CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Bank is an establishment for depositing, withdrawing and borrowing money. Commercial banks are the institutions who pool to gather the scattered saving of the people and arrange for its productive use. In other words, they accept the surplus fund of people as deposit and supply it to meet the financial needs of modern business by various means. In Nepal, for a very long time the financial sector was dominated by banks managed by government. The history of modern bank started after the establishment of Nepal bank limited (NBL), on 30th Kartik 1994 B.S. with 51% government equity. The NBL dominated the financial sector of the country for almost 30 years without any competition.

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

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

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

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

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

1.2 Profile of Sample Bank

The bank was originally established as a joint venture of Grindlays Bank and Nepal Bank Limited in 1985 with the shareholding ratio of Grindlays Bank Limited 50%, Nepal Bank Limited 33.35% and General public 16.65%.Along with the change of ownership to Standard Chartered Bank, the banking area of SCBNL saw the rise of a new dawn changing the general image of the Bank. With this acquisition, SCBNL now owns 50% shares of Nepal Grindlays Bank Limited .In fiscal year 2003/04 one of the big shareholding organizations, Nepal bank limited, has sold its whole shares of 33.35% to the general public (8.35%) and to the Standard Chartered bank of UK (25%).

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 15 points of representation and 16 ATMs across the Kingdom and with around 350 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through a large domestic network. In addition to which the global network of Standard Chartered 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.

The bank has 350 staffs as on 1st January 2007, they all are enough qualified, trained and dedicated to provide quality service to the consumers of the bank. Moreover, the bank is still trying to improve skills and knowledge of the staffs by providing various trainings and development works. With the current slowdown in the economy due to domestic and international factors, and recently introduced changes in the Nepal Rastra Bank directives, the bank has taken following strategies:

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

1.3 Focus of the Study

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

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

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

1.4 Statement of the Problem

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

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

investment is therefore the demand of the day. Therefore, the Bank can contribute a lot by serving in the path of economic development through proper mobilization of savings and investing it in the productive and development sector of the economy as well as ensuring qualitative banking services for the development of the economy of Nepal through banking in appropriate and new innovative banking technologies.
This study attempts to evaluate the financial performance of the bank with the help of various financial and statistical tools. This study also attempts to recommend some suggestions for improvement in financial performance aspect.

The research questions for this study are derived from some selected literatures containing financial analysis of the business firms as described in Chapter 2 Review of Literature. This study was focused on the financial performances of SCBNL. Therefore, this study has aimed in answering the following research question:

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

1.5 Objectives of the Study

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

A. To analyze liquidity, leverage, activity, profitability and ownership ratios of the bank.
B. To examine the income and expenditure statements of the bank.
C. To indicate the statistical position of the bank.
D. To provide suggestions and recommendations based on the findings of the analysis.

1.6 Limitations of the Study

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

A. This study has been carried out based on the published financial documents such as balance sheets, profit and loss accounts, related journals, magazines and books. These published documents have their own limitations.
B. The study has been based on the secondary data only.
C. The study has been focused on the financial performance of SCBNL with the help of financial tools.

D. It covers the financial performance of SCBNL for the periods from 1997/98-2006/07 only.
E. No comparison has been made with other commercial banks.
F. The conclusion drawn up from this study may or may not be applicable to other commercial banks in Nepal.

1.7 Scheme of the Study

In this study only five chapters are included which are as follows:
First chapter deals with the introduction that includes background of the study, profile of sample bank, statement of problem, objective of study, limitation of the study and scheme of study.

Second chapter deals with the available literature review. It includes review of books, review of legislations related to commercial banks, review of other relevant books, review of bank's report and review of pervious thesis.

Third chapter explains the research methodology used in the study, which includes research designs, nature and sources of data, data collection and data analysis technique.
Fourth chapter is the heart of the study. This chapter includes presentation and analysis of data using financial and statistical tools such as ratio analysis and statistical analysis.
Fifth and last chapter revolves with suggestion, which include the summary of main findings, recommendation and suggestions for further improvement and conclusions of the study.

CHAPTER 2

REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant propositions in past studies. This chapter refers to glance to the past studies and progress on similar field. All those studies related to this thesis works are categorized into two parts: first conceptual frame work which covers the area of the research work and theoretical concepts developed by various scholars writers. The second part refers review of relates studies. It includes review of empirical studies, review of articles and review of thesis. All the reviewed literatures have been presented orderly as follows:

2.1 Conceptual Frame Work

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

2.1.1 Concept of Financial Performance

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

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

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

Management of the firm is interested in all aspects of financial analysis to adopt a good financial management system for the internal control of the enterprise. Similarly, trade creditors are primarily interested in the liquidity position of the firm. Long-term creditors

are more interested in the cash flow ability of the enterprises to service debt over a long run. Similarly, all the concerned groups are directly or indirectly interested about the financial performance of the firm.

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

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

In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm (Pandey, 1989:104).
In the financial world, a bank's performance has mainly focused on financial performance decision. A commercial bank's performance is to be examined for various reasons. Bank regulators identify banks that are experiencing severe problems so that they can give remedy to them.

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

2.1.2 Theories of Financial Analysis:

Financial analysis is the process of identifying the financial strength and weaknesses of the firm by properly establishing relationship between the items of the Balance Sheet and the Profit and Loss Account (Pandey, 1989: 104).
Financial analysis can be undertaken by management of the firm or by parties outside the firm via owners, creditors, visitors and others. The nature analysis will differ depending on the purpose of the analyst. For example, trade creditors are interested in the fact that the firm should be able to meet their claims over a very short period of time; the suppliers in the firm are interested in long term solvency and survival. So, financial analysis is undertaken by outsiders, creditors, and investors and also by the firm itself. Thus, the various parties according to the particular interest of the analyst undertake the type of financial analysis.

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

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

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

Ratio is simply one number expressed in terms of another, it is an expression or relationship spelt out by dividing one figure into the other. The relationship between two accounting figures expressed mathematically is known as a ratio. A ratio helps the analyst to make qualitative judgment above the firm's financial position and performance.

However, quantitative relations represented by ratio analysis are not an end in them but are means to understanding a firm's financial position. Quantitative ratio analysis is not capable of providing precise answers to all the problems faced by the Financial Manager or a potential fund supplier unless several ratios related to one another are computed. And then, the ratio analysis acquires some significance from the point of view of its users. So, a financial analysis through ratio analysis assists in identifying the major strengths and weaknesses of the Bank. It indicates whether the Bank has enough cash to meet its obligations and ability to utilize their available resources properly. Whether the Bank has adequate capital structure to tackle financial risk and overall efficiency of the bank in terms of profit. All of which are necessary if the firm is to achieve the goal of maximizing shareholder's wealth. Financial analysis can also be used to assess the Bank's viability, as an ongoing enterprise and determine whether a satisfactory return is being earned for the risk taken.

2.1.3 Users of Financial Ratios

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

1) Short-Term Creditors and Depositors

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

(from the federal funds market or the discount window) may be more appropriate (Madum Jeff, 1989).

2) Long-Term Creditors

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

3) Equity Investors

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

4) Management of a Firm:

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

5) Central Bank:

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

2.1.4 Financial Tools

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

I) Financial Ratio Analysis

A) Liquidity Ratios

Liquidity ratios measure the firm's ability to meet current obligations. In fact, analysis of liquidity needs the preparation of cash budgets and cash and fund flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligation, provides a guide measure of liquidity (Pandey, 1989:103).
Banks can experience lack of liquidity when cash outflow (due to deposit, withdraws, loans etc.) exceed cash inflows (new deposits loan repayments etc.) They can resolve any cash deficiency by either creating additional liabilities or by selling assets. To analyze the ability of banks, the following selected ratios are calculated.

1. Current Ratio

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

2. Cash and Bank Balance to Current Asset Ratio

Cash and bank balance is the most liquid form of the current assets. The cash and bank balance ratio indicates the percentage of readily available funds within the bank.

3. Loan and Advances to Current Assets Ratio

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

4. Fixed Deposit to Total Deposit

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

5. Saving Deposit to Total Deposit

Saving deposits is the low interest bearing deposit than the fixed deposit. These deposits arc not as freely withdrawal as current deposit. This ratio is calculated in order to find out the proportion of total deposit which is interest bearing and short-term. It can be calculated by dividing the amount of saving deposits by the amount of total deposits.

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

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

Regarding cash reserve, Nepal Rastra Bank had guided all the commercial Banks to maintain at least 12% of their deposit liabilities as reserve (Vault cash is 4% and the central bank balance is 8%of total deposits).

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

B) Activity Ratio

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

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

1. Loan and Advances to Total Deposit Ratio

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

2. Loan and Advances to Saving Deposit Ratio

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

3. Loan and Advances to Fixed Deposit Ratio

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

C) Leverage or Capital Structure Ratio

Leverage ratio or capital structure ratio measures outsider's capital in financing the firm's assets and are calculated by establishing relationships between borrowed capital and equity capital. Higher leverage ratio indicates larger amount of borrowed funds used by the firm to finance its assets and it also indicates increasing obligations and known as risky firm. A firm must have sufficient margin of equity to pay the fixed charges and refund the borrowed funds in the maturing date. The following ratios have been used to measure the long-term solvency position of Standard Chartered Bank Nepal Limited with the help of financial data of past ten years of the bank.

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

1. Total Debt to Shareholder's Equity Ratio

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

2. Total Debt to Total Assets Ratio

Total debt to total asset ratio is the relationship between creditors funds and owners capital. This ratio shows the proportion of outsiders fund used in financing total asset. This ratio is calculated by dividing the total debt of the bank by its total assets.

3. Shareholder's Equity to Total Assets Ratio

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

D) Profitability Ratio

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

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

1. Interest Earned to Total Asset Ratio

Interest earning is the major source of income in a commercial bank. This ratio is calculated to find out percentage of the interest earned in comparison to total assets.

2. Net Profit to Total Deposit Ratio

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

3. Net Profit to Total Asset Ratio

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

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

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

5. Net Operating Profit to Total Asset

Net operating profit is the profit before interest and taxes (EBIT). When financial charges are significant, then it is appropriate for the comparative study to compute the net

operating profit to total asset ratio rather than the return on assets ratio. This ratio is useful to measure the profitability ratio before interest and taxes of all financial resources invested in the bank's assets.

6. Net profit to Risk Asset Ratio

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

E) Ownership Ratio

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

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

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

1. Earning Per Share (EPS)

The EPS represents the amount earned on behalf of each outstanding share of common stock. They are closely watched by the investing public and are considered an important indicator of the firm's success.

2. Dividend per Share (DPS)

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

3. Dividend Payout Ratio (DPR)

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

II) Income and Expenditure Analysis

Income and expenditure are the main indicators of the financial performance of the business firm. The income and expenditure statement provides a financial summary of the firm's operating results during the period specified. Therefore, the attempts have been made to analyze the income and expenditure statement of Standard Chartered Bank Nepal Limited of ten financial years from 1997/98 to 2006/07 in this study to know the financial

performance of the bank. In this study the analysis of operating income and expenditure has been made as per the following details;

1. Operating Income

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

2. Operating Expenses

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

III. Statistical Analysis

"The word statistics refers either to quantitative information or to a method of dealing with quantitative information" (Gupta S.P. "Elementary Statistical Methods, S Chand & Sons, 1833)

The relationship between different variable related to the study would be drawn out using statistical tools. The following can be used.

1. Correlation Analysis

Correlation is a statistical tool that measures the relationship between/among variables. It shows the degree and direction of such relationship. The relation between the data may be either positive or negative.

2.2 Review of Related Studies

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

2.2.1 Review of Empirical Studies

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

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

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

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

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

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

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

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

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

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

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

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

2.2.2 Review of Articles

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

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

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

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

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

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

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

Another study conducted by Dr. Manohar Krishna Shrestha in his article "Commercial Banks comparative performance evaluation" clarifies that joint venture in Nepal are new and comparatively more efficient in operation and having superior performance amongst local banks. Due to their sophisticated technology, modern banking and skill, joint

venture banks are performing better in comparison to local banks. Their better performance is also due to the burden of local banks, which are facing the burden of government's branching policy in rural areas and financing public enterprises. Local banks are efficient and expertise in rural sector. But having number of deficiencies, they have to face growing constrains of socio-economic political system on one hand spectrum that of issue and challenges of joint venture banks commanding significant banking in other hand spectrum. (Shrestha, 1991).

Another study conducted by Sunity Shrestha on "Portfolio of Commercial Bank in Nepal" has analyzed the financial performance of the commercial banks using both descriptive and diagnostic approach. In her study she has concluded in following points.
Per capita deposit as well as per capita credit in commercial banks has increased tremendously. The contribution of deposit in GDP has also been seen increasing. The assets holding of commercial banks are growing with 42.12% rate that is supposed to be higher for developing country. It can be concluded that the commercial banks in Nepal are performing their function of collecting the domestic property.

The structural ratio of commercial banks shows that bank invest on the average 75% of their total deposit on the government securities and the shares.
The analysis of reserve position of commercial banks showed quite high percentage of deposit as cash reserve.

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

Return ratios of all the banks show that most of the time foreign banks have higher return as well as higher risk than the Nepalese banks
In case of the analysis of management achievement, foreign banks were found to have comparatively higher total management achievement index.
Among the commercial banks, Nepal Grindlays Bank seems to have highest growth rate of earning per share.

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

1) The deposit collection rate of local bank is very poor in comparison to foreign banks.

2) The pattern of deposit is also different between these banks. The ratio of current deposit in local banks is 19.34% only whereas the same in the foreign banks is 52.5%. But the fixed deposit ratio is very high in local banks.
3) The joint venture banks are in better position than the local banks in profit making.

2.2.3 Review of Previous Thesis

Various thesis works have been done in different aspects of commercial banks such as lending policy, investment policy, financial performance analysis, resources mobilization and capital structure. The review of some previous study, which is relating to the Nepalese banking sector, is the most relevant sources and assistant for this research. Mr. Keshav Raj Joshi, through his thesis **A study on financial performance of commercial banks** concluded that the liquidity position of commercial bank is satisfactory local commercial banks have been found relatively highly leveraged compared to the joint venture banks. Loan and advances have been their main form of the investment. Two third assets have been used for earning purpose. Profitability position of NABIL is stronger than others. (Joshi,1989).

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

The finding reveals that banks and retained earnings are two most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between banks to banks which offer best interest rates. Most enterprises find that banks are flexible in interest rate. Further he said that among the bank loans, bank loan of less than one year are more popular in public sector whereas bank loan of 1-5 year are more popular in private sector. (Pradhan, 1994).

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

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

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

Based on the findings of analysis, the research suggest finding out the root cause of weak liquidity position to improve the liquidity of both banks. Similarly both the banks are suggested to maintain improved capital structure in increasingly equity base, to extend loan and advance, to utilize more of the total deposit, to minimize operational expenses or to mobilize resources more efficiently and to extend their banking facilities even in rural areas (Acharya, 1997).

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

The review of the above mentioned bunch of research have definitely enrich my vision to elaborate analysis to come to the meaningful conclusion in realistic term and few key suggestion that help in improvement of commercial banks.

CHAPTER 3

RESEARCH METHODOLOGY

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

"Research is an original contribution to the existing stock of knowledge making for its advancement. It is the pursuit of truth with the help of study observation, comparisons and experiment. In short, the search for knowledge through objective and systematic method of finding solution to a problem is research." (Kothari, 1994)
The basic objective of this study is to compare financial performance of SCBNL. To achieve these objectives, the following methodology have been adopted which includes research design, sources of data, data collection, analysis technique and so on.

3.1 Research Design

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

3.2 Sources of Data

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

3.3 Data Collection, Processing and Tabulating Procedure

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

- The financial data have presented according to time series, which were of ten years starting from the fiscal year 1997/98 to 2006/07.
- The data were analyzed with the help of ratios, percentage, average and time changes.

3.4 Data Analysis Technique

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

3.4.1 Financial Ratio Analysis

A) Liquidity Ratios

Liquidity ratios measure the firm's ability to meet current obligations. In fact, analysis of liquidity needs the preparation of cash budgets and cash and fund flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligation, provides a guide measure of liquidity (Pandey, 1989:103).
Banks can experience lack of liquidity when cash outflow (due to deposit, withdraws, loans etc.) exceed cash inflows (new deposits loan repayments etc.) They can resolve any cash deficiency by either creating additional liabilities or by selling assets. To analyze the ability of banks, the following selected ratios are calculated.

1. Current Ratio

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

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

Current assets represent those assets which can be converted into cash and bank balance within accounting period such as cash and bank balance, investment in treasury bills, money at call or placement, loans and advances, bills purchased and discount, inter branch account, other short-term loans, receivable and pre-paid expenses etc.
Current Liabilities refer to the short-term maturing obligations. This includes all deposit liabilities, intra-bank reconciliation account, bills payable, tax provision, staff bonus, Dividend payable, Bank overdrafts, provisions and accrued expenses, etc.

2. Cash and Bank Balance to Current Asset Ratio

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

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

3. Loan and Advances to Current Assets Ratio

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

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

4. Fixed Deposit to Total Deposit

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

$$Fixed\ deposit\ to\ total\ deposit = \frac{Fixed\ Deposits}{Total\ Deposits}$$

5. Saving Deposit to Total Deposit

Saving deposits is the low interest bearing deposit than the fixed deposit. These deposits arc not as freely withdrawal as current deposit. This ratio is calculated in order to find out the proportion of total deposit which is interest bearing and short-term. It can be calculated by dividing the amount of saving deposits by the amount of total deposits. It is expressed as:

$$Saving\ deposit\ to\ total\ deposit = \frac{Saving\ Deposit}{Total\ Deposit}$$

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

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

Regarding cash reserve, Nepal Rastra Bank had guided all the commercial Banks to maintain at least 12% of their deposit liabilities as reserve (Vault cash is 4% and the central bank balance is 8%of total deposits).

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

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

B) Activity Ratio

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

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

1. Loan and Advances to Total Deposit Ratio

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

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

2. Loan and Advances to Saving Deposit Ratio

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

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

3. Loan and Advances to Fixed Deposit Ratio

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

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

C) Leverage or Capital Structure Ratio

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

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

1. Total Debt to Shareholder's Equity Ratio

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

$$\textit{Total Debt to Shareholder's equity ratio} = \frac{\textit{Total Debt}}{\textit{Shareholder's Equity}}$$

2. Total Debt to Total Assets Ratio

Total debt to total asset ratio is the relationship between creditors funds and owner's capital. This ratio shows the proportion of outsiders fund used in financing total asset.

This ratio is calculated by dividing the total debt of the bank by its total assets, which is presented below.

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

3. Shareholder's Equity to Total Assets Ratio

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

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

D) Profitability Ratio

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

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

1. Interest Earned to Total Asset Ratio

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

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

2. Net Profit to Total Deposit Ratio

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

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

3. Net Profit to Total Asset Ratio

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

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

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

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

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

5. Net Operating Profit to Total Asset

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

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

6. Net profit to Risk Asset Ratio

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

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

E) Ownership Ratio

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

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

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

1. Earning Per Share (EPS)

The EPS represents the amount earned on behalf of each outstanding, share of common stock. They are closely watched by the investing public and are considered an important indicator of the firm's success. EPS is calculated as follows:

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

2. Dividend per Share (DPS)

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

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

3. Dividend Payout Ratio (DPR)

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

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

3.4.2 Income and Expenditure Analysis

Income and expenditure are the main indicators of the financial performance of the business firm. The income and expenditure statement provides a financial summary of the firm's operating results during the period specified. Therefore, the attempts have been made to analyze the income and expenditure statement of Standard Chartered Bank Nepal Limited of ten financial years from 1997/98 to 2006/07 to know the financial performance of the bank. In this study the analysis of operating income and expenditure has been made as per the following details;

1. Operating Income

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

2. Operating Expenses

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

3.4.3 Statistical Analysis

The word statistics refers either to quantitative information or to a method of dealing with quantitative information" (Gupta, 1833)
The relationship between different variable related to the study would be drawn out using statistical tools. There are various statistical tools that can be used to analyze the data for example mean, standard deviation, coefficient of variation, correlation analysis, regression analysis etc. Hence correlation analysis is presented below:

1. Correlation Analysis

Correlation is a statistical tool that measures the relationship between/among variables; it shows the degree and direction of such relationship. The relation between the data may be either positive or negative. It can be presented by different ways such as graphical representation, formula method etc. When both the variables are moving upwards or downwards in the same proportion, it is said to be the condition of positive correlation and if the condition is vice-versa then the condition is said to be negative correlation. The main purpose of the study is to find out the correlation between selected rations with each other. The correlation coefficient is denoted by symbol 'r' and we use the following formula.

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

Where,

r = coefficient of correlation between variable x and y.
N = Number of pairs in observation
$\sum xy$ = Sum of the product of the variables x and y.
$\sum x$ = Sum of x
$\sum y$ = Sum of y
$\sum x^2$ = Sum of square of x
$\sum y^2$ = Sum of square of y

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

CHAPTER 4

PRESENTATION AND ANALYSIS OF DATA:

The main aim of this chapter is presentation and analyzing data according to research methodology to attain the objective of this study. In this chapter, an attempt has been made to analyze the financial performance of SCBNL for its operational period of ten years that is 1997/98 to 2006/07. The data for this study are presented in tabular form and are analyzed with the help of financial tools viz. ratio analysis, income and expenditure statement analysis and statistical tools such as correlation as described in chapter 3.

4.1 Ratio Analysis

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

4.1.1 Liquidity Ratio

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

A. Current Ratio
B. Cash and Bank balance to Current Assets
C. Loan and advance to Current Assets
D. Fixed Deposit to Total Deposit
E. Saving Deposit to Total Deposit
F. Cash and Bank balance to Total Deposit

A. Current Ratio

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

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

The Current Ratio of SCBNL is exhibited in table-1 below.

Table1: Current Ratio of SCBNL. (Rs in'000')

Year	Current Assets (Rs)	Current Liabilities (Rs)	Current Ratio (in terms of times)
1997/98	10279651	9092477	1.13
1998/99	13304981	12178056	1.09
1999/00	16984214	13529476	1.26

2000/01	19581623	16650435	1.18
2001/02	18342039	16522903	1.11
2002/03	20808792	19552432	1.06
2003/04	23505826	22068038	1.07
2004/05	21822165	20255239	1.07
2005/06	25675030	24022193	1.07
2006/07	28471098	26080336	1.09
Average	19877542	17995159	1.10

The above table shows that the current ratio of SCBNL has always exceeded one that means current assets of SCBNL has always exceeded current liabilities for the study period of 1997/98 to 2006/07. The bank has the highest current ratio of 1.26 in 1999/00 and lowest current ratio of 1.06 in 2002/03 with an average current ratio of 1.10 during the study period. In general, it can be said that the bank is able to meet its short-term obligations.

B. Cash and Bank Balance to Current Asset

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

$$\textit{Cash and bank balance to current assets ratio} = \frac{\textit{Cash and bank balance}}{\textit{Current assets}}$$

The cash and bank balance to current assets ratio of SCBNL for the period of 1997/98-2006/07 is presented in Table 2 below:

Table: 2 Cash and bank balance to current assets ratio (Rs in'000')

Year	Cash and bank balance (Rs)	Current assets (Rs)	Ratio (in %)
1997/98	740333	10279651	7.20
1998/99	826145	13304981	6.21
1999/00	1020458	16984214	6.01
2000/01	961051	19581623	4.91
2001/02	825265	18342039	4.50
2002/03	1512305	20808792	7.27
2003/04	2023164	23505826	8.61
2004/05	1111117	21822165	5.09
2005/06	1276241	25675030	4.97
2006/07	2021021	28471098	7.10
Average	1231710	19877542	6.20

The above table shows that cash and bank balance to current assets ratio of the bank was maximum (i.e. 8.61%) in year 2003/04 and minimum (i.e. 4.50%) in year 2001/02. It seems that this ratio has been decreasing for first 5years of observation period. And it fluctuated till 2006/07 and finally reached to 7.10%.

C. Loan and Advances to Current Assets Ratio

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

$$\textit{Loan and advance to current assets ratio} = \frac{\textit{Loan and advance}}{\textit{Current assets}}$$

The loan and advances to current assets ratio of SCBNL for the period of 1997/98-2006/07 is presented in the table -3 below:

Table: 3 Loan and advance to current assets ratio (Rs in'000')

Year	Loan and advances (Rs)	Current assets (Rs)	Ratio (In %)
1997/98	4253583	10279651	41.38
1998/99	4051881	13304981	30.45
1999/00	4857172	16984214	28.60
2000/01	5763136	19581623	29.43
2001/02	5364005	18342039	29.24
2002/03	5695824	20808792	27.37
2003/04	6410242	23505826	27.27
2004/05	8143208	21822165	37.32
2005/06	8935418	25675030	34.80
2006/07	10502637	28471098	36.89
Average	6397711	19877542	32.19

The above table shows that loan and advances to current assets ratio of the bank was maximum of 41.38% in year 1997/98 and minimum of 27.27% in year 2003/04 with an average of 32.19% during the study period. The analysis indicates that the loans and advances to current assets ratio are fluctuating.

D. Fixed deposit to total deposit ratio:

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

$$\textit{Fixed deposit to total deposit ratio} = \frac{\textit{Fixed deposit}}{\textit{Total deposit}}$$

The fixed deposit to total deposit of SCBNL for the period of 1997/98-2006/07 is presented in the table – 4 below:

Table: 4 Fixed Deposit to Total Deposit (Rs in'000')

Year	Fixed Deposit (Rs)	Total Deposit (Rs)	Ratio (in %)
1997/98	1843334	8530025	21.61
1998/99	2868911	11165165	25.70
1999/00	2651652	12568487	21.10
2000/01	3236033	15430051	20.97
2001/02	2264771	15835747	14.30
2002/03	1948596	18755635	10.39
2003/04	1428495	21161442	6.75
2004/05	1416383	19335095	7.33
2005/06	2136307	23061032	9.26
2006/07	3196490	24647021	12.97
Average	2299097.2	17048970	13.49

The above table shows that fixed deposit to total deposit ratio of the bank varies from maximum of 25.70% in year 1998/99 to minimum of 6.75% in year 2003/04 with an average of 13.49% during the study period of ten years. The analysis indicates that share of fixed deposit in total deposit has been decreasing since 1998/99 to 2003/04.And after that the ratio is gradually increasing till the end of study period.

E. Saving Deposit to Total Deposit Ratio:

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

$$\textit{Saving deposit to total deposit ratio} = \frac{\textit{Saving Deposit}}{\textit{Total Deposit}}$$

The saving deposit to total deposit ratio of SCBNL for the period of 1997/98-2006/07 is presented in the table below:

Table: 5 Saving Deposit to Total Deposit (Rs in'000')

Year	Saving Deposit (Rs)	Total Deposit (Rs)	Ratio (in %)
1997/98	4079506	8530025	47.83
1998/99	5471681	11165165	49.01
1999/00	6632697	12568487	52.77
2000/01	8404611	15430051	54.47
2001/02	9441906	15835747	59.62
2002/03	10633162	18755635	56.69
2003/04	12771826	21161442	60.35
2004/05	13030929	19335095	67.40
2005/06	14597674	23061032	63.30
2006/07	15244385	24647021	61.85
Average	10030837.7	17048970	58.84

The above table shows that saving deposit to total deposit ratio of the bank varies from maximum of 63.30% in year 2005/06 to the minimum of 47.83% in year 1997/98 with an average of 58.84% during the study period of ten years.

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

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

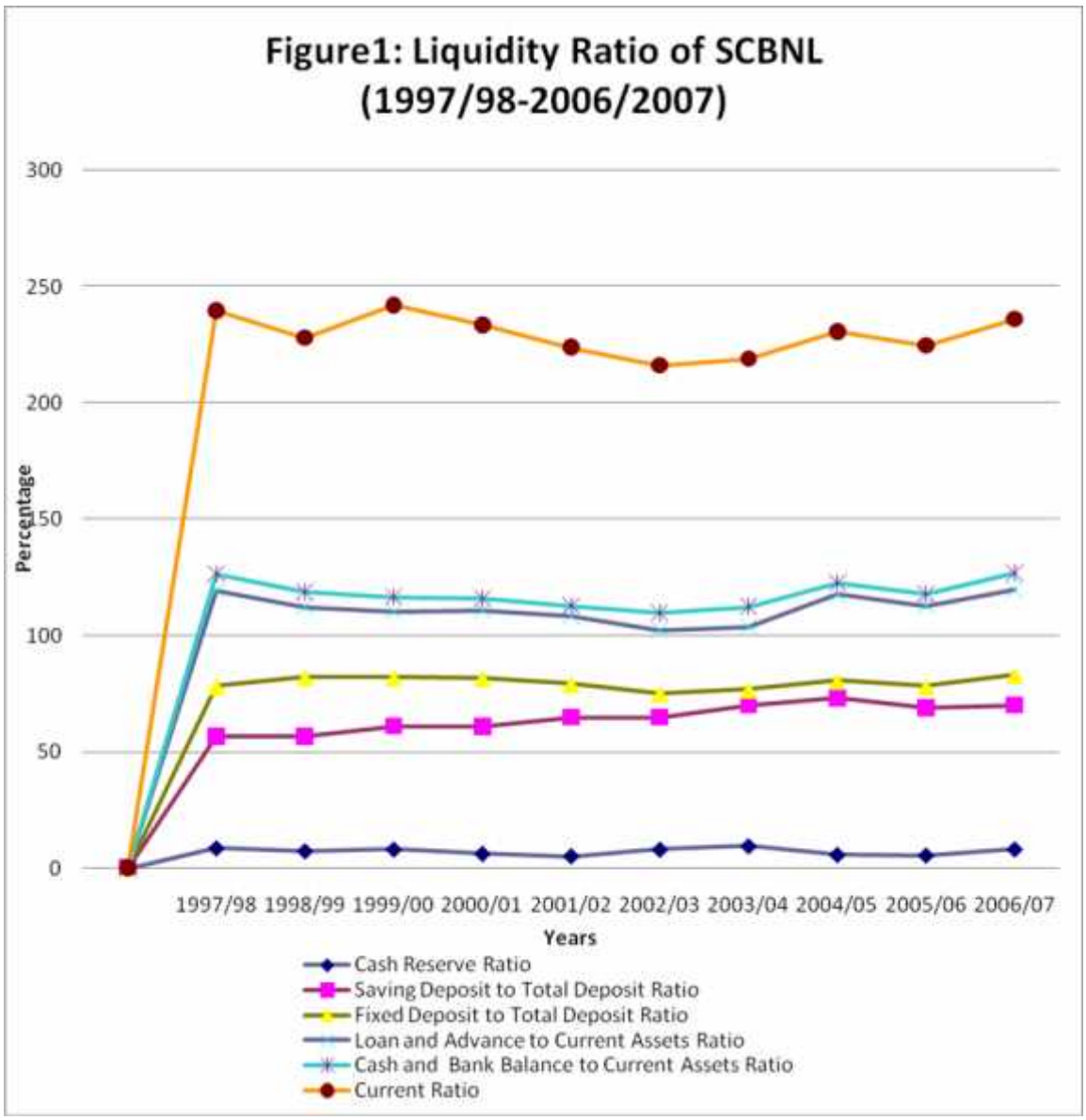
Cash Reserve Ratio (CRR) is calculated by dividing the cash and bank balance by the amount of total deposit, which is presented below:

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

Table: 6 Cash Reserve Ratio (Rs in'000')

Year	Cash and Bank Balance (Rs)	Total Deposit (Rs)	Ratio (in %)
1997/98	740333	8530025	8.68
1998/99	826145	11165165	7.40
1999/00	1020458	12568487	8.12
2000/01	961051	15430051	6.23
2001/02	825265	15835747	5.21
2002/03	1512305	18755635	8.06
2003/04	2023164	21161442	9.56
2004/05	1111117	19335095	5.75
2005/06	1276241	23061032	5.53
2006/07	2021021	24647021	8.20
Average	1231710	17048970	7.22

The above table shows that cash reserve ratio of the bank varies from maximum of 9.56% in year 2003/04 to minimum of 5.21% in year 2001/02 with an average of 7.22% during the study period of ten years.



The graph shows the liquidity ratio of SCBNL from fiscal year 1997/98 to 2006/07 in percentage. It summarizes the various ratios in a cumulative form which represents the liquidity position of the bank. From the above figure it is clear that the current ratio have the high liquid ratio. Similarly cash and bank balance to current assets ratio have less liquidity in the study period.

4.1.2 Activity Ratio

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

A. Loans and Advances to Total Deposit Ratio
B. Loans and Advances to Saving Deposit Ratio
C. Loans and Advances to Fixed Deposit Ratio

A. Loan and Advances to Total Deposit Ratio:

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

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

The loan and advances to total deposit ratio of SCBNL for the period of 1997/98 to 2006/07 is presented in the table 7 below, which clarifies the ratio:

Table: 7 Loans and Advance to Total Deposit (Rs in'000')

Year	Loan and Advance (Rs)	Total Deposit (Rs)	Ratio (in times)
1997/98	4253583	8530025	0.50
1998/99	4051881	11165165	0.36
1999/00	4857172	12568487	0.39
2000/01	5763136	15430051	0.37
2001/02	5364005	15835747	0.34
2002/03	5695824	18755635	0.30
2003/04	6410242	21161442	0.30
2004/05	8143208	19335095	0.42
2005/06	8935418	23061032	0.39
2006/07	10502637	24647021	0.43
Average	6397711	17048970	0.38

The above table shows that loan and advances to total deposit of the bank varies from maximum of 0.50 time in year 1997/98 to the minimum of 0.30 time in year 2002/03 and 2003/04 with an average of 0.38 times during the study period of ten years. The analysis indicates that the bank is mobilizing its total deposit in loans and advances satisfactorily.

B. Loan and Advances to Saving Deposit Ratio:

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

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

The loan and advances to saving deposit ratio of SCBNL for the period of 1997/98 - 2006/07 is presented in the table 8 below:

Table: 8 Loan and advance to saving deposit (Rs in'000')

Year	Loan and advances (Rs)	Saving Deposit (Rs)	Ratio (in times)
1997/98	4253583	4079506	1.04
1998/99	4051881	5471681	0.74
1999/00	4857172	6632697	0.73
2000/01	5763136	8404611	0.69
2001/02	5364005	9441906	0.57
2002/03	5695824	10633162	0.54
2003/04	6410242	12771826	0.50
2004/05	8143208	13030929	0.62
2005/06	8935418	14597674	0.61
2006/07	10502637	15244385	0.69
Average	6397711	10030838	0.64

The above table shows that loans and advances to saving deposit of the bank varies from maximum of 1.04 in 1997/98 to minimum of 0.50 in 2003/04 with an average of 0.64 time during the study period of ten years.

C. Loan and advances to Fixed deposit Ratio:

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

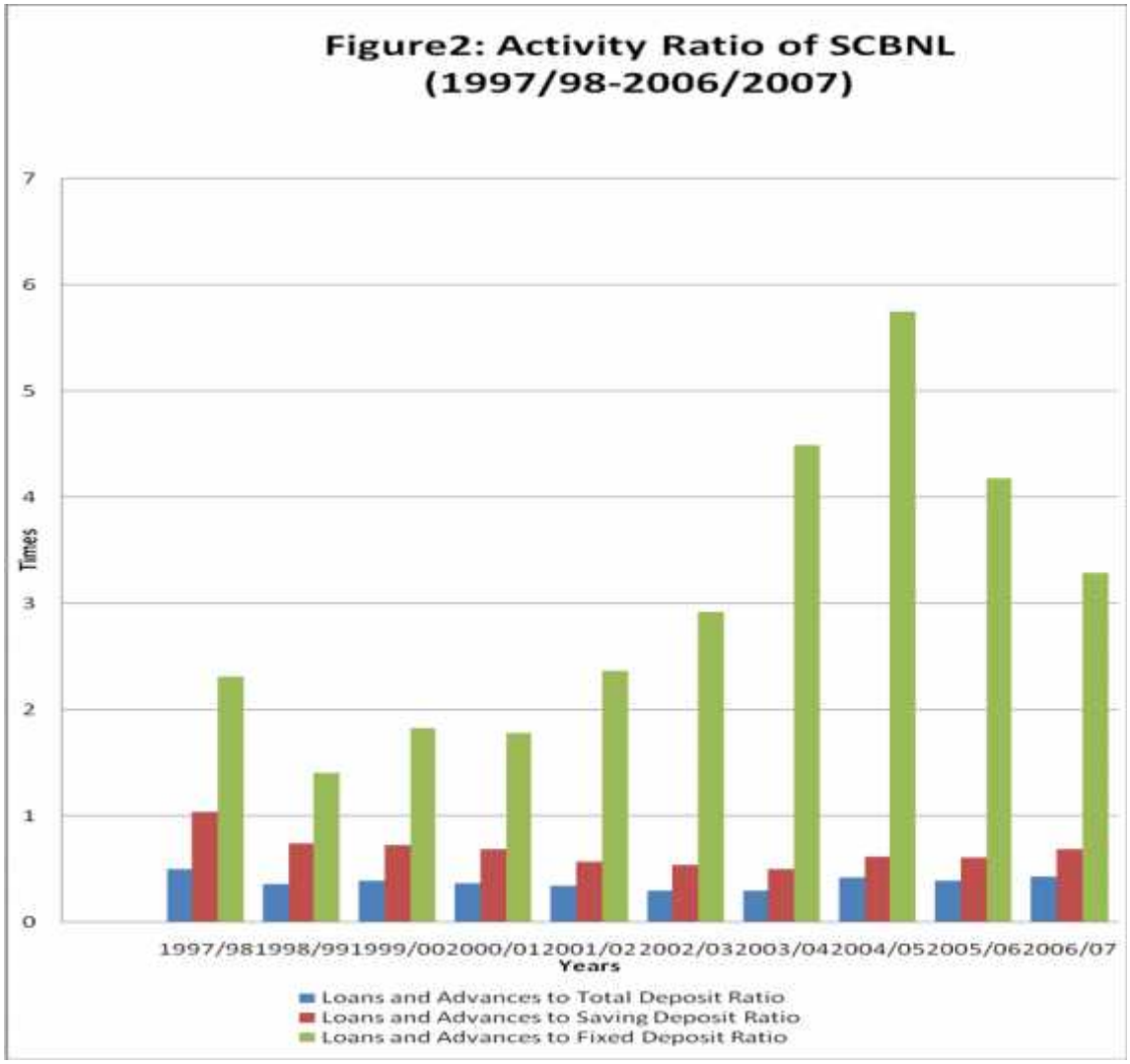
$$\textit{Loan and advance to fixed deposits} = \frac{\textit{Loan and Advance}}{\textit{Fixed Deposit}}$$

The loan and advances to fixed deposit ratio of SCBNL for the period of 1997/98 - 2006/07 is presented in the Table 9 below:

Table: 9 Loan and advance to Fixed deposit (Rs in'000')

Year	Loan and advances (Rs)	Fixed Deposit (Rs)	Ratio (in times)
1997/98	4253583	1843334	2.31
1998/99	4051881	2868911	1.41
1999/00	4857172	2651652	1.83
2000/01	5763136	3236033	1.78
2001/02	5364005	2264771	2.37
2002/03	5695824	1948596	2.92
2003/04	6410242	1428495	4.49
2004/05	8143208	1416383	5.75
2005/06	8935418	2136307	4.18
2006/07	10502637	3196490	3.29
Average	6397711	2299097	2.78

The fixed deposit of the bank varies from maximum of 5.75 in year 2004/05 to the minimum of 1.41, in the year 1998/99 with an average of 2.78 times during the study period of ten years. The analysis indicates that contribution of the fixed deposit in loans and advances is fluctuating.



In the figure, x-axis represents number of year whereas y-axis represents the activity ratio in times. The figure represents the greater activity ratio achieved from loan and advance to fixed deposit in comparison to saving and total deposit. The activity trend has increased till 2004/05 and then after it started decreasing. The highest activity ratio is 5.75 times from fixed deposit in the year 2004/05. The analysis indicates that the bank is mobilizing its fixed deposit in loans and advances satisfactorily in past ten year's period.

4.1.3. Capital Structure Ratio (Leverage Ratio)

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

A. Total Debt to Shareholder's Equity Ratio
B. Total Debt to Total Assets Ratio
C. Total Shareholder's Equity to Total Assets Ratio

A. Total Debt to Shareholder's Equity Ratio

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

$$\textit{The debt to shareholder's equity ratio} = \frac{\textit{Total Debt}}{\textit{Shareholder's Equity}}$$

The total debt to shareholder's equity ratio of SCBNL for the period of 1998-2007 is presented in the Table-10 below:

Table: 10 Total Debt to Shareholder's Equity Ratio (Rs in'000')

Year	Total Debt (Rs)	Shareholder's Equity (Rs)	Ratio (in times)
1997/98	9437028	1004192	9.40
1998/99	12368139	1080413	11.45
1999/00	15959683	1195252	13.35
2000/01	18317148	1386282	13.21
2001/02	17207627	1235478	13.93
2002/03	19631595	1368908	14.34
2003/04	22146321	1495739	14.81
2004/05	20311163	1582415	12.84
2005/06	24022194	1754139	13.69
2006/07	26480336	2116353	12.51
Average	18588123	1421917	13.07

The above table shows debt to equity ratio varies from maximum of 14.81 times in year 2003/04 to the minimum of 9.40 times in year 1997/98 with an average of 13.07 times

during the study period of ten years. The analysis indicates that the bank has the high debt equity ratio, which means the creditors have invested more in the banks than owners.

B. Total Debt to Total Assets Ratio

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

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

The total debt to total assets ratio of SCBNL for the period of 1998-2007 is presented in the table -11 below:

Table: 11 Total Debt to Total Assets Ratio (Rs in'000')

Year	Total Debt(Rs)	Total Assets (Rs)	Ratio (in %)
1997/98	9437028	10441220	90.38
1998/99	12368139	13448552	91.97
1999/00	15959683	17154935	93.03
2000/01	18317148	19703430	92.96
2001/02	17207627	18443105	93.30
2002/03	19631595	21000503	93.48
2003/04	22146321	23642060	93.67
2004/05	20311163	21893578	92.77
2005/06	24022194	25776332	93.19
2006/07	26480336	28596689	92.60
Average	18588123	20010040	92.89

The above table shows that Debt to Total assets of the bank varies from maximum of 93.67 in year 2003/04 to the minimum of 90.38% in year 1997/98 with an average of 92.89% during the study period of 10 years. The analysis of 92.89% of total assets of the bank is financed through debt capital.

C. Total Shareholder's Equity to Total Assets Ratio

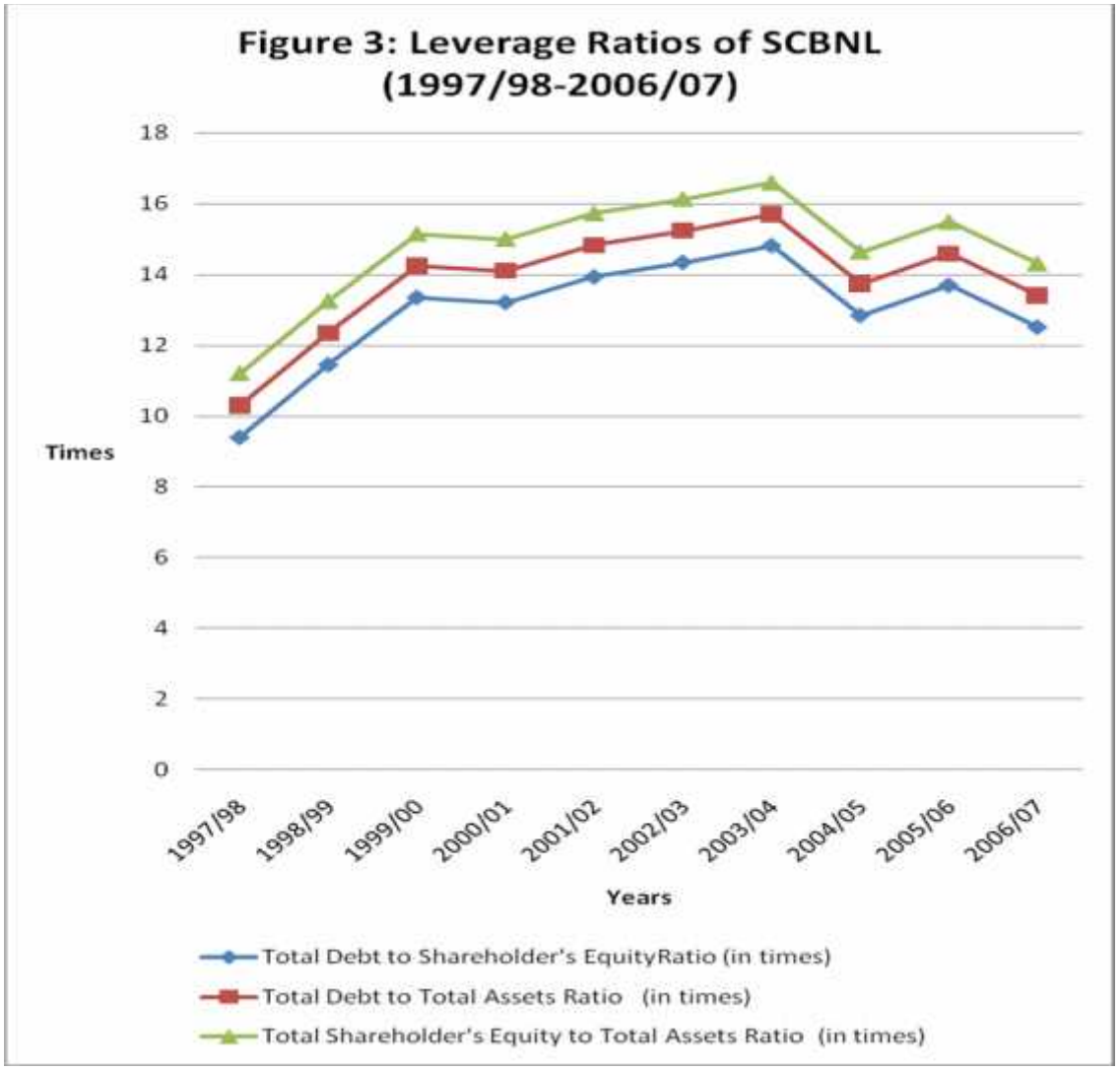
Shareholder's Equity to total assets ratio indicates the proportion of the assets, which is financed from ownership capital of the firm. This ratio also exhibits the relationship between shareholders fund and owner's capital. This ratio shows the share of shareholders on the total assets. It can be expressed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

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

Table: 12 Total Shareholder's Equity to Total Assets Ratio (Rs in'000')

Year	Shareholder's Equity	Total Assets (Rs)	Ratio (in %)
1997/98	1004192	10441220	9.62
1998/99	1080413	13448552	8.03
1999/00	1195252	17154935	6.97
2000/01	1386282	19703430	7.04
2001/02	1235478	18443105	6.70
2002/03	1368908	21000503	6.52
2003/04	1495739	23642060	6.33
2004/05	1582415	21893578	7.23
2005/06	1754139	25776332	6.81
2006/07	2116353	28596689	7.40
Average	1421917	20010040	7.11

The above table shows that the shareholder's equity to total assets of the bank varies from maximum of 9.62% in year 1997/98 to minimum of 6.33% in year 2003/04 with an average of 7.11 during the study period of 10 years. The analysis indicates that an average of 7.11% of the total assets of the bank is financed through equity capital and remaining from debt capital.



In the graph, leverage ratio of SCBNL is presented in times from the fiscal year 1997/98 to 2006/07. It is clear from the diagram that the bank has high debt equity ratio. It means the creditor have invested more in the banks than owners. The highest debt equity ratio of SCBNL is 14.81times in the fiscal year 2003/04. Similarly, more debt is utilized in total assets than equity.

4.1.4 Profitability Ratio

There are many measure of profitability. Each relates the returns of the firm to its sales, assets, and equity or share value. As a group, these measures allow the analyst to evaluate firm's earning with respect to given level of sales, a certain level of assets, the owners investments or share value.
Profit is the difference between total revenues and total expenses over a period of time. Profit is the ultimate output of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the bank in terms of profits. The profitability ratios in this study are calculated to measure the operating efficiency ratios calculated in this study.

A. Interest Earned to Total Assets Ratio.

B. Net Profit to Total Deposit Ratio.

C. Net Profit to Total Assets Ratio.

D. Net Profit to Net worth Ratio.

E. Net Operating Profit to Total Assets Ratio.

F. Net Profit to Risk Assets Ratio.

A. Interest Earned to Total Assets Ratio

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

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

The interest earned to total assets ratio of SCBNL for the period of 1998-2007 is presented in the Table-13 below:

Table: 13 Interests Earned to Total Assets Ratio (Rs in'000')

Year	Interest Earned(Rs)	Total Assets (Rs)	Ratio (in %)
1997/98	818515	10441220	7.84
1998/99	902450	13448552	6.71
1999/00	1052356	17154935	6.13
2000/01	1242919	19703430	6.31
2001/02	1013636	18443105	5.50
2002/03	1001360	21000503	4.77
2003/04	1042176	23642060	4.41
2004/05	1058678	21893578	4.84
2005/06	1189603	25776332	4.62
2006/07	1411982	28596689	4.94
Average	1073368	20010040	5.36

The above table shows the interest earned to total assets of the bank varies from maximum of 7.84% in year 1997/98 to the minimum of 4.41% in year 2003/04 with an average of 5.36% during the study period of 10 years. The analysis indicates that the ratio is in fluctuating trend in the previous years and in decreasing trend in final years of observation period.

B. Net Profit to Total Deposit Ratio

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

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

The net profit to total deposit ratio of SCBNL for the period of 1998-2007 is presented in the table -14 below:

Table -14 Net Profit to Total Deposit (Rs in'000')

Year	Net Profit(Rs)	Total Deposit (Rs)	Ratio (in %)
1997/98	292369	8530025	3.43
1998/99	359453	11165165	3.22
1999/00	392593	12568487	3.12
2000/01	430831	15430051	2.79
2001/02	479207	15835747	3.03
2002/03	506932	18755635	2.70
2003/04	537800	21161442	2.54
2004/05	539204	19335095	2.79
2005/06	658756	23061032	2.86
2006/07	691688	24647021	2.81
Average	488883	17048970	2.87

The above table shows that Net profit to total deposit of the bank varies from maximum of 3.43% in year 1997/98 to the minimum of 2.54% in year 2003/04 with an average of 2.87% during the study period of 10 years. The analysis indicates that the calculated ratio shows the fluctuating trend.

C. Net Profit to Total Assets Ratio

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

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

The net profit – to total assets ratio of SCBNL for the period of 1998-2007 is presented in the Table-15 below:

Table -15 Net Profit to Total Assets (Rs in'000')

Year	Net Profit(Rs)	Total Assets (Rs)	Ratio (in %)
1997/98	292369	10441220	2.80
1998/99	359453	13448552	2.67
1999/00	392593	17154935	2.29
2000/01	430831	19703430	2.19
2001/02	479207	18443105	2.60
2002/03	506932	21000503	2.41
2003/04	537800	23642060	2.27
2004/05	539204	21893578	2.46
2005/06	658756	25776332	2.56
2006/07	691688	28596689	2.42
Average	488883	20010040	2.44

The above table shows that Net profit to total assets of the bank varies from maximum of 2.80% in year 1997/98 to the minimum of 2.19% in year 2000/01 with an average of 2.44% during the study period of 10 years. The analysis indicates that the net profit earned in comparison to total assets is in fluctuating trend.

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

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

$$\textit{Net Profit to Net worth Ratio} = \frac{\textit{Net Profit}}{\textit{Net Worth}}$$

The net profit to net worth ratio of SCBNL for the period of 1998-2007 is presented in the table -16 below:

Table -16 Net Profit to Net worth Ratio (Rs in'000')

Year	Net Profit (Rs)	Net worth (Rs)	Ratio(in %)
1997/98	292369	1004192	29.11
1998/99	359453	1080413	33.27
1999/00	392593	1195252	32.85
2000/01	430831	1386282	31.08
2001/02	479207	1235478	38.79
2002/03	506932	1368908	37.03
2003/04	537800	1495739	35.96
2004/05	539204	1582415	34.07
2005/06	658756	1754139	37.55
2006/07	691688	2116353	32.68
Average	488883	1421917	34.38

The above table shows that return on equity of the bank varies from maximum of 38.79% in year 2001/02 to the minimum of 29.11% in year 1997/98 with an average of 34.38% during the study period of 10 years. The analysis indicates that ROE of SCBNL is in better position which implies the better utilization of shareholder's equity.

E. Net operating Profit to Total Assets Ratio

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

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

The net operating profit to total assets ratio of SCBNL for the period of 1998-2007 is presented in the table-17 below:

Table -17 Net operating Profit to Total Assets Ratio (Rs in'000')

Year	Net Profit before interest and tax(Rs)	Total Assets (Rs)	Ratio (in %)
1997/98	815720	10441220	7.81
1998/99	922084	13448552	6.86
1999/00	1086799	17154935	6.34
2000/01	1249111	19703430	6.34
2001/02	1038347	18443105	5.63
2002/03	972648	21000503	4.63
2003/04	1072919	23642060	4.54
2004/05	1082356	21893578	4.94
2005/06	1290302	25776332	5.01
2006/07	1465959	28596689	5.13
Average	1099625	20010040	5.50

The above table shows that net operating profit to total assets of the bank varies from maximum of 7.81% in year 1997/98 to the minimum of 4.54% in year 2003/04 with an average of 5.50% during the study period of ten years. The analysis indicates that the net operating profit to total assets shows increasing trend in previous years but decreasing trend in final years of observation period.

F. Net profit to Risk Assets Ratio

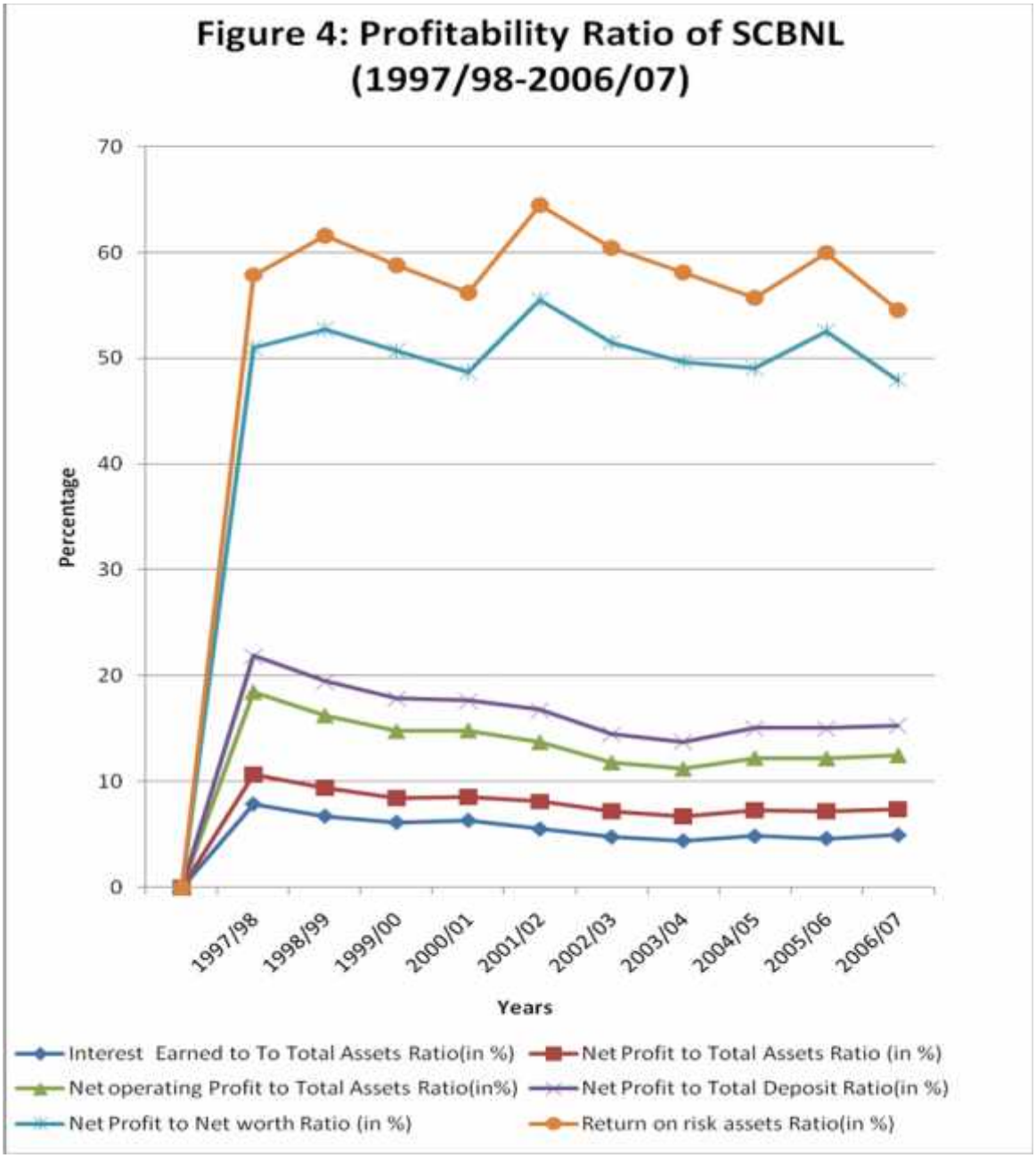
Risk asset refer to those assets, which are invested in loans and advances, bill purchased and discounted. The ratio is calculated by dividing the amount of net profit by the amount of risk assets which is expressed as:

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

Table -18 Return on risk assets (Rs in'000')

Year	Net Profit after interest and tax(Rs)	Loan and Advances	Ratio (in %)
1997/98	292369	4253583	6.87
1998/99	359453	4051881	8.87
1999/00	392593	4857172	8.08
2000/01	430831	5763136	7.48
2001/02	479207	5364005	8.93
2002/03	506932	5695824	8.90
2003/04	537800	6410242	8.39
2004/05	539204	8143208	6.62
2005/06	658756	8935418	7.37
2006/07	691688	10502637	6.59
Average	488883	6397711	7.64

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



The chart shows the profitability ratio of SCBNL from 1997/98 to 2006/07 in percentage. The cumulative graph shows the six different ratios to measure profit of the bank. ROE and ROA of SCBNL shows fluctuating trend. Similarly, other ratios of profitability shows decreasing trend at first and follows with the fluctuating trend in final years of observation.

4.1.5 Ownership Ratio

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

A. Earning Per Share (EPS)

B. Dividend Per Share (DPS)

C. Dividend payout Ratio (DPR)

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

A. Earning Per Share (EPS)

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

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

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

Table -19 Earning Per Share (Rs in'000')

Year	Net Profit after interest and tax (Rs)	No. of share O/S	EPS(in Rs)
1997/98	292369	2255	129.65
1998/99	359453	3395	105.88
1999/00	392593	3395	115.64
2000/01	430831	3395	126.90
2001/02	479207	3395	141.15
2002/03	506932	3395	149.32
2003/04	537800	3746	143.57
2004/05	539204	3746	143.94
2005/06	658756	3746	175.86
2006/07	691688	4132	167.40
Average	488883	3460	141.30

The above table shows that EPS of the bank varies from maximum of Rs.175.86 in year 2005/06 to minimum of Rs105.88 in year 1998/99 with an average of Rs.141.30 during the study period. The above analysis indicates that EPS of SCBNL is quite good.

B. Dividend Per Share (DPS)

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

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

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

Table -20 Dividend Per Share (Rs in'000')

Year	Earning paid to shareholders (Rs)	No. of share o/s	DPS(in Rs)
1997/98	157900	2255	70.02
1998/99	271639	3395	80.01
1999/00	339549	3395	100.01
2000/01	339549	3395	100.01
2001/02	339549	3395	100.01
2002/03	373504	3395	110.02
2003/04	412060	3746	110.00
2004/05	449520	3746	120.00
2005/06	524440	3746	140.00
2006/07	537160	4132	130.00
Average	374487	3460	108.23

The above table shows DPS of bank varies from maximum of Rs140.00 in year 2005/06 to minimum of Rs.70 in year 1997/98 with an average of Rs108.23 during the study period of ten years. The above analysis indicates that the dividend per share of SCBNL is satisfactorily and the shareholders are being compensated with good return.

C. Dividend Payout Ratio (DPR)

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

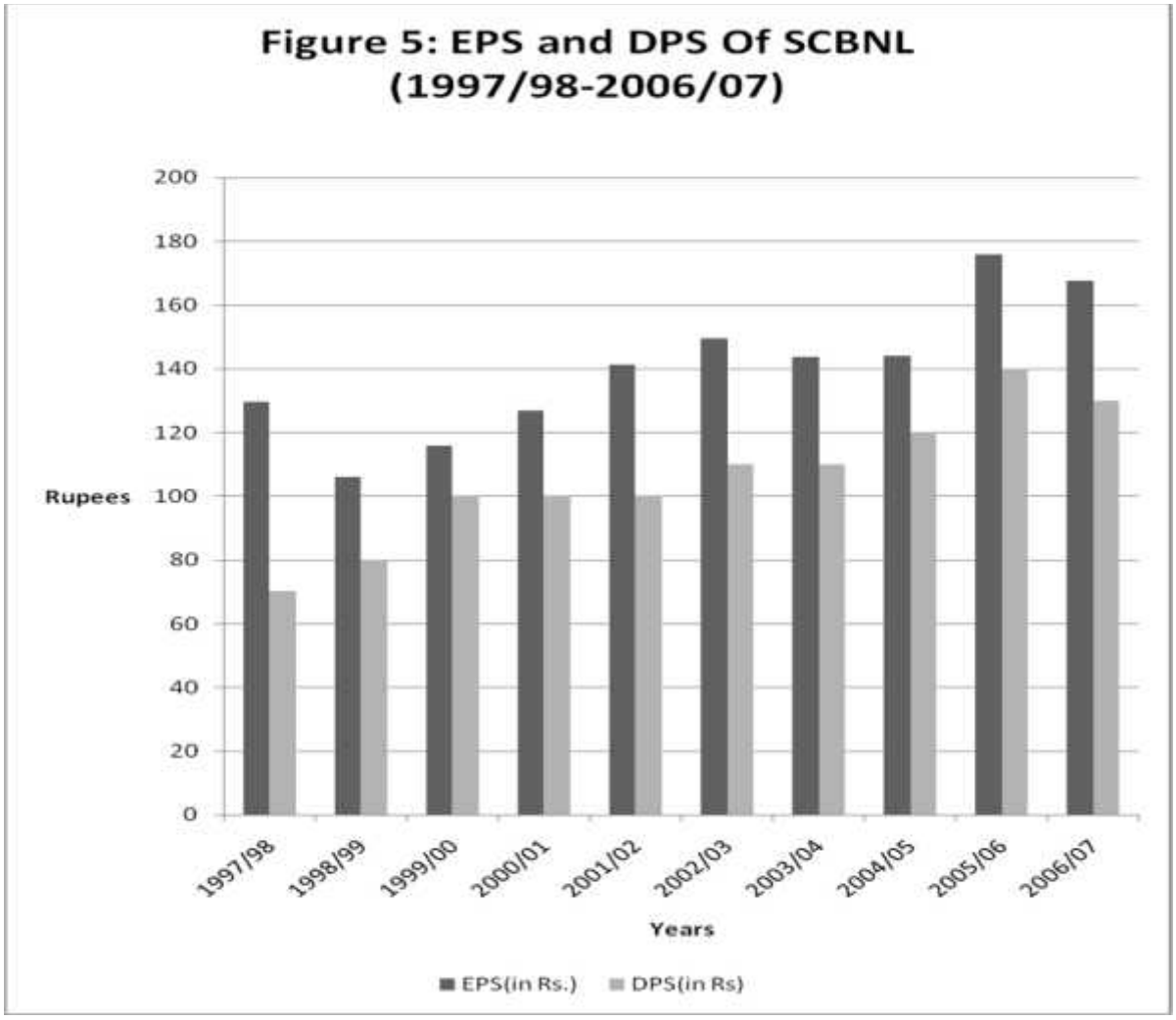
$$Dividend\ Payout\ Ratio\ (DPR) = \frac{Dividend\ Per\ Share}{Earnig\ Per\ Share} \times 100$$

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

Table -21 Dividend Payout Ratio (Rs. in 000)

Year	DPS(in Rs)	EPS(Rs)	DPR (in %)
1997/98	70.02	129.65	54.01
1998/99	80.01	105.88	75.57
1999/00	100.01	115.64	86.48
2000/01	100.01	126.9	78.81
2001/02	100.01	141.15	70.85
2002/03	110.02	149.32	73.68
2003/04	110	143.57	76.62
2004/05	120	143.94	83.37
2005/06	140	175.86	79.61
2006/07	130	167.4	77.66
Average	108.23	141.3	76.60

The above table shows that dividend payout ratio of the bank varies from maximum of 86.48% in year 1999/00 to minimum of 54.01% in year 1997/98 with an average of 76.60% during the study period of ten years. The above analysis indicates that dividend paid is regular and ratio is increasing that means company is concentrated to give regular return to the shareholders.



The above bar diagram shows the years in x-axis and EPS and DPS (in rupees) in y-axis. The highest EPS and DPS are in the year 2005/06 i.e. Rs.175.86 and Rs.140 respectively. The bar diagram shows positive correlation between EPS and DPS. When earnings of the bank increases dividend per share also increase and vice versa. The above analysis indicates that dividend paid is regular and ratio is increasing that means company is concentrated to give regular return to the shareholders.

4.2 Income and Expenditure Analysis

Income and expenditure are the main indicators of the financial performance of the business firm. The income and expenditure statement provides a financial summary of the firm's operating results during the period specified. Therefore, all attempts have been made to analyze the income and expenditure statement of SCBNL of ten financial years from 1997/98 to 2006/07. In this study the analysis of operating income and expenditure has been made and as detailed below.

4.2.1. Operating Income

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

The interest earning is the main source of income of the bank. The interest earnings are from loans, advances and overdrafts, government securities and others as per the data presented in the Annex-3. The total income of the bank largely depends on the interest earned. The average of 71.24% of the total income is covered by the interest earned (refer Annex-3). The high rate of income from the interest received indicates the better operational efficiency of the bank.

The second main income source of the bank is from foreign exchange earnings. This consists of gain on sale of foreign exchange and revaluation of gain. The average of 14.62% of the total income comes from the exchange earnings (refer Annex-3).

The income from commission earnings constitutes the third highest income source of the bank. Commission and discount are received from the letter of credit, letter of guarantee, fees collection, remittance fees and other commissions associated with the service provided by the bank. The average earnings from commission and discount are 11.64% of the total income of the bank during the study period of ten years. This concludes that bank is providing efficient and effective service to its clients. The operating income from other sources contributes an average of 2.23% of the total income of the bank Overall the bank's operating profit is in increasing trend (refer Annex-3).

4.2.2 Operating Expenses

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

The interest expenses are the main heading of the expenses of the bank. The interest expenditure is interest paid to depositors, loans and advances and short-term borrowings from other financial institution. As per the data presented in the Annex-4, the interest expenses is 45.84% of the total expenditure on an average (refer Annex-4). The high rate of expenditure in interest indicates that the bank has collected more deposits.

The second important heading for the operating expenditure is other operating expenses, which includes rent, utilities, insurance, maintenance, legal, stationery expenses etc., to run the bank smoothly and effectively. The heading constitute, on an average of 26.96% of the total expenses (referAnnex-4)

The third expenditure heading of the bank is personnel expenses, which includes salary of staff, bonus, facilities, gratuity, provident fund and other allowances etc. The personnel expenses constitute 26.57% on an average of the total expenditure (referAnnex-4).

4.3. Statistical Analysis

"The word statistics refers either to quantitative information or to a method of dealing with quantitative information."(Gupta S.P. "Elementary Statistical Methods", S Chand and Sons, 1833)

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

4.3.1 Correlation Analysis

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

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

Table -22 Co-efficient of Correlation between Total Deposit and Loan and Advances of SCBNL. (Rs. in 000000)

Year	Total Deposit (X)	Loan and advances(Y)	X^2	Y^2	XY
1997/98	8530.025	4253.583	72761326.5	18092968.3	36283169.33
1998/99	11165.165	4051.881	124660909	16417739.6	45239919.93
1999/00	12568.487	4857.172	157966865	23592119.8	61047303.14
2000/01	15430.051	5763.136	238086474	33213736.6	88925482.4
2001/02	15835.747	5364.005	250770883	28772549.6	84943026.09
2002/03	18755.635	5695.824	351773844	32442411	106828796
2003/04	21161.442	6410.242	447806628	41091202.5	135649964.3
2004/05	19335.095	8143.208	373845899	66311836.5	157449700.3
2005/06	23061.032	8935.418	531811197	79841694.8	206059960.4
2006/07	24647.021	10502.637	607475644	110305384	258858714.7
Total	**170489.7**	**63977.106**	**3156959670**	**450081643**	**10907437609**

We have,

r = coefficient of correlation between variable x and y.

N = 10 (Number of pairs in observation)

$\sum xy$ = 1181286037**(**Sum of the product of the variables x and y)
$\sum x$ = 170489.7 **(**Sum of the x)
$\sum y$ = 63977.106**(**Sum of the y)
$\sum x^2$ = 3156959670 **(**Sum of square of x)
$\sum y^2$ = 450081643 **(**Sum of square of y)

Correlation coefficient "r" can be calculated by using following formula

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

$$= \frac{10(1181286037) -(170489.7)(63977.106)}{\sqrt{10(3156959670) -(170489.7)^2}\ \sqrt{10(450081643) -(63977.106)^2}}$$

$$= \frac{905422761.2}{1010213817}$$

r =0.8962
r^2 =0.8032(Coefficient of determination)

Calculation of Probable Error (P.E.)

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

$$= 0.6745\ (1-0.8032)\ \sqrt{10}$$

$$= 0.042$$

If, r < P.E., then r is not significant
If, r > 6P.E., then r is significant
or, 0.8962> 6x0.042
or, 0.8962>0.252

The above analysis shows the degree of relationship between total deposit and total loan and Advance. The independent variable is total deposit (X) and the dependent variable is Loan and Advances(Y). The purpose of computing the coefficient of correlation is to observe to what extent and in which direction the Loan and advances is associated with total deposit. In other words, to what degree loan and advances(Y) is affected by a unit charge in total deposit(X). The coefficient correlation between total deposit and Loan and Advances is 0.8962.
The coefficient of determination (r^2) of SCBNL is 0.8032 which indicates that 80.32% of the variation in the dependent variable (Loan and Advances) has been explained by the independent variable (total deposit). Moreover by considering the probable errors, the value of r (0.8962) is greater than 6P.E. (0.252) so it can say that there is significant relationship between deposits and Loan and Advances.

4.4 Major Findings of the study

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

4.4.1 Findings from the ratio analysis

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

a. SCBNL has the highest current ratio of 1.26 in 1999/00 and the lowest current ratio of 1.06 in 2002/03 with an average current ratio of 1.10 during the study period 1998-2007. The current ratio analysis of the bank over the ten years period indicates that the bank is able to meet its short- term obligations and has sound liquidity position.

b. The cash and bank balance to current asset ratio of SCBNL varies from maximum of 8.61% in year 2003/04 to minimum of 4.50% in year 2001/02 with an average of 6.20% during the study period of ten years. The analysis indicates that the cash and bank balance proportion with respect to the current assets is in erratic trend.

c. Loans and advances are the bills purchased and discounted, local and foreign currencies, loan and advances and overdrafts, which are the main sources of income in the commercial banks. The loan and advances to current asset ratio of the SCBNL varies from maximum of 41.38% in year 1997/98 to the minimum of 27.27% in year 2003/04 with an average of 31.02 during the study period of ten years. The analysis indicates that the loans and advances disbursement respect to the current asset is fluctuating.

d. Fixed deposit is the high interest bearing deposit and can be withdrawn only after its maturity. The total deposit ratio of SCBNL varies from maximum of 25.70% in year 1998/99 to minimum of 6.75% in year 2003/04 with an average of 13.49% during the study period of ten years. The analysis indicates that the share of fixed deposit is low in the total deposit. The low share of fixed deposit in the total deposit shows decreasing trend.

e. Saving deposit stand midway between current and fixed deposits. These deposits are not as freely withdrawal as current deposit. The saving deposit to total deposit ratio of SCBNL varies from maximum of 63.30% in year 2005/06 to minimum of 47.83% in year 1997/98 with an average of 58.84% during the study period of ten years. The analysis indicates that the share of saving deposit is higher than the fixed deposit in the total deposit. This means, main investment source of SCBNL is the saving deposit, which is the lowest interest bearing source of deposit.

f. The cash reserve requirement in most of the developed and developing countries has been used extensively as a means to control commercial banks credit. Regarding cash reserve, Nepal Rastra Bank has guided all the commercial banks to maintain at least 12% of their deposit liabilities as reserve (vault cash in 4% and central bank balance is 8% of total deposit). The cash reserve ratio of the SCBNL varies from maximum of 9.56% in year 2003/04 to minimum of 5.21% in year 2000/01 with an average of 7.22% during the study period of ten years. The

analysis indicates that the bank has invested large amounts in various business sectors.

g. Loan and advances to total deposit ratio measures the extent to which the bank is successful to utilize the outsider fund (total deposits) in profit generating purpose on the loans and advances. The loan and advances to total deposit of the bank varies from maximum of 0.50 times in year 1997/98 to minimum of 0.30 times in year 2002/03 and 2003/04 with an average of 0.38 times during the study period of ten years. The analysis indicates that the bank is mobilizing its total deposit in loan and advances satisfactorily.

h. Loans and advances to saving deposit measures how many times the second high interest bearing deposit is utilized for income generating purpose. The loans and advances to saving deposits of the bank vary from maximum of 1.04 times in year 1997/98 to minimum of 0.50times in year 2003/04 with an average of 0.64 times as during the study period of ten years. The analysis indicates that the bank has better mobilization of its saving deposit in loans and advances for income generating purpose.

i. Loans and advances to fixed deposit measures how many times the amount is used in loans and advances in comparison to fixed deposits. Loans and advances to fixed deposit of the bank vary from maximum of 5.75 times in year 2004/05 to the minimum of 1.41 times in year 1998/99 with an average of 2.78 times during the study period of ten years. The analysis indicates that the bank has the best mobilization of its fixed deposit in loans and advances for income generating purpose.

j. The debt-equity ratio indicates the relationship between the long – term funds provided by creditors and those provided by the firm's owners. The above table shows that Debt to equity ratio of the bank varies from maximum of 14.81 times in year 2003/04 to the minimum of 9.84 times in year 1997/98 with an average of 13.07 times during the study period of ten years. The analysis indicates that the bank has the high debt- equity ratio, which means the creditors have invested more in the bank than the owners.

k. Total debt to total asset exhibits the relationship between creditors fund and owners capital. This ratio shows the proportion of outsiders' fund used in financing total asset. The debt to total assets of the bank varies from maximum of 93.67% in year 2003/04 to the minimum of 90.38% in year 1997/98 with an average of 92.89% during the study period of ten years. The analysis indicates that the bank has the high debt- equity ratio, which means the creditors have invested more in the bank than the owners.

l. Shareholder's equity to total assets ratio indicates proportion of assets, which is financed from ownership capital of the firm. The total shareholder's equity to total asset of the bank varies from maximum of 9.62% in year 1997/98 to the minimum

of 6.33% in year 2003/04 with an average of 7.11% during the study period of ten years. The analysis indicates that an average of 7.25% of total assets of the bank financed through equity capital and the remaining from debt capital. This implies that the shareholder's stake in the bank is very low. The creditors have dominated in the bank's financial mix.

m. Interest earning is the major source of income of a commercial bank. Interest earned to total assets ratio reflects the proportion of interest earned by the bank from the total income. The interest earned to total assets of the bank varies from maximum of 7.84% in year 1997/98 to the minimum of 4.41% in year 2003/04 with an average of 5.36% during the study period of ten years. The analysis indicates that the bank has the high debt- equity ratio, which means the creditors have invested more in the bank than the owners.

n. Net profit to total deposit ratio indicates the percentage of profit earned by using the total deposit. The net profit to total deposit of the bank varies from maximum of 3.43% in year 1997/98 to the minimum of 2.54% in year 2003/04 with an average of 2.87% during the study period of ten years. The analysis indicates that the net profit earned in comparison to total deposit is in fluctuating trend.

o. The return on asset (ROA) or profit to total assets ratio is a useful measurement of the profitability of all financial resources invested in the assets. Net profit to total assets of the bank varies from maximum of 2.80% in year 1997/98 to the minimum of 2.19% in year 2000/01 with an average of 2.44% during the study period of ten years.

p. Net worth or shareholder's equity refers to the owner's claim on the assets of the bank. The net profit to net worth (ROE) measures the income on the owner’s investment. This ratio indicates how well the banks have used the resources of the owners. The return on the equity of the bank varies from maximum of 38.79% in year 2001/02 to the minimum of 29.11% in year 1997/98 with an average of 34.38% during the study period of ten years. The analysis indicates that the profit earning in relation to the shareholder's equity of SCBNL is in better position, which exhibits the better utilization of shareholder's resources.

q. Net operating profit is the profit before interest and taxes (EBIT). Net operating profit to total assets ratio is useful to measure the profitability ratio before interest and taxes invested in the assets. The net operating profit to total asset of the bank varies from maximum of 7.81% in year 1997/98 to minimum of 4.54% in year 2003/04 with an average of 5.50 during the study period of ten years.

r. Risk assets refer to those assets, which are invested in loans and advances and bill purchased and discounted. The return on the risk assets of the bank varies from maximum of 8.93% in year 2001/02 to the minimum of 6.59% in year 2006/07 with an average of 7.64% during the study period of ten years.

s. The firm's earning per share is generally of interest to present or prospective stockholders and management. The EPS represents the amount earned on behalf of each outstanding share of common stock. The EPS of the bank varies from maximum of Rs.175.86 in year 2005/06 to the minimum of Rs.105.88 in year 1998/99 with an average of Rs.141.30 during the study period of ten years. The above analysis indicates that the earning per share of SCBNL is quite good.

t. Dividend per share is calculated to know proportion of the earning distributed to the share holders per share. The DPS of the bank varies from maximum of Rs.140 in year 2005/06 to the minimum of Rs.70 in year 1997/98 with an average of Rs.108.23 during the study period of ten years. The above analysis indicates that the dividend per share of SCBNL is satisfactory and the shareholders are being compensated with good return.

u. Dividend payout ratio represents the percentage of the profits distributed as dividend and the percentage retained as revenue and surplus for the growth of the bank. The dividend payout ratio of the bank varies from maximum of 86.48% in year 1999/00 to the minimum of 54.01% in year 1997/98 with an average of 76.06% during the study period of ten years. The above analysis indicates that the payout ratio of the bank is high.

4.4.2. Findings from the income and expenditure analysis

a. Income and expenditure are the main indicators of the financial performance of the business firm. The income and expenditure statement provides a financial summary of the firm's operating results during the period specified. The interest earning is the main sources of income of the bank. The interest earning is from loans, advances and overdrafts, government securities, treasury bills, investment on debentures and others. The average of 71.24% of the total income is covered by the interest earned. The high rate of income from the interest received indicates the better efficiency of the bank. The second main income source of the bank is from the foreign exchange earnings. The average of 14.62%of the total operating income comes from the exchange earnings. The income source earning constitutes the third highest income source of the bank. The average earnings from the commission and discount are 11.64% of the total operating income of the bank. This concludes that bank is providing efficient and effective services to its average of 2.23% of the total income of the bank.

b. The expenditure heads of the bank are interest expenses, personnel expenses and other operating and non – operating expenses. The interest is the main heading of the expenses of the bank. The interest expenses are 45.84% of the total expenditure. On an average the high rate of expenditure in interest indicates that the bank has collected more deposits. The second main expenditure heading of the bank is office operating expenses. The office operating expenses constitutes 26.96% of the total expenditure on an average. The third important heading for the operating expenditure is the personnel expenses. The bank is spending 26.57% of the total operating expenditure in the personnel expenses on an average.

4.4.3. Findings from the Statistical Analysis

Correlation coefficient is one of the statistical tools used to find out the relationship between two terms. The correlation coefficient between total deposit and loan and advance is 0.8962. It means there is positive relation between deposit and loan and advance. By application of the coefficient of determination, it indicates that 80.32% of the variation in the loan and advances has been explained by the deposit. Moreover by considering the probable errors, the value of r (0.8962) is greater than 6P.E. (0.252), so it can say that there is significant relationship between deposits and Loan and Advances.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Summary:

The present study has been undertaken to examine and evaluate the financial performance of Standard Chartered Bank Nepal Limited. The researcher had used the financial tools and statistical tools to make this study more effective and informative. This study has covered 10 years data from 1997/98 to 2006/07 of the bank. In this section, the researcher has tried to summarize the financial performance of SCBNL.

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

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

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

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

The statistical analysis shows the coefficient of correlation between the deposit and loan and advance. The correlation coefficient between total deposit and loan and advance is

positive. By application of the coefficient of determination, it indicates that 80.32% of the variation in the loan and advances has been explained by the deposit. Moreover by considering the probable errors, the value of r is greater than 6P.E. So it can say that there is significant relationship between deposits and Loan and Advances.

5.2 Conclusions

During the study period of past ten years, that is, from 1997/98 to 2006/07 various ratio analysis have been performed to find out the financial performance of SCBNL. The major findings of the study are listed Chapter-4, section 4.4 of this report. Based on the findings, the conclusions have been drawn.

The current ratio of the bank over the ten years is 1.10 on an average. The current ratio of 2.0 is occasionally cited as acceptable, but acceptability of the value depends on the industry in which a firm operates. For the banks and the utility firms, current ratios of 1.0 or above would be considered acceptable. Therefore, the liquidity position in terms of current ratio of SCBNL is in normal standard. The loans and advances are the bills purchased and discounted, local and foreign currencies, loan and advances and overdrafts, which are the main sources of income in the commercial banks. The result of the analysis indicates that the loans and advances disbursement with respect to the current assets is satisfactory. The low share of fixed deposit in the total deposit indicates that the bank is minimizing its cost of fund, because the fixed deposit is the highest interest bearing deposit of the bank. The analysis also reveals that the share of saving deposit is higher than the fixed deposit in the total deposit, which again indicates that the bank is reducing its interest expenses. The cash and bank balance to total deposit ratio shows that the bank is maintaining its cash reserve as per the central bank directives. The result of the analysis also indicates that the investment of the funds is high. Overall, the liquidity position of SCBNL is good and bank is able to meet its short-term obligations.

Loan and advances to total deposit ratio measures the extent to which the bank is successful to utilize the outsider's fund (total deposit) in profit generating purpose. The result indicates that the bank is mobilizing its total deposit in loans and advances satisfactorily. Loan and advances to highest interest bearing deposit is utilized for income generating purpose. The result of the analysis indicates that the bank has better mobilization of its saving deposit in loans and advances for income generating purpose. Loans and advances to fixed deposit ratio measures how many times the amount is used in loans and advances in comparison to fixed deposit. The result of the analysis indicates that the bank has the best mobilization of its fixed deposit in loans and advances for income generating purpose. Overall, the activity ratio of SCBNL indicates that the bank has utilized its resources in a best way to maximum its wealth.

The debt-equity ratio indicates the relationship between the long- term funds provided by creditors and those provided by the firm's owners. The result of the analysis indicates that the bank has the high debt-equity ratio, which means the creditors have invested more in bank than owners, total debt to total asset exhibits the proportion of outsiders' fund used in financing total asset. The result of the analysis indicates that the bank has the high debt- total assets ratio, which again reveals that the creditors have invested more in the

bank than the owners. Shareholder's equity to total assets ratio indicates the proportion of the assets, which is financed from ownership capital of firm. The result of the analysis indicates that 7.11% of the total assets of the bank are financed through equity capital and remaining from debt capital. This implies that the shareholder's stake in the bank is very low. The creditors have dominated in the bank's financial mix.

Interest earning is the major source of income of a commercial bank. Interest earned to total assets ratio reflects the proportion of interest earned by the bank form the total income. The result of the analysis indicates that the interest earned in comparison to the assets is quite low. Net profit to total deposit indicates the percentage of profit earned by using the total deposit. The result of the analysis indicates that the net profit earned in comparison to the total deposit is in fluctuating trend. The return on asset (ROA) or profit to assets of all financial resources invested in the assets. The result of analysis indicates that the net profit earned in comparison to the total assets is quite low. Net worth or shareholder equity refers to the owner's claim on the assets of the bank. The net profit to net worth (ROE) measures the income on the owners' investment. This ratio indicates how well the banks have used the resources of the owners. The result of the analysis indicates that the profit earning in relation with the shareholders' equity of SCBNL is in better position, which exhibits the better utilization of shareholders' resources. Net operating profit is the profit before interest and taxes (EBIT). The result of the analysis indicates that the net operating profit earned in comparison to the total assets is quite low. Risk assets refer to those assets, which are invested in loans and advances and bill purchased and discounted. The result of the analysis indicates that the SCBNL has superior quality to earn profit on the risky assets. Therefore, the result of the profitability ratio analysis of SCBNL indicates that the overall performance of the bank is effective in generating the profit and hence maximizing its wealth.

The EPS represents the amount earned on behalf of each outstanding share of common stock. The EPS was low in 1998/99 because the bank has provided 1:2 and 1:1 bonus shares to the shareholders in the two subsequent fiscal years, 1997/98 and 1998/99 respectively. The result of the above analysis shows that the earnings per share of SCBNL are quite good. Dividend per share is calculated to know proportion of the earnings distributed to the shareholder per share. The result of the analysis indicates that the dividend per share of SCBNL is satisfactory and the shareholders' are being compensated with good return. Dividend Payout Ratio represents the percentage of the profits distributed as dividend and the percentage retained as revenue and surplus for the growth of the bank. The result of the analysis indicates that the dividend payout ratio of the bank is high.

Income and expenditure are the main indicators of the financial performance of the business firm. The income and expenditure statement provides a financial summary of the firm's operating results during the period specified. The interest earning is the main source of income of the bank. The second main income source of the bank is from the foreign exchange earnings. The income from commission earnings constitutes the third highest income source of the bank. This concludes that bank is generating maximum profit from the interest earning and sale of foreign exchange. The bank is earning profit from commission and discount by providing efficient and effective services to its clients.

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

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

Statistical tools are one of the most important tools to analyze the data. Correlation analysis and coefficient of determination are used as statistical tools in this research. The coefficient of correlation indicates that there is a positive correlation between total deposit and loan and advances i.e. 0.8962.Similary coefficient of determination reflect its variation is 80.32%.And there is a significant relation between deposit and loan and advance.

5.3 Recommendation

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

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

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LIST OF APPENDIXES

Standard Chartered Bank Nepal Limited

Expenses of the Bank in Different Items

Fiscal Year 1997/98 to 2006/07

(Rs. in terms of Percentage)

Particulars	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Average
Expenditure Statement											
Interest Expenses	58.70	59.48	59.94	54.12	42.33	32.46	35.05	33.97	38.55	43.81	45.84
Personnel Expenses	20.58	22.20	22.46	21.40	28.04	26.00	28.04	31.72	33.34	31.96	26.57
Other Operating Expenses	20.72	18.22	17.44	24.48	27.03	39.56	35.54	34.31	28.11	24.23	26.96
Other Non-Operating Expenses	–	0.10	0.16		2.60	1.98	1.37				1.24
Total Expenditure	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.62