Chapter I
Introduction

1.1 Background of the study:

Nepal is a small land locked country situated in the heart of Asia. It is surrounded by people's Republic of china in the North and India in the South, east and West. Nepal is Shaped almost as a rectangle. It is located between $26^0$22' and 30^0 27' North latitude and $80^0$4' and $88^0$12' East longitude. It covers the area of 1,47,181 square kilometers East to West. The North-South width is not uniform. Its width is 241 kilometers in maximum and 144 kilometers in minimum.

Nepal is one of the least developed agricultural countries of the world. The economic backwardness of the country is revealed by several features, for example, very low income, unemployment, insufficient capital, lack of use of natural resources, weak human resources and traditional techniques, institutional inadequacies, market imperfection and political instability. The investment in agriculture, by both private and public sector is inadequate and not helping agriculture to play an important role in growth of the economy. Agriculture based economy alone can not solve the problems of poverty in Nepal and therefore, non-agriculture sector needs due priority. Non-agriculture sector such as industry, trade and commerce, financial institutions, health, hospitality and educational institutions can contribute significantly in economic development of the country.

The major role in the economic growth and prosperity of a nation in the long run is played by financial sector. Financial activities contribute predominantly in the development process. In other words financial development is one of the key indicators of economic development of a country. The establishment of Nepal Bank Ltd. in 1994 B.S. marked the beginning of a new era in the history of modern banking in Nepal. During the last seventy five years there has been phenomenal growth in the number and types of financial institutions in Nepal. Besides NRB, the central bank of the country, a large number of commercial banks, Development banks, Financial companies, Micro Finance Development Banks and Limited Banking Transactions co-operative societies are operating presently in Nepal along with other types of financial institutions.

After 1990, Nepal adopted the policy of economic liberalization. This policy has given more important role to the private sector. Financial liberalization policy is an important part of economic liberalization policy. Under this policy the government has adopted liberal policy for the establishment of commercial banks; Development banks, Financial companies and other types of financial institutions. Presently there are 32 commercial banks, 89 Development Banks, 76 Financial Companies 22 Micro Finance

Development Banks and 16 limited Banking Transactions Co-operative societies operating in Nepalese economy besides other types of financial institution.

Development banks are relatively new types of financial institution in Nepalese context. They are established under the Finance company act 1985 A.D. They are registered only as a public limited company as per the finance company Act. They have to register with the company Registrar's office and license for operation is to be obtained from the NRB. They usually accept time deposits and advance loan to individuals firms, companies or institutions for agricultural as well as non-agricultural purpose in order to promote their economic benefits. They also perform merchant banking function with prior approval of NRB, They are popular among low income and medium class people to make available hire purchase facility and other loans for the purchase of vehicles , machinery , tools & equipment, durable house hold goods & other similar movable property.

1.2 Focus of the study

There has been notable growth in the number of Development banks after the adoption of the policy of economic liberalization and privatization by the government of Nepal. Besides Development banks the number of commercial banks, finance companies and co-operative societies has also grown significantly. The environment has become highly complex and competitive In order to survive, grow and prosper the management of these organizations must be sound and proactive.

Financial soundness is one of the prerequisites for success of any organization. No organization can expect to move ahead if it is financially weak and uncomfortable. The success and failure of any organization is measured generally in terms of financial performance. Sound financial position and proper management of financial activities go a long way in achieving organizational objectives.

The present study is, therefore, focused at describing and analyzing the financial performance of Sahyogi Vikash Bank Ltd. The study also highlights the contribution of the bank in deposit mobilization and loan disbursement to various segments of society for different purposes. It is also proposed to analyze management's efficiency in managing financial activities of the organization.

1.3 Introduction of study unit

Sahyogi Vikash Bank Ltd. was registered under company Act. 2021and Development Bank act. 2012 with the office of company registrar, ministry of industry in 2060 B.S. It got the licence from Nepal Rastra Bank and its financial operation came into effect in the same year. It has already spent more than 8 years in serving the nation. The Bank is situated in Janakpur municipality, Dhanusha district of Nepal. It is presently

housed in the building which lies in front of SSP office & near Vidyapati chowk, one of the main business area of the city.

The Bank is a regional level bank and its are of operation is presently spread in two districts i.e. Dhanusha and Mahhottari only. Presently the bank operates from its head office and its three branches.

The Board of directors is the apex body for the management of the bank. A chief executive officer appointed by the Board is responsible for day to day administration as well as implementing the policies of the board. The total number of employees comprises altogether 46 persons.

The paid up capital of the Bank Rs. 90 million Total deposits of the Bank at the end of Fy 2067-68 and total loan outstanding were Rs. 875.92 million and Rs. 619.25 million respectively and net profit for the year 2067/68 was Rs. 22.25 millions.

1.4 Statement of the problem

The development banks have grown rapidly both in number and volume of operation over the recent years in Nepal. The basic services they provide of accepting the different types of deposits. i.e. Fixed, saving, recurring and other deposits Besides deposits, they are also engaged in providing different types of loans such as hire purchase loan, housing loan, business loan, educational loan etc.

They also specialize in merchant banking services which include activities like venture capital, bridge finance, underwriting share issue and management portfolio and unit trust management consultation on merger and acquisition etc. At present the Development banks are facing tough competition from commercial banks, finance companies, co-operatives etc. Development banks are encountered not only with the problem of deposit mobilization but also in finding the right and profitable investment opportunities to help them serve in this competitive edge of financing.

Under such situation the development banks must be financially sound to meet any types of threats. The financial performance must be satisfactory to cope up with any unwarranted situation on one hand, the stake holders i.e. shareholders, employees, depositors, debtors and government can be better served only when financial health of the organization is in good position.

It is believed that Sahyogi Vikash Bank Ltd. though considered doing well, has not been able to capitalize on most profitable activities. Like old commercial banks, the bank has been functioning in a traditional way by giving more emphasis only on collecting deposits and providing loans & advances. In relation to providing loans & advances there always exists a higher risk of debtors, being defaulters resulting the company's inability to meet it's liabilities towards depositors.

The problem of the study lies on the issues related to analyzing the strength & weakness of the bank.

The present study therefore, attempts to appraise the financial performance of SVBL in terms of liquidity, activity leverage, profitability, Assets quality, capital adequacy, Besides, these other indicators of examining the financial performance such as earning per share, price-earnings ratio have also be taken into consideration.

1.5 Objectives of the study

The basic objective of the study is assessment of past performance and current financial position of Sahyogi Vikash Bank as well as assessment of potential and related risks. However, the specific objectives of the study are as followings:

1. To study and highlight the existing situation of the bank
2. To analyze liquidity, leverage, capital adequacy, turnover and profitability position of the bank.

.

3. To analyze the EPS, price earning Ratio; market value per share to Book value per share and total interest income to total expenses of the bank, and
4. To provide suggestions for future improvement of SVBL.

1.6 Significance of the Study

Sahyogi Vikash Bank Ltd. is a regional level development bank operating presently in two districts i.e. Dhanusha and Mahottari for the last 8 years. It is claimed that the bank has managed so far to show good operational result. There is however absolute lack of any independent study regarding the financial position of the bank. Financial performance of any organization depends upon its financial position. Therefore, the periodical appraisal of financial position is absolutely important.

The financial appraisal analyses the strength, weakness, opportunities and threats of the bank. The study makes a close enquiry into short term as well as long term financial position of the bank. In particular the study analyses the liquidity, solvency, activity, profitability, capital adequacy and quality of assets of the bank, besides the study of EPS, P/E Ratio, and other important indicators. The study therefore, is going to be of utmost significance to various stake holders i.e. shareholders, management, employees, investors, customers, competitors, stock brokers and researchers. Management of the bank in particular will be highly benefited to formulate suitable strategies to face the increasing competition and improve organizational effectiveness.

1.7 Limitations of the study

The present study has been conducted for partial fulfillment of the requirement for the degree of Master of Business Studies. The significance of the study has already been highlighted. However, present study is not without limitations. The limitations of the study are as follows.

1. The study is confined only on the financial aspect of SVBL owing to time and resource constraints.
2. The study is based on the data of the five fiscal years only i.e. from 2063/64 to 2067/68.
3. The study is mainly based on secondary data such as annual reports of SVBL previous thesis, journals, magazines and books.
4. The Comprehensibility and accuracy of the study is based on the availability of data.

1.8 Organization/ Scheme of the study

The study has been organized into following five chapters.

Chapter One	:-	Introduction
Chapter Two	:-	Review of literature
Chapter Three	:-	Research Methodology
Chapter Four	:-	Presentation and Analysis of data
Chapter Five	:-	Summary, conclusions, and Recommendations.

The first chapter is introductory incorporating the background, focus of the study, statement of the problem, objectives of the study, Significance and limitations of the study. The review of literature is presented in chapter two. It is aimed at reviewing the related studies and findings. It contents conceptual review, review of research reports and articles.

Chapter III deals with the methodology used in carrying out the study. It contains the research design, population and sample, research instruments used, data gathering procedure and finally the basic tools and techniques used for analysis and interpretation.

The fourth chapters presents the main body of the study i.e. presentation and analysis of data. The data and information collected from different sources are presented, analyzed and interrupted in this chapter for attaining the stated the objectives of the study.

The fifth and the last chapter provides summary, conclusion of the study and various suggestions and recommendation for improving future performance.

CHAPTER:-II

REVIEW OF LITERATURE

2.1 Conceptual Frame Work/ Theoretical Review

Financial decisions are very sensitive and important and cannot be taken blindly or in a vacuum. Financial decisions must be based on proper financial analysis by using, financial tools -such as financial ratios are used to measure the financial performance of the company. According to Surendra Pradhan, "Financial analysis is to analyze the achieved statement to see if the result meet the objectives of the firm, to identify problems, if any, in the past or present and /or likely to be in the future, and to provide recommendation to solve the problems" (Pradhan,2000:120).

According to Vanhorn, J.C & Watchowlcz, J.M, "Financial analysis is process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet, which represents analysis snapshots of the firm's financial position analysis at analysis moment in time and next, income statement, that deposits analysis summary of the firm's profitability overtime" (Vanhorn & Watchowlcz, 1997:120).

Similarly, Hampton has stated that "It is the process of determining the significant operating and financial statements. The goal of such analysis is to determining the efficiency and performance of the firm management, as reflected in the financial records and reports." (Hampton, 1998:98)

In financial analysis, certain guideline or criteria are included:

a. Historical evidence of performance as a base of financial performance analysis

b. Economic consideration such as trend and averages of price level, business profit interest rates, dividend policy, security price movements

Financial statement gives insight knowledge on the firm's financial position at a point of time and on its operations over some past companies regarding what they have performed financially. Financial report is reporting about what the company has done in terms of assets, liability, income and expenses. On the other hand financial statement also highlights other aspects of company such as liquidity, profitability, activity, capital structure and market.

Westorn, Besley and Brigham have stated, "Financial statement analysis involves a comparison of analysis firm's performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify the current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strength and correct its weakness" (Westorn, Besley & Brigham,1996:78).

Financial statement published by the' listed company in the stock exchange are collected and analyzed by Nepal Stock Exchange for the calculation of the financial performance of the concerned company. In fact, financial statement comprises of:

Balance sheet:- It is very important means of analysis of financial performance of any company. It companies assets, liabilities and shareholder's equity.

Statement of profit and loss account:- It also very important means of financial performance of any company. It comprises of income and expenses over the period of time.

Statement of Retained Earning:- This statement explains about the Company's position of earnings to be paid as dividend and the portion of profit to be retained for future uses. It also explains how profit, dividend and other transaction affect the retained earnings and share-holders' equity.

Financial analysis is done on the basis of financial statement of the concerned company.

The objective of financial analysis can be described as:

- To get the entire information that can be used at the time of decision-making.
- To Judge overall performance and management effectiveness.
- To identify the deficiencies and weaknesses.
- To take corrective action in time to check such deficiencies and improve the performance.
- To evaluate the possible implications of alternative course of actions.
- To get in dept information of possibilities of bringing changes worthwhile.

2.1.1 Objectives of Financial Performance Analysis:-

From the concept of financial performance analysis, it has been evident that one can explore various facts related to the past performance of business and predict out the future potentials for achieving expected results. Various parties are involved in the business directly or indirectly. Therefore, objective of the analysis also differs from one party to other. However, major objectives of analysis, in broad sense, can be started as (Needles, 1989);

a) Assessment of past performance and current position

Past performance is often good indicator of future performance. Therefore, an investor or creditor is interested in the past sales, expenses, net income, cash flow and return in investment. In addition, an analysis of current position will tell what assets the business owns and what liabilities must be paid. Besides, it will provide the information about various facts in relation to business such as:

- Earning capacity or the profitability of the concern.

- Operational efficiency of the concern as a whole and of its various departments
- Long term and short term solvency of the business for the benefit of debenture holders and trade creditors
- Real meaning and significance of financial data.

b) Assessment of potential and related risks:-

The past and present information are useful only to the extent they have bearing on the future decisions. An investor judges the potential earning capacity of a company because that will affect the value of the investment or share and the amount of dividend the company will pay. The creditors judge the potential debt paying ability of the company. The potentials of existing company are easier to predict than of others. This means there is less risk of the investment or loan hinges on how easy it is to predict the future profitability and liquidity. Besides, the managers of business concerns will get information about the potential, such as:

- Possibility of development in the future though forecast and budget allocation.
- Financial stability of the business concern.
- Reforms needed for in the present policies and procedures that will help reduce weakness and strengthen performance.

2.1.2 Limitations of Financial Performance Analysis

From the above discussion, it has been evident that financial performance analysis of great significance for investor, creditors, management, economist and other parties having interest in business. It helps management to evaluate its efficiency in past performance and take decisions relating to future. However, it is

not free from drawbacks. Its limitations are listed below (Jain & Narayan, 1989:B23-B25):

a. Historical Nature of Financial Statements: - The basic nature of statements is historical. Past can never be a precise and infallible index of the future and can never be perfectly helpful for the future forecast and planning.

b. No Substitute for Judgment:- Analysis of financial analysis is a tool to be used by expert analyst to evaluate the financial performance of a firm. That's why; it may lead to faculty conclusion if used by unskilled analyst.

c. Reliability of Figures:- Reliability of analysis depends on reliability of figures of the financial statements under scrutiny. The entire working of analysis will be vitiated by manipulation in the income statement, window dressing in the balance sheet, questionable producers adopted by the accountant for the valuation of fixed assets and such other facts.

d. Single year Analysis is not much valuable: - The analysis of these statements relating to single year only will have limited use and value. From this, one cannot draw meaningful conclusion.

e. Result may have different Interpretation: - Different users may differently interpret the result derived from the analysis. For example, a high current ratio may suit the banker but it may be the index of sufficiency of the management due to under-utilization of fund.

f. Changes in Accounting Methods: - Analysis will be effective if the figures derived from the financial statements are comparable. Due to change in accounting methods, the figures of current period may have no comparable base, and then the whole exercise of analysis will become futile.

g. Pitfall in inter-firm Comparison: - When different firms are adopting different procedures, records, objectives, policies and different items under similar heading, comparison will be more difficult. If done, it will not provide reliable basis to assess the performance, efficiency, profitability and financial condition of firm as compared to whole industry.

h. Price level change reduces the validity of analysis: - The continuous and rapid changes in value of money, in the present day, economically also reduces the validity of the analysis. Acquisition of assets at different levels of prices make comparison useless as no meaningful conclusion can be drawn from a comparative analysis of such items relating to several accounting period.

i. Selection of Appropriate Tool: - There are different tools of analysis available to the analyst. The tools to be used in a particular situation depend on skill, training, intelligence and expertise of analyst. If wrong tool is used, it may give misleading result and may lead to wrong conclusion, which may be harmful to the interest of business.

2.1.3 Types of Financial Performance Analysis

The nature of financial analysis differs depending on the purpose of analyst. Financial statement analysis can be categorized into different types on the basis of material use, objective of the analysis and the modulus operandi of analysis (Jain & Narayan, 1989:B23-B25).

a) On the Basis of Material Used

On the basis of material available and used by analyst, financial analysis can either be external or internal. Persons who don't have access to the detailed records of the company make an external analysis. They have to depend almost entirely on

published financial statements. Investors, credit agencies, government agencies and research scholars make such type of analysis. Those persons who have access to the books of accounts and other related information to the business make an internal analysis. While conducting this analysis, the analyst is a part of enterprise. For example, analysis for managerial purpose is the internal type of analysis.

b) On the Basis of Objective

On the ground of the objective or purpose of study, financial analysis can either be long-term or short-term. Long-term analysis is made in order to study the long-term financial stability, solvency and liquidity as well as profitability and earning capacity of a business concern. This analysis helps for long-term financial planning which is essential for the continued success of a business. Short-term analysis is made to determine the short-term solvency, stability and liquidity as well as earning capacity of the business concern. This analysis helps for short-term financial planning which is essential for continuation of success of the business.

c) On the Basis of Modulus Operandi of Analysis

On the basis of modulus operandi of analysis it can either be horizontal or vertical. Horizontal analysis is conducted to review and analyze financial statements of a number of years and therefore, it is based on data taken from several years. Hence it is also known as dynamic analysis.

Vertical analysis is conducted to review and analyze the financial statement of one particular year only. As it is based on data from one year, it is also called static analysis.

2.1.4 Method of Financial Performance Analysis

An enterprise communicates financial information to users through financial statement and reports. Financial statements are summarized information of the firm's financial affairs, organized systematically. They are the means to present the firm's financial situation to owners, creditors and general public. The preparation of financial statement is the responsibility of top management. As investor and financial analysis to examine the firm's performance in use these statement under to make investment decisions. So concern authority should be prepared very carefully and contain as much as information as possible.

Two basic financial statements are prepared for the purpose of external reporting to owner, investor and creditors are:

1. Balance Sheet (*or Statement of Financial Position)*
2. Profit and Loss Account (*or, Income Statement)*

For internal management purpose i.e. for the planning and controlling much information than contained in published financial statement is needed. The accountant or account officer prepares these financial statements at the end of firm's income year. Balance sheet and income statement undoubtedly provides useful financial data regarding the operation of an enterprise but they fail to present all the useful financial data required for major investing and financial decision by the management. Therefore, another financial statement fund flow statement is also in use. It summarized the source from which funds have been applied. It is prepared to show additional useful information not covered by the traditional statements.

2.1.5 Major Steps in Financial Performance Analysis

The basis for financial analysis is financial information obtained from balance sheet and profit and loss account. The analysis of financial statements is completed in three major steps (Srivastav, 1993:56).

The first involves the reorganization and rearrangement of the entire financial data as contained in the financial statements. This calls for regrouping them into few principal elements according to their resemblance and affinities. Thus the balance sheet and income statement are completely recast and presented in the condensed from entirely different from original shape. The next step is the establishment of significant relationship between the individual components of balance sheet and profit and loss account. This is done through the application of tools of financial analysis.

Ultimately, significance of result obtained by means of financial tools is evaluated. This requires establishment of standard against which actual be compared.

2.1.6 Tools & Techniques of Financial Performance Analysis

To evaluate the financial condition & performance of a company, the financial analyst needs certain yardsticks. The yardstick frequently used is a ratio or index relating two pieces of financial data to each other. Analysis & interpretation of various ratios should give experienced and skilled analyst a better understanding of the financial condition & performance of the firm, than they will obtain from analysis of the financial data alone (Vanhorn, 1999:691-692).

The techniques of analysis are employed to ascertain or measure the relationship among the financial statement items of a single set of statement and changes that have taken place in these items as reflected in successive financial statement. The fundament of the analytical technique is to simplify or reduce the

data under review to the understandable terms. Out of the various techniques, selection of a technique or combination of the techniques depends on the purpose of analysis. Different techniques reveal different facts associated with the business, so some or all of the following major techniques can be used for the analysis depending on the purpose and availability of the materials demanded by the technique.

2.1.6.1 Funds Flow Analysis

The statements of the changes in financial position prepared to determine only the sources and uses of fund between two dates of balance sheets is known as funds flow statement. It is prepared to uncover the information that financial statement fail to describe clearly. It spells out the sources from which funds were derived and uses to which these funds were put. This statement is prepared to summarize the changes in assets & liabilities resulting from financial and investment transactions 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 resources during the period.

Method of preparing Funds flow statement depends essentially upon the sense in which the term 'fund' is used. There are concepts of fund: cash concept, total resources concept & working capital concept. According to cash concept, the word 'fund' is synonymous with cash. Total resources concept represents the total assets and resources as fund. The term 'fund' refers only to working capital on working capital concept. However, the concept of fund as working capital has gained wide acceptance as compared to other concepts. Therefore, any transaction that increases the amount of working capital is taken as source of fund while conducting funds flow analysis. Transaction that decreases working capital is

treated as application. But any transaction that affects current liabilities or current assets without any change in working capital is not taken as source or use.

The utility of this technique stems from the fact that it enables shareholders, creditors and other interested persons to evaluate the use of funds. It also enables them to determine how these uses were financed. In the light of information so supplied by statement, the outsider can decide whether or not to invest in the enterprise. It enables finance manager to detect the imbalances in the use of funds and undertaken remedial actions. It serves as control device to measure the deviation between actual use of fund and the estimated budget. An analyst can evaluate the financed pattern of concern (What portion of the growth was financed internally and what portion externally).

In spite of the great significance of funds flow analysis to various parties associated with the business, it is not free from drawbacks. Its shortcomings can be listed as:

- This is not full proof as it depends on conventional financial statements.
- It cannot introduce any new items, which causes changes in financial status of the business.
- It is not much relevant technique as study of change in cash position is more useful rather than fund position.
- It is historical in nature, so, cannot estimate source and application of fund in near future
- It does not reflect the structure and policy changes.

2.1.6.2 Cash Flow Analysis

This statement is prepared to know clearly the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the

sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital.

It summarizes the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash receipts from debtor against credit sales are recognized as the source of cash. Similarly, cash purchases and cash payment to suppliers for credit purpose is regarded as the use of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

This type of analysis is useful for short-run planning of firm. The firm needs sufficient cash to pay debt maturing in near future, to pay interest and other expenses and to pay dividend to shareholders. The projection of cash flow for near future can be made to determine the availability of cash. This cash balance can be matched with the firm's need for cash during the period and accordingly, arrangement can be made to meet the deficit or invest the surplus cash temporarily.

Though it is more confidential than funds flow analysis for the decisions related to the near future, it is also not free from drawbacks. Its drawbacks can be listed as:

- It is not perfect evident as it depends on conventional statements.
- It is historical in nature.
- It does not reflect structural and policy changes.

2.1.6.3 Trend Analysis

In finance analysis the direction of change over a period of years is crucial importance. Trend analysis of the ratio indicates the direction of change. The kind of analysis is particularly applicable to the items of profit and loss account. It is advisable that trend of sale and net income may be studies in the light of two factors. The rate of fixed companion secular trend in the growth of business and general price level; it might be found in practice that a number of firms would

show a persistence growth over a period of years. But get a true trend of growth; sales figure should be adjusted by suitable index of general prices. In other words, sales figures should be deflected for raising price level, which the resulting figures are, graphed us will get a trend of growth devoid a price change. Another method of securing trend of growth and one which can use instead of the adjusted sales figures or as check on them is to tabulated and plot the output or physical volume of sale expressed in suitable units of measure. If the general price level is not considered while analyzing trend of growth, it can mislead management. They may because unduly optimistic period of prosperity and pessimistic in dull period.

This method is immensely helpful in making comparatively study of financial statements of several years. This method of analysis involves the computation of percentage relationship that each statement item bears to the same item in the base year. Base year for the purpose of comparison may be earliest year, the latest year or any intervening year under the study. This exhibits the direction to which the concern is proceeding. Trend analysis facilities the horizontal study of the data. But trend ratios are generally not computed for all of items in the statement, as the fundamental objective is to make comparison between items having same logical relationship to one another.

Trend analyst reveals whether the current financial position of the company has improved over the past years or not. It shows which of the items have moved in a favorable direction and which of them in unfavorable direction. Though it is the important tool of analysis, it is bound by certain limitation. They are:

- Trend for a single balance sheet or income statement is seldom very informative.
- It does not give accurate result if accounting principles followed by the accountants is not consistent over the period of study.

- Price level change adversely affects the comparison
- Selected base year for some of the items in the statement may not be typical.

2.1.7.4 Ratio Analysis

An arithmetic relationship between two figures is known as ratio. Two number used in the ratio are called the term of ratio. The first term is the antecedent and is the divided; the second is the second is the consequent and is the divider. Ratio is computed by dividing one item of relationship with the other. Ratio simply means the relation of one quantity to another of the same kind is defined to be that pure (abstract) number, integral, or fractional, which express the number of times the later is contained in the former.

Ratio analysis is a technique of analysis and interpretation of financial statement to evaluate the performance of an organization by creating ratios from the figure of different accounts consisting in balance sheet and income statement (P/L Account) is known as ratio analysis (Pandey, 994:436-437).

Financial ratios are the basic tools of financial analysis. The operational and financial problem of a corporation can be ascertained by examining the behavior of these ratios. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of an enterprise. A financial ratio is a relationship between two financial variables and a process of identifying the financial strength and weakness of an enterprise. The liquidity ratio measures the corporations overall efficiency of operation. Similarly, leverage ratio measures the extent to which the corporation has been finance by debt, and turnover ratios measure the utilization of the corporation's resources. These financial ratios help us to find symptoms of problems. The cause of any problem may be determined

only after locating the symptoms. Hence, the study of financial ratios behavior of the corporations assumes great significant.

Ratio Analysis is carried out to develop meaning relationship between individual items or group of items usually shown in the periodical financial statements. An accounting ratio shows the relationship between the two inter-related accounting figures. Ratios are guides or shortcuts that are useful in evaluating the financial position and operations of a company. When the relationship between two figures in the balance sheet is established, the ratio so calculated is called 'balance sheet ratio'. Ratio may be expressed in the form of quotient, percentage or proportion.

Ratio analysis involves two types of comparison for the useful interpretation of the financial statement. A ratio itself does not indicate the favorable or unfavorable position. Most commonly used standards to evaluate the ratio are:

- Comparison of present ratio with past or expected future ratio.
- Comparison of the ratio of the firm with those of similar firms over the period of time or with industry average at the same point of time

With the help of ratio, one can judge financial performance of a business concern over a period of time and against the industry average. The ratio helps the analyst to form the judgment whether the performance of firm is good, questionable or poor. Management of the firm can take strategic decisions on the basis of position revealed by ratio. Investors can decide about the future of their investment. Creditors judge whether the firm is able to meet its obligations and whether the more lending would be beneficial for them or not. In view of the requirement of the various users of ratios, they can be classified into four major categories. They are: - liquidity ratio, leverage ratio, activity ratio and profitability ratio.

Liquidity ratio measures the ability of firm to meet its current obligations. Leverage ratio evaluates the long-term financial position of the firm. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. Finally, profitability ratios are calculated to measure the operating efficiency of the company.

Through ratio analysis is powerful technique of financial analysis; it should be used with extreme care and considered judgment because it suffers from certain drawbacks. The drawbacks of the ratio analysis are listed below:

- It is difficult to decide the proper basis of comparison
- It calls interpretation to certain aspects of the business, which need detailed investigation before arriving at any final conclusion
- Unless there is a consistency in adoption of accounting methods, ratios may not prove of greater use in case of inter-firm comparison.
- The price level changes make the interpretation of ratios invalid.
- The ratios are generally calculated from past financial statements and thus, are no indicators of future.

Ratio Analysis & Its Classification

In general ratio may be classified on the following base lending to somewhat overlapping categories (Pandey, 1994:502-503).

A) Traditional Classification

It is classification according to the statement from which ratios are derived. By for the most convenient mode of classification, it has the sanctity of tradition in much as since the advent of ratio analysis. Ratio has grouped in this manner from this angle ratios are classified as:

- Balance sheet ratios or financial ratios: - These ratios deal with relationship between two items or groups of items, which are together to the balance sheet e.g. debt equity ratio.
- Revenue statement ratio: These ratios sometimes also referred as operating ratio establish the relationship between two items or group, which are in the revenue statement e.g. stock turnover.
- Inter statement ratio or combine ratio: - These ratio portray the relationship between items of one of which part of balance sheet and profit & loss account (income statement)

B) Functional Classification

Ratios are grouped in accordance with certain test which they are intended to sub-serve from the point of view of varies parties having a financial interest in an enterprise test are:

- Test of liquidity
- Test of profitability
- Market test etc.

C) Classification According to Nature

These ratios are classified from the point of view of financial management. They are:

1) Liquidity Ratio
2) Activity Ratio
3) Leverage Ratio
4) Profitability Ratio
5) Capital Adequacy Ratio

1) Liquidity Ratio: - A liquidity ratio is assigned to find out the current assets intensifies and financial structure. In other words, liquidity ratio measures the ability of an enterprise to meet its current obligations. A core of liquidity ratio has emerged over the year which, when viewed in their totality and with respect to risk, is expected to yield a rough approximation of the business to pat its current liabilities and when they fall due for payment. Regarding the position of liquidity ratio, a current ratio of 2:1 is considered acceptable for most of firm although it is only rule of thumb standard and it is 1:1 for quick ratio. Though, it depends much on circumstances in case of seasonal business (Pradhan, 1986:17).

a) Current Ratio

Current ratio is also known as Working capital ratio. It shows the bank's short-term solvency. It is the ratio of current assets and current liabilities. It indicates the availability of the current assets in rupees for every one rupee of current liability. As a conventional rule, a current ratio of 2 to 1 in considered satisfactory. However, this rule should not be blindly followed, as it is the test of quantity not quality. In sprite of its shortcoming, it is a crude-and quick measure of firm's liquidity (Pandey, 1994:115). Higher the current ratio better the liquidity poison and otherwise.

The ratio is calculated by dividing current assets by current liabilities,

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

Current assets include cash and assets are just like cash, which can be converted into within a year. These include cash and bank balance, money at call and short notice, loans and advances, overdrafts, bill purchase and discounted bills for collection, investment in government securities, interest receivables and other miscellaneous current assets. All obligations maturing within a year are included in

current liabilities. These consist of current, saving and short-term deposits, fixed deposits maturing in that year, borrowings and accrued expenses, bills payable, bank overdrafts, dividend payable, customer acceptances and miscellaneous current liabilities.

b) Quick Ratio

Quick ratio established a relationship between quick asset and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonable soon without a loss of value cash is the most liquid asset. Other assets which are considered to be relatively liquid are included in quick assets are book debts and marketable securities. This quick ratio can be calculated by dividing the total of liquid assets by total current liabilities.

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

c) Cash and Bank Balance to Current Assets Ratio

This ratio is found out the ability of banks to pay total call made on current deposit. Cash and Bank Balance are highly liquid assets than others in current assets proportions. Higher ratio indicates the bank's ability to meet the daily cash requirement of their customer deposit and vice versa. But higher ratio is not preferred as the bank has to pay more interest in deposit and will increase the cost of fund. Lower ratio is also very risky as the bank may not be able to make the payment against the cheque presented by the clients. So, the bank has must be maintain such ratio in such way that it should have sufficient cash for the clients demand against deposits when required and less interest is required to pay against the cash deposit. These ratios not only analyzed the use of total resources of the

firm but also the use of resources component of total assets. The formula to obtain this ratio is;

$$\text{Cash \& Bank Balance to Current Assets Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Current Assets}}$$

Cash and Bank balance includes cash in hand, foreign cash in hand, clearing cheque and other cash items, balance with NBR current account, other domestic bank current account and balance held in foreign banks.

d) Cash and Bank Balance to Current, Saving & Margin Deposit Ratio.

The ratio measures the ability of bank to meet its immediate obligations. The bank should maintain adequate cash and bank balance to meet the unexpected as well as heavy withdrawal of deposits. High ratio indicates sound liquidity position of the bank. However, too high ratio is not good enough as it reveals the under utilization of fund. The ratio is computed by dividing the total amount of cash and bank balance held in the bank by total deposit (expect fixed deposits) collected by the bank.

$$\text{Cash \& Bank Balance to Deposits (Expect FD) Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit(Except Fixed Deposit)}}$$

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

e) Cash and Bank Balance to Total Deposits Ratio :

The ratio is employed to measure whether cash & bank balance is sufficient to cover its current call margin including deposits. It shows the proportion of total deposits held as most liquid assets. High ratio shows the strong liquidity position of the bank. But too high ratio is not favorable for the bank because it produces adverse effect n profitability due to idleness of high-interest bearing fund. The ratio is calculated using following formula;

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

Total deposit consists of both interest bearing deposits & non-interest bearing deposits i.e. current deposits, saving deposit, fixed deposit, money at call and short notice and other deposits.

f) NRB Balance to Current Saving Deposit Ratio :

The ratio shows the percentage of amount deposited by the bank in Nepal Rastra bank (NRB) as compared to current & saving deposits. Commercial banks are required to hold certain portion of current and saving deposits in Nepal Rastra Bank's account. It is to ensure th e smooth functioning and sound liquidity position of the bank. As per the directive of Nepal Rastra Bank, the required ratio is 8%. Therefore, the ratio measures whether the bank is following the direction of NRB or not. The ratio is computed by dividing the balance held with Nepal Rastra Bank by saving deposits. It express as;

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

g) NRB Balance to Fixed Deposit Ratio

The ratio shows the percentage of the amount deposited by the bank in Nepal Rastra Bank as compared to fixed deposits. According to the direction of NRB, this ratio should be maintained 6%. Hence the ratio so calculated finds whether the bank has obeyed the direction of central bank or not. The ratio is computed by dividing the balance held with Nepal Rastra Bank by fixed deposits accepted.

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

2) Activity Ratios: - Activity ratio also known as turnover ratio, indicate the speed with which assets are being converted or turned over into sales. This ratio is employed to evaluate the sales efficiency or activity and short-term liquidity or activity of an enterprise. These ratios also measure the degree of effectiveness in use of fund by a firm. The common ratios of activity/ turnover ratios are as follows:

- Inventory turnover ratio
- Debtors turnover ratio
- Average assets turnover ratio
- Fixed assets turnover ratio
- Current assets turnover ratio
- Total assets turnover ratio
- Capital employed turnover ratio

a) Loans and Advances to Total Deposit Ratio :

The ratio indicates the proportion of total deposits invested in loans and advances. It is calculated to find out how the banks are successfully utilizing their total deposits for profit generating purpose on loan and advances. High ratio means

the greater use of deposit for investing in loans and advances. In other words, Greater the ratio implies the better utilization of outsiders fund (Total Deposits). But very high ratio shows poor liquidity position and risk in loans. On the contrary, too low ratio may be the cause of idle cash or use of fund in less productive sector. The ratio is computed by dividing total loans and advances by total deposit liabilities.

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

Loan and advanced consist of loans, advances, cash credit, overdrafts, and foreign bills purchased and discounted.

b) Loans and Advances to Fixed Deposit Ratio :

The ratio indicates what proportion of fixed deposits has been used for loans and advances. Loans and advances are the major sources of investment to generate income by the commercial banks. Fixed deposits are long-term interest-bearing obligation. It carries high rate of interest. Funds collected are needed to invest in such sectors, which yield at least sufficient return to meet the obligations. The ratio measures the extent to which the fixed deposits are utilized for the income generating purpose. High ratio means utilization of fixed deposit in form of loans. The ratio is calculated by dividing loans and advances by fixed deposits.

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

c) Loans and Advances to saving Deposit Ratio :

The ratio indicates how many times the short-term interest bearing deposits are utilized for generating the income. Saving deposits are the short-term interest bearing liabilities. Loans and advances are the major sources of investment to generate income in commercial banks. Loans and advances to saving deposits ratio

is measured to find out how many time of fund is used in loan and advances against saving deposit. High ratio indicates greater utilization of the saving deposits in advancing loans. The ratio is calculated dividing the amount of loan and advances by total deposit in saving account. The following formula is used to calculate this ratio as:

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

d) Investment to Total Deposit Ratio :

The ratio shows how efficiency the major resources of the bank have been mobilized. High ratio indicates managerial efficiency regarding the utilization of deposits. Low ratio is the result of less efficiency in use of funds. The ratio is obtained by dividing investment by total deposits collected in the bank.

$$\text{Investment to Total deposit ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

Investment comprises investment its HMG treasury bills, development bonds, company shares and other type of investment.

e) Performing Assets to Total Assets Ratio :

The ratio measures what percentage of assets has been funded for income generation. High ratio indicates greater utilization of assets and hence sound profitability position. It is calculated by dividing performing assets by total assets.

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

Performing assets include those assets, which are invested for income generating purpose. These consist of loans & Advances; bills purchased and discounted investment and money at call or short notice.

3) Leverage/Capital Structure/ Solvency Ratios :

Short-term financial positions refer to the liquidity position of the firm. Long-term financial position refers to the capital structure or financial leverage. Long-term financial position of the firm is judged by the capital structure ratio or leverage ratio or structure ratio. The leverage ratio or structural ratio is calculated to measure the financial risk and the firm's ability of the using for debt the benefit for the shareholders.

Leverage refers to the ratio of debt to equity in the equity in the capital structure of the firm. Debt & equity are long-term obligation and remaining parts in the ability side of the balance sheet are termed as short –term obligation. Both types of obligations are required in forming the capital structure of the firm. The long-term financial position of the firm is determined by leverage or capital structure.

Debt is more risky from the form the firm's point of view. The firm has legal obligation to pay interest to debt holders irrespective of the profit made or losses incurred by the firm. But use of debt is advantageous to shareholders in two ways:-

- They can retain control on the firm with a limited stake.
- Their earning is magnified when rate of return of the firm on total capital is higher than the cost of debt.

Following ratios are calculated to test the optimality of capital structure.

a) Debt-Equity Ratio :

This ratio is calculated to find out the proportion of the outsider's fund to owner's fund to finance the total assets. It is also called the proportion of outsider's claim and insider's claim on total assets of the banks. It is also called debt to net worth ratio. The ratio shows the mix of debt and equity in capital. It measures creditors' claims against owners'. High ratio shows that the creditors' claims are greater than those of owners. Such a situation introduces inflexibility in the firm's

operation due to the increasing interference and pressures from creditors. Low ratio implies a greater than claim of owners than creditors. In such a situation, shareholders are less benefited if economic activities are good enough. Therefore, the ratio should neither be too high

nor too low. The ratio is calculated by dividing total debt by shareholder's equity.

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

Total debt consists of all interest-bearing long-term debts. These include loans and short-term debts. These include loans advances taken from other financial institutions, deposits carrying interest etc. Shareholder's equity includes paid-up capital, reserves and surplus and undistributed profit.

b) Debt- Asset Ratio :

This ratio shows the contribution of creditors in financing the assets of the bank. It is the proportion of debt on the total capital or proportion of outsider's claim on total assets. Greater proportion of the bank's assets has been financing through outsider's funds. High ratio indicates that the greater portion of the bank's assets has been financed through outsider's fund. The ratio should neither be too high per too low. The ratio can be calculated by dividing total debt by total assets.

$$\text{Debt-Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

c) Interest Coverage Ratio :

This ratio is calculated to find out the bank's ability to meet interest obligation. The ratio also known as times interest-earned ratio is used to test the debt servicing capacity of the bank. It shows the number of times the interest charges are covered by funds that are ordinarily available for their payment. It indicates the extent to which the earning may fail without causing any

embarrassment to the firm regarding the payment of interest. Higher ratio is desirable, but too high a ratio indicates the firm is very conservative in using debt. A lower ratio indicates excessive use of debt or insufficient operation. The ratio calculated by dividing net profit before deduction of interest and tax by interest charges.

$$\text{Interest Coverage Ratio} = \frac{\text{Earning Before Interest \& Tax(EBIT)}}{\text{Interest Changed}}$$

EBIT or Earnings before Interest and Tax Net Profit Before Interest and Tax (NPBIT) is amount of operating profit before deduction of the amount of interest and tax.

4) Profitability Ratio: -

Profitability ratio shows the overall efficiency of the business Concerns corporations. The relation of return of firm to either its sales or its equity or its assets is known as profitability ratios. In other words, we can say that profitability ratios is used to measure the success of an enterprise in terms of its earning on sales or on investment, profitability ratios are of two types.

- Profitability in relation to sales
- Profitability in relation to investment

A company should earn profits to survive & 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 operating efficiency of the company. Management of the company, creditors and owners are interested in the profitability of the firm. Creditors want to get interest and repayment of principal

regularly. Owners want to get a reasonable return from their investment (Pandey, 1994:116)

Profitability ratios are calculated to measure the operating efficiency of the company. Various profitability ratios are calculated to measure operating efficiency of business enterprises. Though profitability ratios the lender & investors want to decide whether to invest in particular business or not. To meet the objective of the study, following ratios are calculated in this group.

a) Return on Total Asset

The ratio is measuring the profitability of funds invested in the bank's assets. In other words, it measures the efficiency of bank in utilization of the overall assets. High ratio indicates the success of management in overall working fund i.e. total assets. It is also called net profit or loss to working fund i.e. total assets ratio or simply called ROA. The firm has to earn satisfactory return on assets or working funds otherwise its survival is threatened. High ratio indicates the success of management in overall operation. Lower ratio means insufficient operation of the bank. It is calculated by dividing net profit after tax (NPAT) by total assets of the bank

$$\text{Return on Assets} = \frac{\text{Net Profit After Tax(NPAT)}}{\text{Total Assets}}$$

Net profit refers to the profit after deduction of interest and tax. Total assest means the assets that appear in asset side of balance sheet.

b) Return on Net Worth :

The ratio is tested to see the profitability of the owner's investment. It reflects the extent to which the objective of business is accomplished. All commercial banks have its main objective to earn the maximum profit, so that they can run smoothly and get the fame. For that they must mobilize resources and its

equity capital properly. Equity capital is owned capital of banks. The ratio is also called net profit (or loss) to net worth or net profit (or loss) to shareholder's equity or return on shareholders' equity or simply called *ROSE*. The ratio is of great interest to present as well as prospective shareholders and also of great significance to management, which has the responsibility of maximizing the owner's welfare. So, higher ratio is desirable. It is computed by dividing net profit after tax by net worth.

$$\text{Return on Net Worth} = \frac{\text{Net Profit After Tax(NPAT)}}{\text{Net Worth}}$$

Net worth refers the owner's claim on banks. It can be find out subtracting the total liabilities from total assets. It includes shareholder's reserve and share capital.

c) Return on Total Deposit :

Major financial source of a bank is deposit collection. And deposits are mobilized for loan and advances, investment etc. to earn profit. The ratio shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ratio is the index of strong profitability position. The ratio is computed by dividing net profit after tax by total deposit.

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

d) Total Interest Expenses to Total Interest Income Ratio :

The ratio shows the percentage of interest expenses incurred in relation to the interest income realized. Lower ratio is favorable from profitability point of view. The ratio is obtained by dividing total interest expenses by total interest income.

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

Total interest expenses consist of interest expenses incurred for deposits, borrowing and loans taken by the bank. Total interest income includes interest income received from loans, advances, cash credit, overdrafts, and Government securities, interbank and other investments.

e) Interest Earned to Total Assets Ratio :

The ratio shows percentage of interest income as compared to the assets of the bank. High ratio indicates the proper utilization of the bank's assets for income generating purpose. Low ratio represents unsatisfactory performance. The ratio is calculated by dividing interest income by total assets of the bank.

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

5) Capital Adequacy Ratio :

Capital adequacy ratio measures whether the firm has maintained sufficient capital or not. In other words, it helps to decide whether the existing capital is adequacy or there is the not need of reforms. The ratio is tested to ensure the safety and stability of the firm in long run. Over capitalization and under capitalization both have adverse effect on profitability of the firm. If the capital is excess, it remains idle. If the capital is insufficient, the firm may not be able to grasp the opportunity from potential profitable sectors. Therefore, the commercial banks have been directed to retain sufficient ratio by the central bank. Here, capital fund refers to the core capital and supplementary capital. Commercial banks cannot declare and distribute dividend until they meet capital adequacy ratio. Under this group, following ratios are tested.

a) Net Worth to Total Deposit Ratio:

This ratio measures the percentage of net worth n relation to the total deposits collected in the bank. The ratio is a yardstick to see whether the bank has

maintained the capital fund according to the direction of Nepal Rastra Bank. The ratio is calculated by dividing net worth by total deposits.

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

b) Net Worth to Total Assets Ratio :

The ratio measure what is the percentage of shareholders' fund is relation to the total assets owned by the bank. High ratio means greater contribution of investors' fund and strong capital adequacy position. The ratio is calculated by dividing the net worth by total assets of the bank.

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

c) Net Worth to Total Credit Ratio :

It measures the relative proportion of the shareholders fund with respect to the credit. High ratio shows that the firm has adequacy capital, which is the index of safety. Moreover, a bank with higher ratio is less affected by the instability of the financial market. The ratio is obtained when net worth is dividend by the total credit of the bank

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

Total credit refers to the total of loans and advances granted, cash credit, overdrafts, bill purchased and discounted.

6) Assets Quality Ratios :

As explained earlier, turnover ratios measure 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 is significant. A firm may be in a state of enough profit and through unable to meet liabilities.

Therefore, asset quality ratios are intended to measure the quality of assets contained by the bank. Following ratios are dealt in this group.

a) Loan Loss Coverage Ratio :

Nepal Rastra Bank has directed commercial banks to maintain provision for loan loss on the basis of category of loans and risk grade. The ratio, therefore, measures whether the provision is sufficient to meet the possible loss created by defaulted in payment of loan or not. High ratio indicates that the major portion of loan is risky. The ratio is calculated by dividing provision for loan loss by total risk assets.

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

For the study purpose, risk assets constitute loans and advances, bill purchased and discounted.

b) Loan Loss Provision to Total Income Ratio

This ratio shows what 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. The ratio is obtained by dividing loan loss provision by total income.Loan Loss Provision to Total Income Ratio = $\frac{\text{Loan Loss Provision}}{\text{Total Income}}$

c) Loan Loss Provision to Total Deposit Ratio

It shows the proportion of bank's 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 obtained by dividing the provision for loan loss by total deposit in the bank.

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

d) Accrued Interest to Total Interest Income Ratio

This ratio shows the percentage of accrued interest with respect to total income in form of interest. High ratio indicates the large portion interest remained to be collected. Lower ratio reflects the better quality of assets in the bank. The ratio is obtained by dividing accrued interest by total interest income.

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

Accrued interest refers to the interest that is accrued but not collected. Total interest income includes the interest received from the investment in various sectors.

7) Others Indicators :

Above stated ratios, throw light on various aspects of bank. Management, investors and creditors can get information regarding their interest. Some indicators are dealt here which provide more knowledge about the performance of bank. They are listed below.

a) **Earning Per Share** (EPS)

Earnings per Share refer to the income available to the common shareholders on per share basis. It enables us to compare whether the earning based on per share

basis has changed over past period or not. The investors favor high EPS. It reflects the sound profitability position of the bank. It is obtained by dividing earning available to common shareholders by number of equity shares outstanding.

$$\text{Earnings Per Share} = \frac{\text{Earning Available Common Shareholder (EAC)}}{\text{No. of Equity Share Outstanding}}$$

Earnings available to common shareholders is the amount of that profit which can be found after deducting the amount of interest to the outsiders' fund, dividend to the preferred shareholders and income tax to the government. For this purpose, it is net profit after tax.

b) Price -Earning Ratio (P/E ratio)

P/E Ratio is widely used to evaluate the bank's performance as expected by investors. It represents the investors' judgment or expectation about the growth in the bank's earning. In other words, it measures how the market is responding towards the earning performance of the concerned institution. High ratio indicates greater expectation of the market towards the achievement of firm. It is obtained by dividing market value per share by earning per share.

$$\text{Price-Earning Ratio} = \frac{\text{Market Value Per Share (MVPS)}}{\text{Earning Per Share (EPS)}}$$

c) Market Value per Share to Book Value per Share (MVPS/BVPS)

The ratio measures the value that the financial market attaches to the management and organization of the bank as a growing concern. High ratio is the indication of strong management and organization. It is the ratio of market value per share to book value per share.

$$\text{Market Value per Share to Book Value per Share} = \frac{\text{Market Value Per Share (MVPS)}}{\text{Book Value Per Share (BVPS)}}$$

2.2 Review of Research Reports/ Dissertations

Although at present, more than 75 finance companies have been registered, still only few studies relating to the financial performance are available in the concerned institutions, keeping in view the absence of the required research made on the financial performance of the finance companies, some reviews have been extracted from the banking sector as well. Banks and finance companies are moreover similar in terms of objectives, policies and transactions.

Wagle (1997) conducted his research on, "A study on finance company in Nepal." The major findings of his study are lending rates of finance are concentrated in urban area neglecting the rural regions, major portions of the finance companies lending in the areas of consumers durable through hire purchase and housing loan. The research recommends decreasing interest on loans, to provide banking and financial services to the people of all geographical regions. It further suggests diverting its credit in productive sectors in order to remain viable and to support the national economy.

Pandey (2001) in his study entitled, "A comparative assessment of financial performance among selected Nepalese Finance companies" conclude as follows: The financial performances of National Finance Company Ltd. are concluded to be satisfactory. There was found some lacking only in terms of interest receivables turnover and credit deposit ratio.

Investment in the form of loans and advances made by Universal Finance and Capital Markets Ltd. in unproductive sectors through housing and hire purchase loan is comparatively very higher than in productive sectors. The interest receivable turnover has been adversely affected due to inadequate collection effort and liberal grant of credit provided by the company, which may eventually lead to loss in terms of bad debts. The performance of the company on the ground of other employed parameters is satisfactory except profitability.

Nepal housing and merchant finance Ltd. is following sound financial practices. However, the fluctuation in terms of dividend payments as well as declaration clearly exhibits unstable and inaccurate dividend policy of the company, which is not fair. Besides these, large sums of credit investments are made in secured but unproductive sector is not a good symbol, as it does not help to boost the national economy though it is beneficial to the company.

Himalayan securities and finance company Ltd. could not utilize its current assets and deposits efficiently. Comparatively higher non-banking assets than in other institutions are not satisfactory although it has recorded improvement in terms of such asses disposal. Lower credit deposit ratio and growing interest expenses of the company over the study period indicate the financial inefficiency. In addition, increasing credit investment towards safe sectors and decreasing profitability do not justify and suspense to interest income ratio is a favorable offsetting factor. Remaining employed financial indicators clearly reveal the appreciating performance of the company.

A study conducted by Pradhan (1980) entitled, "A study on investment policy of Nepal Bank Ltd." with the objectives; to assess the lending policies of bank, to find out the causes of fluctuation of loan during the year 2029 to 2034. To find out what extent Nepal Bank Ltd had been able to utilize deposits, loans and advances. But the same was not in a proportionate manner greater increase in deposits led to little increase in the loans and advances increase in interest was the main factor for decrease in loan demand. The bank ad invested only 3% of total investment in the priority sector, which was lower than the 7% imposed by NRB.

Joshi (1989) conducted a study on, "A study of financial performance of commercial Banks" analyzed different ratios of Nepal Bank Limited and Rastriya Banijya Bank for the periods of fve years till fiscal year 1988. He concludes, "Liquidity position o commercial Banks in sound. Their debt to equity ratio is high which doubt on solvency. Debt to equity ration of local commercial banks in higher than joint venture banks. Conservative credit policy is followed by commercial banks for asset utilization. That is why more investments are done in loans and advances. Assets utilization for earning purpose is two thirds of the total assets. The main source of income for these banks is interest from loans and advances. Overall profitability position of NABIL is better than other."

According to Neupane (2001) entitled, "Prospects of Financial companies in Nepal." He concludes that prospective of finance companies in Nepal is not promising enough if; they keep on highly relying on same traditional lending and investment activities, do not get able to increase the market pie by making adequate research and development programs, don't damage efficiency credit monitoring and don't get succeed to increase shareholders wealth with stronger financial performance and respectful investment practices.

He recommends the finance companies to practice activities like project management, share issue planning and management, mergers and acquisitions, brokerage services, design of capital structure, helping buying and selling of marketable securities on the behalf of client, solving corporate problems, arranging foreign collaborations to make easy loan syndication, under-writing, amalgamation and takeovers, factoring of receivables etc. To satisfactory extent giving clear line of demarcation between themselves and commercial banks, rather than simply replying n conservative investment practices.

➢ Review of Articles :

Different Scholars have approached financial services in different ways. A review of these approaches is important in order to develop an approach that can be employed in the context of Nepalese enterprises.

Neupane (1993) in his article, Development of finance companies in Nepal; Prospects and challenges" has concluded that finance companies with new financial instrument and innovation are highly needed in the country. Regarding the establishment of these companies, there is still ample room for developing varieties of companies and financial instruments to attract the small and medium savers. Nepalese people have the bitter experience of being cheated by the so called UPAHAR, INSTALMENT and other prize awarding schemes, therefore, efforts could be made to create a sound institutional base so that people will not be cheated.

Nepal (1995) points out in his article, "The role of Nepal Rastra Bank towards established finance companies, their numbers, least saving of people and consecutive dealing with finance companies have pointed to the crisis in the future. Nepal Rastra Bank is expected to assess and observe the finance companies establishes by native and foreigners. It should hold discussions from concerned experts on the matter without any delay.

In the same way, Palikhe (1995) in her article, condition of finance companies in changing situation" has concluded that to trigger timely change in the economy of the country and the living standard of Nepalese people, the role of finance company is important. But the quantity of finance companies does not count. Presently, the trend of servicing in the urban areas should be discouraged and the rural regions should be made the main target area. In the political environment where commitment is lacking and

boarder is open with India, the finance companies have a difficult task to a struggle against the minimum of pre-requisites.

Sapkota (2055) in his article, "Development and present condition of finance companies in Nepal" has concluded that the finance companies have contribute much to use financial equipment in the system of Nepalese finance. The habit of saving and depositing is on the rise among Nepali customers as the finance companies are servicing door to door. They are interested in promoting capital. The debtors are also facilitated by the quick service in loan. As the finance companies are focusing on consumer commodities, they have not been able to contribute in the productive sectors like agriculture, industry and others.

In the article, "Challenges a head of FC's Adhikari stretches the need of FC's to differentiate itself from the commercial banks. The new challenges of FC's would be to function activities like merchant banking, lease financing, factoring, brokerage etc. There are the activities actually should have been undertaken by FC's but instead FC's have been undertaking quasi-banking activities. The transactions cost of FC's are very high so has been the survival of FC's in such situation. So FC's should ensure its safety so that it won't bring any damage to the economy.

An article titled, "Present position and future challenges of finance companies in Nepal" by Shrestha was published in Banking Prawardhan Vol. 8. The theme of the article is drawn in the following points:

a) Despite the existence of numbers financial institution, local lending and borrowing transaction has covered about 80 percent of total credit demand of Nepal.
b) In past customers used to approach to financial institution. But now a day here came a condition that the institutions need to go to the clients for providing financial services. Thus finance companies need to modify their working style as demanded by time and should concentrate in quick and practical services.
c) Taking the example of financial crises in some of the countries in South East Asia. Nepal should also learn the lesson from the countries in the context of increasing numbers of finance companies in the country.
d) There should be debt recovery act in Nepal.
e) Finance companies are seen not getting able to collect long-term deposit satisfactory. So they need to try to increase public confidence towards them.

In an article, “Finance companies in Nepal an overview, by D.P. Paudel, published in special finance edition of prasichan from Bankers training centre. The current picture of FC’s of Nepal is shown under this article.

“The financial sector in Nepal consists of central bank, commercial bank, finance companies, co-operatives societies and non-government organizations and of these institutions the later groups are performing the limited commercial banking transactions. Licensing after 1992 under the finance company Act 2042 B.S. there are now many finance companies into action and are made mandated by NRB’s Act 2012 B.S. with conditions like capital base, deposit mobilization, loan classification and provisioning etc.

The performance of these finance companies shows the sources of fund have increased more than six times while the loan and advances are as high as nice times. The ratio of capital funds to deposits has been remained very high leaving room for doubt, about the quality of loan especially in absence of act on realization of debt. The loan diversification has been improved however, earning a short span of time. As such, the hire purchase, housing and term loans are the major sectors, which all together received more than 95 percent of the total loan and advances in mid July 1996.

Because of the mushrooming growth of the number of finance companies, the average sources of funds for each company are natural to decline.

According to Dr. Poudel, since the very tin aging factor, it is too early to evaluate the performance of FC’s in Nepal but equally important fact is that the regulatory and supervisory authority should keep close eye to monitor their activities.” He further has presented some important points:

a) NRB should direct FC strictly in maintaining the prescribed regulations.
b) NRB should publish the rating of FC’s so that their position can be well known to public.
c) The loan portfolio of FC’s should be more diversified and should search new investment opportunities.
d) FC’s should diversify their activities to rural sectors, more and more concentration on cities will increase unnecessary competition.

“Regulating depository Institution in Nepal” the article written by Mr. Ghimire has attempted to suggest a broader framework for regulating

depository Institution. In this article four important regulations are discussed and they are:

i) Licensing requirement
ii) Minimal capital requirement
iii) Investment restriction
iv) Capital adequacy requirement

i) Regulatory Discretion on Licensing

NRB has the discretionary power on who should not be allowed to open or own a company. NRB is supposed to take its decisions after evaluating the potential owner's background. This regulation stops every third person walking on the street to start owning or running a company and stopping the probability of misuse and fraud in functioning of the system.

ii) Minimum Capital Requirement for Licensing

Current regulation stipulates minimum amount of equity capital that the company should have to get license in operating and mobilizing deposits. This will definitely put bar on new entrances and lower the current competition by allowing already operating institution to operate freely. Since the concentration activity has been on capital only, there has been geographical sanction too.

According to Mr. Ghimire the restriction on capital requirement and geographical location should be scrapped off. Minimal capital requirement should be substituted by minimum infrastructure the company should posses and there should be regulation that portion of owner's capital must be required in every risky investment. As far as geographical restrictions are concerned, capital can freely move from one geographical area to other, so there is no need of this restriction.

iii) Investment Restriction:

This regulation restricts how and where an institution can invest, for example, limit to any one sector, to any borrower, on any one category etc.

Productive investment by the company affects the nation's productivity. Restriction on investment on single borrower avoids the risk of failure of any single borrower adversely affecting the intervention of their issues as companies have been smartly violating these regulations.

iv) Capital Adequacy Rate

Commercial Banks are primarily controlled by capital adequacy requirement where as finance companies are controlled by the maximum amount of deposit fixed at a certain multiple of the net worth.

Capital indicates degree of owner's commitment on these institution and cushion against shrinkage of the assets of company in event of default. Since capital indicates degree of owner's commitment, capital as a percentage of risky investment should be enforced.

In the end, he further presents some of conclusion remarks and recommendation:

- The regulation to be restored must be carefully examined, analyzing the marginal cost and benefit.
- Depositing institutions engaged in the function of mobilizing deposits should be subject to uniform rules.
- Regulatory intervention in enhancing the overall efficiency is required.
- Minimum capital requirement for opening any financial institution should be scrapped.
- Regulation that does not make economic sense and that can not be enforced should be scrapped.

Further, according to Shrestha (1995), "Finance companies have to be established, organized, managed and operated with a professional team of mixing innovative ideas with money and experience. The financial performance of finance companies varies from each other in terms of their profitability, divided payment and market prices.

The review of the thesis, dissertations and articles presented above shows picture of the state of affairs of finance companies in Nepal in general. They enable to under view their activities, role, and significance as well the problems faced by them. They also focus on certain reforms to strengthen their effectiveness and usefulness.

Chapter-III

Research Methodology

3.1. Introduction :-

Research Methodology is a planned and systematic way to solve the research problem. It refers to various sequential steps to be adopted by researcher in studying a problem with certain objectives. It facilitates the research work and provides reliability and validity. The research methodology describes the method and process applied in conducting the entire study.

Hence, we discuss the procedures employed in this study including data collection and analysis. This chapter highlights the research methodology applied in this study in order to solve the objectives of present study.

3.2 Research design :-

Research design is overall framework or plan for the collection and analysis of data. It focuses on the data collection procedures, research instruments utilization, and the sampling plan to be followed.

The research design is an organized approach and not a collection of loose unrelated parts. It is an integrated system that guides the researcher in formulating, implementing and controlling the study. It is an arrangement of conditions for collection and analysis of data in a manner that aims to continue relevance to the research purpose with economy in procedures.

The present study is essentially a case study which describes and analyses the financial position of Sahyogi Vikash Bank Ltd. The study is closely related to financial statements. The information and data contained in financial statements have been described and analyzed in the context of theoretical framework applying various analytical tools. Hence, descriptive cum analytical research design has been applied in this study.

3.3 Period Covered :-

The study covers a period of five years from 2063-64 to 2067-68.

3.4 Population and Sample:-

The term population means all the number of any well defined class of people, event or objects. Thus, all the development banks operating in Nepal constitute the population for the study. Since this is a case study only Sahyogi Vikash Bank Ltd has been selected for study purpose.

3.5 Sources and Nature of data:-

The information and data required for the study have been collected from both primary and secondary sources. However, the study is based mainly on secondary data. Primary data have been generated through observation and informal interviews with concerned officials of the Company whereas secondary data have been gathered from both internal and external sources. The internal secondary data include data available in financial statements i.e. Income statements, Balance sheet, Annual reports and other unpublished official records of Sahyogi Vikash Bank Ltd. The external secondary data include the data available in books, periodicals, and other published / unpublished reports.

3.6 Data analysis tools and techniques:-

In order to serve the purpose of the study different accounting / financial as well as statistical tools have been used in this research work.

3.6.1 Financial Tools:-

As per the demand of the research topic different tools of financial analysis could have been used. However, due to time constraint, data constraint and other resource constraint the different ratios viz. liquidity ratios activity ratios, capital structure ratios, profitability ratios, Capital adequacy ratios have been used as financial tools in this research work.

3.6.2 Statistical tools:-

The statistical tools like percentage, Mean, standard deviation have also bean applied in order to enhance the quality of analysis and make it more systematic, scientific and reliable. Besides, tables and graphs have also been constructed to make the presentation of data more vivid and plausible.

Chapter-IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the analysis and interpretation of data following the research methodology dealt in the third chapter. In course of analysis, data gathered from the various sources have been inserted in the tabular form according to their homogenous nature. The data used in various tables prepared for the analysis purpose have been shown in appendix-1. Using financial and statistical tools, the data have been analyzed. The result of the analysis has been interpreted keeping in mind the conventional standard with respect to ratio analysis, directives of NRB and other factors. Moreover, financial performance of the sampled bank has especially been analyzed in cross sectional manner.

4.1 Ratio Analysis :

Ratio analysis has been adopted to evaluate the financial health, operating result and growth of the sampled bank. In order to analyze and interpret the data, the following ratios have been used.

- Liquidity Ratio
- Efficiency/Activity/Turnover Ratio
- Profitability Ratio
- Capital Adequacy Ratio
- Assets Quality Ratio
- Other indicators

4.1.1 Liquidity Ratio :

Liquidity ratios have been employed to test the ability of the bank to pay immediate liabilities (i.e. short term liabilities). These include current ratio, quick ratio, cash & bank balance to current assets ratio, cash & bank balance to deposit (except fixed deposit) ratio, cash & bank balance to total deposit ratio, NRB balance to current and saving deposit ratio and NRB balance to fixed deposit ratio.

4.1.1.1 Current Ratio :

Current ratio is also known as working capital ratio. It is computed by dividing the current assets by current liabilities.

Current Ratio = Current Assets / Current Liabilities

Table 4.1

Current Ratio (Times)

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.73	0.80	0.80	0.92	1.85	1.02	0.42

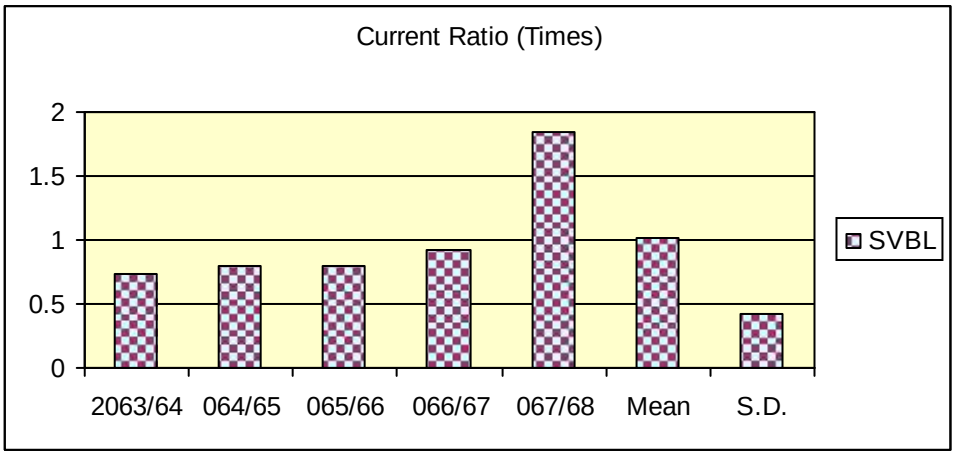
Source: Appendix-1

Table 4.1 clearly shows that current ratio of SVBL for the study period remained 0.73, 0.80, 0.80, 0.92 & 1.85 times respectively from the FY 2063/64 to FY 2067/68, Mean of the ratios appeared 1.02 and standard deviation 0.42. The current ratios have been below the conventional standard of throughout the study period however, it has been gradually improving.

For Banks and Finance companies, it is very important to maintain a good balance between liquidity and profitability. If they keep large portion of money under their control, it affects in profit because idle money earn nothing but on the other hand they should have enough cash balance with them to fulfill the requirement of short term liabilities. Delay in payment of liabilities may lead them to loose their goodwill. This can also be shown in the following figure-1.

Figure 4.1

Current Ratio of SVBL



4.1.1.2 Quick Ratio :

Quick ratio establishes a relationship between quick or liquid assets & current liabilities. It is computed by dividing the quick assets by current liabilities.

Quick Ratio = Quick Assets / Current liabilities

Table 4.2

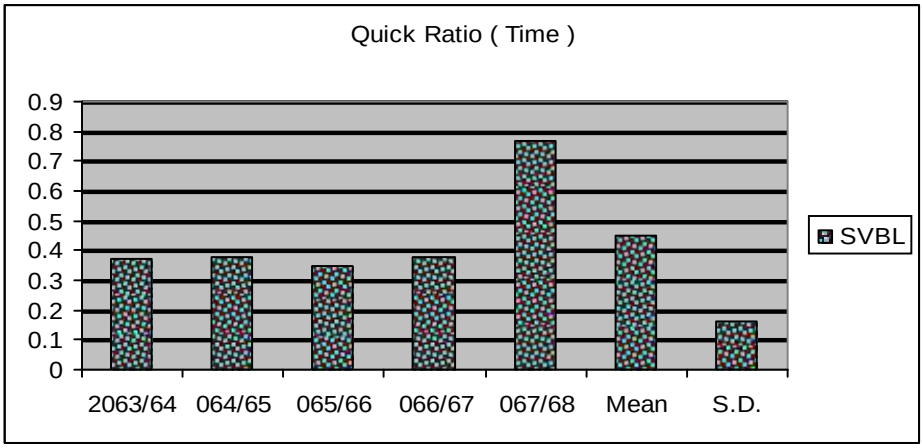
Quick Ratio (Time)

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.37	0.38	0.35	0.38	0.77	0.45	0.16

Source: Appendix: - 1

Table 4.2 clearly shows that quick ratio of SVBL for the study period remained 0.37, 0.38, 0.35, 0.38 & 0.77 time respectively from FY 2063/64 to FY 2067/68. Mean & standard deviation were 0.45 and 0.16 respectively. The calculated ratios have been below the conventional standard ratios of 1.1. The ratios are however, gradually improving. The ratios indicate that the bank was not in a position to meet the short term liabilities from its quick assets. Inability to meet its short term liabilities in time does not have positive impact in the market. This can also be shown in the following fig-2.

Figure 4.2
Quick Ratio of SVBL



4.1.1.3 Cash and Bank Balance To Total Deposit Ratio :

The ratio measures the ability of the bank to meet its immediate obligation. The bank should have adequate cash and bank balance to meet the unexpected as well as the heavy withdrawal of deposits. The ratio is computed by dividing the cash & bank balance by total deposits.

Cash and Bank Balance to Total Deposit Ratio = Cash & Bank Balance / Total Deposit

Table 4.3

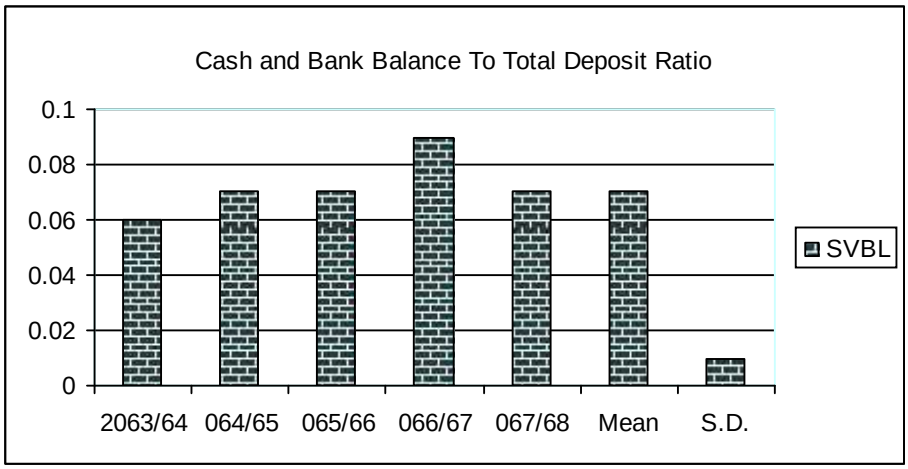
Cash and Bank Balance To Total Deposit Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.06	0.07	0.07	0.09	0.07	0.07	0.01

Source: Appendix-1

Table 4.3 clearly shows that cash and Bank Balance to Total Deposit Ratio of SBVL for the study period remained 0.06, 0.07, 0.07 , 0.09 and 0.07 times respectively from FY 2063/64 to FY 2067/68, Mean & standard deviation were 0.07 and 0.01 respectively. The calculated ratios show consistency over the years. A high ratio represents the greater ability to meet their all types of deposits. But too high ratio of cash and bank balance to total deposit may be unsuitable and harmful because it affects the profitability position and also low ratio is unfavorable as capital will be tied up and opportunity cost will be higher. This can also be shown in fig-3.

Figure 4.3



4.1.1.4 Cash and Bank Balance to Deposits (Except Fixed Deposits) Ratio :

The ratio measures the ability of the bank to meet its immediate obligation. The bank should have adequate cash and bank balance to meet the unexpected as well as the heavy withdrawal of deposits. The ratio is computed by dividing the cash & bank balance to total short term deposits i.e. saving Deposits, current Deposits, Margin Deposits & call Deposits. It is express as:

Cash & Bank Balance to Deposits = cash & bank Balance/ Total deposit (except FD)

Table 4.4

Cash & Bank Balance to Deposits (Except Fixed Deposits) Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.10	0.10	0.08	0.11	0.09	0.10	0.01

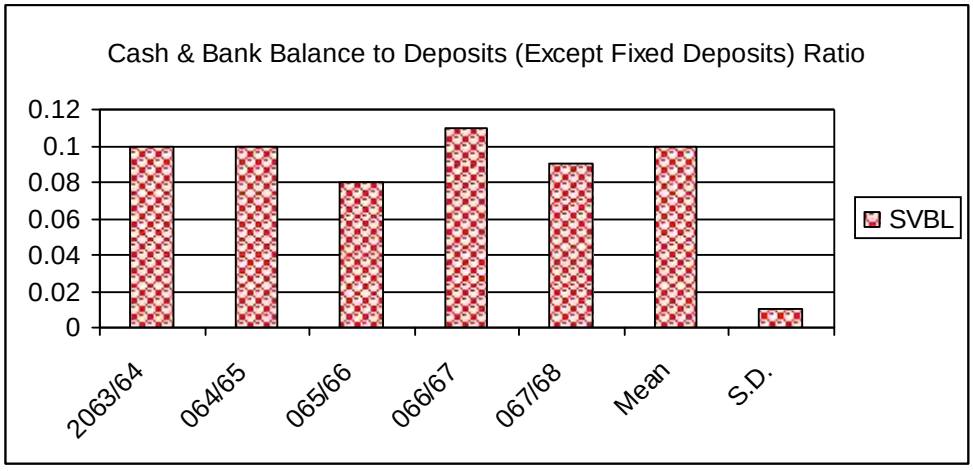
Source: Appendix-1

Table 4.4 clearly shows that cash and Bank Balance to Total Deposit (except fixed deposits) Ratio of SBVL for the study period-remained 0.10, 0.10, 0.08, 0.11 and 0.09 times respectively from FY 2063/64 to 067/68 mean & standard deviation were 0.10 and 0.01 respectively.

The calculated ratios and the mean show that the bank was relatively in poor condition to repay the deposits. From liquidity point of view the bank was not in comfortable position.

A high ratio represents the greater ability to meet the deposits. But too high ratio of cash and bank balance to total deposits may be unsuitable and harmful because it affects the profitability position. This can also be shown in fig-4

Figure -4



4.1.1.5 Fixed Deposit To Total Deposits Ratio :

The ratio measures the position of fixed deposits to total deposit of the Bank. Fixed deposit is the main source of the deposit which Bank invests; Fixed deposit is the deposit which only returns after the turn off agreed time. It is expressed as;

Fixed deposit to total deposit Ratio = Fixed deposit / Total deposit

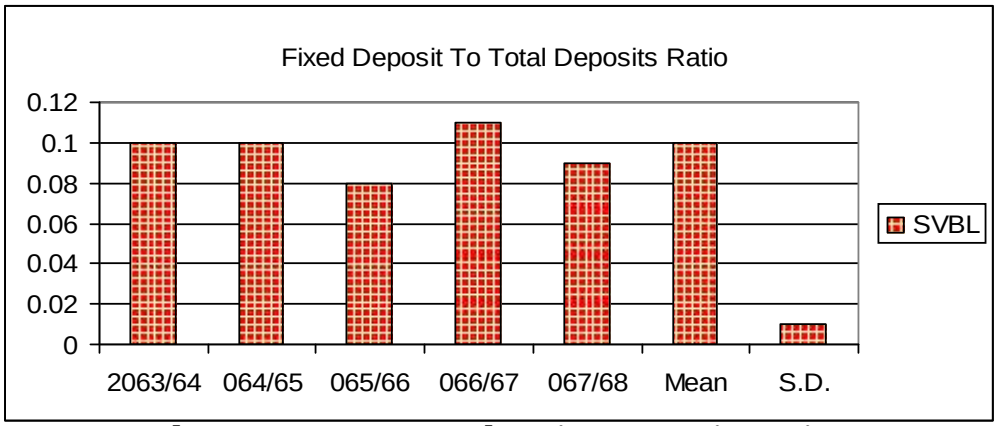
Table - 4.5

Fixed Deposit To Total Deposits Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.41	0.28	0.19	0.21	0.18	0.25	0.08

Source: Appendix-1

Table 4.5 clearly shows that fixed deposit to total deposit Ratio of SBVL for the study period remained 0.41, 0.28, 0.19, 0.21 and 0.18 times respectively from the FY 2063/64 to FY 2067/68. Mean & standard deviation were 0.25 and 0.08 respectively. The calculated ratios reveal that major share in the total deposits of the bank is not being occupied by fixed deposit. This implies that the bank had relatively lesser opportunity of investing the fund in more profitable sector like long term loans on the other hand from liquidity point of view too this can not be regarded as comfortable situation. This can also be shown in Fig-5.



4.1.1.6 NRB Balance to current and saving Deposit Ratio :

The ratio shows the percentage of amount deposited by the bank in Nepal Rastra Bank (NRB) as compared to the current and saving deposits. Banks are required holding certain portion of current and saving deposit in NRB. It is computed by dividing the NRB balance by current & saving deposits.

NRB Balance to current and saving Deposit Ratio = NRB Balance / Current & saving deposit.

Table 4.6

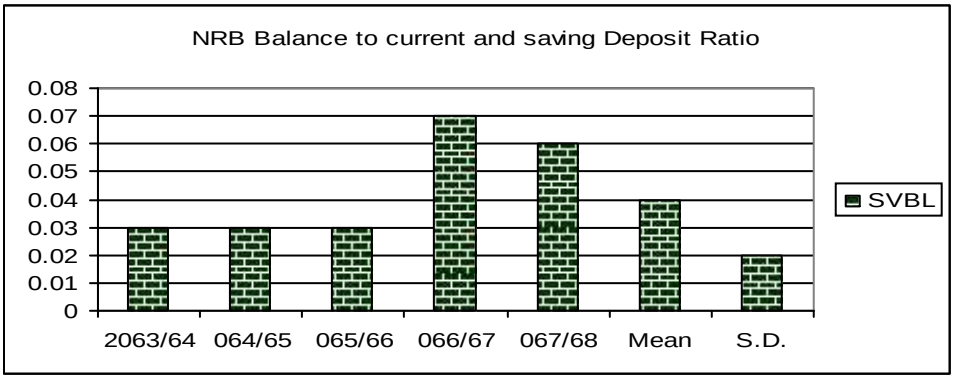
NRB Balance to current and saving Deposit Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.03	0.03	0.03	0.07	0.06	0.04	0.02

Source: Appendix-1

Table 4.6 clearly shows that NRB Balance to current and saving Deposit Ratio of SVBL for the study period remained 0.03, 0.03, 0.03, 0.07 and 0.06 times respectively.

The calculated ratios reveal that the bank has been simply maintaining the statutory provision of keeping some portion of its current and saving deposits in NRB. This can also be shown in Fig- 6.



4.1.2 Efficiency/Activity/ Turnover Ratio :

Turnover ratios have been used to evaluate the efficiency with which the bank has managed and utilized its assets. So it is also called efficiency ratio. These ratios are also employed to evaluate the speed with which assets are being converted and turnover. These ratios moreover help in measuring the bank's ability to utilize its available resources. In this study these ratios include; loans and advances to total deposit ratio, loans and advances to fixed deposit ratio, Investment total deposit ratio and performing assets to total assets ratio.

4.1.2.1 Loans and Advances to Total Deposit Ratio :

This ratio is calculated to find out how the bank is successfully utilizing the outsiders' fund i.e. total deposit for profit generating purpose in the form of extending loan and advances. It is calculated as;

Loan and Advance to Total Deposit Ratio = Loan & Advances / Total Deposit

Table 4.7

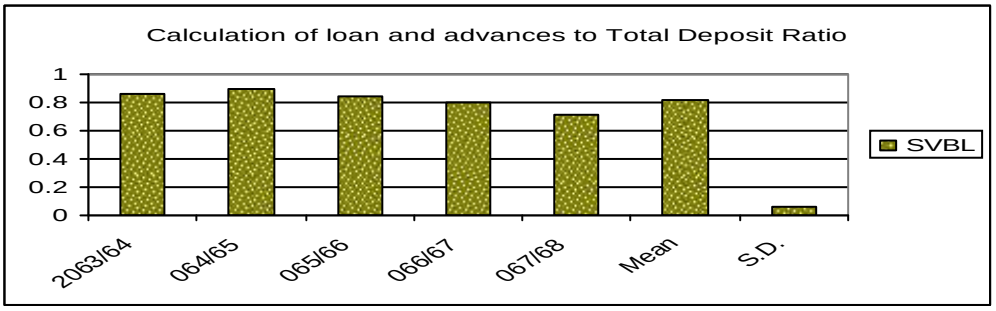
Calculation of loan and advances to Total Deposit Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.86	0.90	0.84	0.80	0.71	0.82	0.06

Source: Appendix-1

Table 4.7 clearly shows that loans and advances to total deposit ratio of SBVL for the study period remained 0.86, 0.90, 0.84 and 0.71 times respectively from the FY 2063/63 to FY 2067/68. Mean & S.D. ware 0.82 and 0.06 respectively.

The calculated ratios and the mean exhibit clearly that the bank has been successful in mobilizing its deposits for the investment purpose in the form of loans and advances. Main source of the income of the bank are generated from providing loans. However, too high ratio may create liquidity problems and risk in loans. This can also be shown in Fig-7.



4.1.2.2 Loans and Advances to saving Deposit Ratio :

Saving deposits are interest-bearing obligation for short term purpose where as loan and advances are long-term investment for generating income. So the ratio indicates how many times short term interest-bearing deposits are utilized for income generating purpose. It is calculated as,

Loan & Advances to saving Deposit Ratio = Loan & advance / Saving Deposit.

Table 4.8

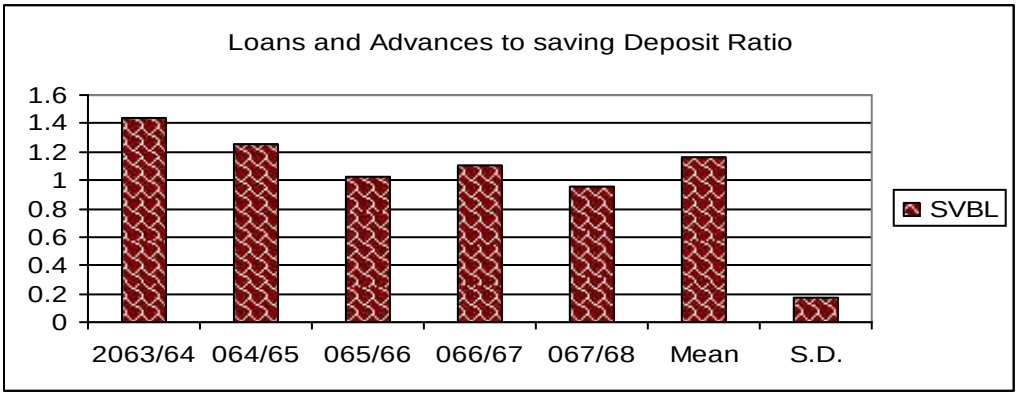
Loans and Advances to saving Deposit Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	1.44	1.26	1.03	1.11	0.95	1.16	0.17

Source : Appendix-1

Table 4.8 clearly shows loans and Advances to saving Deposit Ratio of SBVL for the study period remained 1.44, 1.26, 1.03, 1.11 and 0.95 times respectively from the FY 2063/64 to FY 2067/68. Mean & S.D. ware 1.16 and 0.17 respectively.

The calculated ratios exhibit that the bank has been able to utilize the interest bearing deposits in terms of loans and advances. A very high ratio is indicative of weak liquidity position too. The bank seems to be cautions in this regard because the ratios have been decreasing in general over the years. This can also seem from fig-8.



4.1.2.3 Loan and Advances to Fixed Deposits Ratio :

The ratio examines that how many times the fund is used in loans and advances against fixed deposits. They are interest bearing long-term obligation where as loans and advance are the major sources of investment in generating income for banks. It is calculated as;

Loans and Advances to fixed Deposit Ratio = Loans and Advance / Fixed Deposit

Table 4.9

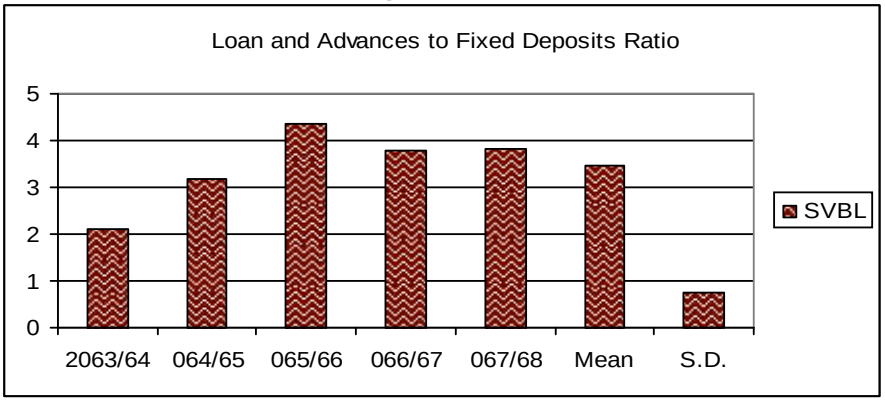
Loan and Advances to Fixed Deposits Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	2.12	3.19	4.36	3.79	3.83	3.46	0.76

Source: Appendix-1

Table 4.9 clearly shows loans and advances to fixed deposit ratio of SBVL for the study period-remained 2.12, 3.19, 4.36 , 3.79 and 3.83 times respectively from the FY 2063/64 to 2067/68. Mean & S.D. were 3.46 and 0.76 respectively.

The calculated ratios and mean reveal that the bank has been able to utilize the high interest bearing fixed deposits in yielding satisfactory returns. This can also be seen from fig-9.



4.1.2.4 Investment to Total Deposit Ratio :

Investment is the other main source of the income for the banks. Total investment includes its HMG treasury bills, development bonds, other company's share and other types of investment. The ratio shows how efficiently the major sources of bank have been mobilized. It is calculated as ;

Investment to Total Deposit Ratio = Total Investment/ Total Deposit

Table 4.10

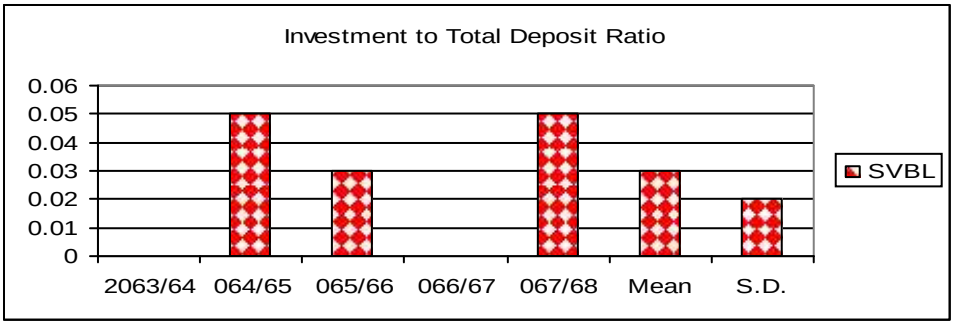
Investment to Total Deposit Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	-	0.05	0.03	-	0.05	0.03	0.02

Source : Appendix-1

Table 4.10 clearly shows that Investment to Total Deposit ratio of SBVL for the study remained 0.00, 0.05,0.03, 0.00 and 0.05 times respectively from the FY 2063/64 to FY 2067/68. Mean and standard deviation were 0.03 and 0.02 respectively.

The calculated ratios reveal that the bank had used very low percentage of its total deposit in investment other than loans and advances. It is further exhibited that investment was irregular too. This reflects inefficiency of the bank in mobilizing its deposits in other sectors. This can also be seen from fig:-10.



4.1.3. Profitability Ratio :

Profit is an important factor that determines the firm's expansion & diversification. A required level of profit is necessary for the firm's growth and services in the competitive environment. Profitability ratios have been employed to measures the operating efficiency of the sampled Banks. For the purpose, return on assets, return on net worth, return on total deposit, total interest expenses to total

interest income ratio and interest earned to total assets ratio have been analyzed and interpreted.

4.1.3.1 Return on Assets (ROA) :

The ratio is useful in measuring the profitability of all financial resources invested the firm's assets. It is also called net profit or loss to total assets or working fund ratio and denoted by ROA. It is calculated as;

Return on Assets = Net profit After tax (NPAI) / Total Assets

Table 4.11

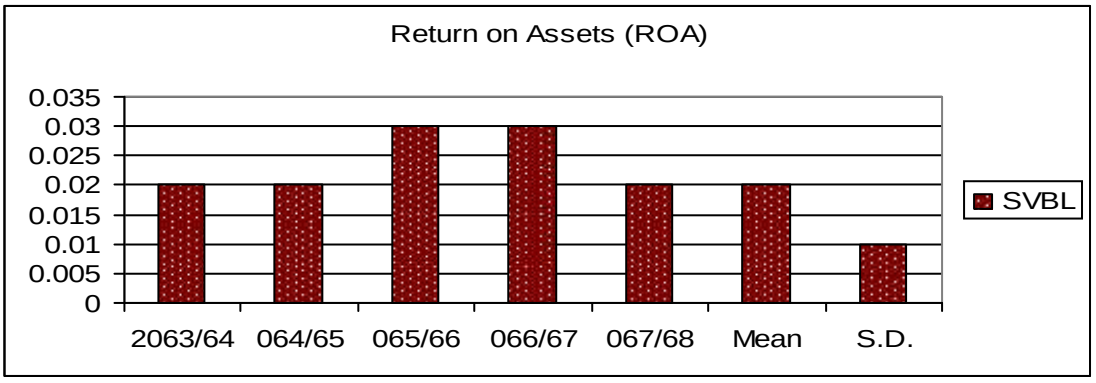
Return on Assets (ROA)

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.02	0.02	0.03	0.03	0.02	0.02	0.01

Source : Appendix-1

Table 4.11 clearly shows that return on assets ratio of SVBL for the study period remained 0.02, 0.02, 0.03, 0.03, 0.02 respectively from the FY 2063/64 to FY 2067/68. Mean & S.D. were 0.02 and 0.01 respectively.

The Return on Assets ratios of the bank show relatively to be consistent and the mean of 0.02 can be regarded satisfactory. The bank has been able to utilize its assets profitably. As a result of which the bank has been in a position to provide dividend to its shareholders and banks to its employees regularly. This can also be shown in Fig-11



4.1.3.2. Return on Net worth/shareholder's Equity (ROSE) :

The ratio is tested to see the profitability of owners' investment. It reflects the extent to which the objective of business is accomplished. The ratio is of great investment to present as well as prospective shareholders' and also of great significance to management which has the responsibility of maximizing the owner's welfare. It is also called net profit to shareholders equity ratio on shareholder equity simply denoted by ROSE. It is calculated as;

Return on Net worth = Net profit after Tax (NPAT) / Net worth

Table 4.12

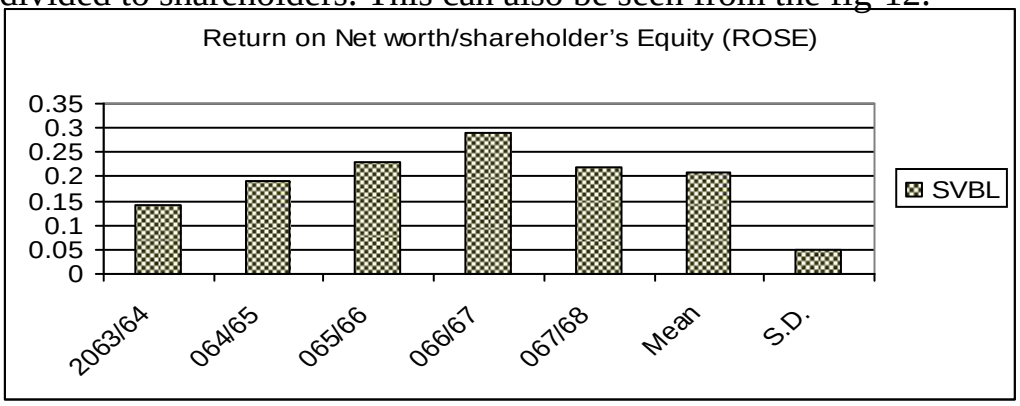
Return on Net worth/shareholder's Equity (ROSE)

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.14	0.19	0.23	0.29	0.22	0.21	0.05

Source : Appendix-1

Table 4.12 clearly shows return on Net worth of SBVL for the study period remained 0.14, 0.19, 0.23, 0.29, 0.22% respectively from the FY 2063/64 to FY 2067/68. Mean & S.D. were 0.21 and 0.05 respectively.

The return on Net worth of the bank shows increasing trend up to FY 2066/67 but has decreased slightly in FY 2067. However, the mean ratio of 0.21 and standard deviation of 0.05 indicate that the bank has effectively utilized the owner's capital and been able to give regular and significant return to them. High profit increases the goodwill in competitive market and enables the bank to provide attractive divided to shareholders. This can also be seen from the fig-12.



4.1.3.3 Return on Total Deposits :

Return on Total Deposits shows the relation of net profit earned by bank with the total deposits accomplished. It is calculated as ;

Return on Total Deposit = Net profit After Tax / Total Deposit

Table 4.13

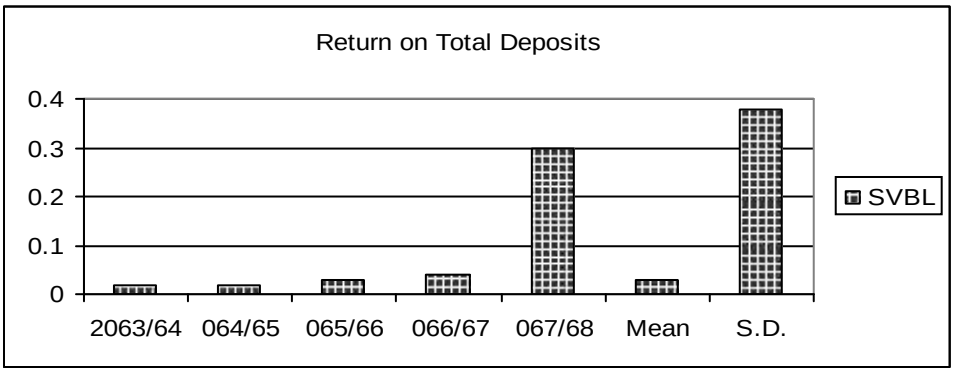
Return on Total Deposits

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.02	0.02	0.03	0.04	0.3	0.03	0.38

Source: Appendix-1

Table 4.13 clearly shows return on Total deposits of SVBL for the study period remained 0.02, 0.02, 0.03, 0.04 and 0.3% respectively from the FY 2063/64 to FY 2067/68. Mean and SD were 0.03 and 0.038 respectively.

The return on Total Deposits ratios of the bank exhibit an increasing trend up to FY 2066/67 but have decreased slightly in FY 2067/68. However, the mean value of the ratio i.e. 0.03 can be regarded satisfactory. It clearly indicates that the bank has been able to mobilize its deposits profitably. This can also be seen from fig-13.



4.14 Capital structure/leverage/ solvency Ratio :

The leverage ratios are calculated to judge the long term financial position of a firm. These ratios measure the enterprise's ability to pay the interest regularly and to repay the principle on maturity. Leverage refers to the ratio of debt to total equity in the capital structure of the firm. Debt and equity are long term obligation and remaining part of the liabilities side of Balance sheet are term as

short term obligation. Both types of obligation are required in forming capital structure of firm. The appropriate mixed of all types of structure in capital structure result sound position of firm. Therefore a firm has strong short –term liabilities as well as long-term financial position. Long term financial position of the firm is determined by leverage or capital structure. So, leverage ratio have been analyzed and interpreted to judge the long term financial health of the sampled banks. These include debt-equity ratio, debt-assets ratio, debt to total capital ratio and interest coverage ratio.

4.1.4.1 Debt-equity Ratio :

The relationship between long term debt and owner's equity is known as Debt-equity Ratio. It is a popular measure of the long-term financial solvency of a firm. It is calculated as follows:

Debt-equity Ratio = Total/Shareholder's equity

Table-4.14

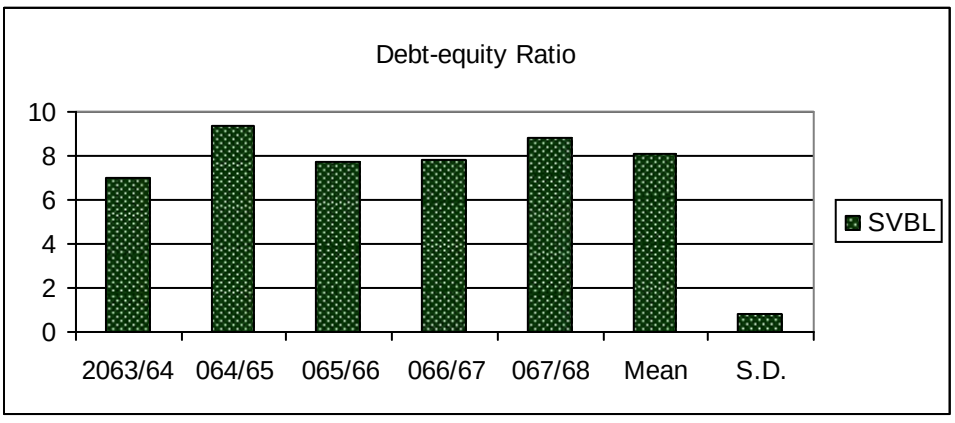
Debt-equity Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	6.98	9.33	7.75	7.78	8.78	8.13	0.83

Source : Appendix-1

Table 4.14 clearly shows that Debt-equity Ratio of SVBL for the study period remained 6.98, 9.33, 7.75, 7.78 and 8.78 respectively from FY 2063/64 to FY 2067/68. Mean and S.D. were 8.13 and 0.83 respectively.

The calculated ratios show a fluctuating trend during the period and the mean ratio of 8.13 also indicates that more of the funds invested in business are provided by outsiders. A very high ratio is also not desirable and more risky. The calculated ratios though higher than the traditional 1 : 1 can be regarded satisfactory owing to the nature of the business of the bank. This can be also seen from Fig-14.



4.1.4.2. Debt-Assets Ratio :

The ratio shows the contribution of creditors in financing the assets of the bank. It is calculated as ;

Debt-Assets Ratio = Total Debt / Total Assets

Table 4.15

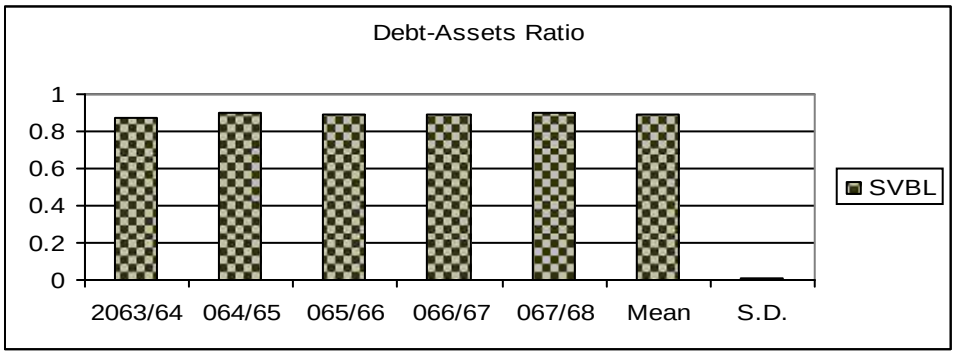
Debt-Assets Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.87	0.90	0.89	0.89	0.90	0.89	0.01

Source : Appendix-1

Table 4.15 clearly show Debt-Assets Ratio of SVBL for the study period remained, 0.87, 0.90, 0.89, 0.89 and 0.90% respectively from FY 2063/64 to FY 2067/68 . Mean and S.D. were 0.89% and 0.01 respectively.

The calculated ratios show a fairly consistent trend over the period and mean ratio of 0.89 indicates that greater portion of the bank's assets have been financed through outsiders' fund. This can also be seen from Fig-15.



4.1.4.3 Interest Coverage Ratio :

The ratio indicates the ability of a firm to pay interest charges on its borrowed capital. It is also called "Debt service Ratio" or time interest earned ratio". It shows the number of times the interest charged are covered by fund that ordinary available for their payment. It is calculated by dividing the EBIT by interest charged.

Interest Coverage Ratio = Earning Before interest & Tax/ Interest charged

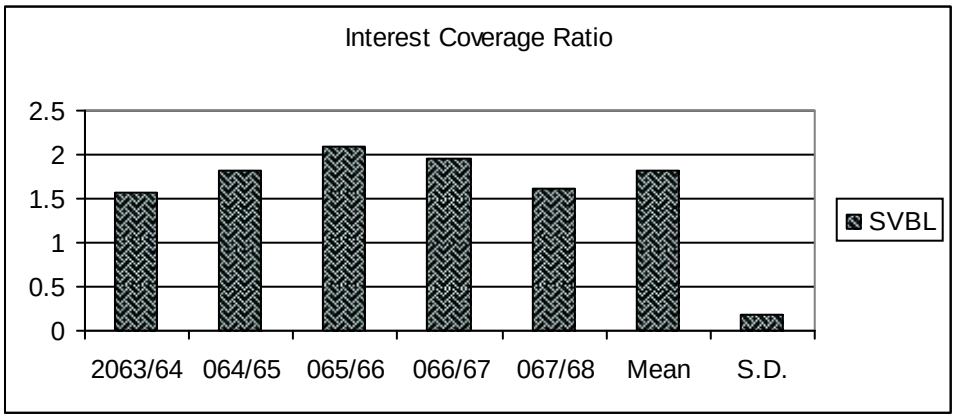
Table 4.16
Interest Coverage Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	1.56	1.82	2.08	1.96	1.61	1.81	0.19

Source : Appendix-1

Table 4.16 clearly show that interest coverage Ratio of SVBL for the study period remained 1.56%, 1.82%, 2.08, 1.96 and 1.61% respectively from the FY 2063/64 to 2067/68. Mean & S.D. were 1.81 and 0.19 respectively.

The calculated ratios show an increasing trend up to FY 2065-66 and thereafter it is found decreasing. The mean ratio 1.81 also does not suggest that the bank is in a very comfortable position to cover interest charges. A high ratio denotes low burden of borrowing capacity and on the other hand creditors are also interested to invest when the ratio is high. This can also be seen in fig-16.



4.1.5 Capital Adequacy Ratio :

Capital Adequacy Ratio measure whether the firm has maintained sufficient capital or not. In other words, it helps to decide whether the existing capital is adequate or there is the need of reforms. The ratio is tested to ensure the safety and stability of the firm in long run.

Over capitalization and under capitalization both have adverse effect on profitability of the firm. If the capital is excess, it remains idle. If the capital is insufficient, the firm may not be able to grasp the opportunity from potential profitable sectors. Therefore, the Development bank directed to retain sufficient ratio by the central bank. As per the directive, this ratio should be 8% f their total

risk weighted assets and total off balance sheet transitions. Here, capital fund refers to the core capital and supplementary capital Development banks can not declare and distribute dividend until they meet capital adequacy ratio.

4.1.5.1 Net worth to Total Deposits Ratio :

The ratio measures the percentage of shareholder's fund in relation to the total deposits collected in the banks. It is the yardstick to see whether the bank has maintained the capital fund according to the direction of Nepal Rastra Bank. It is calculated as ;

Net worth to Total Deposit = Net worth / Total Deposit

Table 4.17

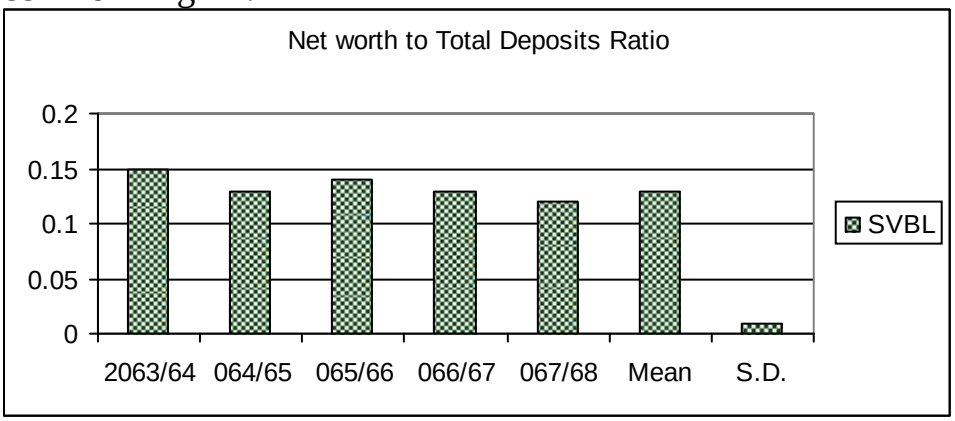
Net worth to Total Deposits Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.15	0.13	0.14	0.13	0.12	0.13	0.01

Source : Appendix-1

Table 4.17 clearly shows that Net worth to Total Deposit Ratio of SVBL for the study period remained 0.15, 0.13, 0.14, 0.13, 0.12 respectively from FY 2063/64 to FY 2067/68. Mean & C.V. were 0.13 and 0.01 respectively.

The calculated ratios show relatively a consistent trend over the study period and the mean ratio has been 0.13 with standard deviation of 0.01. The bank has been able to maintain capital fund according to the directives of NRB. This can also be seen from Fig-17.



4.1.5.2. Net worth to Total Assets Ratio :

The ratio measures the percentage of net worth in relation to the total assets owned by the banks. It is calculated as;

Net worth to Total Assets Ratio = Net worth / Total Assets

Table 4.18

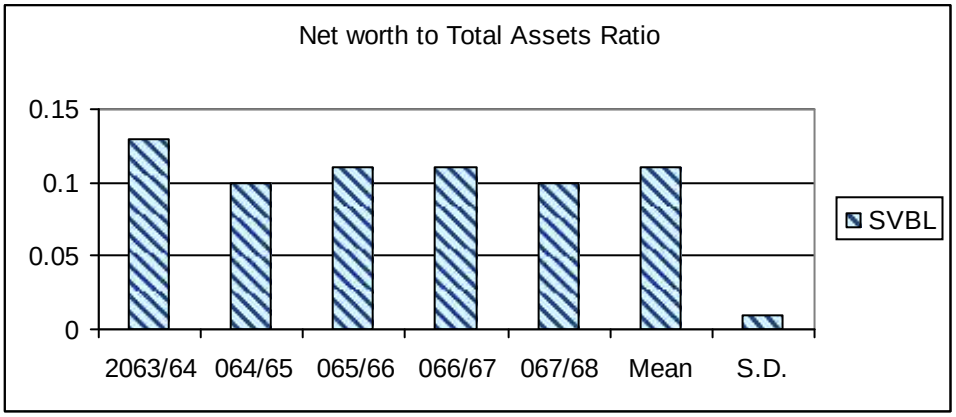
Net worth to Total Assets Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.13	0.10	0.11	0.11	0.10	0.11	0.01

Source : Appendix-1

Table 4.18 clearly shows that Net worth to Total assets Ratio of SVBL for the study period-remained 0.13%, 0.10, 0.11, 0.11 and 0.010% respectively from FY 2063/64 to 2067/68. Mean & S.D. were 0.11 and 0.01 respectively.

The net worth to Total Assets ratios show a relatively consistent trend and the ratios have been at low level. This is also exhibited from the mean ratio of 0.11. This implies that the share of net worth in total assets of the bank has been at low level which is indicative of the fact that the bank has relatively poor capability to face possible risks associated with high leverage. This can also be seen from fig-18.



4.1.5.3 Net worth to Total credit Ratio :

The ratio is obtained when net worth is divided by the total credit of the bank. It measures the relative proportion of the shareholder fund with respect to the credit. High ratio shows that the firm has adequate capital which is the index of

safety, moreover a bank with higher ratio is less affected by the instability of the financial market. It is calculated as;

Net worth tot Total Ratio = Net worth / Total credit

Table 4.19

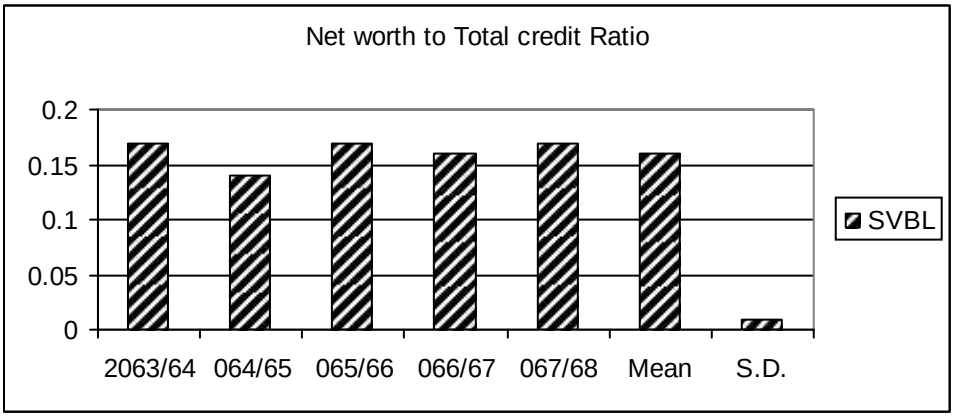
Net worth to Total credit Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.17	0.14	0.17	0.16	0.17	0.16	0.01

Source: Appendix-1

Table 4.19 clearly shows that Net worth to Total credit Ratio of SVBL for the study period remained 0.17%, 0.14, 0.17, 0.16 and 0.17 respectively from FY 2063/64 to 2067/68, Mean & S.D. were 0.16 and 0.01 respectively.

The ratios of Net worth to Total credit have also been relatively consistent over the study period. It has been before 14 to 17 percent and the mean ratio of 0.16 indicates that the bank is relatively poor from the safety point of view and is in vulnerable position to be affected by instability of the financial market. Good Capital adequacy position is an instrument to reassure creditors and depositors about the soundness of the organization from the view point of capital adequacy; the bank does not seem to be in better position. This can also be seen in fig-19.



4.1.6 Assets quality ratios:

Assets quality ratios intend to measure the quality of assets owned by the banks, these include loan loss coverage ratio, loan loss provision to total income ratio, loan loss provision to total deposit ratio and accrued interest to total interest income ratio.

4.1.6.1. Loan loss Coverage Ratio :

Nepal Rastra Bank has directed commercial bank and Development banks to maintain provision for loan loss on the basis of category of loan & risk grade. The ratio therefore measures whether the provision is sufficient to meet the possible loss created by defaulted in payment of loan or not. It is computed by dividing loan loss provision by total risk assets.

Loan loss coverage ratio = loan loss provision / Total risk assets

Table 4.20

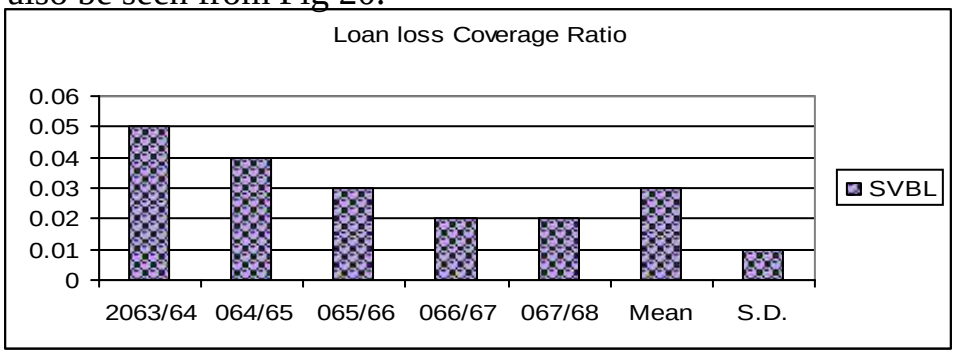
Loan loss Coverage Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.05	0.04	0.03	0.02	0.02	0.03	0.01

Source : Appendix-1

Table 4.20 clearly shows that loan loss coverage ratio of SVBL for the study period remained 0.05, 0.04, 0.03, 0.02 and 0.02 respectively from FY 2063/64 to FY 2067/68. Mean & S.D. were 0.03 and 0.01 respectively.

The loan loss coverage ratios for the study period reveal that the bank has been successful in collecting its loans and advances effectively. It is manifested in low ratios and that too are on decreasing trend. The average ratio of 0.03 is below the limit set by NRB. The bank seems to for see the quality of loan lent effectively. This can also be seen from Fig 20.



4.1.6.2 Loan loss provision to Total Income Ratio :

The ratio shows that portion of total income held as safety cushion against the possible bad loan. It is calculated as;

Loan loss provision to Total Income Ratio = Loan loss provision / Income

Table 4.21

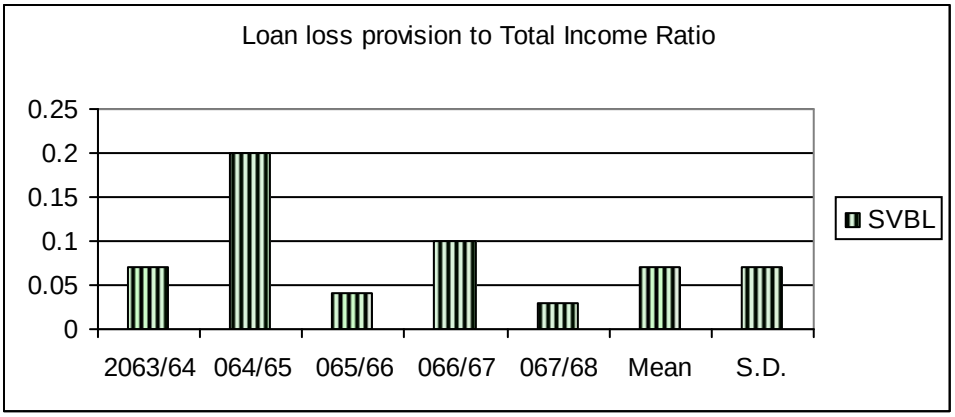
Loan loss provision to Total Income Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.07	0.20	0.04	0.00	0.03	0.07	0.07

Source : Appendix-1

Table 4.21 clearly shows that loan loss provision to total income Ratio of SVBL for the study period remained 0.07, 0.20, 0.04, 0.00 and 0.03 respectively from FY 2063/64 to FY 2067/68. Mean and standard Deviation were 0.07 and 0.07 respectively.

The calculated ratios a decreasing trend in general except for the year 2064/65 and the ratios have been at low level too. This signifies that the bank has been successful in maintaining its quality of loans and advances. The bank did not have to retain greater portion of its income idle as the cushion against loans of inferior quality. This can also be seen from fig-21.



4.1.6.3. Loan loss provision to Total Deposit Ratio :

The ratio shows the portion of banks income held as loan loss provision in relation to total deposits collected. It is calculated as,

Loan loss provision to Total Deposit Ratio = Loan loss provision/ Total deposit

Table 4.22

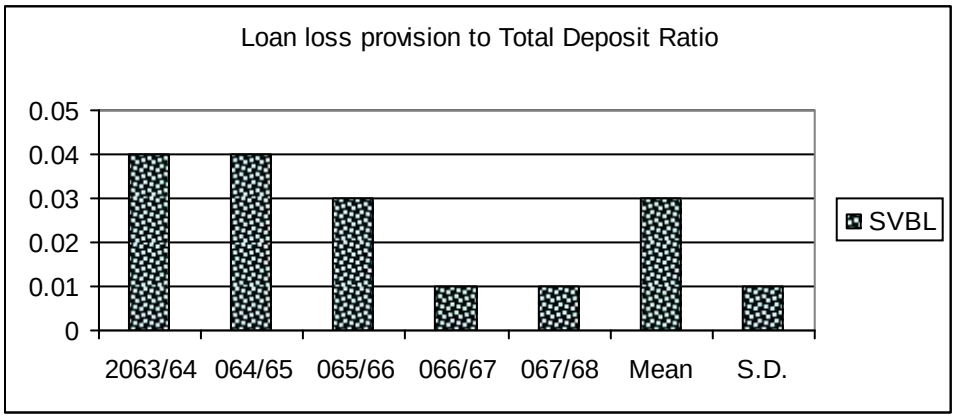
Loan loss provision to Total Deposit Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.04	0.04	0.03	0.01	0.01	0.03	0.01

Source: Appendix-1

Table 4.22 clearly shows that loan loss provision to Total Deposit Ratio of SVBL for the study period-remained 0.04, 0.04, 0.03, 0.01, 0.01 respectively from FY 2063/64 to FY 2067/68. Mean & CV were 0.03 and 0.01 respectively.

The loan loss provisions to Total Deposit Ratios have been at a very low level and that too on decreasing trend. It has dropped from 0.04 to 0.01 during the study period and the mean has been 0.03. This shows that a very low proportion of the deposits are being held as loan loss provision and therefore presents an encouraging picture. This can also be seen from the fig : 22.



4.1.7 Other Indicators:

Above stated ratio shows light on various aspect of the banks management investment & creditors can get information regarding their investment. Besides the above analyzed ratios, same indicators have been tested to have the boarder knowledge of financial performance of the banks. For this EPS , P/E ratio and MVPS to BVPS have been analyzed.

4.1.7.1 Earning per share (EPS) :

EPS refers to the income available to the common shareholder on per share basis. It is computed as;

Earning Per share = Earning Available common shareholder (EAS)/ No. Of equity share outstanding

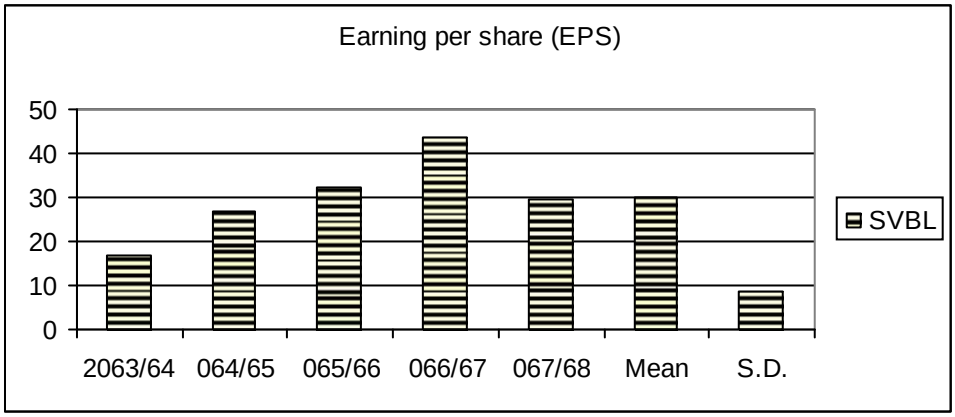
Table 4.23

Earning per share (EPS)

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	16.98	26.84	32.35	43.56	29.66	29.88	8.59

Source : Appendix-1

Table 4.23 clearly shows that Earning per share of SVBL for the study period remained Rs. 16.98, Rs. 26.84, Rs 32.35, Rs. 43.56 and Rs. 29.66 respectively from the FY 2063/64 to FY 2067/68. Mean and standard deviation were 29.88 and 8.59. The calculated ratio of EPS shows that it had been on increasing trend up to 2066/67 and decreased in FY 2067/68. The mean ratio of 29.88, however, indicates that EPS had been satisfactory. This can also be seen from Fig- 23



4.1.7.2 Price earning Ratio (P/E Ratio) :

P/E ratios widely used to evaluate the banks performance as excepted by investors. It represents the investor's judgment or expectation about the growth in banks earning. In other words, it measures how the market is responding towards the earning performance of the concerned banks. It is calculated as
Price earning Ratio = Market value per share (MV/S) / Earning per share

Table 4.24

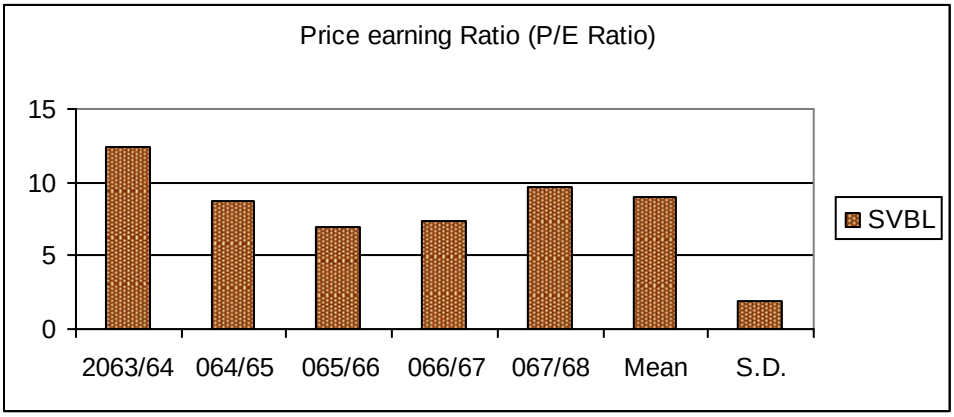
Price earning Ratio (P/E Ratio)

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	12.37	8.79	6.95	7.39	9.71	9.04	1.93

Source : Appendix-1

Table 4.24 clearly shows that price earning Ratio of SVBL for the study period remained 12.37, 8.79, 6.95, 7.39 and 9.71 times respectively from FY 2063/64 to 2067/68. Mean and standard Deviation were 9.04 and 1.93.

The price-earning Ratios of the bank does not indicate that the investors are highly satisfied with the performance of the company or market has attached much importance to its performance. However, these ratios in general are on increasing trend signifying that market is gradually attracted to invest in the bank. This can also be seen in fig-24.



4.1.7.3. Market value per share to Book value per share (MVPS/BVPS)

The ratio measures the value that the financial market attaches to the management and organization of the banks as a growing concern. It is calculated as; Market value per share to Book value per share = MVPS/BVPS

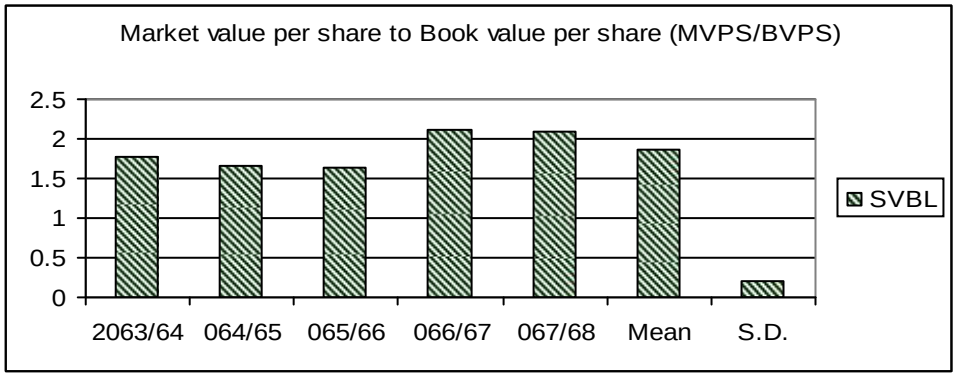
Table 4.25

Market value per share to Book value per share (MVPS/BVPS)

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	1.78	1.65	1.63	2.12	2.10	1.86	0.21

Source : Appendix-1

Table 4.25 clearly shows that Market value per share to Book value per share of SVBL for the study period remained 1.78, 1.65, 1.63, 2.12, and 2.10 times respectively from FY 2063/64 to 2067/68. Mean and standard Deviation were 1.86 and 0.21.



The calculated ratios show a fluctuating trend and the mean ratio of 1.86 also does not indicate that the financial market has attached much value to the management and organization as a growing concern. This can also be seen from Fig-25.

4.1.7.4 Total Interest expenses to Total Interest Income Ratio :

The ratio shows the percentage of interest expenses incurred in relation to the interest income incurred. In other words it indicates the how much percent of interest income is used as interest paid and expressed as;

Total Interest expenses to Total Interest Income Ratio = Total Interest expenses / Total Interest Income

Table 4.26

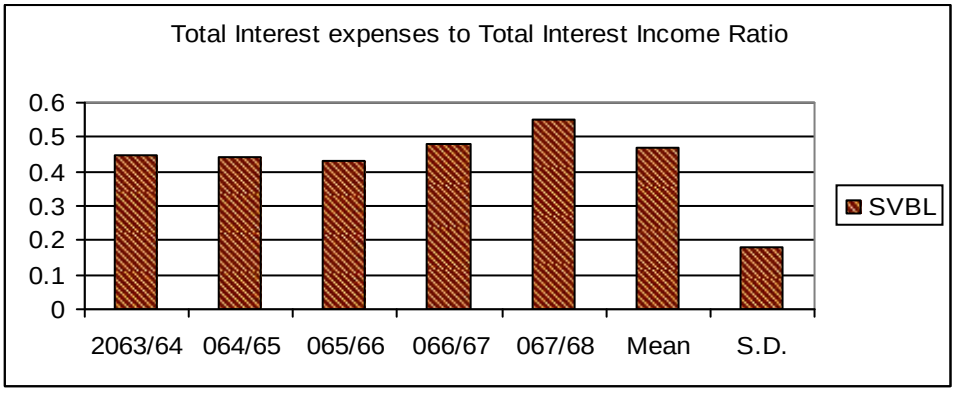
Total Interest expenses to Total Interest Income Ratio

FY	2063/64	064/65	065/66	066/67	067/68	Mean	S.D.
SVBL	0.45	0.44	0.43	0.48	0.55	0.47	0.18

Source : Appendix-1

Table 4.26 clearly shows that total interest expenses to total interest Income ratio of SVBL for the study period remained 0.45, 0.44, 0.43, 0.48 and 0.55 respectively from FY 2063/64 to FY 2067/68. Mean and standard Deviation were 0.47 and 0.18 respectively.

The calculated ratios show that a significant portion of the interest income has been used in paying interest expenses. During the study period the ratio has always been above forty percent and the mean ratio has been forty seven percent which also supports the above conviction. This can also be seen from Fig-26.



CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDITION

5.1 Development banks are relatively new type of institutions in Nepalese context. They can be registered only as public limited companies according to Finance Company Act. 1985. They are registered with the office of registrar of company and license for operation is granted by NRB.

Most Development banks specialize in consumer financing, leasing and security based lending with strong preferences in short term debt. Development banks collect deposit from public and extend to public. The interest rates charged by these institutions comparatively higher than those charged by commercial banks. However, they also offer higher rates of interest on deposits accepted by them.

Sahyogi Vikas Bank Ltd., the only Development bank having its head office in Janakpur city was registered with the company Registrar's office in 2060 B.S. and it started operating from 2060/7/6 after obtaining license from NRB. It has already spent more than 8 years in serving the nation.

The present study was carried basically with the objective of appropriating financial performance of SVBL mainly through the analysis of its liquidity, leverage capital adequacy, turnover and profitability position. The study has been primarily based on secondary data and covers a period of five years i.e. from FY 2063/64 to FY 2067/68.

The published Annual Reports of the bank, Auditor's Report and other reports and bulletins of the bank have been the main source of data interaction with concerned officers of the bank were also done to develop further understanding Besides publications of NRB and other relevant Books and documents were also reviewed to generate necessary information.

The collected data have been analyzed with the help of different Ratios which are considered appropriate to appraise the financial position of banks and financial companies. The major findings have been presented in the following section.

5.2 Findings and conclusion :

- Both the current ratio and quick ratio were not found to be satisfactory. They were below the conventionally accepted desirable ratio through out the study period.

- Cash and bank balance to total deposit ratio appeared to be consistent and showed comfortable position in terms of solvency. The deposits were utilized successfully.
- Average cash and bank balance to deposits (except fixed deposit) ratio also revealed consistency over the study period and the bank was relatively in poor condition to repay the deposits.
- Fixed deposit to total deposit ratio revealed that fixed deposit did not occupy major share in total deposits of the bank.
- The ratio of loans and advances to total deposit were found to be considerably high signifying the success in mobilizing its deposits.
- The ratio of loans and advances to saving deposits were found to be satisfactory.
- The ratio of loans and advances to fixed deposit revealed that the bank had utilized fixed deposits in the form of loans and advances in a better way.
- Investment to total deposit Ratio was very low indicating weakness of the bank in mobilizing its major source effectively.
- The return on assets was found to be satisfactory.
- The return on net worth during the study period was highly satisfactory.
- Returns on total deposits were also found to be satisfactory indicating that the bank was successful in utilizing deposits profitability.
- Debt-equity ratios of the bank showed the employment of outsider's fund to a greater extent which indicates that the bank was highly levered i.e. the capital structure was very risky.
- Debt-assets ratio of the bank indicated that greater portions of the assets were financed through outside fund.
- Interest coverage ratios were found to be satisfactory in general during the study period.
- Net worth to total deposit ratios were satisfactory. The bank had been able to maintain capital fund as per the directives of NRB.
- Net worth to total assets ratios of the bank were, however at low level indicating poor capability to face possible risks associated with high leverage.
- Net worth to total credit ratios revealed that the bank had not used its net worth significantly in creating total credit.
- The loan loss coverage ratios revealed that the bank was quite successful in collecting its loans and advances.
- Loan loss provision to total income ratios also indicated that the bank was successful in maintaining the quality of loans and advances.

- The loan loss provision to Total Deposits ratios revealed that a very low proportion of deposits were held as loan loss provision indicating the better quality of loans and advances.
- The earning per share (EPS) of the bank was highly satisfactory.
- The P/E Ratio of the bank did not indicate much encouraging response of the market. However, gradual increase in the ratio showed grooving attraction of the market.
- Market value per share to Book value per share of the bank did not reveal much value attached by financial market in its management and organization.
- Total interest expenses to total interest income showed that the bank used significant portion of interest income in paying interest expenses.

In totality the financial position of SVBL presented a mixed picture from liquidity point of view the position of the bank did not present satisfactory picture. The activity ratios on the other hand suggested that bank utilized its deposits effectively in terms of loans and advances. Profitability ratios also revealed that the bank was successful in generating satisfactory return in relation to assets, net worth and deposits. The capital structure of the bank was, however found to be highly levered and greater portion of the assets were financed through outsider's fund. This indicates that the capital structure of the bank was relatively risky. It is however noteworthy that interest coverage ratios were found to be satisfactory. The Capital adequacy ratios further did not reveal much satisfactory position in general. The assets quality ratios on the other hand, presented a very satisfactory picture. The low proportion of loan loss provision, its share in total income and ratio of loan loss provision to total deposits together revealed that the quality of assets were better. The earning per share of the bank was found to be satisfactory but P/E Ratio and market value per share to Book value per share did not present a satisfactory picture in the sense that financial market did not seem to attach much value to the management and organization of the bank. The total interest expenses to total income ratio indicated, however, the success of the bank in mobilizing its deposits in profitable sectors. It can therefore be concluded the bank needs to be more cautions and vigilant in managing its financial affairs to further strengthen and grow in sustained manner in future.

5.3 Recommendations:

In the light of findings and conclusions drawn, the following recommendations are forwarded to further improve the financial performance of the company.

- The bank should be careful in maintaining its liquidity position at satisfactory level.
- The bank should work to improve the share of fixed deposit in total deposits to enable it to further invest in profitable sectors comfortably.
- The bank should further diversity its investment.
- Since the Debt-equity ratio suggested the employment of outsider's fund excessively higher the bank is suggested to further increase equity capital.
- Since the capital adequacy ratios did not show much satisfactory position too, it is therefore, recommended to improve the net worth of the bank.
- Since the P/E Ratios and Market value per share to Book value per share did not suggest encouraging picture indicating poor response and low value attached to the management and organization of the bank, the bank is suggested to improve its managerial competence and organizational structure.
- The bank should open new branches to further expand its activities and improve profitability.
- The bank should be innovative to introduce new schemes for resource (deposit) mobilization.
- The bank should communicate its financial performance effectively to win the confidence of financial market.

Bibiliography

Books

- Agrawal, N.P., 'Analysis of Financial Statement, National Publishing House,' New Delhi, 1981.
- Agrawal, R.D (1989). ***Financial Accounting.*** New Delhi: Tata McGraw Hill Publishing
- Bhalla, V.K. 'Financial Management' K-?Hosla Publishing House, 28 V A Jawahar Nagar, Delhi-11007, 1987
- Bireman, Narold, Financial Accounting Theory', The macmillan Company, ew York, 1965.
- Choudhary, S.B., 'Management Accountancy,' Kalyani pblishers New Delhi, 1978
- Company Limited.
- Dahal, Sarita and Bhuwan (2002). ***A Hand Book of Banking***. Kathmandu: Asmita Books and Stationery.
- Hampton, J.J (1998). ***Financial Decision Making***. New Delhi: Prentice Hall of India Pvt Ltd.
- Helfert, E.A (1992). ***Techniques of Financials Analysis***. Bombay: Jaico Publishing House.
- Jain, S.P, and Narang K.L (1989). ***Financial Management Accounting***. Calcutta:
- Kalyani Publishers
- Kerlinger, Fred N. (1983). ***Fundamental Behavior Research***. New Delhi: Surjeet Publishing.
- Khan, M.Y. and P.K. Jain, 'Financial Management', Tata MC Gram Hill publishing Company Ltd., New Delhi,1986
- Lyanch, Richard and Robert W. William Son, 'Accounting for, management, planning and control', Tata Mc Gram Hill publishing company Ltd. New Delhi,1988.
- Myer, John N, 'Financial Statement analyses, Prentice Hall of India 1974.
- Needles, B.E (1989)-9***Financial Accounting.*** Boston: Houghton Miffing Company.
- Ojha, D.C and Rajbahak, R.P (1968). ***Banking and Modern Currency in Nepal. Kathmandu: Education Enterprises.***
- Pandey, I.M (1994). ***Financial Management***. New Delhi: Vikash Publishing House.

- Pradhan, R.S. (1986). ***Public Corporation of Nepal***. New Delhi: National Bank Organization.
- Richard, I. Levin and David, S. Rubin (1991). ***Statistical for Management.*** New Delhi: Prentice Hall of India Pvt Ltd.
- Srivatav, R.M (1993). ***Financial Management.*** Meerut: Pragati Parkashan.
- Vanhorn, J.C, Wanchowicz, J.M (1997). ***Fundamentals of Financial Management***. New Delhi: Prentice Hall of India Pvt Ltd
- Vanhorn, J.C. (1999). ***Financial Management and Policy.*** New Delhi: Prentice Hall of India Pvt Ltd
- Vashi, M.C. (1978). Modern Banking. New Delhi: Laxmi Publication.
- Western, J.F., and Copland, T.E (1992). ***Financial Management*** (Ninth Edition), Chicago: Dryden press, Harcourt Brace College Publisher.
- Wolff, H.K. & Pant, P.R. (1999). ***A Handbook For Social Science Research and Thesis***
- ***Writing***. Kathmandu: Buddha Academic Enterprises Pvt Ltd.

Thesis

- Bhusal, Manisha (2008). ***Financial performance analysis of commercial banks in Nepal in the framework of camel (a comparative study of Kumari Bank Limited (KBL) and Machhapuchchhre Bank Limited (MBL):*** An unpublished MBS Dissertation, Shakner Dev Campus, T. U.
- Joshi, Keshav Raj, 'A study on financial performance of commercial banks.' An unpublished Master Degree's Dissertation T.U., 1989
- Khadka, Sudan (2004). ***A comparative study on financial performance of Standard Chartered Bank Ltd (SCBL) & Nepal SBI Ban[phe k Ltd:*** An unpublished MBS Dissertation, Nepal Commerce Campus, T. U.
- Pandey, Bikram, 'A comparative Assessment of Financial performance among selected Nepalese finance companies', Thesis T.U., 2001.

- Pokharel, Sumod (2007). ***A Comparative Financial Analysis of bank of Kathmandu Limited and Everest Bank Limited:*** An unpublished MBS Dissertation, Nepal Commerce Campus, T. U.
- Pradhan, Nirmal Man, 'A study on investment policy of Nepal Bank Ltd,' an unpublished Master's Degree Dissertation T.U., 1980.
- Shrrestha, Anita (2007). ***Financial Performance analysis of commercial bank of Nepal (with special reference to Nepal Investment Bank (NIB) and NABIL Bank Ltd):*** An unpublished MBS Dissertation, Nepal Commerce Campus, T. U.
- Singh, Ramesh (2009) ***A comparative study on Financial performance of Nepal Bangladesh Bank Limited (NBBL) & Himalayan Bank Limited (HBL):*** An unpublished MBS Dissertation, Nepal Commerce Campus, T. U.