

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 General Background**

The extent of development of any country is reflected by the development of bank and financial sector of that country. The financial sector is a broad field, which comprises of banks, co-operative societies, insurance companies, financial companies, stock exchange, foreign exchange market, mutual funds etc or in other words financial institutions. An institution, which deal with money and credit and that is involved in monetary transaction is called bank. The main role of bank is to accept deposit, to provide loan, to exchange money, and to transfer the money one place to another. The bank provides loan from surplus unit to deficit units for the economic development.

Development bank is defined as “Financial institutions dedicated to fund new and upcoming businesses and economic development projects by providing equity capital and/or loan capital” (BusinessDictionary.com). According to Murinde & Kariisa (1997), there is no clear definition of the development banks; the definition can only be derived from the bank’s functions. In addition, they suggested that “development banks refer to all financial institutions, which are specifically set up to provide long term finance for development projects”.

Nepal adopted open and free market economic and financial policies in 2049 B.S. which has increased the number of banks, financial companies, co-operatives as well as cut throat competition among them. Challenges to maintain its profitability and stability operatives have been rapidly growing in this sector. The fast growth of such organizations has made pro-rata increment in collecting deposit and their investment. They collected the huge amount from public could be allocated in appropriate investment sectors. And each kind of these bank and financial institutions must have its own good financial performance (Shrestha, 2055). Financial Analysis is one of the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the components of balance sheet and profit and loss account and other operating data (Pandey, 1995). Moreover, financial analysis is both analytical and judgmental process that helps answer the questions that have been

proposed posed. Therefore it is a means to an end. Profit is one of the indicators of sound financial performance. It is usually the result of sound business management, cost control, credit-risk management and general efficiency of operation (American Institute of Banking, 1972). Further the overall financial information can be obtained by analyzing balance sheet and income statement. However, there are three major steps for analyzing the financial statements (Shreevastav, 1993). The first step involves the re-organization or rearrangement of entire financial data as constrained in the financial statements. The second step is the establishment of significant relationship between the individual components of balance sheet and profit and loss account. Finally, significant of results obtained by means financial tools is evaluated. This requires establishment of standards against which actual are evaluated with respect to the type of financial analysis distinction can be made either on the basis of material used or by using modus operandi of analysis or on the object of analysis (Kumar, 1994). Thus, Performance evaluation of a company is usually related to how well a company can use its assets, share holder equity and liability, revenue and expenses. Financial ratio analysis is one of the best tools of performance evaluation of any company. In order to determine the financial position of a bank and to make a judgment of how well the bank efficiency, its operation and management and how well the company has been able to utilize its assets and earn profit.

The firm communicates financial indication to users through financial statements and reports. They are the means to present financial situation or position to owners, creditors and the general public (Pandey, 1995). As these statements are used by investors and financial analysis to examine the firms' performance resource allocation decision. Moreover, the analysis and interpretation of financial statements depend on the nature and type of information available therein. Basically, there are two financial statements prepared for the purpose of external reporting to owners, investors and creditors, which are main source for judging financial position. They are: a) Balance Sheet b) Income statement. Ratio analysis is a widely used tool for financial analysis it is defined as the systematic use of ratio to interpret the financial statements so that the strengths and weakness of a firm as well as its historical performance and current financial conditions can be determined. The term ratio refers to the numerical or quantitative relationship between two items or variables (Khan and Jain, 1992).

Altman (1968) introduced and IMF also recommended a comprehensive procedure named bankometer. This procedure has the quality of minimum number of parameters with maximum accurate results. The parameter and ratio are as follows:

$$S = 1.5 * CA + 1.2 * EA + 3.5 * CAR + 0.6 * NPL + 0.3 * CI + 0.4 * LA$$

All bank and financial institutions having 'S' value greater than 70 are solvent and termed as super sound banks, while those banks having 'S' value below 50 are not solvent. The area between 50 and 70 is defined as gray area because of the susceptibility to error classification.

Establishing dimensions of financial performance provided an overarching structure for identification of relevant financial indicators. Different financial indicators measure different dimensions of financial performance, such as profitability and liquidity, and all of this information is needed to make an informed judgment about the financial health of an organization. For example, profitability indicators may indicate an organization is earning a profit, but liquidity indicators may show it is having difficulty paying its bills and capital structure indicators may show a large increase in debt (Pink et.al. 2005).

According to (Singh, 2001) various financial indicators have been used under the research work is: 1) Capital Adequacy Ratios 2) Non -performing Assets 3) Priority Sector Advances 4) Statutory Liquidity Ratios 5) Cash Reserve Ratio 6) Credit Deposit Ratios. Similarly, it is a powerful tool of financial analysis.

(Ariff, 2009) has used three financial ratios to get at the core performance

#### 1. Cost Efficiency Financial Ratios

- Cost to Income Ratio (CTIR)
- Net Interest Expenses/Average Assets (NIER)

#### 2. Revenue Efficiency Financial Ratios

- Other Operating Income/Average Assets (OPIR)
- Net Interest Margin (NIM) Accounting based performance of a bank

#### 3. Profit Efficiency Financial Ratios

- Return on Average Equity (ROAE):
- Return on Average Assets (ROAA): Economic Efficiency Measures

Therefore, ratio analysis is used for judgment financial performance of business concern over the period of time. It helps to find out the financial positions of the firm

and also supports to provide necessary suggestion package for the betterment. Thus, economic financial position/ performance of a firm can be fully x-rayed through ratio analysis.

“A Bank is a business organization that receives and holds deposits of funds from others make loans or extend credits and transfer funds by written order of deposits” (The New Encyclopedia Americana, 1984). Oxford English Dictionary, According to Hal fury's laws of England "A banker is defined as an individual partnership of corporation whose role or predominating business is banking that is the receipt of money on current or deposit account and customer payment of cash by cheque. "Investopedia explains Financial Performance: There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt (investopedia.com).

It is a largely study of a single set of statements and study of these factors as shown in a series of statement (Williamson, 1980). It means analysis of financial statements may be useful for different purpose such as: knowing the positions and performance of the firm. In course of analysis different tools and techniques are used. This analysis evaluated involves the use of various financial statements the first is the balance sheet, which represents a snapshot of the firm's financial position at the moment and next is the income statement, that depicts a summary of the firm's profitability over the time (Vanharne & Wachhowicz, 1997).

Financial performance analysis is the most essential factor to know the performance of the organization which presents actual situation of the organization. It is a helpful tool which helps to measure the financial efficiency which is one of the significant elements to achieve the goal and objective of any organization. It is necessary to maintain financial strength health and minimized or reduces financial weaknesses of any bank and financial institution to encourage financial efficiency.

Measuring the results of a firm's policies and operations in monetary terms, these results are reflected in the firm's return on investment, return on assets, value added, etc (business dictionary). Investopedia explains Financial Performance: There are many different ways to measure financial performance, but all measures should be

taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt (investopedia.com).

The horizontal analysis is used to determine the financial condition of Sewa Bikas Bank over the period of five years. The main objective of using this method is to determine whether there was an improvement or deterioration on bank performance and efficiency during the mentioned period. Two financial statements of the Bank namely, Income Statement and Balance Sheet are used to analyze the financial performance of the bank. The Income Statement and Balance Sheet items are compared to each other on the basis of annual growth as well as overall growth. Thus, it is used to prepare in the end of financial year and reveals the firm's financial position on specific data. In the language of accounting, the balance sheet communications information about assets, liabilities and owner's equity for a business firm as on a specific date. It provides a snapshot of financial position of the firm at the close of the firm's accounting period (Rana, 2007).

Murinde & Kariisa (1997) pointed that the development bank is expected to mobilize long-term investment funds by developing local markets. Jesquir & Hu (1989) argued that the purpose is to provide long-term loans, to promote projects, enhance managerial skills, develop entrepreneurship and help develop technological capacities of developing countries. Murinde & Kariisa (1997) suggested that the development bank performs profitable only if its investments are doing well by income generation. In addition, they argued that the profitability of the bank also depended on the efficiency of the bank itself.

Well managed bank and financial institutions play significant roles in economic development and improving social life. Complement the efforts of traditional banking institutions in extending banking services to the poor by providing those avenues for saving and accessing credit. Special purpose banking & financial institutions targeted at rural communities to facilitate access to institutional credit and banking services to enhance development.

Performance evaluation of a company is usually related to how well a company can use its assets, share holder equity and liability, revenue and expenses. Financial ratio analysis is one of the best tools of performance evaluation of any company. In order to determine the financial position of a bank and to make a judgment of how well the bank efficiency, its operation and management and how well the company has been able to utilize its assets and earn profit.

Financial Analysis is one of the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the components of balance sheet and profit and loss account and other operating data (Pandey, 1995). According to Khan and Jain, "The balance sheet provides information about the financial position of a firm at a particular point of time. It can be visualized as a snapshot of the financial status of company".

Likewise, balance sheet is a screen picture of financial position of a going business at certain moment. It is also known a statement of financial condition, position statement or statement of resources and liabilities or statement of worth etc. In this way, it can be said that balance sheet is a summary statement and comparative record of the progress as downfall of the business. It shows the clear picture of the financial position of business as well as the assets liabilities of business, the relative proportion of borrowed and ownership capital, etc which are necessary to analyzed and evaluated their financial position of particular period. Hence this is one of the important resources to examine financial weakness or strengths using different tools of any business firm especially the banks.

In the words of Khan and Jain "Income statement is of great importance and interest to end-users of financial statements because it enables them to ascertain whether the business operations have been profitable or not during the specific accounting period."

Ratio analysis is a widely used tool for financial analysis it is defined as the systematic use of ratio to interpret the financial statements so that the strengths and weakness of a firm as well as its historical performance and current financial conditions can be determined. The term ratio refers to the numerical or quantitative relationship between two items or variables (Khan and Jain, 1992). (Aychile, 2008) have used PEARLS Monitoring System. The word P E A R L S refers i.e. P-

Protection against loan loss, E-Effective financial structure, and A-Asset quality, R-Rate of return and cost, L-Liquidity and S-Sign of growth. PEARLS ratios are set to serve as executive management tool for standardize evaluation, comparative ranking and tool of supervisory control.

Not surprisingly, there was substantial overlap and it was relatively straightforward to establish five preliminary dimensions of financial performance: profitability, liquidity, capital structure, activity, and other (Pink et.al. 2005). A comparative analysis is presented on the basis of variables such as bank deposits, total loans and advances, total assets, shareholders equity, return on equity (ROE) return on assets (ROA) and return on deposits (ROD). (Gaddam et.al. 2008). According to (Singh, 2001) various financial indicators have been used under the research work is: 1) Capital Adequacy Ratios 2) Non -performing Assets 3) Priority Sector Advances 4) Statutory Liquidity Ratios 5) Cash Reserve Ratio 6) Credit Deposit Ratios.

Gopinathan (2009) discusses about the Profitability Ratios Measure Margins and Returns such as gross, Operating, Pretax and Net Profits, ROA ratio, ROE ratio, ROCE ratio. However, he determines the Gross profit is the surplus generated by sales over cost of goods sold. He discussion about the Gross Profit Margin = Gross Profit/Net Sales or Revenue. Moreover, Operating profits are arrived at by deducting marketing, administration and depreciation and R&D costs from the gross margin. Nonetheless, He explains about the operating profit margin. Operating Profit Margin = Operating Profit/Net Sales or Revenue. Nevertheless, pretax profits are computed by deducting non-operational expenses from operating profits and by adding non-operational revenues to it. Pretax Profit Margin = Pretax Profit/Net Sales or Revenue. Nonetheless, he also analysis about the net profit margin. Net Profit Margin = Net Profit/Net Sales or Revenue. He also explains that the returns on resources used dividend into three categories such as ROA, ROE, and ROCE: At first the Return on Assets = Net Profit/ (Total Assets at beginning of the period + Total Assets at the close of the period)/2) - The denominator is the average total assets employed during the year. Return on Equity = Net Profit/ (Shareholders' Equity at the beginning of the year + Shareholders' Equity at the close of the year)/2). ROCE ratio: Return on Capital Employed = Net Profit/ (Average Shareholders' Equity + Average Debt Liabilities) - Debt Liabilities.

The acronym "CAMELS" refers to the five components of a bank's condition that are assessed: Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to Market Risk. Ratings are assigned for each component in addition to the overall rating of a bank's financial condition (Jose, 1999). The ratings are assigned on a scale from 1 to 5 with 1 being strongest and 5 being weakest.

**Capital Adequacy:** This ultimately determines how well financial institutions can cope with shocks to their balance sheets. The bank monitors the adequacy of its capital using ratios established by The Bank for International Settlements. Capital adequacy in commercial banks is measured in relation to the relative risk weights assigned to the different category of assets held both on and off the balance sheet items.

**Asset Quality:** The solvency of financial institutions typically is at risk when their assets become impaired, so it is important to monitor indicators of the quality of their assets in terms of overexposure to specific risks trends in non- performing loans, and the health and profitability of bank borrowers especially the corporate sector. Credit risk is inherent in lending, which is the major banking business. It arises when a borrower defaults on the loan repayment agreement. A financial institution whose borrowers default on their repayments may face cash flow problems, which eventually affect its liquidity position. Ultimately, this negatively impacts on the profitability and capital through extra specific provisions for bad debts.

**Management Quality:** Total quality management represents a formidable challenge for bank marketers seeking to understand what makes their bank shine in the eyes of their customers. As banks move from the realm of quality service into the domain of total quality management, they are asking themselves some serious questions about the way they do business. Their probing extends beyond sales and service to include the total management philosophy. Banks are opening up their definition of quality management and considering what their customers expect and experience, rather than just what the bank provides.

**Earnings:** The continued viability of a bank depends on its ability to earn an adequate return on its assets and capital. Good earnings performance enables a bank to fund its expansion, remain competitive in the market and replenish and /or increase its capital. A number of authors have argued that, banks that must survive



Need: Higher Return on Assets (ROA) better return on net worth/Equity (ROE), sound capital base i.e. the Capital Adequacy Ratio (CAR), adoption of corporate governance ensuring transparency to stakeholders that is equity holders, regulators and the public.

Liquidity: Initially solvent financial institutions may be driven toward closure by poor management of short-term liquidity. Indicators should cover funding sources and capture large maturity mismatches. An unmatched position potentially enhances profitability but also increases the risk of losses. The M represents Management, given that this paper is hinged on financial performance, the management component is not considered in the measure.

Capital Adequacy, Earnings and Liquidity are the key dimensions of measuring financial performance in bank and financial institution. Financial performance of the Banks was measured based on the CAEL framework; Capital Adequacy, Asset Quality, Earnings, and Liquidity (Jose, 1999). Capital Adequacy was measured using Core Capital divided by Risk Weighted Assets, Asset Quality by two ratios were used i.e. Non Performing Advances (NPA) divided by Total Advances and Specific Provisions divided by Non Performing Advances, Earnings was also measured using two ratios i.e. Return on Assets (ROA) & Return on Equity, and Finally Liquidity was measured using Liquidity Assets divided by Total Deposits & Total Advances divided by Total Deposits.

Banks efficiency may be categorized as solvent (to super sound) bank under the bankometer procedure. The ability to predict which banks are vulnerable to financial distress is of critical importance to central banks, creditors and to equity investors. When a bank goes insolvent, creditors often lose portion of principal and interest payments, while equity investors can potentially lose all of their investment. Additionally, even if the bank survives after a financial distress, the survival costs will significantly reduce the future growth outlook. It is therefore important for management to focus more on trying to predict the banks that are vulnerable to financial distress in near future using bankometer ratio (Altman, 1968).

Solvency is ability of a business to have enough assets to cover its liabilities. Solvency ratio measure the ability of a company to pay its long-term debt and the interest on that debt. Solvency is ability of a business to have enough assets to cover

its liabilities. Solvency ratio measure the ability of a company to pay its long-term debt and the interest on that debt. Solvency ratio, as part of financial ratio analysis help the business owner determines the chance of the firm long term survival. In other importance of solvency its ratio help the business owner keep an eye on bankruptcy as debt/assets ratio increase the like hood of bankruptcy also increase as the firm in finance more and more with debt as opposed to equity sources. To test the financial performance impacts of bank, the performance measurement scale has been adopted from the frequently used financial criteria and these criteria are presented in the data and methodology. Financial Ratio Analysis Tools: Liquidity Ratios, Assets Management Ratios, Profitability Ratios, Leverage Ratios, solvency ratio and Comparative financial statements analysis and statistics tools: least square and trend analysis method are used to review the financial performance of Sewa Bikas Bank.

In conclusion, these two financial statements, i.e. balance sheet and income statement or profit and loss account of business firm contain useful information, so they are very helpful to know the financial strengths and weaknesses by analyzing those statements comparatively. They are not separate and independent statements, but are related to each other. Thus, both have vital role in the field of financial performance analysis.

Sewa Bikas Bank Limited (SBBL) is one development bank established in 23th Magh 2063 B.S. situated in the Rupandehi District, Butwal-8, and SBBL has 9 branches and one extension counter. SBBL branches are the following 3 districts: Rupadehi, Kapilvastu, and Parasi. It has authorized capital Rs 20 crore and paid up capital 3crore while it was established. Now it has Rs 64 crore authorized 11crore 50 lakhs issued and Rs 11 crore 50 lakhs as a paid up capital. (Annual report, 2068/069) Sewa Bikas Bank Limited has been playing a significant role in the economic growth and improvement of its depositors, individuals, business person and entrepreneur. The company is efficiently working for achieving the vision of national prosperity through the development of rural areas in addition to urban areas of the country.

To test the financial performance impacts of bank, the performance measurement scale has been adopted from the frequently used financial criteria and these criteria are presented in the data and methodology. Financial Ratio Analysis Tools: Liquidity Ratios, Assets Management Ratios, Profitability Ratios, Leverage Ratios and Comparative financial statements analysis and statistics tools: least square and trend analysis method are used to review the financial performance of SBBL.

## **1.2 Statement of the Problem**

The adaptation of open and free market economic and financial policies of Nepal government after 2047 B.S. has encouraged in establishment of number of banks, financial companies, co-operatives which has emerged challenges to maintain its profitability and stability operatives because of tough competition in this sector. Banks are prone to both external and internal threats. So the competition in the banking sector is going to be higher than ever before. SBBL is also one for that example. Bank and financial institution are increasing to facilitate modern banking service but services are not qualitative or customer oriented.

Some bank and financial institution are not working under banking ethics. Such bank and financial institution are losing clients' trust. A very unhealthy activity is happening in the banking business. And some bank and financial institution are going on suspension and some dissolution. All public also should be comprehensible about bank or financial institution's financial soundness in such critical situation. Financial soundness is a situation where depositor's funds are safe and net profit, deposit, lending, EPS, MVS, DPS etc. is increasing trend in a stable banking system. The financial soundness of a financial institution may be strong or unsatisfactory varying from one bank to another.

The first and most important function of financial statement is to serve those who control and direct the business recurring the profit and maintaining a sound financial condition. The questions arise as: who is being utilized efficiently the available fund of the business? Who are well being observed credit standards? And whether the financial conditions are being improved or not? How is the trend of net profit, market of share, dividend paid to shareholder? How the trend of deposit collection, lending and recovery condition is balance or not? And what is condition of liquidity position of the bank? They have ability to short term obligation if they have sound liquidity position. So the statements will help the management at self appraisal and the statement help to judge the performance of the bank.

Different financial indicators measure different dimensions of financial performance, such as profitability and liquidity, and all of this information is needed to make an informed judgment about the financial health of an organization. For example, profitability indicators may indicate an organization is earning a profit, but liquidity

indicators may show it is having difficulty paying its bills and capital structure indicators may show a large increase in debt.

Financial information (i.e. return on investments, return on equity, growth of profitability etc.) is the most extensively explicit and valid information among the other performance dimensions. Financial Performance and financial institution's financial soundness is a situation where depositor's funds are safe in a stable banking system. The financial soundness of a financial institution may be strong or unsatisfactory varying from one bank to another. Capital Adequacy, Earnings and Liquidity are the key dimensions of measuring financial performance in bank and financial institution.

Understanding the use of various financial ratios and techniques can help in gaining a more complete picture of a company's financial outlook. In the present scenario, the worst economic and social condition of our country largely affects the banks performance in all the financial, operational, productivity and profitability sectors, which causes the large decline in the profit, EPS, MVS of all types of banks.

As other have used traditional way of financial ratio analysis, CAMEL and PEARL system to find out performance analysis. But this research has followed Altman (1968) Bankometer method which is also recommended by IMF to identify solvency position of bank. It indicates that:

$$S = 1.5 * CA + 1.2 * EA + 3.5 * CAR + 0.6 * NPL + 0.3 * CI + 0.4 * LA.$$

All bank and financial institutions having 'S' value greater than 70 are solvent and termed as super sound banks, while those banks having 'S' value below 50 are not solvent. The area between 50 and 70 is defined as gray area because of the susceptibility to error classification.

Thus present study seeks to explore the financial efficiency and weakness of SBBL. The study aims to find out the answer to the following problems. The major problems that have been identified for the purpose of the study of SBBL are as follows.

1. Whether the financial performance of the Bank is sound?
2. What is the trend of Net profit, Deposit, Total Income and loan & advance?
3. What is the solvency position of the bank?

Financial performance partly depends on their ability to adapt and operate efficiently in the new environment. In this paper an attempt is made to measure the financial performance of the SBBL. The data has been analyzed through application of many financial and statistical tools.

### **1.3 Objectives of the Study**

The objective of the study is to review financial performance by analyzing the financial statement of the bank with the help of different types of financial and statistics tools. The main objectives of this study will be to examine the financial performance of Sewa Bikas Bank by considering ROE & ROA and other objectives will be as follow:

- 1) To identify financial performance of the bank.
- 2) To examine the trend of Net profit, Deposit, Total Income and loan & advance.
- 3) To identify the ratio of non-performing loan (NPL).
- 4) To explore the solvency position of the bank considering different years.

### **1.4 Significance of the Study**

The history of Nepal's public and private bank services is not so long. Now a day's various types of bank are established to facilitate bank services to public. The bank has good financial performance they can provide economic security. The significance of this study has been presented in the following manners.

This research work is concerned with banking organization that offers a personalized service. The bank uses various indicators for measuring its financial performance. These indicators are of great importance and tell us the true financial position of the bank. These indicators help in identifying the financial strengths and weaknesses of the bank and suggesting improvements in its future working. It is, thus, very important for a banking or business concern to analyze its financial performance at the end of each financial year. The potential findings of this study would help the following users, but not limited, to make better decisions.

-Management: This study helps management committee, account officer and executive officer to make good plans and strategies of Sewa Bikas Bank Limited.

-Scholars: It is significant to the future researchers, scholars and students who want to investigate the financial performance of Sewa Bikas Bank.

-Customer: This study provides the financial information to its clients, depositors and stock exchange agencies.

-Investors: Investors are those people who have shares in the bank. They are interested to know the returns on their investments. As such, investors are also interested to look at the past and present bank profitability, so that they predict the future bank profitability. As a result, they might be able to decide whether to invest more or sell their shares and invest their money elsewhere.

- Borrowers: Borrowers are more concerned about the bank ability to pay back their interests as well as repay the loan amounts due to them. Like investors, borrowers are also interested in solvency, profitability and efficiency of the bank operations.

- Government: Its interests are the same as investors and borrowers. In addition, the government supposed to place more emphasis on the tax amount the bank was supposed to pay.

-Public and other researchers: The public is more concerned about the number of jobs created and allocation of projects to mention a few, but not limited. Other researchers would be interested to compare the findings of this study with theirs to determine whether there is a similarity or difference in the findings.

-Financial analysts: Financial analysts are interested to compare this study with theirs in order to make the correct decisions for the potential investors.

## **1.5 Focus of the Study**

The area of this proposed study is financial analysis of SBBL. Financial analysis covers the financial analysis and other portfolio of SBBL. Financial analysis is the process of determining the significant operating and financial characteristics of the bank from accounting data and statements.

A powerful and the most widely used tool in financial analysis is ratio analysis. A financial analysis is a relationship between two accounting figures. Financial ratio helps us to find the symptoms of problem. The cause of problem may be determined only after locating the symptoms. The operational and financial problem of the bank

can be ascertained by examining the behavior of these ratios. So the ratio in the financial institution is regarded as the best indicator of their performance.

Hence the study basically is focused on financial ratio to analyze the financial performance of SBBL.

## **1.6 Limitation of the Study**

Because of the lack of man, money and time element it has to develop the limitation of the study that is:

- 1) The whole studies are based on secondary data-annual report which is provided by the bank.
- 2) This study covers short period of time from fiscal year 2064/2065 to 2068/069
- 3) The accuracy of this study is based on true response and the data provided from the bank.
- 4) Time and resources for the studies also are major limitation.

## **1.7 Organization of the Study**

The first chapter entitled “**Introduction**” introduces the subject, present the research problem, reasons for studying, objectives of the study along with limitations.

The second chapter entitled “**Review of Literature**” concerned with the study of financial performance have been reviews and presented. It contains the conceptual framework, past researches, literatures.

The third chapter deals with the **Research Methodology** to be adopted for the study consisting research design, sources of data, data collecting procedure, population and sample; research variable and data processing procedure.

The fourth chapter deals with **Data Presentation and Analysis**. It contains testing of hypothesis, analysis of questionnaires and analysis of open in opinion and major findings of the research.

The last chapter covers Summary, Conclusion and Recommendations.

## **CHAPTER-II**

### **LITERATURE REVIEW**

Review of literature refers to the reviewing past studies in the concerned subject matters i.e. financial performance. That may be reviewing existing text book previous studies, thesis/dissertations, articles, journals, any sorts of publications, review of public documents concerning the organization and related topics. The objective of review of literature is to get enough knowledge about the evaluation topic that is going to be researched and there will be no chance of duplication in study. In addition, the chapter deals with conceptual aspects of textual facts relating to the various areas of the research to be conducted. Therefore, review of literature has been categorized into two groups:

- Conceptual Review
- Review of Related Studies

#### **2.1 Conceptual Review**

As this research is related to financial performance analysis of SBBL, the following aspects of analysis are reviewed in sequential manner.

- Concept of financial analysis,
- Importance of financial performance analysis,
- Objectives of financial analysis,
- Limitation of financial analysis,
- Source for judging financial performance,
- Methods of analyzing and evaluation financial performance.

##### **2.1.1 Concept of Financial Analysis**

Financial statement analysis is important to boards, managers, payers, lenders, and others who make judgments about the financial health of organizations. One widely accepted method of assessing financial statements is ratio analysis, which uses data



from the balance sheet and income statement to produce values that have easily interpreted financial meaning. Most banks and other organization routinely evaluate their financial condition by calculating various ratios and comparing the values to those for previous periods, looking for differences that could indicate a meaningful change in financial condition. Many organizations also compare their own ratio values to those for similar organizations, looking for differences that could indicate weaknesses or opportunities for improvement In other hand, profit is one of the indicators of sound financial performance. It is usually the result of sound business management, cost control, credit-risk management and general efficiency of operation (American Institute of Banking, 1972).

It is a largely study of a single set of statements and study of these factors as shown in a series of statement (Williamson, 1980).

In this way, overall financial information can be obtained by analyzing balance sheet and income statement. However, there are three major steps for analyzing the financial statements (Shreevastav, 1993).

- The first step involves the re-organization of rearrangement of entire financial data as constrained in the financial statements.
- The next step is the establishment of significant relationship between the individual components of balance sheet and profit and loss account.
- Finally, significant of results obtained by means financial tools is evaluated. This requires establishment of standards against which actual are evaluated.

Financial Analysis is one of the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the components of balance sheet and profit and loss account and other operating data (Pandey, 1995).

Moreover, financial analysis is both analytical and judgmental process that helps answer the questions that have been proposed posed. Therefore it is a means to an end. One can stress

It means analysis of financial statements may be useful for different purpose such as: knowing the positions and performance of the firm. In course of analysis different tools and techniques are used. This analysis evaluated involves the use of various financial statements the first is the balance sheet, which represents a snapshot of the

firm's financial position at the moment and next is the income statement, that depicts a summary of the firm's profitability over the time (Vanharne & Wachhowicz, 1997).

### **2.1.2 Sources of Judging Financial Performance**

The firm communicates financial indication to users through financial statements and reports. They are the means to present financial situation or position to owners, creditors and the general public (Pandey, 1995). As these statements are used by investors and financial analysis to examine the firms' performance resource allocation decision. Moreover, the analysis and interpretation of financial statements depend on the nature and type of information available therein. Basically, there are two financial statements prepared for the purpose of external reporting to owners, investors and creditors, which are main source for judging financial position. They are:

a) Balance Sheet   b) Income Statement.

#### **a) Balance Sheet**

The balance sheet is a document that reports the financial position of a company as of specific point of time. It is one of the most significant financial statements for analysis of financial performance. More specifically, the balance sheet contains information about the resources and obligations of a business entity and about its owners' interest in the business at the particular point of time (Wilcox & Migul, 1994).

Thus, it is used to prepare in the end of financial year and reveals the firm's financial position on specific data. In the language of accounting, the balance sheet communications information about assets, liabilities and owner's equity for a business firm as on a specific date. It provides a snapshot of financial position of the firm at the close of the firm's accounting period (Rana, 2007).

According to Mr. Khan and Jain, "The balance sheet provides information about the financial position of a firm at a particular point of time. It can be visualized as a snapshot of the financial status of company (Khan & Jain, 1992).

Likewise, balance sheet is a screen picture of financial position of a going business at certain moment. It is also known a statement of financial condition, position statement or statement of resources and liabilities or statement of worth etc. In this way, it can

be said that balance sheet is a summary statement and comparative record of the progress as downfall of the business. It shows the clear picture of the financial position of business as well as the assets liabilities of business, the relative proportion of borrowed and ownership capital, etc which are necessary to analyzed and evaluated their financial position of particular period. Hence, this is one of the important resources to examine financial weakness or strengths using different tools of any business firm especially the banks.

### **b) Income Statement**

The second major statement for sources of financial information is income statement. It is also known as profit and loss account. It may be defined as any systematic array of revenues, expenses and other deductions, and net income of a business for a stated period. Furthermore, income statement is an abstract portrayal of the life of the business presenting a longitudinal picture of the gains and losses of the business, its fortunes and misfortunes (Kumar, 1994). In the words of Khan and Jain "Income statement is of great importance and interest to end-users of financial statements because it enables them to ascertain whether the business operations have been profitable or not during the specific accounting period.

In conclusion, these two financial statements, i.e. balance sheet and income statement or profit and loss account of business firm contain useful information, so they are very helpful to know the financial strengths and weaknesses by analyzing those statements comparatively. They are not separate and independent statements, but are related to each other. Thus, both have vital role in the field of financial performance analysis.

## **2.2 Methods of Analyzing and Evaluating Financial Performance**

The analysis of financial statements is a process of evaluating relationship between component parts of financial statements to obtain better understanding of the firm's position and performance. In brief, financial analysis is the process of selection, relation and evaluation. In the process of analysis, various methods are used by the financial analyst. Most of the tools depend on the nature and characteristics of related statements and available data and information. Generally, there are financial and statistical methods to evaluate and to analyze, which are started together.

- Funds-flow analysis

- Cash-flow analysis
- Trend analysis
- Ratio analysis

### **2.2.1 Funds-Flow Analysis**

Traditionally, a statement of source and application of funds in a technical device design to analyze the change in the financial condition of a business enterprise between two dates balance sheet is known as funds flow statement. In addition, a statement of changes in financial position is often presented with the balance sheet and profit and loss account as an integral part of financial statement which is defined as funds-flow statement so, it describes the sources from which additional funds were derived and used (Kumar, 1994).

Thus, a funds flow statement is a valuable aid to financial manager or a creditor or other interested persons in evaluating uses of funds. In the nutshell, funds flow statement is very useful in long term financing and it is also important tool of working capital analysis. This statement is prepared to summarize the changes in assets and liabilities resulting from financial and investment transaction during the period as well as those changes occurred due to change in owner's equity. It is also aimed to depict the way in which the firm used its financial sources during the period.

Fund plays a vital role in the funds flow statement. The term fund has several meanings. So, there are three approaches: cash approach, working capital approach. Traditionally, funds mean cash only so; the statement under cash approach is called cash flow statement. Such statement only shows the cash transaction. According to working capital approach, changes in the amount of net working capital (i.e., current assets and current liabilities) are useful for decision-making by shareholders, creditors, lenders and management. It is superior to the cash approach. Finally, financial resources approach is the best approach to disclose the change in the financial position of a firm. This approach presents the total assets and resources as fund (Pandey, 1995).

In other side, fund flow statement is one of the flow valuable techniques to evaluate financial pattern. Mostly, this statement is prepared to achieve following objectives:

- To provide information on all financing and investing activities of a business.

- To show the use or application of financial resources.
- To show the uses financial resources provided from operation and other sources, and
- To disclose the amount and cause of all other changes in financial position.

### **2.2.2 Cash Flow Analysis**

The cash plays an important role in the business firm's economy. In any business there may be constant inflow and outflow of cash. What blood is to human body, cash is to business enterprises especially to the Banks? So a major responsibility of financial management of firm is to mention an adequate balance of cash.

Hence, cash flow statement is an important tool of cash planning and control. At the same time it serves as a valuable tool of financial analysis too. It implies reveals the inflow and outflow of cash during the previous period. Such a statement can be prepared for a year, half year, a month and a week or for any other duration its main function is to explain the cause of changes in cash balance of the firm for two different dates.

Besides, cash flow statement is prepared to know clearly the various item of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the sense, the analysis relates to the moment of cash rather than the inflow and outflow of working capital. More clearly, according to Korn and Boyd cash flow deals with the cash transaction only while funds flow is considered will all items constituting funds for the financing of assets acquisitions program.

Therefore, the main objective of cash flow analysis is to shows the cause of change in cash balances. It provides information about cash and availability of cash to management when it is interested to know. Cash flow analysis is not only concerned with the good or bad management of cash, it is deeply concerned with the liquidity position of the firm. Since cash flow statement is made to show the impact of financial policies and financial procedures on the cash position of the firm. In short, cash flow analysis is importance in short ranges planning and it always helps the management in short term financial decisions relating to liquidity.

### **2.2.3 Trend Analysis**

It is an important and useful technique to analyze and interpret the financial statement. Under this technique of financial analysis, the ratios of different items for various periods are calculated and then a comparison is made. This method is basically helpful in making comparative study of financial management. Generally a period of five years is considered satisfactory. This method of analysis involves the computation of percentage relationship that each statements item bears same to the same items in the base of year.

Trend analysis shows the direction progress upward or downward. It is an important form of horizontal analysis of financial statements often called as 'Pyramid Method' of ratio analysis.

Moreover, in this method, a statement used to analyze with the base of another reference statement. Other method of analyze is the calculations of trend ratio and showing trend value on graph paper. On the other hand, trend analysis is not out of limitations, it may effect by price level changes and the selection of bases year may an obstacle. It can show only the trend in operating result financial position of a concern cannot be discussed. Besides these, it is great important for financial performance because of their utilities in business as well as in the banks. They are:

- It is a simple technique. It does not involve tedious calculations and requires trained experts.
- It is a brief method to indicate the future trends.
- It reduces the changes of errors as it provides the opportunity to compare the percentages with absolute figure.
- A financial analyst is able to judge the present position of the company and to compare it with the overall trend in industry.

### **2.2.4 Ratio Analysis**

Ratio analysis is a widely used tool for financial analysis it is defined as the systematic use of ratio to interpret the financial statements so that the strengths and weakness of a firm as well as its historical performance and current financial conditions can be determined. The term ratio refers to the numerical or quantitative relationship between two items or variables. (Khan & Jain, 1992).

Similarly, it is a powerful tool of financial analysis. A ratio is defined as "the relationship between two more things" (Kothari, 1978) so, in financial analysis, ratio is used as yardstick for evaluating the financial position and performance of company. Therefore, ratio analysis is used for judgment financial performance of business concern over the period of time. It helps to find out the financial positions of the firm and also supports to provide necessary suggestion package for the betterment. Thus, economic financial position/ performance of a firm can be fully x-rayed through ratio analysis.

On the other hand, the uses of ratio analysis is not useful only to internal parties but to the creditors, suppliers, Banks, lending in situation also. It is very helpful financing, forecasting, measuring the performance and cost control. Financial ratios are also useful to diagnosis of financial health of a firm.

In this way, the ratio analysis is widely used techniques to evaluate the financial position and performance of a business. But there are certain problems in using ratios. The analyst should be aware from those problems. The limitations of ratio analysis basically are:

- Ratios do not indicate immediately the point where the mistakes or errors lie.
- The price level changes make the interpretation of ratios invalid.
- The ratios are means not needs of financial analysis. They can be affected with the personal ability of analysis.
- Conclusions drawn with the help of ratios should be verified with other techniques otherwise result may not perfect.
- It generally calculated from past financial statements and thus is no indicators of future.
- The number of various ratios is so large that it is very difficult task to select same appropriate ratios for the various business units.

## **2.3 Review of Related Studies**

### **2.3.1 Review of Books, Journals and articles**

"The number of banks increased dramatically after the democratically elected government adopted the liberal and market oriented economic policy (Thapa, 2051).

After liberalization and globalization of the world economy the economic transactions such as trading and commerce, industrial and banking activities have grown up tremendously. Likewise, an international trade of the development countries has also boosted up. But on the other hand, the increasing competitiveness has also increased various types of risks in every business, including banking sectors, especially in foreign exchange transactions. To cope with their risks, the banks in favor of their clients have adopted strategies relating to treasury management (Shrestha, 2055).

Altman (1968) introduced and IMF also recommended a comprehensive procedure named bankometer. This procedure has the quality of minimum number of parameters with maximum accurate results. The parameter and ratio are as follows:

$$S = 1.5 * CA + 1.2 * EA + 3.5 * CAR + 0.6 * NPL + 0.3 * CI + 0.4 * LA$$

Where 'S' stands for solvency

CAR stands for capital adequacy ratio

CA stands for capital assets ratio

EA stands for equity to assets ratio

NPL stands for non performing loans to loans ratio

CI stands for cost to income ratio

LA stands for loans to assets ratio

All bank and financial institutions having 'S' value greater than 70 are solvent and termed as super sound banks, while those banks having 'S' value below 50 are not solvent. The area between 50 and 70 is defined as gray area because of the susceptibility to error classification.

Bank efficiency may be categorized as solvent (to super sound) bank under the bankometer procedure. The ability to predict which banks are vulnerable to financial distress is of critical importance to central banks, creditors and to equity investors. When a bank goes insolvent, creditors often lose portion of principal and interest payments, while equity investors can potentially lose all of their investment. Additionally, even if the bank survives after a financial distress, the survival costs will significantly reduce the future growth outlook. It is therefore important for management to focus more on trying to predict the banks that are vulnerable to financial distress in near future using bankometer ratio.



"A Bank is a business organization that receives and holds deposits of funds from others make loans or extend credits and transfer funds by written order of deposits' (The New Encyclopedia Americana, 1984). Like other financial institutions, the development bank performance should be determined on the basis of its financial performance as well as its financial position (Jain, 1989). (Jesquir & Hu, 1989) argued that the purpose is to provide long-term loans, to promote projects, enhance managerial skills, develop entrepreneurship and help develop technological capacities of developing countries.

The performance of a development bank can be accessed on the basis of financial, technological and developmental criteria (Jain, 1989). The financial function measures how efficiency the bank is operating in terms of the profitability in relating to its investment returns. However, the purpose of this paper is to evaluate the financial function of the SBBL in terms of its profitability only.

(Nicholas & Ian, 2002) argued that most African countries have failed to make a good investment climate, for example, they have good democratic system, but poor infrastructure necessary for international trade (Murinde & Kariisa, 1997). argued that in order for the development banks to achieve their main objective, the projects funded must be successful; otherwise the banks will not have succeeded in their main objective. In order for the development bank to achieve its competitive advantages through marketing of technology, it needs to fund the technological projects (Murinde & Kariisa 1997). Suggested that the bank must have the technical capability to assess, not only the suitability of a suggested technology, but also the trend of technological development taking place in other economies (Murinde & Kariisa, 1997). suggested that the development bank performs profitable only if its investments are doing well by income generation. In addition, they argued that the profitability of the bank also depended on the efficiency of the bank itself. According to (Murinde & Kariisa, 1997), there is no clear definition of the development banks; the definition can only be derived from the bank's functions. In addition, they suggested that "development banks refer to all financial institutions, which are specifically set up to provide long term finance for development projects". Development bank is defined as "Financial institutions dedicated to fund new and upcoming businesses and economic development projects by providing equity capital and/or loan capital" (BusinessDictionary.com).

(Murinde & Kariisa, 1997) pointed that the development bank is expected to mobilize long-term investment funds by developing local markets. In addition, (Murinde & Kariisa, 1997) stated that the main issue is that the approach did not take into account all the costs required to maintain a development bank in operation, for example grants and subsidies received from the government and other donor agencies are not taken into account at their value. Therefore (Yaron, 1994) has suggested an alternative method called Subsidy Dependency Index (SDI) which tries to remove the anomaly of understating the costs. The Subsidy Dependency Index tries to remove the subsidy element in order to determine whether the bank is able to operate on itself without subsidy in the long run (Yaron et.al, 1998). Observed that when the capital is limited, the cost of capital to finance the projects will be higher, resulting in lower profitability. Although the bank can benefit from this higher cost of capital, it is noted that the bank's clients will decrease, because the bank has discouraged the firms to borrow and invest in risky, but profitable projects. As a result, the bank profits will also decline due to lower client turnover. Yaron et al (1998)., made a similar point in slightly different context, when they suggested that financial services can be extended to low-income rural clients without relying on subsidies, since the bank can make enormous profits as long as it uses simple, innovative, and largely replicable techniques. In their study

It is agreed in the literature that there is evidence that the level of financial development is a good predictor of future rates of economic growth, capital accumulation, and technological change (Levine, 1999).

The Bank's financial performance can be affected by many factors of which some of them have either a negative or positive influence. In addition, some of these factors are controllable while others are not, for example global economic crisis such as inflation cannot be controlled.

The acronym "CAMELS" refers to the five components of a bank's condition that are assessed: Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to Market Risk. Ratings are assigned for each component in addition to the overall rating of a bank's financial condition (Jose, 1999). The ratings are assigned on a scale from 1 to 5 with 1 being strongest and 5 being weakest.

**Capital Adequacy:** This ultimately determines how well financial institutions can cope with shocks to their balance sheets. The bank monitors the adequacy of its capital using ratios established by The Bank for International Settlements. Capital adequacy in commercial banks is measured in relation to the relative risk weights assigned to the different category of assets held both on and off the balance sheet items.

**Asset Quality:** The solvency of financial institutions typically is at risk when their assets become impaired, so it is important to monitor indicators of the quality of their assets in terms of overexposure to specific risks trends in non- performing loans, and the health and profitability of bank borrowers especially the corporate sector. Credit risk is inherent in lending, which is the major banking business. It arises when a borrower defaults on the loan repayment agreement. A financial institution whose borrowers default on their repayments may face cash flow problems, which eventually affect its liquidity position. Ultimately, this negatively impacts on the profitability and capital through extra specific provisions for bad debts.

**Management Quality:** Total quality management represents a formidable challenge for bank marketers seeking to understand what makes their bank shine in the eyes of their customers. As banks move from the realm of quality service into the domain of total quality management, they are asking themselves some serious questions about the way they do business. Their probing extends beyond sales and service to include the total management philosophy. Banks are opening up their definition of quality management and considering what their customers expect and experience, rather than just what the bank provides.

**Earnings:** The continued viability of a bank depends on its ability to earn an adequate return on its assets and capital. Good earnings performance enables a bank to fund its expansion, remain competitive in the market and replenish and /or increase its capital. A number of authors have argued that, banks that must survive.

**Need:** Higher Return on Assets (ROA) better return on net worth/Equity (ROE), sound capital base i.e. the Capital Adequacy Ratio (CAR), adoption of corporate governance ensuring transparency to stakeholders that is equity holders, regulators and the public.

**Liquidity:** Initially solvent financial institutions may be driven toward closure by poor management of short-term liquidity. Indicators should cover funding sources and

capture large maturity mismatches. An unmatched position potentially enhances profitability but also increases the risk of losses.

Considering bank margins and profitability, Demirguc & Huizinga (2000) noted that for a country with underdeveloped financial systems, a move toward a more developed financial system reduces bank margins and profitability. Demirguc & Huizinga (2000) argued that the greater the development of a country's banks, the tougher is the competition, the greater is the efficiency, and the lower are the bank margins and profits. In addition, Nicholas & Ian (2002) stated that countries reduce poverty fastest when they put in place two pillars of development, namely, create a good investment climate and empower and invest in poor people. Though the development bank's aim at supporting projects for growth and poverty reduction, there could be a trade-off between profitability and poverty reduction. Poverty reduction should be addressed in all its dimensions such as lack of income, health and education, (Nicholas & Ian, 2002). Therefore, the SBBL has the responsibility of financing the projects that focus on people needs. According to (Singh, 2001) various financial indicators have been used under the research work is: 1) Capital Adequacy Ratios 2) Non -performing Assets 3) Priority Sector Advances 4) Statutory Liquidity Ratios 5) Cash Reserve Ratio 6) Credit Deposit Ratios (Gaddam et.al, 2008). Suggested that the statistical techniques such as correlation, ratios are used to measure the linkage between the variables and simple regression are also applied to examine the impact of independent variable on the dependent variable and to measure the differences and similarities between selected banks.

Bonin et.al (2005) in their study, when they found that most government owned banks are less efficient than private banks. In order to achieve the bank's objectives, disclosure of reliable and relevant information is important so that the shareholders and these who are interested in the performance of the bank are able to make the right decisions about their investment. The bank needs to have an efficient legal system, this can help to boost economic growth in one way or another, since more people will have confidence in the bank's operations and they will be motivated to invest. A comparative analysis is presented on the basis of variables such as bank deposits, total loans and advances, total assets (Gaddam et.al, 2008).

Gaddam et.al (2008) argued that the correlation analysis showed positive correlation between financial performance and asset size, asset utilization and operational

efficiency. The regression analysis also confirmed that the financial performance of the banks is greatly influenced by the operational efficiency, asset utilization and asset size. It can be further concluded that the bank with higher deposits, loans and advances, total assets and share holder's equity does not always lead to better financial performance.

There are measurable linkages among bank's size, asset management, the operational efficiency, and the financial performance. The purpose of this study is to analyze the financial data of SBBL for the financial periods 2064 to 2069 in addition, to examine the relationships among measures such as bank's size, operational efficiency, asset management, return on assets (ROA), interest income, and to discuss their impact on the bank's performance. Financial analysis is used to quantitatively examine financial performance of SBBL.

In order to evaluate the internal performance of a bank, financial indicators are constructed from the bank financial statements. Financial ratios like ROA, asset utilization, and operational efficiency are calculated. Also, measures as assets size and the interest income size are used to assess the performance of a bank.

The financial performance of banks and other financial institutions has been measured using a combination of financial ratios analysis, bench marking, measuring performance against budget or a mix of these methodologies (Avkiran, 1995). The financial statements of corporations in Oman that published commonly contain a variety of financial ratios designed to give an indication of the corporation's performance. As it known in accounting literature, there are limitations associated with use of some financial ratios.

Establishing dimensions of financial performance provided an overarching structure for identification of relevant financial indicators. Different financial indicators measure different dimensions of financial performance, such as profitability and liquidity, and all of this information is needed to make an informed judgment about the financial health of an organization. For example, profitability indicators may indicate an organization is earning a profit, but liquidity indicators may show it is having difficulty paying its bills and capital structure indicators may show a large increase in debt (Pink et.al. 2005).

Not surprisingly, there was substantial overlap and it was relatively straightforward to establish five preliminary dimensions of financial performance: profitability, liquidity, capital structure, activity, and other (Pink et.al. 2005). Cull et al. (2007) found that there is a possibility for the bank to earn profits while serving the poor, but a trade-off emerges between profitability and serving the poorest. Although development is a risky business, the bank needs to learn from its failures and builds on its success and these of others, (Nicholas & Ian, 2002). According to (Aktan et.al. 2007) within corporate performance, the focus has always been on the financial side; hence it is traditionally defined in financial terms. In addition, investors, shareholders and other stakeholders are interested in to get information about the firms' performance conditions frequently. Financial information (ie. return on investments, return on equity, growth of sales, profitability etc.) is the most extensively explicit and valid information among the other performance dimensions. On the other hand financial information should also be available particularly for regulatory and supervisory bodies for auditing the certain fiscal issues and taxations. The extent to which this financial information should be disclosed is dependent upon the firms' characters -i.e. being private or public character of a firm, its size, or the company's being listed or unlisted. Financial performance refers as a firm's ability to generate new resources from day to day operations over a given period of time. The financial performance measures can be divided into two major types: (1) traditional measures based on accounting/financial data (i.e. the effect of actions on one year's profits, ROI, ROE, etc.) which reflect a firm's past performance; and (2) market-based measures derived from stock market values

(Aychile, 2008) have used PEARLS Monitoring System. The word P E A R L S refers i.e. P-Protection against loan loss, E-Effective financial structure, A-Asset quality, R-Rate of return and cost, L-Liquidity and S-Sign of growth. PEARLS ratios are set to serve as executive management tool for standardize evaluation, comparative ranking and tool of supervisory control.

Another factor that influences the performance of the bank is privatization. Most of the development banks are state-owned, resulting in poor efficiency of capital allocation by top management because in most cases they are political appointments. (Bondinelli & Lacono, 1996) argued that it is perceived that government ownership promotes growth in the developing countries. Hence, as observed by Verbruggae et.al

(1999) continued significant government ownership of banks raises serious problems for establishing market-oriented governance and decision making systems in the banks. This argument is also supported by

According to (Aktan et.al, 2008) the following item should be considered to review the financial performance of company.

**Riskiness:**

Relative to competitors, a company has higher propensity to take risks. Company has to show a great deal of tolerance for high risk projects. In general, the top managers of a company favor a bold, aggressive posture in order to maximize the probability of exploiting potential when faced with uncertainty. Most people in an organization are willing to take risks. The organization supports many small and experimental projects realizing that some will undoubtedly fail. The term “risk taker” is considered a positive attribute for people.

**Proactiveness:**

Typically initiates actions to which competitors then respond. In dealing with its competitors, a firm has a strong tendency to be ahead of other competitors in introducing novel idea or products. Is very often the first firm to introduce new products/ services operating technologies, etc? A firm shapes the environment by introducing new products, technologies, administrative techniques than merely react.

**Competitive Aggressiveness:**

Owing to the nature of the environment, bold, wide ranging acts are necessary to achieve the firm’s objectives. Typically adopts a very competitive, ‘undo-the-competitor’ posture. My firm has a strong tendency to increase the market share by reducing the competitors.

**Financial Performance evaluation:**

Market share growth; Return on sales; Return on assets; Profitability.

Al-Obaidan (2008) suggests that large banks are more efficient than small banks in the Gulf region.. Financial performance of the banks was strongly and positively influenced by the operational efficiency and asset management, in addition to the bank size. The financial performance, measured by ROA and interest income, is considered to be the dependent variable. The independent variable such as asset utilization, operational efficiency and the total assets are computed to measure their impact on the financial performance.

Financial statement analysis is important to boards, managers, payers, lenders, and others who make judgments about the financial health of organizations. One widely accepted method of assessing financial statements is ratio analysis, which uses data from the balance sheet and income statement to produce values that have easily interpreted financial meaning. Most banks and other organization routinely evaluate their financial condition by calculating various ratios and comparing the values to those for previous periods, looking for differences that could indicate a meaningful change in financial condition. Many organizations also compare their own ratio values to those for similar organizations, looking for differences that could indicate weaknesses or opportunities for improvement.

Financial Performance and financial institutions Financial soundness is a situation where depositor's funds are safe in a stable banking system. The financial soundness of a financial institution may be strong or unsatisfactory varying from one bank to another (BOU, 2002). External factors such as deregulation; lack of information among bank customers; homogeneity of the bank business, connections among banks do cause bank failure.

Solvency, in finance or business, is the degree to which the current assets of an individual or entity exceed the current liabilities of that individual or entity. Solvency can also be described as the ability of a corporation to meet its long-term fixed expenses and to accomplish long-term expansion and growth. This is best measured using the net liquid balance (NLB) formula. In this formula solvency is calculated by adding cash and cash equivalents to short-term investments, then subtracting notes payable (wikipedia.org).

Capital Adequacy, Earnings and Liquidity are the key dimensions of measuring financial performance in bank and financial institution. Financial performance of the



Banks was measured based on the CAEL framework; Capital Adequacy, Asset Quality, Earnings, and Liquidity (Jose, 1999). Capital Adequacy was measured using Core Capital divided by Risk Weighted Assets, Asset Quality by two ratios were used i.e. Non Performing Advances (NPA) divided by Total Advances and Specific Provisions divided by Non Performing Advances, Earnings was also measured using two ratios i.e. Return on Assets (ROA) & Return on Equity, and Finally Liquidity was measured using Liquidity Assets divided by Total Deposits & Total Advances divided by Total Deposits.

A comparative analysis is presented on the basis of variables such as bank deposits, total loans and advances, total assets, shareholders equity, return on equity (ROE) return on assets (ROA) and return on deposits (ROD) (Gaddam et.al. 2008).

Mari (2008), in this articles he discuss about the return on assets is an important percentage that shows the company's ability to use its assets to generate income. He said that a high percentage indicates that company's is doing a good utilizing the company's assets to generate income. He notices that the following formula is one method of calculating the return on assets percentage.  $\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}}$ . The net profit figure that should be used is the amount of income after all expenses, including taxes. He enounce that the low percentage could mean that the company may have difficulties meeting its debt obligations. He also short explains about the profit margin ratio – Operating Performance .He pronounces that the profit margin ratio is expressed as a percentage that shows the relationship between sales and profits. It is sometimes called the operating performance ratio because it is a good indication of operating efficiencies. The following is the formula for calculating the profit margin.  $\text{Profit Margin} = \frac{\text{Net Profit}}{\text{Net Sales}}$ .

Clausen (2009), in this article he briefly express about the liquidity ratio. He Pronounce that it is analysis of the financial statements is used to measure company performance. It also analyses of the income statement and balance sheet. Investors and lending institutions will often use ratio analyses of the financial statements to determine a company's profitability and liquidity. If the ratios indicate poor performance, investors may be reluctant to invest. Therefore, the current ratio or working capital ratio, measures current assets against current liabilities. The current ratio measures the company's ability to pay back its short-term debt obligations with its current assets. He thinks a higher ratio indicates the company is better equipped to

pay off short-term debt with current assets. Wherefore, the acid test ratio or quick ratio, measures quick assets against current liabilities. Quick assets are considered assets that can be quickly converted into cash. Generally they are current assets less inventory.

(Ariff, 2009) has used three financial ratios to get at the core performance

#### 1. Cost Efficiency Financial Ratios

- Cost to Income Ratio (CTIR)
- Net Interest Expenses/Average Assets (NIER)

#### 2. Revenue Efficiency Financial Ratios

- Other Operating Income/Average Assets (OPIR)
- Net Interest Margin (NIM) Accounting based performance of a bank

#### 3. Profit Efficiency Financial Ratios

- Return on Average Equity (ROAE):
- Return on Average Assets (ROAA): Economic Efficiency Measures.

Gopinathan (2009), in this articles he discuss about the Financial Ratio Analysis for Performance evaluation. It analysis is typically done to make sense of the massive amount of numbers presented in company financial statements. It helps evaluate the performance of a company, so that investors can decide whether to invest in that company. Here we are looking at the different ratio categories in separate articles on different aspects of performance such as profitability ratios, liquidity ratios, debt ratios, performance ratios, investment evaluation ratios.

James (2009) state that to analysis Profitability ratios; Income Statement and Balance Sheet are used. The income statement and balance sheet are two important reports that show the profit and net worth of the company. It analyses shows how the well the company is doing in terms of profits compared to sales. He also shows how well the assets are performing in terms of generating revenue. He defines the income statement shows the net profit of the company by subtracting expenses from gross profit (sales – cost of goods sold). Furthermore, the balance sheet lists the value of the assets, as well as liabilities. In simple terms, the main function of the balance sheet is to show the company's net worth by subtracting liabilities from assets. He said that the balance sheet does not report profits, there's an important relationship between assets and profit. The business owner normally has a lot of investment in the company's assets.

Gopinathan (2009) has discussed about the Profitability Ratios Measure Margins and Returns such as gross, Operating, Pretax and Net Profits, ROA ratio, ROE ratio, ROCE ratio. However, he determines the Gross profit is the surplus generated by sales over cost of goods sold. He discussion about the Gross Profit Margin =  $\frac{\text{Gross Profit}}{\text{Net Sales or Revenue}}$ . Moreover, Operating profits are arrived at by deducting marketing, administration and depreciation and R&D costs from the gross margin. Nonetheless, He explains about the operating profit margin. Operating Profit Margin =  $\frac{\text{Operating Profit}}{\text{Net Sales or Revenue}}$ . Nevertheless, pretax profits are computed by deducting non-operational expenses from operating profits and by adding non-operational revenues to it. Pretax Profit Margin =  $\frac{\text{Pretax Profit}}{\text{Net Sales or Revenue}}$ . Nonetheless, he also analysis about the net profit margin. Net Profit Margin =  $\frac{\text{Net Profit}}{\text{Net Sales or Revenue}}$ . He also explains that the returns on resources used dividend into three categories such as ROA, ROE, and ROCE: At first the Return on Assets =  $\frac{\text{Net Profit}}{(\text{Total Assets at beginning of the period} + \text{Total Assets at the close of the period})/2}$  - The denominator is the average total assets employed during the year. Return on Equity =  $\frac{\text{Net Profit}}{(\text{Shareholders' Equity at the beginning of the year} + \text{Shareholders' Equity at the close of the year})/2}$ . ROCE ratio: Return on Capital Employed =  $\frac{\text{Net Profit}}{(\text{Average Shareholders' Equity} + \text{Average Debt Liabilities}) - \text{Debt Liabilities}}$ .

Gopinathan (2009), he also state that the Liquidity Ratios help Good Financial .He know that a business has high profitability, it can face short-term financial problems and its funds are locked up in inventories and receivables not realizable for months. Any failure to meet these can damage its reputation and creditworthiness and in extreme cases even lead to bankruptcy. In addition to, liquidity ratios are work with cash and near-cash assets of a business on one side, and the immediate payment obligations (current liabilities) on the other side. The near-cash assets mainly include receivables from customers and inventories of finished goods and raw materials. Coupled with, current ratio works with all the items that go into a business' working capital, and give a quick look at its short-term financial position. Current assets include Cash, Cash equivalent, Marketable securities, Receivables and Inventories. Current liabilities include Payables, Notes payable, accrued expenses and taxes, and Accrued installments of term debt). Current Ratio =  $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ . Similarly, Quick ratio excludes the illiquid items from current assets and

gives a better view of the business' ability to meet its maturing liabilities. Quick Ratio = Current Assets minus (Inventories + Prepaid expenses + Deferred income taxes + other illiquid items) / Current Liabilities. In the final ratio under this article is cash ratio .Cash ratio excludes even receivables that can take a long time to be converted into cash. Cash Ratio = (Cash + Cash equivalents + Marketable Securities) / Current Liabilities.

Gopinathan (2009), he shows that the EPS is computed by dividing the company's earnings for the period by the average number of shares outstanding during the period. He discuss that Stock analysts regularly estimate future EPS for listed companies and this estimate is one major factor that determines the share's price. Price/Earnings (PE) Ratio = Stock Price per Share / Earnings per Share (EPS).Hence, many investors prefer the Price/Sales ratio because the sales value is less prone to manipulation. Price/Sales Ratio = Stock Price per Share / Net Sales per Share. The Dividend Yield, The dividend yield ratio annualizes the latest quarterly dividend declared by the company Dividend Yield = Annualized Dividend per Share / Stock Price per Share.

Nelgadde (2009), He said that learn how to perform inventory analysis and inventory turnover analysis to better understand a business as well as to identify effective inventory management. He analyzing a company's financial performance definitely includes performing inventory analysis. He know that there are three types of business inventory: Raw Materials (RM),Work-In-Progress (WIP),Finished Goods (FG).He give idea two types formula of ratio such as Inventory Turnover = Cost of Goods Sold / Average Inventory, Average age of Inventory = 360 days / Inventory Turnover.

James (2009), He denotes that about the total asset ratio. The calculation uses two factors, total revenue and average assets to determine the turnover ratio. When calculating for a particular year, the total revenue for that year is used. Instead of using the year ending asset total from the balance sheet, a more accurate picture would be to use the total average assets for the year. Once the average assets are determined for the same time period that revenue is compared, the formula for calculating the asset turnover ratio is: Total Revenue / Average Assets = Asset Turnover Ratio.

Nelgadde (2010), in this article he briefly decoded that about the asset management ratio. It divided into different types of categories. He state that about the used to

analyze accounts receivable and other working capital figures to identify significant changes in the company's operations and financial accounts. He said that there are two categories about this ratio such as account receivable turnover and average age of account receive. He measurement the ratio as, Accounts receivable turnover = Sales / Average Accounts receivable. Average age of accounts receivable/ collection period = 365 days / Accounts receivable Turnover.

Hutchinson (2010), He realizes that about the long term debt to equity ratio of a Business. The ratio of these numbers tells a lot about the business. It is calculated by taking the debt owed by the company and divided by the owner's equity, also known as capital. The debt number may include all liabilities, or just long term debt.

Nelgadde (2010), debt collection and debt recovery tools a company guide to using debt solution tools for effective debt collection: credit insurance, a solicitor or debt attorney or a debt collection agency. Moreover, collection of accounts receivable, debt collection or debt recovery is an important source of a company's cash flow and business finance. As such, learning about credit management and debt recovery can prove vital for entrepreneurs.

Capital adequacy ratios (CAR) are a measure of the amount of a bank's core capital expressed as a percentage of its risk-weighted asset.

Capital adequacy ratio is defined as

$$\text{CAR} = \frac{\text{Tier 1 capital} + \text{Tier 2 capital}}{\text{Risk weighted assets}}$$

TIER 1 CAPITAL - (paid up capital + statutory reserves + disclosed free reserves) - (equity investments in subsidiary + intangible assets + current & b/f losses)

TIER 2 CAPITAL -A) Undisclosed Reserves, B) General Loss reserves, C) hybrid debt capital instruments and subordinated debts

Where Risk can either be weighted assets ( $\alpha$ ) or the respective national regulator's minimum total capital requirement if using risk weighted assets:

$$\text{CAR} = \frac{T_1 + T_2}{\alpha} \quad 10\%$$

The percent threshold varies from bank to bank (10% in this case, a common requirement for regulators conforming to the Basel Accords) is set by the national banking regulator of different countries. Two types of capital are measured: tier one capital ( $T_1$  above), which can absorb losses without a bank being required to cease trading, and tier two capital ( $T_2$  above), which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors (wikipedia.org).

Capital adequacy ratio is the ratio which determines the bank's capacity to meet the time liabilities and other risks such as credit risk, operational risk, etc. In the simplest formulation, a bank's capital is the "cushion" for potential losses, and protects the bank's depositors and other lenders. Banking regulators in most countries define and monitor *CAR* to protect depositors, thereby maintaining confidence in the banking system (wikipedia.org).

*CAR* is similar to leverage; in the most basic formulation, it is comparable to the inverse of debt-to-equity leverage formulations (although *CAR* uses equity over assets instead of debt-to-equity; since assets are by definition equal to debt plus equity, a transformation is required). Unlike traditional leverage, however, *CAR* recognizes that assets can have different levels of risk (wikipedia.org).

Since different types of assets have different risk profiles, *CAR* primarily adjusts for assets that are less risky by allowing banks to "discount" lower-risk assets. The specifics of *CAR* calculation vary from country to country, but general approaches tend to be similar for countries that apply the Basel Accords. In the most basic application, government debt is allowed a 0% 'risk weighting' - that is, they are subtracted from total assets for purposes of calculating the *CAR* (wikipedia.org).

### **2.3.2 Review of Thesis**

Various master level theses conducted in different aspects of commercial bank such as lending policy, liquidity position, interest rate structure, capital structure, investment policy etc. are reviewed and findings of some relevant these have been mentioned here under.

Acharya (2003), had conducted a research on a topic. "A Comparative Study on Financial Performance of Nepal SBI Banks and Everest Bank Ltd". He had mainly focused on his study in examining financial performance of those banks through profitability, liquidity and activity analysis.

Time period covered by the research was five years from fiscal year 052/053 to 056/057. Necessary data and other information were primarily based on secondary data. In this research Mr. Acharya had pointed out various findings.

- They had not given a special attention towards NPA.
- Both banks and higher operating expenses.
- Both banks had not found out the new productive sectors for their investment purpose.
- Both banks had not given attention towards attracting new deposits.

Awasthi (2003) had conducted a research on a topic "A comparative study on financial performance between HBL and Bank of Kathmandu Ltd." He had mainly focused on his study in examining financial performance of two banks i.e. HBL and Bank of Kathmandu. The period covered by the research was five years from 1997/98 to 2001/02. The research was primarily based on the information provided by the banks. In this research, Mr. Awasthi had pointed out various findings:

- The bank had not pay attention towards the improvement in investment by total deposit ratio. They had not found out the new area of investment.
- Profitability ratio in both banks such as return on investment and return on total assets were not satisfactory.
- Both banks seemed highly leveraged.
- Both banks had been able to earning profit on shareholders equity but not satisfaction level. HBL was more success to generate more return on its shareholders fund than BOK.
- Profitability position: Return on investment comparatively decided that HBL may have idle deposit due to the lower return as compared to BOK.
- Asset utilization: HBL has been efficient in utilizing most part of its total assets in profit generating purpose than BOK during this period.
- The liquidity position of the both banks was not satisfactory.

Pandit (2005) had conducted a research on a topic "A comparative study of Everest Bank Ltd. and Nepal Industrial and Commercial Bank Ltd." He had mainly focused on his study in comparing and analyzing liquidity, profitability, solvency and activity ratio analysis as well as so other major ratio such as weighted avg. interest rate spread Fix-fluctuation gain to total income ratio etc. Time period covered by the research was six years data from 1998/99 to 2003/04. Necessary data and other information had been collected from the secondary sources of data. In this research, Mr. Pandit had pointed out various remarkable findings were:

- CRR of the banks was maintained as per the directive of NRB.
- Both banks had maintained NRB balance to deposit ratio remarkably higher than the standard prescribed by the NRB.
- They should encourage too small, medium and large scale organizations to avail their services.
- Both banks were suggested to review their overall structure and investment portfolio to make better mix in capital structure as well as investment portfolio.
- Both banks were maintaining lower capital adequacy ratio. The net worth to total assets, net worth to total deposit and net worth to total credit ratio also seemed less satisfactory.

Basnet (2005) had conducted on a research on a topic "A Comparative study on financial performance between the commercial banks." The study had covered only two banks i.e. NB Bank and Nepal SBI Bank. He had mainly on his study in examining the financial performance of these two banks. Time period covered by the research was five years from fiscal year 1998/99 to 2002/03. Necessary data was primarily based on secondary sources of data. In this research, Mr. Basnet has pointed out some remarkable findings:

- Liquidity analysis indicated the banks did not maintain sufficient liquidity.
- The efficiency analysis showed that the ratio is in fluctuating trend of Nepal SBI Bank and decreasing trend of NB Bank.
- The profitability position of NB Bank was comparatively better than the same of Nepal SBI Bank.
- Capital structure ratio of both banks was highly levered.



Ghimire (2005) had conducted a research on a topic "Non-performing assets of commercial banks: cause and effect". He had mainly focused his research in analyze and identify the impact, cause and consequences of NPA commercial banks namely NBBL, Nepal SBI Bank and BOK.

Time period covered by the research was five years from fiscal year 1997/98 to 2001/02. Necessary data and other information were collected from secondary sources of data. In this research Mr. Ghimire had pointed out various findings. Some major findings of the research were:

- There is positive growth of operating profit maintained by all the samples banks but the growth of net profit is negative due to increase in loan loss provisioning.
- It is found that theories some relationship between credit expansion and increment of NPA. NBA (Non-Banking Assets) is created due to having NPA. But it is not certain that always creates NBA.
- In regard to the certain of high level of NPA, it has been found that relationship of borrowers with top management is the major determining factor in lending. Commercial banks are giving least weight on personal integrity of the borrower. Follow up of overdue loan and advances in commercial banks starts one month later after the maturity of the loan. It proves the poor loan recovery system in those banks.
- Bad intention of borrower, weak monitoring and mismanagement are the most responsible factor of NPA growth. Similarly weak legal provision and credit concentration are found as the least preferred factor in turning good loan to bad loan. Lack of portfolio analysis, not being effective credit policy and shortfall on security were also identified as factors affectively in NPA growth.
- Supervision and monitoring system have been identified as average factor. It is also identified that banks gives highest priority to trade found that the service sector is not given much priority.

## **2.4 Summary**

The relevant literature review about the bank and financial institution performance has been explored. The main functions of the bank such as financial, developmental and technological function have been discussed. The determinants of the bank performance were highlighted.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

The research design and methodology used in the study is also discussed in this chapter one. In addition, the chapter identifies the population, data collection, data treatment, ethical considerations, scope and limitation of the study; and data analysis. The main aim of this study, firstly, is to evaluate the financial performance of the SBBL over the period of 2064/065 to 2068/69.

#### **3.1 Research Design**

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to reason questions and to control variation. Research design includes definite procedures and techniques, which guide to sufficient way for analyzing and evaluation the study. The research design of this study is based on descriptive because the historical secondary data have been employed to arrange the using variable which is related to financial performance of selected development bank to achieve prescribed result. Case study descriptive research design has been adopted.

The analysis of this study is based on certain research design keeping in mind on the objective of the study. From concerned bank different information and necessary data were collected through annual reports and financial statement published by related bank. The data are collected from the year 2064/065 to 2068/069.

#### **3.2 Population and Sample**

In our country Nepal there are 88. Development banks of which some are fully government, some are semi government and some are private banks. These all 88 development banks are population and only one bank is chosen as sample i.e. SBBL. ([www.sewabank.com.np](http://www.sewabank.com.np))

### **3.3 Source and Procedure of Data Collection**

For the purpose of research study, research project needs its own data. Data can be obtained secondary sources.

The secondary data are collected on the basis of annual reports, computer data banks, Published data, literature review and other publication.

### **3.4 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.

### **3.5 Method of Data Analysis**

Data collected from different sources, are in raw state in initial stage. To change it from an unrefined to understandable presentation many tools of analysis are used. Financial as well as statistical tools have been also used to concert these data into presentable form.

### **3.6 Financial Analysis**

An interpretation of financial data and related accounts is being taken up. Varying type of information beyond the data and related accounts is being taken up varying types of information beyond the data shown in the financial statements are needed. The total item shown in financial statements is to be split or broken up into many components for obtaining such information. This process is known as "Analysis". Analysis of financial statements means the presentation of facts given in financial statements into distinct and different components by using scientific methods and it also includes the arrangement of facts according to the need and convenience. In other words, financial analysis involves the division of facts on the basis of some definite plans, classifying them into classes on the basis of certain conditions and presenting them in most convenient, simple and understandable form. This analysis also attempts to study the relationship between different items of financial data and factors. In the

word of John Myer, 'financial statements analysis is largely a study of relationships among the various financial factors in a business as disclosed by a single set of statement and a study of these factors as shown in a series of statements.'

Financial analysis is the process of identifying the financial strengths and weaknesses and financial position of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. In this research study various types of financial and statistical tools are employed for the analysis of financial statements of Sewa Bikas Bank Limited.

### **3.7 Ratio Analysis**

An analysis of financial statements with the help of 'ratio' may be termed as 'ratio' analysis. It implies the process of computing determining and presenting the relationship of items or group of items of financial statements. It also involves the comparison and interpretation of these ratios and use of them for future projections. Alexander well is the pioneer of ratio analysis. He explained that the work of interpretation could be made easier by establishing quantitative relationships between the facts given in the financial statements.

A ratio is a mathematical relationship between two related items expressed in quantitative form. When his definition of ratio is explained with reference to the items shown in financial statements, then it is called 'accounting ratio. Hence an accounting ratio is defined as quantitative relationship between two or more items of the financial statements connected with each other.

The quantitative relationship may be expressed in proportion, in ratio or times or coefficient and in percentage ratio which are diagnostic tools that help us to identify problem areas and opportunities within a company. It determines firm's historical performance and current financial condition.

The ratios selected for the analysis of financial performance of the bank are as follows:

Profitability ratio

Activity ratio

Ratios to judge the financial position

Solvency position Ratio and  
Other ratios

### **3.7.1 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 overall efficiency of business unit. Following ratios are computed to find the probability ratios of SBBL.

#### **3.7.1.1 Return on Total Assets Ratio**

This ratio measures the profitability of the bank in respect of assets. It indicates how a company is able to contribute and utilize its assets to generate Net Profit. Higher ratio shows satisfactory utilization of fund invested. A ratio between Net Profit to total assets:

$$\text{Return on total assets ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

Total assets represent current assets, fixed assets and intangible assets. This ratio measures the profitability of all financial resources invested in the company's assets.

#### **3.7.1.2 Return on Total Deposit Ratio**

This ratio measures the ability of management in efficient utilization of deposit for profit generation activity. Profit depends upon the utilization of deposit efficiently utilization of resource collected from depositor will be able to increase the profitability of the bank. Also this ratio indicates whether collected resources and total

deposits utilization and mobilization capacity of the bank from unproductive sector to productive sector to generate profit is satisfactory or not. Higher ratio indicates proper utilization and mobilization of fund. Total deposit includes deposit collected by all the accounts.

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

### **3.7.1.3 Return on Net Worth/Equity**

This ratio measures the capacity of management to use shareholders fund in income generating activities. It includes shareholder's reserve and share capital. This ratio calculates on the basis of net profit to owners' equity. Higher ratio is more efficient to management and utilization of shareholders fund. It is most desirable objective of the bank to the earning of a satisfactory return on owners' equity. It measures profitability of the owners' investment.

$$\text{Return on Net worth} = \frac{\text{Net Profit After Tax}}{\text{Net Worth}}$$

Net worth: Paid up capital + Share premium + surplus + other reserve less accumulated loss + preliminary expenses.

In business, net worth (sometimes called net assets) is the total assets minus total outside liabilities of an individual or a company. For a company, this is called shareholders' preference and may be referred to as book value. Net worth is stated as at a particular year in time.

### **3.7.1.4 Net Profit Margin**

It is the relationship between net profit and total income received. This ratio is important to measure the bank's overall ability to turn each rupee income into net profit. Higher ratio indicates the sign of efficient management and preferable or desirable for the bank.

$$\text{Net Profit Margin} = \frac{\text{Net Profit After Tax}}{\text{Total Revenue}}$$

### **3.7.1.5 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 favorable from profitability point of view. This ratio is calculated by dividing total expenses by total interest income as follows:

$$\text{Total Interest Exp. to Total Int. Income Ratio} = \frac{\text{Total interest expenses}}{\text{Total interest income}}$$

### **3.7.1.6 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:

$$\text{Office operation expense to total income ratio} = \frac{\text{Office operational expenses}}{\text{Total income}}$$

### **3.7.1.7 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:

$$\text{Staff expenses to total income ratio} = \frac{\text{Staff Expenses}}{\text{Total Income}}$$

### **3.7.2 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 bank 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 SBBL.

### **3.7.2.1 Loan and Advance to Total Deposit**

This ratio examines to what extent the bank is able to utilize the depositors fund to earn profit and how quickly the total deposit is converted into loan and advances. High ratio is excellent for the bank. It means the bank is able to use its deposit. It is major ratio to know the bank's financial position. Low ratio indicates that there is idle deposit, decreasing in profit and unsatisfactory position of the bank.

$$\text{Loan \& advance to total deposit} = \frac{\text{Total loan \& advance}}{\text{Total Deposit}}$$

### **3.7.2.2 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:

$$\text{Performing assets to total assets ratio} = \frac{\text{Performing assets}}{\text{Total assets}}$$

### **3.7.2.3 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:

$$\text{Performing assets to total deposits ratio} = \frac{\text{Performing assets}}{\text{Total debt}}$$



### 3.7.2.4 Investment to Total Deposit Ratio

This ratio evaluates to mobilize bank's total deposit into investment. Investment includes T-bills of NRB and bond of bank and company. Investment is also shares of well established industry or other investment. Higher ratio indicates more efficiency in utilization of its investment by total deposit. It is good for the bank or firm.

$$\text{Investment to total deposits ratio} = \frac{\text{Total investment}}{\text{Total deposit}}$$

### 3.7.3 Ratio to Judge the Financial Position

This type of ratios includes all ratios, which highlight upon the financial position of the bank. Financial position may mean differently to different persons interested in the business concern/ bank. Management, banker, trade creditor, investor and auditor all have different views about the concept of financial position. Generally, the examination of financial position involves the analysis of facts relating to proper and judicious use of fund, short term and long-term solvency of the bank for safety of the interest of shareholders.

#### 3.7.3.1 Liquidity Ratio: Current Ratio

Current ratio measures the liquidity position of the bank. This reflects the short-term solvency power of the bank, normally not exceeding one year. This ratio is relation between current assets and current liabilities.

- Current assets: Cash in hand, cash in bank, bills receivable, marketable securities, short term investment, inventory, debtors, prepaid or paid advances, accrued or outstanding income, loan and advances, account receivable etc are current assets.
- Current liabilities: Current liabilities are those obligations which are payable within a short period of time not exceeding one year. Creditors, bank overdraft, bills payable, provision for tax, provision for dividend, outstanding expenses, account payable etc are current liabilities.

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

The higher current ratio is the better liquidity position. This ratio 2:1 is considered to be adequate ratio. Current ratio less than 2:1 results the bad solvency position of the bank. The cash may not be available to pay current liabilities. If ratio is more than 2:1 that means excessive investment in current assets that do not produce return.

### **3.7.3.2 Cash and Bank Balance to Total Deposit**

Cash and bank balances are the most liquid assets. It measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. It is computed by dividing cash and bank balance by total deposit. Bank should keep its certain amount of cash to pay to its depositors. High liquidity is not good for the bank. High liquidity means that the bank is not able to invest its deposit properly and the crisis of liquidity is also not good, it may hamper the goodwill of bank if bank is not able to pay its depositor whenever they ask for it.

$$\text{Cash \& bank balance to total deposit ratio} = \frac{\text{Cash \& Bank balance}}{\text{Total Deposits}}$$

Cash and bank balance include cash in vault, cash at RBB; total cash at NRB and balance in other domestic and foreign banks. Total deposit includes current deposit, saving deposit, fixed deposit, money at call and short term deposit and other deposits. Banks and financial institutions should keep the stock of liquid assets according to the ratio of total deposit fixed by the central bank.

### **3.7.3.3 Cash and Bank Balance to Total Current & Saving Deposit**

It is stronger ratio than other current ratio. If it is not maintained properly there is possible of bankrupt. Cash and bank balances are the most liquid assets. It measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. It is computed by dividing cash and bank balance by total current & saving deposit. Bank should keep its certain amount of cash to pay to its depositors. But high liquidity also is not good for the bank. High liquidity means that the bank is not able to invest its deposit properly and the crisis of liquidity is not good, it may hamper the goodwill of bank if bank is not able to pay its depositor whenever they ask for it.

Cash & bank balance to current & saving deposit ratio =  $\frac{\text{Cash \& Bank balance}}{\text{Current \& saving deposit}}$

Cash and bank balance include cash in vault, cash at RBB; total cash at NRB and balance in other domestic and foreign banks. Total current and saving deposit includes current deposit and saving deposit money which have to pay on demand of deposits.

#### **3.7.3.4 Fixed Deposit to Total Deposit Ratio**

Fixed deposit is that amount deposited in the bank for certain period of time. It is very useful to bank to invest it in productive sector. Fixed deposit is high interest bearing deposit so it is also useful to customers to get more interest. It is advantageous to invest in long- term credit. Fixed deposit represents that the amount collected by fixed account. Total deposit is the amounts collected from other all accounts i.e. fixed, saving and call account.

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

#### **3.7.3.5 Saving Deposit to Total Deposit Ratio**

This ratio indicates the portion of saving in total deposit. In saving deposit bank has to pay the money whenever the depositors demand for it. Maximum collection of saving deposit in saving account is not beneficial for the bank because saving deposit is short term deposit and investment is also short term credit. Bank has to maintain more liquidity which will decrease investment. Saving deposit is collected by bank in saving account and the total deposit collected by saving account and other all account.

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

#### **3.7.3.6 Solvency Ratio**

This ratio indicates the long term solvency of the bank. High ratio is the sign of financial strength of the bank. In this ratio it means the total assets available for each rupee of total liabilities without owners' equity.

$$\text{Solvency ratio} = \frac{\text{Total Assets}}{\text{Total Liabilities}}$$

### 3.7.4 Leverage ratio/ Capital structure 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 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 et.al., 1996).

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 capital structure of SBBL.

#### 3.7.4.1 Debt Equity Ratio

Debt equity ratio examines the relative claims of creditors and owners against the firm's assets. The debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment.

$$\text{Debt equity ratio} = \frac{\text{Total debt}}{\text{Total equity}}$$

Here equity funds comprise shareholders capital, general loan loss provisions, in appropriation profit and loss and balance etc. This ratio helps to assert the measure stake in bank between lenders and owners. If debt portion is too high, there is danger-tempting irresponsibility in the part of the owners. It is not recommended not to finance more than 50% of capital through external debt. Total debt includes long-

term debt, current liabilities. A high ratio shows the large portion of financing by the creditors as compared to that of owners.

#### **3.7.4.2 Total Debt to Assets Ratio**

This ratio shows to what portion of the capital assets is financed by outsiders' funds and measures the financial safety/ security to the outsiders.

$$\text{Debts to Assets ratio} = \frac{\text{Total Debts}}{\text{Total Assets}}$$

Total debt refers short-term loans, long-term loan, and all kind of deposit, tax provision, bills payable, staff bonus and other liabilities. Likewise total assets refer to cash, current assets, fixed assets, investment, loan and other assets. This ratio implies a bank success in exploiting debt to be more profitable. A high debt to total assets ratio represents a greater risk to creditors and shareholders' vice versa.

#### **3.7.5 Capital Adequacy Ratio**

Capital adequacy ratio is used to measure the strength of the capital structure adequacy of the available capital.

##### **3.7.5.1 Shareholders Fund to Total Deposit Ratio**

Shareholder fund to total deposit ratio shows how well bank is maintaining sufficient amount as shareholders fund in comparison to the amount of total deposit. Shareholder fund is equal to the total equity or net worth.

$$\text{Shareholder's fund to total deposit} = \frac{\text{Shareholder fund}}{\text{Total Deposit}}$$

##### **3.7.5.2 Shareholders Fund to Total Assets Ratio**

This ratio is concerned with the sufficiency of shareholders fund against total assets. This ratio measures the relative claims of owners of the bank over the bank's assets. A high ratio indicates that out of total assets, shareholders have more controlled, owner command and vice versa. It is very essential for every financial institution to have a balance of required percentage of total assets at shareholders fund i.e. capital fund.

$$\text{Shareholder's fund to total assets ratio} = \frac{\text{Shareholder fund}}{\text{Total asset}}$$

### **3.7.6 Profitability from the Point of View of the Prospective Investor/ Financial Analyst**

In addition to the five ratios just mentioned, few more ratios can also be calculated for the use by prospective investors and financial managers. These ratios are the comprehensive measures of performance of the bank.

#### **3.7.6.1 Earnings per Share**

This ratio highlights upon the overall profitability and helps in determining the market price of equity shares. It shows the profitability of the bank on a per share basis of common shareholders.

$$\text{Earnings per share} = \frac{\text{Net profit after tax}}{\text{Total no. of equity share}}$$

Higher EPS shows favorable condition for the bank.

### **3.7.7 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.

#### **3.7.7.1 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:

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

### **3.7.7.2 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:

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

## **3.8 Statistical Analysis/Tools**

Statistics is the science, which deals with the methods of collecting, classifying, presenting, comparing and interpreting numerical data collected to throw some light on any sphere of enquiry- Seligman. Statistics is a method of decision- making in the face of uncertainty on the basis of numerical data and calculated risk.

Statistical tool is the next quantitative analytical tool to evaluate the financial performance of Sewa Bikas Bank Limited. In this study various relevant and variables are used to be analyzed.

### **3.8.1 Time Series Analysis/ Trend Analysis**

Trend analysis indicates the direction of change over the period of years. It is particularly applicable in the area of profit and loss A/c, Loan and advance, deposit, income, expenses etc. It helps to analyze the financial performance of the business forecasting and planning for future operation. In a time series analysis there are two variable, one of them one is independent and other variable is dependent. They are time and phenomenon respectively. Time series analysis is very useful and important tool for this study. "A time series may be defined as a collection of readings belonging to different time periods, of some economic variable or composite of variables.

The change or variation involves in time series analysis are (i) Secular trend or long term movement (ii) periodic movements or short-term fluctuations (iii) random or irregular variation trend. The study of trend analysis allows to describe a historical pattern and to project post trend into the future.

### 3.8.2 Linear Trend /Curve Fitting by the Principle of Least Square Method

The principle of least squares provide us an analytical or mathematical device to obtain an objective fit to the trend of the given time series. Most of the date relating to economic and business time series conform to definite laws of growth or decay and accordingly in such a situation analytical curve fitting will be more reliable for forecasting and predictions.

Beside trends that can be described by a curve line and others that are described by straight line are called linear trends. Before developing the equation of linear trend, we review the general equation for estimating straight line.

Equation for estimating a straight line  $y = a + bx$

Where:  $y$  = Value of dependent variables

$x$  = Value of independent variables

$a$  =  $y$  intercept or average of  $y$

$b$  = slope of the trend line

### 3.8.3 Karl Person's Coefficient of Correlation (r)

Correlation analysis is a statistical tool can use to describe the degree to which one variable is linearly related to another (Levin, 1999). The coefficient of correlation measures the degree of relationship between two sets of figures. In its study simple coefficient of correlation is used to determine the relationship of different variables. The data related to over different periods are tabulated and their relationship with each other is drawn out. This tool is used for measuring the intensity or the magnitude of linear relationship between two series. It measures correlation coefficient between two variables  $X$  and  $y$  is usually denoted by 'r' and can be obtained as:

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

$n$  = number of observation in series  $X$  and  $Y$

$X$  = sum of observation in series  $X$

$Y$  = sum of observation in series  $Y$

$X^2$  = sum of squared observation in series  $X$

$Y^2$  = sum of squared observation n series  $y$



$\sum XY$  = sum of the product of observations in series X and Y

Value of r lies between -1 and +1

r = 1 implies that there is a perfect positive correlation between the variables

r = 0 means that the variables are uncorrelated.

It should be clearly borne in mind that "the coefficient of correlation expresses the relationship between two series and not between the individual's items of the series".

In this study Karl Pearson's coefficient of correlation has been used to determine the relation between financial variables (Gupta S.C, 1998).

### 3.8.4 Probable error (P.E) of correlation coefficient

The probable error or the correlation coefficient is the basis for the interpretation and measurement of reliability of the computed value of the correlation coefficient, 'r'. Probable error computed after computing the value of the correlation coefficient (Gupta S.C, 1996).

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

A few rules for the interpretation of the significance for correlation coefficient are as follows;

- I. if  $r < P.E. (r)$  then the value of r is not significant (i.e.) insignificant
- II. If  $r > 6 P.E. (r)$  then r is definitely significant
- III. In other situations, nothing can be calculated with certainty

### 3.8.5 Coefficient of Determination ( $r^2$ )

The coefficient of determination is the square of the correlation coefficient and it measures the extent of association between the two variables X and Y. One of which happens to be independent and another being dependant variables:

The coefficient of determination is defined by:

$$r^2 = \frac{\text{Explained Variation}}{\text{Total Variation}}$$

Case 1: When  $r < PE$ , The value of r is not significant at all i.e. there is no evidence of correlation.

Case 2: When  $r < 6PE$  the value of r is significant i.e. practically the correlation is certain.

### **3.9 Bankometer Method: Solvency of Bank**

Altman (1968) introduced and IMF also recommended a comprehensive procedure named bankometer. This procedure has the quality of minimum number of parameters with maximum accurate results. The parameter and ratio are as follows:

$$S = 1.5 * CA + 1.2 * EA + 3.5 * CAR + 0.6 * NPL + 0.3 * CI + 0.4 * LA$$

Where 'S' stands for solvency

CAR stands for capital adequacy ratio

CA stands for capital assets ratio

EA stands for equity to assets ratio

NPL stands for non performing loans to loans ratio

CI stands for cost to income ratio

LA stands for loans to assets ratio

All bank and financial institutions having 'S' value greater than 70 are solvent and termed as super sound banks, while those banks having 'S' value below 50 are not solvent. The area between 50 and 70 is defined as gray area because of the susceptibility to error classification.

### **3.10 Limitation**

The study will employ various categories of financial ratios such as profitability ratios, solvency ratios, efficiency and others ratios to determine the financial performance of the SBBL. However, the researcher acknowledges that there are some limitations in the design.

First, the drawback of conventional accounting ratios is that there is no standard acceptable procedure for performing ratio analysis.

Second, the accounting data provided in the financial statements are based on past events, thus they do not reflect the fair market value.

Third, since this study adopts 'positive accounting theory' the researcher cannot divorce empirical testing.

## **CHAPTER-IV**

### **PRESENTATION AND ANALYSIS OF DATA**

Presentation and analysis of data is a main part of the study. We have adequately highlighted up on the nature, from preparation and utility of financial statements in the preceding chapter. It has been elucidated there is that financial data summarized in the form of financial statements which are of outstanding significance to the various parties interested in and concerned with operational and financial growth of SBBL. Financial documents act as 'beckon light' to the concerned executives in checking out the various effective policies and is assessing the results of their efforts.

It is necessary to analysis relative financial statement of bank to fulfill the objective of the study. It provides efficiency and effectiveness, strength and weakness of financial position of the bank and offers the package of suggestion to improve the financial performance of the bank. On the basis of earlier chapters it is going to analyze, interpret and evaluate the data by using financial tools and statistical tools also. Interpretation of financial statement is really an art. It involves many processes like arrangement, analysis, establishing relationship between available facts and information which have been properly processed and tabulated and then over all interpretation is made to draw conclusion.

#### **4.1 Financial Analysis**

This study is related to financial analysis of SBBL. On the basis of financial analysis it provides information's to different classes of people about the earning capacity, performance efficiency and managerial ability, short term and long term solvency of the concern.

The financial position and ability is the concerns seeking loans and credits; profitability and future prospects and future potentiality of the concern. It also makes the study of operating efficiency of the concern. Financial analysis is the process of determining the financial strength and weakness of a firm by properly establishing the

relationship between the items of balance sheet and profit and loss account. At present the most important technique of analysis and interpretations are as follows:

1. Ratio analysis.
2. Comparative statements analysis.

#### **4.1.1 Ratio Analysis**

Ratio analysis is an important tool of comparison and evaluation of the financial performance of the concern. Ratio analysis is very helpful tool to outsiders as well as to management and being used as a device to diagnose the financial health of SBBL. It facilitates to the work of gauging the profitability, solvency and other activities of the concern.

##### **4.1.1.1 Profitability Ratio**

It has described about this ratio in chapter three. Here it has used many types of ratios to evaluate the profitability position of the bank. It is going to analysis the five years data of the bank.

##### **(a) Return on Total Assets**

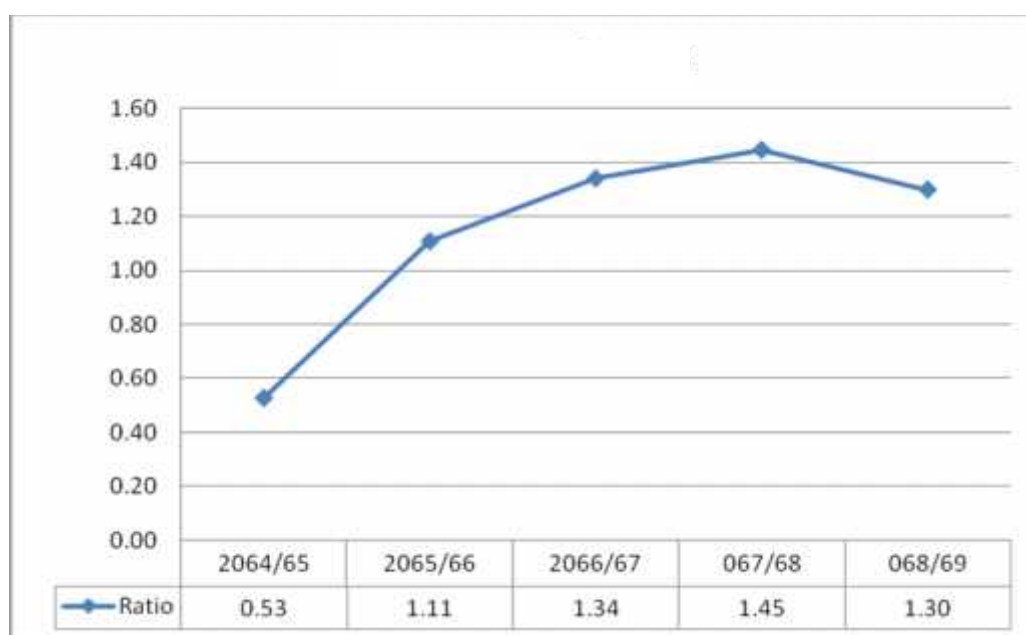
Profitability of the bank can be measured with the help of this ratio by dividing net profit after tax by total assets. Higher ratio shows satisfactory utilization of the fund invested. Here it is going to analyze the return on total assets of SBBL with five years relevant data of this study period since 2064/2065 to 2068/2069. The data are shown in table number 4.1.

**Table 4.1 : Return on Total Assets**

Fiscal years	Net profit after tax	Total assets	Percentage
2064/2065	2166845.69	409548497.25	0.5291
2065/2066	9903590.43	893764218.15	1.1081
2066/2067	15369941.67	1147324311.98	1.3396
2067/2068	21822411.97	1510047162.77	1.4451
2068/2069	29603831.11	2279269102.46	1.2988
Average	78866620.87	6239953292.61	1.2639

(Source: Annual report of SBBL)

**Figure 4.1 : Return on Total Assets**



From the above table and figure we can early know that the total assets of the SBBL have been increasing from the beginning base level of Rs 409548497.15 in fiscal years 2064/065 to Rs.2279269102.46 in fiscal years 2068/2069. Similarly net profit is Rs.2166845.69 in 2064/2065 and Rs.29603831.11 in fiscal years 2068/2069. The net profit and total assets have been growing from the base level. The ratio of return to total assets are 0.53%, 1.11%, 1.34%, 1.45% and 1.30% respectively since fiscal years 2064/2065 to fiscal years 2068/069.

Under the study of five years period an average percentage is 1.26. Returns on total assets are increasing trend in FY 2064/2065 to FY 2067/2068. FY2068/2069 the return on total assets is decreasing trend. It shows fluctuating trend of return of total asset study periods. Performance of the bank is considered as satisfactory in those years.

On the basis of above study growing rate of total assets is faster than net profit. So the bank has increased it average ratio of the assets. It shows satisfactory utilization of fund invested to generate net profit.

**(b) Return on Total Deposit Ratio**

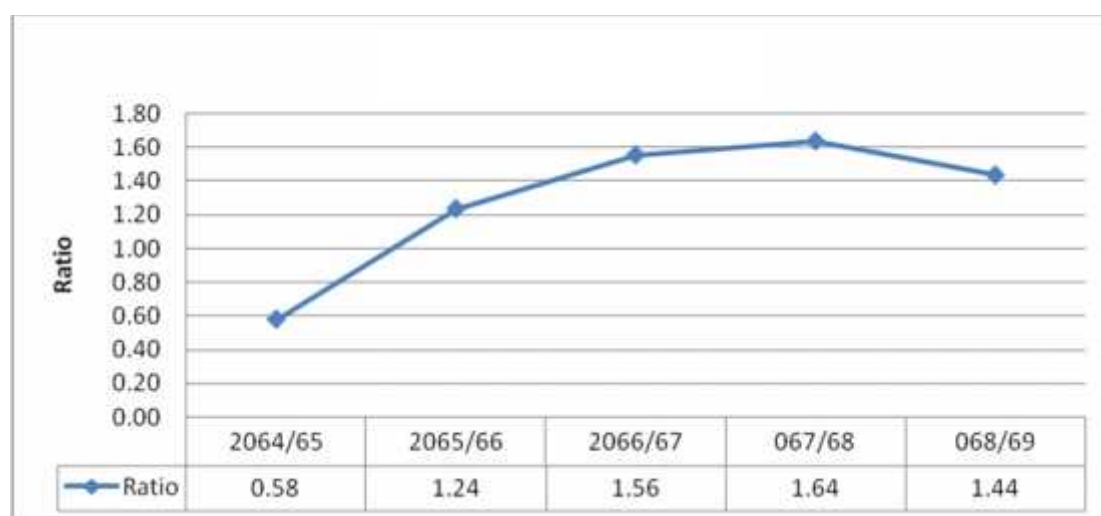
It is going to analyses and interprets bank's efficiency and collected resources utilization capacity from its total deposits.

**Table 4.2 : Return on Total Deposits**

Fiscal years	Net profit after tax	Total deposit	Percentage
2064/2065	2166845.69	374118274.80	0.58
2065/2066	9903590.43	801451862.06	1.24
2066/2067	15369941.67	988359216.06	1.56
2067/2068	21822411.97	1332229026.87	1.64
2068/2069	29603831.11	2060848383.78	1.44
Average	78866620.87	<b>5557006763.57</b>	<b>1.42</b>

(Source: Annual report of SBBL)

**Figure 4.2 : Return on Total Deposits**



By study of above table and figure shows the deposit utilization ratio is increasing gradually from 0.58% to 1.638 in FY 2064/2065 to 2067/2068 and decrease in FY 068/69 is 1.44. The return on total deposit is fluctuate trend. The average return on total deposit is 1.42. Return on total deposits is in FY2065/066 and 2066/067 i.e.1.55 and 1.64, such financial performance is good or it is the satisfactory level of utilization of its collected resources. So it is cleared that in first two years return on total deposits ratio is going to decrease. From above ratio analysis presentation, it can be concluding that financial performance of the bank is satisfactory.

### (c) Return on Net Worth/Return on Equity (ROE)

The main objective of business oriented organizations is to earn more return on the owner's equity. This ratio seeks to measure the capacity of management to use shareholder's fund in income generating purposes. It is going to use this ratio to measure financial performance of SBBL from 2064/2065 to 2068/2069 data presented in table no. 4.3.

**Table 4.3 : Return on Net Worth**

Fiscal years	Net profit	Total net worth	Ratio in %
2064/2065	2166845.69	30721423.40	7.053
2065/2066	9903590.43	70668213.70	14.01
2066/2067	15369941.67	125248681.60	12.27
2067/2068	21822411.97	127224506.80	17.15
2068/2069	29603831.11	165321282.80	17.91
Average	78866620.87	<b>51918408.30</b>	<b>15.19</b>

(Source: Annual report of SBBL)

**Figure 4.3 : Return on Net Worth**



On the basis of above table and figure it is shows that the bank value of net worth has been increasing from level of Rs.30721423.40 in the beginning to Rs.165321282.80 in 2068/2069. Similarly net profit in the beginning was Rs. 2166845.69 to Rs.29603831.11 in FY 2068/209. This is in increasing trend. The percent of RONW is

increasing gradually from 7.053%, 14.01%, 12.27%, 17.153% and 17.91% in fiscal year 2064/065 to 2068/069. Its average return shows the 15.19%. RONW trend is fluctuating in fiscal year 2064/2065 to 2066/2067. The return on net profit decreased in FY 2066/067 due to issue of public share, thus RONW of the bank performance is at satisfactory.

#### (d) Net Profit Margin

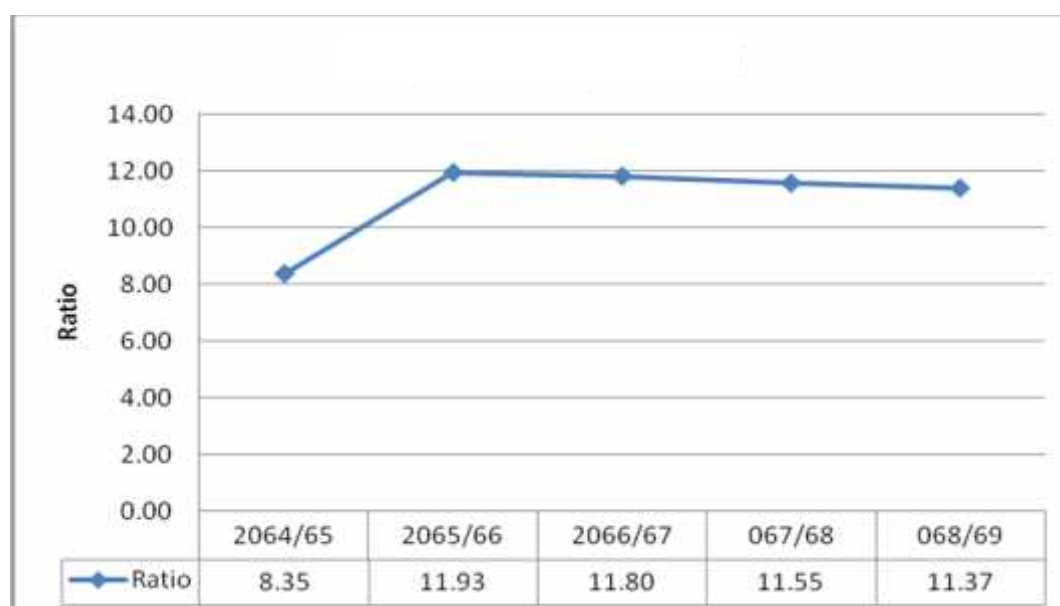
Net profit margin plays relation between net profit and total income received. It is an important measure of the bank's ability to turn each rupee income into the profit. Data is presented in the following table no. 4.4.

**Table 4.4 : Net Profit Margin Ratio**

Fiscal years	Net profit	Total Revenue	Percentage
2064/2065	2166845.69	25935266.68	8.35
2065/2066	9903590.43	83031276.60	11.93
2066/2067	15369941.67	130249627.30	11.80
2067/2068	21822411.97	188918169.00	11.55
2068/2069	29603831.11	260269729.50	11.37
Average	78866620.87	688404069.08	<b>11.46</b>

(Source: Annual report of SBBL)

**Figure 4.4 : Net Profit Margin Ratio**





From the above figures & table the net profit was increased year by year from Rs 2166845.69 to Rs.29603831.11 in FY 2064/2065 to FY 2068/2069. From five year the net profit margin ratios were 8.35%, 11.93%, 11.80%, 11.55%, and 11.37%. The average percent of net profit margin is 11.46%. All the ratios are slightly fluctuate trend. So the bank is at satisfactory level. Thus financial performance of the bank is satisfactory. It is shows that the profit margin of the bank will be increase in coming first years.

**(e) Total Interest Expenses to Total Income Ratio**

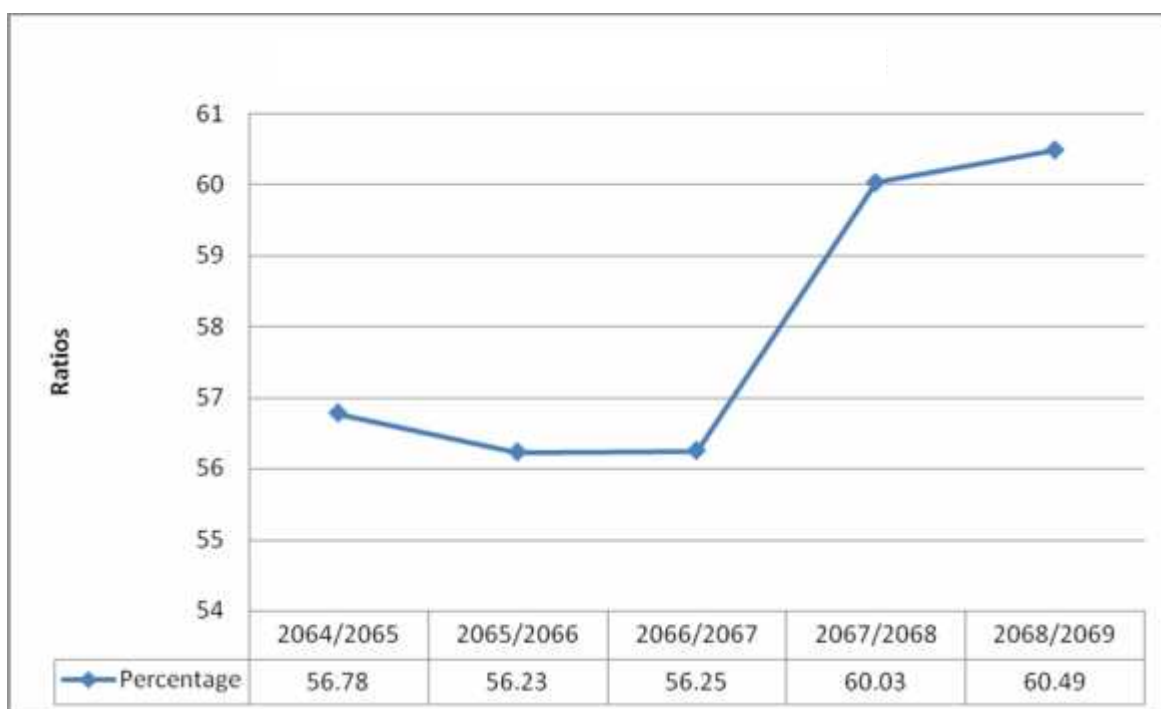
Interest expense relates to the cost of borrowing money. It is the price that a lender charges a borrower for the use of the lender's money. Interest expense is usually tax-deductible. Companies often borrow money in order to build plants or offices, buy other businesses, purchase inventory, or fund day-to-day operations. The borrowed money is converted to an asset on the balance sheet.

**Table 4.5 : Total Interest Expenses to Total Income Ratio**

Fiscal years	Total interest expenses	Total Income	Percentage
2064/2065	14725276.24	25935266.68	56.78
2065/2066	46692451.59	83031276.60	56.23
2066/2067	73263894.73	130249627.30	56.25
2067/2068	113416365.77	188918169.00	60.03
2068/2069	157435572.30	260269729.50	60.49
Average	405533560.60	688404069.08	58.91

(Source: Annual report of SBBL)

**Figure 4.5 : Total Interest Expenses to Total Income Ratio**



From the above table and figure shows the ratio remained 56.78%, 56.23%, 56.25%, 60.03% and 60.49% in respective year of study period. Interest expenses of FY 067/68 and 068/069 are more than first three years. Thus it is not satisfactory because of Lower ratio is favorable in the view of financial performance analysis. SBBL is satisfactory in first three years in allocating interest debt in profitable sectors.

**(f) Staff Expense to Total Income Ratio**

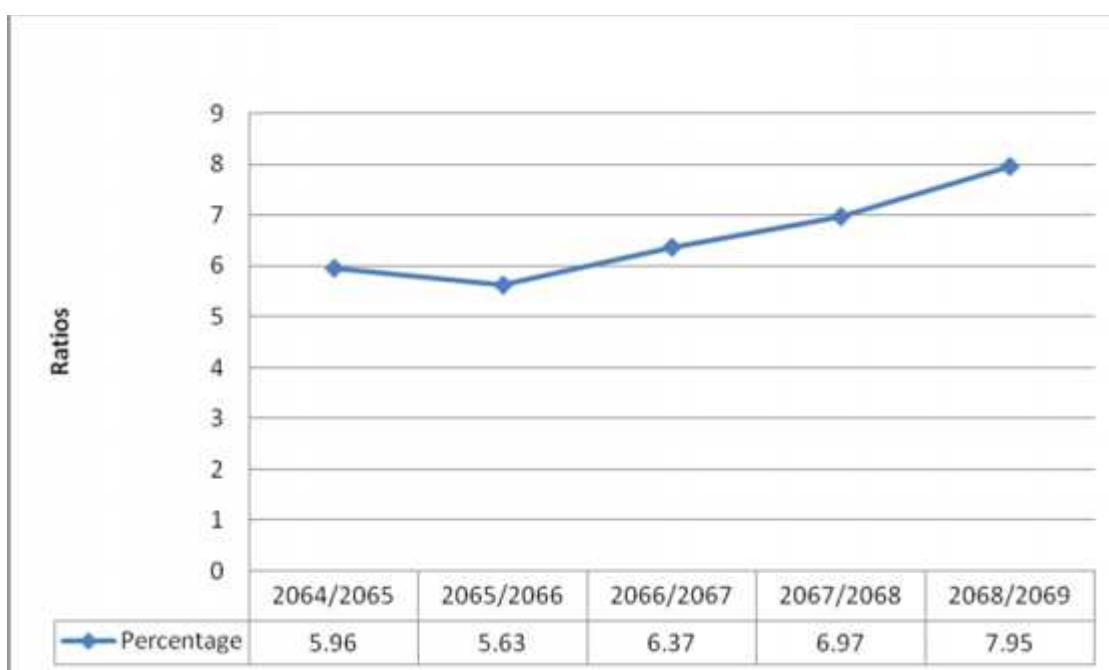
Staff expenses of SBBL includes salary, allowances, PF contributions, training, uniform, medical, insurance, gratuity, Dashain expenses, leave encashment and other staff expenses.

**Table 4.6 : Staff Expenses to Total Income Ratio**

Fiscal years	Staff expenses	Total Income	Percentage
2064/2065	1545351.90	25935266.68	5.96
2065/2066	4677594.07	83031276.60	5.63
2066/2067	8295759.44	130249627.30	6.37
2067/2068	13165927.87	188918169.00	6.97
2068/2069	20689917.62	260269729.50	7.95
Average	48374550.90	688404069.08	7.03

(Source: Annual report of SBBL)

**Figure 4.6 : Staff Expenses to Total Income Ratio**



From above table and figures, the ratios of SBBL remained 5.96%, 5.63%, 6.37%, 6.97%, and 7.95% in the respective years of study period. SBBL has highest 7.95% in year 2068/097 and 5.63% lowest in year 2065/066. 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.

### (g) Office Operation Expenses to Total Income Ratio

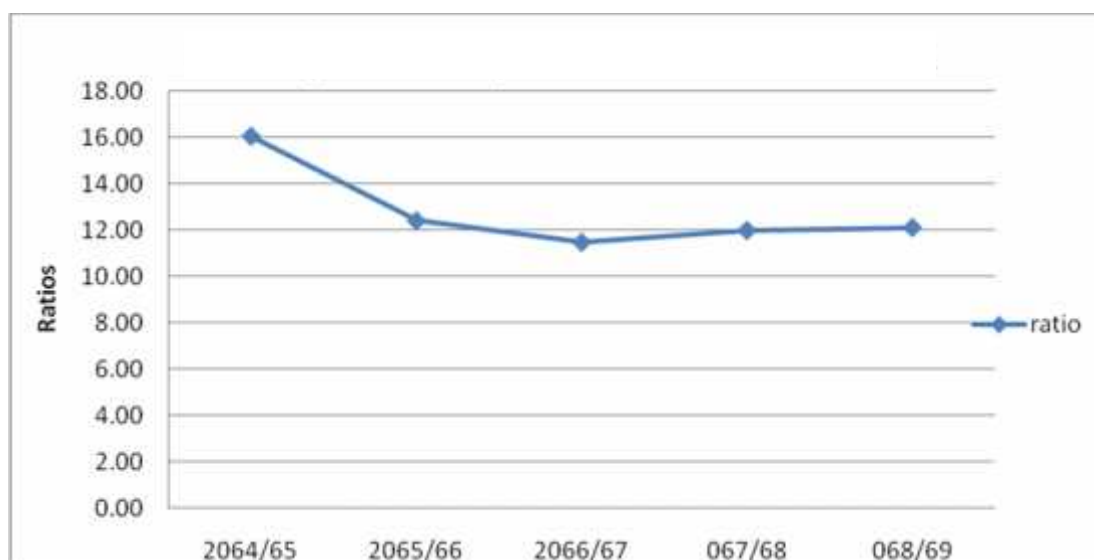
Office operation expenses include expenses like rent, water and electricity, repair and maintenance etc.

**Table 4.7 : Office Operation Expenses to Total Income Ratio**

Fiscal years	Office operation expenses	Total Income	Percentage
2064/2065	4156999.24	25935266.68	16.03
2065/2066	10286059.03	83031276.60	12.39
2066/2067	14928007.98	130249627.30	11.46
2067/2068	2625802.71	188918169.00	11.98
2068/2069	31488774.34	260269729.50	12.10
Average	83485643.30	688404069.08	12.13

(Source: Annual report of SBBL)

**Figure 4.7 : Office Operation Expenses to Total Income Ratio**



Office operation to income ratios of SBBL remained 16.03%, 12.39%, 11.46%, 11.98% and 12.13% in the respective years of study period. Office operation to income ratios of SBBL has highest ratio in year 2064/065 is 16.03% and 12.10% lowest ratio in year 2067/068. Higher ratios in year 2064/065 and 2067/068 might have adverse effect in the profitability of the bank.

### 4.1.1.2 Activity Ratio

It has been already explained about activity ratio in chapter three. These ratios examine how the bank manages and utilizes its assets. The greater ratio is more efficiency in utilization of resources. It is going to evaluate the financial performance of SBBL five years study period FY 2064/2065 to 2068/2069.

#### (a) Loan and Advance to Total Deposit

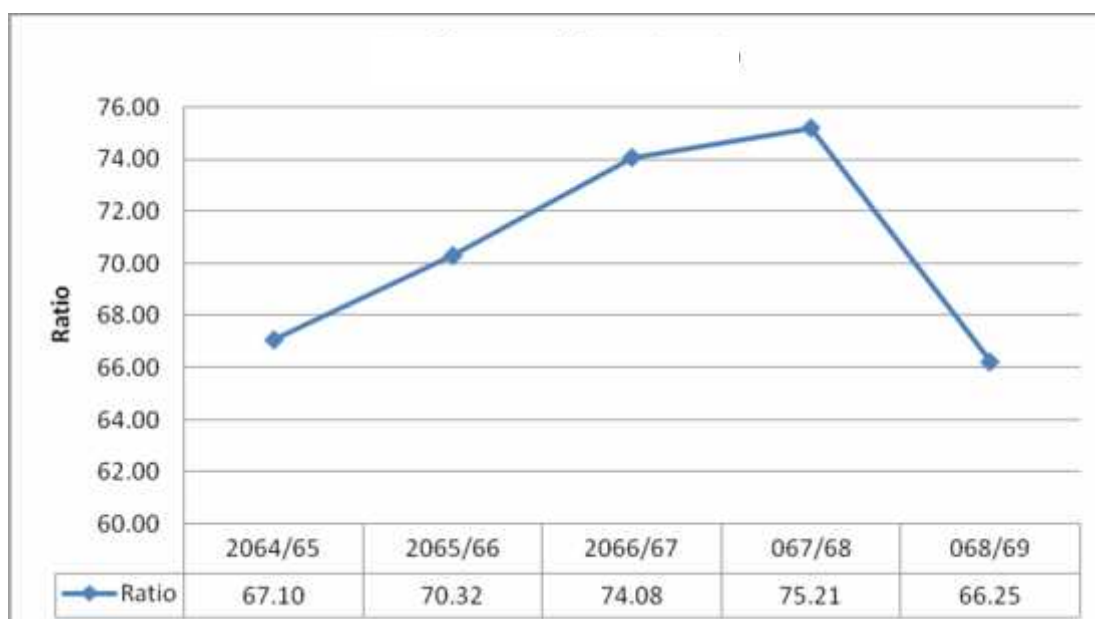
This ratio examines how quickly bank is able to convert its total deposits in to loan and advances. Bank can earn profit by changing its deposit into loan and advances. High ratio refers that the bank is able to use its deposits.

**Table 4.8 : Loan and Advance to Total Deposit Ratio**

Fiscal years	Loan & advance	Total deposit	Ratio
2064/2065	251026455.59	374118274.80	67.10
2065/2066	563582299.90	801451862.06	70.32
2066/2067	732167796.69	988359216.06	74.08
2067/2068	1001950029.61	1332229026.87	75.21
2068/2069	1365330753.32	2060848383.78	66.25
Average	3914057335.11	<b>557006763.57</b>	70.43

(Source: Annual report of SBBL)

**Figure 4.8 : Loan and Advance to Total Deposit Ratio**



From the above table shows the ratio of loan and advance to total deposit. In the FY 2064/2065 the bank's loan and advance was Rs.251026455.59. This amount was increasing year by year at FY 2068/2069 it was Rs.1365330753.32. Similarly the total deposit was Rs. 374118274.80 in first years and it was increasing year by years and it was Rs.2060848383.78 at FY 2068/2069. Beginning ratios of this study period was 67.10%, to 75.21% it is increasing and then after decrease to 66.25% in FY 2068/2069. Because of increasing trend it is good in the financial performance of the bank. It means the bank has utilized the more of deposits fund into loan and advance to earn profit.

The average ratio is 70.43%. So it is clear that the ratios have been slightly fluctuated in study period. It is considered at satisfactory level for the bank. The financial performance of the bank is beginning years is positive form beginning FY. During five years study period growth of loan and advance is greater than total deposit from FY 2064/2065 to FY 2068/2069. Thus the financial performance of the bank is satisfactory.

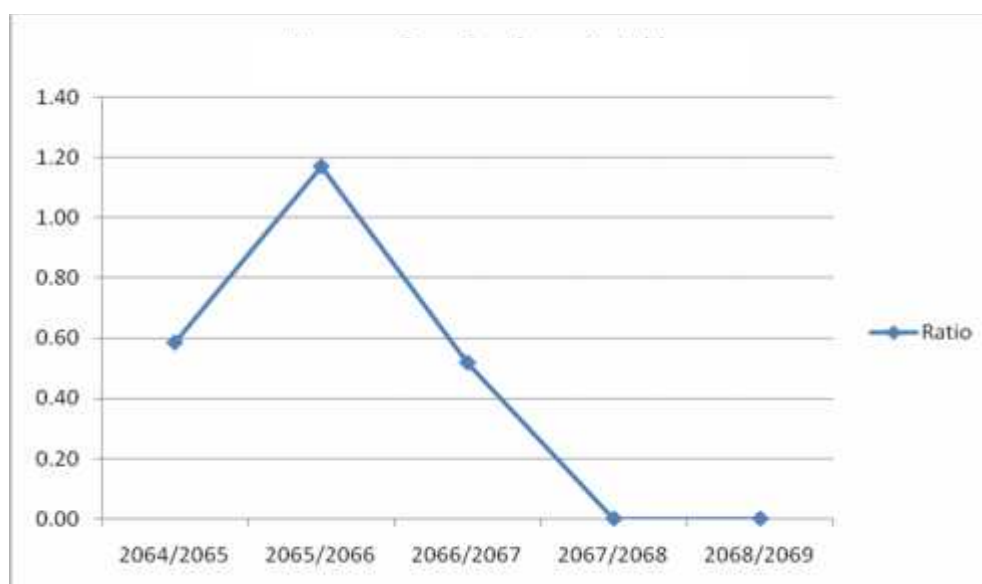
#### **(b) Non-Performing Loan to Loan & Advance Ratio**

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

**Table 4.9 : Non-Performing Loan & Total Loan & Advance Ratio**

Fiscal years	Non-performing loan	Total Loan & advance	Percentage
2064/2065	1468187.96	251026455.59	0.58
2065/2066	6592382.92	563582299.90	1.17
2066/2067	3792023.67	732167796.69	0.52
2067/2068	0	1001950029.61	0
2068/2069	0	1365330753.32	0
Average	118852594.55	3914057335	0.45

**Figure 4.9 : Non-Performing Loan to Total Loan & Advance Ratio**



From the above table and figures NPL of the SBBL is satisfactory level. NPL of the bank is decreasing point and less than standard of NRB directives. It is decreased to 0.00 % in FY2067/068 and 2068/069.

**(c) Investment to Total Deposit**

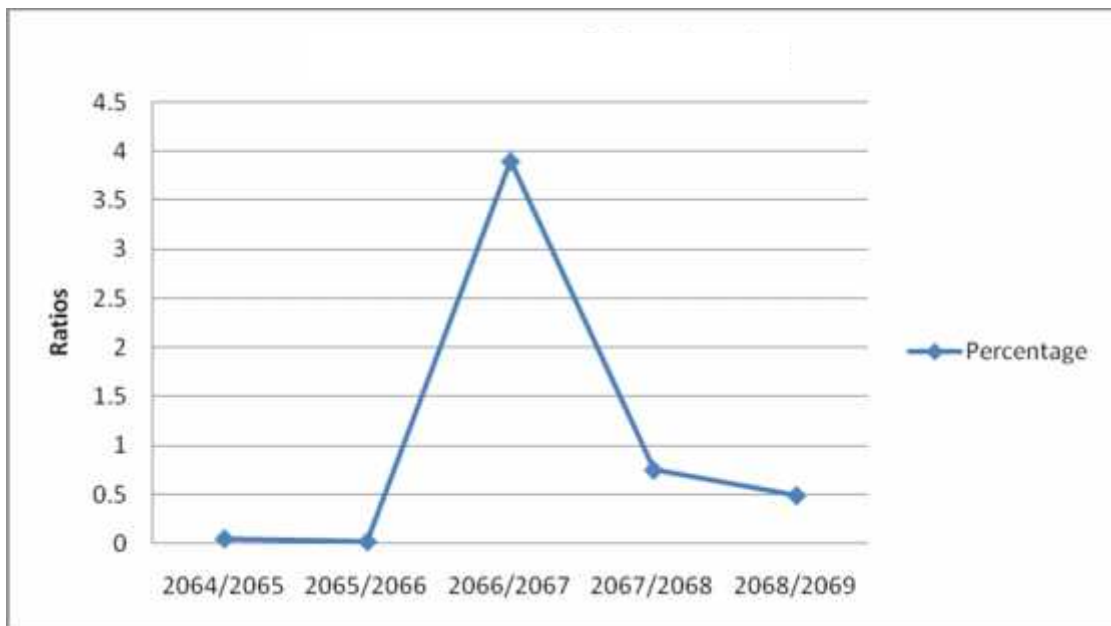
This ratio measures how much the firm is able to mobilize its deposit on investment. Investment refers to the bonds of NRB, bonds of RBB, bonds of foreign government, investment in well established different financial institution, industry and how profit risk free sector.

**Table 4.10 : Investment to Total Deposit**

Fiscal years	Investment	Total deposit	Percentage
2064/2065	200000.00	374118274.80	0.05
2065/2066	200000.00	801451862.06	0.02
2066/2067	38504914.60	988359216.06	3.90
2067/2068	10000000.00	1332229026.87	0.75
2068/2069	10000000.00	2060848383.78	0.49
Average	58604914.60	557006763.57	1.05

(Source: Annual report of SBBL)

**Figure 4.10 : Investment to Total Deposit**



From the above table it is clearly reveals that FY 2064/2065 and 2065/066 the bank invested Rs. 200,000.00 and in FY 2066/2067 was Rs.38504914.60 and In FY 2067/2068 to FY 2068/2069 the investment made Rs.10, 000000, 00, in government debenture. The most investment to total deposit ratio is 3.90% in FY2066/067. It is investment in T- bill Rs. 28204914.00, government debenture in Rs. 10, 00,000.00, bank and financial institution Rs.300000.00 it is shows that least level of investment in riskless sector. It should be encourage the bank to increase investment in t-bills of NRB and other financial institution to mobilize its deposit on investment.

**(d) Performing Assets to Total Assets Ratio**

Performing assets are investment, loan and advances, bills purchased and discounted and money at call and short notice. As businesses go, banking is largely a commodity business banks borrow money from those who have excess of it and lend it to those who need it, and try to earn a spread. High ratios in the table indicate greater utilization of assets that leads to sound profitability position of the bank.

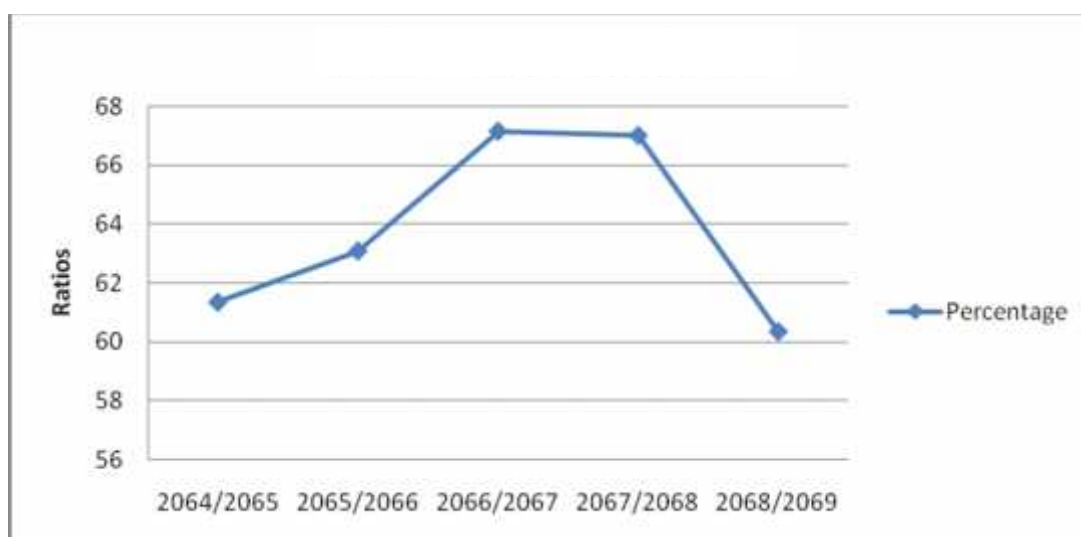


**Table 4.11 : Performing Assets to Total Assets Ratio**

Year	Performing assets	Total Assets	Percentage
2064/2065	251226455.50	409548497.25	61.34
2065/2066	56378299.90	893764218.15	63.08
2066/2067	770372710.60	1147324311.98	67.15
2067/2068	1011950029.00	1510047162.77	67.01
2068/2069	1375330753.00	2279269102.46	60.34
Average	3972662248.00	6239953292.61	63.66

(Source: Annual report of SBBL)

**Figure 4.11 : Performing Assets to Total Assets Ratio**



SBBL had maintained high ratio throughout the period of study. In year FY2068/069, minimum 60.34% and maximum in FY2066/067, 67.15% 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.

**(e) Performing Assets to Total Debt Ratio**

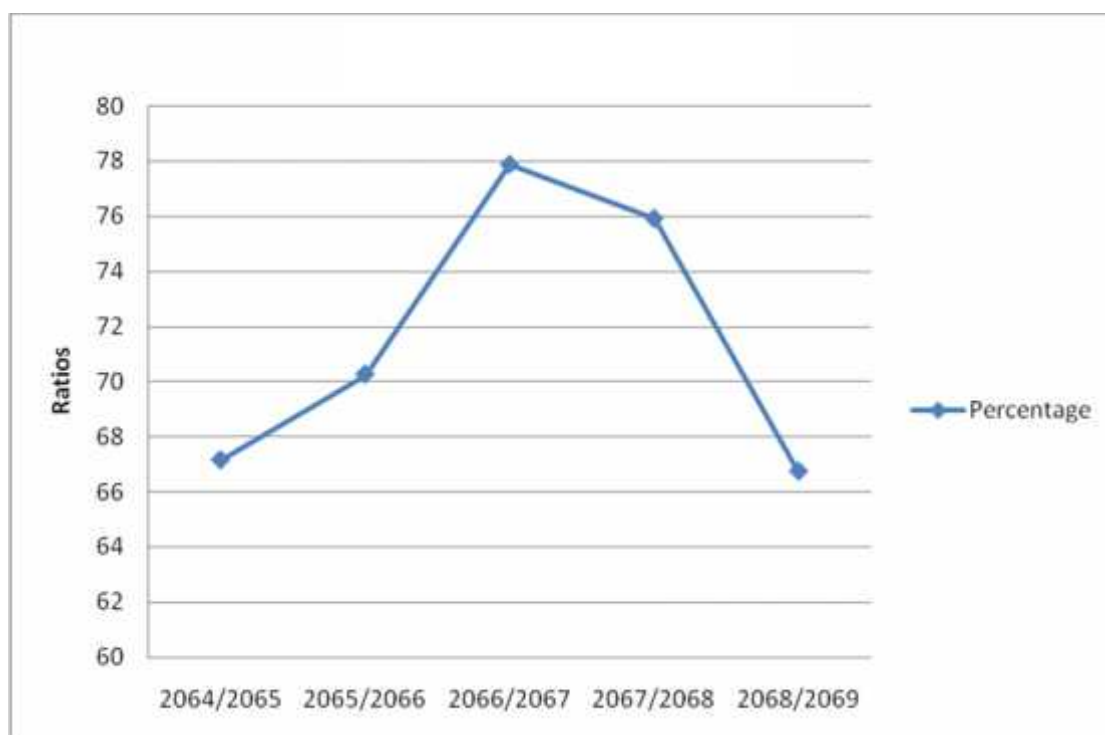
This ratio indicates that how many portion of debt are in utilizing in generating income or productive sector.

**Table 4.12 : Total Performing Assets to Total Debt Ratio**

Fiscal years	Performing assets	Total debt	Percentage
2064/2065	251226455.50	374118274.80	67.15
2065/2066	56378299.90	802388663.70	70.26
2066/2067	770372710.60	989093972.30	77.89
2067/2068	1011950029.00	1332744967.87	75.93
2068/2069	1375330753.00	2060848383.78	66.74
Average	3972662248.00	5558678321	71.47

(Source: Annual report of SBBL)

**Figure 4.12 : Total Performing Assets to Total Debt Ratio**



The ratio showed increasing trend except FY 067/068 and 2068/069 throughout the study period. It was maximum in year 2066/067 with 77.89% and minimum in year 2068/069 with 66.74%. High ratio represents the success of SBBL in utilizing the creditor's fund. In Years 2068/069 the ratio is low but it can be rated satisfactory.

### 4.1.1.3 Ratio to Judge the Financial Position

These types of ratio indicated the financial position of the bank. Management, bankers, trade creditors, investors and auditors all have different views about the concept of financial position. Examination of financial position involves the analysis of facts relating to proper and indicators use of fund, short-term and long-term solvency of the bank.

#### (a) Current Ratio

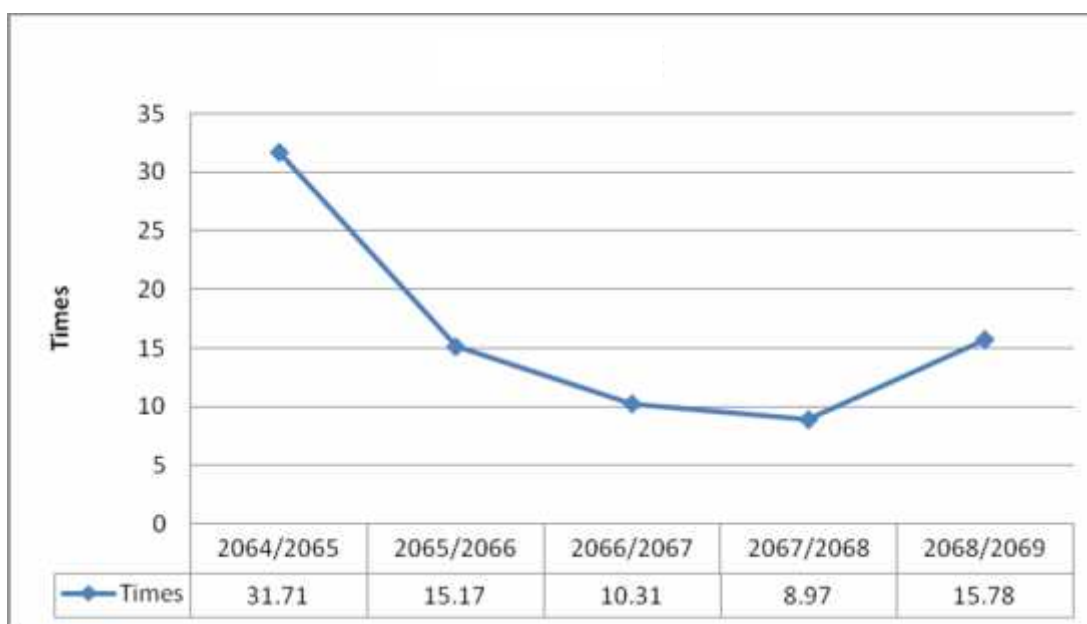
In financial analysis current ratio plays a significant role to measure financial performance of the bank. This ratio measures the short-term solvency power, normally not exceeding one year. It indicates each rupee of current assets available for each rupee of current liabilities. We have already described about this ratio in previous chapter. So it is going to analysis and interprets this ratio on the basis of five relevant data since FY 2064/2065 to 2068/2069.

**Table 4.13 : Current Ratio**

Fiscal years	Current assets	Current liabilities	Times
2064/2065	149305562.40	4708799.05	31.71
2065/2066	313697140.80	20680340.6	15.17
2066/2067	340114748.10	32981657.91	10.31
2067/2068	449390681.10	50077687.81	8.97
2068/2069	837922169.00	53099435.81	15.78
Average	2090930301.00	161547921.20	12.94

(Source: Annual report of SBBL)

**Figure 4.13 : Current Ratio**



From the above table the current assets and current liabilities are in increasing trend. During the five years data the volume of current assets and current liabilities were increased the five and eleven times respectively. CL is very small amount in FY 064/065 than FY 068/069 so CL shows 11 times. In the beginning the level of current assets were Rs.149305562.4 which was increased five times in the end of FY 2068/2069 i.e. Rs.837922169.00.

The standard level of current assets to current liabilities is 2:1. During the study the average rate of the ratio is 12.94. In every fiscal year the level of current assets is high from the current liabilities. If the banks have an excessive investment in current assets it does not produce return.

According to the index the bank's current assets are increasing 5.67 times faster than the current liabilities 4 times. It must be considered that over are well as under liquidity position is not good for the bank. It should keep proper balance between over and under liquidity by considering standard level to improve solvency power of the bank.

### (b) Cash and Bank Balance to Total Deposit

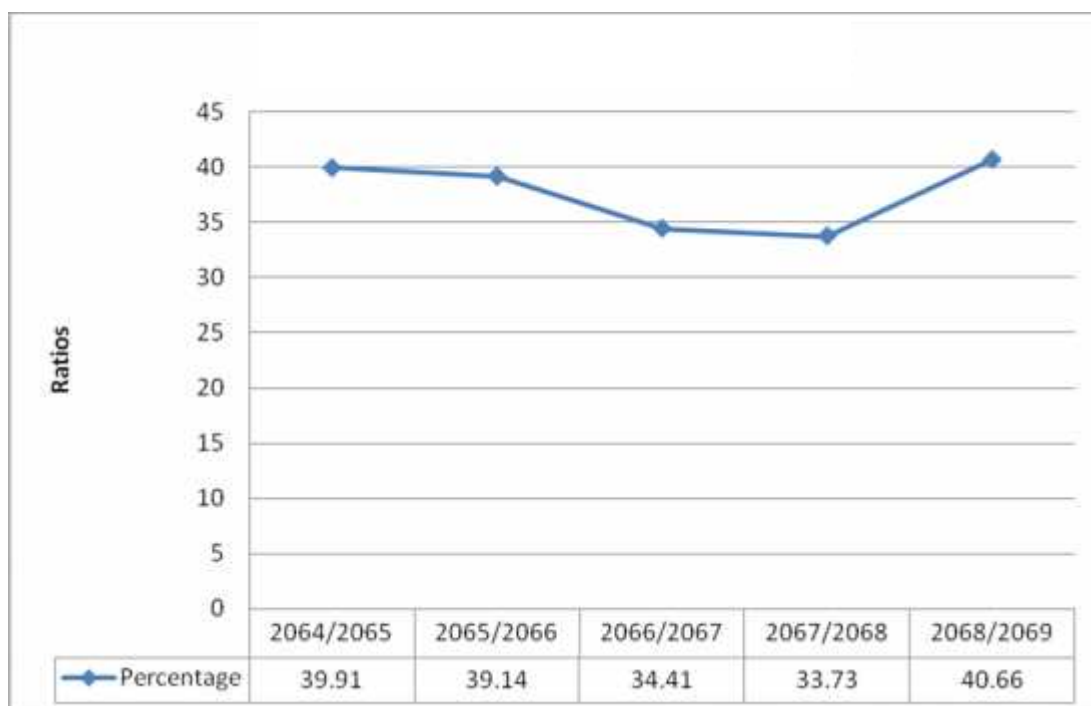
This ratio is employed to measure whether bank and cash balance is sufficient to cover its current and fixed deposits or not. The following data exhibits the cash and bank balance to total deposit ratio of the bank.

**Table 4.14 : Cash and Bank Balance to Total Deposit Ratio**

Fiscal years	Cash and bank balance	Total deposit	Percentage
2064/2065	149305562.40	374118274.80	39.91
2065/2066	313697140.80	801451862.06	39.14
2066/2067	340114748.10	988359216.06	34.41
2067/2068	449390681.10	1332229026.87	33.73
2068/2069	837922169.00	2060848383.78	40.66
Average	2090430301.00	<b>557006763.57</b>	37.62

(Source: Annual report of SBBL)

**Figure 4.14 : Cash and Bank Balance to Total Deposit Ratio**



From the above figure & table shows that the cash and bank balance in FY 2064/2065 was Rs. 149305562.40 the amount has reached to Rs. 837922169.00 in FY 2068/2069

and total deposit in FY2064/2065 was Rs.374118274.80 and Rs.2060848383.78 in FY 2068/2069. The percentage of the ratio of cash and bank balance to total deposit were 39.91%, 39.14%, 34.41%, 33.73% and 40.66% in FY 2064/2065 to FY 2068/2069 respectively.

The percentage of cash and bank balance to total deposits are fluctuation in study period. Bank should maintained standard ratio of cash and bank balance to total deposit mention by higher than standard of NRB. If the bank has more deposit it can invest in productive sector. If there are idle cash and bank balance there is no return to the bank. The optimal cash and deposit should be 10% to 15% which is mention by SBBL.

**(c) Cash and Bank Balance to Total Current and Saving Deposit**

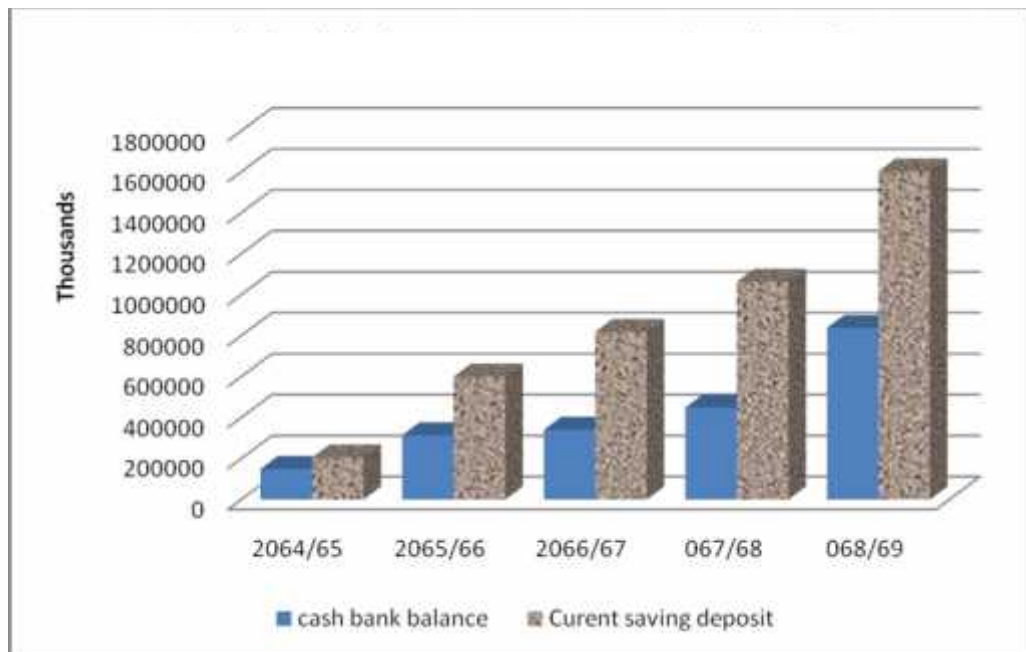
This ratio is employed to measure whether bank and cash balance is sufficient to cover its current and saving deposits or not. The following data exhibits the cash and bank balance to total current & saving deposit ratio of the bank.

**Table 4.15 : Cash and Bank Balance to Total Current Saving Deposit**

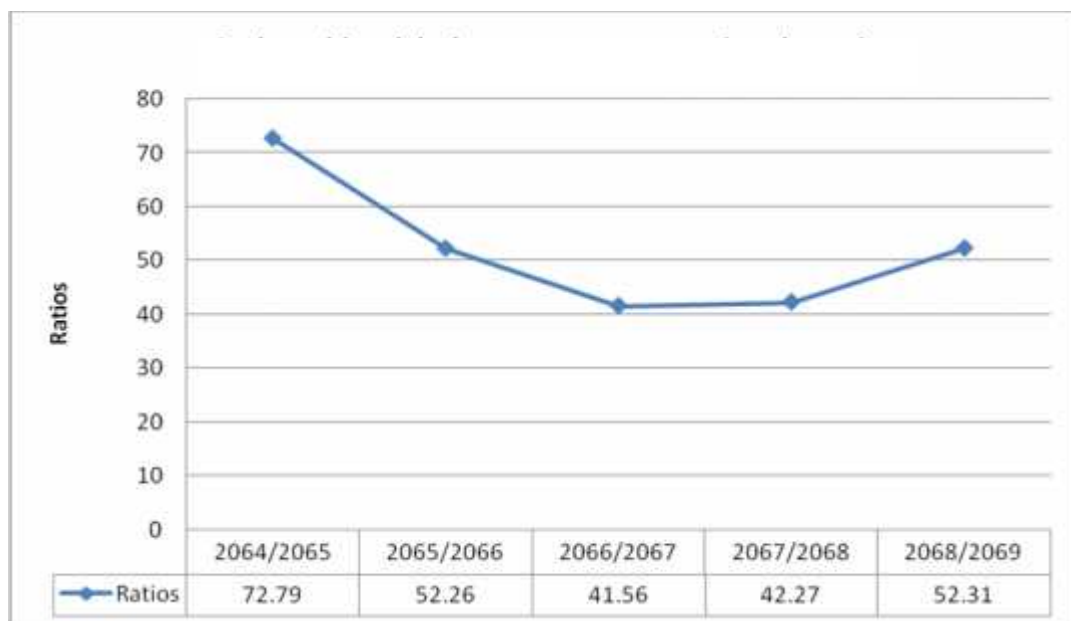
Fiscal years	Cash and bank balance	Current saving deposit	Percentage
2064/2065	149305562.40	205111518.20	72.79
2065/2066	313697140.80	600263796.00	52.26
2066/2067	340114748.10	818351929.20	41.56
2067/2068	449390681.10	1063190448.00	42.27
2068/2069	837922169.00	1601802426.00	52.31
Average	2090430301.00	4288720117.40	48.74

(Source: Annual report of SBBL)

**Figure 4.15 : Cash and Bank Balance to Total Current Saving Deposit**



**Figure 4.15.1 : Cash and Bank Balance to Total Current Saving Deposit**



From the table and figure it is clearly shows that the cash and bank balance in FY 2064/2065 was Rs.149305562.40 the amount has reached to Rs.837922169.00 in FY 2068/2069 and total current and saving deposit in FY 2064/2065 was Rs.205111518.20 and Rs.1601802426.00 in FY 2068/2069. The percentage of the ratio of cash and bank balance to total current and saving deposit were 72.79%,

52.26%, 41.56%, 42.27% and 52.31% in FY 2064/2065 to FY2068/2069 respectively. The trend of the ratio is in decreasing it means that current and saving deposit increasing than fixed deposit. But this ratio is on satisfactory situation.

**(d) Fixed Deposit to Total Deposit**

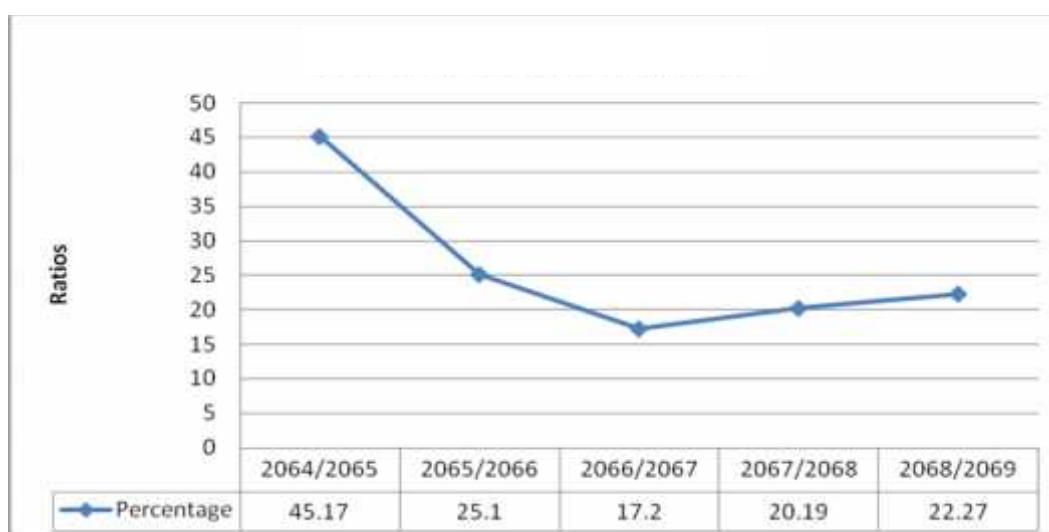
Fixed deposit is deposited in a bank for certain period of time. Fixed deposit is important to invest in long term for productive sector. It is important for customers as well as for the bank.

**Table 4.16 : Fixed Deposit to Total Deposit Ratio**

Fiscal years	Fixed deposit	Total deposit	Percentage
2064/2065	169006756.62	374118274.80	45.17
2065/2066	201188066.01	801451862.06	25.10
2066/2067	170007286.80	988359216.06	17.20
2067/2068	269038578.07	1332229026.87	20.19
2068/2069	459045956.68	2060848383.78	22.27
Average	126828664	557006763.57	22.82

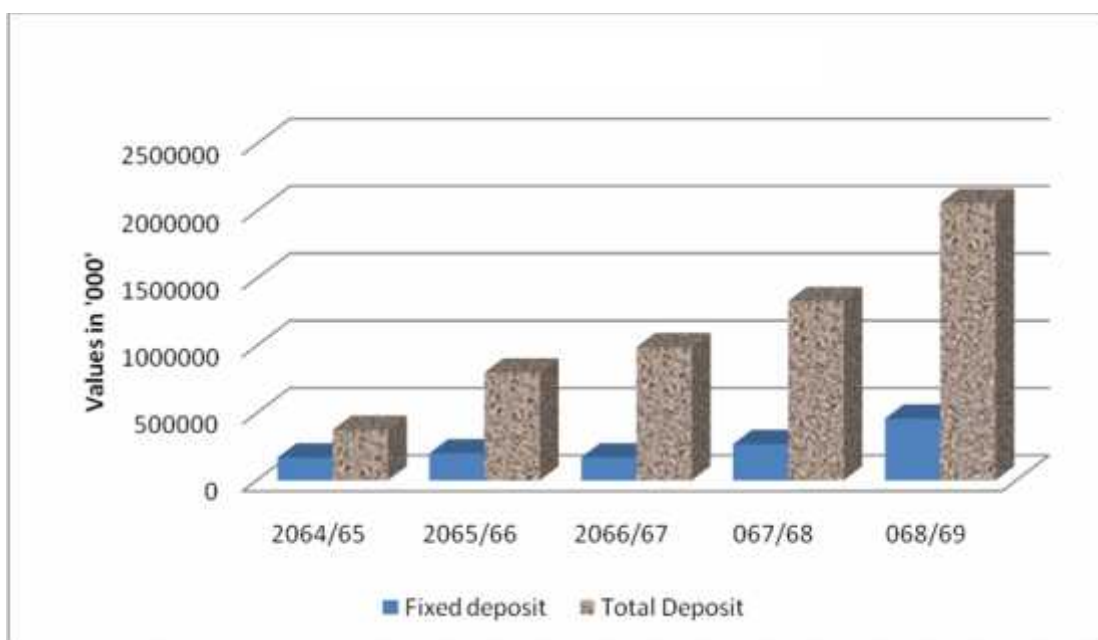
(Source: Annual report of SBBL)

**Figure 4.16 : Fixed Deposit to Total Deposit Ratio**





**Figure 4.16.1 : Fixed Deposit to Total Deposit Ratio**



From the above table and figure shows that the trend of the fixed deposit amount was increasing year by year. In the beginning in FY 2064/2065 the total deposit was Rs.374118274.80 and fixed deposit was Rs.169006756.62 which ratio was 45.17%. Total deposit which is good performance of the bank. The average ratio of fixed deposit to total deposit to total deposit is 22.82. It shows that bank can invest near about 25 percent amount of loan in long term in productive sector. In another word higher the fixed deposit greater the opportunity to invest bank's money in long-term investment. So it is clear to us that bank is able to only 25% invest its fixed deposit in productive sector for long term purpose. It makes the satisfactory financial performance of the bank also.

#### **(e) Current and Saving Deposit to Total Deposit**

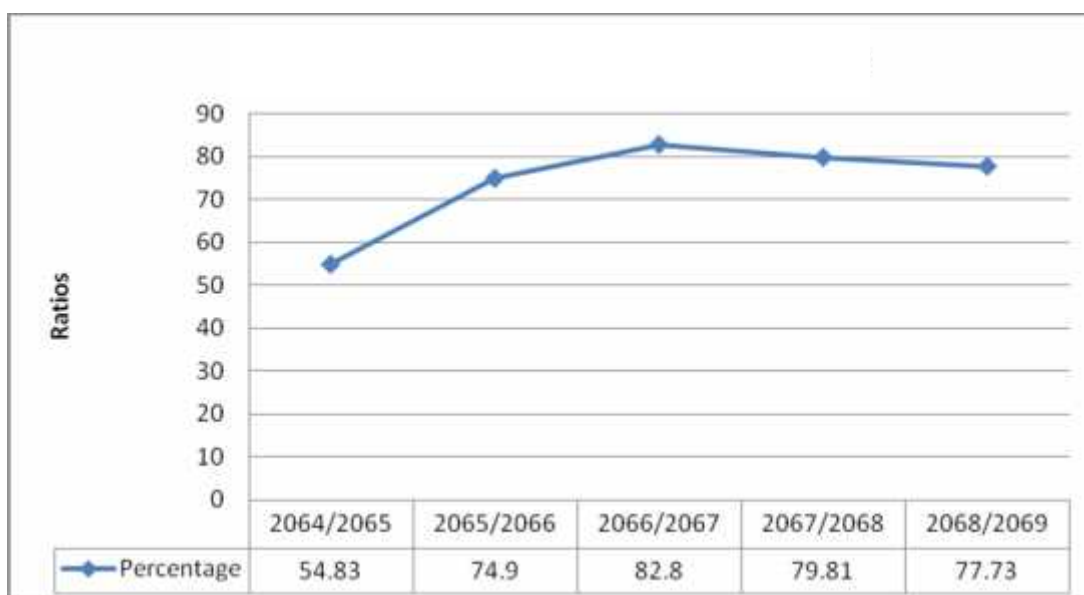
The ratio of the current & saving deposit to total deposit is calculated to know the portion of saving in total deposit. Saving deposit is important to pay the money whenever the depositors call for it. It is also useful to short term investment. It is also useful because the interest provided to saving deposit is less than fixed deposit.

**Table 4.17 : Current and Saving Deposit to Total Deposit Ratio**

Fiscal years	Saving deposit	Total deposit	Percentage
2064/2065	205111518.20	374118274.80	54.83
2065/2066	600263796.00	801451862.06	74.90
2066/2067	818351929.20	988359216.06	82.80
2067/2068	1063190448.00	1332229026.87	79.81
2068/2069	1601802426.00	2060848383.78	77.73
Average	4288720117.40	557006763.57	77.18

(Source: Annual report of SBBL)

**Figure 4.17 : Current and Saving Deposit to Total Deposit**



According to above table the saving deposit was increasing pattern. The average rate of saving deposit to total deposit is 77.18%. The saving deposit has to pay less interest amount to the depositor and invest as a short term loan to the productive sector. It shows that good financial performance of the bank.

#### **(f) Solvency Ratio**

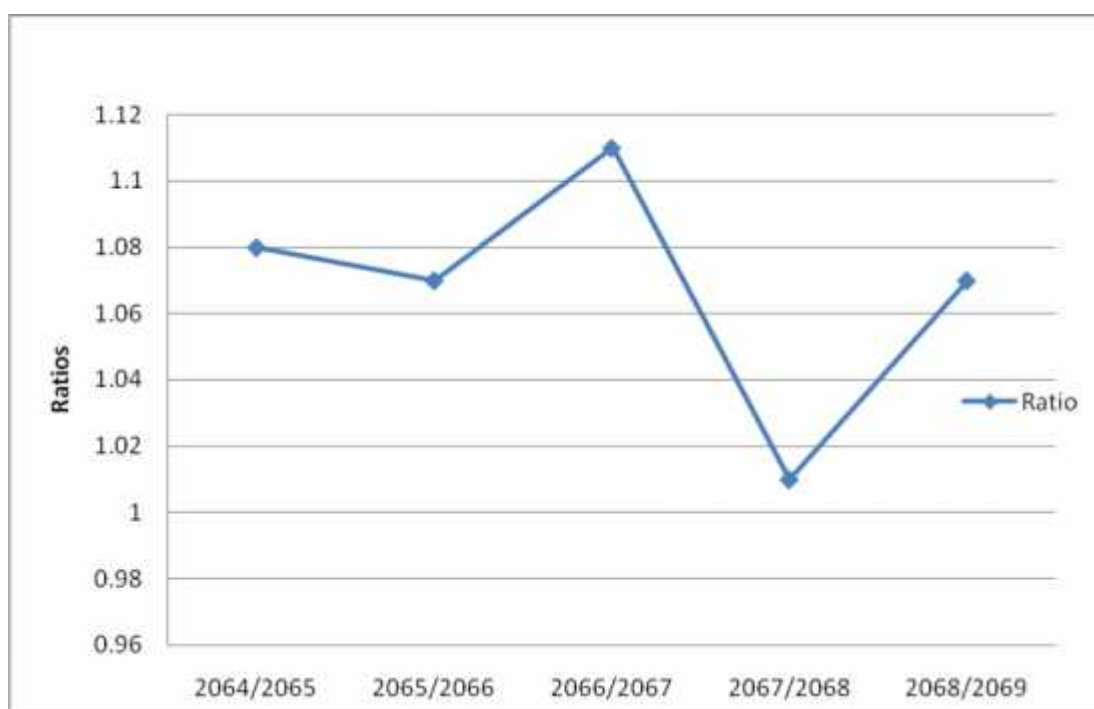
This ratio is used to know the long-term solvency of the bank. High ratio is shows the higher the performance of the bank. It is the sign of financial strength of the bank owner's equity is not included in total liabilities.

**Table 4.18 : Solvency Ratio**

Fiscal years	Total assets	Total liabilities	Ratio
2064/2065	409548497.25	379548497.20	1.08
2065/2066	893764218.15	833764218.10	1.07
2066/2067	1147324311.98	1032324311.00	1.11
2067/2068	1510047162.77	1498547162.00	1.01
2068/2069	2279269102.46	2131645727.00	1.07
Average	6239953292.61	5875829915.00	1.06

(Source: Annual report of SBBL)

**Figure 4.18 : Solvency Ratio**



It is going to analyze and interpret solvency ratio on the basis of above table. Total assets as well as total liabilities have been increasing in this study period. The ratio of total assets to liabilities or solvency ratio is slightly fluctuating. In FY 2064/065 the ratio was 1.08 which is higher than FY 2065/2066, 067/068 and 2068/2069 as a 1.07, 1.01 and 1.07 respectively. It is lower in FY 2066/067, as a 1.11%. The average ratio was 1.06. All FY are maintaining the standard ratio. Which is shows financial performance of the bank is satisfactory.

#### 4.1.1.4 Leverage Ratio or Capital Structure Ratio

This ratio is employed to know what is the capital collection and formulation of a bank. In this ratio capital comes from shareholders equity and borrowed capital. This ratio measures what portion of capital creditors and owners contribute.

##### (a) Debt Equity Ratio

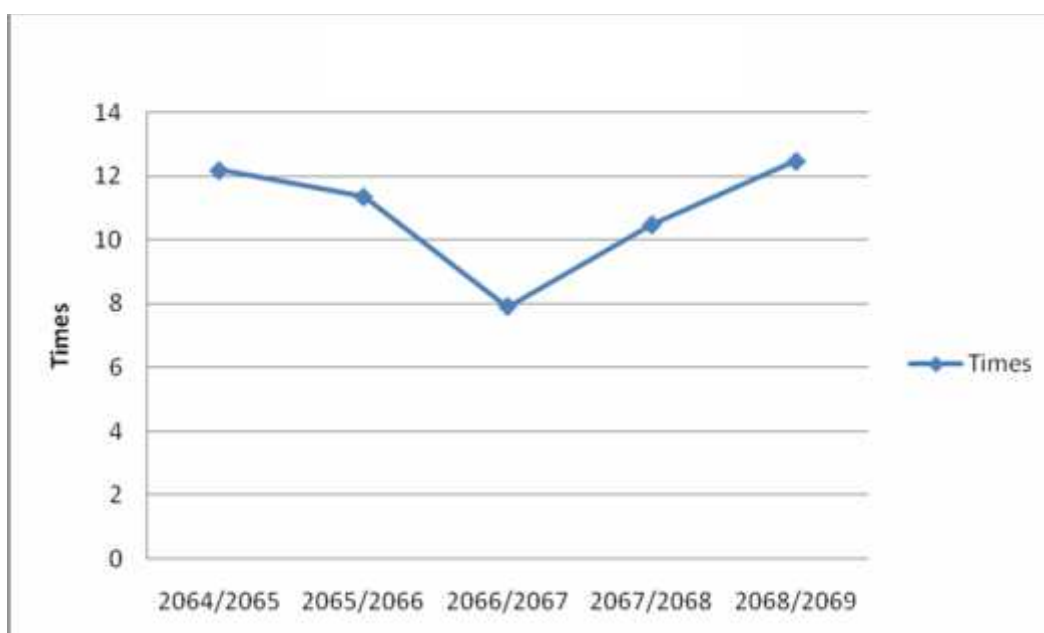
This debt to equity ratio measures the contribution of debt capital and equity capital fund to the total investment. A high ratio shows the large portion of financing by the creditors as compared to that of owners.

**Table 4.19 : Total Debt to Shareholder's Equity Ratio**

Fiscal years	Total debt	Total equity	Times
2064/2065	374118274.80	30721423.40	12.18
2065/2066	802388663.70	70668213.70	11.35
2066/2067	989093972.30	125248681.60	7.90
2067/2068	1332229026.87	127224506.80	10.47
2068/2069	2060848383.78	165321282.80	12.47
Average	5558678321.00	51918408.30	10.71

(Source: Annual report of SBBL)

**Figure 4.19 : Total Debt to Equity Ratio**



From the above table it is clear that the debt equity ratio fluctuating during five years study period. The ratio is decreasing trend in beginning of FY 2064/2065 to FY 2066/2067 and increase in FY 2067/2068 to FY 2068/069. The above table shows fluctuations ratios of total debt to total equity. All ratios are 12.18 times, 11.35 times, 7.90 times, 10.47 times and 12.47 times respectively. Its means FY 068/069 highly leverage than other FY. Thus Above study shows debt capital financing is more than of its shareholder's equity.

The financial performance of bank is not satisfactory because off this debt to equity ratio show higher the ratio higher the financial risk and lower the ratio lower the financial risk. FY 2066/067 Bank has to issue share capital to minimize the financial risk of the bank.

**(b) Total Debt to Assets Ratio**

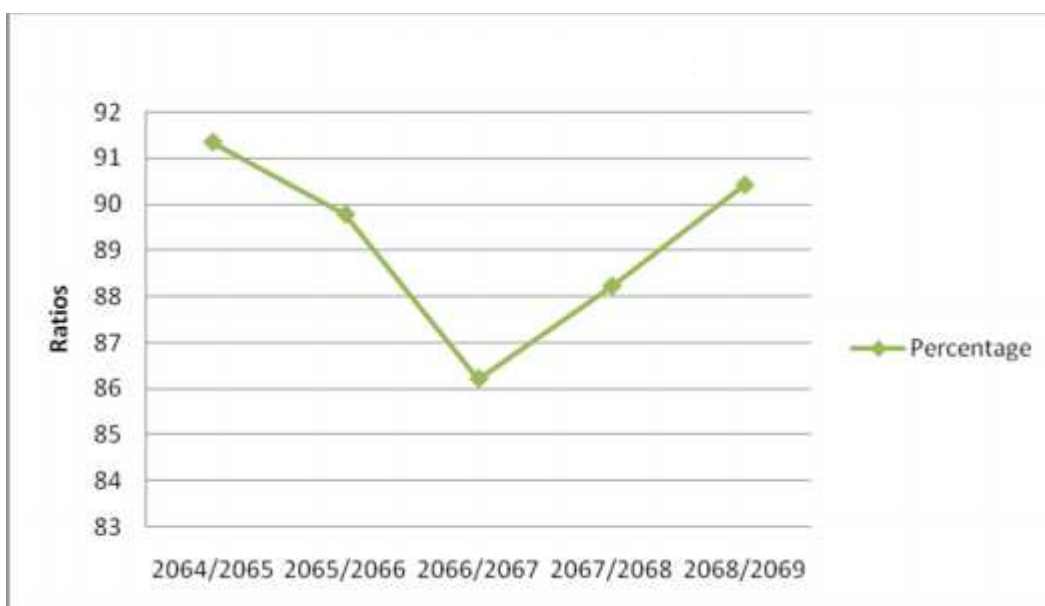
This ratio shows what portion of the capital assets is financed by outside fund. This ratio indicates the financial safety and security to the outsiders. High debt ratio indicated higher financial risk as well as increasing claim of outsiders in total assets. Similarly low ratio indicates lower financial risk as well as decreasing claims of outsiders. Whenever no hard and fast rule exists.

**Table 4.20 : Total Debt to Total Assets Ratio**

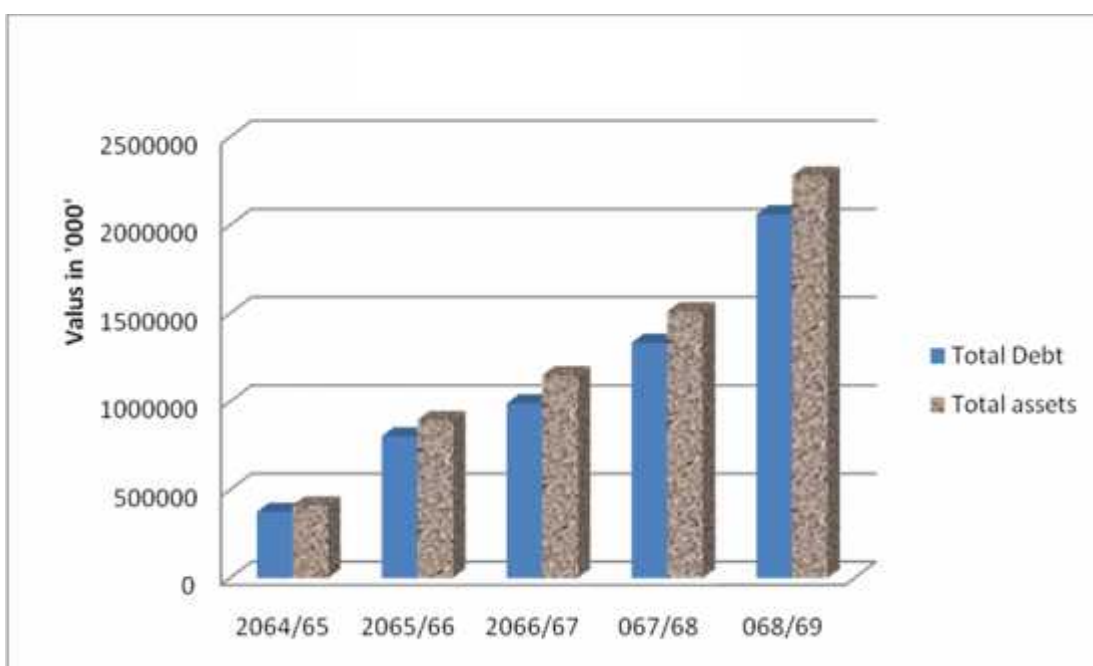
Fiscal years	Total debt	Total assets	Percentage
2064/2065	374118274.80	409548497.25	91.35
2065/2066	802388663.70	893764218.15	89.78
2066/2067	989093972.30	1147324311.98	86.21
2067/2068	1332229026.87	1510047162.77	88.22
2068/2069	2060848383.78	2279269102.46	90.42
Average	5558678321.00	6239953292.61	89.08

(Source: Annual report of SBBL)

**Figure 4.20 : Total Debt to Total Assets Ratio**



**Figure 4.20.1 : Total Debt to Total Assets Ratio**



According to the above table and figure it is shown that the bank is highly debt based. In the beginning of the percentage of debt to assets ratio was 91.35% and it was decreasing up to FY 2066/2067 then after it was increasing to FY2068/069 as a 90.42%. Which are not cross the average ratios as an 89.78%. During the study period debt to assets of the bank is fluctuating in ratio. The bank's higher ratio indicates higher financial risk. It is also clear to us that increasing rate of total debt was faster

than total assets. However if a bank is not using debt it can't increase investment and growth opportunity. So total debt and total assets both are increasing in similar trend and total debt to assets ratio is also in increasing trend. Since, total assets is more than total debt, bank is able to meet its obligation. So the financial performance of the bank is positive of satisfactory.

#### **4.1.1.5 Capital Adequacy Ratio**

Capital adequacy ratio of the bank can be measured by analyzing following ratio's under five years study period.

##### **(a) Shareholder Fund to Total Deposit Ratio**

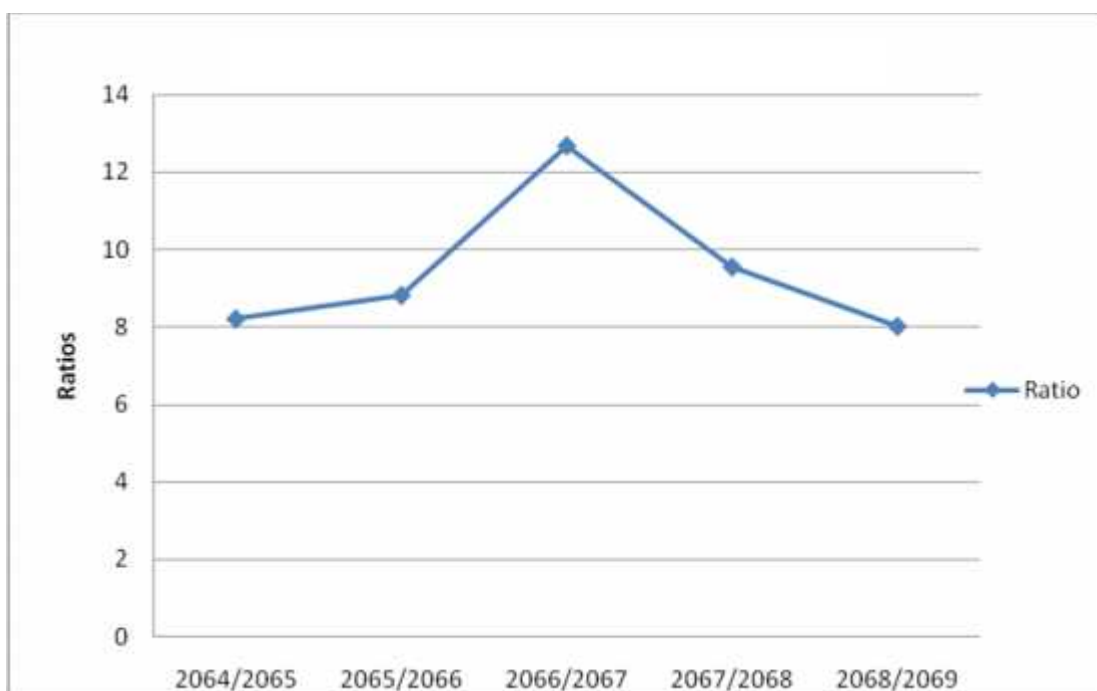
Shareholder fund to total deposit ratio shows how well bank is maintaining sufficient amount as shareholders fund in comparison to the amount of total deposit. Shareholder fund is equal to the total equity or net worth. Shareholder fund to total deposit of the bank for FY 2064/2065 to 2068/2069 has been tabulated below.

**Table 4.21 : Shareholder Fund to Total Deposit Ratio**

Fiscal years	Shareholder fund	Total deposit	Ratio
2064/2065	30721423.40	374118274.80	8.21
2065/2066	70668213.70	801451862.06	8.82
2066/2067	125248681.60	988359216.06	12.67
2067/2068	127224506.80	1332229026.87	9.55
2068/2069	165321282.80	2060848383.78	8.02
Average	51918408.30	557006763.57	9.34

(Source: Annual report of SBBL)

**Figure 4.21 : Shareholder Fund to Total Deposit Ratio**



From the above table and figure no. 4.21 reveals that shareholders fund and total deposit both are in increasing but ratios have fluctuating trend in study FY years. Beginning of year increasing trend to FY 066/067 and thereafter going to decreasing trend. Only FY066/67 and 067/068 cross the average ratio 9.34%. The ratio of shareholders fund to total deposit is high i.e. 12.67% at FY2066/067. The average rate of ratio is 9.34%.

**(b) Shareholders Fund to Total Assets Ratio**

This ratio is concerned with the sufficiency of shareholders fund against total assets. This ratio measures the relative claims of owners of the bank over the bank's assets. A high ratio indicates that out of total assets, shareholders have more controlled, owner command and vice versa. It is very essential for every financial institution to have a balance of required percentage of total assets at shareholders fund i.e. capital fund.

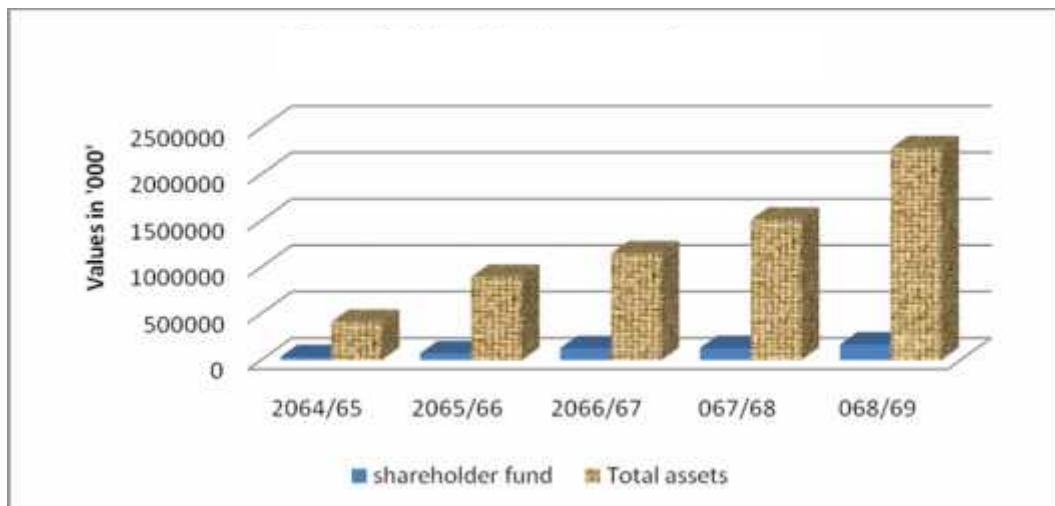


**Table 4.22 : Shareholders Fund to Total Assets Ratio**

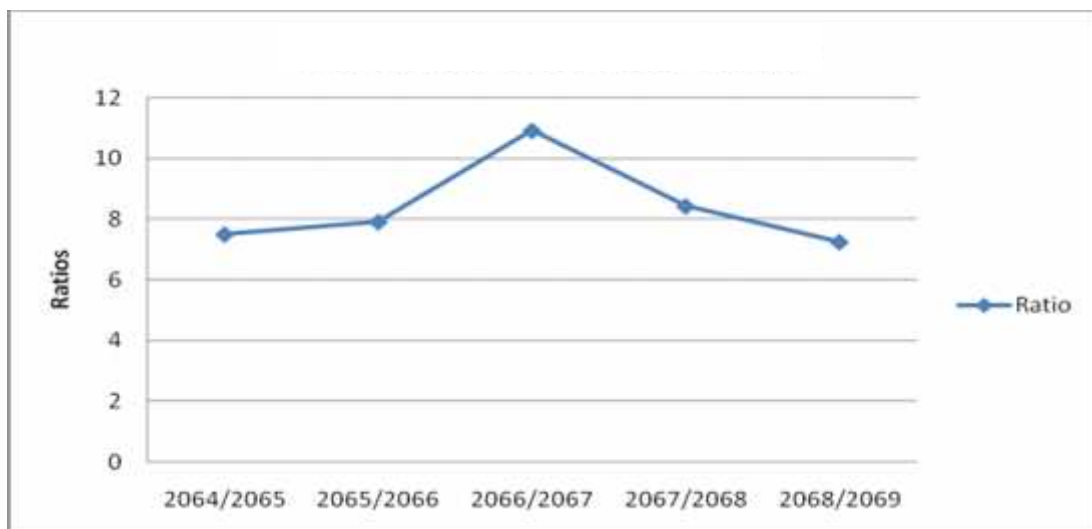
Fiscal years	Shareholder fund	Total assets	Ratio
2064/2065	30721423.40	409548497.25	7.50
2065/2066	70668213.70	893764218.15	7.91
2066/2067	125248681.60	1147324311.98	10.92
2067/2068	127224506.80	1510047162.77	8.43
2068/2069	165321282.80	2279269102.46	7.25
Average	51918408.30	6239953292.61	8.32

(Source: Annual report of SBBL)

**Figure 4.22 : Shareholders Fund to Total Assets Ratio**



**Figure 4.22.1 : Shareholders Fund to Total Assets Ratio**



According to above table and figure no 4.22 & 4.22.1 showing that the ratio of shareholder fund to total assets from 2064/2065 to 2068/2069 the ratio of fund has been 7.50%, 7.91%, 10.92%, 8.43% and 7.25% respectively. The ratio has increasing trend up to FY2066/067 then it is decreasing to after in FY2067/068 and 068/069 but it is decreased in last year i.e. 7.25% in FY 2068/069. The average ratio rate was 8.32%. This is not satisfactory in financial performance of the bank. A relative high proprietary ratio points that the concern does not have any financial crisis. Because the concern has neither any burden of interest payment nor extra ordinary pressure of payment of debt due to less amount of outside debts in total finance. But in case of too low proprietary ratio, the concern will be faced with too much burden of fixed interest payment as well as payment of debt due. If proprietary ratio is higher it means that the creditors are more secured.

#### **4.1.1.6 Profitability from the Point of View of the Prospective Investor/ Financial Analysis**

In this topic other indicator ratio's like EPS, DPS dividend yield price earnings ratio and dividend payout ratio are widely used.

##### **(a) Earnings per Share**

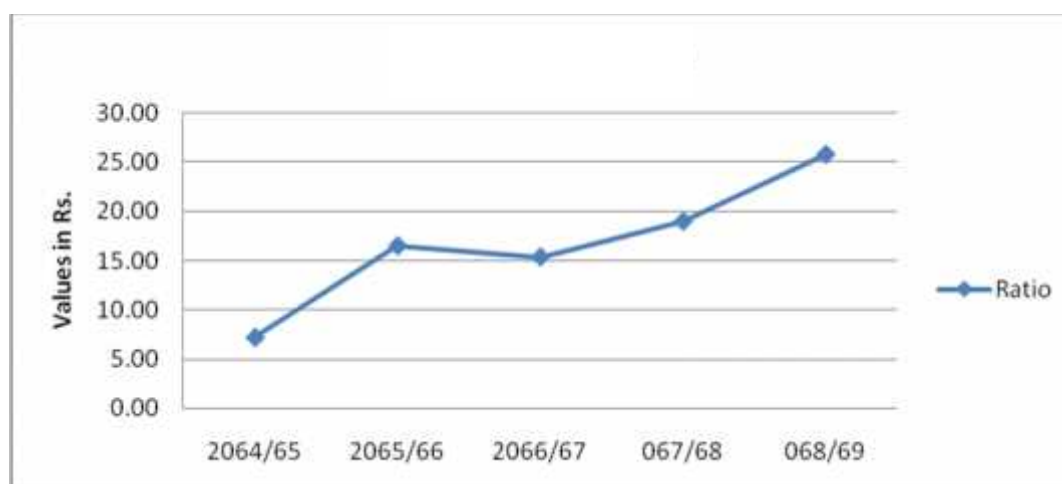
Earnings per share are the key measure of the profit available to the equity shareholder on per share basis. It is computed by dividing the net profit after tax by total number of common share issued. Here it is taken total amount of paid up capital to compute earnings per share. This ratio indicates how the company generates net earnings to its equity holders. Higher earnings per share are preferable because it reflects the efficiency of banks and vice versa. The following table exhibits relevant data of five years during the study period from FY 2064/2065 to 2068/2069.

**Table 4.23 : Earnings per share**

Fiscal years	Net profit after tax	Total no. Of shares	EPS(Rs.)
2064/2065	2166845.69	300000	7.22
2065/2066	9903590.43	600000	16.51
2066/2067	15369941.67	1000000	15.37
2067/2068	21822411.97	1150000	18.98
2068/2069	29603831.11	1150000	25.74
Average	78866620.87	4200000	18.78

(source: annual report of SBBL)

**Figure 4.23 : Earnings per share**



According to above table in the beginning FY 2064/2065 the rate of earning per share (EPS) is low i.e.Rs.7.22 but after that it is increasing to Rs.25.74 in FY2068/069. Average EPS is Rs.18.71. It is clear to us that the financial performance of the bank was good because of increasing return trend. Increasing trend of EPS shows good financial performance of the bank.

#### **4.1.1.7 Investment Portfolio Pattern Analysis of SBBL**

Bank and various financial institutions mobilize their useful and available resources in productive and profitable sectors to earn profit. Bank collects resources from different sectors and those resources should be invested efficiently in different productive

sectors to earn profit. This analysis helps us to know the lending power of the bank. During the study period we should know whether the trend of lending is improving or deteriorating. Efficient lending portfolio management affects the financial performance of the bank.

In this study it is going to analyze the total loan, borrowing pattern of the bank from 2064/2065 to FY 2068/2069. The analysis of investment/ lending portfolio pattern of the bank is presented in the following table.

**Table 4.24 : Analysis of Investment / Lending Portfolio Pattern**

Fiscal year	Lending	Lending %	Investment	Investment %	Total %
2064/2065	251026455.59	98.717	200000	1.283	100
2065/2066	563582299.90	98.51	200000	1.49	100
2066/2067	732167796.69	98.76	38204914	1.24	100
2067/2068	1001950029.61	99	10000000	1	100
2068/2069	1365330753.32	99	10000000	1	100

(Source: Annual report of SBBL)

This study found that after analysis and interprets investment and lending portfolio pattern on the base of above table: total lending of SBBL in beginning year of this study period in FY 2064/2065 is Rs.251026455.59. This was increasing each year and in FY2068/2069 it has reached Rs.1365330753.32. in FY 2064/2065 the investment on NRB securities, t- bills and other debenture was Rs. 200000.00 likewise FY2068/069 investment increased to Rs.10000000.00 and the SBBL invested Rs.10, 000,000.00 in FY2068/069 NRB debentures 1% of total investment and lending portion.

It is shows that the bank wants to invest in secured, certain and less risky sectors, even though interest income in these sectors is less than loan and advances. So the bank is interested in invest in fixed deposit in later year.

The percentage of investment amount is decrease and constant.

#### 4.1.1.8 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

An expense set aside as an allowance for bad loans (customer defaults, or terms of a loan have to be renegotiated, etc). Also know as a "valuation allowance" or "valuation reserve"

**Table 4.25 : Loan Loss Provision to Total Income Ratio**

Fiscal years	Loan loss provision	Total Income	Percentage
2064/2065	2736577.41	25935266.68	10.55
2065/2066	5260937.18	83031276.60	6.34
2066/2067	995115.80	130249627.30	0.76
2067/2068	902354.74	188918169.00	0.48
2068/2069	3670512.36	260269729.50	1.41
Average	13565497.49	688404069.08	1.97

(Source: Annual report of SBBL)

**Figure 4.24 : Loan Loss Provision to Total Income**



Above table and figure highlights the ratio for the respective year of the analysis period that remained 10.55% 6.34%, 0.76%, 0.48% and 1.41%. There is not specific trend in the ratios. 10.55% is the maximum in 2064/065 and it falls from 10.55% to 0.48% in year 2067/068 then it rises 1.41% in year 2068/069.

### (b) Loan Loss Provision to Total Deposit Ratio

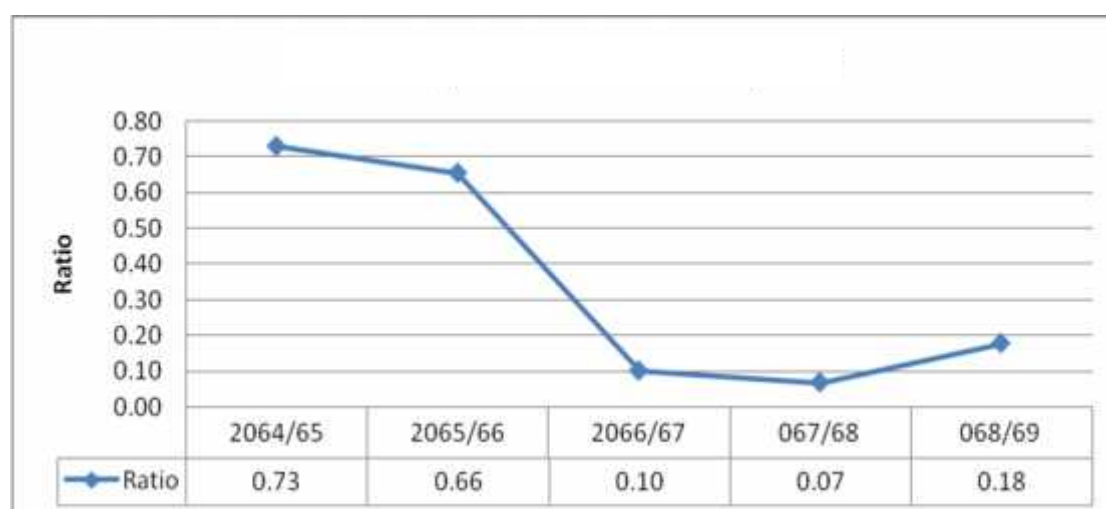
This ratio indicates that how many portion of total deposit are loan loss provision amount.

**Table 4.26 : Loan Loss Provision to Total Deposit Ratio**

Fiscal years	Loan loss provision	Total deposit	Percentage
2064/2065	2736577.41	374118274.80	0.73
2065/2066	5260937.18	801451862.06	0.66
2066/2067	995115.80	988359216.06	0.101
2067/2068	902354.74	1332229026.87	0.07
2068/2069	3670512.36	2060848383.78	0.18
Average	13565497.49	<b>557006763.57</b>	0.24

(Source: Annual report of SBBL)

**Figure 4.25 : Loan Loss Provision to Total Deposit Ratio**



The ratios FY2064/065 to 2068/069 are less than 1%. This shows that SBBL 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. Higher loan loss provision shows the default in payment of the loan by the borrowers.

## 4.2 Percentage wise Trend Analysis

In this percent wise trend analysis it is going to analysis whether the financial position of SBBL is increasing or decreasing over the five years study period. For the purpose of percent wise trend analysis it is going to analyze percentage wise trend of various financial indicators of the bank. It has taken all the data during five years study period from 2064/2065 to 2068/2069 which is analyzed in following manner:

**Table 4.27 : Percentage Wise Trend Analysis of Financial Variables**

Financial variables	2064/065	2065/066	2066/067	2067/068	2068/069
Total assets	100	218.23	280.14	368.71	556.53
Fixed assets	100	206.86	241.32	379.85	537.30
Current assets	100	210.00	227.80	300.98	561.21
Total liabilities	100	224.98	291.553	388.00	542.34
Current liabilities	100	439.98	700.43	1063.50	1127.66
Net worth	100	230.03	407.69	414.123	538.13
Loan/ Advance	100	224.511	291.67	399.141	543.90
Investment	100	100	19252.46	5000	50 00
Total deposit	100	214.22	264.18	356.10	550.85
Total income	100	320.15	502.21	728.43	1003.54
Total expenses	100	301.83	472.34	730.42	1026.13
Interest income	100	344.88	558.83	818.17	1104.32
Interest expenses	100	317.09	497.54	770.21	1069.15
General reserve	100	1478.77	1420.62	1694.50	2453.20
Net profit	100	457.05	709.32	1007.10	1366.22

(Source: Annual report of SBBL)

Above table show the percentage of various financial variables as an index percentage from FY2064/2065 to Fy2068/2069. In FY2068/2069 index percentage of total assets is 556.53%, fixed assets have 537.30% and current assets have 561.21% from the base year of 2064/2065. The above table shows that the increasing rate of current assets is greater than fixed assets during the study period. In other sense the bank has invested more funds on current assets than fixed assets or bank has invested in short term as well as long term investment sectors. Those increased index percentage are favorable signs for bank's financial performance.

Total liability percent is 542.34% at FY2068/2069 from base level of 100% likewise current liability at that period is 1127.66% percent from the base level. It is shows that increasing rate of current liability is more than total liability.

Net worth of the bank increased to 538% at FY2068/2069 as compared to base year. Likewise the growth of current liabilities is 1127% percent in the same FY which means that the bank slightly depends on outside source of finance than internal source.

Growth trend of deposit at FY2068/2069 is 550.85% likewise loan and advance is 543.90% the percentage different with those deposit and loan/ advance is 6.95%. Now it can be say that there is no more different increment percentage between total deposit and loan & advance plus investment. The rate of interest income and rate of interest expenses are increasing trend but interest expenses are no more than interest income percentage i.e.1069.15% and 1104.32% respectively. But total expenses are more in comparison of total income percentage i.e.1026.13% and 1003.54% respectively. This trend is unfavorable for the bank. Bank should practice to increase income more than interest expenses.

Net profit percentage has been increased year by year. On the base level the net profit was increased 13.66 times in the FY 2068/2069. In other hand the general reserve was also increased in the same pattern of net profit. So it is clear to us that by increasing pattern of general reserve the bank have kept sufficient reserve of present. On the other side the net profit is increased in the same pattern which is clear the financial performance of the bank is most favorable situation.



### **4.3 Statistical Analysis**

Statistical analysis is the method of using statistical knowledge for financial performance analysis. Many types of methods can be employed to evaluate financial performance under statistical tool. It is going to analysis financial performance of the bank under the following statistical tools.

- i. Trend analysis,
- ii. Coefficient of correlation.

#### **4.3.1 Trend Analysis**

Trend analysis is a statistical tool. It occupies an important role in the analysis and interpretation of financial statement. Trend analysis in general term signifies a tendency. Such analysis of business factors is very significant from the point of view of forecasting or budgeting. It discloses the change in the financial and operating data between specific periods and makes possible the analyst to form an opinion as to whether the tendencies are favorable or not that are reflected by the accounting data.

Trend analysis is a useful statistical quantitative method to cope up with uncertainty about the future and to analyze financial performance as well as to forecast future trend. It also allows us to describe the historical pattern to product past pattern / trends into the future. Information of past can help great about future with the help of this tool it is going to analyze financial performance of SBBL. Which is relate to analyze the trend of total loan and advance, total deposit, net profit and total income of past five year and future value of coming next five years is being forecasted.

##### **4.3.1.1 Trend Analysis of Loan and Advance**

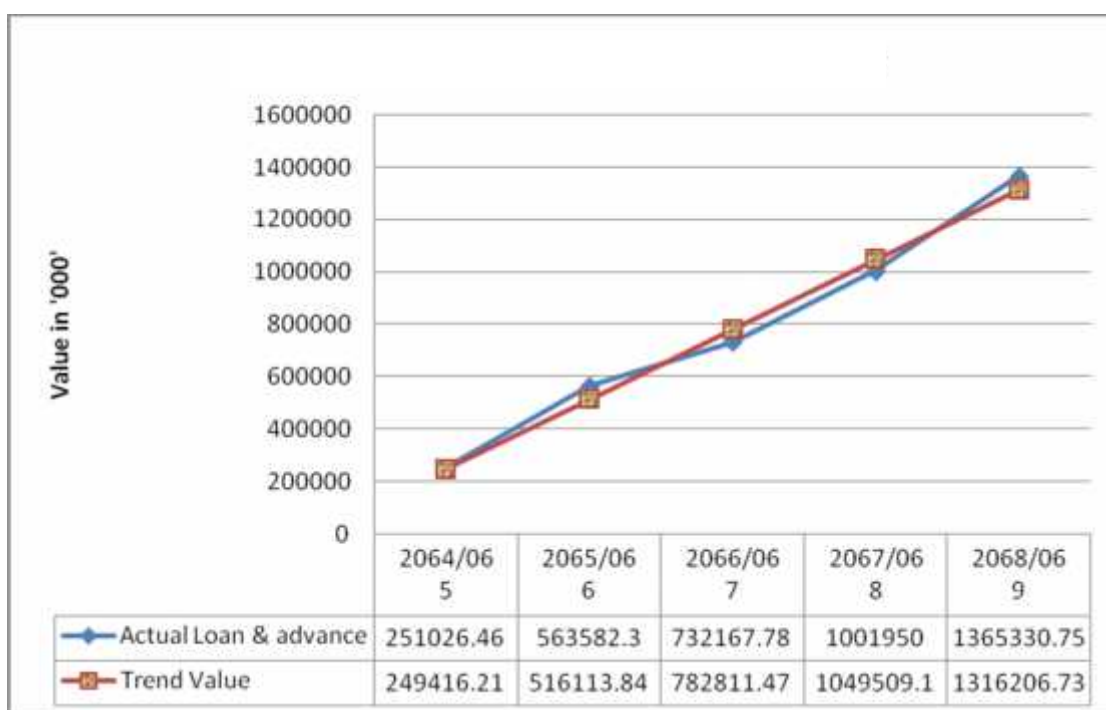
Analysis of loan and advance is a key indicator to know the financial position of the bank. It helps to know the resource utilization capacity of the bank. So it is going to analyze and interpret the trend movement of loan and advance whether it is satisfactory or not.

**Table 4.28 : The Actual and Trend Value of Loan and Advance (Rs.000)**

Fiscal Year	Actual Loan & advance	Trend Value
2064/065	251026.46	249416.21
2065/066	563582.30	516113.84
2066/067	732167.78	782811.47
2067/068	1001950.00	1049509.10
2068/069	1365330.75	1316206.73

(Source: Annual report of SBBL)

**Figure 4.26 : The Actual and Trend Value of Loan and Advance**



The trend equation of loan and advance is  $Y = a + bx$  i.e.  $Y = 782811.47 + 266697.63 * x$  here Y is denoted for total loan and advance and x represents time variable. They intercept is 782811.47 thousand which is an average amount of total loan and advance of five years and slope of trend  $b = 266697.63$  thousand. It means the growing rate of loan and advance is 266697.63 thousand in each years.

From the above table and figure shows that actual amount of loan and advance was 251026.46 thousand in beginning year of this study, which has reached to 1365330.75 thousand at fifth year. Similarly the trend value of loan and advance was 249416.21

thousand in FY2064/065 which is increasing by 266697.63 thousand per year. This is reached to 1316206.73 thousand at the end of the fifth years.

After the above analysis we can conclude that the actual amount of loan and advance was increasing in FY2064/065 to 2068/069. It can be known that the resource utilization capacity of the bank is satisfactory in these years. So the bank has positive financial performance in this aspect. Again so the bank should be continue maintained the increase trend in future.

#### 4.3.1.2 Trend Analysis of Deposit

Deposit collection is very important task for the bank deposit collection and mobilization is very essential to generate profit and far the indication should financial performance of bank. So it is going to evaluate financial performance of the bank with the help of deposit collected by the bank.

**Table 4.29 : The Actual and Trend Value of Deposit (in '000)**

Fiscal Year	Actual Deposit	Trend Value
2064/065	374118.275	-669446.13
2065/066	801451.862	-279022.39
2066/067	988359.216	111401.35
2067/068	1332229.03	501825.09
2068/069	2060848.38	892248.83

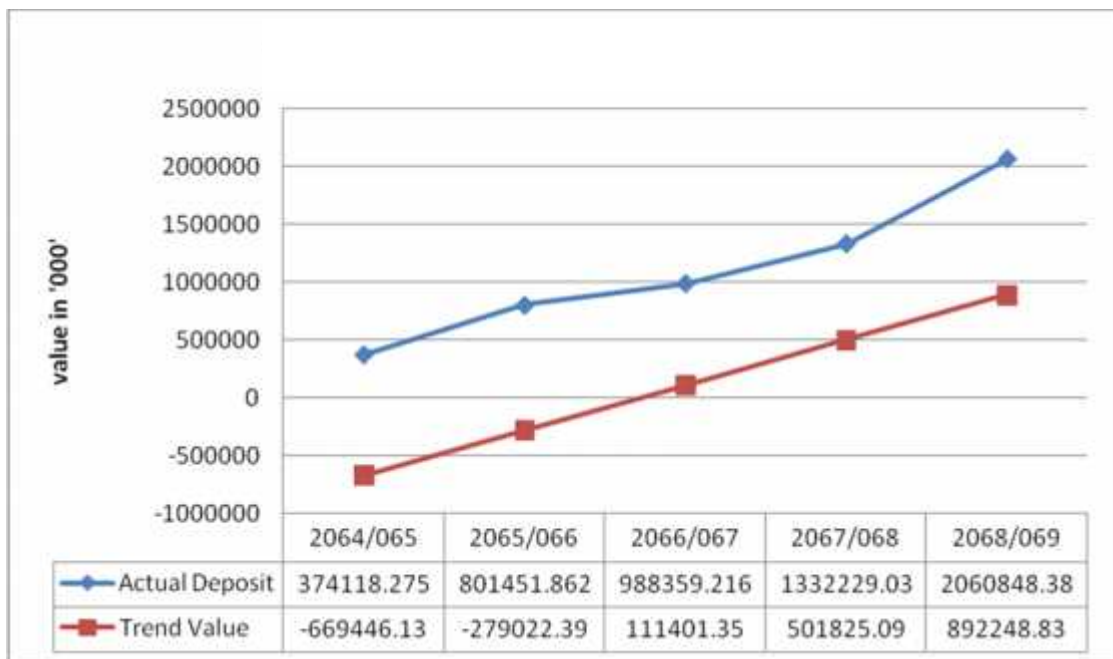
(Source: Annual report of SBBL)

The trend equation of straight line trend of total deposit is  $Y = a + bx$ . When Y represents for total deposit and x represent time variable. The average amount of total deposit is  $a = 111401.35$  thousand within the five years study period and the slope of trend  $b = 390423.74$  thousand on the basis of trend equation the growing rate of total deposit is Rs.390423.74 thousand per year.

The above table clearly presents that the actual value of deposit was Rs.374118.275 thousand in base year of the study period which is at present Rs.2060848.38 thousand.

The trend value of base year was Rs.-669446.13 thousand which reached Rs.892248.83 but actual deposit is 2060848.38 thousand at the end of the fifth years. Both the values are growing year by year. So we can summarize that the slope of trend line is negative value in beginning of year then after increasing in year by year but actual deposits are good it always cross the trend line in all FY. So deposits are satisfactory level.

**Figure 4.27 : The Actual and Trend Value of Deposit**



The table and figure clearly reveals that the bank has positive financial performance in relation to deposit collection power. From the above analysis, it can be concluded that the bank is able to increase its deposit in each year. So credibility of the bank is positive in the view of customers.

#### **4.3.1.3 Trend Analysis of Net Profit**

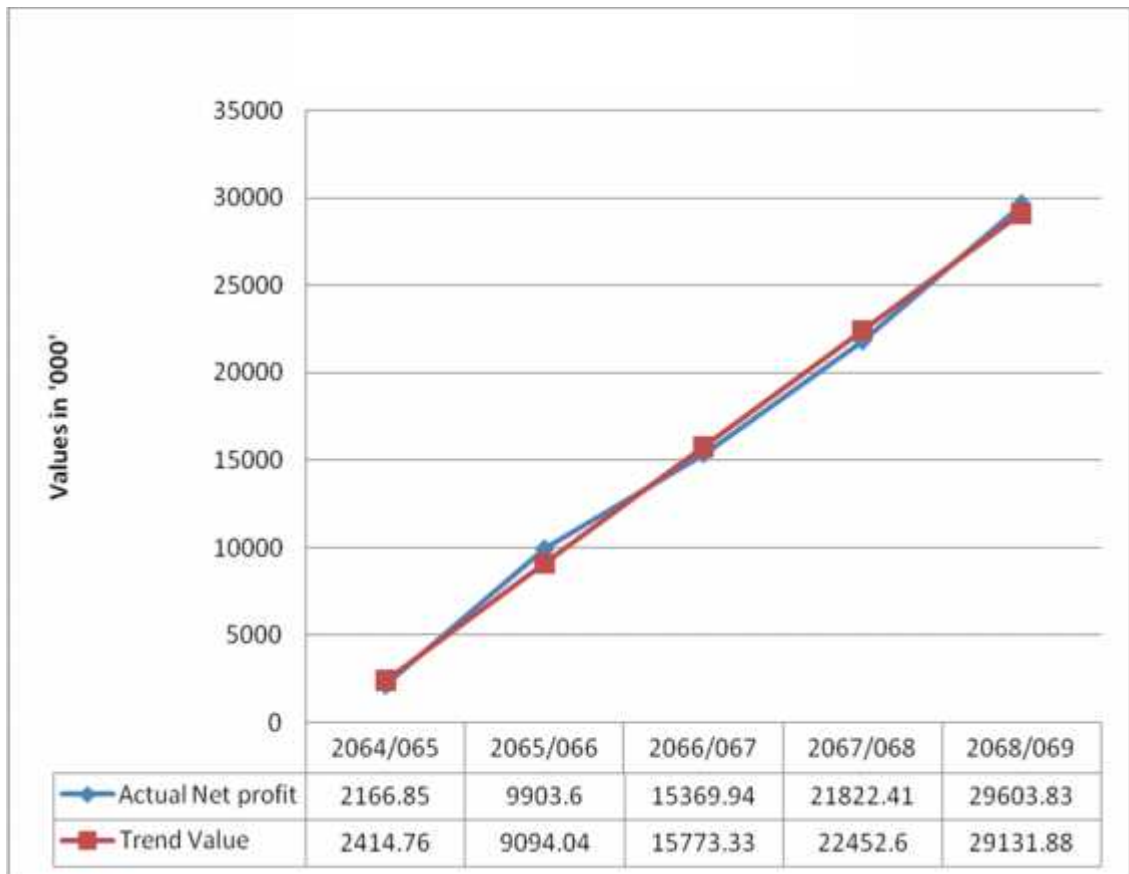
The main objective of financial organization is to provide financial services as well as to earn financial benefit. The net profit is a measuring indicator to test the financial performance. In his analysis it is going to analysis the trend movement of net profit on the basis of five years data.

**Table 4.30 : The Actual and Trend Value of Net Profit (Rs. in 000)**

Fiscal Year	Actual Net profit	Trend Value
2064/065	2166.85	2414.76
2065/066	9903.60	9094.04
2066/067	15369.94	15773.33
2067/068	21822.41	22452.60
2068/069	29603.83	29131.88

(Source: Annual report of SBBL)

**Figure 4.28 : The Actual and Trend Value of Net Profit (Rs. in 000)**



The trend equation of net profit of this study is  $Y = a + bx$  in this equation Y represents net profit and x represent time variables. The Y intercepts is the average amount of net profit for five years period. The average net profit  $a = 15773.324$  thousand for the study period. The slope trend line  $b = 6679.28$  thousand which indicated that the trend of net profit is changing at the rate of 6679.28 thousand per year.

The above table clearly reveals that the actual value of net profit was Rs.2166.84 thousand in FY 2064/065. It is clear that the net profit was increasing trend which was reached Rs.29603.62 thousand in FY 2068/2069. It is the sign of positive financial performance. But actual net profit is less than trend value in study period FY2066/067 and fiscal year 2067/068. Now on the basis of above analysis it can be concluded that the bank's actual net profit is increasing trend. In the aspect of this trend analysis profit earning trend is more positive and favorable for the bank.

#### 4.3.1.4 Trend Analysis of Total Income

It is necessary to depend on total income for efficient operation of any organization. Without appropriate income, it is difficult to mobilize resources of any organization. So it is going to evaluate financial performance of the bank with the help of trend analysis of total income.

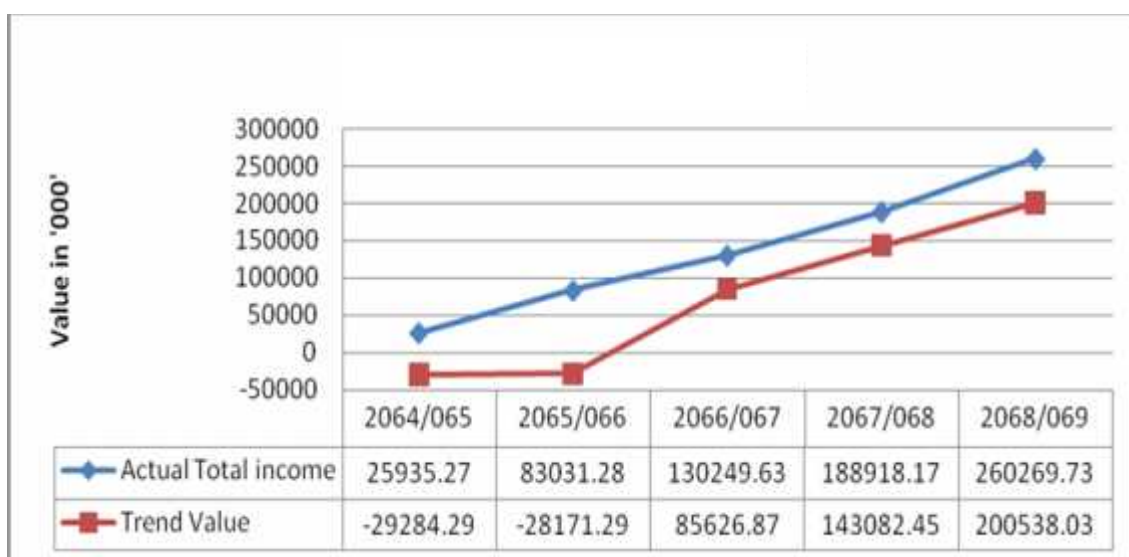
From the total profit and loss account of the SBBL we can see the total income of the bank of each year which is as follow:

**Table 4.31 : The Actual and Trend Value of Total Income (Rs in 000)**

Fiscal Year	Actual Total income	Trend Value
2064/065	25935.27	-29284.29
2065/066	83031.28	-28171.29
2066/067	130249.63	85626.87
2067/068	188918.17	143082.45
2068/069	260269.73	200538.03

(Source: Annual report of SBBL)

**Figure 4.29 : The Actual and Trend Value of Total Income**



The straight line trend equation of total income is as follows:

$$Y = a + bx \quad Y = 85626.87 + 57455.582x$$

In this equation Y and X denotes total income and time variable respectively. On the basis of the least square analysis average total income  $a = 85626.87$  thousand during the study period and the slope of trend line  $b = 57455.582$  thousand. This amount shows that the trend of total income is increasing at the rate of 57455.582 thousand per year during the study period.

The above table shows the trend value of total income which was Rs.25935.27 thousand in FY 2064/065. This has reached to Rs.260269.73 thousand in FY 2068/069. Likewise the actual value of total income in FY 2064/065 was Rs.25935.27 thousand i.e. more than trend value which was reached Rs.260269.73 thousand in FY2068/069 i.e. also more than trend value. The actual total income is more than trend value of all fiscal year, in five year study period. But actual total income is increasing trend value at satisfactory level. So we can analysis above the study the bank is sound position.

This analysis has emphasized that the total income of the bank is in sound position within the five years study period. So it is shows that the bank is going to keep positive financial performance in this aspect. The bank should maintain the above trend in coming years.

#### 4.3.1.5 Forecasting of Loan and Advance, Total Deposit, Net Profit and Total Income for Next Five Years.

We have already analyzed that there is increasing trend of loan and advance, total deposit, net profit and total income which shows the efficiency in performance reliability and efficient utilization of the collected fund. Past trend of bank is satisfactory. So it shows good financial performance.

Now it is going to analyze the total loan and advance, deposit, net profit and total income trend of the bank with the help of least square equation for next five years period till FY2073/074.

**Table 4.32 : Forecasting of Loan and Advance, Total Deposit, Net Profit and Total Income**

FY	X	Loan & advance	Deposit	Net profit	Total income
Equation	>	$Y=782811.47$ $+266697.63x$	$Y=11401.4$ $+390423.74x$	$Y=15773.3$ $+6679.3x$	$Y=85626.87$ $+57455.58x$
2064/065	-2	249416.21	-669446.13	2414.764	-29284.29
2065/066	-1	516113.84	-279022.39	9094.044	-28171.288
2066/067	0	782811.47	111401.35	15773.324	85626.87
2067/068	1	1049509.10	501825.09	22452.604	143082.45
2068/069	2	1316206.73	892248.83	29131.884	200538.03
2069/070	3	1582904.36	1282672.57	35811.164	257993.62
2070/071	4	1849601.99	1673096.31	42490.44	315449.20
2071/072	5	2116299.62	2063520.05	49169.72	372904.78
2072/073	6	2382997.25	2744367.53	55849.00	430360.35
2073/074	7	2649694.88	3134791.27	62528.28	487815.93

(Source: Annual report of SBBL)



From the above table reveals that the trend of loan and advance deposit, net profit and total income are expected to grow in future.

On the basis of the table beginning amount of this study for loan and advance was Rs.249416.21thousand in FY2064/065 it will reach Rs.2649694.88 thousand in FY 2073/074. Deposit in FY 2064/065 was Rs.-669446.13 thousand it will reach Rs.3134791.27thousand in 2073/074. The net profit was Rs.2414.764 thousand in 2064/065 it will reach Rs 62528.28 thousand in F/Y 2073/074. Likewise the total income was Rs.-29284.29 thousand in 2064/065 and it will reach Rs.487815.93 thousand in 2073/074. Therefore costing activities shows the good financial performance in the future of the bank.

#### **4.3.2 Coefficient of Correlation**

Financial performance of the bank should be measured by the help of statistical tool. The relation between two variables on dependant variable and other is independent variable is called correlation. Karl Pearson's coefficient of correlation is the most important method of measuring the correlation coefficient. So coefficient of correlation is a familiar statistical tool.

Coefficient of correlation is denoted by (r) If  $r = 0$  there is no relation. If  $r < 0$  there is negative relation and if  $r > 0$  there is positive relation between the variables. If  $r = +1$  and  $r = -1$  there is perfectly positive and perfectly negative relation respectively. And if  $r > 6$  P.E. it is significant;  $r < 6$  P.E. it is insignificant relation and  $r < P.E.$  it is also insignificant, i.e. there is no evidence of correlation. It is going to analyze the relation between

I) Total deposit and loan and advance

II) Loan and advance and net profit

The relationship between these two variables is computed by the relevant data during five years study period from FY 2064/065 to 2068/069. There is detail calculation of coefficient of correlation probable error and coefficient of determination ( $r^2$ ) in appendix number 5 and 6. Here the calculated result of r, PE and  $r^2$  is presented in table No. 4.33.

**(a) The Value of Coefficient of Correlation, Probable Error and Coefficient of Determination at 5 years period**

Particular	r	r <sup>2</sup>	P.E	6P.E
Total deposit and total loan/advance	0.996	0.992	0.00241	0.01446
Loan & advance and net profit	1	1	0.00	0.00

Above table presented the analysis of coefficient of correlation between total deposit and loan and advance to find out whether deposits are significantly used as loan and advance or not. In this analysis the total deposit is independent variable (x) and loan and advance is dependent variable (y). After analysis coefficient of correlation between total deposit and loan and advance of bank, it is found the relations between both variables are positive correlated. It means the bank is able to use deposit significantly. The value of its coefficient of correlation  $r = 0.996$  or 99.6%, Therefore, it can be concluded that the increment in loan & advance if the deposit can be enhanced. Likewise  $P.E = 0.00241$ . To know the significance of 'r', we have 0.996 and  $6 P.E = 6 * 0.00241 = 0.01446$ . Since r is much greater than 6PE then we cause that the value of 'r' is highly significant i.e.  $r > 6(PE)$  or  $0.996 > 0.01446$ .

On another hand the coefficient of determination is 0.996 or 99.6 percent. That means 99.6% of variation in loan and advance (dependent variable) has been explained by the deposit (independent variable). Since the value of r is significant, it implies that higher the amount in total deposit, higher is the amount in the loan and advance. Also lower the amount in total deposit, lower is the amount in loan and advance. However the total deposit is good loan and advance will also be good. It shows the relation between deposit, loan and advance is complete positive.

In the side of loan and advance and net profit the above table clearly reveals that the analysis of coefficient of correlation between loan and advance and net profit is to find whether loan and advance is significantly increased in net profit or not. In this analysis loan and advance is independent variable (x) and net profit is dependent variable (y). After the analysis coefficient of correlation between loan and advance and net profit of bank it is found that the relation between both variable is positive. It shows the positive correlated between loan & advance and net profit of the SBBL.

That mean the value of the loan & advance is higher than the net profit. In another word loan and advance play effective role to increase the volume of net profit. The value of its coefficient of correlation  $r = 1$  of 100%, Therefore, it can be concluded that the increment in net profit is achieved if the loan & advance can be enhanced. Probable error P.E = 0.00 and then 6 P.E. is 0.00. Since  $r$  is perfectly positive so P.E is 0.00 the value of  $r$  is highly significant.

That mean the volume of net profit was increased due to the increased of volume of loan and advance.

Now we have to find out other effective factors that affect the net profit volume in each year. We have to analysis the relation between total loan and advance and total income of the bank.

**(b) The Value of Coefficient of Correlation, Probable Error and Coefficient of Determination Between Total Loan and Advance and Total Income for 5 Years**

Particular	$r$	$r^2$	P.E	6P.E
Loan & advance and Total Income	0.8568	0.734	0.0802	0.4812

From the above table it has presented the analysis of coefficient of correlation between loan and advance and total income of the SBBL. It shows whether loan and advance is significantly used as increasing the total income or not.

In this analysis loan and advance is independent variable ( $x$ ) and total income is dependent variable ( $y$ ).

After analysis coefficient of correlation between loan and advance and total income of the bank it is found the relations between both variables are positive. It means the bank is able to use loan and advance significantly. The value of its coefficient of correlation  $r = 0.8568$  i.e. 85.68% likewise PE = 0.0802 and then to know the significance we have P.E. is 0.0802 and then 6PE is 0.4812 i.e.  $6 \times 0.0802$  and then  $r > 6P.E.$  i.e.  $0.8568 > 0.4812$ . Since the value of ' $r$ ' is higher than 6 P.E. So the value of

'r' is significant or there is positive correlation between total loan & advance and total income.

This result implies that positive and significant between total income and loan & advance of the bank. Now we conclude that net profit are positively related with income from other sources than income from interest income by loan and advance of the bank per years.

#### **4.4 Financial Performance Index of SBBL**

This table proved all which are presentation and explained in above table and paragraph.

**Table 4.33 : Main Financial Performance Index**

S.N.	Particulars/Year>	Index	064/065	065/066	066/067	067/068	068/069
1	Net profit/Total income	%	8.35	11.93	11.80	11.50	11.37
2	Earnings per share	Rs.	7.22	16.51	13.37	18.98	25.74
3	Market price per share	Rs.	-	-	-	107.00	130.00
4	Income Ratio per share	Ratio	-	-	-	5.64	5.05
5	Dividend per share	%	0.00	0.00	15.00	0.00	20.00
6	Cash dividend per share	%	0.00	0.00	0.00	18.00	0.00
7	Interest income/Loan & advance	%	12.58	14.86	14.94	16.43	17.01
8	Staff exp./Total ope. exp	%	6.67	6.99	8.51	8.77	9.70
9	Total deposit borr. int exp	%	6.69	7.50	8.12	9.76	9.28
10	Staff bonus/Total staff exp	%	16.30	31.32	26.61	26.80	20.64
11	Net profit/Total borrowing	%	1.41	2.40	2.34	2.49	2.48
12	Net profit/Total asset	%	0.53	1.11	1.34	1.45	1.30
13	Total Loan/Deposit	%	67.97	71.38	75.01	75.97	66.92
14	Total operation exp./Total Asset	%	5.66	7.49	8.50	9.94	9.36
15	Capital-prathamik	%	10.86	11.27	14.00	11.12	10.49
16	Capital-purak	%	0.92	0.91	0.85	0.91	0.89
17	Total Capital	%	11.78	12.18	14.85	12.03	11.38
18	Liquidity	%	39.91	39.16	34.42	33.74	40.66
19	Nonperforming loan/Total loan	%	0.58	1.15	0.51	0.00	0.00
20	Weighted average Interest	%	5.89	7.36	6.82	6.67	7.73
21	Book net worth	Rs.'00'	306.76	706.25	1221.1	1236.9	1622.0
22	Total number of shares		1150000	1150000	1150000	600000	300000

(Source: Annual report of SBBL)

## 4.5 Bankometer Method: Solvency of the Bank

$$S = 1.5 * CA + 1.2 * EA + 3.5 * CAR + 0.6 * NPL + 0.3 * CI + 0.4 * LA$$

Where 'S' stands for solvency

CAR stands for capital adequacy ratio

CA stands for capital assets ratio

EA stands for equity to assets ratio

NPL stands for non-performing loans to loans ratio

CI stands for cost to income ratio

LA stands for loans to assets ratio

All bank and financial institutions having 'S' value greater than 70 are solvent and termed as super sound banks, while those banks having 'S' value below 50 are not solvent. The area between 50 and 70 is defined as gray area because of the susceptibility to error classification.

**Table 4.34 : Solvency of the Bank**

FY/Ratio	CA	EA	CAR	NPL	CI	LA	S=VALUE
2064/2065	8.11	7.5	11.78	0.58	78.26	62.09	111.06
2065/2066	8.54	7.91	12.18	1.17	74.26	64.01	116.32
2066/2067	11.29	10.92	14.85	0.52	74.08	64.62	130.40
2067/2068	8.86	8.43	12.03	0	78.98	67.02	116.01
2068/2069	7.72	7.25	11.38	0	80.54	60.51	108.48

(Source: Annual report of SBBL)

From the table no 4.36 value of 'S' is more than 70 standard value of Bankometer method of FY2064/065 to FY2068/069 so SBBL is solvent and super sound bank for 5 year study period. Solvency Ratio is in increasing trend.

## 4.6 Major Findings

The following findings have been derived from the analysis and interpretation of the data.

- ) Return on total asset ratio showed that SBBL has funded total assets for income generation. SBBL has utilized assets effectively.
- ) SBBL has maintained conventional standard of 2:1, current ratio seems to be satisfactory. In the total study period CR has shown not less than the conventional standard. SBBL has made investment in securities of GoN, securities like Treasury bill and debentures; share of other bank and financial institution, and organizations.
- ) Cash and bank balance to the current and saving deposit ratio seems to be consistent. In the year 2064/065 the ratio was 72.79%. This exhibit that SBBL was able to meet its immediate obligation as the bank balance is much. But this ratio is decreased to 41.56% in last fiscal year 2066/067 and 42.27% in FY2067/068 after increase in FY2068/069 is 52.31% respectively. This trend was satisfactory level of liquidity position of the bank.
- ) Fixed deposit and cash and saving deposit amounts are positive correlated thus, bank is highly able to manage the fund.
- ) Fixed deposit to total deposit ranges from 17.20 percent to 45.17 percent and average 22.82 percent in the study period.
- ) Debt equity ratio of SBBL reveals less equity than debt in the total capital. Debt to asset ratio showed that more than 89% of the total asset has been financed by the outsider's fund.
- ) SBBL has been satisfactory level of utilizing its deposit on loan and advances which is depicted by loan and advances to total deposit ratio. This ratio is fluctuating trend which is 67.10%, 70.32%, 74.08%, 75.21%, and 66.25% and average ratio is 70.43% in FY2064/065 to FY2068/069.
- ) NPL has increased in beginning of year but there after it was decreasing to 0 % in FY2067/ 068 to 068/069.

- ) The investment to total deposit ratio showed irregular pattern and decrease in all FY except FY 2066/067 during the study period. It was high in position in year 2066/067 in 3.90%.
- ) Performing assets to total debt ratio was satisfactory, which depicts SBBL has been satisfactorily utilizing the creditor's fund.
- ) Performing assets to total asset ratio showed that SBBL has funded to total assets for income generation. SBBL has utilized assets adequately.
- ) Loan loss provision to total income ratio was quite minimal throughout the study period that indicates SBBL's awareness in advancing loans.
- ) Almost all loan loss provision to total deposit ratio of the corresponding year of the study period is not more than 1% as accordance with NRB directive, Therefore we can conclude that SBBL has granted loan in less risky sector.
- ) Staff expenses to total income ratio is in increasing trend. It was 5.96% in initial period of study period and increased to 7.95% at last FY2068/069. It indicates that SBBL should carry out this expense in future.
- ) Office operation expenses to total income ratio remained moderate in nature.
- ) SBBL's EPS is increasing year by year throughout the study period. In the final year of study period i.e. 2068/069 it was sound in position.
- ) Income analysis showed that interest income remained dominant in SBBL. More income was occupied by interest income throughout the study period.
- ) Expenditure analysis showed that interest expenses occupied major portion in expenses of SBBL.
- ) The trend analysis of deposit, loan & advance and net profit shows the increasing trend than average value.
- ) EPS has been found to be increasing trend. MVPS is also in increasing trend but which has only been recorded for the fiscal year 2067/068 and 2068/069 only.
- ) Correlation of coefficient between deposit and loan and advance has found that it is highly positive correlated. This indicates that increased in deposit will increase in loans and advances and vice-versa. The study also suggests that



independent variable that is loan and advances are very highly dependent to the deposit.

- ) Correlation of coefficient between net profit and loan and advance has found to be perfectly positively correlated. This indicates that increased in loan and advances will increase in net profit and vice-versa. The study also suggests that independent variable that is net profit highly dependent to the loan and advances.
- ) Correlation of coefficient between total income and loan and advance has found to be positively correlated. This indicates that increased in loan and advances will increase in total income and vice-versa. The study also suggests that independent variable that is total income highly dependent to the loan and advances.
- ) The lowest 33.73% of total deposit was held as cash and bank balance in the year 2067/068 and the highest 40.66% in 2068/069 by SBBL which shows strong liquidity position. SBBL is very consistent in maintaining its liquidity position.
- ) Profitability reveals the degree of success in achieving desired profit. Among the various profitability ratios, return on equity are increasing in beginning as 7.05% to 17.91% in FY2068/069. From ROE it is found that the operating efficiency of the bank is in increasing trend.
- ) Trend of Debt to equity ratio is fluctuating. Higher the ratios show higher the financial risk. Debt equity ratio has found to be high for SBBL.
- ) With the reference Bankometer Method, S value is greater than 70 so, SBBL is solvent and super sound for 5 year study period.

# **CHAPTER-V**

## **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

This chapter is very important for the research because this chapter is the extract of all the previously discussed chapters. This chapter consists of mainly three parts: summary, conclusion and recommendations. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation part, suggestion and recommendations are made based on the result and experience of thesis. Recommendations are made for improving the present situation to the concerned parties as well as further research.

### **5.1 Summary**

A bank is an institution which deals with money by accepting various types of deposits, disbursing loans and rendering other financial services. To the greater extent, economic growth rate is based on the banks and other financial institution performance in an economy. Many researchers have revealed that banks and economic condition are two wheels of the same chariot. 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. Now a day, banking activities are spreading all over the world. In the beginning of this thesis, there were 88 development banks operating in Nepal, licensed by NRB up to mid-July 2012. Besides some other financial institution are in the process of their conversion into development banks and some other development banks are emerging too. This has led to the intense competition in the banking business.

Only those banks, providing better services and having a greater profit margin would survive in the long run. The primary objective of this study is to highlight the hidden implications of the financial figures portrayed in the financial report; balance sheet, income statement and other financial data of SBBL, by increasing their cause-effect relationship with regard to its financial performance. This analysis also helps to

provide package of suggestions and possible guidelines to improve the banking operation in order to maximize the values of its shareholders based on the finding of the study.

The researcher has identified the research problem of the development bank then the objectives which are determined on the base of research problem. Related literatures are reviewed on the bases of the purposive study. Then the data have been collected from the different available sources and research materials.

The analysis of data has been done according to the available data and the objectives of the study. The analysis and interpretation of data has been done by applying the wide varieties of methodology as stated in earlier chapter, in this study. The objectives, functions, policies and strategies of SBBL have been emphasized and analyzed the financial.

The objective of the study also identified as to come up with conclusion of the financial performance of SBBL with regard to its key financial variables based on the finding of analysis. This will provide possible suggestions that will be beneficial for selected SBBL. Financial analysis is done to determine the bank's financial position on order to identify its current financial strengths and weaknesses and to suggest action that might enable the bank to take advantage of its financial strengths and correct its weaknesses. The study is about the financial performance of SBBL based on its financial data of five years from FY2064/065 to 2068/069 by using financial and statistical tools, the overall financial performance of the bank has tried to analyze.

Various financial ratios, statistical tools such as mean, standard deviation, coefficient of correlation and coefficient of determination have revealed the financial condition of the bank over the last five years. Correlation analysis helps to establish the relationship between two variables, which can be useful to know how one variable affect the another variables. Likewise, trend analysis is used to find out the trend of some very important elements like total deposits, net profit, loan and advance etc. This can be used in predicting the value of these elements.

SBBL is a development bank that is established after the restoration of multi-party democracy as the 34<sup>th</sup> development bank in Nepal. SBBL is also playing important role in upgrading the Nepalese economy as this is one of the leading western regional level development bank in Nepal and covers a significant market. SBBL offers a full

range of banking products and services. The bank has maintained itself as a very reputed development bank currently operating in Nepal. At the same time, the bank is facing competition with commercial, other development banks, financial institutions and co-operatives in Nepal. So the bank must have best financial performance in order to maintain its reputation in the future as well.

Financial analysis is the process of identifying the financial strengths and weakness of the bank by properly establishing relationship between the financial report items of balance sheet and income statement. 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 of SBBL, which is working as development Bank in Nepal by providing the quality and modern 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 FY2064/065 to 2068/069. This study is mainly based on the secondary data; annual report i.e. provided by the bank.

## **5.2 Conclusion**

From the above study, the study has been able to draw certain conclusion that the bank has different financial situation.

Liquidity position of the bank is satisfactory to some extent to meet the short term obligation. The current ratio of the bank over the period of five fiscal years is 12.94 times in an average, which is more reliable position as per the NRB circulars 2068/069. The average of the cash and bank balance to current & saving deposit ratio is 48.74 % which indicates that the cash and bank balance proportion with respect to the current & saving deposits ratio is satisfactory. And the total deposit which may be termed as comfortable one from viewpoint of liquidity. Low liquidity position shows that the current assets utilized in some profit generating sector. In other words form the working capital policy. However, the bank must seriously think maintaining enough liquid assets to pay short term obligation.

Though the earning power of the bank is gradually increasing, the net income of the bank has been slightly increasing in every subsequent year which indicates the ability of the firm's assets to generate operating income is growing. The assets shows slightly increasing trend is favorable for bank.

ROA shows the management's capability to generate profit on using assets and it is gradually fluctuated over the period. A higher ROE ratio shows better operating efficiency of a bank. It is also gradually fluctuated over the period. It is analyzed that the bank has not able to mobilize the deposits to its full potential or generate income from mobilized fund satisfactory.

The ratio, loan and advances reveal the percentage of total deposit that has been utilized on loan and advances and it is in increasing and fluctuate trend during the five years of period averaging 70.43 % maintaining minimum of 66.25 % and can be analyzed that SBBL is efficiently utilizing the outsider's fund in extending credit from profit generating sectors. Loan & advance ratio with total deposit is exactly same as the provision of NRB which is 80 percentage of total deposit.

A notable strength of the bank's achievement is its containment of NPL's with gross NPL's limited to in average 0.45% of the total credit throughout the years. It was 0.58 in initial year 2064/065 and it reached to 0.00% in last year 2068/069 of the study period. This shows that the SBBL has been successful to foresee the quality of loans lent and implementation good repayment strategy for loan & advance. Which is more reliable as per NRB provision as well as international standards i.e. 3 percentage.

From the total investment to total deposit ratio point of view, the bank has been able to invest its deposit on various securities and projects averaging to 1.05% but its fluctuate trend of ratios so it is not fully satisfactory.

The total debt ratio is very high of the bank which reveals that the creditors have invested more in the bank than the owners. Creditors have the dominant role in the bank. The bank is highly leveraged. SBBL would find it different to borrow additional funds without first raising more equity capital. Creditors would be averse to lend the firm more money, and management would probably subjecting the firm to the risk of bankruptcy if it sought to increase the debt ratio any further by borrowing additional funds.

Debt to equity ratios of the bank is not satisfactory because they are relying mainly on borrowed fund. From the view point of studies the companies relying on own equity are doing well and establishing a strong legacy.

The price earnings ratio during period is fluctuating trend but FY 2067/068 and 068/69 it's increasing and cross the average EPS and it has reached to Rs. 25.86 in fiscal year 2068/69. Earnings per share, commonly used, as EPS is the total amount earned by a share during a year and higher EPS indicates a firm's solvent position and vice versa.

The result of coefficient of correlation shows the high degree of positive relationship between deposit and loan and advances of the bank. It means there is significant relationship of the variables. Likewise, there is positive correlation coefficient between net profit and loan & advance.

The trend analysis conducted in terms of total deposit, total income, net profit and loan & advance. It shows that the growth rate of bank is relatively high in terms of total deposit, total income, net profit and loan & advance.

The major conclusion is SBBL solvent and super sound. With the reference Bankometer Method the value of 'S' is more than standard value 70 for 5 year study period.

Finally, it can be concluded that bank had utilized their resource in proper order in profit generating sector. Therefore there is no doubt that bank has been operating smoothly and successfully. Various parameters and financial indicators show that bank is in satisfactory condition. The correlation between financial indicators and other parameters shows perfectly positive relationship. From the view point of solvency ratio the bank is solvent and supper sound.

### **5.3 Recommendations**

Based on the study and analysis of financial performance of SBBL the following recommendations are given to the bank to overcome its weakness and inefficiency to improve its financial performance for future in better way. And these suggestions will be proved to be milestone in order to correct the existing situation.

- ) SBBL invested its maximum amount of its funds on less risky assets i.e. but current assets is higher than conventional standard. It will be better if the bank diverts some amount of its funds in lending and invest in less risky investment alternative, which help the bank to diversify the risk. SBBL should provide the facility to interest rate rebate to borrower who repays the loan before the stipulated time; this may help to increase the number of early payers that will reduce default risk.
- ) The services provided by SBBL are similar those provided by other commercial banks. Therefore it is recommended to SBBL formulate new schemes and techniques in order to attract more and more customers towards the bank.
- ) NPL is 3% is global standard which recommended by IMF. This is maintained by the bank. This must be continuing in the coming years.
- ) FY 2066/067 investment is very higher than other year it indicates high risk as per NRB directives investment portfolio. The bank must maintain NRB investment portfolio.
- ) Higher loan loss provision leads to non productive cash holding, so follow the bank ratio of FY 2067/068 to reduce non productive cash holding.
- ) The credit worthiness of debtors must be evaluated well before granting them loans.
- ) The bank should diversify the sector of deposit mobilization.
- ) The bank should try to collect more non-interest bearing deposit.
- ) Loan and advance is the main sources is of investment of total deposit from which more profit can be earned and it is also risky to convert in time. So, while granting loan and advance to the customer, bank must do detail analysis of purpose of loan, sources of payment of loan and fixing the duration of paying loan etc. Before granting loan, bank also need to serious consider on sufficient collateral. So that there will not be problem in collecting loan. To take benefit from the interest earned from the loan and advance, bank should take care of above points and many more to service in the competitive market for a long time.

- ) Return on assets and return on equity is relatively low, therefore it is recommended that the bank should increase this ratio so as to achieve its target. And it is also suggested to minimize the operating expenses.
- ) The EPS is the indicator for the shares price of the economy. Higher EPS attract the investors and make the investors more confident on the investment of the company. Earnings per share of SBBL are satisfactory. The bank should not only recommended to continue its present EPS but also adopt new strategies to make continuously increasing EPS.
- ) Banking has become more and more competitive in the present days. SBBL has greater portion of debt in total assets. Bank should be aware of the possible risk that may arise due to slackness in the business activities.
- ) The bank should encourage to each and every level of customers for deposits, borrowing and other services. However the bank is suggested to invite higher foreign investment for its sustainable financial status as well as commercial development. Bank should avoid weakness by applying appropriate financial policy, which will help to maintain its status in term of financial performance in future.
- ) The entire stakeholders are suggested to truly trust on SBBL logo by evaluating the financial performance of the bank. It is a regional level development bank.
- ) The study has adopted Bankometer method to identify solvency position of SBBL which consists of minimum number of parameters with maximum accurate results. So, it is recommended to use this tool for analyzing solvency position of financial as well as non financial sector.



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### Appendix-1

Calculation of trend value of loan & advance with the using of least square method

'000'

Fiscal year(X)	Loan & Adv.(Y)	$(X-\bar{X})=x_1$	$x_1^2$	$X_1*Y$
2064	251026.46	-2	4	-502052.91
2065	563582.3	-1	1	-563582.3
2066	732167.8	0	0	0
2067	1001950	1	1	1001950.03
2068	1365330.75	2	4	2730661.5
$\Sigma X=10330$	$\Sigma Y=3914057.31$	$\Sigma (X-\bar{X})=0$	$\Sigma x_1^2 =10$	$\Sigma x_1Y=2666976.32$

N	5			
$\bar{X}$	$\frac{\Sigma X}{N}$	$\frac{10330}{5}$	=	2066
a	$\frac{\Sigma Y}{N}$	$\frac{3914057.31}{5}$	=	782811.47
b	$\frac{\Sigma x_1Y}{\Sigma x_1}$	$\frac{2666976.32}{10}$	=	266697.632

Thus average loan & advance a=782811.47 thousand and rate of change on total loan and Advance b = 266697.632 thousand. The equation of straight line trend  $Y=a+b*x$  as follows:

Fiscal year(X)	$Y= a+b*(X)$	Trend Value
2064/65	$782811.47+266697.63*(-2)$	249416.206
2065/66	$782811.47+266697.63*(-1)$	516114.47
2066/67	$782811.47+266697.63*(0)$	782811.47
067/68	$782811.47+266697.63*(1)$	1049509.1
068/69	$782811.47+266697.63*(2)$	1316206.73

## Appendix-2

Calculation of trend value of Total deposit with the using of least square method

'000'

Fiscal year(X)	Deposit.(Y)	$(X-\bar{X})=x1$	$x1^2$	$X1*Y$
2064	374118.27	-2	4	-748236.55
2065	801451.862	-1	1	-801451.86
2066	988359.216	0	0	0
2067	1332229.026	1	1	1332229.03
2068	2060848.38	2	4	4121696.77
$\Sigma X=10330$	$\Sigma Y=557006.76$	$\Sigma x1=0$	$\Sigma x1^2=10$	$\Sigma x1Y=3904237.38$

$$\begin{array}{l}
 N \qquad \qquad \qquad 5 \\
 \\
 \bar{X} \qquad \frac{\Sigma X}{N} \qquad \qquad \frac{10330}{5} = 2066 \\
 a \qquad \frac{\Sigma Y}{N} \qquad \qquad \frac{557006.76}{5} = 111401.35 \\
 \\
 \\
 b \qquad \frac{\Sigma x1Y}{\Sigma x1^2} \qquad \frac{3904237.38}{10} = 390423.72
 \end{array}$$

Thus average deposit  $a=111401.35$  thousand and rate of change on total deposit  $b = 390423.74$  thousand. The equation of straight line trend  $Y=a+b*x$  as follows:

'000'

Fiscal year(X)	$Y= a+b*(X)$	Trend Value
2064/65	$111401.35+390423.74*(-2)$	-669446.13
2065/66	$111401.35+390423.74*(-1)$	-279022.39
2066/67	$111401.35+390423.74*(0)$	111401.35
067/68	$111401.35+390423.74*(1)$	501825.09
068/69	$111401.35+390423.74*(2)$	892248.83



### Appendix-3

Calculation of trend value of Net Profit with the using of least square method

'000'				
Fiscal year(X)	Net profit.(Y)	$(X-\bar{X})=x1$	$x1^2$	$X1*Y$
2064	2166.85	-2	4	-4333.69
2065	9903.59	-1	1	-9903.59
2066	15369.94	0	0	0
2067	21822.411	1	1	21822.41
2068	29603.831	2	4	59207.66
$\Sigma X=10330$	$\Sigma Y=78866.62$	$\Sigma x1=0$	$\Sigma x1^2=10$	$\Sigma x1Y=66792.79$

N		5		
$\bar{X}$	$\Sigma X$	<u>10330</u>	5	= 2066
a	$\Sigma Y$	<u>78866.62</u>	5	= 15773.324
b	$\Sigma x1Y$	<u>66792.79</u>	$\Sigma x1^2$	10
				= 6679.28

Thus, average Net profit a=15773.324 thousand and rate of change on total Net profit as b = 6679.28 thousand. The equation of straight line trend  $Y=a+b*x$  follows:

'000'		
Fiscal year(X)	$Y= a+b*(X)$	Trend Value
2064/65	$15773.34+6679.28*(-2)$	2414.764
2065/66	$15773.34+6679.28*(-1)$	9094.06
2066/67	$15773.34+6679.28*(0)$	15773.32
067/68	$15773.34+6679.28*(1)$	22452.604
068/69	$15773.34+6679.28*(2)$	29131.884

#### Appendix-4

Calculation of trend value of Total Income with the using of least square method  
'000'

Fiscal year(X)	Total Income.(Y)	$(X-\bar{X})=x1$	$x1^2$	$X1*Y$
2064	25935.267	-2	4	-51870.534
2065	83031.276	-1	1	-83031.276
2066	130249.63	0	0	0
2067	188918.17	1	1	188918.17
2068	260269.73	2	4	520539.46
$\Sigma X=10330$	$\Sigma Y=428134.34$	$\Sigma x1=0$	$\Sigma x1^2=10$	$\Sigma x1Y=574555.82$

N		5			
$\bar{X}$	$\frac{\Sigma X}{N}$	<u>10330</u>	5		2066
a	$\frac{\Sigma Y}{N}$	<u>428134.34</u>	5		85626.87
b	$\frac{\Sigma x1Y}{\Sigma x1^2}$	<u>574555.82</u>	10		57455.582

Thus average total Income a=85626.87 thousand and rate of change on total Income

b = 57455.582 thousand. The equation of straight line trend  $Y=a+b*x$  as follows

Fiscal year (X)	$Y= a+b*(X)$	Trend Value
2064/65	$85626.87+57455.582*(-2)$	-29284.29
2065/66	$85626.87+57455.582*(-1)$	28171.29
2066/67	$85626.87+57455.582*(0)$	85626.87
067/68	$85626.87+57455.582*(1)$	143082.45
068/69	$85626.87+57455.582*(2)$	200538.038

### Appendix-5

Computation of coefficient of correlation, probable error of between total deposit and loan & advance:  
Supposed total deposit is denoted by X and loan and advance denoted by Y.

(Rs. In 00000)

Fiscal year	Deposit(X)	Loan(Y)	$(X-\bar{X}) = x$	$(Y-\bar{Y}) = y$	$x^2$	$y^2$	$xy$
2064	3741.18	2510.26	-7372.82	-5317.85	54358474.75	28279528.60	39207550.84
2065	8014.52	5635.823	-3099.48	-2192.29	9606776.27	4806135.44	6794959.00
2066	9883.59	7321.79	-1230.41	-507	1513908.77	257049.00	623817.87
2067	13322.30	10019.50	2208.30	2191.39	4876544.72	4802190.13	4839224.62
2068	20608.48	13653.30	9494.48	5825	90145150.47	33930625	53305346
	$\Sigma x=55570.07$	$\Sigma Y=39140.56$	0	0	$\Sigma x^2=160500855.08$	$\Sigma y^2=71561429.57$	$\Sigma xy=106770897.70$

X = Independent variable, Y = Dependent variable

$$\bar{X} = \frac{\Sigma X}{N} = \frac{55570.07}{5} = 7828.11$$

$$\bar{Y} = \frac{\Sigma Y}{N} = \frac{39140.56}{5} = 7828.11$$

Therefore,

$$r = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \cdot \sqrt{\Sigma y^2}}$$

$$r = \frac{106770897.70}{\sqrt{160500855.08} \cdot \sqrt{71561429.57}} \quad r = 0.996$$

Now it is known that probable error (P.E) of coefficient of correlation can be find out by  $P.E. = \frac{0.6745(1-r^2)}{\sqrt{N}}$

Where, N= Number of the pairs of observation and r= the value of correlation coefficient, Therefore  $P.E. = \frac{0.6745(1-0.992)}{\sqrt{5}} = 0.0024$

The coefficient of determination is square of coefficient of correlation therefore coefficient of determination =  $r^2 = (0.996)^2 = 0.992$  and then,  $6P.E. = 6 \cdot 0.0024 = 0.01445$ .

### Appendix-6

Supposed loan and advance is denoted by X and net profit is denoted by Y (Rs. In ('00000'))

Fiscal year	Loan & advance (X)	NP(Y)	$(X-\bar{X}) = x$	$(Y-\bar{Y})=y$	$x^2$	$y^2$	Xy
2064	2510.26	21.67	-5317.85	-136.064	28279528.60	18513.41	723567.94
2065	5635.823	99.036	-2192.29	-58.70	4806135.44	3445.455	128683.038
2066	7321.79	153.70	-507	-4.034	257049.00	16.273	2045.24
2067	10019.50	218.224	2191.39	60.49	4802190.13	3659.04	132557.18
2068	13653.30	296.038	5825	138.304	33930625	19127.996	805620.80
	$\sum x=39140.56$	$\sum y=788.68$	0	0	$\sum x^2=71561429.57$	$\sum y^2=44762.17$	$\sum xy=1792474.20$

X = Independent variable and Y = Dependent variable

$$\bar{X} = \frac{\sum X}{N} = \frac{39140.56}{5} = 7828.11 \qquad \bar{Y} = \frac{\sum Y}{N} = \frac{788.68}{5} = 157.734$$

$$\text{Therefore } r = \frac{\sum xy}{\sqrt{\sum x^2} * \sqrt{\sum y^2}} \qquad r = \frac{\sum 1792474.20}{\sqrt{71561430} * \sqrt{44762.17}} \qquad r = 1.00$$

Now it is known that probable error (P.E) of coefficient of correlation can be found out by  $P.E. = 0.6745 \frac{1-r^2}{\sqrt{N}}$

Where, N= Number of the pairs of observation and r= the value of correlation coefficient. Therefore,  $P.E. = 0.6745 \frac{1-1.00}{\sqrt{5}} = 0.00$

The coefficient of determination is square of coefficient of correlation therefore coefficient of determination  $= r^2 = 1^2 = 1.00$  and then,  $6P.E. = 6*0.00=0.00$

### Appendix-7

Supposed loan and advance is denoted by X and total income is denoted by Y

(Rs. in '00000)

Fiscal year	Loan & adv (X)	Total income(Y)	(X- $\bar{X}$ )=x	(Y- $\bar{Y}$ )=y	$x^2$	$y^2$	Xy
2062	2510.26	2596.53	-5317.85	-596.92	28279528.60	356313.486	3174331.02
2063	5635.823	830.313	-2192.29	-25.96	4806135.44	673.92	56911.85
2064	7321.79	1302.50	-507	446.22	257049.00	199112.29	-226233.54
2065	10019.50	1889.20	2191.39	1032.92	4802190.13	1066703.09	2263508.64
2066	13653.30	2602.70	5825	1746.46	33930625	3050007.27	10172954.74
	$\sum X=39140.5$ 7	$\sum Y=428134.3$ 4	0	$\sum y=0$	$\sum x^2=71561430.20$	$\sum y^2=4672810.06$	$\sum xy=15667706.26$

X = Independent variable and Y = Dependent variable

$$\bar{X} = \frac{\sum X}{N} = \frac{39140.50}{5} = 782811.47 \qquad \bar{Y} = \frac{\sum Y}{N} = \frac{428134.30}{5} = 85626.87$$

$$\text{Therefore } r = \frac{\sum xy}{\sqrt{\sum x^2} * \sqrt{\sum y^2}} = \frac{\sum 15667706.26}{\sqrt{71561430.20} * \sqrt{4672810.06}} \qquad r = 0.8568$$

Now it is known that probable error (P.E) of coefficient of correlation can be found out by  $P.E = 0.6745 \frac{1-r^2}{\sqrt{N}}$

Where, N= Number of the pairs of observation and r= the value of correlation coefficient. Therefore,  $P.E. = 0.6745 \frac{1-(0.8567)^2}{\sqrt{5}}$

P.E. =0.0802. The coefficient of determination is square of coefficient of correlation therefore coefficient of determination =  $r^2 = (0.8568)^2 = 0.7341$  and then,  $6P.E. = 6*0.0802 = 0.4812$ .

## Appendix-8

### Cost to Income Ratio (CI)

Year	Total cost	Total Income	Ratio
2064/65	20427627.38	25935266.68	78.76
2065/66	61656104.69	83031276.6	74.26
2066/67	96487662.15	130249627.3	74.08
067/68	149208096.2	188918169	78.98
068/69	209614264.2	260269729.5	80.54

### Equity to assets Ratio (EA)

Year	Total Equity	Total Assets	Ratio
2064/65	30721423.4	409548497.3	7.50
2065/66	70668213.7	893764218.2	7.91
2066/67	125248681.6	1147324312	10.92
067/68	127224506.8	1510047163	8.43
068/69	165321282.8	2279269102	7.25

### Capital Assets Ratio (CI)

Year	Total Capital	Total Assets	Ratio
2064/65	33204630	409548497.3	8.11
2065/66	76347630	893764218.2	8.54
2066/67	129479920	1147324312	11.29
067/68	133811990	1510047163	8.86
068/69	175994510	2279269102	7.72

### Loan to Assets Ratio (LA)

Year	Total Loan	Total Assets	Ratio
2064/65	254288755.2	409548497.3	62.09
2065/66	572105536.7	893764218.2	64.01
2066/67	741386149.3	1147324312	64.62
067/68	1012070737	1510047163	67.02
068/69	1379121973	2279269102	60.51

**Nonperforming loans to loan Ratio (NPL)**

Fiscal years	Non-performing loan	Total Loan & advance	Ratio
2064/2065	1468187.96	251026455.6	0.58
2065/2066	6592382.92	563582299.9	1.17
2066/2067	3792023.67	732167796.7	0.52
2067/2068	0	1001950030	0.00
2068/2069	0	1365330753	0.00

(Source: Annual Report of SBBL)