CHAPTER- I
INTRODUCTION

1.1Background of the Study

Development and expansion of capital market are essential for the rapid economic growth of the country which helps economic development by mobilizing long-term capital needed for productive sector. Capital market is an indication of national economy, and its smooth operation leads a country to economic growth. Financial intermediaries play vital role in such fund movement i.e. from the surplus holders to the needy. The place of commercial banks in financial system is more significant to play an increasingly dynamic and vital role in the economy of the least developed countries like ours, which provides economic and financial inter mediation in the economy. Innovation, Deregulation and Globalization in banking sector have contributed to making banking business more complex and potentially riskier. The business world today is entirely different from the past. The social needs have increased tremendously in quantity and quality as well. To survive in this world, the establishment of business and expansion of business is essential and impossible if there is no sufficient fund.

Banking institutions are indispensable for resource mobilization and all round development of the country. It provides resources for economic development, maintains economic confidence of various segments and extends credit to the people. (Ronald, 1993)

The term, bank in modern times refers to an institution, which deals with money accepts deposits and advances loans. It also deals with credit and has the ability to create credit (i.e. the ability to expand its liabilities as a multiple of its reserves). It is a commercial constitution with the aim to earn profit. (Paul, 1996)

Banks are those institutions, which perform the indispensable task of intermediating between individuals and institutions by raising funds from depositors then loaning those funds to needy individuals and /or institutions. Bank is a financial institution, which plays a significant role, in the development of a country. "Banking institutions are inevitable for the resources mobilization and all round development of the country. It is resources for economic development; it maintains economic confidence of various segments and extends credit to people" **(The New fashioned Banking, Grywinshki, Ronald, 1993).**

Banks are the financial institutions that offer the widest range of financial services especially credit, savings, and payment services-and perform the widest range of financial functions of any business firm in the economy. This multiplicity of bank services and functions has led to banks being labeled financial supermarkets: and to familiar advertising slogans as "Your Bank-a Full Service Financial Institutions (Vaidya, 1999: p158) “The banking sector is largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending in different sectors of economy. The banking sector has now reached to most remote areas of the country and has experienced a good deal in the growth of the economy. By lending their resources in small scale industries under intensive banking program has enabled the banks to share in the economic growth of the economy.” **(Investment Planning of Commercial Banks in Nepal, Shrestha’s, 1993)**

1.2.1 Historical development of Banking System in Nepal

The history of banking in Nepal can be described as a component of gradual and economic sphere of the Nepalese life. Even the financial system in still in evolutionary phase. In the year 1994 B.S. the establishment of Nepal Bank Limited, with the Imperial Bank of India came into existence under "Nepal Bank Act 1993 B.S." as the first commercial bank of Nepal.

Banking concept was also in existence even in ancient period when the goldsmiths and rich people used to issue receipt to common people against the promise to safe keeping their valuable items.

"Banking concept existed even in the ancient period when the goldsmiths and the rich people used to issue the common people against the provides of safe keeping of their valuable items on the presentation of the receipt; the depositors would get bank their gold and valuables of the paying a small amount of safe keeping and saving." **(Samuelson, P.A 1973)**

The establishment of Nepal Rastry Bank, the central bank of Nepal in 2013 B.S. under the Nepal Rastra Bank Act 2012 was a significant dimension in the development of the banking sector. The second commercial bank, the Rastriya Bankjya Bank was established in the public sector in 1966 with the equity participation of HMG/N and the NRB under the Rastriya Banijya Bank Act 1967. Large numbers of non-banking financial institutes were set up between 1962 to 1977 such as the employ provident fund 1962National Insurance Company 1967, Credit Guarantee Corporation in 1974 and Securities Market Centers in 1977.

Nepalese government since mid 1980 allowed foreign banks of joint venture basis to operate in the country on the approval of Nepal Rastra Bank. As result, Nepal Investment Bank Ltd (Nepal Indo-Suez Bank Ltd.), NABIL Bank Ltd. (Nepal Arab Bank Limited), Standard Chartered Bank Nepal Limited (Nepal Grindlays Bank) and Everest Bank Limited were established in 2042, 2041, 2043 and 2051 B.S. respectively. Today there are more than 20 commercial banks operating in Nepal Financial Market. Now commercial banks are established under Nepal Rastra Bank Act 2058, Bank and Financial Institute Related Act 2063, and Company Act 2063.

Along with the development of the country, bank and allied activities grew gradually. A bank and its activities have always played a prominent role in the development of our country. Financial development of the country largely depends up on effective mobilization of its internal resources.

1.3 Concept of Commercial Banks

Financial intermediaries play significant role to the development of national economy. They influence savings and surpluses considerably, which results investments. Financial intermediaries collect financial resources and supply them to the productive sectors that boosts the trade and industry and at last development of the country's economy.

Commercial Banks are heart of financial system they hold the deposits of many person, government establishment business unit. They make fund available through their lending and investing activities to borrowers, individuals, business firms and services for the producers to customers and the financial activities of the government. They provide the large portion of the medium of exchange and they are media through which monetary policy is affected. These facts show that the commercial banking system of nation is important to the functioning of the economy. **(Read/Cotler/Will/Smith, 1976)**

Commercial banks are also financial intermediaries they mediate people who save money and who want to secure the use of money by accepting the deposits, burrowing funds and advancing loans. In addition to these primary functions, commercial banks, collect checks and bills, open later of the credit, guarantee on behalf of customers, undertake capital and other many activities, exchange foreign currencies etc.

1.3.1 Function of Commercial Banks

Regarding the function of commercial banks, a commercial bank act state that a commercial bank is one that exchanges money, accept deposits, grants loans, and performs commercial banking functions. The functions and services of modern commercial banks are classified under the following headings.

(I) Accepting Deposits

A commercial bank accepts deposits from customers in the forms of current, saving and fixed deposits. These deposits are repayable on demand. The depositors other than current A/c are paid interest.

(ii) Granting Loans and Deposits

The second main function of the commercial bank is to grant loans and advances to businessman, the industrialist, the individuals, the different organizations etc. in the forms of term loans, cash credit, overdraft, trust receipts, hire purchase loans etc. Banks charges interest on such loan and advances, which is the largest source of total income.

(iii) Agency Service

A modern commercial banks act as an agent of individual's customers, business institutions and different organization. The agency services of banks may involve collection of interest and dividends on debt and share capital. A bank buys and sells securities on behalf of the customers. Bank also collects cheques, draft promissory notes etc and receives their payments. Sometimes, it makes payments of insurance premium, bills of electricity, telephone etc. It takes commission for the services rendered.

(iv) Guarantee on Behalf of Customers

The need of bank guarantee arises in business. Generally, business customers enjoy this service. Sometimes, personal customers may also need a bank guarantee.

(v) Issuance of Traveler's Cheque

The people traveling outside the country want to reduce the fear of getting money stolen during the travel. Bank sells the traveler's cheque. The unique feature of the traveler's cheque is that unless the purchaser of traveler's cheque signs for encashment it cannot be encashed.

(vi) Opening Letter of Credit

Today letter of credit has become very popular in foreign business. The letter of credit is established/ opened by the bank on the request of the customers.

(vii) Remittance Function

Sending and receiving fund to / from various places is the necessity of today. The remittance service of bank has benefited both business and personal customers. Funds transfers are made through various modes like demand drafts, telegraphic payment order, swift and fax and mail payment orders.

(viii) Other Services

Modern commercial banks are equally important in undertaking safe custody of important valuable and documents. Banks also offer some of the bank services at the door of highly valued customers. Few large banks conduct research and survey in the economic conditions and they supply trade statistics and Information In addition to these, banks also inform their customers about the credit standing of other particles.

1.4 Concept of Joint venture Bank

The foreign joint venture banks with full-fledged banking functions in Nepal are formed under Company Act 2063 B.S. and operated under Nepal Rastra Bank 2058, and Bank and Financial Institute Related Act 2063 B.S. Joint Venture Bank (JVB) have been established for trading to achieve mutual exchanges of goods and services, for sharing comparative advantages by performing joint investment schemes between Nepalese investors, financial and non-financial institutions as well as private investors and their parents banks.

“A Joint Venture Bank is joining of forces between two or more enterprises for the purchase of carrying out a specific operation i.e. industrial and commercial investment production or trade." **(Gupta, D. P. 1984)**

Nepal Government deliberate policy of allowing foreign JVB's to operate in Nepal is basically targeted to encourage local traditionally run commercial banks to enhance their balanceable capacity through competition efficiency, modernization via computerization and prompt customer service". **(Shreshtha M. K. 2042)**

Joint venture banks in Nepal are expected to be the medium of economic development and uplift the community under the guidance, operate under supervision, controlling and direction of Nepal Rastra Bank. Nepal Arab Bank Limited was the first joint venture bank of Nepal, established in 29th Ashar 2041 B. S. till now there are nine joint venture banks operating in different parts of Nepal.

1.4.1 Role and Function of Joint Venture Banks

With the entry of foreign joint venture banks with foreign collaboration advanced managerial skills, international network personalized manpower, and modern computerized technology have created serious challenges to the existence of the traditionally running inefficient domestic state owned banks.JVBs are able to provide quality-banking service at the cheaper costs.

The JVBs have already been providing a dynamic and vital role for the development of the efficient financial market as well as for successful mobilizing and utilizing financial resource in the country, which can be illustrated in the following headings.

(I) Providing Advanced Banking Services

(II) International Management Network

(III) Creation of Healthy Competition in the Banking Industry

(IV) Advantage of Foreign Investments

1.5 Focus of the study

In Nepal many commercial and financial company have opened within few years of period. Basically, joint venture banks have given a new horizon to the financial sector of Nepal. They have achieved tremendous success in terms of market share and profitability due to their prompt service and professionalism. The research study is focused on assessing the financial condition and performance of Siddhartha Bank Limited. Mainly the study is focused on the liquidity position, Capital structure, earning position of t he Bank.

1.5.1. Brief profile of Siddhartha Bank Limited:

Siddhartha Bank Limited (SBL) commenced operations in 2002. The Bank is promoted by a group of highly reputed Nepalese dignitaries having wide commercial experience. The Bank provide a full range of commercial banking services through 42 branches across Nepal. It has 38 ATM network established at various location all over Nepal. The slogan of the Bank is “Our business is to understand your business”

SBL's vision is to be financially sound, operationally efficient and keep abreast with technological developments. The Bank firmly believes customer focus is a core value, shareholder prosperity is a prime priority, employee growth is a commitment and economic welfare is a sincere concern.

The following mission statement is a guide to meet the Vision of the Bank:
As a first step, SBL will strive to be in a leading position amongst the banks of its age in terms of profitability, productivity and innovation.

SBL aims at total customer satisfaction by rendering efficient and diversified financial services through improved technology.

SBL will build a highly motivated and committed team of staff by nurturing a good work culture to achieve superior individual performance aiming to enhance organizational effectiveness. SBL will be the place of pride to all its stakeholders. Fundamentally, in all dealings SBL earnestly believes in transparency, financial soundness, efficiency and better technology. Altogether 379 staffs are working in this Organization.

Authorized Capital- Rs. 3000000000

Issued Capital- Rs. 1571130000

Paid up capital- Rs. 1571130000

Bonus Share- Rs. 47133900

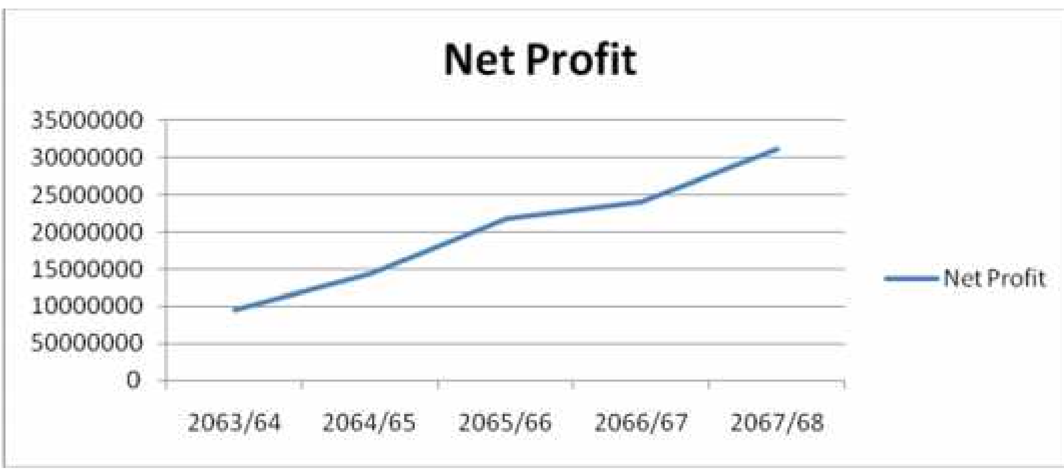
Total Share Capital- Rs. 1618263900

Management team of Siddhartha Bank Limited

Surender Bhandari Chief Executive Officer		
Shambhu Nath Gautam General Manager	**Sundar Prasad Kadel** Deputy General Manager	**Rameshwor Prasad Bashyal** Assistant General Manager
Sher Bahadur Budhathoki Assistant General Manager	**Laxman Subba** Head - SME & CBD	**Arjun Bhadra Khanal** Manager Business Support
Surya Bahadur Tamang Branch Manager New Road	**Shailaja Gyawali** Manager-Marketing	**Srijan Krishna Malla** Head IT
Ashish Kumar Sharma Head Payment Solution	**Ira Pradhan** Relationship Manager Credit	**Kamal Basnet** Branch Manager Biratnagar
Pankaj Pant Manager Customer Service	**Santosh Pandey** Relationship Manager Marketing	**Dilli Raj Lekhak** Branch Manager Birgunj
Biplavi Singh Relationship Manager Credit	**Amit Shrestha** Relationship Manager Credit	**Ashok Upadhyaya** Manager Branch Operations
Prabin Dhungel Manager Credit Admin & Control	**Pradeep Pant** Relationship Manager Marketing	**Upendra Gartaula** Relationship Manager Credit
Anindra Raj Acharya Manager Control & Compliance	**Ram Chandra Khanal** Manager Finance & Account	**Rudra Nath Dhungana** Relationship Manager SME & CB
Tej Raj Timilsina Branch Manager Dhangadi		**Chandan Karki** Manager Treasury
	Bhola Nath Dhungana Manager Legal	

FY	Investment	Total Deposit	Ratio
2063/2064	865188561	6625078506	13.06%
2064/2065	1150095800	10191440970	11.28%
2065/2066	2176427797	15854798403	13.73%
2066/2067	2452475662	20197029402	12.14%
2067/2068	2537909426	21575653982	11.76%

FY	Net Profit
2063/64	95305326
2064/65	143172989
2065/66	217915808
2066/67	240847768
2067/68	311415291



List of Commercial Banks in Nepal are:

S.No.	Name of Bank	Operation Date (B.S.)	Head Office
1	Nepal Bank Limited	1994/7/30	Dharmapath, Kathmandu
2	Rastriya Banijya Bank Limited	2022/10/10	Singadarbar, Kathmandu
3	Agriculture Development Bank Limited	2024/10/7	Ramsahapath, Kathmandu
4	NABIL Bank Limited	2041/3/29	Kantipath, Kathmandu
5	Nepal Investment Bank Limited	2042/11/26	Durbarmarg, Kathmandu
6	Standard Chartered Bank Nepal Limited	2043/10/16	Nayabaneshwor, Kathmandu
7	Himalayan Bank Limited	2049/10/5	Thamel, Kathmandu
8	Nepal S.B.I. Bank Limited	2050/3/23	Hattisar, Kathmandu
9	Nepal Bangladesh Bank Limited	2051/2/23	Nayabaneshwor, Kathmandu
10	Everest Bank Limited	2051/7/1	Lazimpat, Kathmandu
11	Bank of Kathmandu Limited	2051/11/28	Kamaladi, Kathmandu
12	Nepal Credit and Commerce Bank Limited	2053/6/28	Siddharthanagar, Rupandehi
13	Lumbini Bank Limited	2055/4/1	Narayangadh, Chitwan
14	Nepal Industrial and Commercial Bank Limited	2055/4/5	Darabarmarg, Kathmandu
15	Machhapuchhre Bank Limited	2057/6/17	Prithivichowk, Pokhara
16	Kumari Bank Limited	2057/12/21	Putalisadak, Kathmandu
17	Laxmi Bank Limited	2058/12/21	Aadarshanagar, Birgunj
18	Siddhartha Bank Limited	2059/9/9	Kamladi, Kathmandu
19	Global Bank Limited	2063/9/18	Aadarshanagar, Birgunj
20	Citizens Bank International Limited	2061/1/7	Kamladi, Kathmandu
21	Prime Commercial Bank Limited	2064/6/7	New Road, Kathmandu
22	Sunrise Bank Limited	2064/6/25	Gairidhara, Kathmandu
23	Bank of Asia Nepal Limited	2064/6/25	Tripureshwor, Kathmandu

24	Development Credit Bank Limited	2057/10/10	Kamladi, Kathmandu
25	N M B Bank Limited	2053/9/11	Babarmahal, Kathmandu
26	KIST Bank Limited	2009/05/07	Anamnagar, Kathmandu
27	Janta Bank Limited	2066/12/2	Baneswor
28	Mega Bank Limited	2067/4/7	Kantipath , Kathmandu
29	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kamaladi, Kathmandu
30	Civil Bank Litd.	2010/11/26	Kamaladi, Kathmandu
31	Century Commercial Bank Ltd.	2011/03/10	Putalisadak , Kathmandu
32	Sanima Bank Limited	2012	Naxal, Kathmandu

1.6 Statement of the Problem

Due to the economic recession in the nation, there has been lower investment in the agriculture, manufacturing, industrial and financial sectors which has caused lower growth of gross domestic product and hence foreign trade deficit is increasing day by day. In this situation, banks invest their surplus funds in the non-risky portfolios like treasury bills, or government securities, which yield lower rate of returns in comparison to credit to be in safer side.

The economic slowdown of expansion is occurred mainly because of elasticity of credit supply. The elasticity of credit supply basically depends on the functioning of the central banking system. Central bank has issued directives to regulate the activities of commercial banks with the objective of safeguarding the public sector. Despite of prevailing economic recession in the country, joint venture banks operating in Nepal have managed to perform well in terms of their work efficiency and profitability.

Every banking sector cannot reach their objective without a good financial performance. The financial sector has not been responsive enough for them to meet the growing resources. In this competitive market each and every bank and financial institution need to analyze their financial situation to develop strategies and to identify the strengths and weaknesses.

In modern days, especially in Nepal, Banks are being considered not as dealers of money transaction but also dealers of investment in the country. Banks are the active players of money market and capital market as well. In fact, economic liberalization and privatization policy adopted by the government has open up the opportunity and threat as to the banking sectors.

This study will try to seek the answers of the following statements relating to Siddhartha bank of Nepal.

- How Siddhartha bank has been managing its position relating to the liquidity?
- How this bank is being able to utilize the fund?
- In which way do this bank is managing to increase the value for sustainability?

1.7 Objectives of the Study

The Primary objective of this study is to analyze financial performance of commercial bank in Nepal namely Siddhartha Bank Limited to recommended suggestion for the improvement of state of affairs.

The task of any financial institution is to mobilize the savings scattered in the country and by ensuring efficient allocation of these savings to high yielding investment it provides attractive returns to depositors in one hand and also help the economy be providing various kinds of loans to many sectors of economy. Some of other objectives are:

- To evaluate the liquidity position to measure the strength of financial performance of Siddhartha bank.
- To identify the relationship between total deposit and total investment.
- To evaluate the earning and profitability position.

1.8 Significance of the Study

Analysis of financial performance of any company is very important. Actually, on the basis of the financial analysis we can say that the concerned company is strong or not. This study is mainly concerned to the financial performance of Siddhartha bank which encourage improving the different position and performance of the bank. From data presentation and analysis researcher finds different strength and weakness of the bank which is recommended to the bank for its further improvement.

1.9 Limitation of the Study

Every works have its own restriction and limitation due to the lack of time resources and knowledge. The work is completed within the periphery of its limitation. Despite the enough efforts of researcher, this thesis is not free from limitation. The researcher has come across many problems while presenting the thesis. Following are the major limitations of this thesis.

- This thesis is based on secondary data collected from concerned bank. Thus, the result of the analysis depends on the information provided by the concern offices.
- The researcher has time limitation.
- The thesis is limited to analyze five years period i.e. from FY i.e. (2063/64 to 2067/68)
- The source of data i.e. published annual report and internet web site is assumed to be correct.

1.10 Organizations of the Study

This study has been organized over altogether five chapters. Starting from Introduction, Review of Literature, Research methodology, Presentation & Analysis of data and summary, to conclusion & Recommendation as get of the entire study. A brief outline of this chapter has been outlined as under.

Chapter I: Introduction

First chapter contains the background of the study, focus of study, statement of problems, objectives of study, significant of the study, limitation of the study and Organization of study.

Chapter II: Review of Literature

Second chapter deals with review of available literature. It's including conceptual framework, reviews of books, articles and thesis, and research.

Chapter III: Research Methodology

Third chapter explains the research methodology used in the study which includes research design, sources of data, population and samples, and data analysis tools etc.

Chapter IV: Presentation and analysis of data

Forth chapter is the main part of the study which includes presentation and analysis of data using different financial and statistical tools.

Chapter V: Summary, Conclusions and Recommendation

Fifth chapter consist of the summery, conclusion of the study and recommendations.

CHAPTER–II
REVIEW OF LITERATURE

The review of literature is a crucial aspect of planning of the study. This chapter highlights the concept and review of existing literature that is available and related with this particular topic. Several books, dissertations, research papers, report, journals are review while preparing the review.

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

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

2.1 Conceptual Frame Work/ Theoretical Review

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

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

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

"Financial analysis is to analyze the achieved statement to see if the results meet the objectives of the firm, to identify problems, if any, in the past or present and /or likely to be in the future, and to provide recommendation to solve the problems." **(Pradhan, 2000)**

“Financial analysis is the process of determining financial strengths and weakness of Analysis Company by establishing strategic relationship between the components of analysis balance sheet and other operative date.” **(Pandey, I.M., 2001)**

2.2 Review of Related Studies

2.2.1 Review of Related Book:

Western & Copeland (1991), In the 20th chapter "Short Term Financial Management", the author has highlighted the types of short term financing and its related issues. Following are the objectives of this chapter.

- Discuss the nature and type of short term financing.
- Evaluate the significance of working capital management III the firm.
- Explain the relationship between sales growth and the need to finance in current assets.

Short term financing is defined as debt scheduled for repayment within one year. A large number of short-term credits are available and the financial manger must know the advantages and disadvantages of each. The main types of short term financing are:

A. Trade Credit

Trade credit is a customary part of doing business in most industries. It is convenient and informal. Whether trade credit costs more or less than other forms of financing is a moot question.

B. Loans from Commercial Banks

Loan from the commercial banks is very important source of financing. Commercial banks take into consideration of following factors while providing loan to its customer.

i) Forms of loan

ii) Size of Customers.

iii) Maturity

iv) Security

v) Compensating Balance

vi) Repayment of Bank loan

C. Commercial Paper

In recent years, the issuance of commercial paper has become an increasingly important source of short term financing for many types of corporations, including utilities, finance companies, insurance companies, and bank holding companies and manufacturing companies. Commercial paper consists of unsecured promissory notes issued by the firms to finance short-term credit lines.

Commercial paper is physical1y similar to a bank loan. It is sold in broad and impersonal market. Working capital management encompasses all aspects of administration of current assets and current liabilities.

Van Horne (2000), In the 12th chapter called "Liquidity, Cash and Marketable Securities", the author has focused on the current assets and short term financing. According to the author Liquidity and liquid assets like cash and cashable assets are more important for the company to discharge the current liabilities. The objectives of the chapter can be explained as follows:

- Discuss the term liquidity and its role.
- Explain the various aspects of cash management and collections
- Explain the various aspects of investment in marketable securities.
- Also to focus on the aspect of portfolio Management.

The, term liquid assets refer to money and assets that are readily convertible into cash. Cash is said to be more liquid asset in comparison to other assets because other assets have varying degree of liquidity depending on the way of conversion into cash. For the other assets, liquidity has two dimensions

(i) The time necessary to convert the assets into money
(ii) The degree of certainty, associated with conversion ratio.

Since, assessment of financial performance also depends on the degree of liquidity of the company, so the company under consideration should be enough liquid to discharge it current liability in time. Other aspects of liability involve cash management and collections. Cash management refers to managing monies of the firm in order to maximize cash availability and interest income on any idle funds. Cash management and collection comprises various aspects like:

- Transferring funds.
- Concentration Banking.
- Lockbox System
- Control of disbursements.
- Mobilizing funds and slowing disbursement.
- Payroll and dividend disbursements.
- Zero Balance Account.
- Electronic funds Transfers.

The author has also highlighted on investment in marketable securities to properly maintain the liquidity in the firm. According to author a good financial manager should always try to invest the portion of excess liquid assets. The yields on these sorts of marketable securities may vary due to default risk, coupon rate and other factors involved.

- Default risk.
- Marketability.
- Maturity Period.
- Coupon Rate.

- Taxability.

Types of Marketable security.

-Treasury Security.

-Repurchase Agreement. -Agency Security.

-Banker's Acceptance.

-Commercial Paper.

-Negotiable Certificates of Deposits

-Euro Donors

-Short-Term Municipal Bonds

Regarding the portfolio management, the author has emphasized that the financial manager should manage the investment portfolio in accordance with the need of fund. The term 'portfolio' means collection of investments in different securities. In portfolio analysis, financial manager should analyze future risk and return of securities. The objective of portfolio management is to help developing. A portfolio that has the maximum return at chosen level of risk efficient portfolio provides the highest possible return for any specified rate of return. In portfolio analysis, the financial manager should estimate the expected return and the risk of holding securities in a portfolio. In portfolio management expected return and portfolio risk are calculated as follows.

Portfolio Returns

Portfolio Risk

In conclusion, for the cash management the company should attempt to accelerate cash collections and handle disbursement so that maximum liquidity is maintained in the company. On the other hand, the financial manager should try to use the excess cash in a number of securities. The financial manager should select the best possible portfolio considering the cash flow pattern and other things of the company.

- Discuss the nature, content, form and utility of two financial statements, viz. Balance sheet and profit and loss account.
- Show relationship between balance -sheet and profit and loss statement.

- Distinguish between accounting profit and economic profit.

Any firm communicates financial information to the users through financial statements and reports. Thus, financial statements contain summarized information of the firm's financial affairs. These statements are the means to present the firm's financial situations to the users. Preparation of these statements is the responsibility of top management. As the investors, and financial analysts to, examine the firm's performance in order to make investment decision use these statement, they should be prepared very carefully and contain as much information as possible. There are two basic financial statements prepared for the analysis of financial performance of any Company, Balance sheet or statement of final position and Profit and loss account or Income -statement.

Balance sheet

Balance sheet is the most significant financial statement. It indicates the financial condition or the state of affairs of a business at a particular moment of time. Balance sheet is the base for the analysis of financial performance of any company. Balance sheet contains information about resources and obligations of a firm entity and about its owners' equity. Balance sheet provides a snapshot of the financial position of the firm at the close of fiscal year.

As we know, Balance sheet is very important tools for the analysis of financial Performance. The functions served by Balance sheet can be pointed out as follows:

- It gives concise summary of the firm's resources and obligations.
- It is a measure of the firm's liquidity.
- It is a measure of the firm's solvency.

Profit- and Loss Account

Balance sheet plays very significant role for the bankers and other creditors because it indicates the firm's financial Solvency and liquidity, where as profit and loss account reflect the earning capacity and potentiality of the firm. The profit and loss account is a scoreboard of the firm's performance during a period. Since the profit and loss account reflects the results of operations for a period of time, it is a flow statement. In contrast, balance sheet is a stock or status statement as it shows assets, liability and owners' equity at a point of time.

Profit and loss account presents the summary of revenues and expenses and net income of a firm. It serves as a measure of the firm's profitability. The functions of profit and loss account can be described as follows:

- It gives a concise summary of the firm's revenue and expense during a period of time.
- It measures the firm's profitability.
- It communicates information regarding the results of the firm's activities to owners and theirs.

In conclusion, financial information is required for the financial planning, analysis and decision-making. The user of financial information includes owners, managers, employees, customers, suppliers and society. The financial statements like. Balance Sheet and P/L account are the basic instruments for the analysis of financial performance. The objectives of this chapter can be explained as follows:

- Discuss and explain the term financial structure.
- Explain about various financial leverages.
- Also explain about financial leverage and risk associated.
- Explain the various factors affecting financial structure.

The financial decision of the firm is one of the basic decisions for the achievement of the maximization of the shareholders wealth. For this, a financial manager should select a sound financial mix (financial structure), which help to achieve the objective of the firm. The term financial structure refers to the proportion of each type of capital, such as debt, preferred stock, and common equity issued by the firm.

In the opinion of the author, financial leverage magnifies the shareholders EPS and increases its variability. This causes two types of risk- operating risk and financial risk. Two firms exposed to same degree of operating risk can differ in respect to. Financial risk when they finance their assets differently. A totally equity financed firm will have no financial risk. The financial leverage and financial risk has positive relationship.

In this chapter the author has pointed out following factors that affects the financial structure of the company. Following are the main factors that affect the financial structure.

- Growth rate of sales.
- Sales stability
- Assets structure
- Management attitude:
- Lender attitude.
- Competitive structure.

2.2.2 Review of Related Articles

Krishna Shrestha R.L (2046) in his article "Capital Adequacy of Bank, the Nepalese Context" has suggested the banks that deal in highly risky transactions to maintain strong capital base. He concluded that the capital base should neither be too much leading to efficient allocation of scarce resources nor so weak to expose to extreme risk. The study accepts that the operations of banks and the degree of risk associated with them are subject to changes country wish, bank wish and time period wise (NBR samachar, 34th anniversary 2046).

Mr. Krishna Pradhan (2004) in the article, "Transaction Analysis of Financial Companies in Nepal." Has concluded that the finance companies are centered in the city as like commercial banks. If this trends remains, the central bank is to consider novel strategy. However, financial and banking transaction don't take place in zero, it favors of financial intermediaries. The emergence of closure of financial companies in market economy in common sense. But keeping in mind, the social and economic structure o four country, we should not turn a deaf ear to regional balance.

Bhatta (47th anniversary), In his article "Financial policies to Prevent Financial Crisis", Nepal Rastra Bank Samachar, the author has suggested that the financial markets have become an exciting, challenging and ever changing sector in the recent years. The emergence of global financial institutions as a result of increased economic liberalization has raised a host of questions for financial planners and policy makers. The growth of financial markets has caused complexities in the management and if they are not managed and addressed properly with appropriate policies, then the end result is the financial crisis.

According to the author of the article, the financial crisis in most of the markets, particularly in emerging market, undergo several stages. The, initial stage is deterioration' in financial and non-balance sheets and which promotes the second stage that is currency crisis. The third stage is a further determination of financial and non- financial balance sheets as a result of the currency crisis. This stage is the one that caused the economy to full- fledged financial crisis with its devastating consequences.

Policies to prevent Financial Crisis

The author has suggested following policies to be adopted for preventing financial crisis:

1. Prudential Supervision:

Banking sector problems promote most of the financial crisis. The experience of crisis hit countries show that the deterioration in banks balance sheet increase financial crisis. Further, foreign exchange crisis also lead to a full-blown financial crisis. The supervisory system must give special emphasis on following to prevent financial crisis:

- Stop undesirable activities of financial institutions.
- Adequate resources and statuary authority for prudential supervisors.
- Accountability of supervisors.
- Restrictions on connected lending.
- Limiting too-big to fail (too-bit- to fail is a policy in which all depositors at a big bank are fully protected if the bank fails)

2. Accounting standards and disclosure requirements:

It is true that both markets and supervisors need enough information so as to effectively monitor financial institutions to stop excessive risk taking. As a result, it become harder for the markets or supervisors to decide when the banks are insolvent and need to be closed down. In this respect, implementation of proper accounting standards and disclosure requirements helps to established healthy financial institutions.

3. Legal and Judiciary system:

The efficient functioning of the financial system requires an efficient legal and Judiciary framework in many developing countries, the legal system may not well be defined about the use of certain assets as collateral or makes attaching collateral a costly and time consuming process. Thus, an effective legal and judiciary system is required to secure the investment of the lender and other similar cases by decreasing information problem.

4. Monetary policy and price stability:

Monetary policy and price stability can also help to prevent financial crisis. When the countries have in past high inflation, foreign debt contracts make the financial system more fragile and thus trigger a financial crisis. Achieving price stability is a necessary condition for having sound currency and with sound currency it is easy to banks and non-financial firms and system government to raise debt in local currency.

5. Exchange rate regimes and foreign exchange reserves:

Exchange rate regime and foreign exchange reserves can also create financial instability. The experiences of crisis - hit countries have also shown that economies with low amount of foreign currency reserve seemed to be more vulnerable to crisis though, pegged/ fixed exchange rate regime is an efficient mechanism for inflation control, but the same can create server problem if the economy is dominated by substantial amount of foreign debt.

6. Encouraging market based discipline:

Market based discipline is very much essential for a sound financial system. This can be maintained by:

- Disclosure requirement, which provides information to the markets that, assist them to' monitor financial institutions and keep them away from taking oil too much risk.

- Having credit ratings to financial institutions. Requiring them to issues subordinated debt.

7. Entry of Foreign Bank:

A liberalized economy with sound supervisory/ regulatory infrastructure can permit foreign banks to enter in financial system. The adverse shocks in economy will not affect the functioning of these banks since their risk is adversities and their enter can encourage the adaptation of best practices in the banking industry. It is believed that these banks come with better risk management techniques and more efficient banking system.

8. Limitation of too- big to fails the corporate sector:

When some corporate houses considered to be too- big -to fail (or politically influential) by the government, these corporations enjoy in excessive risk taking. If such is the case, lenders do not hesitate to supply additional fund to the troubled corporations and which violates the market discipline. Therefore, too- big to fails as ' in the banking sector should be eliminated.

In conclusion the author has remarked that there is no doubt is no doubt that the key to preventing future financial crisis is to implement sound domestic economic policies and build robust financial institutions. The experiences of the crisis hit countries, especially during the decade of nineties, has proved that a country opening to liberalized economic policy should adopt sequencing policies constraining the pace of participation in the global market place until a sound domestic infrastructure can be put into place.

Gautam (2061), "WTO and challenges of Financial Services Liberalization," Nepal Rastra Bank Samachar 49th Anniversary edition 2061 by Nepal Rastrya Bank, Kathmandu, Nepal.

In this article the author has caste highlight on Nepal's entry into WTO and its challenges to financial services. Nepal has become 148th member of world trade organization

(WTO). Nepal has liberalized different sectors gradually. It is for sure that Nepal has to face various challenges, especially, in the financial sector.

The financial services has been liberalized and reformed well enough during the last 20 years. Nepalese financial sector presently enjoys the full liberalization. There is no special difficulty in this sector in regard to the membership of WTO. The membership in WTO opens many alternatives gates such as perfect venue for dispute settlement, easy access to the markets of 147 countries of the world, product- wise and country- wise diversification and greater opportunity in the similar markets of the countries with similar geographical and economical situation. In fact, Nepal is continuously facing some structural and supply side problems including weak technological adaptability, lack of skills and poor infrastructure. These challenges can be categorized as per their cause and relationship.

- Future Direction and speed of Financial sector reform
- Restructuring and reengineering of Nepal Rastra Bank
- Formulation and implementation of Legal Frameworks
- Financial policy and political Stability

The technical problems of the country should be addressed so as to take benefit from the open and competitive, market. Strong mechanisms should be designed in financial services sector so as to meet growing challenges.

It is a fact that Nepal is landlocked by India and China; therefore, it would be another challenge to explore a good access to growing economics of neighboring countries and to get easy access in their huge market will be our strength to explore the space in competitive market and to sell our services. Otherwise, the challenges will remain out of competence letting us lose the contest.

In conclusion, Liberalization in service sector is inevitable. We cannot escape from the ground reality of globalization, wide spread acceptance of WTO and necessity of membership in this international trade institution. It should not be opposed to hide our inefficiencies or governance problems. Rather it is a right

Time to find out the impacts continue and finish the reform process making the services sector really competitive. Otherwise, we will lose the opportunity. Reform and liberalization does not mean a cartel, therefore, a fair competition should be ensured in financial services sector. Similarly, transparency and disclosure practices are must for the growth and development of financial services sector.

2.2.3 Review of Related Thesis

Joshi (2003), in her thesis entitled "Financial performance of Nepal Investment Bank Limited," has tried to summarize the financial performance of NIBL. Financial ratios were used to analyze the financial performance.

- The result of the analysis indicates that the bank had the high debt equity ratio which again exhibits that the creditors have invested more in the bank than the owners.
- The result of the analysis indicates that the bank has better mobilization of saving deposits in loans and advances for income generating purpose.

Pradhan (2004), in his thesis entitled "A comparative study on financial performance of HBL and SCBNL" has pointed out following objectives.

- To analyze comparative financial performance of both banks.
- To evaluate liquidity position of both banks.
- To identity the relationship between interests earned and operating profit.
- To offer a package of suggestion to improve the financial performance.
- Financial ratios were used to analyze the financial performance.

Major findings of this study are as follows

- Current ratio of both the banks is below the standard; this might effect the liquidity position of these banks.

- SCBNL's loan and advances to total deposits ratio are significantly lower than that of HBL.
- SCBNL is strongly recommended to follow liberal lending policy and invest more and more percentage amount of total deposits in loan and advances.
- HBL is strongly recommended to increases it’s earning per share and dividend per share to keep investors within the bank.

Karki (2005), in his thesis entitled "A comparative analysis of financial performance of NABIL and SCBNL”, has pointed out following objectives. Financial ratios were used to analyze the financial performance.

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

Major Finding of this study are as follows

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

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

- To evaluate Liquidity position of these Banks.
- To analyze comparative financial performance of these banks
- To study comparative position of selected banks.

- To offer a package of suggestion to improve the financial performance financial ratios were used to analyze the financial performance. The research was descriptive cum analytical.

Major Findings of this study are as follows

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

Upreti (2007), in his thesis entitled 'A comparative study of financial performance of NIBL, HBL, SCBNL and EBL", has pointed out following objectives.

- To study the present of the four joint venture banks
- To do the comparative study about the financial performance of these banks with regard to-their profitable liquidity, efficiency and capital structure.
- To provide recommendation and suggestion on the findings to improve financial performance of these banks.

Major Findings of the study are as follows

- Among all the sample banks, HBL has the lowest ratio and EBL has not mobilized its assets into profit generating projects.
- SCBNL has been successful in earning more net profit by the proper use of its available assets.
- EBL with the highest ratio has been successful in generating more interest by the proper use of its available assets.
- EBL and HBL seem to have held more cash and bank balance rather than other commercial banks.

CHAPTER-III
RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that we generally adopted by a researcher, studying his research problem among with the logic behind them.

"Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigation, backed by collection, presentation and interpretation or relevant details or data." **(Michael, 1985)**.

"Research Methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view." **(Kothari, 1994).**

The prime objective of this study is to evaluate and assess the financial performance of selected commercial bank, i.e. Siddhartha Bank Limited. This chapter contains these methods that make convenience for comparison of the performance made, so far by these banks by analyzing the strength and weakness of the financial performance of Siddhartha bank.

A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

3.2 Research Design

Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances. In other words research design is the frame work for a study that helps the analysis of data related to study topic

Research design is very important for scientific investigation. Research design gives the investigator a systematic direction to research work. Actually, research design in a plan for data collection and analysis. It presents a series of guideposts to enables the researcher to process in the right direction in order to achieve the goal.

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework of the project that stipulates what information to be collected from which sources by what procedures. There are various approaches of research design. This research is based on descriptive and analytical research design.

3.3 Sources of Data

This study mainly based on secondary data. Secondary data are collected from their respective annual report especially from profit and loss account, balance sheet and other publications made by the banks. Also some data has been gathered from Website. Similarly, articles, journals related to the financial performance study, previous research report etc., have also taken into account while collecting information.

3.4 Source of Data Collection.

This study is based on secondary data. The sources of data collection are:

1. Financial statement annual reports provided by bank
2. Articles and other related materials published in newspaper
3. Newsletters of the bank
4. Related Web sites
5. Other related books

3.5 Data Collection Techniques

The study has been conducted to examine and evaluate the financial performance of Siddhartha Bank Limited. For this purpose various data are required. The researcher made visit to Siddhartha Bank Limited head office for collection of data.

The researcher obtained annual and periodic report and banking directives from Nepal Rastra Bank, Baluwatar. Various websites were surfed to gather relevant information. Besides the above stated sources of data detailed reviews of literature have been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from central library of T.U. and library of Central development of Management. The data, information, facts, and figures have been edited tabulated and calculated before analysis. Then results were concluded and interpretations were made.

3.6 Data Processing

According to the nature of data they have been inserted into meaningful related tables. Homogeneous data have been sorted in the table in well understandable manner. Using financial and statistical tools data have been analyzed and interpreted.

3.7 Data Analysis Tools

This study is basically based on secondary data, which were firstly collected, scanned, and tabulated under various heads. The calculated results were then compared and interpreted. Suitable tools and proper analysis makes data effective.

The collected data have been analyzed using financial and statistical tools (such tables, charts, diagrams etc.). The financial ratio is widely used tool for the analysis and interpretation of the performance of the data selected sample. The main financial ratios such as liquidity ratios, leverage ratios, activity ratios and profitability ratios etc. have been used. The main statistical tools are mean, Standard deviation, Coefficient of Variation and correlation which are used to find the reliable conclusion according to the financial data available to researcher. But in this thesis only correlation is used as statistical tool.

3.7.1.1 Liquidity Ratios

A liquid asset is one that can be easily converted to cash without significant loss of its original value. Therefore, a firm's "liquidity position" deals with the question of how well the firm is able to meet its current obligations. Liquidity ratio is the ratio that shows the relationship of a firm's cash and other current assets to its current liabilies. 9Weston, Besley and Brigham, 1996, P-94). Liquidity ratios measures the short term solvency position of the firm. These ratios are calculated to find the ability of banks to meet their short term obligations which are likely to mature in the short period of time. Depending upon special nature of assets and service sale made by the bank following ratios are tested.

a. Current Ratio

It is a test of liquidity. It measures short-run debt paying ability of the firm. In other words, it measures the availability of current assets for meeting current liabilities. This ratio is called working capital ratio. It is calculated by dividing current assets by current liabilities and 2:1 is regarded as standard.

Current assets are those assets which are convertible in cash within a year or so. They include cash and bank balance, investment in treasure bills, money at short call or placements, short term loans and advances, bills purchased and discounted, overdrafts, bills for collection, prepaid expenses, other receivable etc.

Current liabilities are those obligations maturing in the year. It includes current account deposits, saving account deposits, margin deposits, call deposits, intra-bank reconciliation account, bills, payable, bank overdrafts, provisions, accursed expenses, bills for collection, customers acceptance liabilities etc.

Current ratio is calculated by dividing current assets by current liabilities as follows:

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

Current ratio equal to 2:1, i.e., current assets double the current liabilities, is considered to be satisfactory one. Higher current ratio indicate that the firm is in liquid and has ability to pay its current obligations in time as and when they become due. And on the other hand, lower current ratio represents that the liquidity position of the firm is not good and the firm will face difficult in payment of current obligations in time.

b. Cash and Bank Balance to Current and Saving Deposit Ratio

It measures the ability of bank to meet its immediate obligations. The bank should maintain adequate cash and bank balance to meet the unexpected and heavy withdrawal of deposits.

Cash and bank balance comprises cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic bank and balance held in foreign banks. Current and saving deposits consist of all types of deposits excluding fixed deposits.

This ratio is calculated by dividing cash and bank balance by current and saving deposits as follows:

Cash & Bank Balance to Current & Saving Deposit ratio

$$= \frac{\text{Cash \& Bank Balance}}{\text{Current \& Saving Deposit}}$$

This ratio shows the ability of banks immediate funds to cover to their current and saving deposits. Higher ratio shows higher liquidity position and ability to cove r the deposits as follows:

c. Cash and Bank Balance to Total Deposit Ratio

It indicates the proportion of total deposit held as most liquid assets. Optimum ratio shows the strong liquidity position of the bank. High ratio is not favorable as it affects profitability due to idleness of high-interest bearing fund.

Total deposit consists of current deposit, saving deposit, fixed deposit, money call and short notice and other deposits.

This ratio is computed by dividing cash and bank balance by total deposits as follows:

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

d. NRB Balance to Current and Saving Deposit Ratio

This ratio measures whether the bank is following the direction of NRB or not. Commercial banks are required to old certain portion of current and saving deposits in NRB's account. it is to ensure the smooth function and sound liquidity position of the bank. As per NRB directives banks are required to maintain a ratio of 8% but from year 2002/03 the ratio was changed to 7%.

This ratio is computed by dividing the balance held with NRB by current and saving deposit as follows:

$$\text{NRB Balance to Current\& Saving Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current \& Saving Deposit}}$$

e. NRB Balance to Fixed Deposit Ratio

This ratio shows the percentage of amount deposited by the bank in NRB as compared to the fixed deposits. As per directive of NRB, this ratio should be 6%. From year 2002/03 NRB has changed the ratio to 4.5%.

f. Fixed Deposit to Total Deposit Ratio

This ratio indicates that what percentage of total deposit has been collected in form of fixed deposit. High ratio indicates better opportunity available to the bank to invest in sufficient profit generating long term loans.

This ratio is computed by dividing fixed deposit by total deposit as follows;

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

3.7.1.1.1 Leverage Ratio

Leverage ratios are judging the long term financial position of the firm. It evaluates the financial risk of long term creditors. Greater the proportion of the owner's capital in the capital structure lesser will be the financial risk borne by has legal obligation to pay interest to debt holders irrespective of the profit or loss incurred by the firm.

The extent, to which a firm uses debt financing or financial leverage, has three important implications:

- By raising funds through debt, stockholder ownership is not diluted.

- Creditors loud to equity, or owner supplied funds, to provide a margin of safety, if the stockholders have provided only a small proportion of total financing the risks of the enterprises are borne mainly by creditors.
- If the firm earns more on investments financed with borrowed funds than it pays in interest, the return on the owner's capital is magnified, or "leveraged". (Weston, Besley and Brigham , (1996), P-990

The firm should maintain optimal mix of investor's and outsider's fund for the benefit of owners and its stability. Following ratios are used to test the optimally of capital structure of SBL.

a. Debt Asset Ratio

This ratio measures the percentage of the firm's assets financed by creditors. Total debt includes both current liabilities and long term debt. Creditors prefer low debt ratio because the lower the ratio, the greater the cushion against creditors' losses in the event of liquidation. The owners, on the other hand, can benefit from leverage because it magnifies earnings, thus the return to stockholders. but too much debt often leads to financial difficulty, which eventually might cause bankruptcy. Weston, Besley and Brigham. P-1010

The ratio is computed by dividing total debt by total assets as follows:

$$\text{Debt Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Asset}}$$

b. Debt Equity Ratio

It is as test of long-term solvency of the bank. Debt equity ratio measures the relative claims of creditors and owners against the assets of the bank. This ratios indicates the relationship between debt and equity i.e. outsiders funds and shareholders funds which are sometimes called as external and internal equities. It is calculated to measure the extent of debt financing used in the business.

Total debt consists of all interest bearing long term and short term debts. These include loans and advances taken from other financial institutions, deposits surplus and undistributed profit.

This ratio is computed by dividing total debt by shareholder's equity as follows:

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

The ratio shows the mix of debt and equity in the capital. It measures creditor's claims against owners. High ratio shows that the creditor's claims are greater than those of owners. This brings inflexibility in the firms operation due to increasing interference and pressures from the creditors. Low ratio implies a greater claim of owners than creditors. The ratio should be neither too high nor too low.

c. Interest Coverage Ratio

This ratio measures how much net income before interest and taxes could decline and still provide coverage of total interest expenses. It is sometimes called as debt service ratio. This ratio is developed with the expectation that annual operating earnings can be considered a basic source of funds for debt service. The prospective debt holders often require convenience in the loan arrangement spelling out the number of times the business is expected to cover its debt service obligations. This ratio emphasizes the ability of the firm to generate enough income to cover interest expenses. This ratio is directly connected to the ability of the firm to pay interest. (Munankarmi, Shiva Prasad, 2002, p- 470)

The ratio is obtained by dividing net profit before deduction on interest and tax by interest charges as follows:

$$\text{Interest Coverage Ratio} = \frac{\textit{Net}\ \text{Profit before Interest and Tax}}{\text{Interest}}$$

The ratio indicates the ability of bank to pay interest out of its profits. It also indicates the extent to which the profits of the company many decrease without in anyway affecting its ability to meet its interest obligations. Higher ratio is desirable but too high ratio indicates the firm is very conservative in using debt. A lower ratio indicates excessive use of debt of insufficient operation.

3.7.1.1.2 Activity Ratio

This ratio measures the efficiency of the firms. Activity ratio is set of ratios that measure how effectively a firm is managing its assets. Activity ratio is also known as utilization ratios or turnover ratios or asset management ratios or effectively ratios. They measures how effectively the firm uses investment and economic resources at its command. High ratio depicts the managerial efficiency in utilizing the resources. They show the sound profitability position of the bank. Low ratio is the result of insufficient utilization of the resources.

Following ratios are developed and calculated to find the activity ratios of SBL.

a. Loans and Advances to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances. Loan and advances consists of loans, advances, cash credit, over drafts and foreign bills purchased and discounted. The ratio indicates the proportion of total deposits invested in loans and advances.

This ratio is obtained by dividing total loans and advances by total deposits as follows:

$$\text{Loan and Advance to Total Deposit: } \frac{\text{Loans and Advances}}{\text{Total Deposit}}$$

b. Loans and Advances to Fixed Deposit Ratio

This ratio indicates what proportion of fixed deposit has been used for loans and advances. As fixed deposit carry high rate of interest fund so collected need to be in such sectors which yield at least sufficient return to meet the obligation.

This ratio is computed by dividing loans and advances by fixed deposit liabilities as follows:

$$\text{Loan and Advance to Total Deposit: } \frac{\text{Loans and Advances}}{\text{Fixed Deposit}}$$

c. Loans and Advances to Saving Deposit Ratio

Loans and advances to saving deposit ratio measures what extent of saving deposit has been turned over to loans and advances.

This ratio is calculated by dividing loans and advances by saving deposit as follows:

Loan and Advance to Total Deposit: $\frac{\text{Loans and Advances}}{\text{Saving Deposit}}$

d. Investment to Total Deposit Ratio

Investment to total deposit ratio shows how efficiently the major resources of the bank have been mobilized. Investment consists of investment of HMG Treasury bills, development bonds, company shares and other type of investment.

This ratio is calculated by dividing investment by total deposits collected in the bank as follows:

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

e. Performing Assets to Total Assets Ratio

This ratio measures what portions of assets have been funded for income generation. Performing asset includes loans and advance; bill purchased and discounted investment and money at call or short notice.

This ratio is calculated by dividing performing assets by total assets as follows:

Performing assets to Total Assets Ratio: $\frac{\text{Pefor min g Assets}}{\text{Total Assets}}$

f. performing Assets to Total Debt Ratio

This ratio shows the pattern of use of the fund collected from the outsider. High ratio shows the success of bank in utilization of creditors fund in productive areas. Low ratio shows idleness of the cost bearing resources.

This ratio is calculated dividing performing assets to total debt as follows:

Performing Assets to Total Debt Ratio = $\frac{\text{Pefor min g Assets}}{\text{Total Debt}}$

3.7.1.1.3 Asset Quality Ratio

Asset quality ratio measures the turnover of economic resource in terms of quality. Only the investment is not of great significance but the return from them with minimum default in payment by debtors significant. A firm may be in state of enough profit but unable to meet liabilities. Asset quality ratios are intended to measure the quality of assets contained by the Bank.

a. Loan Loss Provision to Total Income Ratio

This ratios shows that portion of total income has been held as safety cushion against the possible bad loan. Higher ratio indicates that the greater portion of loan advanced by the bank is inferior in quality. Low ratio means that the bank has provided most of its loans and advances in secured sector.

This ratio is calculated by dividing loan loss provision by total income as follows:

$$\text{Loan Loss Provision to Total Income Ratio: } \frac{\text{Loan Loss Provision}}{\text{Total Debt}}$$

b. Loan Loss Provision to Total Deposit Ratio

This ratio shows the proportion of banks income held as loan loss provision in relation to the total deposit collected. Higher ratio means quality of assets contained by the bank in form of loan is not much satisfactory. Low ratio is the index of utilization of resources in healthy sector.

The ratio is calculated by dividing loss provision by total deposit as follows:

$$\text{Loan Loss Provision to Total Deposit Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Deposit}}$$

c. Loan Loss Coverage Ratio

Loan loss coverage ratio is calculated by dividing provision for loan loss by total risk assets as follows:

$$\text{Loan Los Coverage Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Risk Assets}}$$

Risk assets consists loans and advances, bills purchased and discounted. NRB has direct commercial bank to maintain provision for loan loss on the basis of category of loans and risk grade. Therefore the ratio measures whether the provision is sufficient to meet the possible loss created by defaulted in payment of loan or not. High ratio indicates that the major portion of loan is risky.

c. Accrued Interest to Total Interest Income Ratio

Accrued interest refers to the interest that is accrued but not cancelled. Total interest income includes the interest received from the investment in various sectors. High ratio indicates the larger portion interest remained be collected. Lower ratio reflects the better quality of assets in the bank.

This ratio is calculated by dividing accrued interest by total interest income as follows:

$$\text{Accrued Interest to Total Interest Income Ratio: } \frac{\text{Accrued Interest}}{\text{Total Interest Income}}$$

3.7.1.1.4 Profitability Ratio

Profit is essential for the survival of the business, so it is regarded as the engine that drives the business and indicates economic progress. Profitability is an indicator of efficiency of the business organization. Profitability is the net result of a number of policies and decisions. Profitability ratio measures the managements overall efficiency as shown by the return generated from sales and investment. A company should earn profits to survive and grow over a long period of time. It is a fact that sufficient profit must be earned to sustain the operations of the business to be able to obtain funds from investors for expansion and growth, and to contribute towards the social overheads for the welfare of society. The profitability ratios are calculated to measure the operation efficiency of the business. Management of the business, creditors and owners are interested in the profitability of the firm. Profitability ratios are designed to highlight the end-result of business activities which in the imperfect world of ours, is the sole creation of over all efficiency of business unit.

Following ratios are computed to find the probability ratios of SBL.

A Return on Total Asset

This ratio measures the productivity of the assets. It shows the relationships of net profit and total assets and determines how efficiently the total assets have been used by the management. This ratio evaluates the overall return on investment earned by the firm. Net profit prefers to the profit after deduction of interest and tax. Total assets mean the assets that appear in asset side of the balance sheet. It measures the efficiency of bank in utilization of the overall operation. Higher ratio shows the higher return on the assets used in the business thereby indicating effective use of the resources available and vice versa.

This ratio is calculated by dividing net profit after tax by total assets as follows:

$$\text{Return on Total Asset} = \frac{\text{Net Profit after Tax}}{\text{Total Assets}}$$

b. Return on Total Deposit

Return on total deposit ratio shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ratio indicates strong probability position and vice versa.

This ratio is calculated by dividing net profit after tax by total deposit as follows:

$$\text{Return on Total Asset} = \frac{\text{Net Profit after Tax}}{\text{Total Deposit}}$$

c. Total Interest Expenses to Total Interest Income Ratio

Total interest expenses consist of interest expenses incurred for deposits, borrowing and loans taken by the bank. Total interest includes interest income received from loans, advances, cash credit, overdrafts, and government securities, interbank and other investments, lower ratio is favourable from profitability point of view.

This ratio is calculated by dividing total expenses by total interest income as follows:

Total Interest Expenses to Total Interest Income Ratio

$$= \frac{\text{Total Int. Expenses}}{\text{Total Int. Income}}$$

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

Interest earned to total assets ratio shows percentage of interest income as compared to the assets of the bank.

This ratio is calculated by dividing interest income by total assets as follows:

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

e. Office Operation Expenses to Total Income Ratio

Office operation expenses consists expenses incurred in house rent, water, electricity, repairs, maintenance, legal expenses, audit expenses and other miscellaneous expenses made in course of operation.

The ratio is calculated by dividing office operation expense by total income as follows:

$$\text{Office Operation Expenses to Total Income Ratio} = \frac{\text{Office Operational Expenses}}{\text{Total Income}}$$

f. Staff Expenses to Total Income Ratio

Staff expenses include the salary and allowances, contribution to the provident fund and gratuity fund, staff training expenses and other allowances and expenses made to staff. It measures the proportion of income spent for the staff whose contribution is of great significance in the success of the bank.

This ratio is calculated by dividing staff expenses by total income as follows:

$$\text{Staff expenses to Total Income Ratio} = \frac{\text{Staff Expenses}}{\text{Total Income}}$$

3.7.1.1.5 Earning Performance Ratio

a. Earning Per Share (EPS)

Apart from the rate of return, the profitability of a firm from the point of view of the ordinary shareholders is the Earning Per Share (EPS). It measures the profit available to the equity shareholders on per share basis, i.e. the amount that they can get on each share held. In other words, this ratio measures the earnings available to an equity shareholder on a per share basis. The objective of computing this ratio is to measure the profitability of the firm on per equity share basis. This ratio enables us to compare whether the earning based on per share basis has changed over past period or not. Investors favor higher EPS.

This ratio is calculated by dividing total earnings available to the common shares holders by number of equity share outstanding as follows:

$$\text{EPS} = \frac{\text{Earning Available to Common Shareholders}}{\text{No. of Equity Shares Outstanding}}$$

b. Dividend per Share (DPS)

Net profit after preference dividend is earning available to equity shareholders but the whole earning is not distributed as dividend to shareholders so that earning per share and dividend per share is not equal. The amount of earning distributed and paid as cash dividend is considered as dividend per share. It gives financial soundness of the company. Only financially strong companies can distribute dividend. Higher DPS shows the efficiency of management and vice versa. So, the shareholders prefer high dividend. It may sometime be wise to distribute less amount of profit if investment opportunities are available.

This ratio is calculated by dividing earnings paid to the shareholders by number of equity share outstanding as follows:

$$\text{DPS} = \frac{\text{Divided Per Share}}{\text{No. of Equity Shares outstanding}}$$

c. Price Earning Ratio (P/E Ratio)

This ratio measures investors' expectations and the market appraisal of the performance of a firm. P/E ratio is widely used to assess the bank's performance as expected by investor's. It represents the investors' expectation about growth in the bank's earning. in another words, it measure how the market is responding towards the earning performance of the concerned institution. High ratio indicates higher expectation of the market towards the achievement of the firm.

This ratio is calculated by dividing the market value per share by earning per share as follows:

3.7.1.2 Income and Expenditure Analysis

Using income and expenditure analysis major sources of income and expenses are evaluated. This helps the analyst to conclude the areas to be focused for investment and the possibilities for effective control over expenses.

1.7.1.3 Statistical Tools

Various statistical tools can be used in research in order to draw the reliable conclusion according to the financial data available to researcher. For this purpose the researcher in this studies has used only one tools that is coefficient of correlation between two variables.

Coefficient of Correlation

The Coefficient of correlation is an important measure to describe how well one variable is explained by another. It measures the degree of relationship between the two casually related variables. Karl person's coefficient of correlation between two variables X and Y is usually devoted by 'r' which is the numerical measure of linear association between the variables.

Mathematically,

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

Where,

n = No. of observation of X and Y.

$\sum x$ = Sum of the observations in series X.

$\sum y$ = Sum of the observations in Series Y.

$\sum x^2$ = Sum of square observations in series X.

$\sum y^2$ = Sum of square observations in series Y.

$\sum xy$ = Sum of product of the observations in series X and Y.

CHAPTER-IV

PRESENTATION & ANALYSIS OF DATA

In this chapter data collected from secondary sources are presented and analyzed by using financial and statistical tools. The available data are tabulated, analyzed and interpreted so that financial forecast of banks can be done easily. To evaluate the financial performance of the commercial bank, ratio analysis, correlation analysis and trend analysis are used in this study

4.1 Ratio Analysis

The technique of ratio analysis has considerable significance in studying the financial stability, liquidity, profitability of the firm. It has been used to evaluate the financial health, operating result and growth of the sample bank.

4.1.1 Liquidity Ratio

a. Current Ratio

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

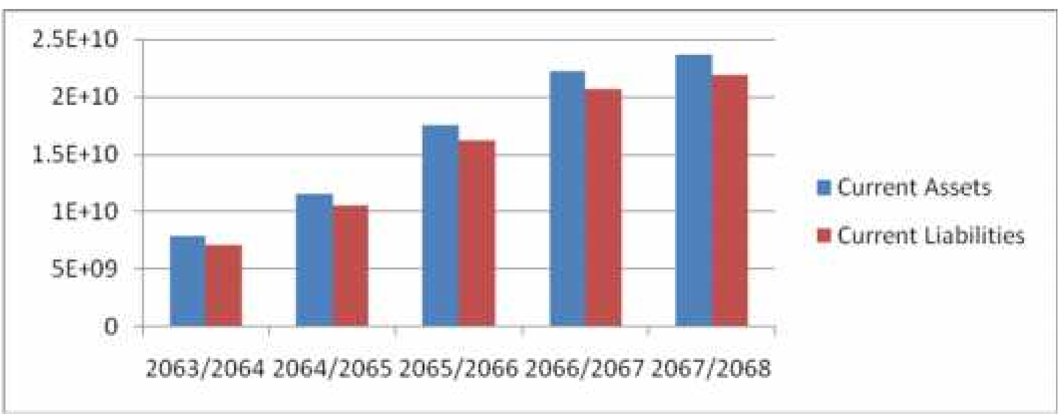
Table 4.1

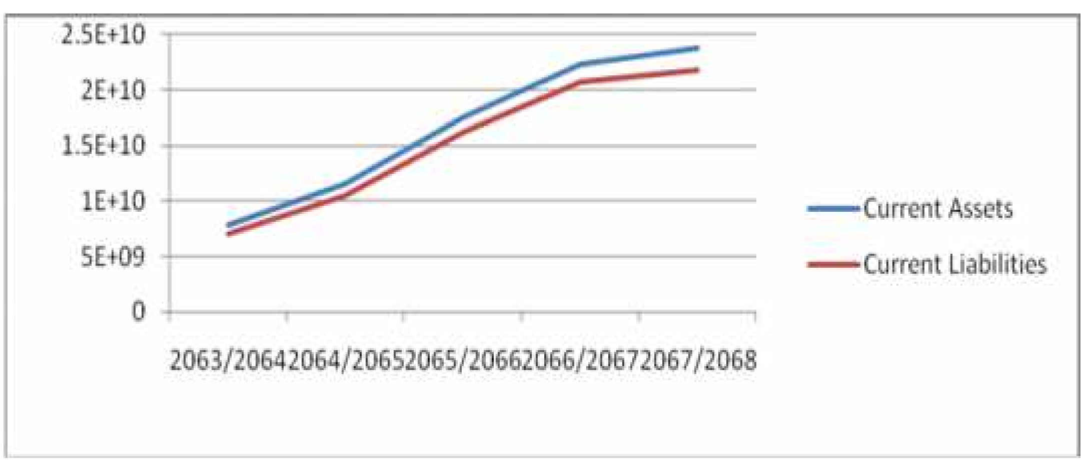
Current Ratio

FY	Current Assets	Current Liabilities	Current Ratio
2063/2064	7834448033	7065018794	1.1089
2064/2065	11507854691	10573150087	1.0884
2065/2066	17537573413	16212638783	1.0817
2066/2067	22211979800	20716629062	1.0722
2067/2068	23710408881	21839938122	1.0856

The analysis covers the year from 2063/064 to 2067/068. Current asset consist cash balance, money at call, loan and advances and bills purchased, other assets and investment in Nepal Government securities. Current liabilities include deposit liabilities, bills payable and other liabilities.

The standard current ratio is 2:1. The liquidity ratio of SBL remained 1.1089, 1.0884, 1.0817, 1.0722 and 1.0856. The ratio is in decreasing trend; except in the year 2064 where it is 1.1089 times. The current ratio is below the conventional standard 2:1 however looking at the nature of assets and liabilities of the commercial banks the ratio below the standard may be accepted as satisfactory, but it signifies that the bank has not appropriate liquidity position. The bank may face the problem of working capital if they need to pay the current liabilities at demand. Banks may lose their goodwill in case of delay in the payment liabilities.





b. Cash and Bank Balance to Current and Saving Deposit Ratio

Cash & Bank Balance to Current & Saving Deposit Ratio:

$$= \frac{Cash \,\&\, Bank\ Balance}{Current \,\&\, Saving\ Deposit}$$

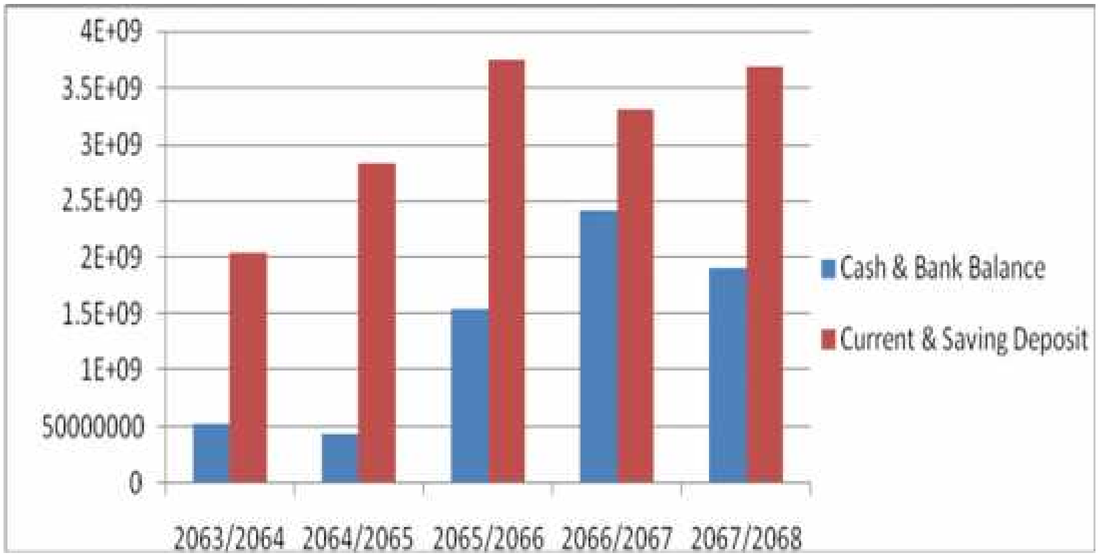
Table 4.2

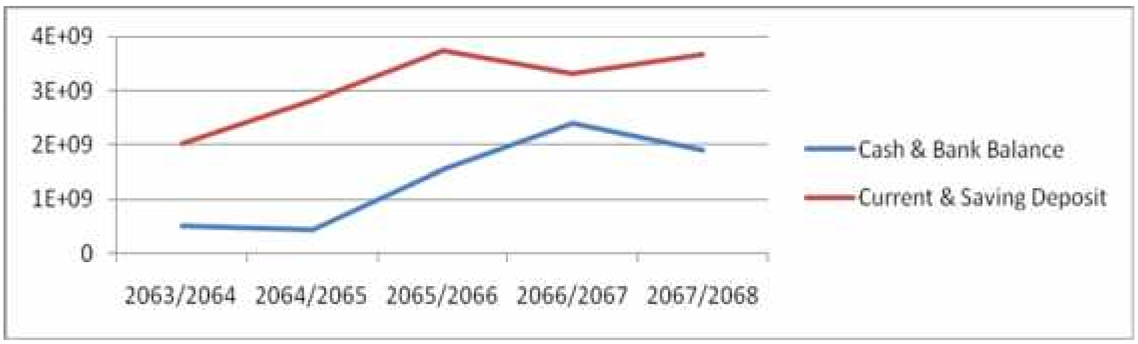
Cash and Bank Balance to Current and Saving Deposit Ratio

FY	Cash & Bank Balance	Current & Saving Deposit	Ratio
2063/2064	517226354	2032482247	25.45%
2064/2065	437425270	2825281386	15.48%
2065/2066	1547684101	3741427747	41.37%
2066/2067	2406610205	3314996401	72.60%
2067/2068	1905684978	3681995051	51.76%

Source: Siddhartha Bank Limited Annual Report

This table depicts that the ratio remained 25.45%, 15.48%, 41.37%, 72.60% and 51.76% in the respective years of the review period. For second year the ratio was in decreasing trend then it increased to 72.60% in year 2066/2067, again it falls to 51.76% in FY 2067/2068. The ratio ascended to 41.37% in year 2065/2066 then after in the year 2066/2067 it again increased to 72.60% and again it decreased to 51.76% in the year 2067/2068 as cash and bank balance decreases from Rs. 2406610205 to Rs. 1905684978. From above it can be observed than SBL may not be able to meet its immediate obligation as the bank balance is significantly lower than the current and saving deposit.





c. Cash and Bank Balance to Total Deposit Ratio

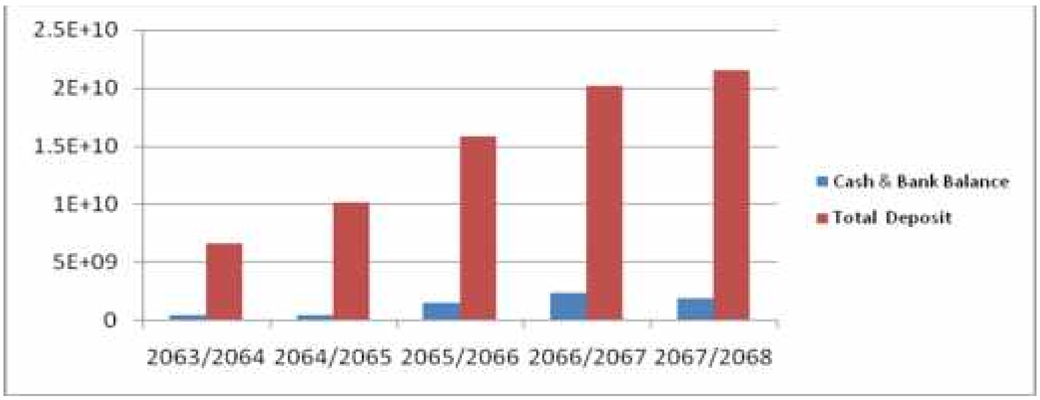
Cash and Bank Balance to Total Deposit Ratio= $\frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}}$

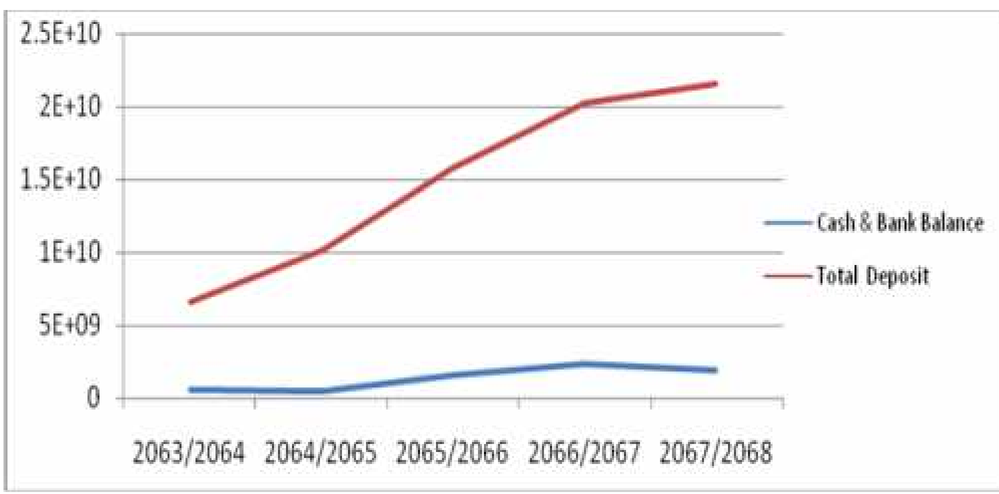
Table 4.3

Cash and Bank Balance to Total Deposit Ratio

FY	Cash & Bank Balance	Total Deposit	Ratio
2063/2064	517226354	6625078506	7.81%
2064/2065	437425270	10191440970	4.29%
2065/2066	1547684101	15854798403	9.76%
2066/2067	2406610205	20197029402	11.92%
2067/2068	1905684978	21575653982	8.83%

Total deposit includes current deposit, saving deposit, fixed deposit, call deposit and other deposit. Analyzing the ratios, trend of the ratios appeared to be fluctuating. In year 2066/2067 it was in the peak and in year 2064/2065 it is in its lowest point. Highest ratio i.e11.92% shows that the strong liquidity position of the bank in year 2066/2067. Though high ratio indicates its high liquidity position but it also affects profitability due to idleness of high interest bearing fund.





d. NRB Balance to Current and Saving Deposit Ratio

NRB Balance to Current & Saving Deposit Ratio

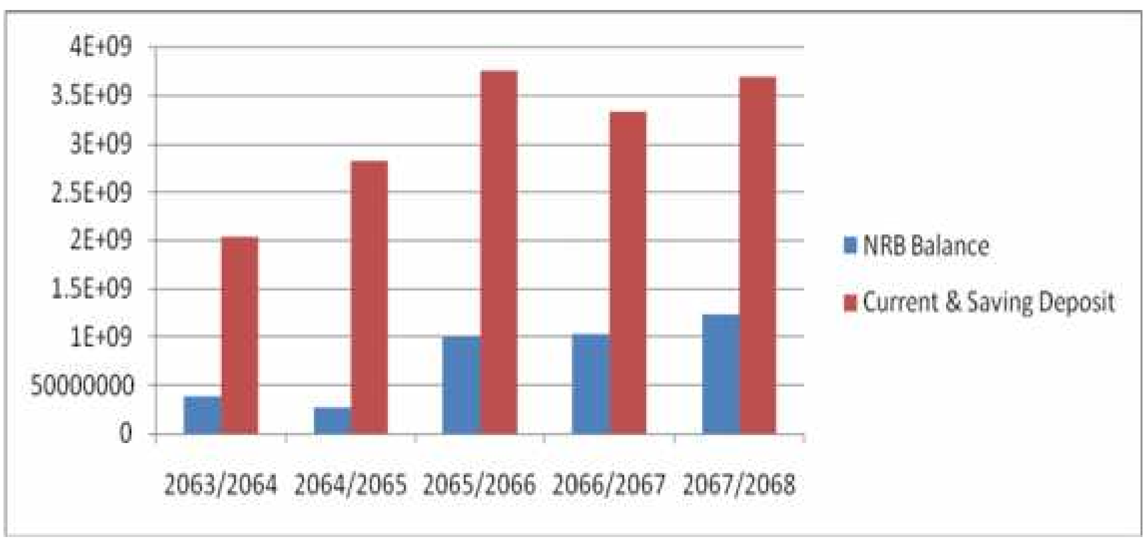
$$= \frac{\text{NRB Balance}}{\text{Current \& Saving Deposit}}$$

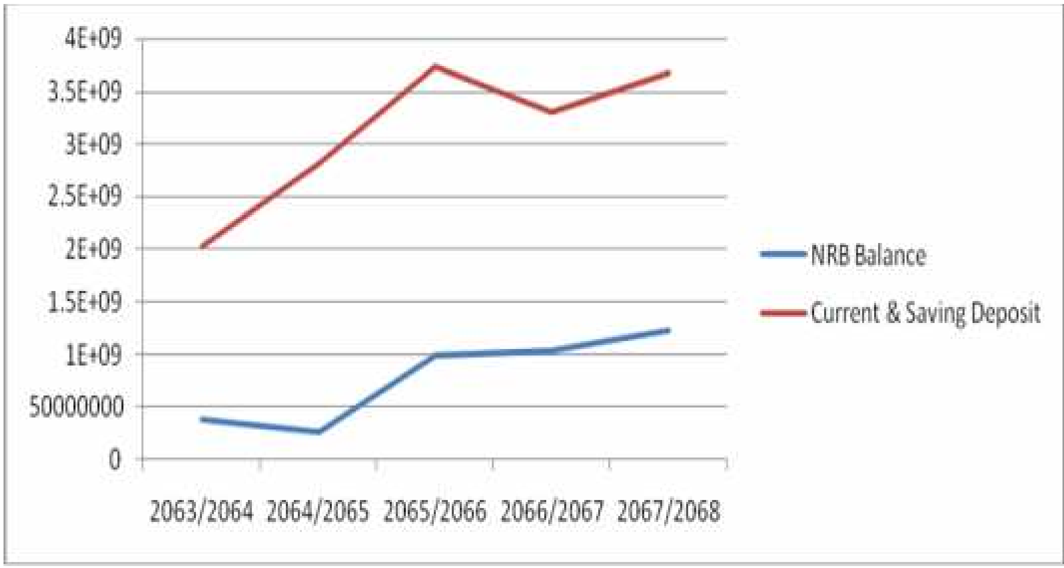
Table 4.4

NRB Balance to Current and Saving Deposit Ratio

FY	NRB Balance	Current & Saving Deposit	Ratio
2063/2064	380563747	2032482247	18.72%
2064/2065	270219328	2825281386	9.56%
2065/2066	984981288	3741427747	26.33%
2066/2067	1027465065	3314996401	30.99%
2067/2068	1222411894	3681995051	33.20%

The ratio is calculated by dividing NRB deposit by current and saving deposit. The ratio showed fluctuating trend in the period of the study. It ranged from the minimum of 9.56% in the year 2064/2065 to maximum of 33.20% in the year 2067/2068. In year 2067/2068 the ratio was in the highest position which reveals idle cash. From Year 2065/2066 to 2067/2068 the ratio is in increasing trend.





e. NRB Balance to Fixed Deposit Ratio

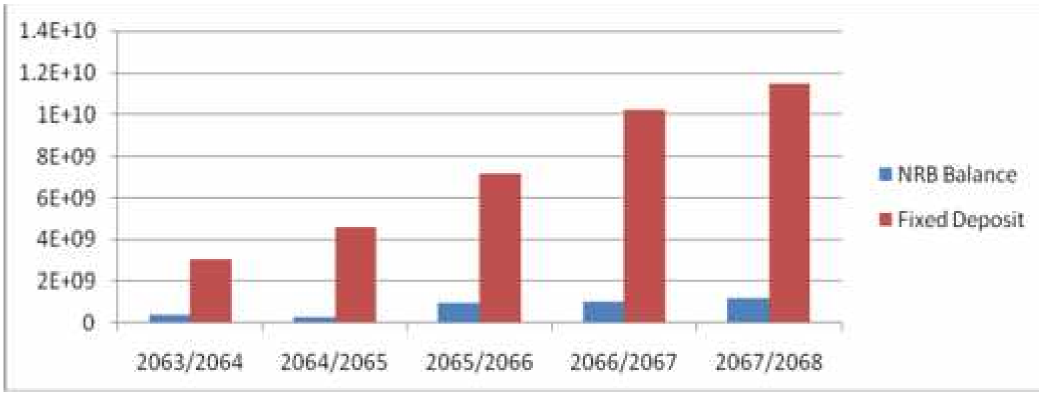
NRB Balance to Fixed Deposit Ratio = $\frac{\text{NRB Balance}}{\text{Fixed Deposit}}$

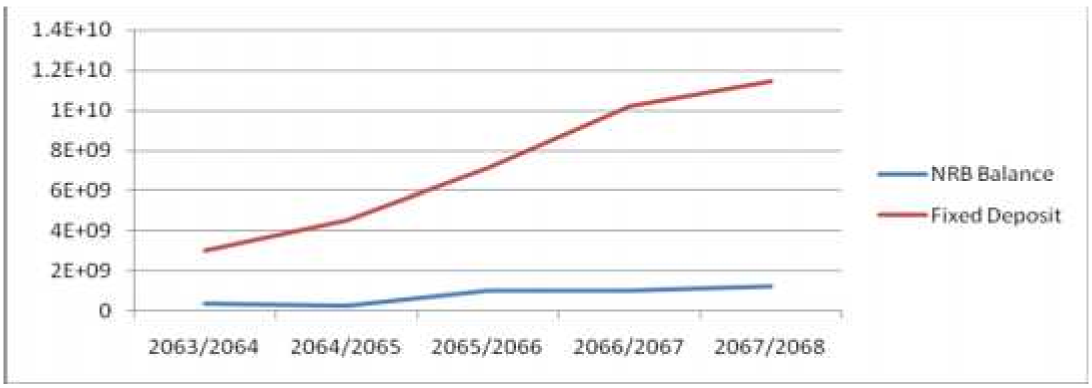
Table 4.5

NRB Balance to Fixed Deposit Ratio

FY	NRB Balance	Fixed Deposit	Ratio
2063/2064	380563747	3022555568	12.59%
2064/2065	270219328	4562723943	5.92%
2065/2066	984981288	7158200151	13.76%
2066/2067	1027465065	10195733566	10.08%
2067/2068	1222411894	11458271928	10.67%

The above table shows the ratio remained 12.59%, 5.92%, 13.76%, 10.08% and10.67% in the study period. The ratios didn't show any particular direction of change. In year 2065/66 it was in peak with 13.76% and in year 2064/65 it was least with 5.92%. From year 2065/66 to 2067/2068 the ratio is higher than the requirement of NRB. The requirement of NRB is 7%.





f. Fixed Deposit to Total Deposit Ratio

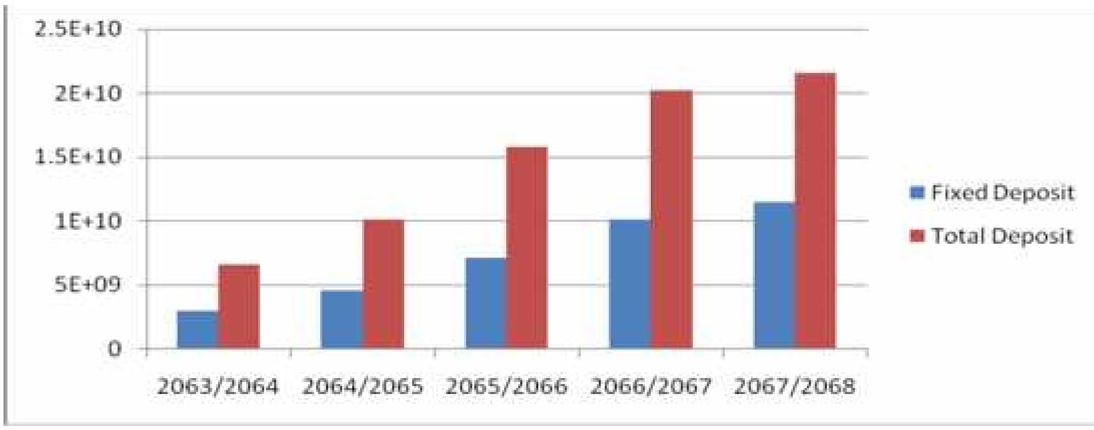
Fixed Deposit to Total Deposit = $\frac{\text{Fixed Deposit}}{\text{Total Deposit}}$

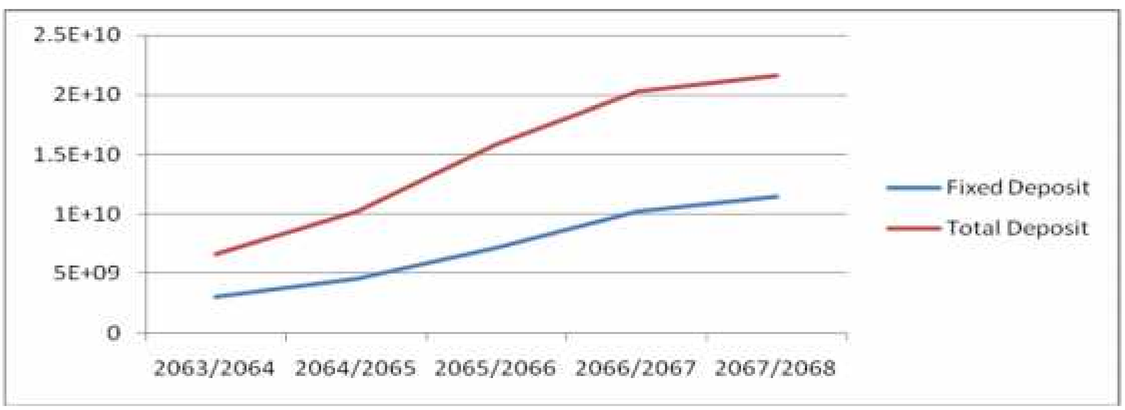
Table 4.6

Fixed Deposit to Total Deposit Ratio

FY	Fixed Deposit	Total Deposit	Ratio
2063/2064	3022555568	6625078506	45.62%
2064/2065	4562723943	10191440970	44.77%
2065/2066	7158200151	15854798403	45.15%
2066/2067	10195733566	20197029402	50.48%
2067/2068	11458271928	21575653982	53.11%

Greater the ratio high the position of fixed deposit account in the total deposit. Fixed deposits are high cost bearing deposits. However, high ratio indicates better opportunity available to the bank to invest in long term loans. Low ratio means the bank should invest in short term loans. But seeing the trend of ratio, it indicates the SBL has opportunity to invest low cost bearing short term loans.





4.1.2 Leverage Ratio

a. Debt Equity Ratio

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

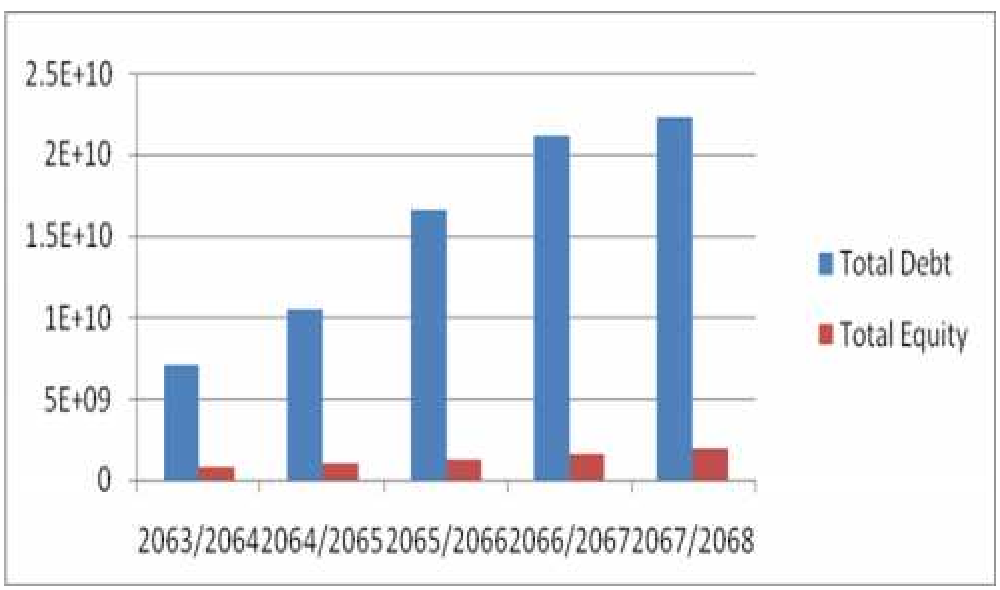
Table 4.7

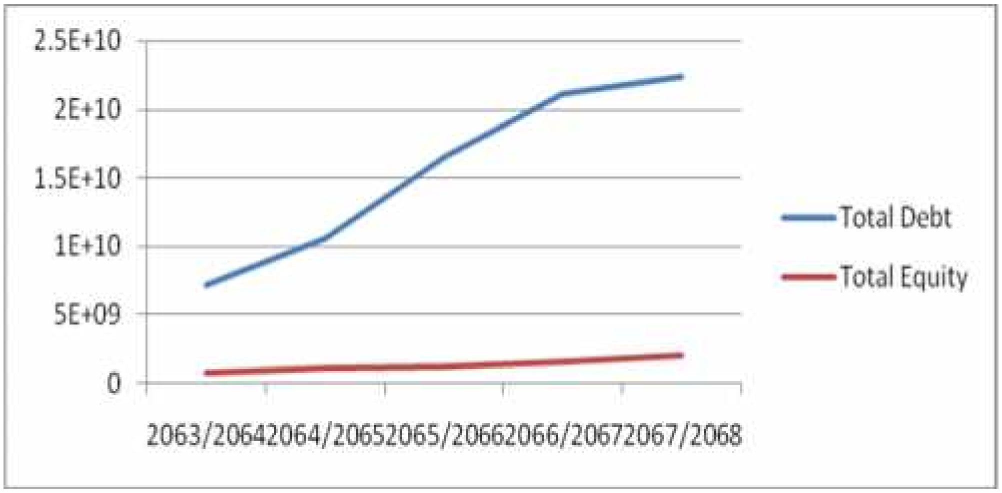
Debt Equity Ratio

FY	Total Debt	Total Equity	Ratio
2063/2064	7160954536	793709939	9.02
2064/2065	10600009864	1068346086	9.92
2065/2066	16603005612	1278744526	12.98
2066/2067	21198887192	1603542108	13.22
2067/2068	22417467213	1988404836	11.27

Total debt includes all interest bearing long term and short term debts. It includes loans and advances taken from other financial institutions and deposits carrying interest i.e. saving deposit, fixed deposit and call deposits. Shareholder's equity includes paid up capital, reserves and surplus and undistributed profit.

The ratio of SBL remained 9.02, 9.92, 12.98, 13.22 and 11.27 respectively in the study period. Debt equity ratio shows the mix of debt and equity in capital. Higher ratio shows that the creditor's claims are greater than those of owners. In year 2066/2005 the ratio was maximum i.e. 13.22%. SBL has more debt portion than equity in the total capital.





b. Debt Asset Ratio

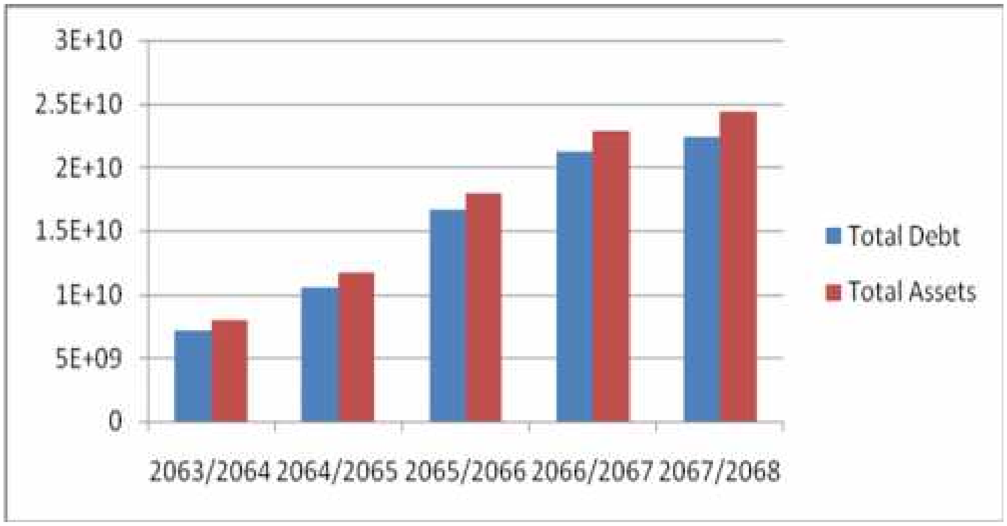
Debt Asset Ratio = $\frac{\text{Total Debt}}{\text{Total Asset}}$

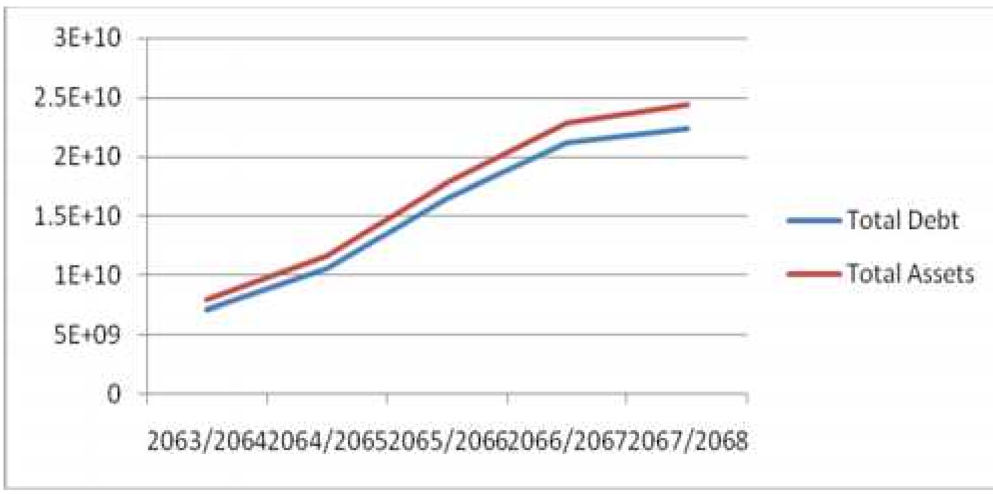
Table 4.8

Debt Asset Ratio

FY	Total Debt	Total Assets	Ratio
2063/2064	7160954536	7954664475	90.02%
2064/2065	10600009864	11668355950	90.84%
2065/2066	16603005612	17881750138	92.85%
2066/2067	21198887192	22802429300	92.97%
2067/2068	22417467213	24405872049	91.85%

Total debt include loans and advances taken from other financial institution and deposit carrying interest i.e. saving deposit, fixed deposit account and call deposit. Total assets consists of cash in hand, bank balance, money at call and short notice, investments, loans, advances, bills purchase, fixed assets and other assets. The above table depicts the ratios remained 90.02%, 90.84%, 92.85%, 92.97% and 91.85% respectively in the review period. From year 2064/2065 to year 2066/2067 the ratio is in increasing i.e. 92.97%. Above table shows that the larger portion of the bank asset has been financed through outsider's fund. All the ratios are more than 50% which shows that more than 50% of the total asset has been financed by the outsider's fund.





c. Interest Coverage Ratio

Interest Coverage Ratio= $\frac{\text{Net Profit before Interest and Tax}}{\text{Interest}}$

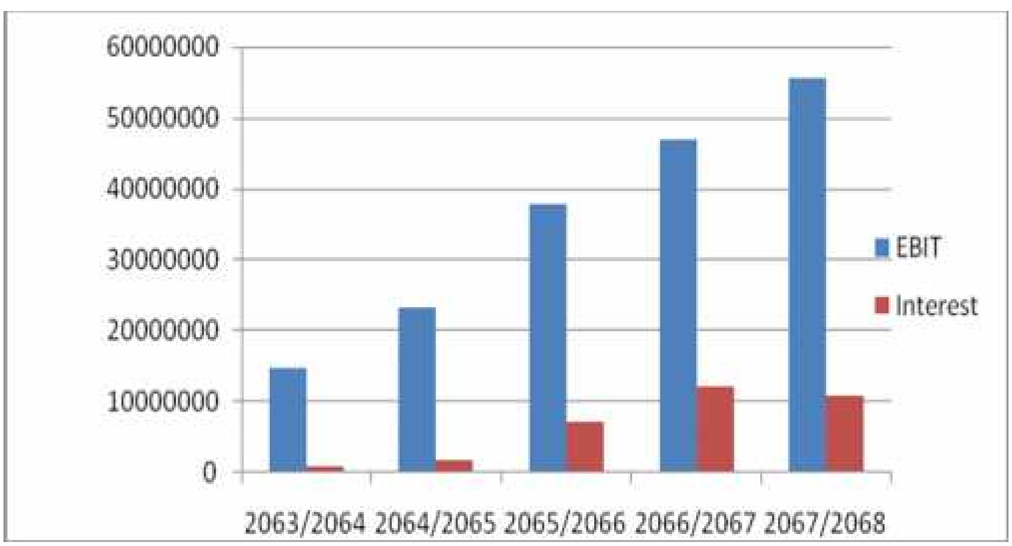
Table 4.9

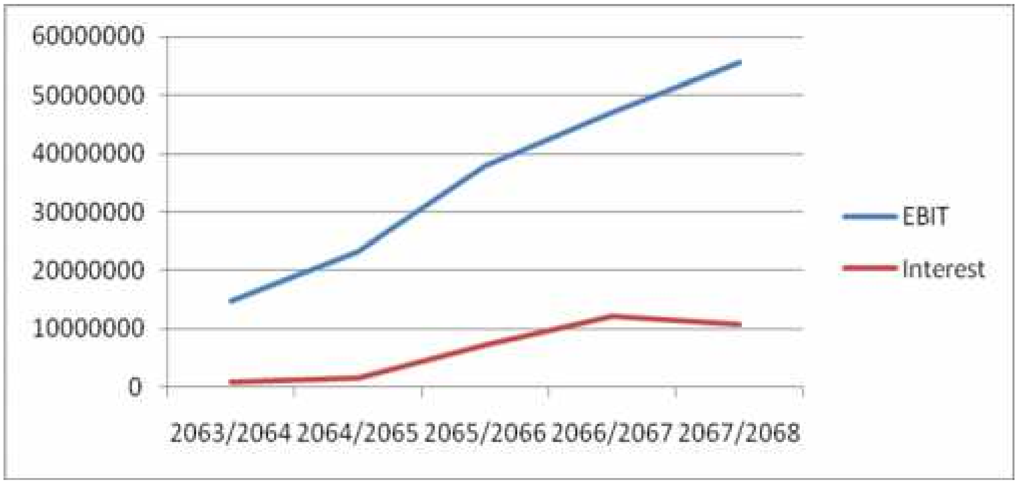
Interest Coverage Ratio

FY	EBIT	Interest	Ratio
2063/2064	147646191	8514328	17.34
2064/2065	233509515	16527626	14.13
2065/2066	377675317	72672429	5.20
2066/2067	470495891	121819959	3.86
2067/2068	555548911	107878368	5.15

Earning before interest and tax is being calculated by adding interest expenses, provision for income tax and net profit from the profit and loss account for the respective year of study period. Interest consists of interest paid on various deposits and loans taken from NRB and other banks.

The ratio is fluctuating throughout the years. It was almost static for two years 2065/66 and 2067/68 but it decreased in year 2066/67. Lower ratio indicates more use of debt for which interest is to be paid or insufficient operation. Though the ratio has increased in year 2063/64, reviewing the trend of ratio, it is low.





4.1.3 Activity Ratio

a. Loans and Advances to Total Deposit Ratio

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

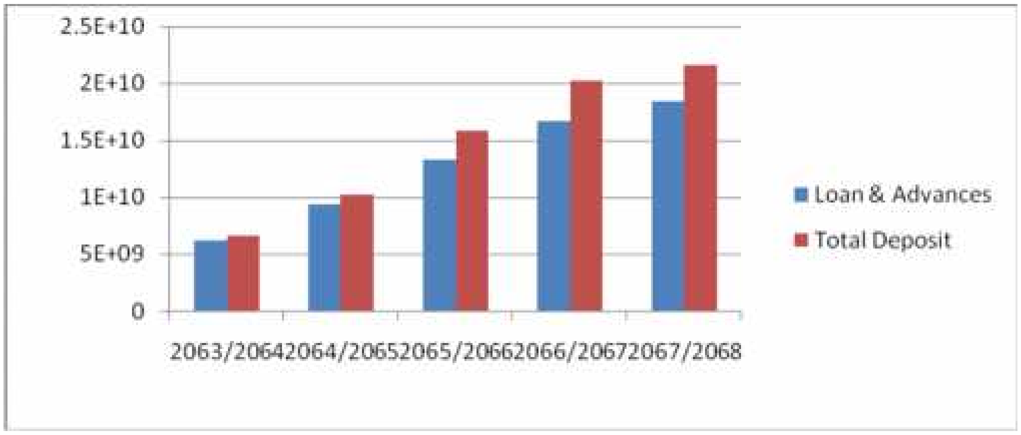
Table 4.10

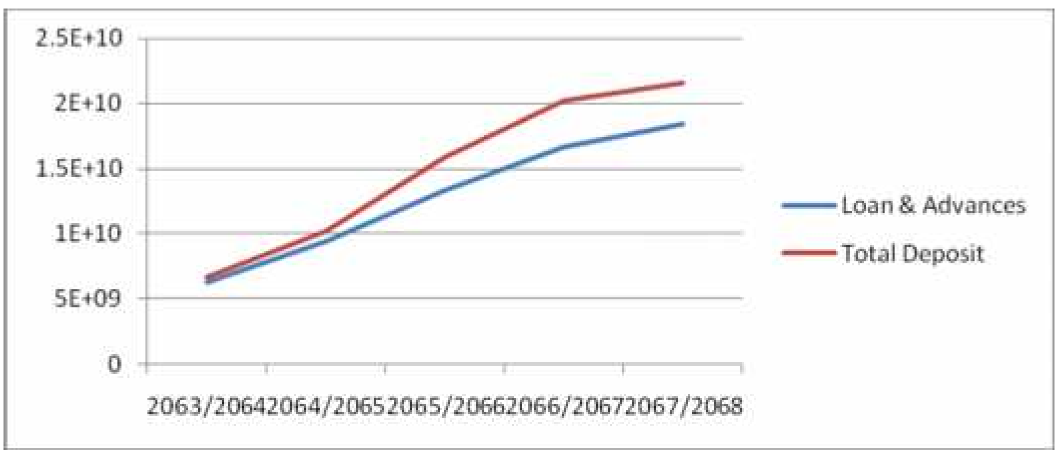
Loans and Advances to Total Deposit Ratio

FY	Loan & Advances	Total Deposit	Ratio
2063/2064	6222586813	6625078506	93.92%
2064/2065	9335597738	10191440970	91.60%
2065/2066	13328621515	15854798403	84.07%
2066/2067	16653851922	20197029402	82.46%
2067/2068	18384033093	21575653982	85.21%

Loan and Advances consists of loans, advances, bills purchased and bills discounted. The ratio fluctuated throughout the study period. The ratio indicated the proportion of total deposits invested in loans and advances. In year 2063/2064, 93.92% of the total deposit was invested in loans and advances. This may have affected the liquidity position of SBL. Too low ratio gives a picture of the ideal cash in the bank. As per banking practice, banks maintain the ratio around 80-90%. In the year 2067/2068, the bank has the good ratio of

85.21% which shows that the bank is successful in utilizing its deposits on loans and advances.





b. Loans and Advances to Fixed Deposit Ratio

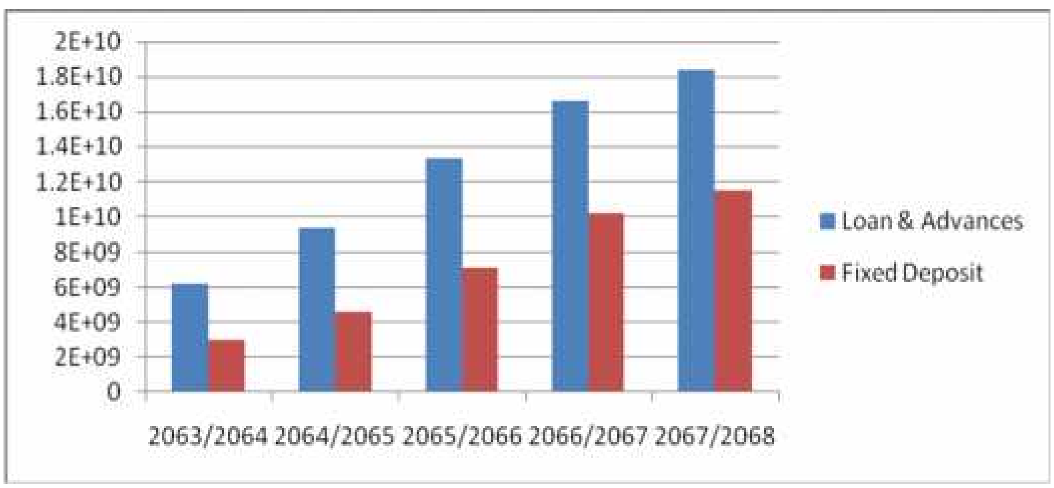
$$\text{Loan and Advance to Fixed Deposit} = \frac{\text{Loans and Advances}}{\text{Fixed Deposit}}$$

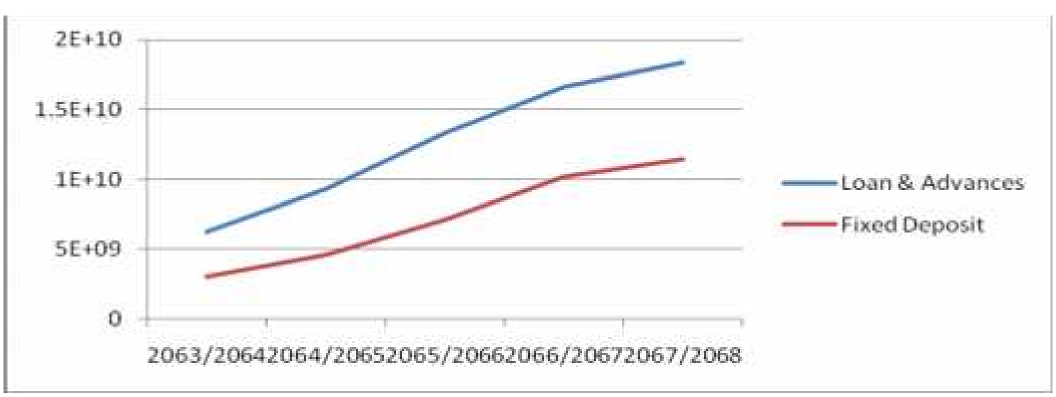
Table 4.11

Loans and Advanced to Fixed Deposit Ratio

FY	Loan & Advances	Fixed Deposit	Ratio
2063/2064	6222586813	3022555568	205.87%
2064/2065	9335597738	4562723943	204.61%
2065/2066	13328621515	7158200151	186.20%
2066/2067	16653851922	10195733566	163.34%
2067/2068	18384033093	11458271928	160.44%

The ratio of SBL remained 205.87%, 204.61%, 186.20%, 163.34% and 160.44% in the respective years of review period. The ratio decreasing trend. It decreased from 205.87% in year 2063/2064 to 160.44% in year 2067/2068. With respect to the above ratio SBL has not shown good performance.





c. Loans and Advances to Saving Deposit Ratio

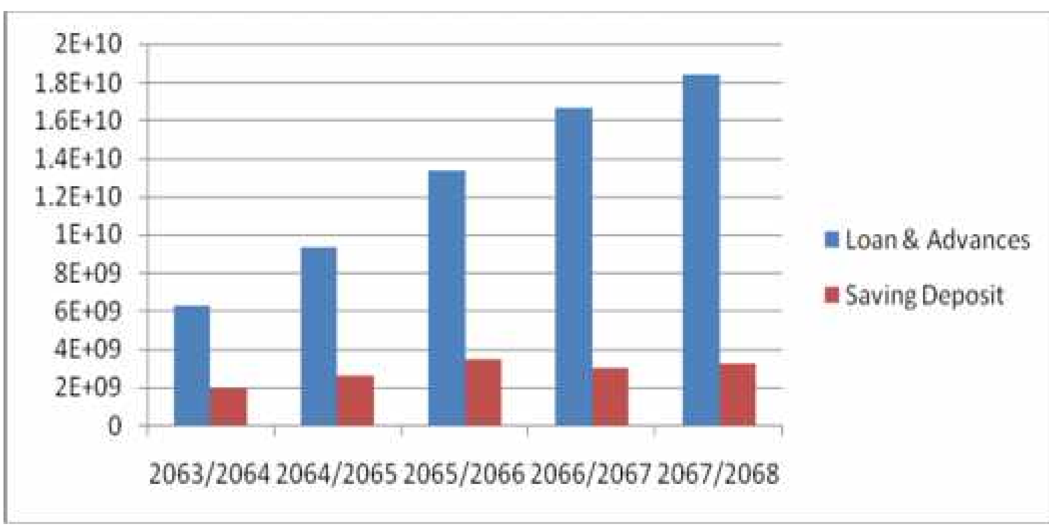
Loan and Advance to Saving Deposit= $\frac{\text{Loans and Advances}}{\text{Saving Deposit}}$

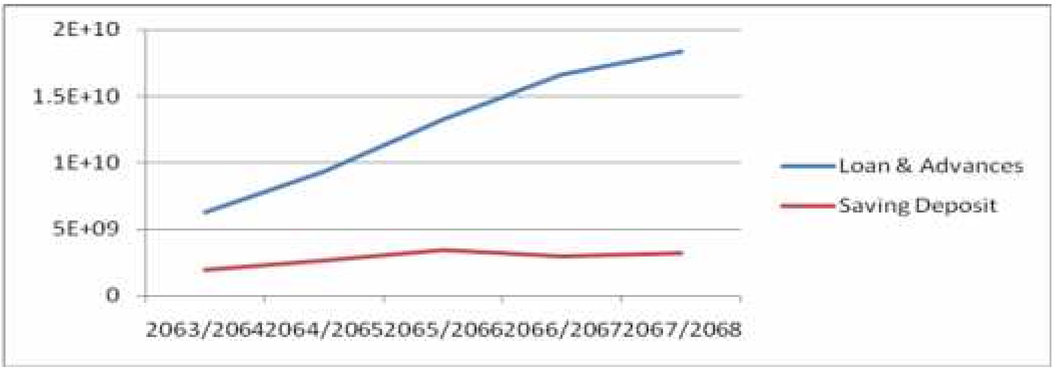
Table 4.12

Loans and Advances to Saving Deposit Ratio

FY	Loan & Advances	Saving Deposit	Ratio
2063/2064	6222586813	1881663667	330.70%
2064/2065	9335597738	2622242762	356.02%
2065/2066	13328621515	3445689862	386.82%
2066/2067	16653851922	2961258059	562.39%
2067/2068	18384033093	3169661590	580.00%

The ratio showed a increasing trend through the study period i.e. 330.70%, 356.02%, 386.82%, 562.39%, and 580.00% .From year 2063/64 the ratio 330.70% rose to 580% in 2067/68. It indicates sufficient utilization of saving deposit in form of loans and advances.





d. **Investment to Total Deposit Ratio**

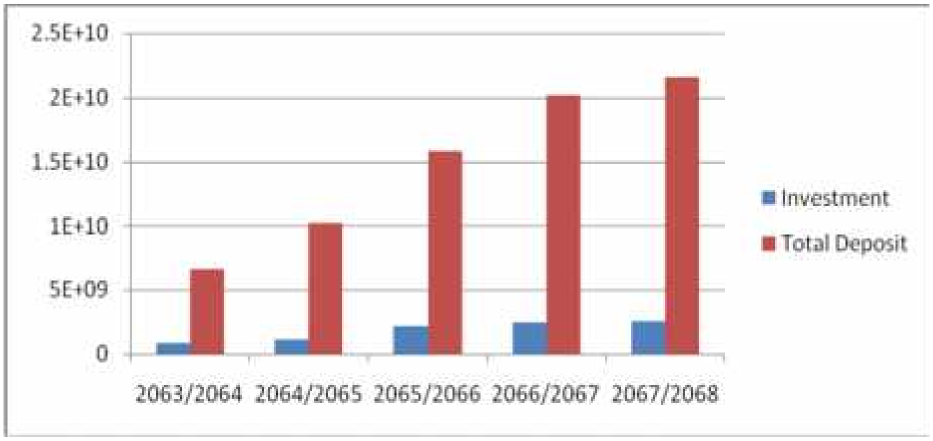
Investment to Total Deposit Ratio= $\frac{\text{Investment}}{\text{Total Deposit}}$

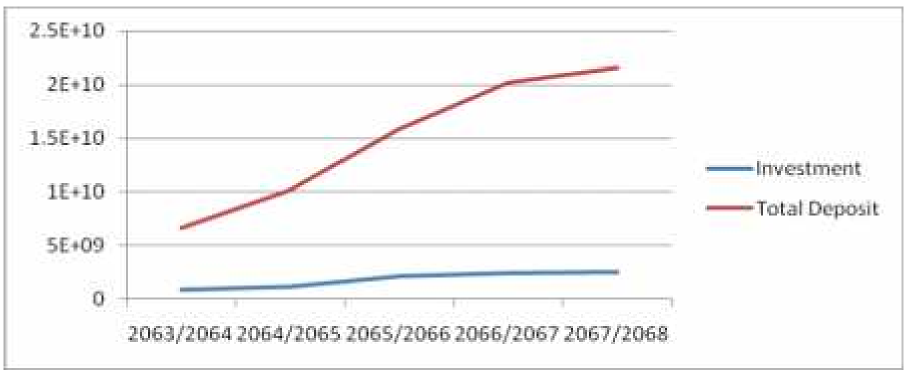
Table 4.13

Investment to Total Deposit Ratio

FY	Investment	Total Deposit	Ratio
2063/2064	865188561	6625078506	13.06%
2064/2065	1150095800	10191440970	11.28%
2065/2066	2176427797	15854798403	13.73%
2066/2067	2452475662	20197029402	12.14%
2067/2068	2537909426	21575653982	11.76%

Here, investment consists of investment in HMG treasury bills, development bonds, company shares etc. The ratio showed fluctuation pattern during the study period. In year 2067/2068 it has been decreased which is not a good indicator. In year 2065/2066 the ratio is highest than other years. i,e 13.73%.





e. Performing Assets to Total Assets Ratio

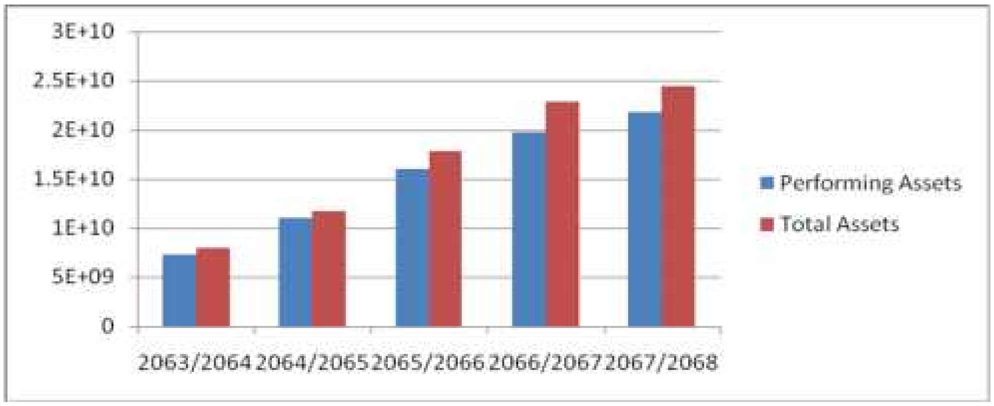
Performing Assets to Total Assets Ratio= $\frac{\text{Performing Assets}}{\text{Total Assets}}$

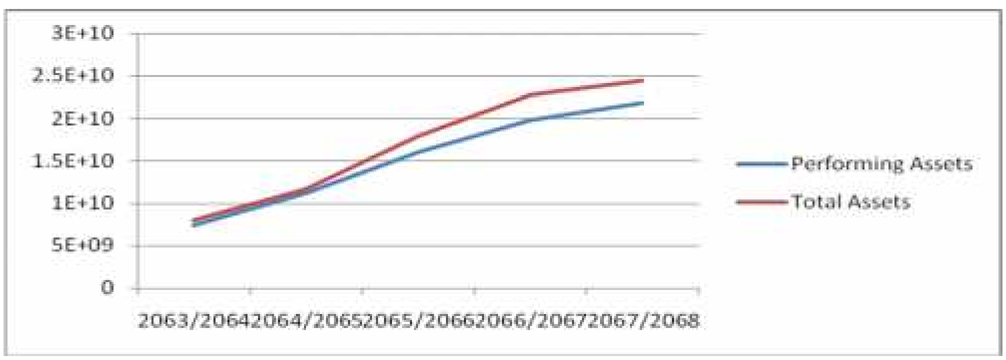
Table 4.14

Performing Assets to Total Assets Ratio

FY	Performing Assets	Total Assets	Ratio
2063/2064	7317221679	7954664475	91.99%
2064/2065	11070429422	11668355950	94.88%
2065/2066	15989889312	17881750138	89.42%
2066/2067	19805369595	22802429300	86.86%
2067/2068	21804723903	24405872049	89.34%

Performing assets are investment, loan and advances, bills purchased and discounted and money at call and short notice. SBL had maintained high ratio throughout the period of study. In year 2064/2065, 94.88% of the total asset has been funded for income generation. High ratios in the table indicate greater utilization of assets that leads to sound profitability position of the bank.





f. Performing Assets to Total Debt Ratio

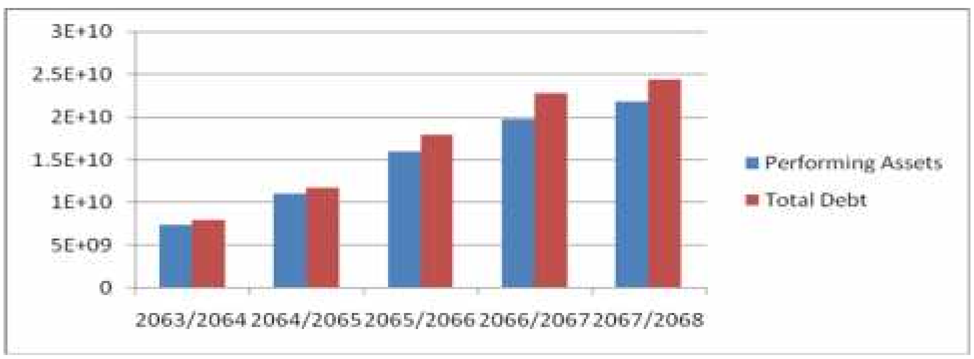
Performing Assets to Total Debt Ratio = $\frac{\text{Performing Assets}}{\text{Total Debt}}$

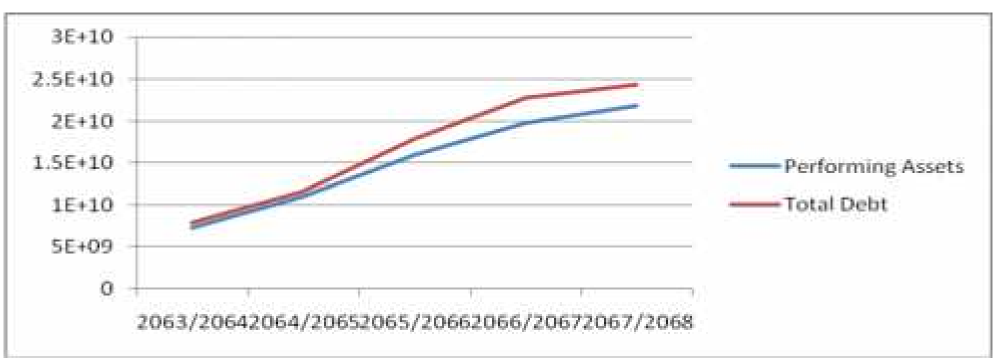
Table 4.15

Performing Assets to Total Debt Ratio

FY	Performing Assets	Total Debt	Ratio
2063/2064	7317221679	7954664475	91.99%
2064/2065	11070429422	11668355950	94.88%
2065/2066	15989889312	17881750138	89.42%
2066/2067	19805369595	22802429300	86.86%
2067/2068	21804723903	24405872049	89.34%

The ratio showed fluctuating trend throughout the study period. It was maximum in year 2064/2065 with 94.88% and minimum in year 2066/2067 with 86.86%. High ratio represents the success of SBL in utilizing the creditor's fund, like in year 2063/64, 2064/65. But from year 2065/66 to 2067/68 the ratio is in decreasing trend.





4.1.4 Asset Quality Ratio

a. Loan Loss Coverage ratio

Loan Loss Coverage Ratio= $\frac{\text{Loan Loss Provision}}{\text{Total Risk Assets}}$

Table 4.16

Loan Loss Coverage Ratio

FY	Loan Loss Provision	Total Risk Assets	Ratio
2063/2064	20544230	7297687000	0.28%
2064/2065	48048820	11081373000	0.43%
2065/2066	39842447	15210560000	0.26%
2066/2067	65322221	19535953000	0.33%
2067/2068	42628156	21711315000	0.20%

Loan loss coverage ratio is calculated by dividing loan loss provision by total risk assets. Risk assets constitute loan and advances, bills purchased and discounted. SBL's ratio loan loss coverage ratio can be ranked as satisfactory. In every year it was below 1%.

b. Loan Loss Provision to Total Income Ratio

Loan Loss Provision to Total Income Ratio= $\frac{\text{Loan Loss Provision}}{\text{Total Income}}$

Table 4.17

Loan Loss Provision to Total Income Ratio

FY	Loan Loss Provision	Total Income	Ratio
2063/2064	20544230	262895407	7.81%
2064/2065	48048820	401919501	11.95%
2065/2066	39842447	569547294	7.00%
2066/2067	65322221	717422648	9.11%
2067/2068	42628156	934042110	4.56%

Above table highlights the ratio for the respective year of the analysis period that remained 7.81%, 11.95%, 7%, 9.11% and 4.56%. There is not specific trend in the ratios. First it rise from 7.81% to 11.95% in year 2063/2065 then it falls to 7% in 2065/66. In year 2066/67 it rises from 7% to 9.11% and in year 2067/2068 it decreases to 4.56%. The ratio in year 2064/2065 has remained the highest. This shows the bank advanced loan in risky asset for which the provision of Rs. 48048820 was made.

c. Loan Loss Provision to Total Deposit Ratio

Loan Loss Provision to Total Deposit Ratio= $\frac{\text{Loan Loss Provision}}{\text{Total Deposit}}$

Table 4.18

Loan Loss Provision to Total Deposit ratio

FY	Loan Loss Provision	Total Deposit	Ratio
2063/2064	20544230	6625078506	0.31%
2064/2065	48048820	10191440970	0.47%
2065/2066	39842447	15854798403	0.25%
2066/2067	65322221	20197029402	0.32%
2067/2068	42628156	21575653982	0.20%

The ratios of all the years were less than 1%. This shows that SBL has lent greater portion of loans in secured sector. Due to default in payment of loans by the borrowers the bank need to hold portion of its income in form of loan loss provision as directed by NRB.

d. Accrued Interest to Total Interest Income Ratio

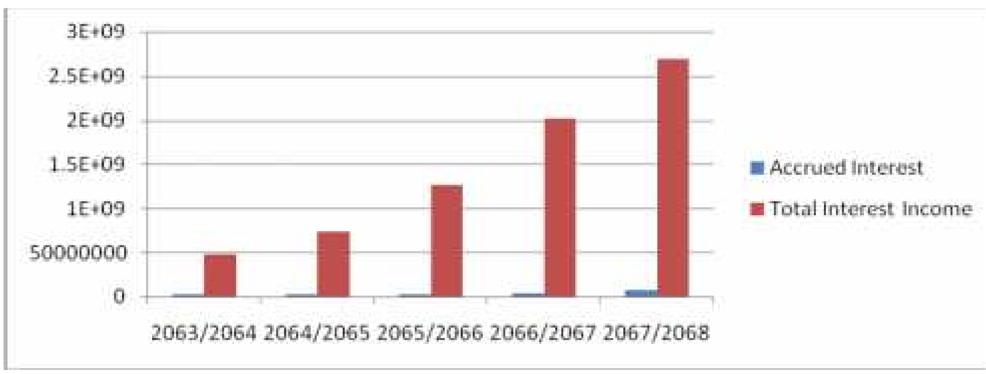
Accrued Interest to Total Interest Income Ratio= $\frac{\text{Accrued Interest}}{\text{Total Interest Income}}$

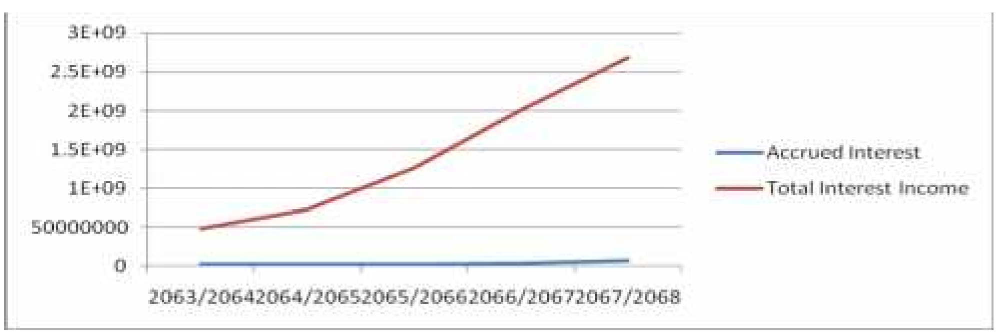
Table 4.19

Accrued Interest to Total Interest Income Ratio

FY	Accrued Interest	Total Interest Income	Ratio
2063/2064	20631111	481523807	4.28%
2064/2065	23743640	729872484	3.25%
2065/2066	19773291	1265582131	1.56%
2066/2067	36621208	2018291813	1.81%
2067/2068	71420623	2690294141	2.65%

Interest that is accrued but yet not collected is called accrued interest. It includes interest receivable on investments and interest receivable on loans and advances. Interest income includes interest from loans and advances, interests on government securities and interest on investment on debenture. The ratios were 4.28%, 325%, 1.56%, 1.81% and 2.65%.





4.1.5 Profitability Ratio

a. Return on Asset

Return on Total Asset= $\frac{\text{Net Profit After Tax}}{\text{Total Assets}}$

Table 4.20

Return on Asset

FY	Net Profit After tax	Total Assets	Ratio
2063/2064	95305326	7954664475	1.20%
2064/2065	143172989	11668355950	1.23%
2065/2066	217915808	17881750138	1.22%
2066/2067	240847768	22802429300	1.06%
2067/2068	311415291	24405872049	1.28%

The ratio is calculated by dividing net profit after tax by total assets. The ratio remained 1.20%, 1.23%, 1.22%, 1.06% and 1.28% in the study period. Profit shows the performance of any company, however, the level of profit needs to be seen in consideration of total balance sheet size of the company. Higher ratio indicates the success of management in overall operation. In year 2064/2065 and 2067/2068 the ratio was in highest position. SBL is more successful in getting return from asset in year 2067/2068.

b. Return on Total Deposit

Return on Total Deposit= $\frac{\text{Net Profit After Tax}}{\text{Total Deposit}}$

Table 4.21

Return on Total Deposit

FY	Net Profit After tax	Total Deposit	Ratio
2063/2064	95305326	6625078506	1.44%
2064/2065	143172989	10191440970	1.40%
2065/2066	217915808	15854798403	1.37%
2066/2067	240847768	20197029402	1.19%
2067/2068	311415291	21575653982	1.44%

Return on total deposit is calculated by dividing net profit after tax by total deposit. Above table highlights the ratio for the respective year of the analysis period that remained 1.44%, 1.40%, 1.37%, 1.19% and 1.44%. It was in decreasing trend from year 2063/2064 to 2066/2067 again in year 2067/2068 it increased.

c. Total Interest Expenses to total interest income

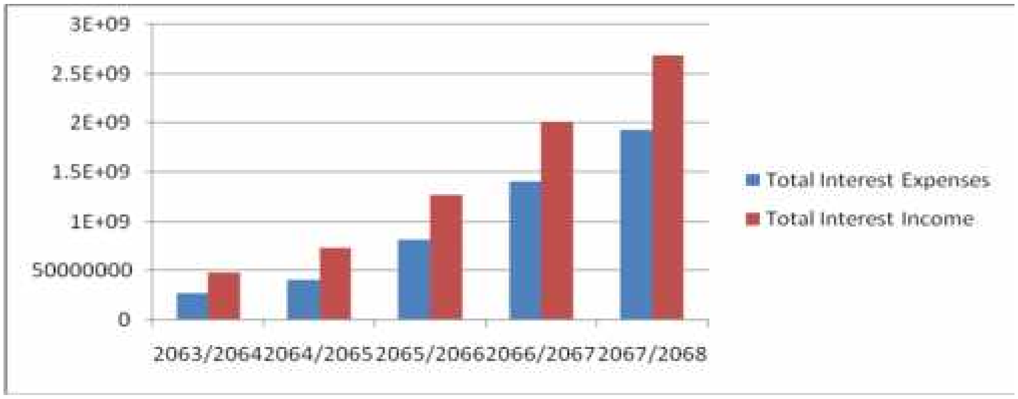
Total Interest Expenses to Total Income Ratio= $\frac{\text{Total Int.Expenses}}{\text{Total Int. Income}}$

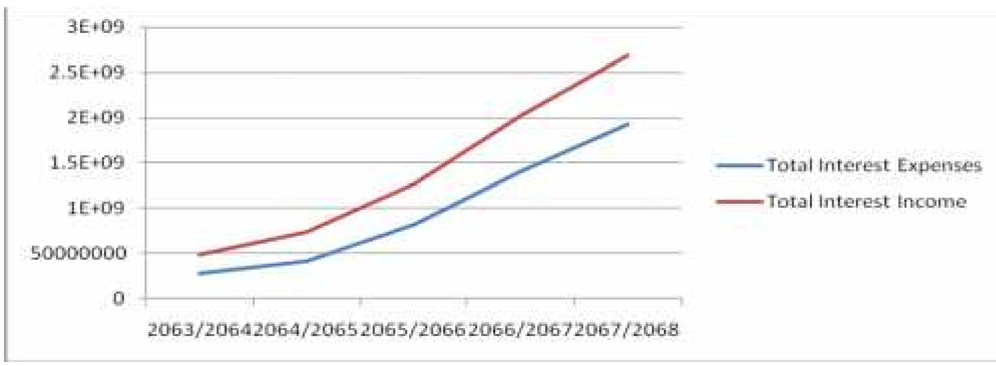
Table 4.22

Total Interest Expenses to Total Interest Income Ratio

FY	Total Interest Expenses	Total Interest Income	Ratio
2063/2064	271710950	481523807	56.43%
2064/2065	408188955	729872484	55.93%
2065/2066	813619042	1265582131	64.29%
2066/2067	1406489572	2018291813	69.69%
2067/2068	1925243099	2690294141	71.56%

The ratio remained 56.43%, 55.93%, 64.29%, 69.69% and 71.56% in respective year of study period. Lower ratio is favorable. The ratio is in increasing trend which is not good. In year 2064/2065 , the ratio is less than rest of the years.





d. Staff Expense to Total Income Ratio

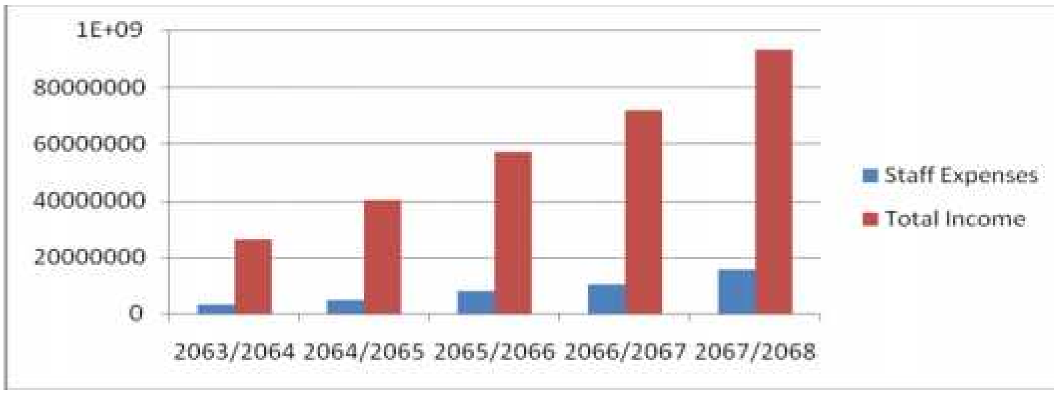
Staff Expenses to Total Income Ratio=$\frac{\text{Staff Expenses}}{\text{Total Income}}$

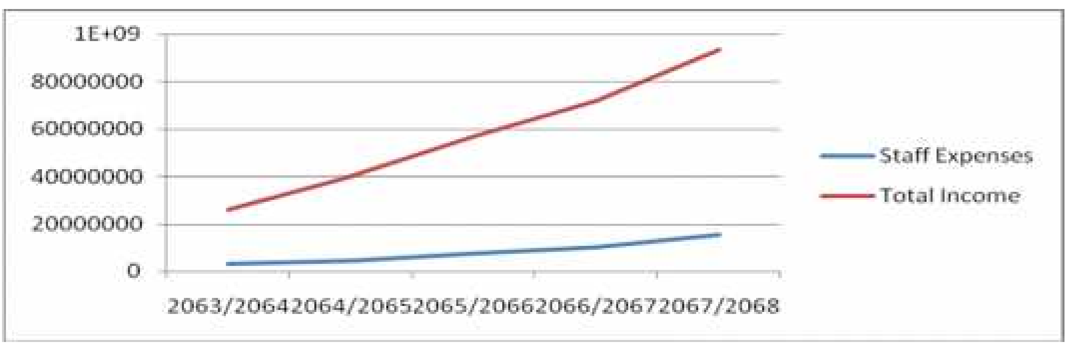
Table 4.23

Staff Expense to Total Income Ratio

FY	Staff Expenses	Total Income	Ratio
2063/2064	33620506	262895407	12.79%
2064/2065	48247208	401919501	12.00%
2065/2066	79384785	569547294	13.94%
2066/2067	103680178	717422648	14.45%
2067/2068	155803411	934042110	16.68%

Staff expenses of SBL includes salary, allowances, PF contributions, training, uniform, medical, insurance, gratuity, Dashain expenses, leave encashment and other staff expenses. Ratios of SBL remained 12.79%, 12%, 13.94%, 14.45% and 16.68% in the respective years of study period. SBL has highest in year 2067/2068 and lowest in year 2064/2065. The ratio measures the proportion of income spent for the staff whose contribution results success of the bank. Lower ratio may have adverse effect in staff's morale which in turn decreases profit and high ratio directly affects the profitability of bank.





e. Office Operation Expenses to Total Income Ratio

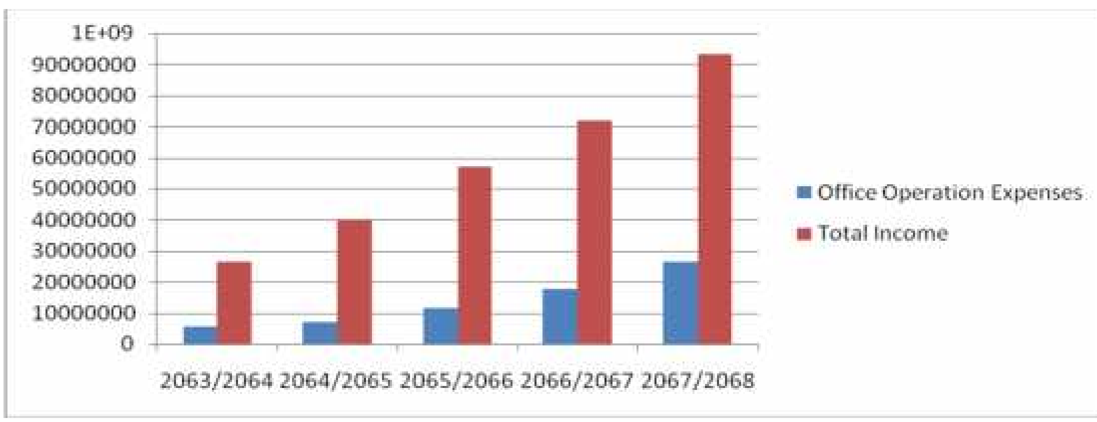
Office Operation Expenses to Total Income Ratio = $\frac{\text{Office Operation Expenses}}{\text{Total Income}}$

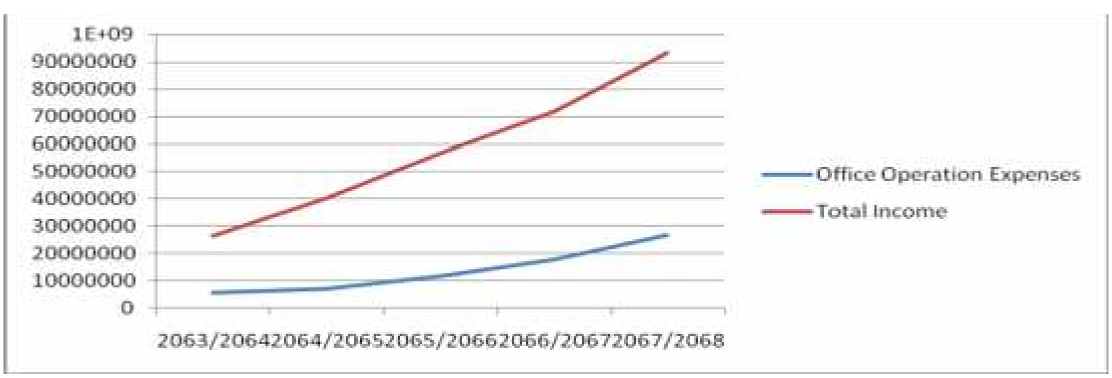
Table 4.24

Office Operation Expenses to Total Income Ratio

FY	Office Operation Expenses	Total Income	Ratio
2063/2064	55721156	262895407	21.20%
2064/2065	71480863	401919501	17.78%
2065/2066	114816885	569547294	20.16%
2066/2067	175735300	717422648	24.50%
2067/2068	265477124	934042110	28.42%

Office operation expenses include expenses like rent, water and electricity, repair and maintenance etc. Ratios of SBL remained 21.20%, 17.78%, 20.16%, 24.50% and 28.42% in the respective years of study period. SBL has highest ratio in year 2067/2068 28.42% and lowest ratio in year 2064/65. Higher ratios in year 2067/2068 and 2064/2065 might have adverse effect in the profitability of the bank.





4.2 Other Indicators

a. Earning per Share (EPS)

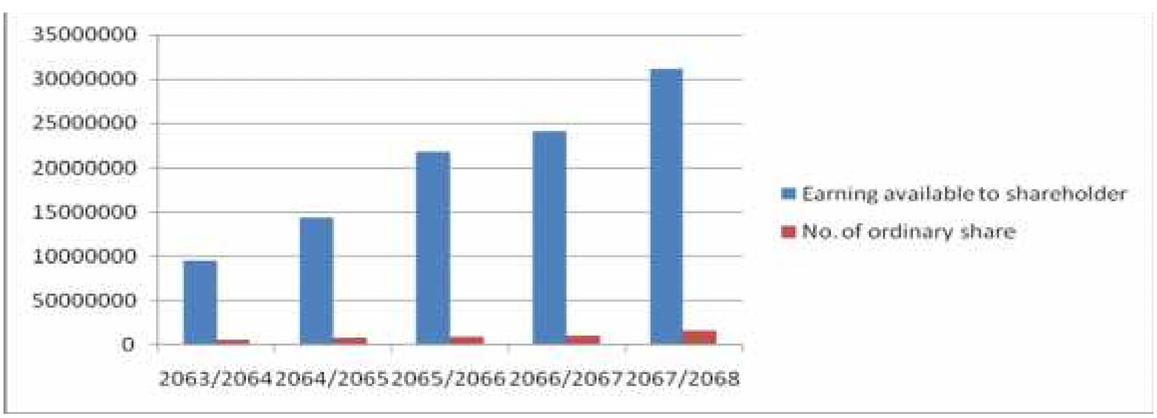
$$EPS = \frac{\text{Earning Available to Common Shareholders}}{\text{No. of Equity Shares Outstanding}}$$

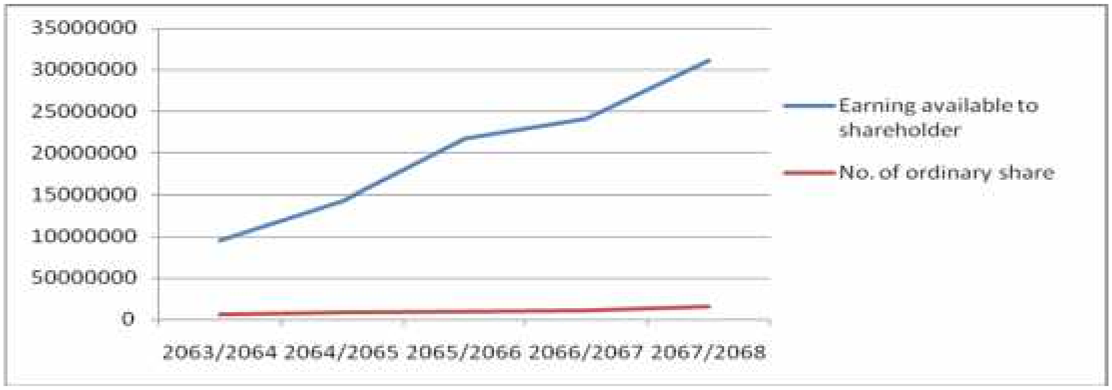
Table 4.25

Earning Per Share

FY	Earning available to shareholder	No. of ordinary share	EPS
2063/2064	95305326	6000000	15.88
2064/2065	143172989	8280000	17.29
2065/2066	217915808	9522000	22.89
2066/2067	240847768	10950300	21.99
2067/2068	311415291	15711300	19.82

Earning per share is calculated by dividing earning available to common shareholders by numbers of equity shares outstanding. Earning per share refers to the income available to the common shareholders. Ratios of SBL remained 15.88, 17.29,22.89,21.99 and 19.82 in the respective years of study period. EPS in year 2063/2064 remain lowest and in year 2065/2066 remained highest. High EPS reflects sound profitability position of the bank, in this case year 2065/2066 remain most favourable to the investors.



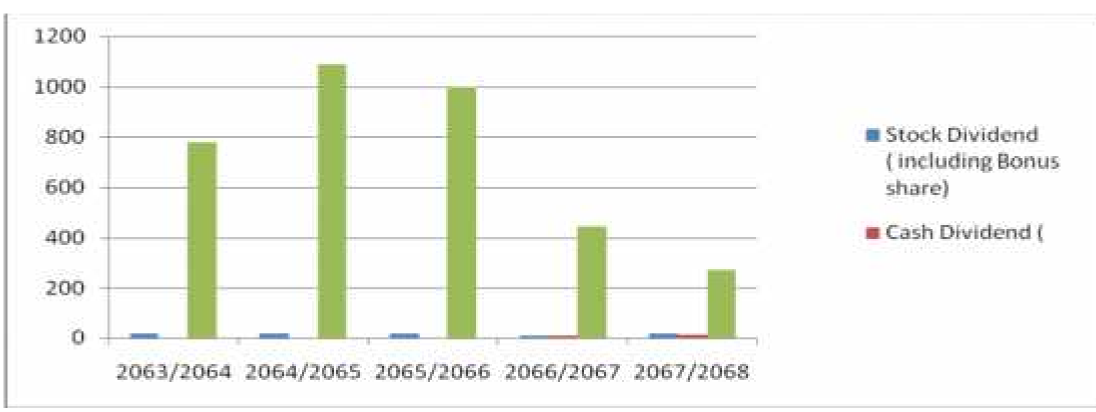


b. Dividend Distribution and market price of share

Table 4.26

Dividend Distribution and market price of share

FY	Stock Dividend (including Bonus share)(%)	Cash Dividend (%)	Market Price Per share
2063/2064	15.79	0.79	778.00
2064/2065	15.79	0.79	1090.00
2065/2066	15.79	0.79	1000.00
2066/2067	10.03	10.03	444.00
2067/2068	15.79	12.79	270.00



c. Price Earning Ratio (P/E Ratio)

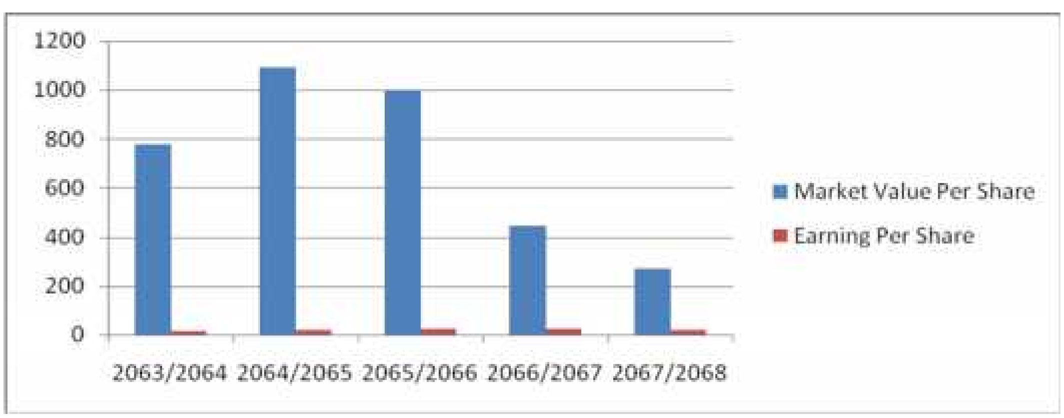
P/E Ratio=$\frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$

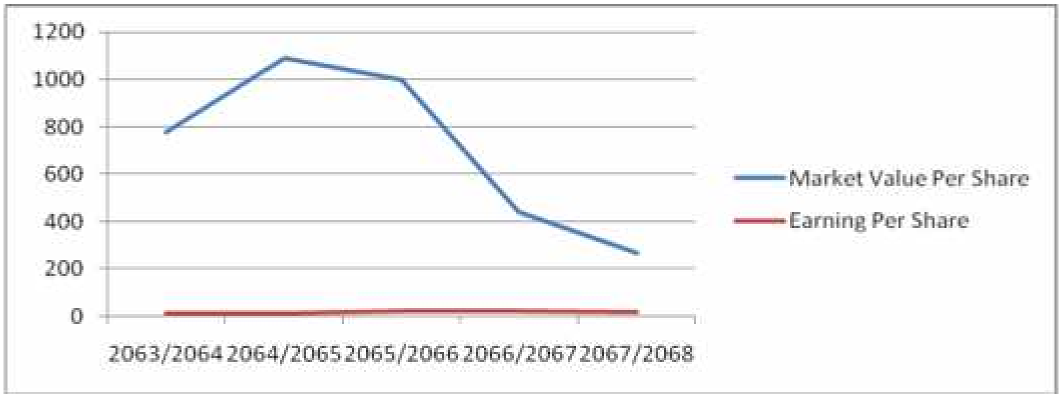
Table 4.27

Price Earning Ratio

FY	Market Value Per Share	Earning Per Share	PE Ratio
2063/2064	778	15.88	48.99
2064/2065	1090	17.29	63.04
2065/2066	1000	22.89	43.69
2066/2067	444	21.99	20.19
2067/2068	270	19.82	13.62

The P/E ratio of SBL remained 48.99%, 63.04%, 43.69%, 20.19% and 13.62% in respective year of study period. In year 2067/2068 it was 13.62% and in year in 2064/2065 it remained highest with 63.04%. Although there was increase in EPS in later years, MVPS decreased. Though MVPS has decreased from year 2066/2067 to 2067/2068. It may be due to political instability in the country which in turn decreased P/E ratio.





4.3 Income and Expenditure Analysis

4.3.1 Income Analysis

Table 4.28

Income Analysis

(amount in '0000')

year	Interest income	Commission & Discount Income	Foreign Income	Other Income	Total Income
2063/064	48152.3807	2017.7802	1424.5653	1865.9095	53460.6357
%	90.07%	3.77%	2.66%	3.49%	100.00%
2064/065	72987.2484	2145.4424	2748.7389	3129.4159	81010.8456
%	90.10%	2.65%	3.39%	3.86%	100.00%
2065/066	126558.2131	3254.783	3868.2163	4635.4212	138316.6336
%	91.50%	2.35%	2.80%	3.35%	100.00%
2066/067	201829.1813	4275.8283	1216.7702	5069.4422	212391.222
%	95.03%	2.01%	0.57%	2.39%	100.00%
2067/068	269029.4141	6804.9045	3868.9741	6225.2282	285928.5209
%	94.09%	2.38%	1.35%	2.18%	100.00%

a. Interest Income

Interest income is the main source of income of the commercial banks. These banks charge interest on loans and advances provided by them. Interest income also includes interest earned from investment in government securities, interest on balance with other banks, money at call and inter-banking lending. The above table shows the interest income in increasing trend. In year 2067/2068 the income inter

b. Commission and Discount

Bank provide remittance facility, purchase and discount of bill of exchange, letter of credit, guarantees, standing instructions, agency functions for which they charge in form of commission and discount. The above table shows that the commission and discount earned by SBL in the respective year of study remained 3.77%, 2.65%, 2.35%, 2.01% and 2.38% respectively. Commission and discount in amount is increasing trend. In year 2066/2067 and 2067/2068 it was in highest point occupying 4275.8283 and 6804.9045 respectively. It was lowest in year 2063/2064 with 2017.7802.

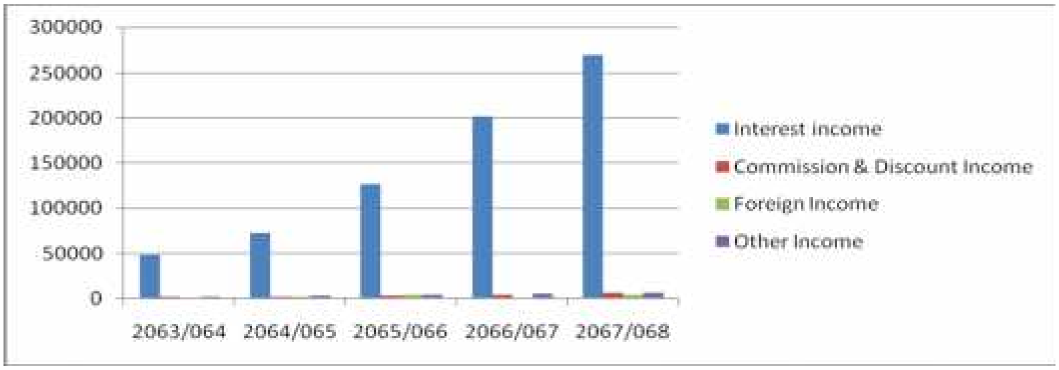
c. Foreign Exchange Fluctuation Income

Transaction of foreign currency is one of the major functions of commercial banks. JVBs can purchase and sell foreign currencies under the NRB direction. It includes trading gain due to fluctuation in the exchange rate.

The income from fluctuation of foreign currency exchange rate is Rs. 1424.5653, 2748.7389, 3868.2163, 1216.7702 and 3868.9741 that constitutes 2.66%, 3.39%, 2.80%, 0.57and 1.35% respectively of total income earned by SBL in respective study period.

d. Other Income

Income other than above comes under other income. Other income of SBL includes safe deposit vault rental income, telex/T.T. charges and other services charges. Other income of SBL appeared to be 3.49%, 3.86%, 3.35%, 2.39% and 2.18% in the respective study periods. It rose in year 2064/2065 and fluctuated in the later years.



4.3.2 Expenditure Analysis

Table 4.29

Expenditure Analysis

year	Interest expenses	Staff expenses	Operating Expenses	Bonus	Total Expenses
2063/064	271710950	33620506	55721156	13913186	374965798
2064/065	408188955	48247208	71480863	21698189	549615215
2065/066	813619042	79384785	114816885	30500289	1038321001
2066/067	1406489572	103680178	175735300	34867593	1720772643
2067/068	1925243099	155803411	265477124	44767054	2391290688

Various expenses are borne by bank in course of granting services to its customer. Banks need to pay interest for the deposits and borrowings. It has to pay salaries and provide other facilities to its staffs. It also has to spend significant amount for day to day operation.

a. Interest expenses

Commercial banks pay interest on various types of deposits and loan taken from other banks and financial institution. It is the major part of the banks' expenses. As observed the interest expenses out of total expenses of SBL recorded 271710950, 408188955, 813619042, 1406489572 and 1925243099 rupees in respective study period. The highest 1925243099 in year 2067/2068 and lowest is 271710950 in year 2063/2064.

b) Staff Expenses

In return of the services provided by the staff they need to be paid remuneration. Staff expenses include salary, allowances, PF contributions, training expenses, uniform, medical allowances, insurance, gratuity, Dashain allowances and leave encashment. It is seen that the staff expenses in SBL were 33620506, 48247208, 79384785, 103680178 and 155803411 rupees of total expenses in the respective study period.

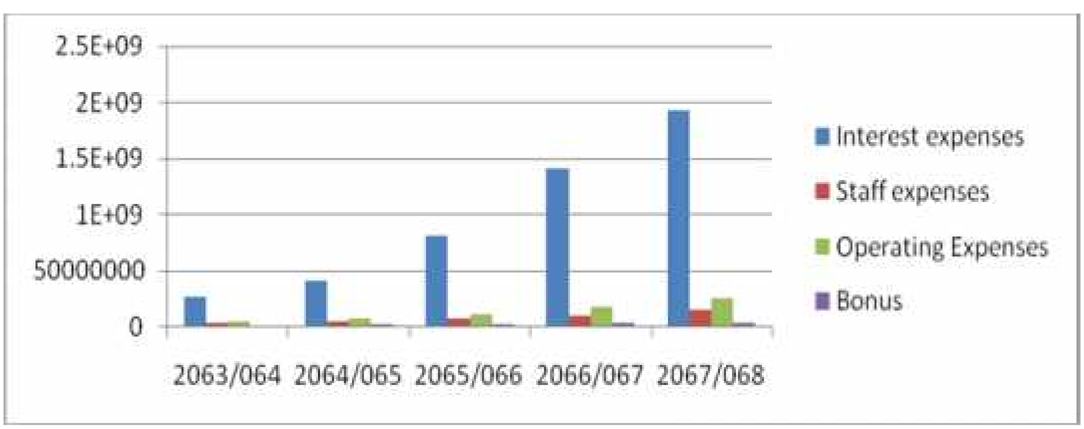
c. Operating Expenses

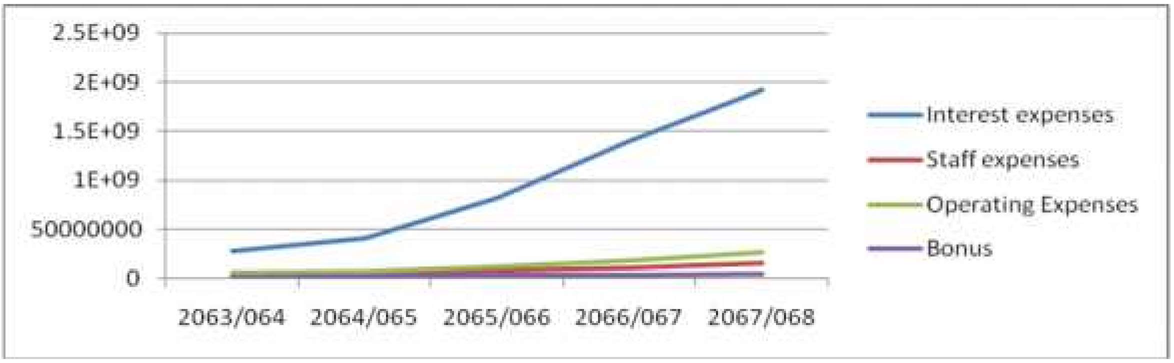
Considerable amount is spent in routine work of bank. Operating expenses includes expenses such as rent, water and electricity, repair and maintenance, insurance premium, postage, telephone, telex, office equipment, travelling expenses, printing and stationery, newspaper, advertisement, meeting expenses, depreciation, amortization, security expenses etc.

Operating expenses covers 55721156, 71480863, 114816885, 175735300 and 265477124 rupees of total expenses incurred in respective study period. In year 2067/2068 it is maximum occupying Rs.265477124 expenses and in year 2063/2064 it is minimum occupying Rs. 55721156 expenses.

e. Bonus Facility

Banks pay a portion of profit to the staff as bonus which is reward for their services. It motivates the staff but it also increases the expenses of the bank. It depicts that expenses for bonus in SBL remained 1391386, 21698189, 30500289, 34867593 and 44767054 rupees in respective years of the study period.





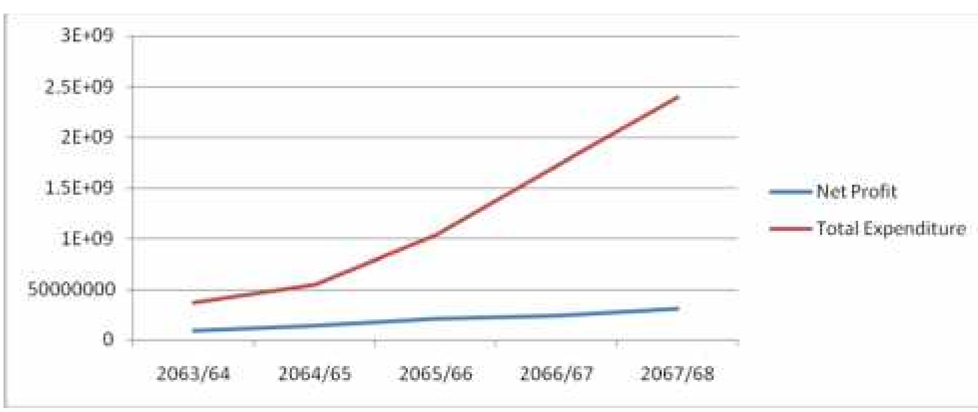
4.3.3 Trend line of Net Profit and Total Expenditure

Table 4.30

Trend line of Net Profit and Total Expenditure

FY	Net Profit	Total Expenditure
2063/64	95305326	374965798
2064/65	143172989	549615215
2065/66	217915808	1038321001
2066/67	240847768	1720772643
2067/68	311415291	2391290688

The profit of Siddhartha Bank has been increasing from 2063/2064 to 2067/2068. The expenditure has also been increasing during the same period as the profit was increased .It can be said that both expenditure and profit are in increasing trend.



4.3.4 Statistical Analysis

4.3.5 Correlation between Net profit & Total Expenditure

Table 4.31

Correlation between Net profit & Total Expenditure

FY	2063/64	2064/65	2065/66	2066/67	2067/68	Correlation
Net Profit(X)	95305326	143172989	217915808	240847768	311415291	0.966431711
Total Expenditure(Y)	374965798	549615215	1038321001	1720772643	2391290688	

The correlation coefficient between net profit and total expenditure of the Bank is 0.966431711 which is greater than 0.5.It indicates that there is a positive correlation between net profit and total expenditure. Therefore, net profit is affected by total expenditure.

4.3.6 Correlation Analysis between Total Deposit and Net Profit

Table 4.32

Correlation Analysis between Total Deposit and Net Profit

FY	2063/64	2064/65	2065/66	2066/67	2067/68	Correlation
Net Profit(X)	95305326	143172989	217915808	240847768	311415291	0.9747
Total Deposit(Y)	6625078506	10191440970	15854798403	20197029402	21575653982	

Above calculation of coefficient of correlation between total deposit and net profit is 0.9747. This analysis indicates that there is a high degree of positive correlation between total deposit and net profit. Therefore, the profit of the Bank is affected by total deposit.

4.3.7 Correlation Analysis between Performing Assets and Net Profit

Table 4.33

Correlation Analysis between Performing Assets and Net Profit

FY	2063/64	2064/65	2065/66	2066/67	2067/68	Correlation
Net Profit (X)	95305326	143172989	217915808	240847768	311415291	0.982762
Performing Assets(Y)	7317221679	11070429422	15989889312	19805369595	21804723903	

Above calculation of coefficient of correlation between performing assets and net profit of the Bank is 0.982762. This analysis indicates that there is a high degree positive correlation between performing assets and net profit. It indicates that the increase in performing assets increases the net profit of the Bank.

4.3. 8 Correlation Analysis between Total Deposit and Loans and Advances

Table 4.34

Correlation Analysis between Total Deposit and Loans and Advances

FY	2063/64	2064/65	2065/66	2066/67	2067/68	Correlation
Total Deposit	6625078506	10191440970	15854798403	20197029402	21575653982	0.998425
Loan & Advances	6222586813	9335597738	13328621515	16653851922	18384033093	

The calculation of coefficient of correlation between loan & Advances and total deposit of the Bank is 0.998425. This analysis indicates that there is a high degree (approximately perfect) positive correlation between them. It shows that loan & advance are fully related with deposit.

4.3.9 Correlation Analysis between Total Deposit and Investment

Table 4.35

Correlation Analysis between Total Deposit and Investment

FY	2063/64	2064/65	2065/66	2066/67	2067/68	Correlation
Total Deposit	6625078506	10191440970	15854798403	20197029402	21575653982	
Investment	865188561	1150095800	2176427797	2452475662	2537909426	0.98402

Above table shows the high degree of positive relation between total deposit and investment. It indicates that the investments made by the Bank are highly related with their deposit.

4.4 Major Findings of the Study

The following findings have been derived from the analysis and interpretation of the data. Although SBL could not maintain conventional standard of 2:1, current ratio seems to be satisfactory. In the final years of the study period it was more close to the conventional standard. SBL has made enough investment in Nepal Government securities like Treasury bond, development bond and shares and debentures in the final years of the study period.

Cash and bank balance to the current and saving deposit ratio seems to be inconsistent. In the year 2064/065the ratio was 15.48%. This exhibit that SBL may not be able to meet its immediate obligation as the bank balance is much lower than the current and saving deposit. SBL is operating at high risk. In other hand in 2066/067 the ratio was 72.60%. It shows that in the year 2066/067 SBL seemed unsuccessful to utilize the raised fund from the current and saving deposit that may have affected the profitability adversely.

Only 4.29% of total deposit was held as cash and bank balance in the year 2064/065 by SBL which shows weak liquidity position. But in the year 2066/067 SBL had 11,92% of the total deposit as cash and bank balance. SBL is very inconsistent in maintaining its liquidity position.

NRB balance by total deposit never dropped below 8%, the percentage to be maintained as directed by NRB. It was higher than the prescribed percentage. SBL has maintained NRB balance to fixed deposit ratio above the standard prescribed by NRB.

Around 50% of the total deposit is occupied by fixed deposit. In later years 2063/064 to 2065/066 the ratio fixed deposit to total deposit is less than the earlier period. SBL has more debt than equity in the total capital as revealed by debt equity ratio. Debt asset ratio showed that more than 50% of the total asset had been financed by the outsider's fund. Interest coverage ratio of SBL seems to be lower in all the period. This indicates that there is excessive use of debt for which interest are to be paid.

SBL has been successful in utilizing its deposit on loan and advances which is depicted by loan and advances to total deposit ratio. SBL has efficiently utilized the high interest bearing fixed deposit. Loan and advances to total deposit ratio fixed deposit was inconsistent during the study period. Overall rate can be satisfactory. The investment to total deposit ratio showed consistent pattern during the study period. It lies between 11 to 13 percentages. Performing assets to total asset ratio showed that SBL has funded total assets for income generation. SBL has utilized assets effectively. Performing assets to total debt ratio was on higher side, which depicts SBL is efficiently utilizing the creditor's fund. Loan loss coverage ratio of SBL over the period remained lesser than 1% that indicates that assets financed by SBL are superior in quality. The figures show the low level of nonperforming assets.

Loan loss provision to total income ratio was quite minimal throughout the study period that indicates SBL's awareness in advancing loans. Almost all loan loss provision to total deposit ratio of the corresponding year of the study period were less than 1%. Therefore we can conclude that SBL has granted loan which are less risky. Moderate amount of interest are still to be collected by SBL as shown by accrued interest to total interest income ratio. Return on asset ratio showed that profitability with respect to financial resources investment of the bank assets is unsatisfactory as well as unstable. Interest expenses to interest income ratio is in the higher side. On average it is more than 55%.

Interest earned to total asset ratio was very low throughout the study period which shows SBL has not utilized its assets effectively for generating income. Staff expenses to total income ratio remained lower than it indicates SBL. It indicates that SBL carried out its operation efficiently with lesser staff expenses which is the highest in 2067/068 Office operation expenses to total income ratio remained moderate in nature. SBL's EPS remained inconsistent throughout the study period. In the first year of study period i.e. 2063/064 it was weak in position.

Income analysis showed that interest income remained dominant in SBL. More than 90% of the income was occupied by interest income throughout the study period. Expenditure analysis showed that interest expenses occupied major portion in expenses of SBL.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Attempt of this chapter is to present summary, conclusion, and to give necessary suggestions and recommendations.

5.1 Summary

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of balance sheet and the profit and loss account. Ratio analysis is one of the tools used by financial analysis for making decisions regarding credit and investments. This method utilizes the data found in financial statements to determine a bank's standing. It will compare the bank's ratios to its past performance as well as to bank statistics to determine risks, trends, and to identify any peculiarities. This study was conducted to evaluate the financial performance to SBL, which is working in Nepal by providing the quality and banking services. The various financial indicators were used for analysis of financial data of the sampled bank. The analysis is done on the basis of financial statement from 2063 /64 to 2067/2068. This study is mainly based on the secondary data.

Banking system of Nepal has undergone significant change since liberalization of the financial sector in mid eighties. It has improved in quantitative as well as qualitative terms. Small and fast growing financial sector comprises of commercial banks and other financial institutions like development banks, finance companies, cooperatives etc. due to political and other reasons, Nepal's economy has been discouraged to establish new facilities due to Political conflict and labour problems. This situation will definitely affect the banking sector as well. In this situation where the volume of business is not increasing, but rather decreasing, and financial institutions are mushrooming, there will be a tremendous pressure on the financial institutions for survival. The intense competition and lack of sufficient investment opportunities have created threats to banks. Therefore future in the banking sector will be more competitive with quality and speedy service. Banks will have to provide quality service and is to attain objectives along with maintaining social responsibility to sustain in market.

5.2 Conclusion

The gist of the study is the selected Siddhartha Bank Ltd which is one of the growing banks in Nepal. SBL has been maintaining a steady growth rate over this period. It has been able to increase its customer base manifold and has also shown outstanding growth in all parameters of banking. The SBL has been successful to foresee the quality of loans lent. Interest income is the main source of income and over the years it has become more dominant as 90.07% of total income contributed by it. The bank's liquidity position is satisfactory. The liquid assets have increased substantially in the review periods.

SBL earned a net profit of Rs. 311415291 for the fiscal year 2067/068 and this comes to be 29.30% more as compared to the same period in the previous fiscal year 2067/068. The bank's financial performance in the last five years shows a continuous increase in its net profit.

5.3 Recommendations

Based on the analysis of this study, the below given are the recommendations to be implemented for the further growth of bank. These suggestions will be proved to be milestone in order to correct the existing situation.

- It is suggestive to hold the fund in form of cash or cash equivalent items t o the extent of requirement. Estimation can be done on the basis of past trend and experience, nature of depositors, and constantly analyzing the external environment.
- SBL, most of the time, maintained NRB balance to total deposit ratio and NRB balance to fixed deposit higher than the standard prescribed by NRB. The idle fund doesn't yield and return. It is suggested to lower the ratio and invest the surplus in other current assets.
- SBL in the later years has given more priority to invest its fund in government securities. Though the government securities are free of risk they yield lower

interest rate. It is recommended not to give all attention to government securities and diversify investment policy.

- SBL has greater portion of debt in capital. Bank should be aware of the possible risk that may arise due to slackness in the business activities.
- Staff expenses to total income ratio remained lower. Lower ratio may affect staffs morale which in turn decreases the profit. Though training, seminars, conferences and other programs efficiency of the staff can be improved. The human resources need to be continuously developed through training and workshops otherwise it may hamper the productivity and efficiency of the employees besides the motivation factor. It is also suggested to minimize the office operation expenses.

- Banking has become more and more competitive in the present days. SBL needs to find sources of income apart from the traditional interest income to stay competitive providing many other services to its customer.

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