ROA & ROE. Correlation and Regression results are also presented and interpreted in this section. Finally section 4 is allocated for listing and discussion of major findings of the study.

4.2 Descriptive Statistics and Financial Analysis:

Descriptive Statistics

Since the descriptive statistics are pertinent tools to have ideas of distributions of the variables, some of the most frequently used statistics like mean, standard deviation, coefficient of variations, minimum values and maximum values have been used to support to attain the purpose of this study. Table presents descriptive statistics of the variables that are used to analyze financial performance of SCBNL through Du Pont approach. Descriptive statistics results are presented in Table 4.1

Table 4.1
Descriptive Statistics of Variables used in Du Pont Model to analyze profitability

Variables	Mean	SD	CV	Min	Max
NPM	0.465	0.028	0.060	0.443	0.519
AU	0.056	0.004	0.069	0.052	0.063
ROA	0.026	0.001	0.047	0.025	0.028
EM	11.613	1.683	0.145	8.763	13.374
ROE	0.302	0.035	0.115	0.246	0.336

Source: Annual Report of SCBNL

Table 4.1 provides average values of the different major variables that are focused in the study along with standard deviation and coefficient of variations. In addition, the table also contains minimum and maximum ratios. The mean value of NPM (measured as the ratio of net profit to total operating revenue) is 0.465 %, whearse AU (measured as the ratio of total operating revenue to total assets) is 0.056%. As a combined (multiplied) result of NPM and AU, the third row of table RoA (measured as the ratio of net profit to total asset) is 0.026%. These mean ratios indicate that, to generate ROA of SCBNL, the role of NPM is observed more than double of AU. The mean value of EM (measured as the ratio of total asset to total equity and expressed as times) is 11.613. It is a financial leverage that magnifies ROE from ROA. The mean value of ROE (measured as the ratio of net profit to total equity or ROA times EM) is 0.302%.Thus from the table equity multiplier is found as a strong determinant to build up significant ROE.

However, the minimum ROE 0.246% to a maximum of 0.336% have been observed in the study period. This can also be observed with the values of the standard deviation and coefficient of variations. The standard deviation of the distribution of ROE is 0.035 & coefficient of variation is 0.115. These represent the state of earning risk of SCBNL. Similarly, the case of NPM is also observed in the same line. The minimum NPM is 0.443% to a maximum 0.519% have been observed in the study period. The volatility can also be observed with the respective standard deviation and coefficient of variation .The standard deviation of the distribution of NPM is 0.028 and coefficient of variation is 0.060. This figures justifies the earning risk in the same manner as ROE whereas, the variation in other determinants of return on equity and AU have been observed higher than NPM. Coefficient of variation of AU and EM are observed 0.069 & 0.145 respectively. From the descriptive statistics as presented in table 4.1, relatively more consistency is observed in ROA of SCBNL. The minimum ROA is 0.025% to maximum of 0.028% have been observed in the study period. This can also be observed with the values of the standard deviation and coefficient of variations. The standard deviations of the distribution of ROA is 0.001 and coefficient of variation is 0.047.Thus earning risk in respect of return on asset has been observed relatively lower than that of return on equity.

As the change in the figures of income statement variables and total assets over the years, return on assets of the bank use to change obviously. To analyze ROA with breakdown, as important part of Du Pont equation, Table 4.2 presents descriptive statistics of the relevant segregated data. Descriptive statistics results presented in table 4.2 are computed from the 5 yrs respective data of SCBNL from the fiscal year 2007/2008 to 2011/2012.

Table 4.2
Descriptive Statistics of Breakdowns of ROA of SCBNL

Variables	Mean	SD	CV	Min	Max
Interest Inc. to TA	0.037	0.004	0.111	0.034	0.045
Interest Exp. to TA	0.018	0.005	0.26	0.014	0.024
Interest Margin to TA	0.019	0.020	0.022	0.016	0.021
Provision for staff bonus to TA	0.0037	0.00016	0.042	0.0036	0.004
Provision for income tax to TA	0.011	0.0004	0.038	0.011	0.012
Provision for staff expenses to TA	0.008	0.0011	0.139	0.006	0.009
Provision for possible loss to TA	0.0025	0.0013	0.523	0.001	0.005

Source: Annual Report of SCBNL

Table 4.2 provides average values of different part and partials that are concerned with ROA of SCBNL along with standard deviation and coefficient of variations. In addition, the table also contains corresponding minimum and maximum ratios. The mean value of interest income to total assets is 0.037%, whereas interest expense to total asset is 0.018%. As a spread between these two, the mean value of interest margin to total asset is observed 0.019%.Thus, excess of Interest income to total assets over interest expenses to total assets is observed higher. It has important role to build up NPM of SCBNL and which support to increase ROA. The mean value of provision for staff bonus to total assets is observed 0.0037%, similarly average value for income tax, staff expenses, possible loss to TA are 0.011, 0.008, and 0.0025 respectively.

In comparison to interest expenses, interest income has been observed consistent. Coefficient of variation in interest expense to TA is 0.26% whereas it is only 0.111% in interest income to TA. As a result, the coefficient of variation in interest margin to TA is observed in balance position. This is only 0.022%. Provision for possible loan loss to TA has been observed as a volatile issue. The coefficient of variation of this provision is observed 0.523%. Relative to other provision it is much higher.

Financial Ratio and Analysis

For financial analysis, various tools are used to compute the ratio. These ratios are computed from balance sheet and profit and loss account. Following ratios are used for financial analysis:

Liquidity Ratio

The purpose of this ratio is to test the solvency position for the repayment of short term liabilities. Solvency position or liquidity denotes ability for payment of short term liabilities. Liquidity ratios are used to indicate the ability of the subject firm to pay it bill on time. It measures the speed with which bank assets can be converted into cash to meet deposit withdrawal and other current obligations.

Under Liquidity ratio, following ratios are calculated and tested.

a) Current Ratio

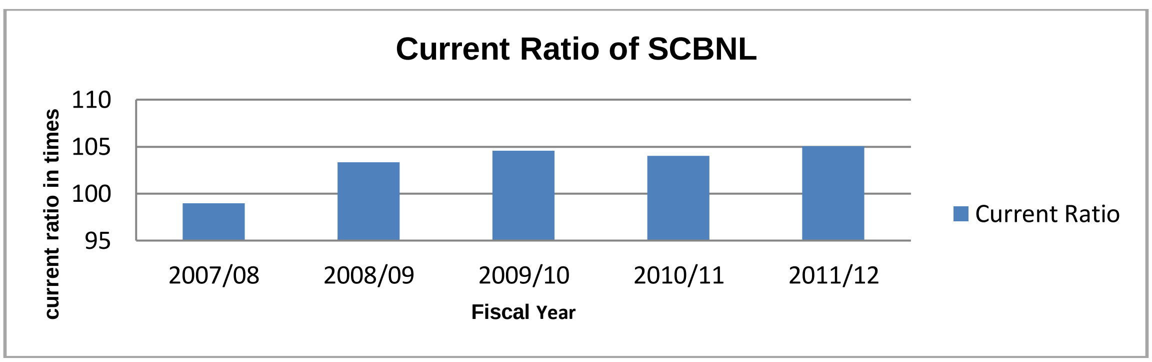
The current ratio is a measure of the firm's short-term solvency. Current ratio of 2:1 or more is generally considered satisfactory

Table 4.3
Current Ratio of SCBNL (in '000)

Year	Current Assets	Current Liabilities	Ratio (in times)
2007/08	31,869,197	32,211,578	0.98
2008/09	39,108,590	37848530	1.03
2009/10	39,521,115	37802560	1.04
2010/11	42,942,637	41,287,901	1.04
2011/2012	41,006,452	39047060	1.05
Mean			**1.03**

Source: Annual Report of SCBNL

Fig: 1
Bar Diagram of Current Ratio



The average current ratio of SCBNL in 5 fiscal years is 1.03:1.The current ratio of the SCBNL seems to be consistent in fiscal years. We can conclude that current ratio of bank is below the standard of 2:1. However, the acceptability of the ratio depends on nature of its business. The ratio maintained by banks at the level of around 1:1 can be regarded as good and sufficient to meet the normal contingencies. Therefore the above current analysis of the bank over 5 year's period shows the bank has satisfactory liquidity position.

b) Cash & Bank Balance to Total Deposit

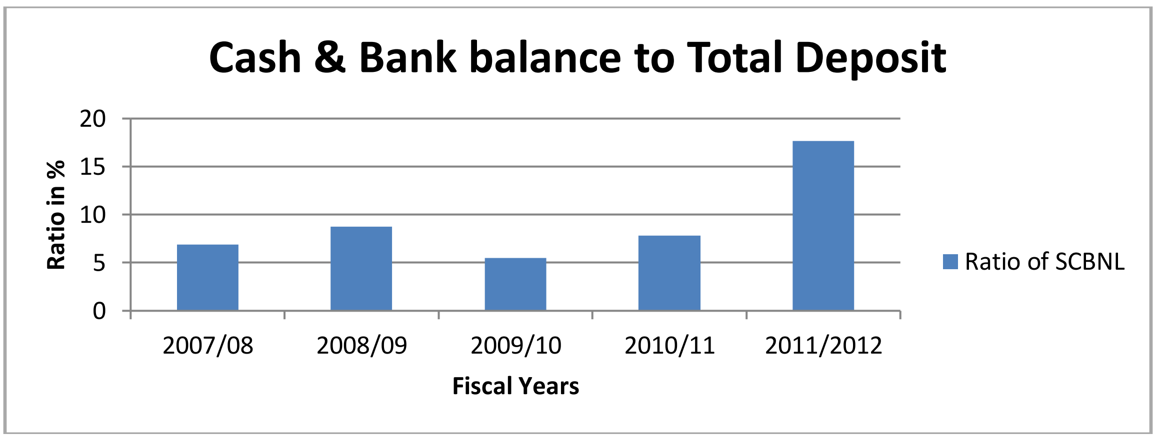
Adequate liquidity is also must in the banking sector in order to protect its solvency and to honor its short-term obligations and liabilities. Failing to do so, bank might have gone for liquidation and hence to protect the creditor's interest.

Table 4.4
Cash & Bank Balance to Total Deposit Ratio of SCBNL (in '000)

Year	Cash & Bank Balance	Total Deposit	Ratio %
2007/08	2,050,241	29,744,001	6.89
2008/09	3,137,163	35,971,723	8.74
2009/10	1,929,306	35,182,721	5.48
2010/11	2,975,795	37,999,242	7.83
2011/2012	6,366,233	35,965,630	17.70
Mean			**9.33%**

Source: Annual Report of SCBNL

Fig: 2
Bar Diagram of Cash & Bank Balance to Total Deposit Ratio of SCBNL



The average cash and bank balance to total deposit ratio is 9.33%. From table 4.4 & fig , it is seen that in fiscal year 2011/12, the ratio is highest compare to previous years which means that in 2011/12, SCBNL kept highest cash reserve than in previous years. Cash reserve was lowest in 2007/08. Thus liquidity position was good in 2011/12.

c) Fixed Deposit to Total Deposit

In this study, fixed deposits include only the amount of fixed deposit accounts. It has fixed time period to mature. Total deposits includes saving deposit, current deposits, fixed deposit, call deposits and other deposits.

Table 4.5

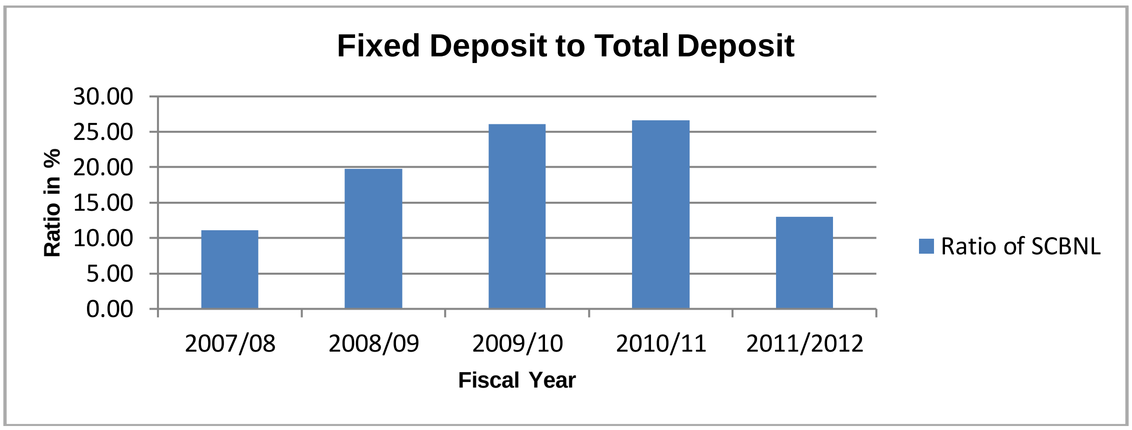
Fixed Deposit to Total Deposit Ratio of SCBNL (in '000)

Year	Fixed Deposit	Total Deposit	Ratio (%)
2007/08	3301013	29,744,001	11.10
2008/09	7101702	35,971,723	19.80
2009/10	9175070	35,182,721	26.07
2010/11	10136244	37,999,242	26.67
2011/2012	4661260	35,965,630	12.96
Mean			**19.32%**

Source: Annual Report of SCBNL

Fig -3

Bar Diagram of Fixed Deposit to Total Deposit Ratio of SCBNL



The table 4.5 showed the ratio of fixed deposit to total deposit of SCBNL is 11.10%,19.80%,26.07%,26.67%,12.96% in the fiscal year 2007/08,2008/09,2009/10,2010/11, 2011/12 respectively. The average ratio of fixed deposit to total deposit is 19.32% in fiscal 5 years. Higher proportion of fixed deposit to total deposit is seen in 2010/11 compared to other years. For graph we can see that fiscal year 2010/11 remained more successful in maintaining fixed deposit to total deposit ratio and hence mobilized higher portion of total deposit in investment.

d) Saving Deposit to Total Deposit

Saving deposit includes only the amount of saving deposit account. It has lower interest rate than fixed deposit. Generally, short-term deposit is not beneficial to the bank, as it cannot be invested on long-term basis. Therefore, lower ratio shows higher short-term liquidity position of the bank.

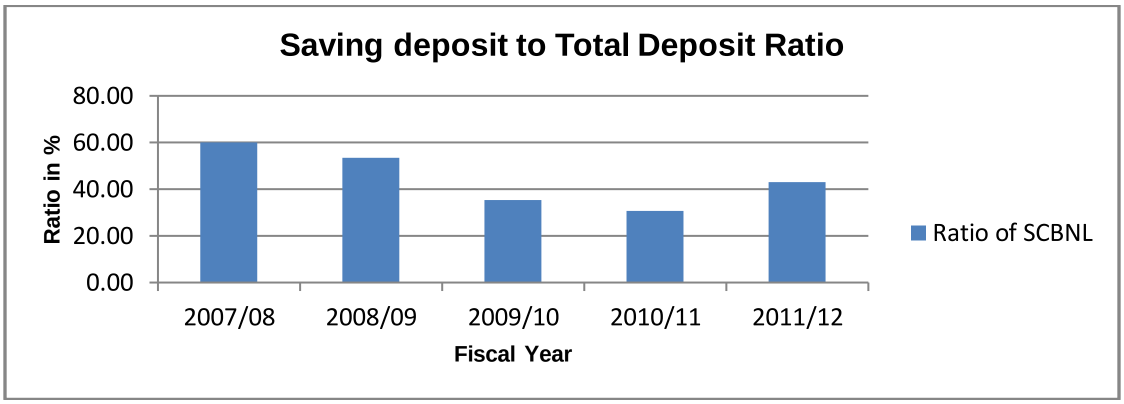
Table 4.6
Saving Deposit to Total Deposit Ratio of SCBNL

in '000

Year	Saving Deposit	Total Deposit	Ratio (in times)
2007/08	17,856,132	29,744,001	60.03
2008/09	19,146,001	35,971,723	53.37
2009/10	12,430,012	35,182,721	35.32
2010/11	11,619,814	37,999,242	30.57
2011/2012	15,502,306	35,965,630	43.10
Mean			**44.48**

Source: Annual Report of SCBNL

Fig -4
Bar Diagram of Saving Deposit to Total Deposit Ratio of SCBNL



The ratio of saving deposit to total deposit in fiscal year 2007/08, 2008/09, 2009/10, 2010/11, 2011/12 is 60.03%, 53.37%, 35.32%, 30.57%, 43.10% respectively. The average saving to total deposit ratio in fiscal 5 years is 44.78%. It can be concluded that the ratios are varying in 5 fiscal years; i.e. highest in 2007/08 and lowest in 2011/2012.The liquidity position was good in 2007/08 & was worst in 2010/11 and improved little in 2011/12.

Activity Ratio

Activity ratio are employed to evaluate the efficiency with which the firm managers and utilizes its asses. These ratios are also called turnover/asset management ratio because they indicate the speed with which assets are being converted or turned over into sales. Activity ratios, thus involves a relationship between sales and assets. We can say that activity ratios show the working efficiency of the assets to measure sales. Higher the ratio is an indicator of improved efficiency of resources and lower the ratio is an indicator of inefficiency of resources for sales activities.

Under Activity ratio, following ratios are calculated.

a) Loan and Advances to Total deposit Ratio

This ratio measures the bank's ability to mobilize the depositor's fund to earn profit by providing loans and advances. A high ratio indicates higher efficiency to utilize depositor's fund and low ratio indicates bank's inability to efficiency utilize the depositor's fund.

Table 4.7

Loan and Advances to Total Deposit Ratio of SCBNL (in '000)

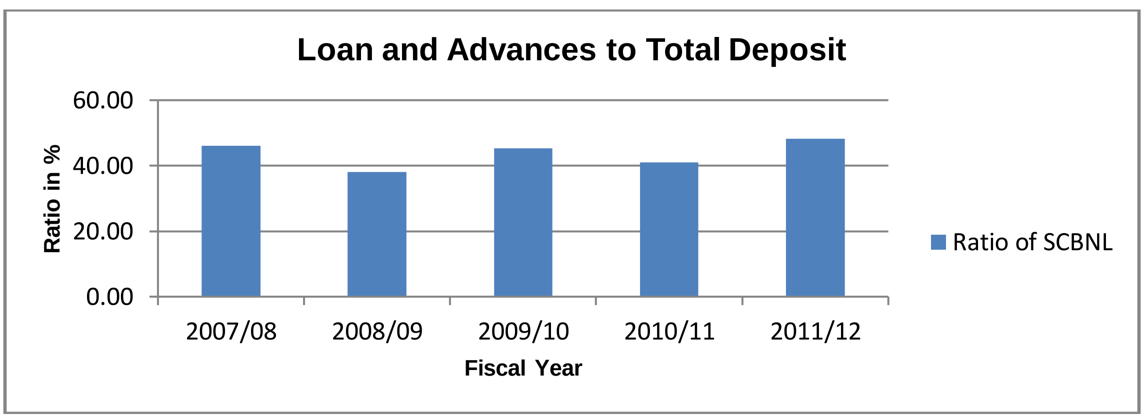
Year	Loan & Advances	Total Deposit	Ratio%
2007/08	13,718,601	29,744,001	46.12
2008/09	13,679,761	35,971,723	38.13
2009/10	15,956,955	35,182,721	45.35
2010/11	15,579,854	37,999,242	41.00
2011/2012	17,333,639	35,965,630	48.19
Mean			**43.76 %**

Source: Annual Report of SCBNL

The average loan and advances to total deposit ratio of SCBNL is 43.76% in fiscal 5 years. From the tables 4.7 & fig-5, it can be concluded that SCBNL has higher efficiency to utilize depositor's fund in 2011/12 and it was very low in 2008/09.

Fig -5

Bar Diagram of Loan and advances to Total Deposit Ratio of SCBNL



b) Loan and Advances to Total Asset Ratio

Loan and advances to total asset ratio reflects the extent to which the bank is successful in mobilizing its total assets on loan and advance for the purpose of income generating. A high ratio is more desirable to the bank and indicates more successful to mobilize the total assets.

Table 4.8

Loan and Advances to Total Asset Ratio of SCBNL (in '000)

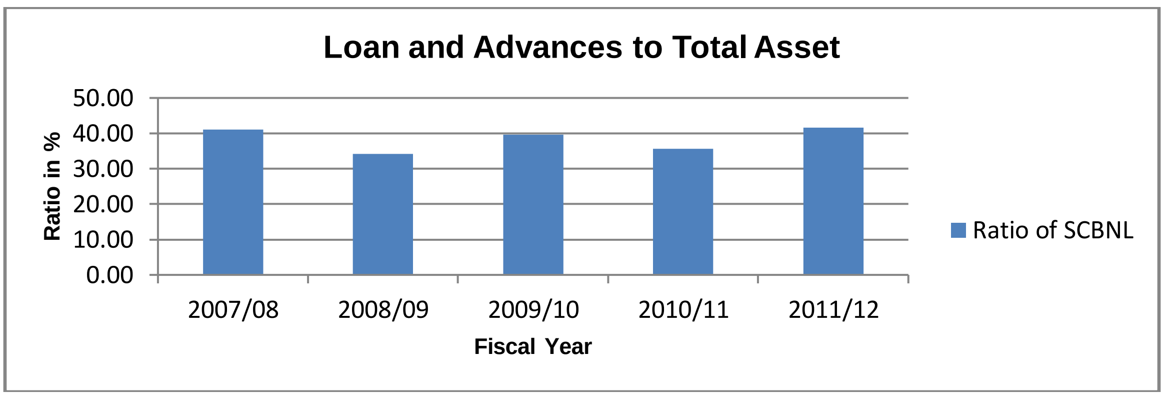
Year	Loan & Advances	Total Assets	Ratio%
2007/08	13,718,601	33,335,788	41.15
2008/09	13,679,761	40,066,570	34.14
2009/10	15,956,955	40,213,320	39.68
2010/11	15,579,854	43,810,520	35.56
2011/2012	17,333,639	41,677,052	41.59
Mean			**38.42%**

Source: Annual Report of SCBNL

The average ratio of loan and advances to total assets is 38.42%.From the table 4.8 & Fig-5, it can be concluded that SCBNL was more successful in 2011/12 in mobilizing total assets in loan and advances. Thus the higher ratio also indicates that the total asset in 2011/12 is more risky than other fiscal years.

Fig -5

Bar Diagram of Loan and advances to Total Asset Ratio of SCBNL



c) Investment to Total Deposit Ratio

This ratio presents how efficiently the resources the bank have been utilized. High ratio shows managerial efficiency regarding the utilization of deposits and vice versa.

Table 4.9

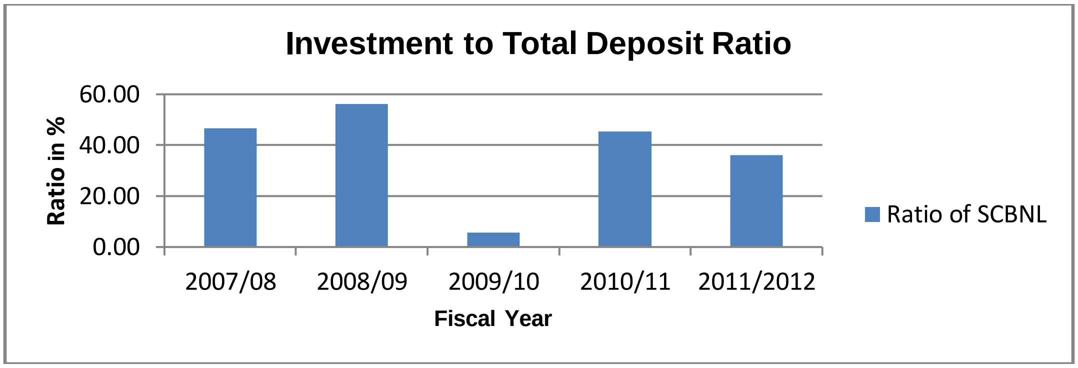
Investment to Total Deposit Ratio of SCBNL (in '000)

Year	Investment	Total Deposit	Ratio%
2007/08	13,902,821	29,744,001	46.74
2008/09	20,236,121	35,971,723	56.41
2009/10	1,984,751	35,182,721	56.41
2010/11	17,258,682	37,999,242	45.41
2011/2012	12,938,215	35,965,630	35.97
Mean			**48.19**

Source: Annual Report of SCBNL

The average ratio of investment to total deposit is 48.19% in fiscal 5 years. It shows that less than 50% of total deposit is success to utilize in investment which is satisfactory. In fiscal years 2008/09 & 2009/10, SCBNL remained successful in mobilizing total deposit in investment. From table we can see that ratio was very poor in fiscal year 2011/12 which means very less investment was mobilized from total deposit.

Fig -6
Bar Diagram of Investment to Total Deposit Ratio of SCBNL



Capital Adequacy Ratio

This ratio is important to every business firm. Similarly, commercial banks must evaluate this ratio. Capital is important for an organization to maintain every facility. Holding excess capital that required have higher holding cost and low return from investment, Similarly, holding too little capital may have inefficient in paying liabilities of a firm. So, a firm should maintain an optimum level of cash. To maintain optimum cash by the CBS, NRB directs the commercial banks to increase or decrease or fix a certain percentage of capital funds out of total deposits.

Under Capital Adequacy ratio, following ratios are calculated.

a) Net worth to Total Assets ratio

Net worth to total assets ratio reflects the sufficiency of shareholder's fund against the total assets.Net worth refers to ordinary share capital, bonus share capital, preference share capital and all kinds of shareholder's reserve. And total assets include current assets, fixed assets, investment in share and investment in debentures and miscellaneous assets.

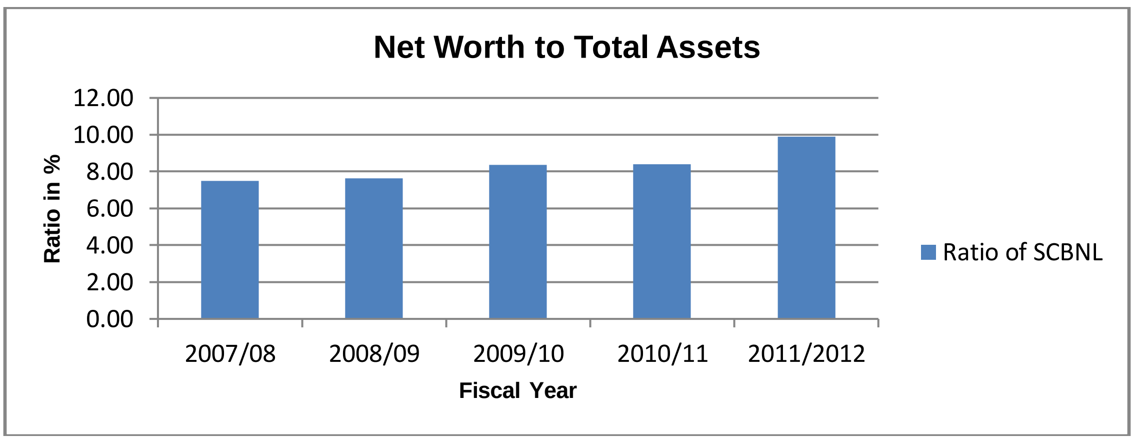
Table 4.10
Net Worth to Total Assets Ratio of SCBNL (in '000)

Year	Net Worth	Total Assets	Ratio%
2007/08	2,492,551	33,335,788	7.47
2008/09	3,052,472	40,066,570	7.61
2009/10	3,369,715	40,213,320	8.37
2010/11	3,677,777	43,810,520	8.39
2011/2012	4,122,169	41,677,052	9.8
Mean			**8.35%**

Source: Annual Report of SCBNL

Above table shows that net worth to total assets ratio of SCBNL is in increasing trend. In fiscal year 2007/08-2011/12, increasing ratios can be seen in table. The average net worth to total assets ratio of SCBNL is 8.35% in 5 fiscal years. It can be concluded that the assets of SCBNL in 2011/12 is much more safe than previous fiscal years as it has highest percentage 9.8% of total assets which was financed through internal fund.

Fig -7
Bar Diagram of Net Worth to Total Assets Ratio of SCBNL



b) Net Worth to Total Deposit Ratio

It indicates the percentage of net worth in relations to the total deposits collected in the bank. The direction of the central bank has maintained or not by the bank, is the yardstick to measure the position.

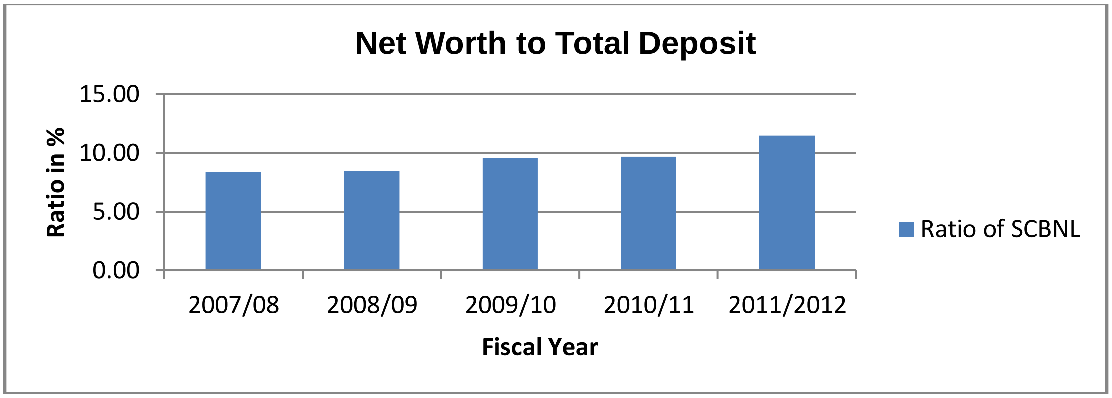
Table 4.11
Net Worth to Total Deposit Ratio of SCBNL(in '000)

Year	Net Worth	Total deposit	Ratio%
2007/08	2,492,551	29,744,001	8.38
2008/09	3,052,472	35,971,723	8.50
2009/10	3,369,715	35,182,721	9.57
2010/11	3,677,777	37,999,242	9.67
2011/2012	4,122,169	35,965,630	11.46
Mean			**9.52%**

Source: Annual Report of SCBNL

The average net worth to total deposit ratio of SCBNL is 9.52%. From the above table, it can be concluded that net worth to total deposit ratio in 2011/12 is highest compare to other previous years.

Fig -8
Bar Diagram of Net Worth to Total Deposit Ratio of SCBNL



Profitability Ratio

Profitability ratio is one of the main indicators to analyze the financial performance of a firm. It is calculated to measure the earning performance and operational efficiency of the bank. A bank should be able to produce adequate profit on each rupee of investment, if investments do not generate sufficient profits, it would be very difficult for the bank to cover operating expenses and interest charges. The profitability of bank should also be evaluated in terms of its investment in assets and in term of capital contributed by creditors. If the bank is unable to earn satisfactory return on investment, its survival is threatened.

Under Profitability ratio, following ratios are calculated:

a) Return on Asset Ratio (Net Income to Total Assets Ratio)

ROA explains the contribution of assets in generating net profit. Higher return on total assets the higher efficiency in the utilization of total assets and vice-versa.

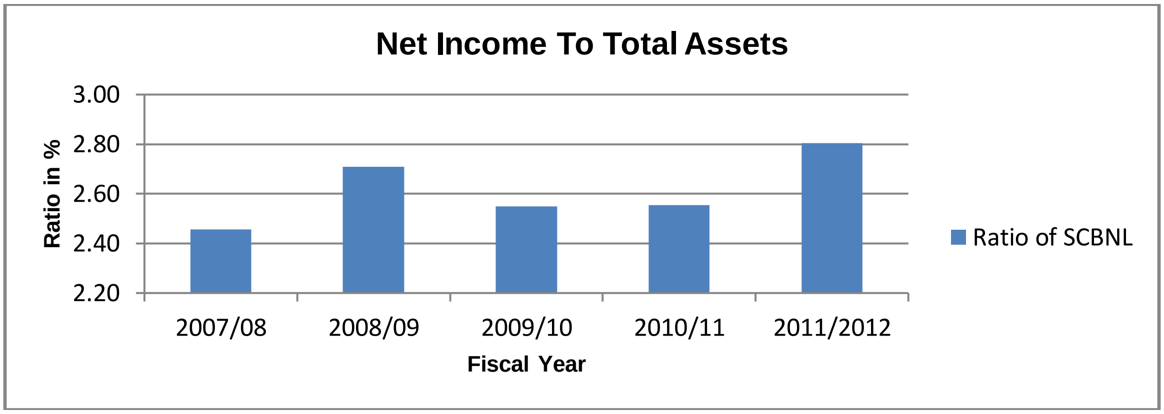
Table 4.12
Return on Assets of SCBNL (in '000)

Year	Net Income	Total Assets	Ratio%
2007/08	818,921	33,335,788	2.45
2008/09	1,085,870	40,066,570	2.71
2009/10	1,025,122	40,213,320	2.54
2010/11	1119171	43,810,520	2.55
2011/2012	1,168,967	41,677,052	2.80
Mean			**2.61%**

Source: Annual Report of SCBNL

The 5 years average ROA of SCBNL is 2.61%. The maximum ratio is 2.80% in fiscal year 2011/12 and minimum ratio is 2.45% in fiscal year 2007/08.It can be concluded that in 2011/12, bank utilized its assets more effectively to generate highest profit than in previous years.

Fig -9
Bar Diagram of return on Assets



b) Net Income to Total Deposit Ratio

Return on total deposit ratio measures how efficiently the deposit has been mobilized. This ratio is a mirror of bank's overall financing performance. Shareholders, depositors and management are concerned within this ratio.

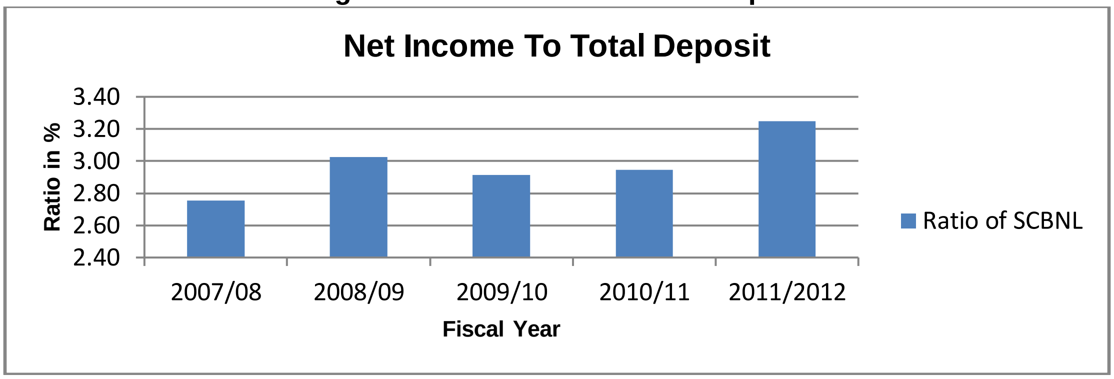
Table 4.13
Net Income to Total Deposit of SCBNL (in '000)

Year	Net Income	Total Deposit	Ratio%
2007/08	818,921	29,744,001	2.75
2008/09	1,085,870	35,971,723	3.02
2009/10	1,025,122	35,182,721	2.91
2010/11	1119171	37,999,242	2.94
2011/2012	1,168,967	35,965,630	3.25
Mean			**2.97%**

Source: Annual Report of SCBNL

The average ratio of net income to total deposit ratio of SCBNL is 2.97%.The maximum ratio is 3.25% in 2011/12 & minimum is 2.75% in 2007/08.Based on above data of 5 fiscal year, it can be concluded that the capacity of turning total deposit into net profit of SCBNL in year 2011/12 is better that in previous years. Hence, it can also be considered that the investment sector of the total deposit amount of SCBNL is more fruitful in year 2011/12 than that in previous years.

Fig -10
Bar Diagram of Net Income to Total Deposit Ratio



c) Interest Income to Total Assets Ratio

Interest earned to total assets ratio shows how much interest has been generated by mobilizing the assets in the bank. Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa.

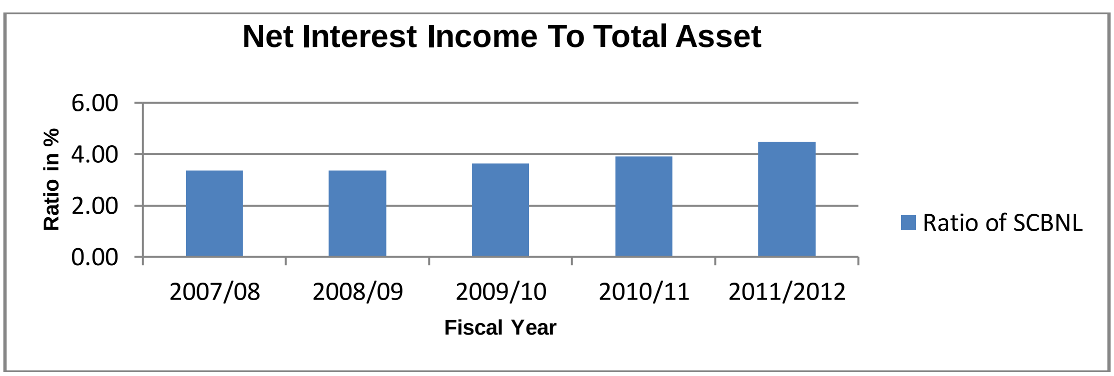
Table 4.14
Interest Income to Total Asset ratio of SCBNL (in '000)

Year	Interest Income	Total Asset	Ratio%
2007/08	1,119,466	33,335,788	3.36
2008/09	1,343,435	40,066,570	3.35
2009/10	1,466,368	40,213,320	3.64
2010/11	1,715,599	43,810,520	3.91
2011/2012	1,863,772	41,677,052	4.47
Mean			**3.74%**

Source: Annual Report of SCBNL

Above table shows that the interest earning capacity of SCBNL from total assets ranged from 3.35% in the fiscal year 2007/08 to 4.47% in the fiscal year 2011/12. In average, the interest earned to total assets ratio is 3.74%, which indicate that bank generated 3.74% as interest income from Rs.100 investment in total assets.

Fig -11
Bar Diagram of Net Interest Income to Total Assets Ratio



d) Interest Expenses to interest Income of SCBNL

Interest paid to interest income ratio reveals the proportionate relationship between interests paid on different liabilities and interest income from different source.

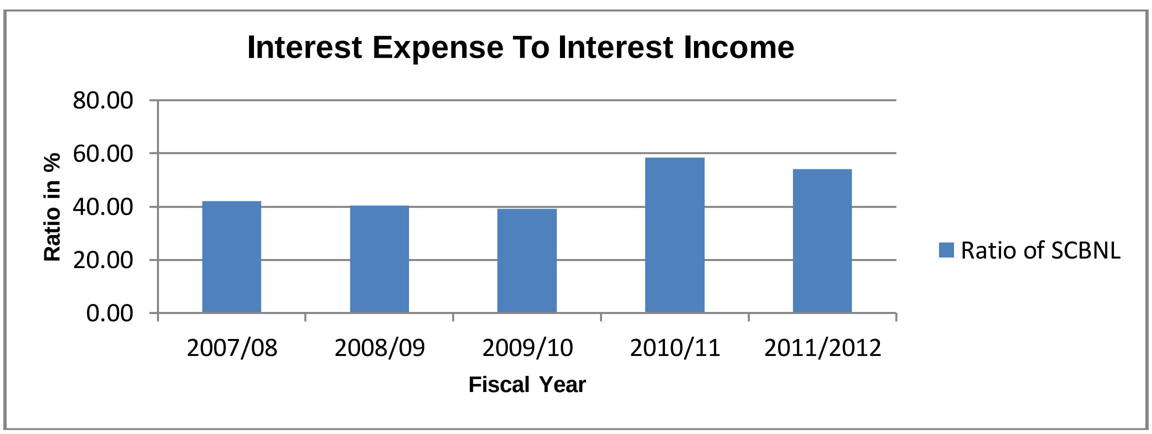
Table 4.15
Interest Expenses to Interest Income of SCBNL (in '000)

Year	Interest Expenses	Interest Income	Ratio%
2007/08	471,730	1,119,466	42.13
2008/09	543,787	1,343,435	40.47
2009/10	575,741	1,466,368	39.26
2010/11	1,003,100	1,715,599	58.46
2011/2012	1,007,199	1,863,772	54.04
Mean			**46.87%**

Source: Annual Report of SCBNL

In fiscal year 2007/08, the interest expenses to interest income is 42.13% and it decreases to 40.47% & 39.26% respectively in 2008/09 & 2009/10. The ratio is high in 2010/11, i.e. 58.46%.The average interest expenses to interest income ratio is 46.87% in fiscal five years It can be concluded that in 2010/11 & 2011/12 the bank has low control on interest expenses than previous years as the ratio is high in these 2 fiscal years i.e. 58.46% &54.04%. Bank has high control on interest expense in fiscal year 2009/10 as it has low ratio.

Fig -12
Bar Diagram of Interest Expense to Interest Income Ratio



e) Earning Per share

The earning per share shows the profitability of the bank on per share basis. It shows the earning available to each shareholder out of total earning.

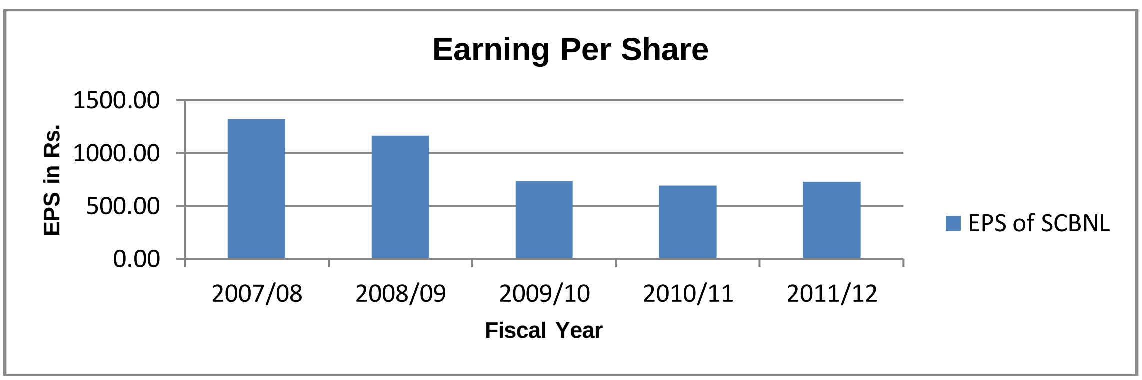
Table 4.16
Earning per share of SCBNL (in '000)

Year	Net Income	No. of Common share (in 1000)	EPS (in Rs.)
2007/08	818,921	620.784	1319.17
2008/09	1,085,870	931.966	1165.13
2009/10	1,025,122	1398.48	733.02
2010/11	1,119,171	1610.168	695.06
2011/2012	1168967	1610.168	725.99
Mean			**927.67**

Source: Annual Report of SCBNL

Above table shows that EPS of SCBNL is decreasing year by year till 2010/11.In average, EPS of SCBNL is Rs.927.67 per share. The maximum EPS is Rs.1165.13 in 2008/09 and minimum EPS is Rs. 695.06 in fiscal year 2010/11.It can be concluded that the bank earned highest profit in fiscal year 2007/08 & lowest in 2010/11. But in compare to 2010/11, bank earned better profit in 2011/12.

Fig -13
Bar Diagram of Earning Per Share



f) Dividend Per Share

The net profit after taxes belongs to shareholders. But the income, which they really receive, is the amount of earning distributed as dividends.

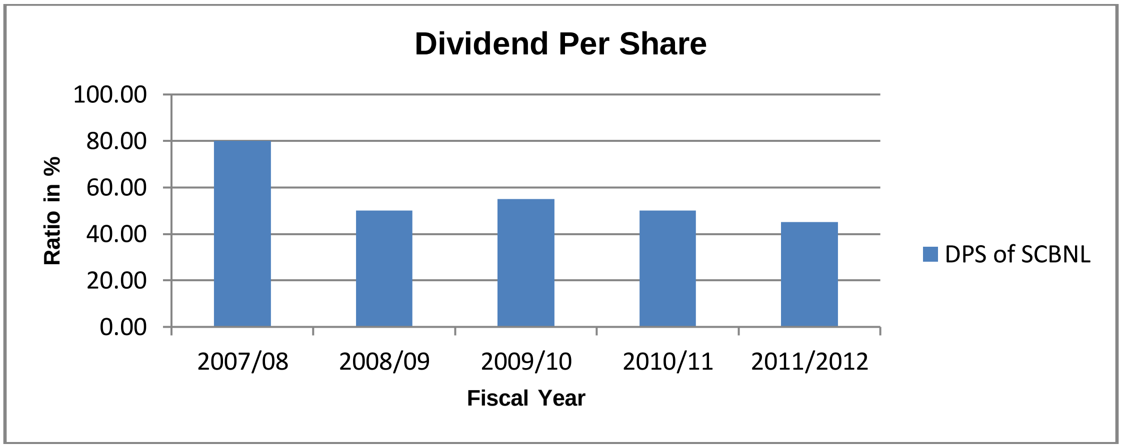
Table 4.17
Dividend per share of SCBNL (in '000)

Year	Dividend paid (in Rs.1000)	No. of Common share (in 1000)	DPS (in Rs.)
2007/08	49,663	620.784	80.00
2008/09	46,598	931.966	49.99
2009/10	76,917	1398.48	55.00
2010/11	80,508	1610.168	49.99
2011/2012	72,457	1610.168	44.99
Mean			**55.99**

Source: Annual Report of SCBNL

Above table shows that maximum DPS of SCBNL is Rs.80 in fiscal year 2007/08 and minimum DPS is Rs.44 in fiscal year 2011/12.This shows vast difference in maximum and minimum DPS of SCBNL.The average DPS is Rs.55.99 in 5 fiscal years. It can be concluded that SCBNL provided highest dividend in year 2007/08 & lowest in 2011/12. Hence, it also concluded that in 2011/12, SCBNL made very less profit, so dividend distributed was low.

Fig -14
Bar Diagram of Dividend per Share



g) Dividend payout ratio

It indicates the percentage amount of dividend paid shareholders out of earning per share.

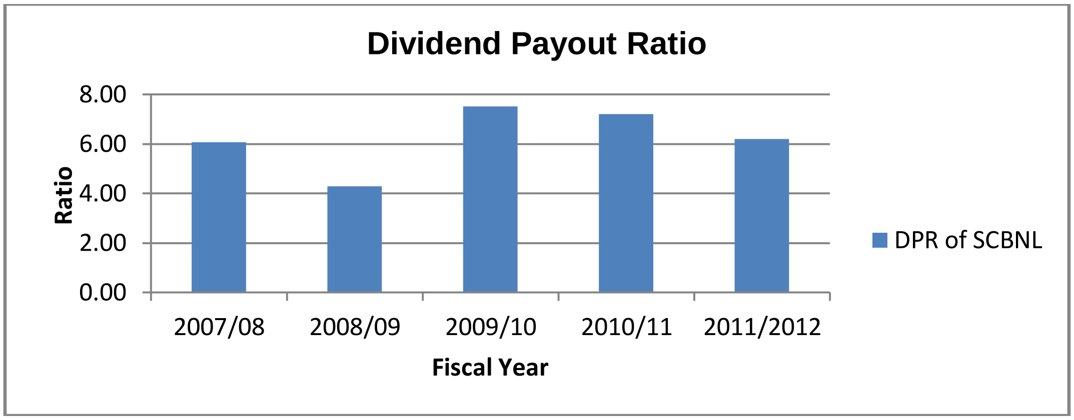
Table 4.18
Dividend Payout ratio of SCBNL (in '000)

Year	DPS	EPS	DPR (in %)
2007/08	80.00	1319.17	6.06
2008/09	49.99	1165.13	4.29
2009/10	55.00	733.02	7.50
2010/11	49.99	695.06	7.19
2011/2012	44.99	725.99	6.19
Mean			**6.25**

Source: Annual Report of SCBNL

The average dividend payout ratio of SCBNL in five fiscal year is 6.25%.It is maximum in fiscal year 2009/10 and minimum in 2008/09.It can be concluded that SCBNL has highest dividend payout ratio in fiscal year 2009/10.

Fig -15
Bar Diagram of Dividend Payout Ratio (DPR)



4.3 Profitability Analysis using Du Pont Approach (ROA, ROE):

To observe the profitability of SCBNL, this section is concentrated on analysis of different financial ratios based on Du Pont chart and equations. Weston and Brigham (1996) stressed that Du Pont approach of financial analysis shows the relationship between return on investment (assets), asset turnover, the profit margin and leverage. To analyze the bank profitability, Rose (2002) has specified the notations for different composite parts to explain the relationship. Accordingly, the relationship is analyzed in this section with:

ROA = (NPM) (AU)……………………………………….. (i)

ROE = (ROA) (EM)………………………………………… (ii)

Combining the equations (i) & (ii), equation (iii) can be formed as extended Du Pont equation.
ROE = (NPM) (AU)(EM)………………………………(iii)

ROE=$\frac{NP}{TOR} X \frac{\text{TOR}}{TA} X \frac{\text{TA}}{TE}$…………………………… (iv)

The necessary figures, as demand in equation (iv), are extracted from the income statement and balance sheet of SCBNL for the selected years. Table 4.19 presents such basic data.

Table 4.19

Net Profit (NP), Total Operating Revenue (TOR), Total Assets (TA) and Total Equity (TE) of SCBNL with percentage relative (Rs. in '000)

Variables	2007/08	2008/09	2009/10	2010/11	2011/12
NP	818,921 (100)	1,025,114 (125)	1,085,871 (133)	1,119,171 (137)	1,168,967 (143)
TOR	1,774,145 (100)	2,092,125 (118)	2,297,710 (130)	2,461,257 (139)	2,638,449 (149)
TA	33,335,788 (100)	40,066,570 (120)	40,213,320 (121)	43,810,520 (131)	41,677,052 (125)
TE	2,492.55 (100)	3,052.47 (122)	3,369.71 (135)	4,031.00 (162)	4,756.00 (191)

Source: Financial statement of SCBNL
Notes: 1) Figures in the parentheses are index or percentage relative
2) Year 2007/08 is considered as base year to observe the percentage relative.

Table 4.19 exhibits simply the data required to observe net profit margin (NPM), asset utilization (AU), equity multiplier (EM) to analyze operating performance of SCBNL using DuPont procedure and the corresponding value indices to measure change in a variable over a period of years selected. The time series data presented in above table clearly indicates almost figures in increasing trend. As indicated in the table 4.19, percentage relative of net profit of SCBNL seems encouraging. As increment of net profit by 143 percent in 2011/12 relative to the year 2007/08 has been observed. Table further presents the fact that, relative to the increasing index of total operating revenue, increments of net profit is at high ratio. One of the causes behind this is effectiveness of expense management or cost control. An increment of net profit has been identified by 143 percent whereas increment of total operating revenue is 149 percent in 2011/12 relative to years 2007/08.However the row of percentage relative in table clearly shows gradual increment of both NP & TOR. Growth of asset size and equity is a signal of growing size of bank. It has been observed from the table that relative to the base year 2007/08, total asset has been increased to 125 percent in 2011/12.An increasing trend of percentage relative of total asset has been identified by 125 percent and total equity by 191 percent in 2011/12 relative to the year 2007/08. It indicates the condition of leverage of SCBNL.

Fig-16
Movement of NP and TOR over the years

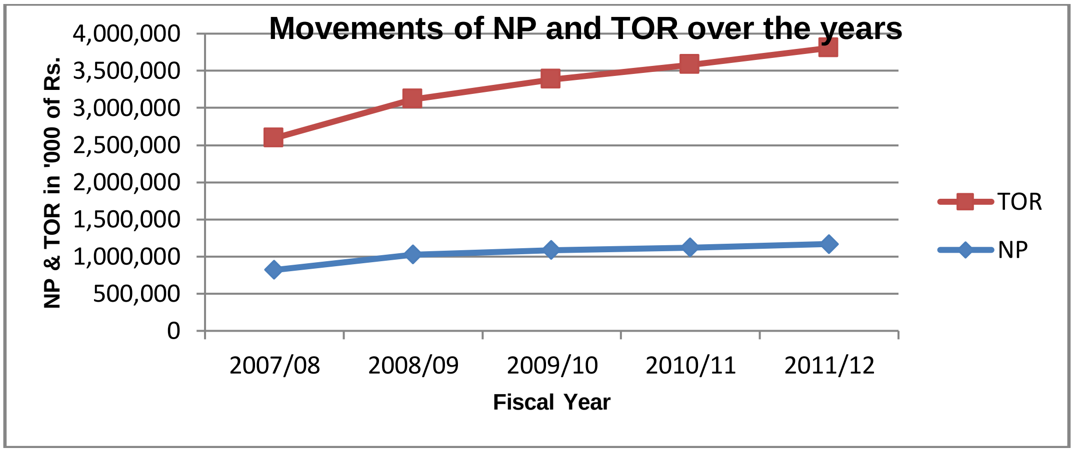
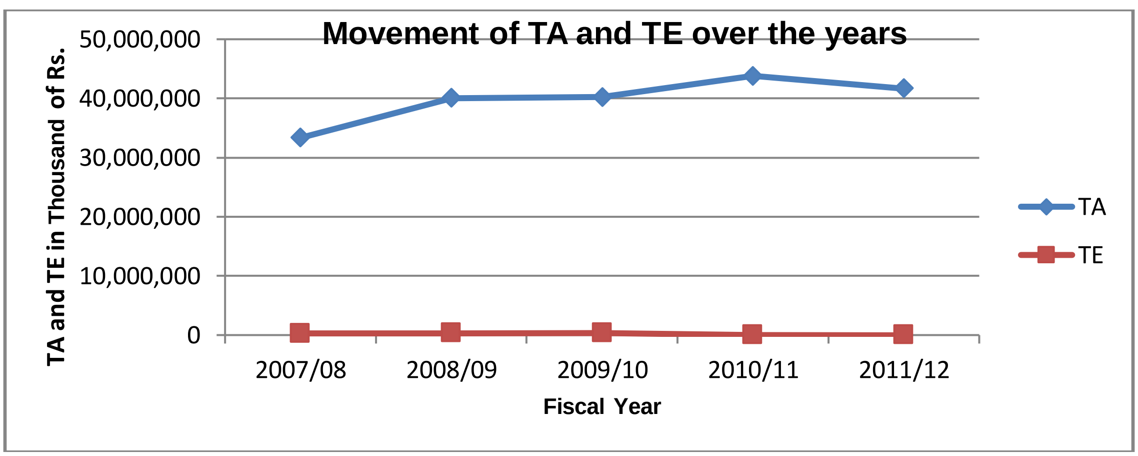


Figure-16 demonstrates clearly the gradual increment of net profit and total operating revenues. These are basics to observe net profit margin. Out of the four variables presented in table, movement of the figures of total assets and total equity are highlighted in fig-2. These are basis to observe leverage status of bank.

Fig-17
Movement of TA and TE over the years



Using the equation (iv), data presented in table 4.19 are processed and presented in Table 4.20 to analyze Net profit margin, asset utilization & equity multiplier. These ratios govern ROA and ROE of the bank.

a) Analysis of ROA and ROE with composite factors

Return on asset (ROA) and return on equity (ROE) are the fundamentals of profitability analysis. NPM, AU and EM are their determinants. NPM is the ratio of net profit to total revenues, AU is the ratio of total revenues to total asset, and EM represents the ratio of total asset to total equity. NPM times AU results ROA. It measures the profit earning capacity by utilizing available resources. i.e total assets. It shows the management's capability to generate profit on using assets.ROA times EM produces the result as ROE. It is a measure of the rate of return flowing to the bank's shareholders. It approximates the net benefit that the stockholders have received from investing their capital in the bank. These ratios are the basis of Du Pont system of financial analysis.Table-2 presents such fundamental ratios to measure and evaluate bank profitability.NPM; AU, ROA and ROE are expressed in percentage whereas EM is expressed as times in the table.

ROA= (NPM) (AU) = (NP/TOR)(TOR/TA)
ROE = (ROA) (EM) = (NPM) (AU) (EM) = (NP/TOR)(TOR/TA) (TA/TE)

Table 4.20
NPM, AU, EM, ROA and ROE of SCBNL and Percentage Relatives

Year	2007/08	2008/09	2009/10	2010/11	2011/12
NPM%	46.16 (100)	51.90 (112)	44.61 (97)	45.47 (99)	44.31 (96)
AU%	5.32 (100)	5.22 (98)	5.71 (107)	5.62 (106)	6.33 (119)
ROA %	2.46 (100)	2.56 (104)	2.70 (110)	2.55 (104)	2.80 (114)
EMx	13.37 (100)	13.13 (98)	11.93 (89)	10.87 (81)	8.76 (66)
ROE %	32.85 (100)	33.58 (102)	32.22 (98)	27.76 (85)	24.58 (75)

Source: Financial statement of SCBNL
Notes: 1) Figures in the parentheses are index or percentage relative
2) Year 2007/08 is considered as base year to observe the percentage relative.

i) Net Profit Margin (NPM)

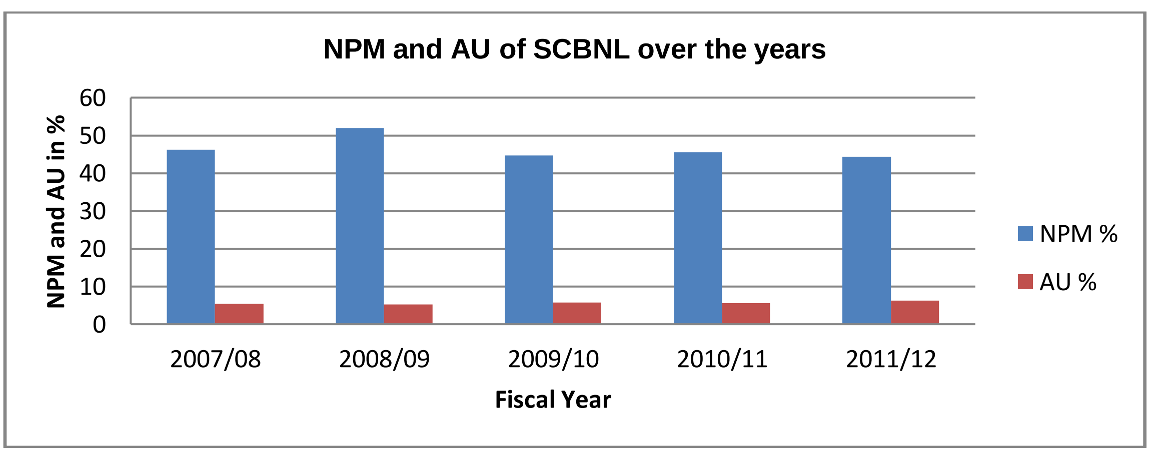
Among the financial ratios presented in table 4.20, NPM is for measuring and evaluating the effectiveness of expense management or cost control and service pricing policies of the bank. As presented in table 4.20 the higher ratio of NPM 51.90 percent has been observed in fiscal year 2008/09.Relatively poor performance have been observed for the fiscal year 2009/10 & 2011/12, 44.61 percent & 44.31 percent respectively. Since NPM is a ratio of net profit to total revenue, an increase or decrease in NPM represents overall aspect of income statement. Efficiency in expenditure management or cost control in one hand support to increase in NPM, on the other hand good management of revenue generating activities boosts for robust position. As presented in table 4.20, the ratios of NPM in fiscal years 2007/08, 2008/09 & 2010/11 are encouraging for bank in relative to previous years. To increase in return on asset and return on equity the ratio of NPM plays significant role. Increasing percentage relatives 97 percent, 99 percent, 96 percent for the last years demonstrates the things are positive.

ii) Asset Utilization (AU)

The bank's degree of asset utilization reflects portfolio management policies, especially the mix and yield on the bank's assets. So, it is a measure of asset management efficiency. Using Du Pont approach, it can be expressed as the ratio of total revenues to total asset. As net profit margin asset utilization also plays significant role to increase ROA and ROE. By carefully allocating the bank's assets to the highest yielding loans and investments while avoiding excessive risk, management can raise the bank's average yield on its assets.SCBNL, in this regard, seems gradual leading up. The speed of increasing asset size relatively with operating revenue seems the main reason behind increasing AU. It has been observed from Table 4.19 & Table 4.20 clearly demonstrates the asset utilization ratio in decreasing & increasing trend during the study period but in 2011/12, AU is highest. It has been observed 5.32 in fiscal year 2007/08 but with gradual increment the ratio arrived at 6.33 percent in fiscal year 2011/12.The percentage relatives 98, 107,106 & 119 respectively for the fiscal years 2008/09, 2009/10, 2010/11 & 2011/12 also demonstrates clearly the things are almost positive.

The financial ratio of NPM and AU, as presented in Table 4.20, gives the clear picture .To build up ROA of SCBNL in sample years, both NPM & AU are playing supportive role. Fig 18 demonstrates the movement of the financial ratios of NPM and AU over the years.

Fig 18
NPM and AU of SCBNL over the years



iii) Return on Asset: Analysis with decomposition of components

Return on asset is primarily an indicator of managerial efficiency. It indicates how capably the management of the bank has been converting the institution's assets into net earnings. Simply, it is a ratio of a bank's net after-tax income divided by its total assets. One of the major sections of Du Pont approach of financial performance analysis is ROA analysis. According to the Du Pont approach, ROA is simply a result of multiplication of net profit margin and asset utilization. As presented in Table 4.20, it has been observed in between 2.46 percent to 2.80 percent in the sample 5 years. Highest ratio 2.80 percent in the fiscal year 2011/12 and lowest 2.46 percent in 2007/08 have been observed. In addition, Table 2 and fig 4 clearly demonstrate that, to build up ROA of SCBNL, both NPM & AU has growing contributions over the years. Bank's net after-tax income and total asset are the fundamentals of ROA analysis. So, entire income statement components and total asset of the bank have been used in this study to examine efficiency of SCBNL.

4.4 Bank's Performance Analysis using Econometric Models (Correlation, Regression model)

Econometric models are statistical model used in econometrics. An econometric model specifies the statistical relationship that is believed to hold between the various economic quantities pertaining to a particular economic phenomenon under study.

a) Result of Capital Adequacy Ratio (CAR)

Capital adequacy ratio is the ratio which determines the capacity of a bank in terms of meeting the time liabilities and other risk such as credit risk, market risk, operational risk, and others. It is a measure of how much capital is used to support the banks' risk assets.

Table 4.21
Calculation of CAR of SCBNL ('000)

Year	Tier 1 Capital	Tier 2 Capital	Risk weighted asset	CAR %
2007/08	2,304,757	326,143	20,014,076	13
2008/09	2,832,761	357,606	21,703,164	15
2009/10	3,050,712	479,781	24,184,585	15
2010/11	3,263,248	572,344	26,974,342	14
2011/12	3,707,010	588,157	30,837,799	14
Mean				**14%**

Source: Financial statement of SCBNL

As stated in the foregoing analysis, SCBNL bank is well capitalized and is complyed with the directive of NRB on CAR. However the capital base relative to the risk-weighted assets is not so strong. According to the international rating convention, total capital should be greater than 19.5% of the total risk weighted asset of bank in order to be a strong capital base. From the table 4.21, it can be seen than none of the year has the capital fund greater than 19.5% of the total risk weighted capital. On average capital adequacy of SCBNL was fair during the study period. Total capital adequacy ratio less than 15 and equal to 12 indicates that capital adequacy is fair. Thus, CAR of SCBNL can be considered as positive & fair.

b) Non performing loan ratio (NPL)

It is known that many indicators can be used to measure the quality of assets held by commercial banks. Loan are one of the major outputs provided by a bank, but as loan is risk output, there is always an ex ante risk for a loan to eventually become non-performing. Here one simple indicator non performing loan ratio is used to measure the quality of assets being held by bank. The increasing trend shows deteriorating quality of SCBNL's assets.

Table 4.22
NPL ratio calculation of SCBNL ('000)

Year	Non-performing loan	Total Loan	NPL ratio %
2007/08	128,719	13,963,983	0.92
2008/09	91,041	13,880,703	0.66
2009/10	98,135	16,176,582	0.61
2010/11	115,803	18,662,477	0.62
2011/12	154,486	19,828,509	0.78
Mean			**0.72 %**

Source: Financial statement of SCBNL

Table 4.21 predicts that in the period of 2007/08 to 2011/12, the average NPL ratio is 0.72%.The ratio was high in 2007/08, 0.92 % and low in 2009/10, 0.61% .It can be concluded that in 2007/08 share of SCBNL bank in NPL was very high accounting that simply indicates the degradation of quality of loan and concentration as well whearse it was better in 2009/10. NPL ratio shows that bank is improving the quality of their assets year by year and was in decreasing trend. The declining ratio of NPL had reflected a better quality of assets year by year.

c) Interest expense to Total Loan (IETTL)

Interest expense is the cost of debt that has occurred during a specified period of time. Higher the IETTL, more efficient the bank is considered to be.

Table 4.23
IETTL ratio calculation of SCBNL ('000)

Year	Interest Expense	Total Loan	IETTL %
2007/08	471,730	13,963,983	3.38
2008/09	543,787	13,880,703	3.92
2009/10	575,741	16,176,582	3.56
2010/11	1,003,100	18,662,477	5.37
2011/12	1,007,199	19,828,509	5.08
Mean			**4.26 %**

Source: Financial statement of SCBNL

Table 4.23 shows that the average ratio of IETTL is 4.26%. The ratio is high in fiscal year 2011/12 & low in 2007/08. Hence, it can be concluded that management of SCBNL in 2007/08 was least efficient with lower ratio which increased gradually and later managed the quality of loans and ensured profit in 2011/12.

d) Net Interest Margin (NIM)

The net interest margin measures how large the spread between interest revenues and interest costs that management has been able to achieve by close control over earning assets and pursuit of the cheapest sources of funding. It is treated as an extremely important measure to the bank and its minimum value for a healthy bank is considered about 4%. A small change in a interest margin has a huge impact on profitability. Higher NIM is associated with profitable banks by maintaining good assets quality.

Table 4.24
NIM ratio calculation of SCBNL ('000)

Year	Net Interest Income	Average Invested Assets	NIM %
2007/08	1,119,466	33,335,788	3.36
2008/09	1,343,435	40,066,570	3.35
2009/10	1,466,368	40,213,320	3.65
2010/11	1,715,599	43,810,520	3.92
2011/12	1,863,772	41,677,052	4.47
Mean			**3.75 %**

Source: Financial statement of SCBNL

Table 4.24 shows the average NIM of five fiscal years is 3.75%.The value of NIM is highest in 2011/12 which means SCBNL was able to maintain good asset quality than in previous years. In 2008/09, the value of NIM was low i.e. 3.35 and maintained minimum level. It can be concluded that profitability of the bank is gradually increasing from 2007/08 onwards with increase in NIM percent.

e) Credit to deposit Ratio(CDR)

The credit to deposit ratio is a major tool to examine the liquidity of a bank and measures the ratio of fund that a bank has utilized in credit out of the deposit total collected. Higher the CDR, more the effectiveness of the bank to utilize the fund it collected. It is calculated as:

Table 4.25
CDR calculation of SCBNL

Year	Credit/Total Loan	Total Deposit	CDR %
2007/08	13,963,983	471,730	47
2008/09	13,880,703	543,787	39
2009/10	16,176,582	575,741	46
2010/11	18,662,477	1,003,100	49
2011/12	19,828,509	1,007,199	55
Mean			**47%**

As per table 4.25, the CDR in 2008/09 shows that the liquidity position was very low than accepted level. The ratio is highest in 2011/12; i.e. 55%.It can be concluded that the SCBNL seemed to be more efficient to utilize their funds collected as deposit. During the study period, the average CDR in five fiscal year is 47%. Although there is no standard for CDR in Nepal, a ratio of 75% can be accepted to be adequate. The CDR of the bank was consistent over last 4 years and suddenly increased in 2011/12. We can say that in average, bank has been able to utilize almost half portion of the depositors fund in the form of credit.

After calculation of all the independent variables (CAR, NPL, IETTL, NIM, CDR), the relation between these independent variables & dependent variables (ROA & ROE) is calculated using correlation & regression analysis.

Correlation Analysis

The correlation analysis is done by Karl Pearson's Co-efficient of Correlation. Here ROA is taken as a dependent variable.

Table 4.26
Correlation between ROA and other financial ratios

		ROA	NPL	CAR	IETTL	NIM	CDR
Return on Assets	Pearson Correlation	1	-0.183	0.552	-0.397	0.521	0.698
	Sig. (2-tailed)		0.637	0.123	0.290	0.150	0.037
Non Performing Loan	Pearson Correlation	-0.183	1	0.189	-0.502	0.245	0.067
	Sig. (2-tailed)	0.637		0.626	0.168	0.525	0.863
Capital Adequacy ratio	Pearson Correlation	0.552	0.189	1	-0.243	0.488	0.138
	Sig. (2-tailed)	0.123	0.626		0.528	0.182	0.724
Interest Expense To Total Loan	Pearson Correlation	-0.397	-0.502	-0.243	1	-0.213	-0.152
	Sig. (2-tailed)	0.290	0.168	0.528		0.582	0.696
Net Interest Margin	Pearson Correlation	0.521	0.245	0.488	-0.213	1	0.315

	Sig. (2-tailed)	0.150	0.525	0.182	0.582		0.409
Credit to Deposit Ratio	Pearson Correlation	0.698	0.067	0.138	-0.152	0.315	1
	Sig. (2-tailed)	0.037	0.863	0.724	0.696	0.409	
	Number of Obv.	9	9	9	9	9	9

*. Correlation is significant at the 0.05 level (2-tailed).

Table 4.26 shows the relationship among the study variables depicted in the model and were tested using correlation with ROA with determinants of the bank's profitability ratio. Karl-Pearson Correlation model is used to show the relation among the variables & 2-tailed test is used to the measure the significance. Here number of observation is taken as 9. The result from the table shows that ROA was negatively correlated with NPL (-0.183) & IETTL (-0.397) indicate that the SCBNL could not effectively manage its credit risk. The negative coefficient estimates of the correlation resulted in these ratios had inverse relationship with ROA. In contrast, CAR (0.552) & CDR (0.698) was positively correlated with ROA depicts that the SCBNL have good profit and capital as per prescribed limit in the public bank. NIM (0.521) was also found positively correlated with ROA. The positive coefficient estimate of the correlation implies that there was a direct relationship of CAR, CDR & NIM with ROA.

Here ROE is taken as a dependent variable.

Table 4.27
Correlation between ROE and other financial ratios

		NPL	CAR	IETTL	NIM	CDR	ROE
Non Performing Loan	Pearson Correlation	1	0.189	-0.502	0.245	0.067	-0.294
	Sig. (2-tailed)		0.626	0.168	0.525	0.863	0.442
Capital Adequacy ratio	Pearson Correlation	0.189	1	-0.243	0.488	0.138	-0.628
	Sig. (2-tailed)	0.626		0.528	0.182	0.724	0.070
Interest Expense To Total Loan	Pearson Correlation	-0.502	-0.243	1	-0.213	-0.152	0.164
	Sig. (2-tailed)	0.168	0.528		0.582	0.696	0.674
Net Interest Margin	Pearson Correlation	0.245	0.488	-0.213	1	0.315	-0.830
	Sig. (2-tailed)	0.525	0.182	0.582		0.409	0.006
Credit to Deposit Ratio	Pearson Correlation	0.067	0.138	-0.152	0.315	1	-0.584
	Sig. (2-tailed)	0.863	0.724	0.696	0.409		0.099
Return on Equity	Pearson Correlation	-0.294	-0.628	0.164	-0.830	-0.584	1
	Sig. (2-tailed)	0.442	0.070	0.674	0.006	0.099	
	No.of Obv.	9	9	9	9	9	9

**. Correlation is significant at the 0.01 level (2-tailed).

Table 4.27 shows the relation between ROE & other financial ratios & measures the correlation between them. It can be seen that ROE was positively correlated with CAR, NIM, CDR & NPL. It indicates that an increase in CAR, CDR or NIM will lead to an increase in ROE while IETTL was found independent with ROE as it was negatively correlated. The coefficient of correlations for CAR (+0.189), NIM (+0.245), CDR (+0.067), NPL (1) clearly shows that most of the variables were strongly correlated with ROE. The statistics also indicate that average variables in both cases were strongly correlated. Hence there appeared to be multi co-linearity problems. These data are also been verified using variance inflation factor (VIF).

Regression statistics for the model

To see the regression result, coefficient analysis & collinearity statistics for depended variables ROA & ROE is calculated.

Table 4.28
Coefficient analysis and collinearity statistics for dependent variable ROA

Model A	**Unstandarized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**Collinearity Statistics**	
	B	**Std. Error**	**Beta**			**Tolerance**	**VIF**
(Constant)	2.276	0.766		2.971	0.097		
Capital Adequacy ratio	3.253	1.081	0.362	3.009	0.095	0.425	2.351
Non Performing Loan	-0.74	0.128	-0.581	-5.8	0.028	0.615	1.627
Interest Expense To Total Loan	-0.11	0.024	-0.473	-4.65	0.043	0.595	1.680
Net Interest Margin	6.1	5.183	0.197	1.177	0.36	0.221	4.520
Credit to Deposit Ratio	1.337	0.312	0.540	4.284	0.05	0.388	2.574
R-squared						0.988	
Adjusted R-square						0.951	
Sig. F Change						0.37	
ANOVA F						26.692	

Table 4.28 shows the regression result for the SCBNL bank. In the model (A), the value of R square was 0.988, which means that 98% of the total variation in the value of ROA was due to the effect of independent variables. The adjusted R square was 0.951. This shows that on an adjusted basis, the independent variables were collectively 95.1% related to dependent variable ROA. The value of ANOVA F was 26.692. The relationship of CAR was to be found positive and the coefficient were statistically not significant (p>0.05). The coefficient was 3.253 which depicts that the relationship is very strong.

However, it is clear that the strong positive relationship was due to the large volume of positive reserves of the bank. The capital base achieved the minimum capital requirement. In other side NPL ratio was negative but insignificant. It was clear that there was a negative relationship between post asset qualities. This means that SCBNL failed to monitor their credit loans and tends to be less profitable than those which paid particular attention to the assets quality.

IETTL was negatively significant with ROA at 5%level. It means that 0.473 increases in IETTL will result in an on decrease of 1 point of ROA. The Net interest margin ratio & credit to deposit ratio recognized the positive relation respectively, whereas NIM statistical coefficients was significantly affected by the performance. NIM will result in an 0.197 point increase in NIM will result in a increase of 1 point of ROA and the result also exhibits that banks management has been able to keep the growth of interest income ahead of interest expenses. CD ratio was significantly affected. This exposes that increase in the level of credit to deposit significantly decreased the ROA of banks by 0.540. CDR was insignificant because the bank was not efficiently utilizing the fund collected as deposit. By analyzing variance inflation factor in ROA model, it can be said that all independent variables had tolerance value greater than 0.1. The result can prove that all variables had VIF value less than 10. These findings suggest that multicollinearity was not a problem when selected explanatory variables were used to develop the predicted model in logistic regression analysis and to validate the evidence presented in correlation matrix.

Table 4.29
Coefficient analysis and collinearity statistics for dependent variable ROE

Model B	**Unstandarized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**Collinearity Statistics**	
	B	**Std. Error**	**Beta**			**Tolerance**	**VIF**
(Constant)	86.551	113.930		.760	.527		
Capital Adequacy ratio	-5.742	18.017	-0.248	-.315	.782	.081	12.379
Non Performing Loan	-8.617	38.621	-0.265	-.223	.844	.035	28.252
Interest Expense To Total Loan	-1.524	5.833	-.256	-.261	.818	.052	19.159
Net Interest Margin	-406.556	395.898	-.514	-1.027	.412	.200	5.010
Credit to Deposit Ratio	-17.610	71.134	-.279	-.248	.828	.039	25.415
R-squared						.900	
Adjusted R-square						.600	
Sig. F Change						.271	
ANOVA F						3.003	

Table 4.29 in the model (B) indicates that the value of R square was 0.900, which means that 90% of the total variation in the value of ROE was due to the effect of the independent variables. The adjusted R square was 0.600. This shows that on and adjusted basis, the independent variables were collectively 60% related to the dependent variables ROE. The relationship of the CAR was negatively significant at 5% level. The other variables NPL, IETTL, NIM & CDR were also negatively significant. NPL was insignificant due to the result of poor

credit policy including deprived appraisal and inadequate follow-up and supervision of loan distribution eventually. The IETTL & NIM ratios were also negative and insignificant. CD ratio was negative but insignificant as SCBNL is not concentrating more on credit and investment. More credit flows are required to verge on the optimum CD ratio.

By analyzing variance inflation factor in ROE model, it can be said that all independent variables had tolerance value lower than 0.1. the result proves that almost all variables have VIF value greater than 10.This findings suggests that multicolinearity was not a problem when selected explanatory variables were used to develop the predicted model in the logistic regression analysis and to validate the evidence presented in correlation matrix.

The R square for ROA (0.98) was determined higher than ROE (0.90)., In ROA model, the result shows that capital adequacy ratio, non performing loan, were insignificant while IETTL, CD & NIM were significant. For that hypothesis 3, 4 and 5 have been accepted and have a significant impact on performance of the SCBNL bank. Hypothesis 1 & 2 were rejected by accepting alternative null hypothesizes.

In ROE model, only CAR was significant while other variables NPL, IETTL, NIM & CDR were insignificant. Therefore Hypothesis 1 has been accepted while hypothesis 2, 3, 4, 5 have been rejected by accepting alternative null hypothesizes.

4.5 Financial Performance and Customer Satisfaction

Data analysis on customer satisfaction is done through primary data collection technique. i.e. questionnaire method. Formed were filled by 100 customers & analysis was done accordingly. Following tables measures customer satisfaction in different perspective.

Table 4.30
How much satisfied with the performance of the bank?

Particular	Highly Satisfied	Satisfied	Neutral	Dissatisfied
Ease to open account	0	30	60	10
Acct. is held without error	0	80	20	0
Timely Bank statement	0	90	10	0
Minimum deposit	0	10	15	75
Interest rate on deposit	10	80	5	5
Transactions are accurate	95	5	0	0
Safety of your saving	97	3	0	0
Mean	**67.33**	**42.86**	**22**	**30**

Table 4.30 showed the result of customer satisfaction with bank performance. In an average, 67.33% of customers are highly satisfied with the bank performance, 42.86% are satisfied, 22% are neutral & 30% are dissatisfied with the bank performance. Thus, it can be said that more than 60% of customers are highly satisfied with the bank.

Table 4.31
How much satisfied with the Employee Behavior?

Particular	Highly Satisfied	Satisfied	Neutral	Dissatisfied
Greet you	10	90		
Well dressed		20	80	
Polite/Courteous	78	18	4	
Supportive or provide guidance	8	7	85	
Quick in processing		90	8	2
Knowledgeable	16	84		
Mean	**28**	**51.5**	**44.25**	**2**

Table 4.31 showed the result of customer satisfaction with employee behavior. In an average, 28% of customers are highly satisfied, 51.5% are satisfied, 44.25% are neutral & 2% are dissatisfied with the employee behavior. It concludes that in total more than 50% of customers are satisfied with the employee behavior.

Table 4.32
How much satisfied with the branch location?

Particular	Highly Satisfied	Satisfied	Neutral	Dissatisfied
Ease accessibility of branch	89	1		10
Security system of a branch		70	21	9
Cleanliness of the branch	83	10	7	
Operation time of a branch	18	47	35	
Parking facility		14	76	10
Mean	**63.33**	**28.40**	**34.75**	**9.67**

Table 4.32 concludes that 63.33% of customers are highly satisfied with the bank location as they are located at very prime & common a place which makes customers ease access. Security system of a branch is also satisfactory & 70% of the customers are satisfied with the security system of a branch. But in average, 28.40% are satisfied, 34.75% are neutral & 9.67% are dissatisfied with the branch location.

Table 4.33
How much satisfied with the ATM Services?

Particular	Highly Satisfied	Satisfied	Neutral	Dissatisfied
Wide ATM network	94	6		
Availability of ATM in working condition	3	45	40	12
Ease to operate	47	30	23	
Mean	**48**	**27**	**31.5**	**12**

Table 4.33 showed the customer satisfaction with the ATM services. It results that in an average, 48% of customers are highly satisfied with the ATM service of a bank. 27% are satisfied, 31.5% are neutral & 12% of customers are dissatisfied with the ATM services. They provided various reasons for dissatisfaction.

Table 4.34
Which factors motivates customers to keep themselves with the bank?

Factors	Bank Location	Wide branch Network	Interest rate on deposit	Staff behavior
	80	94	81	68

From the table 4.34, it can be concluded that wide branch network seems to be in the first priority factor which motivates customers. The main reason behind it is customers have an ease access to branch network throughout the country. Secondly, interest rate on deposit has highly influence customer to keep them with the bank. Thus, SCBNL provides good interest rate on deposit to motivate customer. Similarly, bank location & staff behavior comes under 3rd and 4th priority factors.

4.6 Major Findings of the Study

The various output of the analysis done in chapter 4 is presented in this topic. The certain based on the analysis conducted under analytical section are going to be revealed in the following sections.

1) The bank has a positive net profit margin which means that the bank has the good management over cost control or expenses and in pricing policies in an effective manner. Hence the increase or positive net profit margin helps to increase return on assets.

2) The allocation of the bank's assets to the highest – yielding loans and investments while avoiding excessive risk, management can raise the bank's average yield on its assets. SCBNL, in this regard seems gradual growing up. The speed of increasing asset size relatively with operating revenue seems the main reason behind increasing AU.The analysis shows that the asset utilization is demonstrating the things positive.

3) The bank shows the poor capacity to generate revenue due to decreasing percentage relatives through the study period.

4) The bank is in average position by supplying the cost of funds for their holdings assets. The ratio of interest expense to total assets is gradually decreasing .Hence it is not a good indicator of cost control efficiency of SCBNL.

5) The ratio of interest margin to total assets of SCBNL is encouraging the bank.

6) It is found that the ratio of provision for staff expenses is gradually increasing which is not a good signal.

7) It has been observed from the table that the ratios for provision for staff bonus to total assets are increasing trend during the study period.

8) The ratios of provision for income tax to total assets are in fluctuating trend but not so highly fluctuating during the study period. The ratio is highest in 2011/12. It means that the expenses made for the income tax are not in a consistent manner.

9) The ratio of provision for possible losses to total asset shows that it is consistent within 4 fiscal year and suddenly increases in last fiscal year. It is found that there is no consistency in accrual expense of the bank during the study period.

10) To build up Return on Assets of SCBNL, Net Profit Margin & Asset Utilization has growing contributions over the years .The analysis done by putting total assets as denominator, data presented in the Table 4.2 encourages to increases ROA during the study period. It is found that the main reason behind this increment is due to significant increase of interest margin to total asset ratios in such years.

11) The equity multiplier is normally the largest, averaging about 15X or larger for most banks. The biggest banks in the industry often operate with multipliers of 20X or more. Thus, with this reference, the equity multiplier of SCBNL is observed as normal state.

12) ROE consolidates the result of overall operating performances of an institution as well as it measures the rate of return flowing to the bank's shareholders. Hence, SCBNL uses more funds and gives a good return to their owners.

13) Findings from the Ratio Analysis

The average Current Ratio of SCBNL is 1.03:1 respectively during 5 fiscal years of the study period. This analysis clears that the bank is not sufficient for maintaining 2:1 reliable ratio.

The average Cash and Bank Balance to the Total Deposit ratio of SCBNL is 9.33% in fiscal five years. This analysis shows that SCBNL has highest cash reserve in later year and thus liquidity position is good.

The average Fixed Deposit to Total Deposit ratio is 19.32%. SCBNL has highest fixed deposit to total deposit in 2010/11. Therefore, fiscal year 2010/11 remained more successful in maintaining fixed deposit to total deposit ratio and mobilized higher portion of total deposit in investment.

The average Saving Deposit to Total Deposit ratio of SCBNL is 44.48%. The study shows that the liquidity position of SCBNL was good in fiscal year 2007/8 & was worst in 2010/11.

The average Loan and Advances to Total Deposit ratio of SCBNL is 43.76% in 5 fiscal years. The study shows that SCBNL has higher efficiency to utilize depositor's fund in 2011/12 and it was low in 2008/09.

The average Loan and Advances to Total Asset ratio of SCBNL is 38.42%.The study shows that SCBNL was more successful in 2011/12 in mobilizing total asset in loan and advances. The higher ratio in 2011/12 also concludes that the total asset is more risky in 2011/12 than other previous fiscal year.

The average Investment to Total Deposit ratio of SCBNL is 48.19 % during the 5 years of study period. In fiscal year 2008/09, SCBNL remained successful in mobilizing total deposit in investment. The ratio is very poor in year 2011/12 which means very less investment was mobilized from total deposit.

The average Net Worth to Total Asset ratio of SCBNL is 8.35 %. In all fiscal five years bank have low ratio. Therefore, the study shows that the bank is not in a satisfactory position. The asset of SCBNL in 2011/12 is safer than previous fiscal years as it has highest ratio.

The average Net Worth to Total Deposit ratio of SCBNL is 9.52% during study period. The ratio is highest in 2011/12 which means that bank was in satisfactory position.

The average Net Income to Total Deposit Ratio of SCBNL is 2.97%.The analysis shows that the capacity of turning total deposit into net profit of SCBNL is much better in fiscal year 2011/12 than previous years.

The average interest Income to Total Asset ratio of SCBNL is 3.74% in fiscal five years. The analysis shows that the capacity of utilizing total assets to generate interest income is higher in fiscal year 2011/12.

In fiscal five years, the average interest expenses to interest income ratios of SCBNL is 46.87%.The analysis shows that SCBNL has the highest control on interest expenses in 2007/08 than other fiscal years.

The average DPS of SCBNL is Rs.55.99. The analysis shows that SCBNL provided highest dividend in a year 2007/08 and very less in fiscal year 2011/12.

The average DPR of SCBNL is 6.25%. The study shows that SCBNL has highest dividend pay out ratio in fiscal years 2009/10 & 2010/11.

The result of correlation shows that ROA was negatively correlated with NPL (-0.183) & IETTL (-0.397) which indicate that the SCBNL could not effectively manage its credit risk. The negative coefficient estimates of the correlation resulted in these ratios had inverse relationship with ROA. In contrast, CAR (0.552) & CDR (0.698) was positively correlated with ROA depicts that the SCBNL have good profit and capital as per prescribed limit in the public bank. NIM (0.521) was also found positively correlated with ROA. The positive coefficient estimate of the correlation implies that there was a direct relationship of CAR, CDR & NIM with ROA.

It can be seen that ROE was positively correlated with CAR, NIM, CDR & NPL. It indicates that an increase in CAR, CDR or NIM will lead to an increase in ROE while IETTL was found independent with ROE as it was negatively correlated. The coefficient of correlations for CAR (+0.189), NIM (+0.245), CDR (+0.067), NPL (1) clearly shows that most of the variables were strongly correlated with ROE.

The statistics also indicate that average variables in both cases were strongly correlated. Hence there appeared to be multi co-linearity problems. These data are also been verified using variance inflation factor (VIF).

Regression Analysis

The R square for ROA (0.98) was determined higher than ROE (0.90)., In ROA model, the result that capital adequacy ratio, non performing loan, were insignificant while IETTL, CD & NIM were significant. For that hypothesis 3, 4 and 5 have been accepted and have a significant impact on performance of the SCBNL bank. Hypothesis 1 & 2 were rejected by accepting alternative null hypothesizes.

In ROE model, only CAR was significant while other variables NPL, IETTL, NIM & CDR were insignificant. Therefore Hypothesis 1 has been accepted while hypothesis 2, 3, 4, 5 have been rejected by accepting alternative null hypothesizes.

Customer Satisfaction was evaluated using primary source of data collection procedure. After performing questionnaire with customers, followings were predicted.

Regarding customers satisfaction with the overall performance of the bank, 67.33% of customers are highly satisfied with the bank performance, 42.86% are satisfied, 22% are neutral & 30% are dissatisfied with the bank performance. Thus, it can be said that more than 60% of customers are highly satisfied with the bank.

Employee behavior is also one of the major factor which influences customer satisfaction. 28% of customers are highly satisfied, 51.5% are satisfied, 44.25% are neutral & 2% are dissatisfied with the employee behavior. It concludes that in total more than 50% of customers are satisfied with the employee behavior.

Branch location is another factor which motivates the customers to be with the bank. In an average, 63.3% are highly satisfied, 28.40% are satisfied, 34.75% are neutral & 9.67% are dissatisfied with the branch location.

ATM Service performance do not affect much to the customer satisfaction as only 48% are highly satisfied with ATM service & just 27% are satisfied with this facility provided. 31.5% of customer are neutral with this service.

Thus, finally it can be concluded that wide branch network is the first influencing factor to motivate customer to be the part of bank. Interest deposit rate seems to be the second influencing factor for customer satisfaction. Bank location & Employee behavior comes the third and fourth factors which influence the customer satisfaction.

Chapter – V
Summary Conclusion and Recommendation

5.1 Summary

Since few previous years, Nepal has been facing unstable economy due to various unfavorable situations in the country, which have created negative impact and threat to the banking sector. As a result, among various others JVBs, Standard Charted Bank Nepal Limited is also facing same threat and impact. Despite the situation, SCBNL have been able to grow and develop in the complex economic environment. Thus, the study is conducted to know the financial performance & Customer satisfaction of one of the leading bank in the nation.

Commercial banks plays vital role in the economic development of the country. In recent years due to liberal economic policy of the government, many private banks are coming into operation. The foreign joint venture banks are enjoying competitive advantageous factors like highly skilled personnel, modern and advanced banking technology, customer oriented modern banking system, management expertise and global banking network. So, banking sector is becoming more dynamic and subject to rapid changes. It is not enough to analyze operating performance. There should be proper financial analysis. Financial analysis is the key for financial decision –making and for making plans and program before using sophisticated forecasting and budgeting procedures. Optimum utilization of the organization to the ultimate target fulfillment, so it is very important to analyze the accounting and financial statements to know whether the financial position is sound and what kind of measures should be applied. The value of financial analysis is to form the quantitative relation, who can be used to diagnose strength and weakness in a firm's performance, such analysis is considerable for the company's common stockholder, investors, bondholders and others.

The basic objective of the study is to analyze the financial performance of Standard Charted Bank Nepal Limited. The specific objectives of the study is to examine profitability and operating efficiency of SCBNL, to evaluate core banking business activities and to observe the bank's financial structure and measure the relation between

ROA, ROE & other variable such as CAR, NIM, IETTL, NPL, CDR. The other objective is to measure the customer satisfaction in using services of SCBNL bank.

Related literatures are reviewed on the basis of purposive study. Then the data have been collected from the different available sources, i.e. primary and secondary sources. The analysis of data has been done according to the available data and the objective of the study. The analysis and interpretation of data has been done by applying the wide varieties of methodology as stated in earlier chapter.

The objective of the study also identified as to come up with conclusion of the financial performance of SCBNL with regard to key financial variables based on the findings of analysis. It is done to determine the bank's financial position in order to identify its current strengths and weaknesses and to suggest action that might enable the firm to take advantage.By using financial and statistical tools, the overall financial performance of the bank has tried to analyze. Various ratios, statistical tools have exposed the4 financial condition of the bank over the last 5 years.

Financial analysis of SCBNL is done on the basis of financial statement from 2007/08 to 2011/12. The study is based on the secondary data. To approach the study, various financial and statistical tools have been used. The financial ratios are analyzed with application of Du Pont approach. Analysis of descriptive statistics and correlation analysis to estimate & see the effect of ROA & ROE.

For the financial analysis of the bank, firstly Du Pont approach has been taken into consideration. The ratios analyzed under this approach are Return on equity and Return on Assets. And to view clearly the Return on equity and Return on assets have been segregated into its composite parts. The ratios are net profit margin, assets utilization, equity multiplier, interest income to total assets, interest expense to total assets, interest marginal to total assets, provision for staff bonus to total asset, provision for possible loan loss to total asset, provision for income tax to total assets.

The descriptive statistics of variables used in Du Pont Model have been done to analyze profitability of the bank. And also descriptive statistics of breakdown of ROA (interest income to TA, interest expense to TA, interest margin to TA etc.) have been calculated.

Also, the financial leverage is measured as equity multiplier and return on equity of SCBNL. And correlation and regression analysis is done to know the relation between leverage and return on equity.

Lastly, econometric model was used to show the relation between ROA & ROE with different other financial ratios. This resulted in significant and insignificant relation with ROA & ROE.

For customer satisfaction, a series of questionnaire were collected and data were collected from 100 customers to analyze & measure customer satisfaction in various prospective. The major areas such as performance of bank, employee behavior, branch location, ATM service, wide branch network were measured from customer point of view. The analysis shows the various reasons for the customer to be with the SCBNL bank among the other banks. All the data are measured in average and accordingly conclusion is drawn.

5.2 Conclusion

The overall performance of Standard Charted Bank Nepal Limited is satisfactory and Nepal Rastra Bank has to play more active role to enhance the operation. The analysis of net profit margin of bank is in satisfactory level. The ratio of NPM in fiscal years 2007/08 – 2011/12 has been encouraging due to the increasing ratio. Hence the bank has efficiency in expenditure management or cost control in one hand to increase in NPM, in other hand it has good management of revenue generating activities boosts for robusting the position of the bank. The bank also shows the increasing trend of AU throughout the study period. Therefore the efficiency of asset management of the bank is satisfactory and consistent.

In the context of interest income to total assets, the bank shows increasing level of the ratio throughout the study period. It means that the income earning from the holding assets is good. Interest expense to total asset ratio shows that the bank is not in a good position by supplying the cost of funds for their holding assets. The ratio shows almost the constant trend throughout the study period. In context of interest margin to total assets, relative performance of the bank has shown the decrement in the income earned from handling customer's transactions. It ratio is in decreasing trend during the study period. The bank shows increasing trend of provision for staff bonus. Provision for income tax to total asset ratio of the bank shows the inconsistency level. It means that the expense made for the income tax is not in consistent manner. The ratios are not highly fluctuated.

The bank's EM reflects leverage or financial policies. However, the larger the multiplier, the greater, the bank's potential for high returns for its stockholders. The equity multiplier of Standard Charted Bank Nepal Limited is observed as normal state. And from the analysis of Return on equity, it is drawn that the bank uses more funds and gives a good return to their owners.

The liquidity ratio measures the ability of a firm to meet its short-term obligations and select the short term financial solvency of a firm. The liquidity position of a bank in term of current ratio shows that the average ratio of SCBNL is 1.03:1 which shows that liquidity position is not so good.

The liquidity position in term of cash and bank balance to total deposit ratio of SCBNL in 2011/12 is higher than in previous years. So, it is concluded that bank has sufficient cash and bank balance to total deposit in later year.

Fixed deposit is the high interest bearing deposit which can be withdrawn only after its maturity. The average fixed deposit to total deposit ratio of SCBNL is 19.32%. The ratio was lowest in 2007/08 & highest in 2011/12 which means that the portion of fixed deposit to the total deposit was best in 2007/08 because fixed deposit is high interest bearing deposit.

Saving deposit is short term interest bearing deposit and it has medium rate of interest. The ratio of SCBNL is higher in 2007/08 and lower in 2010/11.Thus in 2007/08, bank has best liquidity ratio on the basis of saving to total deposit ratio.

The result of analysis of loan and advances to total deposit indicates that the bank is mobilizing its total deposit in loan and advances. SCBNL is more successful to invest its total deposit in loan and advances in fiscal year 2011/12 as the ratio is highest. (48.19%)

Loan and advances to total asset ratio of SCBNL is highest in fiscal year 2011/12 which means that SCBNL is more successful to utilize its total assets in loan and advances in 2011/12.

The investment to total deposit ratio of SCBNL is greater in 2008/09 & is least in 2011/12. This shows that SCBNL is more successful to utilize high percentage of total deposit in investment during fiscal year 2008/09.

The return on asset (ROA) or net profit to total assets ratio is a useful measurement of the profitability of all financial resources invested in all assets. The return on asset of SCBNL is greater in fiscal year 2011/12 which shows that bank utilized its assets more effectively to generate highest profit. The analysis of ROA shows that the bank has a good managerial efficiency which means that the management of the bank has a very powerful capability in converting its institution's assets into net earnings.

Net Income to Total deposit of SCBNL is greater in fiscal year 2011/12 which shows that bank utilizes maximum of deposit to earn much profit.

The ratio of Interest Income to Total Asset is highest in fiscal year 2011/12 i.e. 4.47% .which indicate that bank generated 4.47% as interest income from Rs.100 investment in total assets.

Interest Expense to Interest Income of SCBNL was lowest in year 2009/10 which shows that bank is more successful to decrease its interest expense.

EPS of SCBNL is high in fiscal year 2011/12. i.e. Rs. 725/ share which show that bank generated profit and distributed to shareholders the earned amount.

The DPS of SCBNL was highest in 2007/08 and lowest in 2011/12. This shows that bank was able to provide high dividend to its shareholder during previous years.

DPR of SCBNL is highest in 2011/12 which shows that profitability ratio of SCBNL is better in fiscal year 2011/12 than in previous years.

Finally the correlation & regression analysis is used to examine the relationship between CAR, IETTL, NIM, CDR, and NPL with ROA & ROE. The correlation analysis shows that NPL & IETTL are inversely related with ROA. The ratios CAR , NIM & CDR are positively correlated with ROA.

It can be seen that ROE was positively correlated with CAR, NIM, CDR & NPL. It indicates that an increase in CAR, CDR or NIM will lead to an increase in ROE while IETTL was found independent with ROE as it was negatively correlated. The coefficient of correlations for CAR (+0.189), NIM (+0.245), CDR (+0.067), NPL (1) clearly shows that most of the variables were strongly correlated with ROE.

The R square for ROA (0.98) was determined higher than ROE (0.90). In ROA model, the result that capital adequacy ratio, non performing loan, was insignificant while IETTL, CD & NIM were significant. For that hypothesis 3, 4 and 5 have been accepted and have a significant impact on performance of the SCBNL bank. Hypothesis 1 & 2 were rejected by accepting alternative null hypothesizes.

In ROE model, only CAR was significant while other variables NPL, IETTL, NIM & CDR were insignificant. Therefore Hypothesis 1 has been accepted while hypothesis 2,3, 4, 5 have been rejected by accepting alternative null hypothesizes.

Regarding customer satisfaction, it can be concluded that wide branch network is the first influencing factor to motivate customer to be the part of bank. Interest deposit rate seems to be the second influencing factor for customer satisfaction. Bank location & Employee behavior comes the third and fourth factors which influence the customer satisfaction.

SCBNL bank can be considered best at financial performance after evaluation of several financial ratios. Customer satisfaction with the available services of banks also seems to be quite satisfactory. The number of customers enrolling with the bank is increasing year by year which is because of superior services & benefits provided by the bank.

5.3 Recommendation

Based on the summary and conclusion, the following suggestions and recommendations are forwarded.

The liquidity position of SCBNL bank is below than normal standard of 2:1. So, the bank is recommended to maintain their liquidity position in normal standard. However, the ratio 1:0 or above would be considered acceptable.

Liquidity ratio in terms of cash and bank balance to total deposit ratio of SCBNL bank is higher in 2011/12. It is suggested that the bank should maintain the minimum requirement of cash and bank balance.

Fixed deposit is high interest bearing deposit, saving is moderate interest bearing deposit and current deposit is non interest bearing deposit. The bank should try to increase non-interest bearing deposits.

The bank should try to maximize utilize the total deposits and total assets in profit generating purpose. Specially, SCBNL is recommended to maximum utilize the total deposit and total assets in profit generating purpose like loan and advances.

The return on asset of SCBNL is greater in later years. So, it is recommended that the bank should maintain this ratio of profit generation. The bank has good managerial efficiency which means that the management of bank has a very powerful capability in converting its institution's assets into net earnings.

Dividend per share of SCBNL was greater in previous years and lower in 2011/12. It is recommended that high dividend should be provided to the shareholder by increasing the earning of the bank and attention should be needed in this regard because shareholders are the owners of the bank.

Regarding Customer Satisfaction, it is recommended that employee behavior should be disciplined, respectful, accuracy at work etc. Employee should be proactive at work & should be reactive towards customer complain& provide services on time. Bank location was seen as another problem. So it is recommended that parking facility should be broaden.

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Appendix

Annex 1: Five Years Financial Summary – Balance Sheet (2006/07-2011/12)

(figures in Rs. thousand)

Particulars	2007/08	2008/09	2009/10	2010/11	2011/12
Assets					
Cash and bank balance	2,050,243	3,137,164	1,929,307	2,975,795	636,623
Money at call and short notice Investment	2,197,538	2,055,549	1,669,460	4,280,888	2,126,035
investments	13,902,819	20,236,121	19,847,511	17,258,682	12,938,216
Loan and advances	13,718,597	13,679,757	15,956,955	18,427,270	19,575,968
Fixed Assets	117272	137,293	118,540	106,071	89,633
Other Assets	1349319	820,687	691,547	761,812	580,967
Total Assets	**33,335,788**	**40,066,570**	**40,213,320**	**43,810,520**	**41,677,052**
Liabilities					
Borrowings		300,000		350,000	
Deposits	29743999	35350824	35182721	37,999,242	35,965,631
Other liabilities	1,099,242	1,363,277	1,660,889	1,783,500	1,589,253
Total Liabilities	**30,843,241**	**37,014,101**	**36,843,610**	**40,132,743**	**37,554883**
Shareholders Fund					
Paid up capital	620,784	931,966	1,398,484	1,610,168	1,610,168
Proposed bonus share	310,392	465,983	209,773		241,525
Reserve (including exchange reserve)		1,415,025	1,731,489	2,023,202	2,261,536
Undistributed profit		239,495	29,965		8940
Total Shareholders Fund	**2,492,547**	**3,052,470**	**3,369,709**	**3,677,777**	**4,122,169**
Contigent Liabilities					
Letter of Credit	1,857,994	3,120,879	2,627,212	1,542,549	2,605,897
Guarantees	2,800,467	3,687,373	3,248,829	4,333,115	6,538,297
Forward exchange contracts	193,985	1,332,126	1,223,147	388,522	249,067
Other Contingent liabilities	1287338	3,031,614	2,588,137	4,253,643	3,587,537
Total Contingent Liabilities	**6,139,784**	**11,171,991**	**9687,325**	**10,517,829**	**12,980,797**

Annex 2: Five Years Financial Summary – Profit & Loss Account (2006/07-2011/12)

(figures in Rs. thousand)

Particulars	2007/08	2008/09	2009/10	2010/11	2011/12
Interest Income	1,591,196	1,887,221	2,042,109	2,718,699	2,870,971
Interest Expenses	471,730	543,787	575,741	1,003,100	1,007,199
Net Interest Income	**1,119,466**	**1,343,435**	**1,466,369**	**1,715,599**	**1,863,772**
Commission and Discount	276,432	288,031	338,298	314,674	267,766
Other operating income	32,594	33,191	34,479	36,753	38,355
Exchange fluctuation income	345,653	427,468	458,564	394,231	468,557
Total Operation Income	**1,774,145**	**2,092,125**	**2,297,710**	**2461257**	**2,638,449**
Staff Expenses	225,256	253,056	312,964	365,986	386,823
Other operating expenses	230,571	276,327	295,305	305,315	349225
Exchange fluctuation loss					
Operating profit before provision for possible loss	**1,318,318**	**1,562,743**	**1,689,441**	**1,790,055**	**1,902,401**
Provision for possible losses	69,885	56,635	76,974	82,739	208,251
Operating Profit	**1,248,432**	**1,506,108**	**1,612,467**	**1,707,316**	**1,694,150**
Non-operating income/loss	1,683	22,098	36,268	6,445	568
Provision for possible loss written back	90,635	101,075	58,293	67,159	190,918
Profit from ordinary activities	1,340,750	1,629,282	1,707,028	1,780,921	1,885,635
Income/expenses from extra activities	(28,039)	(15,356)	(17,024)	(22,765)	(42,577)
Net profit after considering all activities	**1,312710**	**1,613,926**	**1,690,004**	**1,758,156**	**1,843,059**
Provision for staff bonus	119,337	146,721	153,637	159,832	167,551
Provision for income tax	374,452	442,091	450,496	479,153	506,540
Net Profit/Loss	**818,921**	**1,025,114**	**1,085,872**	**1,119,172**	**1,168,967**
Accumulated Profit up to previous year	557,724	383,288	239,495	22,033	44,407
This year's profit	818,921	1,025,115	1,085,872	1,119,171	1,168,967
Capital adjustment fund upto previous year					
Total	**1,376,645**	**1,408,402**	**1,325,366**	**1,141,204**	**1,213,375**
General Reserve fund	163,784	205,023	217,174	223,834	233,793
Proposed dividend	496,627	465,983	769,166	805,084	724,576
Proposed issue of bonus share	310,392	465,983	209,773	18,104	241,525
Exchange fluctuation fund	22,554	31,918	21,381	49,775	47,691
Capital adjustment fund			77,908		(43,151)
Other appropriations					
Accumulated Profit/Loss	**383,288**	**239,495**	**29,965**	**44,407**	**8,940**
Profit before tax	1,193,373	1,467,205	1,536,367	1,598,324	1,675,508
Return on shareholders fund	32.85%	33.58%	32.22%	30.43%	28.36%
Cost income ratio	32.42%	32.32%	33.16%	33.76%	34.25%
Profit per employee	2,172	2,615	2,531	2,609	2,757
Dividend cover ratio	1.01	1.10	1.11	1.39	1.21

Annex 3: Questionnaire on Customer Satisfaction

Questionnaire for Account holder

Your Name	**Mr./Mrs.**
Name of your Bank	
Location	

Occupation: **Business owner** **salaried person** **Other**

<u>Account Maintainance</u>

Q.1 How satisfied are you with?

Particular	**Highly satisfied**	**Satisfied**	**Neutral**	**Dissatisfied**	**Highly dissatisfied**
Forms and slips are easy to fill					
Ease to open account					
Account is held without error					
Timely Bank statement					
Charges are clearly explained					
Bank Charges					
Interest Rates on deposits					
Transactions are accurate					
Transactions are speedy					
Safety of your savings					

Employee Behavior

Q.2 How satisfied you are with bank staff who are/who?

Particular	**Highly satisfied**	**Satisfied**	**Neutral**	**Dissatisfied**	**Highly dissatisfied**
Greet you					
Well dressed					
Polite/Courteous					
Supportive or provide guidance					
Quick in processing					
Knowledgeable					

Branch Location

Q.3 How satisfied you are you with?

Particular	**Highly satisfied**	**Satisfied**	**Neutral**	**Dissatisfied**	**Highly dissatisfied**
Easy accessibility of Branch					
Security system of branch					
Infrastructure of branch					
Cleanliness of a branch					
Operation time of branch					
Variety of products and services offered					
Parking facility					

ATM Services

Q.4 How are you satisfied with?

	Highly satisf	**Satisfied**	**Neutral**	**Dissatisfied**	**Highly dissatisfied**
Wide ATM network					
Availability of ATM in working condition					
Amount withdrawl limit					
Easy to operate					

Q.5 Over all how are you satisfied with the services of the bank ?

Highly satisfied	**Satisfied**	**Neutral**	**Dissatisfied**	**Highly dissatisfied**

Q.6 Which are 3 factors that motivates you to keep yourself with your bank? Please use 1, 2, and 3 to priotize these three factors?

☐ Bank Location behavior ☐ Wide branch network ☐ ATM Network ☐ Staff

☐ Low bank charges ☐ Transaction speed and accuracy ☐ wide range of products

☐ Interest rate on deposit

Annex 4: Valuable Information of Standard Charted Bank Nepal Limited