CHAPTER I
INTRODUCTION

1.1 Background of the Study

Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector. Especially after restoration of the democracy, the concept of the liberalization policies has been incorporated as directive principal and state policies. This liberalization has helped in establishing may companies, banks, finance companies and manufacturing industries. Thus these establishments help the county for its development. As it is well known that economic development of a country is impossible without the development of different sectors and economy like agriculture, industry, trade, tourism and utilization of resources, development of these sectors need a regular supply of financial resources. The main problems of developing countries like ours there is shortfall of sufficient capital to be invested in development work. It is not possible to develop the entire economic sector by the government alone. Private sector are also not in condition to invest huge amount of capital in development work because per capita income of people is very low while there prosperity of consume is very high. Due to the low income, saving is seems to be low as a result capital formation is also very low. "Economic development demand transformation of saving or investigable resources to the actual investment. It is the financial resources to the actual investment. It is the financial funds from surplus spending units to deficits units” (Nepal Rastra Bank1996:4).

Credit is regarded as the heart of the any banks. It occupies large volume of transaction. It covers the main part of investment; the most of the investment activities based on credit. It is the main factor for creating profitability. It affects the overall economy of the country. In today's context, it also affects on national economy to some extent. If the bank provides credit to retailer, it will make the customer statue. Similarly, it provides to trader and industry, the government will get tax from them and help to increase national economy. It is the security against wealth maximization derivative. However, other factors can also affect profitability and wealth maximization but the most effective factor is regarded as credit. It is the most challenging job because it is backbone in commercial banks. Thus, effective management of credit should seriously be considered.

Credit management refers management of credit exposures arising form loans, corporate bonds and credit derivatives. Credit exposures are the main source of investment in banks and return on such investment is supposed to be main source of income. Credit management strongly recommends analyzing and managing the credit risks. Credit risk is defined as the possibility that borrower will fail to meet its obligations in accordance with the agreed terms and conditions credit risk is not restricted to lending activities only but includes off balance sheet and inter-bank explores. The goal of the credit risk management is to maximize a bank's risk adjusted rate of return by maintaining the credit risk exposure within acceptable parameters. For most banks, loan are the largest and most obvious sources of credit, however, other sources of credit risk exist through out the activities of a bank, including in the banking book, and in the trading book, and both increasingly facing credit risk in various financial instruments other than land, including acceptances, inter bank transactions and guarantees and the settlement of transactions.

Microfinance Development Banks are also profit-making organizations. Their motive is wealth maximization and giving maximum benefit to its shareholders. They collect the money from the public and play with that money so as to gain profit and can distribute more dividends to its shareholders. They have to provide service as well as have to earn profit by investing funds. A bank invests its natural resources mainly in form of loans and advances and investments for the purpose of income generation.

Microfinance has been considered as a critical element of an effective poverty reduction strategy. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smooth their consumption, manage their risks better, build their assets gradually, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life. Microfinance services can also contribute to the improvement of resource allocation, promotion of markets, and adoption of better technology; thus, microfinance helps to promote economic growth and development.

Without permanent access to institutional microfinance, most poor households continue to rely on meager self-finance or informal sources of credit, which limits their ability to actively participate in and benefit from the development opportunities. Microfinance can provide an effective way to assist and empower poor women, who make up a significant proportion of the poor and suffer disproportionately from poverty. Microfinance can contribute to the development of the overall financial system through integration of financial markets.

Government of Nepal adopted the concept of open, liberal, and market-oriented economy in1984. It has taken micro finance as a major instrument of achieving the national agenda of reducing the poverty. Accordingly, Nepal Rastra Bank has also started adopting liberal and promotional policies on microfinance. 'In the late 1980s, liberalization of interest rates, creation of a regulatory framework that included prudential regulations regarding microfinance and the establishment of a separate supervision department at NRB were also undertaken. Enactment of number of acts such as Cooperative Act 1992, Development Bank Act 1996, Financial Intermediary Act (First Amendment) 1999 are some of the prominent policy interventions for the promotion of microfinance sector in Nepal. As a result, number of MFIs emerged in the country and categorized as (i) Bank and (ii) Financial Institutions, in 'Bank and Financial Institutions Ordinance 2005'. Bank represents the microfinance development bank and financial institutions consist of all other MFIs (Financial Intermediary Non-Governmental Organizations (FINGO) and Cooperatives). Following these development, microfinance is exclusively focused on women. All most all microfinance development banks and FINGOs have women as their clients. One of the major rationales behind targeting women in microfinance is that they are honest, hard working and sincere on mobilizing and repaying credit fund beside the objective of empowering them socio-economically.

1.2 Profile of Swabamban Laghubitta Bikas Bank Ltd. (SWDB)

With the mission of delivering sustainable microfinance service at the doorstep of the deprived sector target societies, Swabalamban Laghubitta Bikas Bank Ltd (SWDB) was registered with the company Register's Office as a limited company under the company act on October 5, 2001 Centre for Self-help Development (CSD) started Self -help Banking program- microfinance program, based on Grameen Financial System in September 1993 as a pilot project in three Village Development Committees (VDCs) of

Siraha, Saptari and Udaypur districts of Easterned Development Region of Nepal. CSD/ SBP like other Grameen replication programs also began with the financial support of Grameen Trust, Bangladesh. It received start up capital (Seed money) of US $ 50,000. followed by branch scale up fund of US$6,84,500. With the professionally competent management team and dedicated staff, the outreach expansion of CSD/ SBP was a success its outreach and financial sustainability. With an aim to provide the poor women with more sustainable microfinance service and enhance the credibility of the institution, CSD took initiative to promote SWDB . Toward this, all the CSD-SBP asset and liabilities amounting Rs.186.45 million of eight districts namely Siraha, Saptari, Udaypur, Dhanusha, Mohattari, Bara, Parsa and Makawanpur was taken over by SWDB on January 14, 2002 with propose of operating microfinance program in more sustainable and formal way.

The authorized capital of SWDB is NRs.120 million, the issued capital NRs.120 million and the paid-up capital NRs.25 million. Its promoters and shareholders are the Centre of Selp-help Development (CSD), 3 commercial banks, 1 Co-operative 6 individual promoters. The 3 commercial banks hold over 36% percent of the total paid-up capital of the Bank. Other promoter intuitions like CSD and Women Co-operatives hold 27%, individual promoters hold 7% and rest 30% is hold by general public

At the end of Fiscal Year 2064/65, SWDB provides 79,884 members of 441 VDCs and 10 Municipalities of 17 Districts of Eastern and Central Development Region of Nepal .It has office network of 1 central office, 1 liaison office , 5 area offices and 51 Branch office with total of 261 staffs. The cumulative credit disbursement is 4,561 Million and outstanding NRs. 483 millions. Total deposit collected by Bank is NRs 256 Million. Operational Self Sufficiency (OSS) is 126 % so far .

1.3 Statement of the Problem

Banks act as an investment intermediary linking the savers and users of capital. Capital formation is thus regarded as one of the indispensable functions executed by any bank. Capital formation is done through credit advancement and its management. Credit disbursement and credit recovery is the prominent feature of credit management. Efficient and effective credit management can strengthen bank's position. At present, slow down in economic activities due to prevailing internal and external factors has declined the transaction of banks affecting in loan demand and its recovery leading to low profitability posture. Ineffective credit management is a major problem of banks in Nepal.

This study is conducted to obtain overall view of credit management of the sampled bank. It is one of the most important and complicated functions performed by the bank. Each bank has credit department and loan administration to conduct, monitor and supervise credit operation. The administration of a particular loan ends when it is recovered. But the process never ends until the bank exists. It can be concluded that effective and persistent investment towards the most benefiting sector is one of the prerequisites for the development of the nation. The quality and return of the investment depends upon the existing credit policy and its proper implementation. Thus, how far these things are applied in the banks and financial institutions and whether the existing credit policy is suitable as per the requirement of the country becomes a prominent issue in the present context.

The problem of the study has been laid on the issues related to the strength and weakness of bank pertaining to its credit policies and its implementation. For the sake of simplicity and due to limited time allocated for the research only one bank- Swabalamban Laghubitta Bikas Bank Ltd. (SWDB) has been taken for the study. The purpose of the study is to analyze and examine how far the present investment policy and procedure of sample bank is effective in encouraging poor and deprived woman to be the small entrepreneurs and come out from the vicious circle of poverty. In this regard, experience of bank reveals encouraging relationship between investment policy and socio- economic development of poor and deprived woman. The problems being studied are presented in the form of following research questions:

- Is the liquidity, profitability and assets management position of the bank is satisfactory level?

- What is the relationship between deposit, loan and advances, investment and net profit of SWDB ?
- What is the growth rate of the bank in terms of deposit, loan and advances, investment and net profit of SWDB ?
- What is the trend to deposit, loan and advance, investment and net profit of SWDB ?

1.4 Objectives of the Study

The main objective of this study is to get information about the credit operation and the overall lending procedure of SWDB. This study is conducted with certain objectives and to serve specific purposes. The specific objectives of the study are as follows:

- To evaluate liquidity, profitability and assets management position of SWDB.
- To find out the relationship between deposit, loan and advances, investment and net profit of SWDB.
- To examine the growth rate of the bank in terms of deposit, loan and advances, investment and net profit of SWDB.
- To analysis the trend to deposit, loan and advance, investment and net profit of SWDB.

1.5 Significance of the Study

A crisis in bank is the indicator of crisis in the economy. Hence, the quality of management of credit is considered an important topic as it directly influences the performance of the bank. This study is an attempt to get insight on credit operation and management practiced in the sampled bank. It encompasses credit policy, loan approval, loan administration and loan repayment including the credit risk and its mitigation. This information will help to determine the efficiency and effectiveness of the bank’s credit management practice. The success of any bank highly depends on the efficient management of credit as per environment. The economy of country is already in the recession due to slowdown of global economy and unstable internal environment leading to adverse affect in business and industrial sector. Such phenomenon has unfavorable affect on banking sector.

In this present era, microfinance development banks are going a wide popularity through their efficient management and professional service and playing an eminent role in the economy. Considering the economic structure of the country, the banks do not have sufficient investment opportunities. The study would analyze socio- economic impact of credit operation of microfinance development bank. The research will be helpful for microfinance development banks to formulate strategies to face the increasing competitions. Besides, it also helps to identify the importance of shareholders, policy formulators, professionals and outside investors.

1.6 Limitations of the Study

The present study has some limitations. This research explains and analyzes the subject matter with the help of published data and surveyed data. So, it has also common limitations. The following are the major limitations of the present study:

- The study only focuses on credit operation and loan management practices of single bank.
- In this study only limited financial and statistical tools and techniques of credit analysis are used. The truth of the research result is based upon the available data from the survey and other sources
- The study is mainly based on the published secondary data and data gathered from the survey conducted at various places i.e. secondary data gathered from related sources hence the reliability would depend on it.
- The study covers the period of five years of data only.

1.7 Organization of the Study

This study is divided into five chapters.

Chapter 1: Introduction

First chapter deals with introduction. This includes, general background of the study, profile of sample company, statement of the problem, objective of the study, significance of the study and organization of the study.

Chapter 2: Literature Review

Second chapter deals with the review of available literature. It includes review of related books, journals, articles, and previous unpublished Master Degree Dissertation etc.

Chapter 3: Research Design

Third chapter explains the research methodology used in the study. It includes research design, population and sampling, sources of data, method of data analysis and research variables etc.

Chapter 4: Presentation and Analysis of Data

The fourth chapter, the important chapter of the study will be the presentation and analysis of data as well as major findings of the study.

Chapter 5: Summary, Conclusions and Recommendations

The fifth and last chapter covers the summary of the study, the main conclusion that flows from the study and offers some recommendations as well as suggestions for further improvement.

CHAPTER II

REVIEW OF LITERATURE

The chapter deals with review of literature related to the study. It is basically concerned with conceptual framework and review of available literature like from books, research papers, annual reports, and articles etc. relevant to the investment policy of commercial Banks. This chapter helps to take adequate feedback to broaden the information base and inputs to the study. This chapter is divided into two parts i.e. conceptual framework and review of related studies.

2.1 Conceptual Framework

Credit administration involves the creation and management of risk assets. The process of lending takes into consideration about the people and system required for the evaluation and approval of loan request, negotiation of terms, documentation, disbursement, administration of outstanding loans and workouts, knowledge of the process and awareness of its strength and weaknesses are important in setting objectives and goals for lending activities and for allocating available funds to various lending functions such as commercial, installment and mortgage portfolios.

"The investor or whether banks, financial institutions, individuals, private or government sector, must not take the proposal by making decision without having adequate judgment because sometimes they perform out of norms, related studies, policies and techniques. A project appraisal will best viable only if it has accessed through conscious analysis as well as through thoroughly investment decisions to make its macro and micro level viability effective." (Shrestha, 1993: 125). He added some test of tips before and after financing:

- Rationality of short fall of funds and goodness of the project proposal.
- The banker should prepare appraisal report by analyzing and assessing the components of project cost and the overall viability.
- The gravity of the capital.

- The banker should try to receive the appropriate financial segments (Loan characteristic) i.e. through overdraft, acceptance facilities, mortgage, and syndicate of through personal efforts.
- The interest rate in the loan may be fixed floating or simple calculated or discounted rate based.
- The Loan may be secured with the project itself or with clean collateral of on guarantee. The financial task may be facilitated in one currency or number of currencies.
- Borrowings and lending activities are based on the rate of cash flow coming from the assets, from financed funds and based also on general strength, security cleanliness and on credit worthiness.
- The borrowers should fulfill some convenience such as to safety the regulation of lenders, to maintain a certain financial rations or to produce essential information on time for the lenders.

A web site report of Basel Committee- A banking supervision committee, the group of ten countries established in 1975 AD. The Base Committee adds “when a bank becomes a party to the contractual terms comprising a loan and as consequence has legal right to receive principal and interest on the loan, it controls the economic benefits associated with loan. Normally, a bank becomes a party to the contractual provision that comprise a loan (i.e. acquire legal ownership of the loan) or the date of the advances of funds or repayment to a third party. As a result, a commitment to lend funds neither is nor recognized as an asset on the balance sheet. In certain jurisdictions, the acquisition of legal ownership is viewed more as a process than a discrete event. However providing consideration (the advancement of funds) is typically one of the more important factors constituting ownership.”

"Monetary policy and deposit mobilization in Nepal" has concluded that mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal. And commercial banks are the most active financing intermediary for generating resources in the form of deposit of private sector and providing credit to the investors in different sectors of the economy (Chhetri, 2000: 93)

It is very important to be reminded that most of the bank failures in the world are due to shrinkage in the value of loan and advances. Hence, risk of non-payment of loan is known as credit risk or default risk (Subedi, 2002: 114).

Portfolio management helps to minimize or manage the credit risks by spreading over the risk to various portfolios. This method of managing credit risk is guided by the saying do not put all the eggs in a single basket (Bhandari, 2004: 300).

2.1.1 Credit Policy and Its Parameters

Credit is the amount of money lent by the creditor (bank) to the borrower (customers) either on the basis of security or without security. Sum of the money lent by a bank, is known as credit (Oxford Advanced Learners Dictionary, 1992: 279). Credit and advances is an important item on the asset side of the balance sheet of a commercial bank. Bank earns interest on credits and advances, which is one of the major sources of income for banks. Bank prepares credit portfolio, otherwise it will not only add bad debts but also affect profitability adversely. (Varshney and Swaroop, 1994: 6).

Credit is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation of repay on specified date on demand. In fact, it is a very sensitive subject that what sort of credit policy a bank should have. So, it should pay more attention to the loan, advances that it provides. The commercial banks are inspired with the motive of gaining profit. To fulfill these objectives, they should manage and improve its banking sector. They must give more attention to the flow of loan. Regarding loan policy, it should be clear and follow such policy which would match the economic policy of the nation. Credit policy is the approved methodologies for conducting its lending operations with an objective to maximize profit of the bank and serve its best to the nation. The general assembly is the sole authority to approve such policy. Normally, the Board of Directors is authorized to approve such policy on the recommendation of the management. The general assembly in its annual general meeting or special meeting may initiate the approve changes or can guide the Board management to implement, suggest, renew or cancel the existing policies. Credit management basically covers loan approval process, credit analysis, method and mechanism, lending documentation, disbursement and administration of loan including credit audit. As there is a saying "*Precaution is better than cure*" bank should be more analytical and farsighted while disbursing loan in order to prevent loan flow in unproductive sector and non-performing assets.

2.1.2 Objectives of Sound Credit Policy

Considering the importance of lending to the individual bank and society it serves, it is imperative that the bank meticulously plans its credit operations.

- To provide guidance to lending officers
- To make quality credit decisions
- To establish a standard for control
- To provide authority to different level of management
- To comply with the regulations.
- To avoid unnecessary risks.
- To have performing assets.

2.1.3 Credit Analysis (Lending Criteria)

There is practice of analyzing 7C's of credit about borrower by the bank before approving proposal:

- **Character**: Character refers to personal traits such as ethics, honesty, integrity, reliability of borrower's, which is significant for lending decision. The actual purpose, trustworthiness in answering the queries, responsibility and seriousness in making efforts to repay loan is observed by the bank.
- **Capacity:** The bank views two aspects. Firstly, the bank sees whether the applicant possess legal capacity to borrow loan. Secondly, whether the applicant has capacity to generate sufficient income to repay the loan amount or not. If the borrower has high capacity, quality management and good market value then the capacity of the client is said to be high and bank grants loan on that basis. Hence,

suitable ratios (liquidity, leverage, profitability, efficiency) are analyzed based on historical and projected financials.

- **Capital:** Capital refers to net worth of the borrower. Leverage ratio will be high if the borrower has low capital. A bank gives loan only when it finds leverage ratio acceptable to it or if the borrower has enough capital.
- **Collateral:** To safeguard its risky assets in case of default, bank asks for securities or collateral from the borrower, no matter how prosper the financial position of the borrower is. Collateral can be fixed in nature- land, building, machinery or working capital like inventories and account receivables.
- **Condition:** Condition refers to the general economic condition beyond the control of borrower such as security, political and other social condition affects the business. Loan is given to the borrower if lending official feels general condition is favorable for that type of business.
- **Cash Flow:** The credit officials usually check the cash flow of the business to ascertain repayment of the loan amount taken with interest. If the figure shows positive response then they advance loan to such clients.
- **Credit Information:** The bank should confirm the type of loan the borrower requires and should provide all the credit information beforehand.

2.1.4 Nepal Rastra Bank Directives

Nepal Rastra Bank (NRB) is central bank of Nepal. It has power to issue directives to banks an financial institutions. NRB has issued the directive regarding the single borrower limit. The main purpose of the directives is to divers if the commercial banks' lending rather than focusing to the particular borrowers. The directive regarding single borrower limit is 25% of core capital for funded based credit and 50% of core capital to Non funded based facilities.

A bank should identify and recognize impairment in a loan or a collective assessed group of loans when it is probable that the bank will not be able to collect, or there is no longer reasonable assurance that the bank will collect all amount due accruing to the contractual term of the loan agreement. The impairment should be recognized by reducing the carrying amount of loans through and allowance or charge off and charging the income statement in the period in which the impairment occurs. A Bank should measure an impaired loan at its estimated revocable. A bank should adopt a sound system for managing credit risk. To be able to prudently value loans and to determine appropriate allowances, it is particularly important that banks have a system in place, where established by the institution itself or by the supervisor, to ratable classify all loans on the basis of risk. A credit risk classification system may include categories or designation that refers to varying the degree of credit deterioration such as substandard loans, designation that refers to varying the degree of credit deterioration such as substandard loans, doubtful loans and irrecoverable loans.

A classification system typically takes into account the borrower's current financial condition and paying capacity, the current value and reliability of collateral and other factors that affect the prospects for collection of principle and interest. Hence, Bank should maintain reserve of fund as loan loss provision against the loan disbursed. Nepal Rastra Bank has issued the directive relating the provision of loan loss. We have many examples that most of the banks are taken into liquidation due to bad debt or not repayment of the loan by the borrowers. Hence, to relief from this situation NRB has issued the directives by which commercial bank should make some provision against the loan disbursed by them. For this purpose loan categorized as follow and required the certain percentage of reserve in accordance with the classification. Now, let us discuss the classification of loan and percentage required to maintain the provision as directive issued by the NRB.

- **Pass (Performing Loan):** No recovery problem, if the principal and interest is not past due for a period of three months.
- **Substandard:** Past due during the period of three months to six months.
- **Doubtful debt:** Past period for the period of six months to one year
- **Loss:** Past due for a period of more than one year as well as advances which have least possible of recovery or considered uncollected and having thin possibility of even partial recovery in future. All loans and advances classified under substandard, doubtful and loss are categorized as Non performing loan.

The following are the NRB regulation on classification and provisioning of loans:

Table No.: 2.1

Loan Loss Provision requirement

Types of Loan	Provision Requirement
Pass	1%
Substandard	25%
Doubtful	50%
Bad	100%

2.1.5 Risk Assessment

Risk is defined in Webster's as "a hazard; a peril; exposure to loss or injury. Thus, risk refers to the chance that some unfavorable event may occur. No investment will be undertaken unless the expected rate of return is high enough to compensate the investor for the perceived risk of investment. Bank invests much of their funds in assets that are subject to change in value due to changing market conditions or credit quality of such assets. Risk represents uncertainty that the assets will earn an expected rate of return or that a loss may occur. In other words, it is borrower's inability to payback the facility extended.

Credit risk is the risk of non-repayment of loan. It is that risk in which a borrower will not settle its obligations in accordance with agreed terms. "Credit risk is the risk of loss that may occur from the failure of any party to abide by the terms and conditions of any financial contract with the bank, principally the failure to make required payments on loans due to the bank." There are mainly two factors that affect credit risk i.e. internal and external factors:

a. Internal Factors:

- Lack of transparency in financial statement of borrower
- Excessive importance in mortgage lending against land and building
- Dearth of efficient human resources

- Lack of internal credit rating system and risk base pricing
- Name lending
- Inadequate financial analysis of borrower while lending
- Lack of detailed credit policy of the bank
- External influences from high-ranking officials while sanction or recovery
- Multiple banking arrangements on current assets of borrower
- Non-application of sophisticated credit risk model
- Increase in interest arrears
- Others

b. External Factors:

- Political instability
- Economic environment
- Fluctuation of market interest rate
- Fluctuation of foreign exchange rate
- Fluctuation of commodity price
- Absence of credit rating agency
- Inefficiency of Credit Information Bureau
- No mechanism for submission of transparent and accurate financials.
- Inefficiency of Company Registrar Office
- Lack of adequate legal framework

Risk is inevitable in all enterprises, organizations or companies. It arises both from change and human shortcoming so avoiding risk is not an option but should be managed and handled carefully. *Risk can be mitigated by the bank using* Frequent monitoring, prompt action on early warning signals, effective problem loan management, deal with borrowers who meet the target market criteria, monitor industry condition, insurance assigned to bank, professional valuation of security

2.2 Review of Previous Studies

Review of related studies including review of research papers, articles and journal and review of master degree thesis.

2.2.1 Review of Articles

Khatiwada (1987) stated that the organized financial system is only a small segment of the overall financial system and in the informal financial system interest rates are neither determined by the free market forces, nor by the authorities but by the monopoly market condition where there exists a few suppliers of credit in relation to a large number of borrowers. Since interest rates are administered and have remained sticky for quite a long period, the statistical relationship between demand for money and the interest has remained insignificant in Nepal.

Bonomo and Schotta (1970) stated that presented evidence on the nature of open market operations used regression analysis to determine the fraction of changes in factors affecting free reserves and total reserves which have been offset by defensive open market operations. The principal hypothesis of their study is based on the feeling among the monetary economists that Open Market Operations (OMO) had the effect of increasing the variation in reserves or in monetary base. The authors take the sample period September, 1931 to August 1968.The estimating procedure employed in their study makes use of the following equations.

$$\Delta R = \sim_1 + \ _1 \Delta R^* + \mu_1 \ \ and \ \ \Delta FR = \sim_2 + \ _2 + \ _2 \Delta FR^* + \mu_2$$

Where $\Delta R =$ week-to-week change in total reserves,

$\Delta FR =$ week-to-week change in free reserves,

$\Delta R^* =$ week-to-week change in factors affecting total reserves other than open market operations,

$\Delta FR^* =$ week-to-week change in factors affecting free reserves other than open market operations,

$\sim_1, \sim_2 =$ estimates, allegedly, of net of other factors influencing open market operations, i.e., dynamic objectives; and

$\hat{}_1, \hat{}_2 =$ estimates of $(1+k_1)$ and $(1+k_2)$

The authors' findings on their investigations are:

The authors find that proper characterization of OMO as defensive or dynamic should occur on the basis of free reserves and not total reserves. In addition, the authors find no support for the view that the net effect of OMO has been to increase the variation in the monetary base. This latter finding was based on a year-by-year comparison of the actual variance of reserves and free reserves with the estimates of the variance in these series which would have been obtained in the absence of OMO. The study finds that the variance effect of OMO over the sample period examine indicates that the variance reduction attributable to OMO is quite sizable. The results show the relative magnitudes of the variances of the series, illustrating the variance reduction effects of OMO. Moreover, the more favorable results with respect to an objective of reducing the variability of free reserves rather than of total reserves suggest an interpretation that the Federal Reserve has viewed short-run control of free reserves as its proximate objective in its quest for control of the cost and availability of credit. The authors have claimed that the findings of their study with respect to reserves and free reserves would, in general, apply to the usual and the extended monetary base since week-to-week changes in reserves and free reserves constitute the dominant element of week-to-week changes in the other base measures. Extended monetary base is equal to usual monetary plus imputed reserves released (or bound) by reduction (or increases) in the reserve requirement against member bank deposit liabilities.

In an article published in New Business Age by Subedi (2004) entitled "Growth in Major Commercial Banks" has compared between the first six month of the fiscal year 2002/03 and 2003/04, which shows that there has been noticeable increase in credit outflow by the commercial banks except of Nepal Bank Ltd (NBL) and Rastriya Banijya Bank (RBB) (the government owned banks). There has been increase in credit-deposit (CD) ratios of all commercial banks except of NBL and RBB in which case it has gone down by 10.41% and 5.99% respectively. It may be because their concentration was only on recovery of the huge Non Performing Assets (NPA). However, Mr. Subedi pointed out that no matter what the size of NPA is and the circumstances are, each bank has to collect the deposit in order to create a lending and to invest in the new ventures. Except RBB all banks have increment in deposit collection.

In an article "Comments on Umbrella Ordinance 2004" by Upadhyay (2004), President of ICAN has expressed clearly described the ordinance along with his views. The Ordinance is comprehensive and prescribes in detail the provisions for licensing, incorporation, governance and merger and dissolution procedures for banks and financial institutions (FIs). This is a significant improvement over the existing Acts but apprehension is expressed about the discretionary power that the Ordinance has vested on Nepal Rastra Bank (NRB).

Atreya (2005) described that the regulatory framework in South Asian Association for Regional Co-operation (SAARC) countries. Author says that the financial systems across the SAARC region show considerable diversity calling the need for harmonization of policies. The author efforts made towards harmonizing the banking policy has explored. The aim of his paper is to describe the regulatory framework in SAARC countries.The author from his academic analysis concluded that the effectiveness of intermediation role played by the banking sector ultimately contributes to the economic development of a country. No doubt, the monetary and regulatory policies adopted by central banks to regulate and supervise the banks and financial institutions determine the extent of banking sector development. The trend thus far has been towards a more open and liberal policies that help the banking sector grow and flourish. Results visualized are increased competition, internationalization of banking business, economic cooperation and innovation in financial instruments. Banking is no longer a national phenomenon now. The banking business has crossed the national boundaries and this has created more risks and challenges to the regulatory framework in the SARRC countries and this call the needs for harmonization of banking policies to mange the banking business in this globalizes world.

The establishment of SARRC, economic cooperation initiatives through SAPTA and SAFTA, establishment of SAARC Finance, the concepts of SADB and SAEU are all geared towards building mutual cooperation and development in the SARRC countries. Although some efforts have been made in this direction, more efforts are needed to strengthen the banking environment in SARRC countries. SARRC countries must develop their human resources to make them capable to implement Basel Accord II, strengthened corporate governance system, develop regulatory framework to manage cross-boarder banking operations, forge partnerships and economic cooperation for better understanding and development and establishment and establish system for learning from the rich experience of each other.

2.2.2 Review of Thesis

Ojha, (2002) has conducted a research on, "Lending Practices: A Study of Nabil Bank Limited, Standard Chartered Bank Nepal Limited and Himalayan Bank Limited" His research objectives of the study are as follows:

- To determine the liquidity position, the impact of deposit in liquidity and its effect on lending practices.
- To measure the banks lending strength. The lending strength shall be measured in absolute measures also to analyze the volume of contribution made by each bank in lending.
- To analyze the portfolio behavior of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector.
- To measure the lending performance in quality, efficiency and its contribution in total income.
- To measure the growth rate and propensity of growth based on trend analysis.

Based on the above objectives of the study, his research findings of the study are as follows:

The measurement of the study revealed that the mean current ratio of all three banks is not widely varied. All the banks are capable in discharging their current liability by current assets. The ratio of liquid fund to current and total deposits has some degree of deviation among the banks as compare to current ratio. Cash and bank balance to interest sensitive liability has measured the liquidity risk arising from fluctuation of interest rate in the market. The measurement of lending strength in relative term has revealed that the total liability to total assets of SCBNL has the highest ratio. The steady and high volume of loans and advances throughout the years has resulted Nabil's ratio to be the highest. Nabil has deployed the highest proportion of its total deposits in earning activities and this ratio is significantly above the ratios of other two banks. This is the indicative of that in fund mobilizing activities Nabil is significantly better than SCBNL.

Shrestha, (2002) has conducted a research on, "Investment Practice of Joint Venture Banks in Nepal ". He has selected three joint venture banks i.e. Nabil Bank Limited, Standard Chartered Bank Limited and SBI Bank Limited for the study of lending and investment practice.

Mr. Shrestha has the following objectives:

- To highlight the features and problems of investment lending procedure in foreign commercial banks and their implementation in practical life
- To study priority sector investment and repayment rate of commercial banks in Nepal through intensive banking program.
- To show the repayment position of the sector of the three commercial banks.

The major findings of this thesis are as follows.

Commercial banks are more emphasized to be making loan on short term basis against movable merchandise. Commercial banks have lots of deposits but very little investment opportunities. They are even discouraging people by offering very low interest rates and minimum threshold balances. He has concluded that since the liquidity position of Nabil and SCBNL have not found satisfactory. It is therefore, suggested them to improve cash and bank balance to meet current obligations. SCBNL's loan and advances to total deposit ratio is lower at all, therefore it is recommended to follow liberal lending policy for enhancement of lend mobilization. It was found that SBI had not invested its fund on share and debenture of other companies. It is suggested to enhance off balance sheet transactions, diversifying investment, open new branches, play merchant banking role and invest their risky assets and shareholders fund to gain higher profit margin. Nabil and

SCBNL are recommended to increase cash and bank balances to meet current obligations and loan demand.

The above finding showed that there are some conflicting statements, which are obviously not matching with his statements of the problems. This study ignored the industry average and also failed to figure out what is right industry like banking among the excess of investment and advances. Again, he thought liberal lending policies to solve the problem to increase the level of loans and advances. But somewhere in his recommendation, he has warned commercial banks to increase the level of investment to government securities or other safe instrument just to avoid risk arising from lending. From this, it can be concluded that Mr. Shrestha has made his entire conclusion absolutely and he has not made any relative analysis of the pros and cons of the entire factor, affecting the study.

Shrestha, (2003) in her study entitled “Impact and Implementation of NRB Guidelines (Directive of Commercial Banks- A study of NABIL Bank Limited and Nepal SBI Bank” have been fully implantation the NRB’s directives.

The main objectives of the study are as follows:

- To analyze the significance and impact of Nepal Rastra Bank’s directives on commercial banks;
- To examine the capital adequacy of selected banks.
- To examine the relation of capital funds to the other stakes of bank
- To make necessary suggestions and recommendations.

The major findings of the study are:

Capital adequacy Ratio of NABIL and Nepal SBI are 13.40% and 12.86% respectively, which are more than 9%. Banks are following the directives but in same cases such like supplementary capital and balance at NRB there is shortfall. The excurses amount of total deposit in balance of NRB there is shortfalls. The banks have categorized the loan amount into four diffident categories as per NRB’s directives. The increasing loan loss-providing amount decreased the profit of the banks. The charge in the single borrower limit has brought down the limits of the fund based and non-fund based loans which have resulted to reduced loan exposure to banks.

In her thesis she found that both NABIL and SBI banks has not increased supplementary capital as it has shortfall in comparison with NRB guidelines and to meet the supplementary capital adequacy ratio even though it can be compensated by the excess amount of core capital. The supplementary capital needs to be increased by Rs.122.74 million in NABIL Bank and Rs.125.57 million in Nepal SBI Bank. She says liquidity and profitability are like two wheels of one cart so banks cannot run in the absence of any one of them. One can be activated only at the cost of the other. Only liquid banks can attract loan core deposit, which helps in reducing interest expenses and give loan to good customer at lower rate, which results in requirement of less provision and high net profit. So banks should increase their primary reserve now to maintain the liquidity risk due to scrap out the secondary reserve. On the basis of findings, NABIL Bank has a shortfall of Rs.140.74 million thus NABIL has to increase its balance at NRB by such amount for better performance even after adding 1% excess amount of ash of total deposit.Primary data has been used in order to get the view of banks on the directives issued by NRB. Question related to NRB directives 1.5 are used to collect for the study and implementation of directive by commercial bank. Secondary data are also used for the analysis this study the general directives issued in 2001 and 2002 are considered for the study. In issued directives of 2001 and 2002 there are 10 directives but only five directives i.e. (1-5) are highlighted and taken in the study.

Kafle, (2005) in his study entitled “Non-performing Loans of Nepalese commercial banks.”

The researcher’s mean objectives of the study are:

- To know the problems of the non-performing loans and its effect in the ROA and ROE of the Nepalese commercial banks
- To find out whether the Nepalese commercial banks are following the NRB directives regarding loan loss provision for non-performing loan or hot.

- To make necessary suggestions and recommendations.

The major findings of the study are:

Through the research he has found that the no banks have been following NRB's directives regarding the loan loss provision. He also conclude that the return on assets (ROA) and return on equity (ROE) of the bank deposed upon the NPLs. The high degree of negative correlation between NPL and ROA and the NPL and ROE clearly indicates that there is inverse relation between them. He has recommended that for the smooth operation of the commercial banks, the NPLs should be controlled for this bank should provide necessary training regarding loan management to the manpower's. In order to remove, the NPLs, banks should take enough collateral so that banks can recover its loan amount. For the loan loss provision as per the NRB directive and to reduce the NPL, the bank management should be effective and the NRB's monitoring and regulation is necessary.

Singh (2008), has conducted the thesis entitled " Credit Management of Bank of Kathmandu Ltd. and Nepal Investment Bank Ltd." The researcher's main objectives of the study are :

- To analyze the functions, procedures and activities of commercial banks.
- To analyze the credits and advances provided by the commercial banks.
- To analyze the recovery status of the credit disbursed.
- To find out the strength and weakness in the credit administration of the Commercial banks.

Major findings of the researcher are :

The study shows that over the period, Average loan and advances ratio of BOK and NIBL is 0.510 and 0.534. Both banks are capable to use more than 50% of deposit on loan and advances. If maintained this, it help make consistency on the profitability of the banks..Banking sector is seriously affected by the non-performing loan. Both banks are not far from this above fact. If non-performing loan increases, the overall banking business will be affected. So provision amount will increase and profit will decrease. So, it is suggested that both banks (NIBL & BOK) to be sincere while granting loan and to do effective follow up for recovery of non-performing loan. Average loan and advances to total assets of BOK and NIBL 0.452 and 0.608 it can be concluded that the higher mean ratio indicates the good lending performance. BOK should focus to increase loan and advances to total asset ratio to increase lending performance. Loan and advances to current assets ratio of BOK is in increasing trend. BOK should focus to increase loan and advances to current assets ratio to increase short term lending performance. Loan loss provision of BOK is decreasing trend in the fiscal year 2005/06, so the decreasing loan loss ratio indicates efficient credit policy and gradual increment on the performance of the company. Here loan loss provision to total loan and advances of NIBL is in increasing trend, which indicates increased volume of non-performing loans of NIBL; we can say this is due to the ineffective credit policy and poor performance of the company. Total income of BOK and NIBL, interest income contributes 81.70% and 79.10% respectively. The lowest ratio of NBIL indicates its low dependency in fund-based activity. Correlation Coefficient between the loans and advances to net profit of BOK is 0.9066 and Correlation Coefficient between the loan and advances to net profit of NIBL is 0.954. Correlation coefficient between non-performing loan and loans during of BOK is -0.666, Correlation coefficient between non-performing loan and loans of NIBL are -0.275. Effectively loans management helps to decrease the non-performing loans. The value of b is found to be 0.25, which means that, on average, 1 rupee change in total loan would result in 1.25 paisa change in the Net profit of NIBL. Least square trend line shows the loan and advances of NIBL have been increasing with a constant growth rate of 2396.75. Least square trend line shows the loan and advances of BOK have been increasing with a constant growth rate of 1388.23.

Pathak (2008), has conducted the thesis entitled " Investment Practice of Everest Bank Ltd.." The researcher's main objectives of the study are :

- To evaluate liquidity, profitability and assets management position of the bank.
- To find out the relationship between deposit, loan and advances, investment, net profit and total outside assets trends of the bank.

- To examine the growth rate of the bank in terms of deposit, loan and advances, investment, net profit and total outside assets trends of the bank.
- To examine the proportion of the investment made by bank in risky and risk free assets.
- To provide suggestion to improve investment policy and performance of EBL based on the findings of the study.

Major findings of the researcher are

From the analysis of the current ratio, current assets of the bank have exceeded the current liabilities in all the fiscal year from 2000\01 to 2006\07. The highest ratio so 2.88times in 2002/03 while the lowest ratio is 1.59times in 2006/07 with on average ratio of 2 times during the study period. The ratio shows the fluctuating trend during the period. The co-efficient of variation (C.V.) between the ratios for the study period is 22.17% which shows that the current rations during the study period are not so consistent. The cash and bank balance to current assets ratio of EBL has fluctuating trend. The highest ration is 22.64% in 2000/01 while the lowest ratio is 8.79% in 2003/04 with an average of 15.16% and S.D. and C.V. of cash and bank balance to current assets ratio over study period is 4.13 and 27.26% respectively, based in the S.D. and C.V. it can conclude that the ratio is less consistent and more variable. The cash and bank balance to total deposits ratios of EBL has a fluctuating trend. Here the highest ratio is 18.25% in 2000/01 and the lowest ratio is 7.83% in 2003/04. Likewise, the mean of the ratios S.D. and C.V. for the study period are 27.35%, 3.46 and 27.35% respectively. The investment on government securities to current assets ratio of EBL has been fluctuating trend with the highest ratio 34.66% in 2003/04 and lowest ratio 17.99% in 2000/01. The mean ratio of the bank is 29% and the SD. and C.V between them are 5.26 and 19.33%. Based on the C.V., it can be concluded that the ratios are inconsistent and more volatile. Loans and advances to current assets ratio of EBL shows that the ratios of the bank are in increasing and fluctuation trend. It was in increasing trend till 2005/07 and being highest ratio 96.9% and 73.92% is the lowest ratio. However, the mean ratio is 83.78% and standard deviation is 7.14 with C.V. between them is 8.52%. It shows the ratios are consistent and less variable during the study period. Thus, the bank is in better position to mobilize its funds as loans and advances with respect to current assets.

2.3 Research Gap

The purpose of this research is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation on credit operation . The study is made to fulfill the prevailing research gap about the depth of Credit operation of Swabalamban Laghubitta Bikas Bank Ltd.. (SWDB). There are many studies about credit operation or investment policy of different commercial banks. But depth study of bank is not found. This study covers the most recent financial data in detail . The previous studies can not be ignored because they provide the foundation to the present study. This continuity in research is ensured by linking the present study with the past research studies. It is clear that the new research cannot be found on that exact topic, i.e. Credit Operation of SWDB. Therefore, to fulfill this gap, this research is selected. To complete this research work: many books, journals, articles and various published and unpublished dissertations are followed as guideline to make the research easier and smooth. In this regard, here it is going to analyze the different procedure of credit management, which is considered only on SWDB. Therefore, this study is useful to the concern bank as well as different persons: such as shareholders, investors, policy makers, stockbrokers, state of government etc.

CHAPTER III
RESEARCH METHODOLOGY

Research methodology refers to the systematic and meticulous study and investigation on the particular subject matter. The fundamental purpose of this study is to provide an overview on the credit operation and practices of the sampled bank. This chapter indicates different methods, tools and techniques utilized to present the study in simplified and understandable manner.

3.1 Research Design

The prime objective of this study is to provide an overview on credit operation of SWDB. Research Design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions (Kerlinger, 1978). This study describes and explores the credit policy and its implementation by SWDB toward diversification of investments. So, descriptive, exploratory and analytical methods are combined. The research design is thus an integrated frame of exploratory study and descriptive study.

3.2 Population and Sample

There are 12 microfinance development banks operating in Nepal. The population of this study is entire number of microfinance development bank. For the analysis of credit operation and policy only one bank is taken purposively. Here due to different constraints only one microfinance development bank: Swabalamban Laghubitta Bikas Bank Ltd (SWDB) is taken as the sample.

3.3 Nature and Sources of Data

The sources of data for this study are both primary and secondary data. The main source of data is secondary data. According to the requirement, published balance sheets, profit and loss Account and other related statements of account as well as annual report of the bank have also been collected for the last five years. For the purpose of study, various related books, booklets magazines, journals, newspapers and thesis made in this field have been referred. For the primary data, researcher conducted small survey to few client members. More over, Personal queries, discussion and consultations with client members as well as official of SWDB are also completed as required.

3.4 Data Collection Procedure

Necessary and required data were collected from the liaison office of bank at Kathmandu, microfinance updates published by Rural Microfinance Development Center (RMDC) and Centre for Microfinance (CMF), Concerned personnel of the respected department were in contact. Primary as well as secondary data were used for the preparation of this report. For necessary data, annual report of SWDB, related academic books and literature, bank's internal reports, files and others have been considered for making this report authentic and more realistic. For primary data researchers conducted small survey to client members of branch office Gaighat. More over, The concerned personnel provided all the consolidated data records as per the requirement of the report. The data compiled were classified and tabulated to the need of the study.

3.5 Tools for Analysis

As mentioned above for t he purpose of data analysis, financial as well as statistical tools are used to make the analysis more effective, convenience, dependable and genuine. Analysis and presentation of the data is the core of the study. The researcher has followed financial analysis as well statistical tools. Financial analysis helps the judgment about the operating of investment position and statistical tools helps the find out the trends of financial position of the bank. The financial and statistical tools are most reliable.

3.5.1 Financial Tools

Financial analysis basically helps to analyze the strength and weakness of a firm. Ratios are very important financial tools to interpret t he financial performance of a firm. Financial ration analysis is a reliable way to understand how a company is performing financially. Ratio analysis is one of the important financial tools has been used in this study. It helps to show mathematical relationship between two accounting items or figures. By applying rations to an organization's financial statements, managers are able to better evaluate its short and long term financial performance. Although there are various types of ration to analyze and interpret the financial statement, only five ratios have been taken in this study, which are mainly related to the investment policy of the bank. They are as follows.

Liquidity Ratios

Difference between current assets and current liabilities is known as working capital, which provides the liquidity in business organization. It is extremely essential for a business organization to be able to meet its obligations as they become due, so it should maintain sufficient liquidity neither excess nor less. As it measures the ability of the firm to meet its short-term obligations, it reflects the short-term financial strength and weakness of the firm. A high degree of liquidity shows inability of proper utilization of founds where as the lack of liquidity shows the signal of poor credit worthiness, low of creditors' confidence or even in legal tangles resulting in the immediate future to need its short-term liabilities as they fall due. To measure the liquidity position of banks under study the following rations have been calculated.

Current Ratio

The calculation of current ration ratio is based on a simple comparison between current assets and current liabilities. It measures short-term solvency, solvency, so it is often called liquidity solvency ration and working capital ratio is calculated by applying following formula.

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

Where, current assets represents the amount of liquid i.e. cash and near cash assets available to the business which can be converted into cash within a year. Likewise, current liabilities give an indication of the upcoming cash requirements are payable within a year from current assets. The proportion of current ratio is 2:1 or more is considered satisfactory. Thus, the conventional rule is based on the assumption that even if half decreases the current assets, the firm can meet its current obligations. It is not any hard and fast assumption that the current ration must equal to 2:1 so many firms below this standard are also seen sound and meeting those obligations efficiently. It is the trend over time rather than the absolute value gives the most valuable information.

Cash and Bank Balance to current Asset Ratio

Cash and balance to current ratio reflects the portion of cash and bank balance in total of current assets. Cash and bank balance are highly liquid assets than other in current assets portion so this ratio visualizes higher liquidity position than current ratio. This ratio can be calculated by using the following formula:

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

The ratio shows the percentage of readily available fund within the bank. In the present study cash and bank balance represent total of local currency, foreign currencies, cheque in hand and various bank balances in local as well as foreign banks.

Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to deposit ratio reflects the ability of banks immediate funds to meet their current deposits, margin, call and saving deposits, This ratio is computed by dividing the amount of cash and bank balance by the total deposit. This ration can be ca calculated by applying the following formula.

$$\text{Cash and bank balance to deposits ratio} = \frac{\textit{Cash and Bank Balance}}{\textit{Total deposits}}$$

Higher ratio shows higher liquidity position and ability to cover the deposits and vice versa. In this study, cash and bank balance includes total cash in hand and total cash at banks. Similarly, deposits include all type of deposits, money at call and other deposits.

Investment on Securities on Current Assets Ratio

Investment on government securities on current assets ration reflects the current assets invested on securities, treasury bills and development bonds. This ratio can be computed by dividing investment on government securities by current assets. This ration can be calculated by applying the following formula.

$$\text{Investment on government securities on current assets ratio} = \frac{\textit{Investment on Securities}}{\textit{Total Current Assets}}$$

Loan and Advances to Current Asset Ratio

It shows the relationship between loan and advances to current assets or it shows the banks liquid capacity of discounting and purchasing the bills and loan, cash credit and overdraft facilities to the customers. This ration can be computed in the following way:

$$\text{Loan and advances to current assets ratio} = \frac{\textit{loan and advances}}{\textit{Total Current Assets}}$$

Loan and advances are the current assets, which is the general in come to the bank. It shows the percentage of loan and advances in the total current assets. In the present study loan and advances represent to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as inconvertible foreign currencies.

Assets Management Ratio/Activity Ratio

Assets management ratio or activity ratios are employed to evaluate the efficiency with which the firm manage and utilizes its assets. The efficiency with which the assets are used would be reflected in the speed and rapidity with which the assets are converted into revenues. The greater the rate of turnover or conversation, the more efficient is the management/ utilization of assets. These ratios are concerned with measuring the efficiency in asset management. If available assets are not utilized efficiently, the investment upon them will be idle and profitability will be decreased, and also if the investment is not sufficient, then adequate production and revenue can be made and profitability decreases. So, proper balance between revenue and assets is desired for the reflection of optimum utilization of the assets. Here, some of these ratios are computed to assess the bank’s efficiency in utilization of available assets.

Loan and Advances to Total Deposits Ratio

Commercial banks utilize the outsider’s fund for profit generation. Loans and advances to deposit ratio shows that whether the banks are successful in utilizing the outsiders’ funds for profit generation on the loan and advance or not. This ration can be calculated by using the following formula:

$$\text{Loan and advance to Deposits ratio} = \frac{\textit{Loan and advances}}{\textit{Total deposits}}$$

Generally, a high ratio reflects higher efficiency to utilize outsiders' fund and vice-versa. Here, and Advances refer to total of loan; advance and overdraft (i.e., in local currency plus convertible foreign currencies) and total deposits refer to total of kinds of deposits.

Loan and Advances to Working Fund Ratio

Loan and advances is the major component in the total working fund, which indicates the capability of bank to channels its deposits in the form of loan and advances to earn high return. This ratio can be calculated by applying the following formula.

$$\text{Loan and advances to working fund ratio} = \frac{\textit{loan and advances}}{\textit{Total working funds}}$$

Here, total working fund includes total amount of assets give in balance sheet, which refers to current assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items i.e., letter of credit, letter of guarantee etc.

Total investment to Total Deposits Ratio

Total investment to total deposits ration indicates how properly firm's deposits have been invested on government securities and debentures of the other companies. This ratio can be computed by dividing the total amount of investment by total amount of deposits collections. This ration can be calculated by using the following formula.

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

Here, total investment includes investment on government securities, investment on debentures and bonds, share in subsidiary companies, shares in other companies and other investments.

Investment on Government Securities to Total Working Fund Ratio

It shows how much part of total investment it there on securities in percentage. This ratio is computed by dividing investment on government securities by total working fund. This can be shown as,

$$\text{Investment on securities to total working fund ratio} = \frac{\textit{Investment on securities}}{\textit{Total working funds}}$$

Investment on Shares and Debentures to Total Working Fund Ratio

Investment on shares and debenture to total working fund ration shows the investment of banks and other financial institutions on shares and debentures of the other companies in terms of total working fund. This ratio is computed by dividing shares and debentures by total working fund.

This can be shown as,

$$\text{Investment on shares and debentures to total working fund ratio} = \frac{\textit{Investment on share and debentures}}{\textit{Total working funds}}$$

Here, total investment includes investment on government securities, investment on debentures, bonds and shares of other companies.

Profitability Ratios

One of the important objectives of the commercial bank is to earn more profit, management, owner and creditors of the bank expect reasonable and more return. Efficiencies of any firm can be measured in term of profit. Profitability ration also indicates public acceptance of the service of bank and run competitively. In this study, the profitability ratios are computed by relating the profit of banks to their investment. To measure the profitability ratio of SWDB following ratios has been calculated and analyzed.

Return on Total Assets Ratio (ROA)

Return on total assets ratio measures the profitability with respect to the total assets. In the present study, this ration is calculated and analyzed to measure the profitability of all financial resource invested in the banks assets. A higher ration usually indicated efficiently in utilizing its overall resources and vice versa. The ration can be computed by following process:

$$\text{Return on total assets ratio} = \frac{\textit{Net profit}}{\textit{Total assets}}$$

Return on Loan and Advances Ratio

Return on loan and advances ratio shows how efficiently the banks and the other financial institutions have utilized their resources to earn good return from providing loan and advances. This ratio is computed by dividing net profit/loss by the total amount of loan and advances. This can be shown as,

$$\text{Return on loan and advances ration} = \frac{\textit{Net profit}}{\textit{Total Loan and Advances}}$$

Interest Earned to Total Assets Ratio

This ratio reveals how much interest mobilizing the assets in the banks has generated. Interest occupies significant place in income for the banks. Generally, banks earn interest through the provision of loans and advances, overdrafts and investments in securities. This ration is found by following way,

$$\text{Interest earned to total assets ratio} = \frac{\textit{Total Interest Earned}}{\textit{Total Assets}}$$

Here, interest earned represents the total interest earned in income statement of the Bank. Higher ratio indicated higher efficiency in the mobilization of resources and ability of interest earning and vice-versa.

Interest Paid to Total Working Fund

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice versa. This ratio is calculated by dividing total interest expenses by total working fund.

$$\text{Interest paid to total working fund} = \frac{\textit{Total Interest Earned}}{\textit{Total Working Fund}}$$

Risk Ratios

Risk means, possibility of incurring loss or misfortune. Risk taking is the most important business of every bank's investment. When firm wants to bear risk and uncertainty the profitability and effectiveness of the firm will be increased. These ratios indicate the amount of risk associated with the various banking operation, which ultimately influences the investment policy of the bank. To measure the risk ratios of Everest Bank following rations has been calculated and analyzed.

Credit Risk Ratio

Credit risk ratio helps to check the probability of loan non-repayment or the possibility of loan to go into default. Credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances. This ratio is calculated by dividing total loan and advances by total assets. It can be shown as,

$$\text{Credit risk ratio} = \frac{\textit{Total Loan and Advances}}{\textit{Total Assets}}$$

Capital Risk Raito

The capital risk of a bank indicates how much assets value may decline before the position of deposition and other creditors are jeopardized. Therefore, a bank must maintain adequate capital in relation to the nature and condition of its assets, its deposits liabilities and other corporate responsibilities. Capital risk ratio measures bank's ability to attract deposits and inter bank funds. It also determines the value of profit, a bank can earn if a bank chooses to take high capital risk, and its ROE will be higher and vice versa. It can be shown as:

$$\text{Capital Risk Ratio} = \frac{\textit{Total Capital}}{\textit{Risk Weighted Assets}}$$

Only Loans and advances are taken as risk weighted assets.

Growth Ratios

Growth ratio represents how well the banks are maintaining their economic and financial condition. It is related to the fund mobilization and investment management of the bank. The higher ratio represents the superior performance. To measure the risk ratio of Swabalamban Laghubitta Bikas Bank Ltd. following ratios has been calculated and analyzed.

- Growth ratio of total deposit
- Growth ratio of total investment
- Growth ratio of loan and advances
- Growth ratio of net profit

3.5.2. Statistical Tools

Brief explanations of the statistical tools used in this study are given below.

a. Arithmetic Mean (Mean)

The simple or arithmetic average in which all the observations are treated equally, is the sum of all the individual numbers divided by the number of observations.

$$\text{Mean } \left(\overline{X}\right) = \frac{X_1 + X_2 + X_3 \text{..........} X_n}{n}$$

Where $\overline{X}$ = mean

X1, X2, X3 to Xn are given set of observations up to the period n

n = number of items observed.

b. Standard Deviation (S.D.)

In order to indicate the variability of the individual observations, standard deviation is used in this study. Standard deviation is a function of the differences between each individual score and the overall mean score. Standard deviation measures the dispersion or variability around the mean. Standard deviation is always a positive number and is superior to the mean deviation.

The equation for the computation of the standard deviation $(\pm)$ is

$$\pm = \sqrt{\frac{\sum\left(X-\bar{X}\right)^2}{n-1}}$$

$\bar{X}$ = The average (mean)

Xn = The individual observation

n = Total number of observation

c. Coefficient of Variation (CV)

When two frequency distribution have the same arithmetic mean, the variability of these two distributions may be compared by calculating their respective standard deviations. The one with the higher standard deviation will be more variable. CV is used for comparing the homogeneity, uniformity and variability of two or more distributions.

Coefficient of Variation is a relative measure of dispersion and is defined as the ratio of the standard deviation divided by the mean. That is,

$$CV = \frac{\pm}{\bar{X}} * 100$$

It is usual for the risk/return model. It shows the return per unit of risk.

d. Coefficient of Correlation

Coefficient of correlation is the mathematical method of measuring the degree of association between the two variable i.e. one dependent and one independent. This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated variables, the effect of none variable may have effect on other correlated variable. Under this topic, this study tries to find out relationship between the following variables:

$$\text{correlation coefficient } (r) = \frac{\Sigma xy}{\sqrt{\Sigma x^2}\sqrt{\Sigma y^2}}$$

i) Coefficient of correlation between deposit and loan and advances.

ii) Coefficient of correlation between total deposit and total investment.

iii) Coefficient of correlation between total outside assets and net profit.

The above analysis tools analyze the relationship between these the relevant variables and helps the bank to make appropriate policies regarding deposit collection, fund utilization (loan and advances and investment) and profit maximization.

To find out those relationships, the following formula is used

e. Coefficient of Determination

The square of multiple correlation coefficient is called coefficient of determination. It is very useful in interpreting the value of correlation coefficient. The main significance of the coefficient determination is to represent the proportion of total variation in the dependant variable which is explained by the variation in the two independent variables.

Coefficient of Determination = Square of correlation coefficient

f. Probable error (P.E.) of Correlation of Coefficient

The probable error is an old measure of ascertaining the reliability of the value of Pearsonian coefficient of correlation. If r is the calculated correlation in a sample of n pears of observation is given by following formula

$$P.E.(r) = 0.6745 \times \frac{1-r2}{\sqrt{n}}$$

The probable error is used to test whether the calculated value of sample correlation coefficient is significant or not . Rules for interpretation of the significance

a. if $r < 6 \times P.E$, then the value of r is not significant

b. if $r > 6 \times P.E.$ then the value of r is definitely significant

c. In other situation, nothing can be calculated with certainty.

g. Straight line Trend Analysis

The curve fitting by the principle of least square enables to obtain rate of growth per annum, for yearly data. The linear trend can be fit as follows

$$y = a + bx$$

where $a = \frac{\sum y}{n}$

and $b = \frac{\sum xy}{\sum x^2}$

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is related to presentation and analysis of data collected from various sources. The chapter includes mainly two sections. The first section deals with presentation and analysis of data while second section includes the major findings of the study.

4.1 Analysis of Liquidity Ratios

This ratio measures the liquidity position of a firm. It measures the firm's ability to meet its short-term obligations or its current liabilities. It measures the speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligation.

4.1.1 Analysis of Current Ratio

It measures the ratio of current assets to current liabilities of the SWDB From this ratio, it can be concluded that the capability to meet its short term obligation. The current ration of SWDB over five years from fiscal year 2003/04 to 2007/08 is as follows:

Table 4.1

Status of current ratios

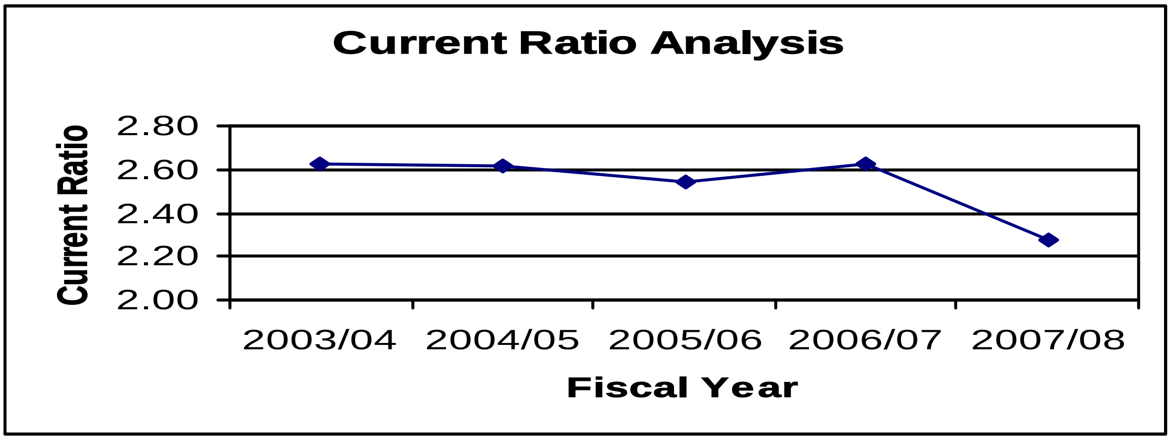
(Rupees in Million)

Fiscal Year	Current Liability	Current Asset	Ratio	Mean	S.D.	C.V.
2003/04	109.98	288.30	2.62			
2004/05	119.76	313.78	2.62			
2005/06	157.69	401.46	2.55	2.54	0.15	5.85%
2006/07	213.71	561.49	2.63			
2007/08	273.97	624.63	2.28			

(Source: Annual Report of SWDB)

Figure 4.1

Current ratio over the study period



The above table 4.1 shows that the current of SWDB have exceeded current liabilities in average in the study period form 2003/04 to 2007/08. The highest ratio is 2.63 in 2006/07 while the lowest ration is 2.28 in 2007/08 with on average ratio of 2.54 during the study period. The co-efficient of variation (C.V.) between the ratios for the study period is 5.85% which shows that the current rations during the study period are not so consistent. In general the bank is able to meet its short term obligations.

4.1.2 Cash and Bank Balance to Total Current Assets Ratio

This ratio shows the banks liquidity capacity based on cash and bank balance that is the liquid assets. Higher ratio indicates the bank ability to meet the daily cash requirements of their customer deposit vice versa. Nevertheless higher ratio is not preferred as the bank has to pay more interest on deposits and will increase the cost of funds. Similarly lower ratio is also not appropriate as the bank may not be able to make payment against cheques presented by customers. Cash and bank balance to current assets ratio of SWDB over study period is as follows:

Table 4.2

Status of cash and bank balance to current assets ratio

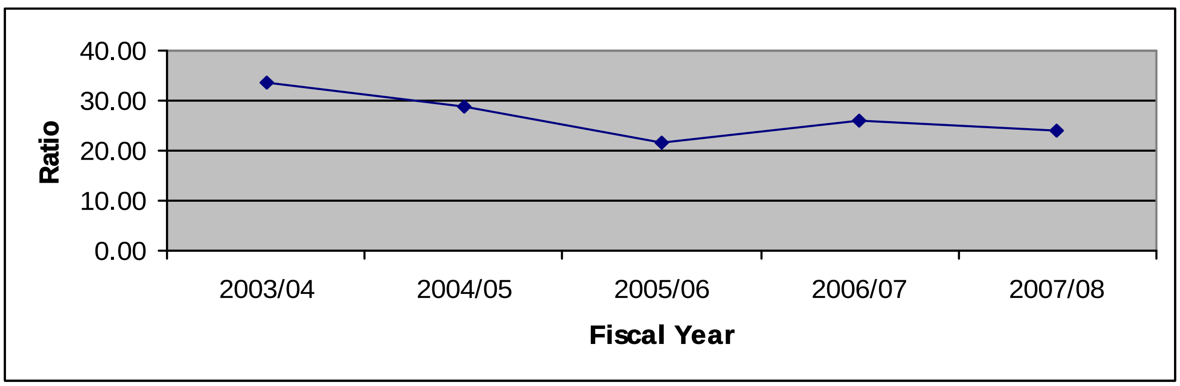
(Rupees in Million)

Fiscal Year	Cash & Bank Balance	Current Asset	Ratio	Mean	S.D.	C.V.
2003/04	96.42	288.30	33.45	26.70	4.58	17.16%
2004/05	89.89	313.78	28.65			
2005/06	86.79	401.46	21.62			
2006/07	145.82	561.79	25.96			
2007/08	148.84	624.63	23.83			

(Source: Annual Report of SWDB)

Figure 4.2

Cash and bank balance to current Ratios



The above table 4.2 shows that the cash and bank balance to current assets ratio of SWDB has fluctuating trend. The highest ratio is 33.45% in 2003/04 while the lowest ratio is 21.62% in 2005/06 with an average of 26.70% and S.D. and C.V. of cash and bank balance to current assets ratio over study period are 4.58 and 17% respectively. Based on the S.D. and C.V. it can conclude that the ratio is less consistent and more variable. However it does not mean that the bank is not in good position in terms of cash and bank balance. The bank can meet its daily balance requirements to make the payments on customer deposits withdrawals.

4.1.3 Analysis of Cash and Bank Balance to Total Deposits Ratio

Cash and bank balance is the liquid asset. This ratio measures the percentage of liquid fund with the bank to make payment to the depositor. Cash and bank balance to total deposits ratio over the study period is given below:

Table 4.3

Status of Cash and Bank balance to total deposits ratio

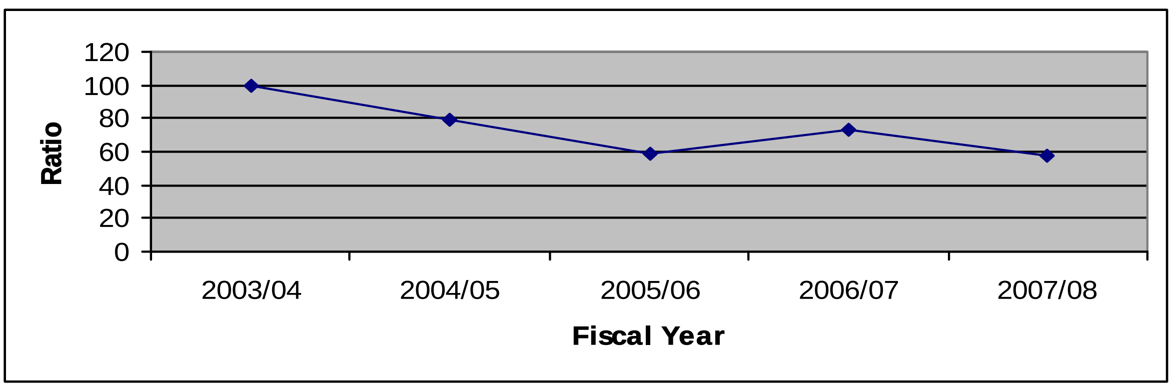
(Rupees in Million)

Fiscal Year	Cash & Bank Balance	Total Deposit	Ratio	Mean	S.D.	C.V.
2003/04	96.42	96.61	99.81	73.91	17.09	23.13%
2004/05	89.89	112.91	79.62			
2005/06	86.79	146.40	59.28			
2006/07	145.82	200.46	72.74			
2007/08	148.84	256.20	58.09			

(Source: Annual Report of SWDB)

Figure 4.3

Cash and bank balance to total deposit ratio



The figure 4.3 reveals that cash and bank balance to total deposits ratios of SWDB has a fluctuating trend. Here the highest ratio is 99.81% in 2003/04 and the lowest ratio is 5.09% in 2007/08. The mean of the ratio, S.D. and C.V. for the study period are 73.91%, 17.09 and 23.13% respectively. Hence, based on the C.V., it can conclude that the ratios are variable and less consistent. Though the ratios are not consistent, the cash and bank balance position of SWDB with respect to deposit is better to serve its costumers deposits withdrawal demands.

4.1.4 Analysis of Investment to Current Assets Ratio

It examines the portion of current assets invested on different securities. Though the securities are not as liquid as cash bank balance yet they can be easily sold in the market or converted into cash and are risk of liquidity for the bank to support cash and Bank balance to meet unexpected liquidity needs on adverse situation. Investment on securities to current assets ratio of SWDB over study period is
mentioned as follow:

Table 4.4

Position of investment on securities to current assets ratio (In %)

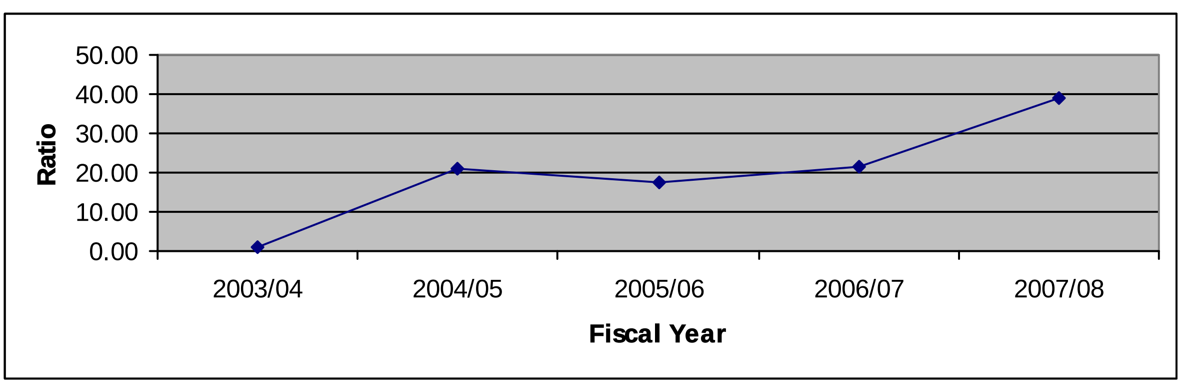
(Rupees in Million)

Fiscal Year	Investment	Current Asset	Ratio	Mean	S.D.	C.V.
2003/04	3.07	288.30	1.07	20.02	13.53	67.59%
2004/05	65.77	313.78	20.96			
2005/06	69.91	401.46	17.41			
2006/07	121.22	561.79	21.58			
2007/08	244.02	624.63	39.07			

(Source: Annual Report of SWDB)

Figure 4.4

Investment on securities to current assets ratio



From the above table 4.4, it can be said that the investment on securities to current assets ratio of SWDB has fluctuating trend with the highest ratio 39.07% in 2007/08 and lowest ratio 1.07% in 2007/08. The ratios are increasing of the study period. The mean ratio of the bank is 20.02% and the SD. and C.V between them are 13.63 and 68%repectively. Based on the C.V., it can be concluded that the ratios are inconsistent and more volatile. The liquidity position of the bank from the point of view on investment on securities is good.

4.1.5 Analysis of Loan and Advances to Current Assets Ratio

A bank should mobilize its funds in investment as loans and advances in order to earn high profit rather than keeping it as cash and bank balance. If the bank fails to grant sufficient loan and advances then it has to pay interest on the deposited funds and may loose its earnings. However, high loans and advances may also be harm because they can be collected at the time of maturity. This, the bank should maintain its loans and advances in appropriate level to find out the portion of current assets, which is granted as loans and advances. The loan and advances to current assets ratio of SWDB over the study period is given below:

Table 4.5

Position of Loans and advances to current assets ratio (in %)

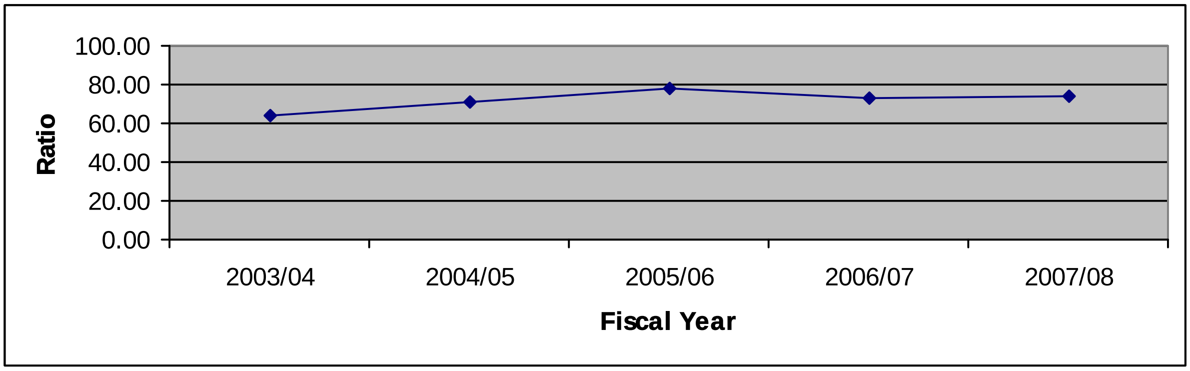
(Rupees in Million)

Fiscal Year	Loan and Advance	Current Asset	Ratio	Mean	S.D.	C.V.
2003/04	184.28	288.30	63.92	71.94	5.13	7.13%
2004/05	221.82	313.78	70.69			
2005/06	311.67	401.46	77.63			
2006/07	411.37	561.79	73.22			
2007/08	463.60	624.63	74.22			

(Source: Annual Report of SWDB)

Figure 4.5

Position of Loans and advances to current assets ratio (in %)



Loans and advances to current assets ratio from the above table 4.5 reveals that the ratios of the bank are in increasing and fluctuation trend. It is seen that the ratios are slightly increasing from the first year 2003/04 to 2007/08 of the study period. It was in increasing trend till 2005/06 and being highest ratio 77.63% and 62.93% is the lowest ratio. However, the mean ratio is 73.91% and standard deviation is 5.13 with C.V. between them is 7.13%. It shows the ratios are consistent and less variable during the study period.

4.2 Analysis of Assets Management Ratios

Assets management ratio is also called and activity or turnover ratio. It measures the efficiency of banks in mobilizing its funds. It bank must be able to manager its assets properly in order to earn high profit as well as maintain an appropriate level of liquidity. Thus it measures the efficiency of the bank to manager its assets in profitable and satisfactory manner.

4.2.1 Analysis of Loans and Advances to Total Deposit Ratio

This ratio insures the extent to which the bank is successful in mobilizing its deposits on loan and advances for generating income or not. Higher ratio indicates better mobilization of collected deposits and vice versa. However, it should be noted that too high ration might not be better from liquidity point of view.

Table 4.6

Loans and advance to total deposit ratio

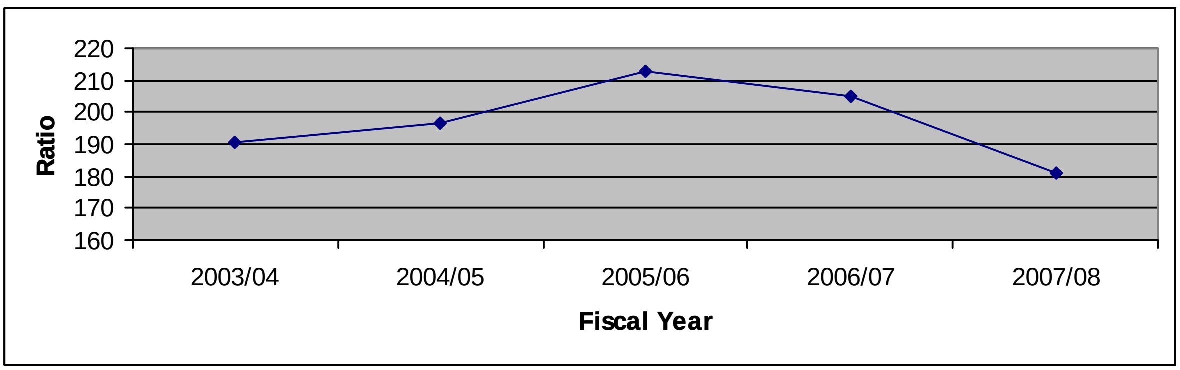
(Rupees in Million)

Fiscal Year	Loan and Advance	Total Deposit	Ratio	Mean	S.D.	C.V.
2003/04	184.28	96.61	190.75			
2004/05	221.82	112.91	196.46			
2005/06	311.67	146.40	212.88	197.25	12.41	6.29%
2006/07	411.37	200.46	205.22			
2007/08	463.60	256.20	180.95			

(Source: Annual Report of SWDB)

Figure: 4.6

Loan and advance to total deposit ratio



The above table 4.6 depicts that the loans and advances to total deposits ratios are in increasing and fluctuating trend till 2005/06 and being highest ratio is 212.88 and after that the trend is going to be decreased and reached lowest ratio is 180.95% in 2007/08. Similarly the mean ratio for the study period is 197.25.% while S.D and C.V between them are 12.41 and 6.29% respectively. Based on the CV, it can be concluded that the ratios are more consistent and less variable. SWDB enjoys the deprived sector borrowing from commercial banks at cheaper rate than deposit interest. Thus, total loan and advance is greater than deposit.

4.2.2 Analysis of Loan and Advance to Working Fund Ratio

Loan and advances is an important part of total assets total working fund the ratio measures the volume of Loans and advances in the structure of total assets. Higher degree indicates performance of the bank in mobilizing its fund by hand a low ratio indicates low productivity and high degree of safety in liquidity and vice versa. This ratio also shows the credit risks taken by the bank towards mobilizing its fund into different types of assets. This ratio reflects the extent to which the bank is successful in mobilizing their total assets on loan advances for generating income.

Table 4.7

Loan and advances to working fund ratio

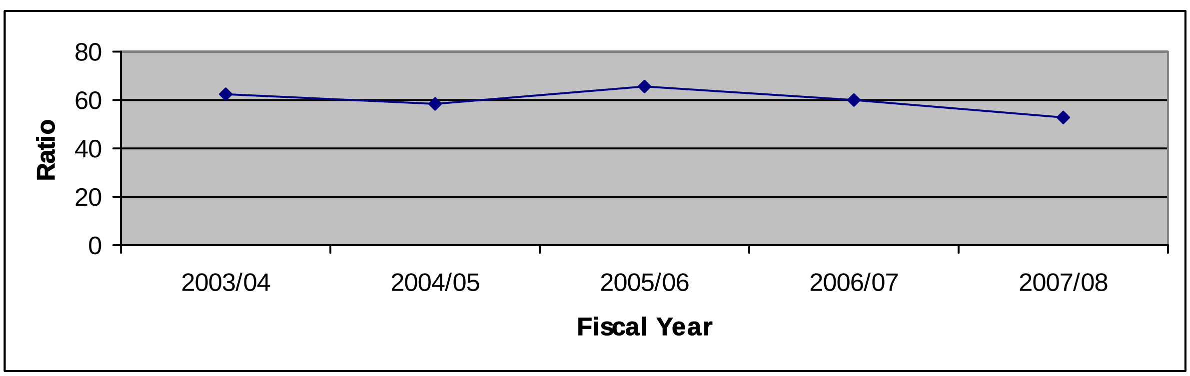
(Rupees in Million)

Fiscal Year	Loan and Advance	Total Working Fund	Ratio	Mean	S.D.	C.V.
2003/04	184.28	293.45	62.80	59.95	4.77	7.96%
2004/05	221.82	381.88	58.09			
2005/06	311.67	474.14	65.73			
2006/07	411.37	685.80	59.98			
2007/08	463.60	872.15	53.16			

(Source: Annual Report of SWDB)

Figure 4.7

Loan and advance to working fund ratio



The above table 4..7 reveals that the loan and advance to total working fund ratios are consistent trend. The highest ratio is 65.73% in 2005/06 and the lowest ratio is 53.16% in 2007/08, similarly the mean ratio is 59.95% and the S.D and C.V between them are 4.77

and 7.96% respectively which indicate that the ratios are very consistent or less variable over the study period.

4.2.3 Analysis of Total Investment to Total Deposit Ratio

A bank mobilizes its deposits by investing in different securities issued by the government and other finical and non financial institution. This ratio measures the extent to which the banks are able to mobilize their deposits on investment in various securities or not. The bank should use their deposit on investment in optimal way by using profusion management of assets which can help to increase the earning of bank. Total investment to total deposit ratios of SWDB over study period are given below:

Table 4.8

Total investment to total deposit Ratio

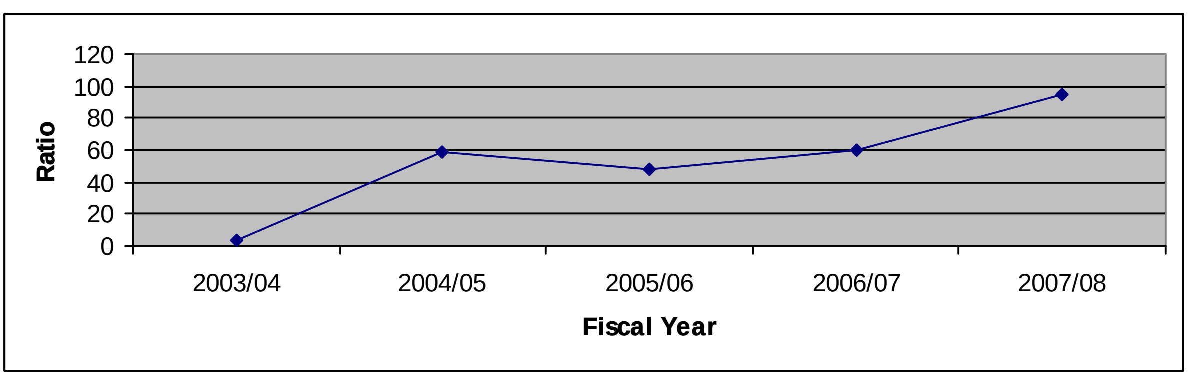
(Rupees in Million)

Fiscal Year	Total Investment	Total Deposit	Ratio	Mean	S.D.	C.V.
2003/04	3.07	96.61	3.18			
2004/05	65.77	112.91	58.25			
2005/06	69.91	146.40	47.75	52.98	33.08	62.44%
2006/07	121.22	200.46	60.47			
2007/08	244.02	256.20	95.25			

(Source: Annual Report of SWDB)

Figure 4.8

Total investments to total deposit ratio



In the above table, the ratios of total investment to total deposit ratios of SWDB are in fluctuating trend during the study period. The ratio of each year is not constant i.e. the ratios are highly up down during the study period. The highest ratio is 95.25% in 2007/08 and the lowest ratio is 3.18% in 2003/04. Similarly the mean ratio is 52.98% and the S.D and C.V between them are 33.08 and 62.44% respectively which indicate that the ratios are not consistent over the study period.

4.2.4 Analysis of Investment of Securities to Total Working Fund Ratio

Bank utilizes its resources in various ways apart from investing in loans and advances though it uses a major portion of funds in loans and advances it also invests its funds in purchasing different types of securities. Securities are a safe medium of investment though they are not liquid as cash bank balance. They invest securities for income generation without taking more risks to maintain the adequate level of liquidity. Investment on securities to total working fund ratio is as follows:

Table 4.9

Investment on securities to total working fund ratio

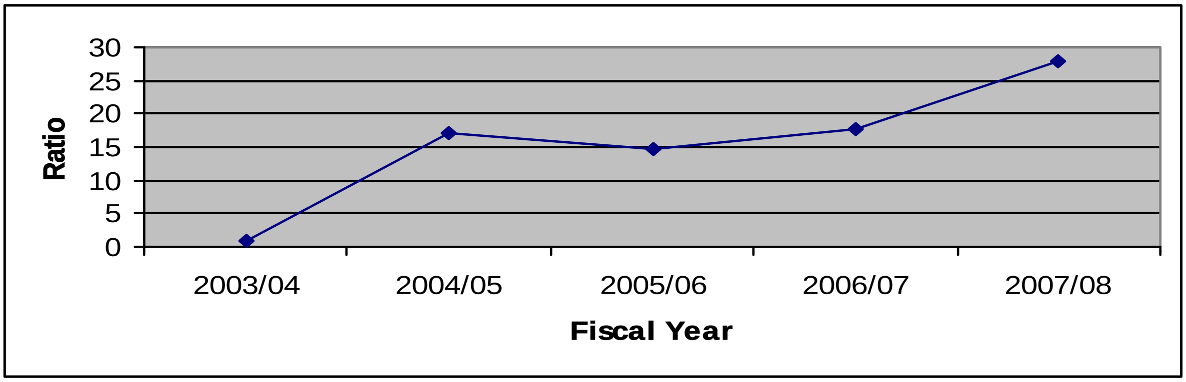
(Rupees in Million)

Fiscal Year	Total Investment	Total Working Fund	Ratio	Mean	S.D.	C.V.
2003/04	3.07	293.45	1.05	15.73	9.65	61.34%
2004/05	65.77	381.88	17.22			
2005/06	69.91	474.14	14.74			
2006/07	121.22	685.80	17.68			
2007/08	244.02	872.15	27.98			

(Source: Annual Report of SWDB)

Figure 4.9

Investment on securities to total working fund ratio



The table 4.9 shows that the ratios of Investment on securities to total working fund are in fluctuating trend during the study period. The beginning year ratio 1.05 of 2003/04 is increased to the year 2004/05 and then it is decreased to 2005/06 while again it is increased to the year 2006/07 and the year 2007/08. The highest ratio is 27.98% in 2007/08 and the lowest ration is 1.05% in 2003/04 while the mean ratio during the study period is 15.73%, the S.D is 9.65 and C.V between them is 61.34%, which indicate the ratios are fluctuating.

4.3 Analysis of Profitability Ratios

Profitability ratios are used to measure the overall efficiency of a firm in terms of profit and financial performance. In today's context, profit is the essence of every organization and bank is no exception to it. It is the indicator of efficient operation of a bank.

4.3.1 Analysis of Interest Income to Total Income Ratio

The ratio measures the volume of interest income in total income of the bank. The ratio also helps to measure the bank's performance on how well they are mobilizing their funds for the purposes of income generation. Higher the ratio higher is the contribution made by the lending and investing activities and vice versa. The Interest Income to Total Income Ratio of SWDB over the study period is given below:

Table 4.10

Interest income total income ratio

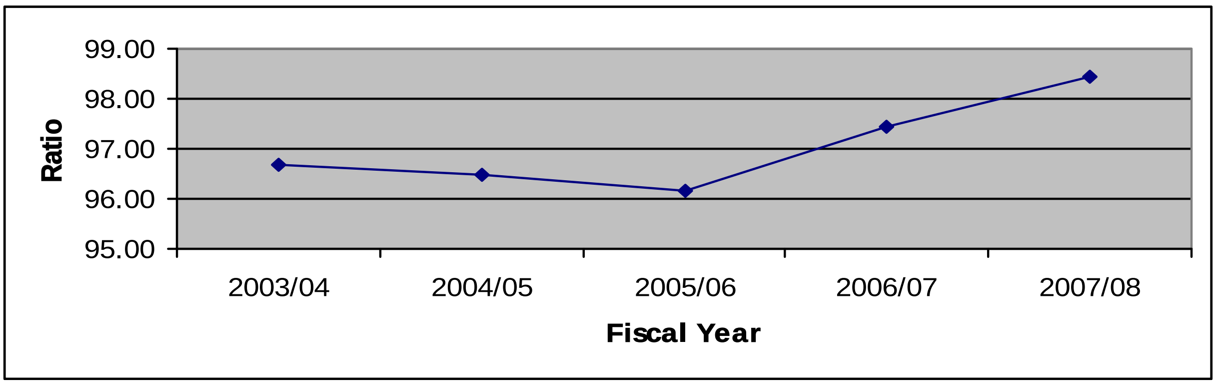
(Rupees in Million)

Fiscal Year	Interest Earned	Total Income	Ratio	Mean	S.D.	C.V.
2003/04	53.32	55.14	96.69			
2004/05	54.50	56.49	96.47			
2005/06	73.45	76.39	96.16	97.03	0.91	0.93%
2006/07	101.83	104.52	97.43			
2007/08	119.48	121.39	98.42			

(Source: Annual Report of SWDB)

Figure 4.10

Interest income to total income ratio



From the above table 4.10, it has been concluded that the ratios are in fluctuating trend. The trends are decreasing from 2003\04 to 2005\06 and it's going on increasing to second last of the studying fiscal year. The ratio 96.69% of the year 2003/04 is continuously decreasing to the year 2005/06 but it is continuously increasing to the year 2007/08. The highest ratio is 98.42% in 2007\08 and the lowest ratio is 96.16% in 2005\06 while the average ratio is 97.03% during the study period. Similarly, S.D. and C.V. are 0.91 and 0.93% respectively depict that the trends are less variable and more consistent during the study period.

4.3.3 Analysis of Interest Expenses to Total Expenses Ratio

It measures the portion of total interest expenses in the volume of total expenses. The high ratio indicates the low operation expenses and vice versa. Interest expenses to total expenses ratio over the study period is as follows:

Table 4.11

Interest expenses to total expenses ratio

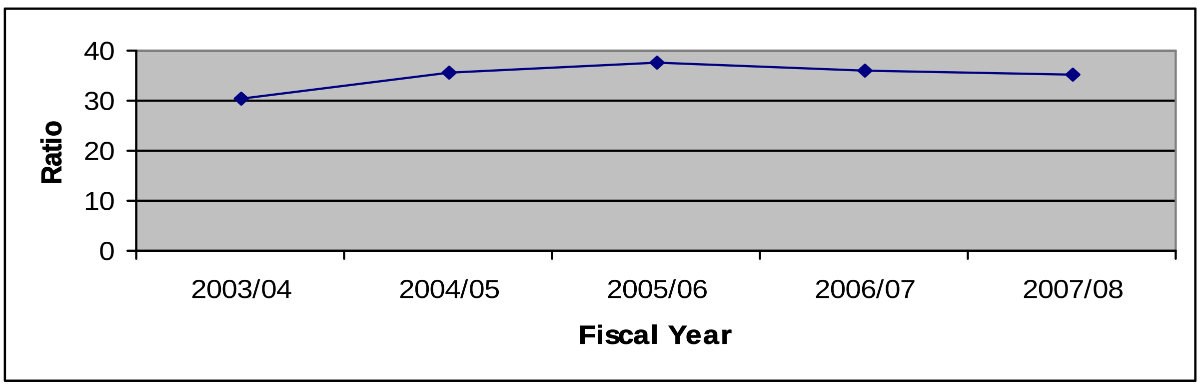
(Rupees in Million)

Fiscal Year	Total Interest Expense	Total Expense	Ratio	Mean	S.D.	C.V.
2003/04	11.78	38.99	30.21	34.97	2.83	8.09%
2004/05	14.18	39.76	35.65			
2005/06	17.80	47.22	37.70			
2006/07	25.59	70.78	36.16			
2007/08	33.77	96.20	35.11			

(Source: Annual Report of SWDB)

Figure 4.11

Interest expenses to total expenses ratio



The above figure 4.11 depicts that the ratios are in fluctuating but increasing trend over the study period. The ratios are increased to the first third year and slightly decreased from 2005/06 to 2007/08. The highest ratio 37.70% in 2005/06 and the lowest ratio 30.21% The mean ratio is 34.97%. The S.D. and C.V. between them is 2.83 and 8.09% respectively, which indicates the ratios are less variable and consistent during the study period.

4.3.4 Analysis of Total Interest Earned to Total Working Fund Ratio

This ratio depicts the extent to which banks are successful in mobilizing their total assets to generate high income as interest. A high ratio indicates a high earning power of the banks on its total working funds and vice versa. Total Interest Earned to Total Working Fund Ratio of SWDB over the study period is given below:

Table 4.12

Total interest earned to total working fund ratio

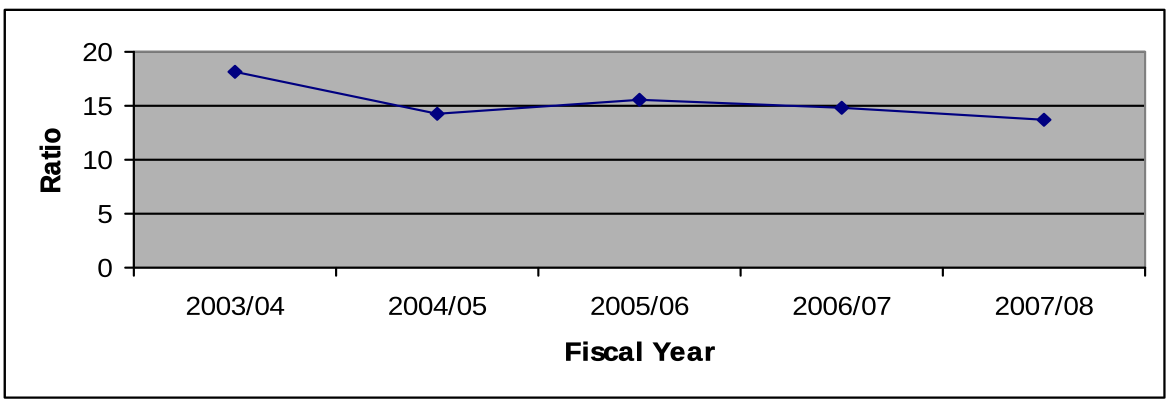
(Rupees in Million)

Fiscal Year	Total Interest Earned	Total Working fund	Ratio	Mean	S.D.	C.V.
2003/04	53.32	293.45	18.17	15.30	1.74	11.37%
2004/05	54.50	381.88	14.27			
2005/06	73.45	474.14	15.49			
2006/07	101.83	685.80	14.85			
2007/08	119.48	872.15	13.70			

(Source: Annual Report of SWDB)

Figure 4.12

Total interest earned to total working fund ratio



The above table 4.12 shows that the ratios are fluctuating and decreasing trend over the study period. The ratio 18.17% of 2003/04 is decreasing to the year 2004/05 and after that slightly increased to the year 2005/06 i.e. 15.49% and then the ratios are continuously decreasing to the last of the study period. The highest ratio is 18.17% in 2003/04 and the lowest ratio is 13.17% in 2007\08. Similarly, the mean ratio is 15.30% and the C.V and the S.D. are 1.74 and 11.37 respectively, which indicates the ratios are variable and consistent.

4.3.5 Analysis of Total Interest Expenses to Total Working Fund Ratio

This ratio measures the percentage of total interest paid against the total working fund. A high ratio indicates the higher interest expenses on total working fund and vice versa. The total interest expenses to total working fund ratio of SWDB over the study period is as follows:

Table 4.13

Total interest expenses to total working fund ratio

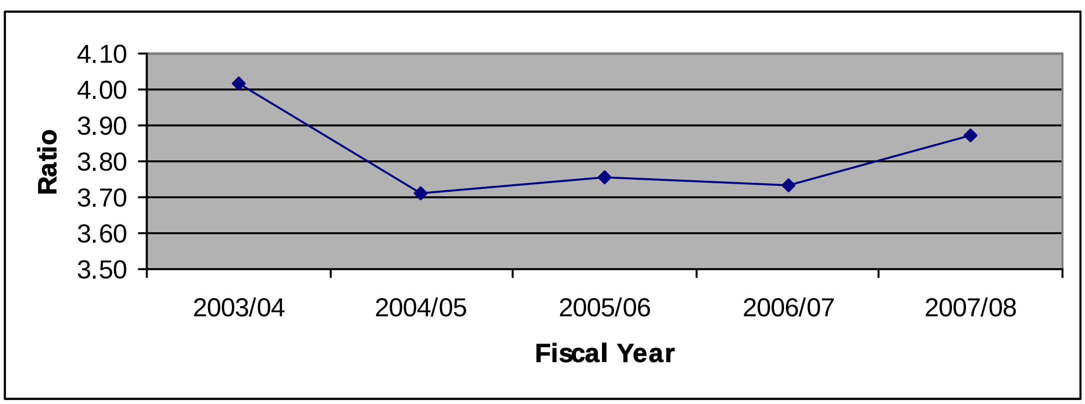
(Rupees in Million)

Fiscal Year	Total Interest Expense	Total Working fund	Ratio	Mean	S.D.	C.V.
2003/04	11.78	293.45	4.01	3.82	0.13	3.31%
2004/05	14.18	381.88	3.71			
2005/06	17.80	474.14	3.76			
2006/07	25.59	685.80	3.73			
2007/08	33.77	872.15	3.87			

(Source: Annual Report of SWDB)

Figure 4.13

Total Interest Expenses to Total Working Fund Ratio



The above figure 4.13 of Total Interest Expenses to Total Working Fund Ratio depicts shows that the trends are fluctuating. The average ratio, S.D. and the C.V between them are 3.82%, 0.13 and 3.31% which implies the ratios are more variable and less consistent.

4.3.6 Analysis of Total Income to Total Expenses Ratio

The main purpose of this ratio is to study the comparison between total expenses and total ncome that measures the productivity of expenses in generating income. The high ratio is the indicator of higher productivity of expenses and vice versa. The Total Income to Total Expenses Ratio of SWDB over the study period is as follows:

Table 4.14

Total income to total expenses ratio (times)

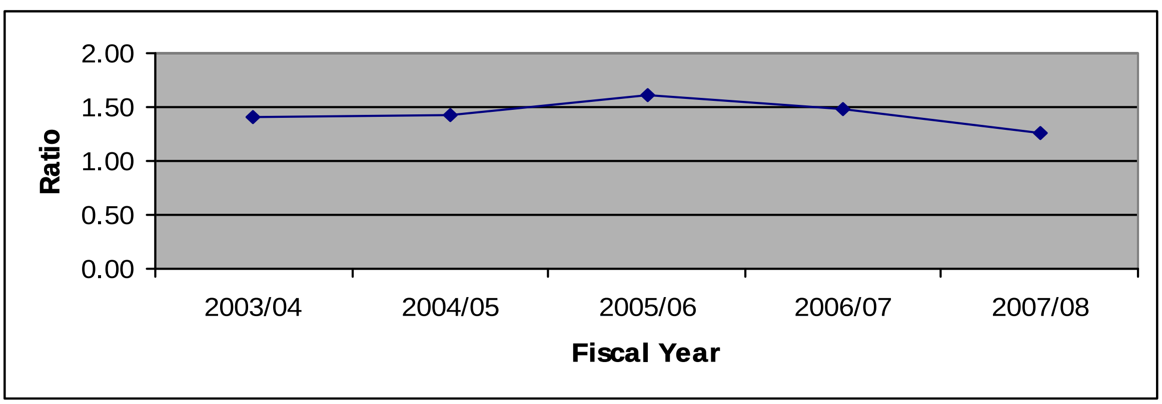
(Rupees in Million)

Fiscal Year	Total Income	Total Expense	Ratio	Mean	S.D.	C.V.
2003/04	55.14	38.99	1.41			
2004/05	56.49	39.76	1.42			
2005/06	76.39	47.22	1.62	1.44	0.13	8.91%
2006/07	104.52	70.78	1.48			
2007/08	121.39	96.20	1.26			

(Source: Annual Report of SWDB)

Figure 4.14

Total income to total expenses ratio (times)



The above figure 4.14 depicts that the trends are in fluctuating trend over the study period. The ratio 1.62 times of 2005\06 is the highest ratio and it's going on 1.26 times in 2007\08 which is being the lowest ratio. The mean ratio is 1.44 times while the S.D and

C.V between them is 0.13 and 8.91% respectively which shows the ratios are consistent in nature.

4.3.7 Analysis of Total Income to Total Working Fund Ratio

From this ratio it can be measured that how efficiently the assets of a business are utilized to generate income. It also measures the quality of assets in come generation. Total Income to Total Working Fund Ratio of SWDB over the study period is given below:

Table 4.15

Total income to total working fund ratio

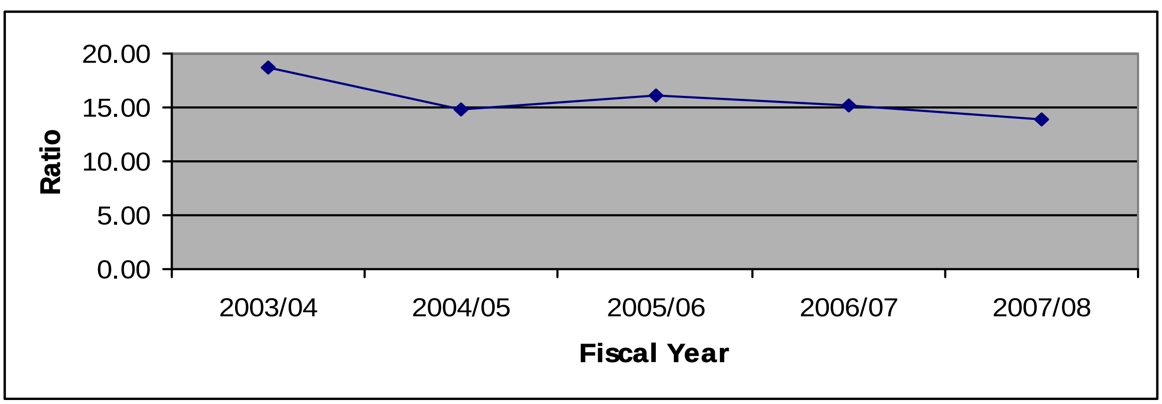
(Rupees in Million)

Fiscal Year	Total Income	Total Working Fund	Ratio	Mean	S.D.	C.V.
2003/04	55.14	293.45	18.79	15.77	1.86	11.82%
2004/05	56.49	381.88	14.79			
2005/06	76.39	474.14	16.11			
2006/07	104.52	685.80	15.24			
2007/08	121.39	872.15	13.92			

(Source: Annual Report of SWDB)

Figure 4.15

Total income to total working fund ratio



The above table 4.15 shows that the ratios are fluctuating and decreasing trend over the study period. The ratio 18.79% of the beginning year is going downward to the year 2004/05 and slightly increased to the year 2005/06 and after this year the ratios are continuously decreasing to the last of the study period, i.e. the last year ratio is 13.92% . The ratio 18.92% in 2003\04 which is the highest ratio is going to decreasing to the last of the fiscal year and is being the lowest ratio i.e. 13.92% in 2007\08. Similarly the average ratio, S.D. and C.V. are 15.77, 1.86, and 11.82% respectively indicate that the ratios are variable and consistent over the study period.

4.3.8 Analysis of Return on Loans and Advances

From this ratio it can be measured that how efficiently the bank has employed its resources in the form of loan and advances. It also measures the earning capacity of a bank through its mobilized funds in the form of loans and advances. A high ratio indicates greater success to mobilize funds as loans and advances and vice versa. Return on Loans and Advances of SWDB over the study period is given below:

Table 4.16

Return on loans and advances ratio (in %)

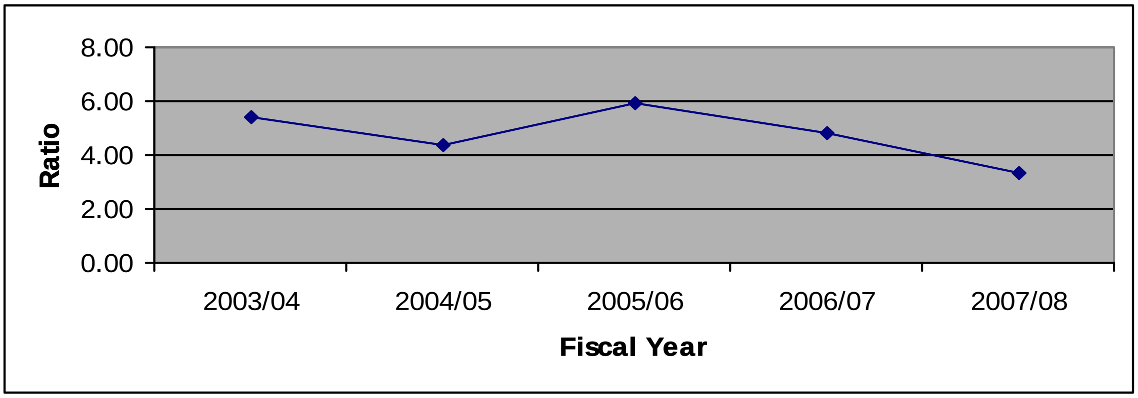
(Rupees in Million)

Fiscal Year	Net Profit	Loan and Advance	Ratio	Mean	S.D.	C.V.
2003/04	10.02	184.28	5.44	4.78	0.99	20.77%
2004/05	9.70	221.82	4.37			
2005/06	18.36	311.67	5.89			
2006/07	19.94	411.37	4.85			
2007/08	15.45	463.60	3.33			

(Source: Annual Report of SWDB)

Table 4.16

Return on Loan and Advance Ratio



The above table 4.16 depicts that the ratios are in fluctuating trends. The ratio 5.44% in the year 2003/04 is decreasing to the year 2004/05 and reached 4.37%. Then the ratio increased to highest point at 5.89%. Then it declined to 4.85% and 3.33% in the year 2006 and 2007/08 respectively. The average ratio is 4.78 and S.D. and C.V. are 0.99 and 20.77%, which indicates that the ratios are less variable and more consistent.

4.3.9 Analysis of Return on Total Working Fund Ratio (ROA)

The profitability of all working fund (total assets) can be measured from this ratio. Hence, it is also known as return on assets (ROA). Higher ratio denotes that the banks total working fund is well managed and efficiently utilized and vice versa. Return on Total Working Fund Ratio (ROA) of SWDB over the study period is as follows:

Table 4.17

Return on Total Working Fund Ratio (ROA)

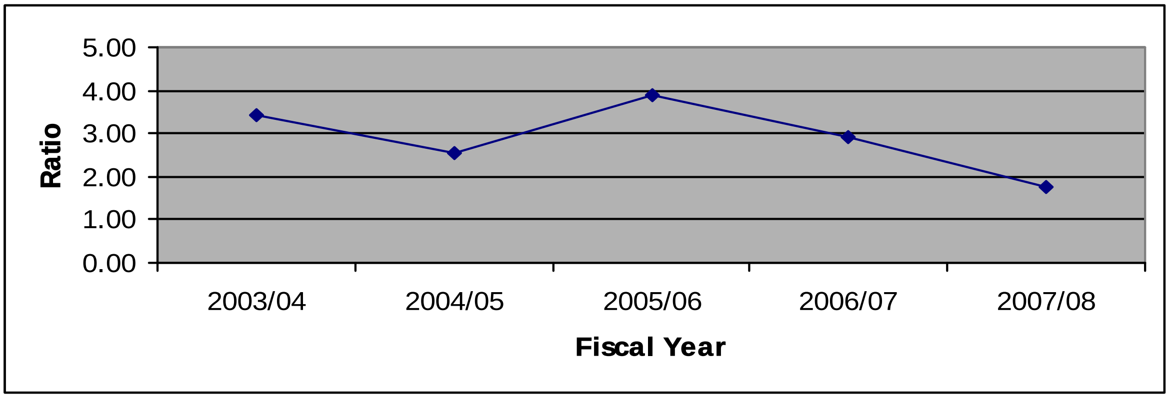
(Rupees in Million)

Fiscal Year	Net Profit	Total Working Fund	Ratio	Mean	S.D.	C.V.
2003/04	10.02	293.45	3.41	2.90	0.81	27.87%
2004/05	9.70	381.88	2.54			
2005/06	18.36	474.14	3.87			
2006/07	19.94	685.80	2.91			
2007/08	15.45	872.15	1.77			

(Source: Annual Report of SWDB)

Table 4.17

Return on Total Working Fund Ratio



The above fig 4.17 shows that the ratios are fluctuating and decreasing trend. The highest ratio is 3.87% in 2005\06 and the lowest ratio is 1.77% in 2007\08. The ratio is decreasing from 1 to 3 rd year of the study period and it's going on increasing. The average ratio is 1.37% while the S.D. and C.V. are .109 and 7.98% respectively, which indicates that the ratios are less variable and consistent during the study period.

4.3.10 Analysis of Return on Total Equity Ratio

From this ratio, the profit earned by the equity share holders can be measured. This ratio reveals the overall effectiveness and performance of the organization. The high ratio indicates a high return to shareholders and vice versa. This ratio measures how efficiently the banks have used the funds of the owners. Return on Equity Ratio of SWDB over the study period is given below:

Table 4.18

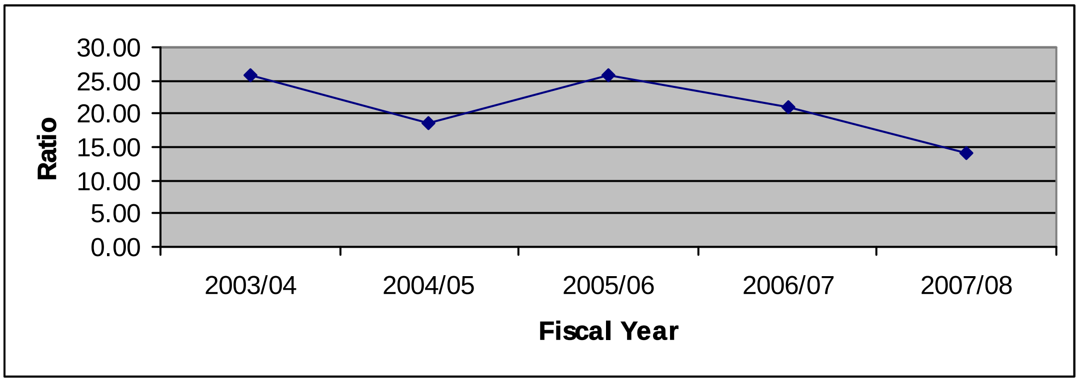
Return on Equity Ratio (ROE) (Rupees in Million)

Fiscal Year	Net Profit	Total Equity	Ratio	Mean	S.D.	C.V.
2003/04	10.02	38.65	25.93			
2004/05	9.70	52.34	18.53			
2005/06	18.36	71.57	25.66	21.00	5.02	24%
2006/07	19.94	95.57	20.87			
2007/08	15.45	110.06	14.04			

(Source: Annual Report of SWDB)

Figure 4.18

Return on equity ratio (ROE)



The above table 4.18 discloses that the ratios are in fluctuating and decreasing trend over the study period. At first the ratio is decreased and after from 2004\05 it is increased to 25.66% and than it continuously decreased and reached to 14.04% at the last of the study period. The highest ratio is 25.93% in 2003\04 and the lowest ratio is 14.14% in 2007\08. Similarly the average ratio, S.D. and C.V between them are 21.,5.02 and 24% , which indicates the ratios are variable and consistent.

4.3.11 Analysis of Earning Per Share (EPS)

Earning per share refers to the earnings available to each share holder of the bank. The amount of EPS measures the efficiency of a firm in relative terms. The figure is the indicative of the overall good or bad performance of an organization. Earning Per Share (EPS) of SWDB over the study period is as follows:

Table 4.19

Earning Per Share (EPS) (in Rupees)

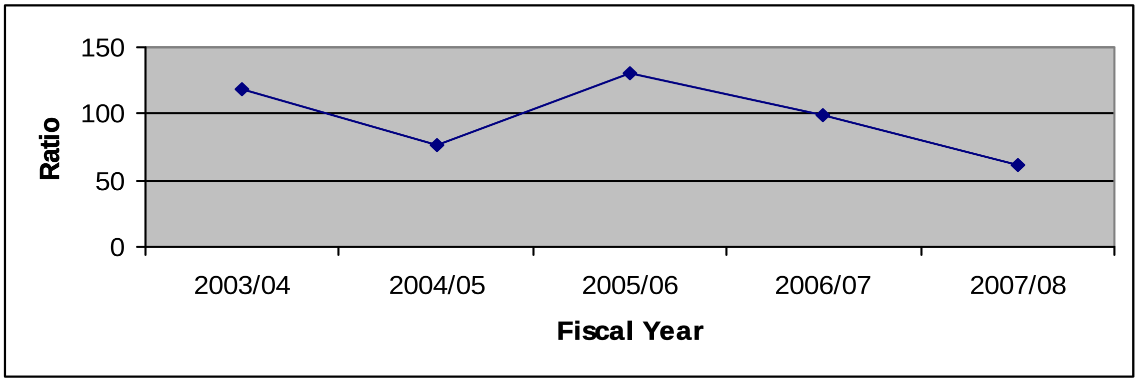
(Rupees in Million)

Fiscal Year	Net Profit	No. of Shares	EPS (Rs.)	Mean	S.D.	C.V.
2003/04	10.02	85000	117.89	97.27	28.73	30%
2004/05	9.70	128000	75.75			
2005/06	18.36	140000	131.17			
2006/07	19.94	200000	99.72			
2007/08	15.45	250000	61.80			

(Source: Annual Report of SWDB)

Figure 4.19

Earning per share (EPS)



The figure 4.25 reveals that the EPS declined at first and then increased to highest point in 2005/06. After this it decreased continuously and finally reached to the lowest point at 61.80 in 2007/08 The average EPS is Rs.97.27. Similarly the S.D. and C.V. between them are 17.72 and 38.54% respectively that indicates the EPS are more variable and less consistent during the study period.

4.3.12 Analysis of Net Interest Margin

Net interest margin is the difference between interest received from investment loans and advances and interest paid on deposits collected by the banks. It reveals the banks efficiency to earn high profit in order to meet various costs. Such as office expenses, staff expenses etc. Higher ratio shows higher profitability and vice versa. The interest margin of SWDB over the study period is given below:

Table 4.20

Net interest margin

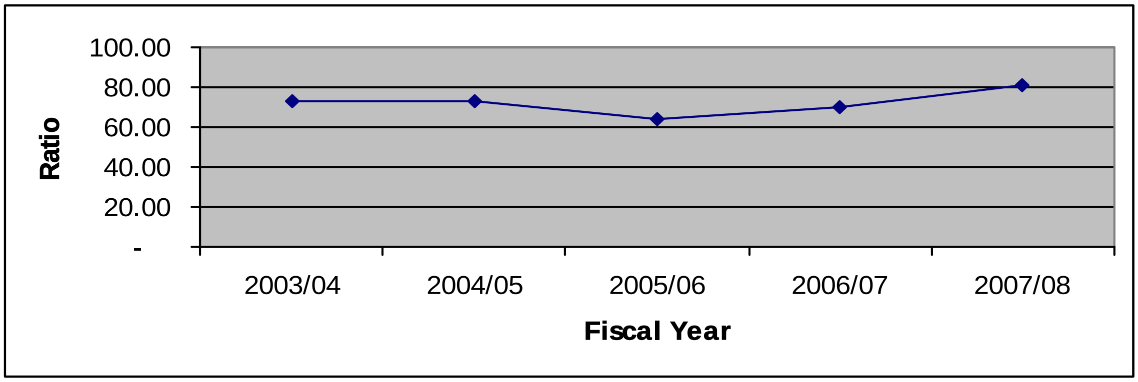
(Rupees in Million)

Fiscal Year	Interest Earning	Interest Expense	Ratio	Mean	S.D.	C.V.
2003/04	53.32	38.99	73.13	72.08	5.92	8.22%
2004/05	54.50	39.76	72.96			
2005/06	73.45	47.22	64.29			
2006/07	101.83	70.78	69.51			
2007/08	119.48	96.20	80.52			

(Source: Annual Report of SWDB)

Figure 4.20

Net interest margin



From the above figure 4.20, it can be concluded that the ratios are fluctuating trends over the study period. In the first year there is 73.13% ratio and it's going 72.96% in 2004/05 then it is decreasing to 64.29% in 2005/06 , 69.51% in 2006/07 and 80.52% in 2007/08 which being the highest ratio. The Mean ,S.D. and C.V are 72.08, 5.92 and 8.22% respectively, from which it can be concluded that the ratios are less variable and more consistent during the study period of SWDB

4.4 Analysis of Risk Ratios

The possibility of risk makes banks investment a challenging task. Bank has to take risk to get return on investment. The risk taken is compensated by the increase in profit. A bank has to take high risk if it expects high return on its investment. So, the bank wishing high profit has to accept the risk and manage it effectively. Thus, through following ratios effort has been made to measure the level of risks.

4.4.1 Analysis of Credit Risk Ratio

It measures the possibility whether the loan will be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. Credit risk ratio is exposed as the percentage of non performing loan to total loans and advances of a bank. The credit Risk ratios of SWDB over the study period is as follows:

Table 4.21

Credit risk ratio

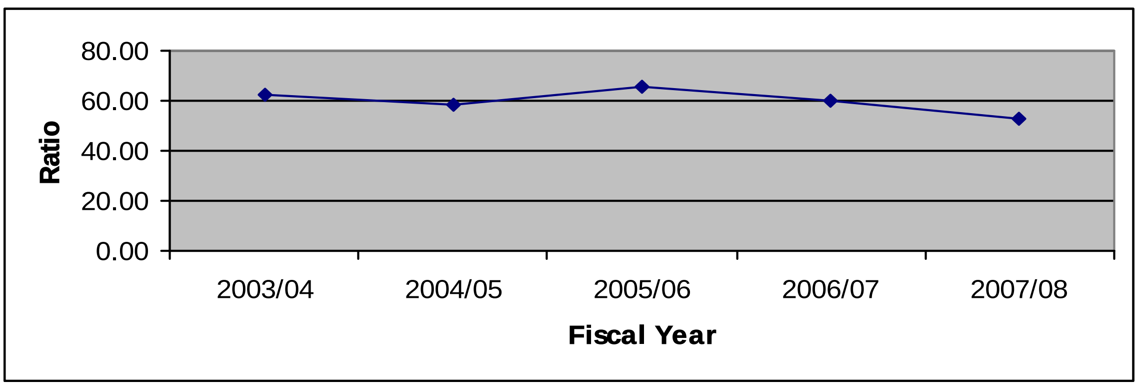
(Rupees in Million)

Fiscal Year	Total Loan and Advance	Total Asset	Ratio	Mean	S.D.	C.V. (%)
2003/04	184.28	293.45	62.80	59.95	4.77	7.96%
2004/05	221.82	381.88	58.09			
2005/06	311.67	474.14	65.73			
2006/07	411.37	685.80	59.98			
2007/08	463.60	872.15	53.16			

(Source: Annual Report of SWDB)

Figure 4.21

Credit risk ratio



The above figure 4.27 is depicting that the ratios are fluctuating and increasing trend for earlier period and decreasing period in later period. The highest ratio is 65.73% in 2005\06 and the lowest ratio is 53.16% in 2007\08 with 59.95% average ratio between them. Meanwhile the S.D. and C.V. are 4.77 and 7.96% indicates that the ratios are less variable and more consistent during study period.

4.4.2 Analysis of Capital Risk Ratio

The capital risk of a bank indicates how much assets value may decline before the position of depositors and other creditors jeopardize. Therefore a bank must maintain adequate capital in relation to the nature and condition of its assets, deposit and other corporate responsibilities. his ratio measures the banks ability to attract deposits and inter bank funds. It also determines the level of profit of a bank can earn if a bank chooses to take high capital risk. Higher the ratio lower is the capital risk and vice versa. The capital risk ratio of SWDB over the study period is as follows:

Table 4.22

Capital risk ratio

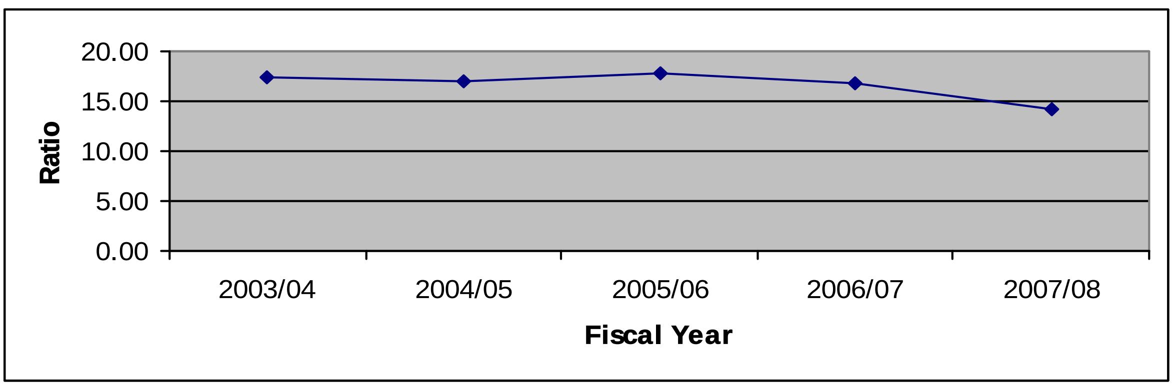
(Rupees in Million)

Fiscal Year	Total Capital	Total Risk Weighted Asset	Ratio	Mean	S.D.	C.V.
2003/04	38.65	223.03	17.33			
2004/05	52.34	309.43	16.91			
2005/06	71.57	403.93	17.72	16.61	1.35	8.14%
2006/07	95.57	568.20	16.82			
2007/08	110.06	770.73	14.28			

(Source: Annual Report of SWDB)

Figure 4.22

Capital risk ratio



The above figure 4.22 shows that the ratios are fluctuating continuously during the study period. The ratio 17.33% of first year 2003/04 is going decreased to 16.91% to the year 2004/05 and increased to the highest point at 17.72% in 2005/06. Then the ratios are continuously and rapidly decreasing to the last of the study period i.e. 16.82% in 2006/07, 14.28% (lowest point) in 2007/08, 3.86% in 2004/05, 3.14% in 2005/06 and 2.4% in 2006/07. Average ratio is Similarly, S.D. and C.V. are 1.35 and 8.14% reveals that the ratios are less variable and more consistent during the study period.

4.5 Analysis of Growth Ratios

Growth ratio represents how well the banks are maintaining their economic and financial condition. It is related to fund mobilization and investment management of the bank. Higher ratio represents better performance of the bank. Under this topics, we study three types of growth ratios, they are:

4.5.1 Growth Ratio of Total Deposits

The growth ratios of Total Deposits of from 2003/04 to 2007/08 are mentioned below:

Table 4.23

Growth ratio of total deposits

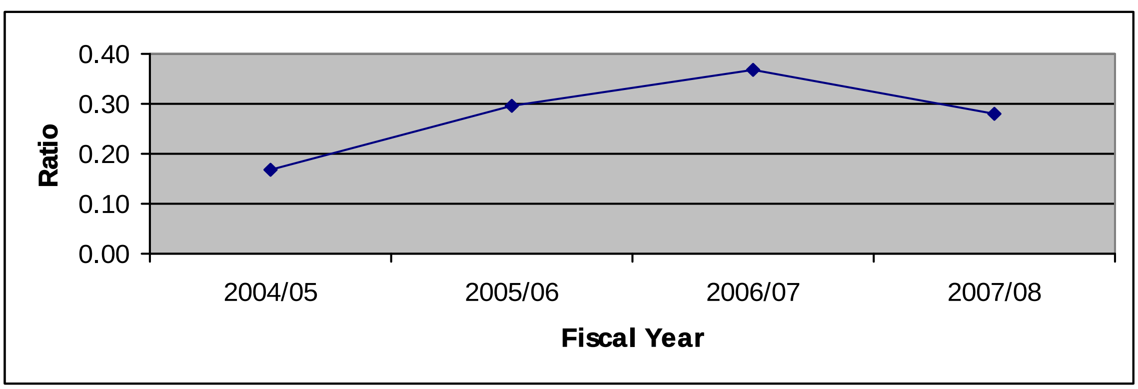
(Rupees in Million)

Fiscal Year	Total Deposit	Growth	Ratio	Mean	S.D.	C.V.
2003/04	96.61					
2004/05	112.91	16.30	0.17			
2005/06	146.40	33.49	0.30	0.28	0.08	29.79%
2006/07	200.46	54.05	0.37			
2007/08	256.20	55.75	0.28			

(Source: Annual Report of SWDB)

Figure 4.23

Growth ratio o of total deposits



The above figure 4.23 shows that the growth ratios of deposit are continuously increasing up to year 2006/07. The ratio 17% of first year 2004/05 increased to 30% to the year 2005/06 and reached to the highest point at 37% in 2006/07. Then the ratio rapidly decreased to the lowest point of the study period i.e. 28% in 2007/08. Mean, S.D. and C.V. are 0.28, .08 and 29.79% reveals that growth ratios are less variable and more consistent during the study period.

4.5.2 Growth Ratio of Total Loans a and Advances

The growth ratios of Total Loans and Advances of SWDB over the study period i.e. from 2003/04 to 2007/08 are as follows:

Table 4.24

Growth ratio of total loans and advances

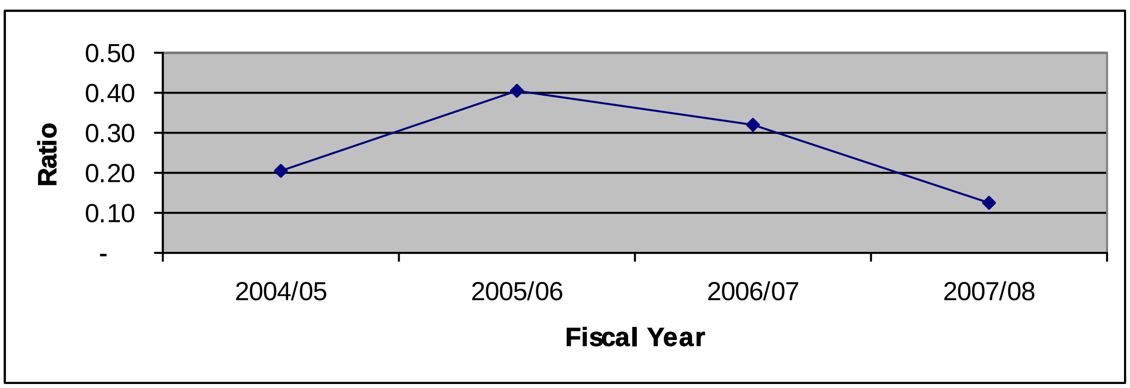
(Rupees in Million)

<table>
<tr><th>Fiscal Year</th><th>Total Loan and Advance</th><th>Growth</th><th>Ratio</th><th>Mean</th><th>S.D.</th><th>C.V.</th></tr>
<tr><td>2003/04</td><td>184.28</td><td></td><td></td><td rowspan="5">0.26</td><td rowspan="5">0.12</td><td rowspan="5">46.63%</td></tr>
<tr><td>2004/05</td><td>221.82</td><td>37.54</td><td>0.20</td></tr>
<tr><td>2005/06</td><td>311.67</td><td>89.85</td><td>0.41</td></tr>
<tr><td>2006/07</td><td>411.37</td><td>99.70</td><td>0.32</td></tr>
<tr><td>2007/08</td><td>463.60</td><td>52.23</td><td>0.13</td></tr>
</table>

(Source: Annual Report of SWDB)

Figure 4.24

Growth ratio of total loans and advances



The above figure 4.24 shows that the growth ratios of loan and advance increased to 41% in year 2005/06 from 20% in year 2004/05. Then, the ratio continuously decreased i.e 32% in the year 2006/07 and 13% in the 2007/08. The highest point is 41% in the year 2005/06 and the lowest point is 13% in the year 2007/08 with mean, S.D. and C.V. are 0.26, 0.12 and 46.63% reveals that growth ratios are more variable and less consistent during the study period.

4.5.3 Growth Ratio of Net Profit

The grow with ratio of Net Profit over the study period i.e. from 2003/04 to 2007/08 is as follows:

Table 4.25 Growth ratio of total net profit

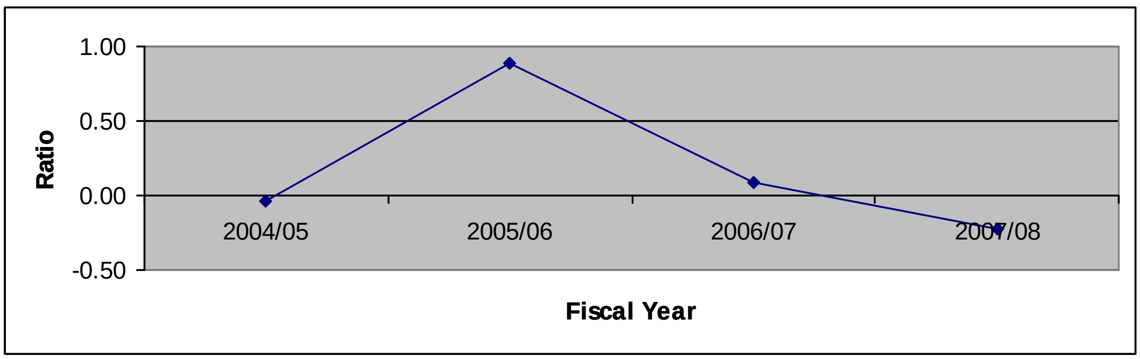
(Rupees in Million)

Fiscal Year	Net Profit	Growth	Ratio	Mean	S.D.	C.V.
2003/04	10.02					
2004/05	9.70	-0.32	(0.03)			
2005/06	18.36	8.66	0.89	0.18	0.49	272.64%
2006/07	19.94	1.58	0.09			
2007/08	15.45	-4.49	(0.23)			

(Source: Annual Report of SWDB)

Figure 4.25

Growth ratio of total net profit



The above table 4.25 discloses that growth rate of net profit of SWDB is very fluctuating. The growth ratio of net profit is less than 1% or even negative except in year 2005/06. The growth ratio reached highest point in 89% in year 2005/06 . Then, the ratio continuously decreased i.e. 9% in the year 2006/07 and -23% in the 2007/08. The mean, S.D. and C.V. are 0.18, 0.49 and 272.64% reveals that growth ratios are very much variable and not consistent during the study period.

4.6 Trend Analysis

Trend of deposits, loan and advances, investments and net profit of SWDB is analyzed and made forecasting for next five years in this topics. Here an effort has been made to calculate the trend values of total deposits, Loan and Advance, Investment and Net Profit of SWDB from fiscal year 2003\04 to 2007\08 and forecasted the same for next years s till 2012\13.

4.6.1 Trend analysis of Deposits

The following table 4.26 depicts that the trend values of Deposits of SWDB for 10 year from 2003\04 to 2013\14.

Table 4.26

Trend analysis of deposit

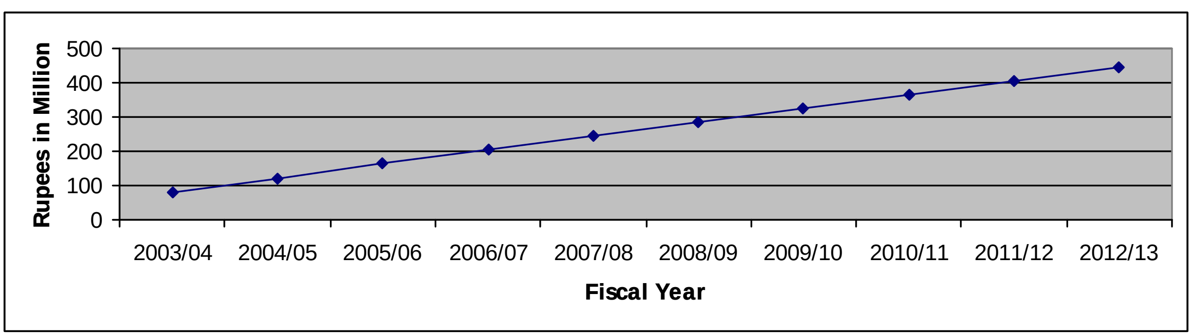
(Rupees in Million)

Fiscal Year	Trend Value
2003/04	81.17
2004/05	121.84
2005/06	162.51
2006/07	203.19
2007/08	243.86
2008/09	284.54
2009/10	325.21
2010/11	365.88
2011/12	406.56
2012/13	447.23

(Source: Appendix -2

Figure 4.26

Trend analysis of deposit



From the figure 4.26 the trend analysis of deposit, it can concluded that the total deposit of the bank is in increasing trend. Other things remain same, total deposits Rupees 81.17 million in the year 2003/04 increased to Rupees 121.84 million, 162.51 million, 203.19 million, 243.86 million in the year 2004/05, 2005/06, 2006/07 and 2007/08 respectively. Like wise, forecasted trend of deposit from 2008/09 to 2012/13 are 284.54 million, 325.21 million, 265.88 million, 406.56 million and 447.23 million respectively.

4.6.2 Trend Analysis of Loan and Advances

The table 4.27 below discloses that the trend value of total loans and advances from 2003\04 to 2013\14.

Table 4.27

Trend analysis of loan and advances

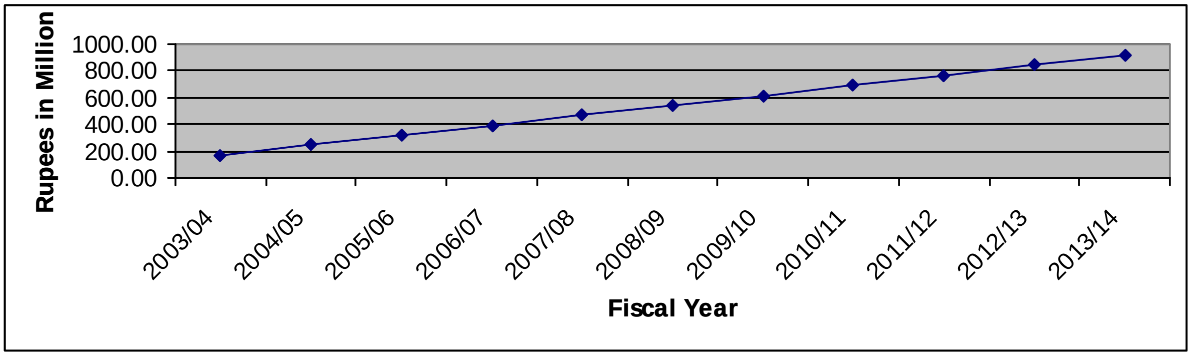
(Rupees in Million)

Fiscal Year	Trend Value
2003/04	168.91
2004/05	243.73
2005/06	318.55
2006/07	393.37
2007/08	468.19
2008/09	543.01
2009/10	617.83
2010/11	692.65
2011/12	767.47
2012/13	842.29
2013/14	917.11

(Source: Appendix 3)

Figure 4.27

Trend analysis of loan and Advance



From the figure 4.27 the trend analysis of loan and advance, if other things remain same, total loan and advance Rupees 168.91 million in the year 2003/04 increased to Rupees 243.73 million, 318.55 million, 393.17 million, 468.19 million in the year 2004/05, 2005/06, 2006/07 and 2007/08 respectively. Like wise, forecasted trend of deposit from 2008/09 to 2013/14 are 543.01 million, 617.83 million, 692.65 million, 767.47 million and 842.29, 917.11 million respectively.

4.6.3 Trend Analysis of Total Investment

Here an effort has been made to analyze the trend values of total net profit of SWDB for 5 years from 2003\04 to 2007\08 and forecast the same for the next five years from 2003\04 to 2013\14.

Table 4.28

Trend analysis of Investment

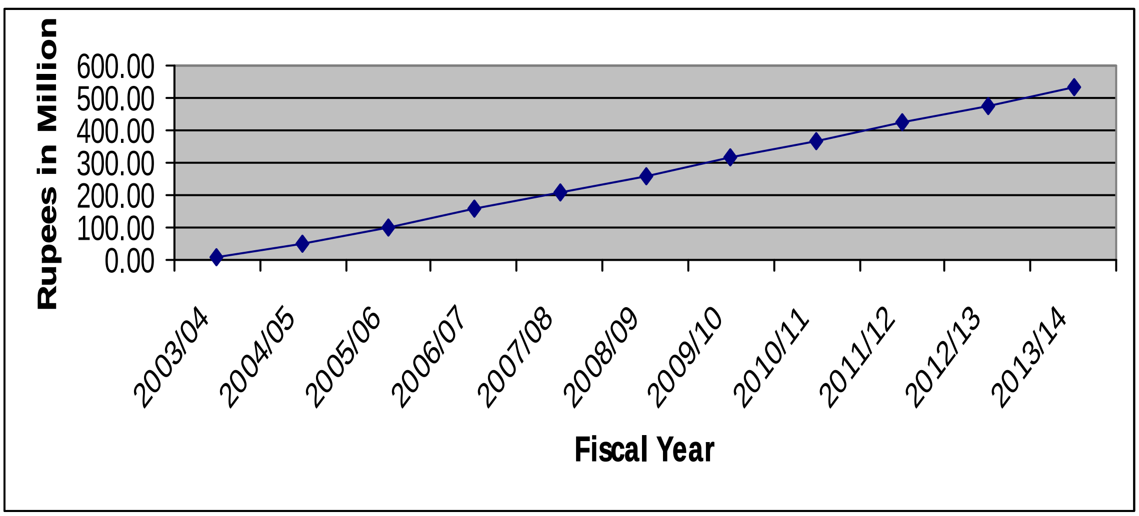
(Rupees in Million)

Fiscal Year	Trend
2003/04	6.67
2004/05	47.07
2005/06	100.80
2006/07	154.53
2007/08	208.27
2008/09	262.00
2009/10	315.74
2010/11	369.47
2011/12	423.20
2012/13	476.94
2013/14	530.67

(Source: Appendix -4)

Figure 4.28

Trend analysis of Investment



From the figure 4.28 the trend analysis of total investment, it can concluded that the total investment of the bank is in increasing trend. Other things remain same, total deposits Rupees 6.67 million in the year 2003/04 increased to Rupees 47.07 million, 100.80

million, 184.53 million, 208.27 million in the year 2004/05, 2005/06, 2006/07 and 2007/08 respectively. Like wise, forecasted trend of deposit from 2008/09 to 2012/13 are 262.00 million, 315.74 million, 369.47 million, 423.20 million and 476.94 million, 530.67 respectively.

4.6.4 Trend Analysis of Net Profit

Here an effort has been made to analyze the trend values of total net profit of SWDB for five years from 2003\04 to 2007\08 and forecast the same for the next five years i.e. 2013\14.

Table 4.29

Trend value of net profit

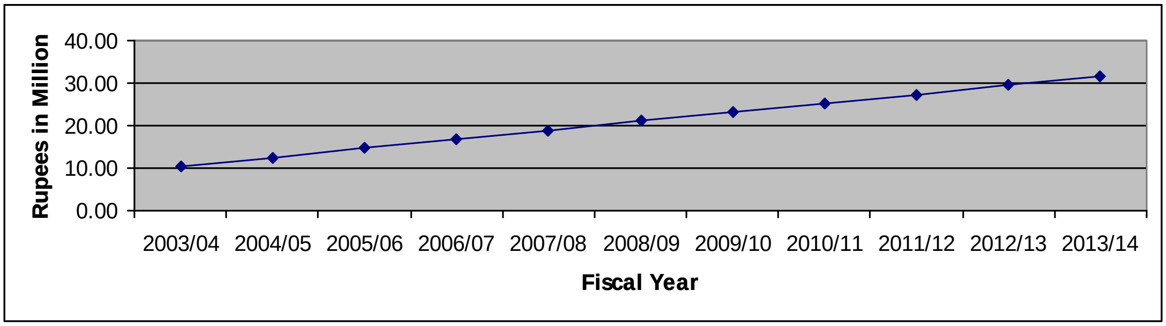
(Rupees in Million)

Fiscal Year	Trend
2003/04	10.47
2004/05	12.58
2005/06	14.69
2006/07	16.81
2007/08	18.92
2008/09	21.03
2009/10	23.14
2010/11	25.25
2011/12	27.36
2012/13	29.47
2013/14	31.58

(Source: Appendix -5)

Figure 4.29

Trend value of net profit



From the figure 4.28 the trend analysis of total investment, it can concluded that the net profit of the bank is in increasing trend. Other things remain same, total net profit Rupees 10.47 million in the year 2003/04 increased to Rupees 12.58 million, 14.69 million, 16.81 million, 18.92 million in the year 2004/05, 2005/06, 2006/07 and 2007/08 respectively. Like wise, forecasted trend of deposit from 2008/09 to 2012/13 are 21.03 million, 23.14 million, 25.25 million, 27.36 million 29.47 million and 31.58 million respectively.

4.7 Measurement of Correlation

Correlation refers to measure of relationship between two or more characteristics of a population or a sample. In this topic, Karl Pearson's Coefficient of Correlation (r) is used to find out the relationship between the variables.

4.7.1 Relationship between Deposits and Loans and Advances

Deposits have played vital role in the better performance of the banks and similarly, loans and advances are important to mobilize the collected deposits. The correlation between total deposits and loan and advances describes the degree of relationship between these two variables. In this analysis, a deposit is the independent variable (x) and loans and advances is the independent variable (y). The main objectives of computing 'r' between these two variables is to justify whether deposits are significantly used as loans and advances in proper in a proper way or not.

Table 4.30

Relationship between deposits and loan and advances

Correlation Coefficient (r)	r2	P.ER.	6 P.ER.	Remarks
0.9828	0.9660	0.0103	0.0616	r > 6.P.ER. (Significant)

(Source: Appendix -6)

The above table 4.30 depicts that the coefficient correlation between deposits and loan and advances is .9828 which reflects a high and positive relationship between these two variables. Similarly, r>6 P.Er. And r is positive nearer to the 1, it can be concluded that there is a strong positive correlation between deposits and loans and advances. Similarly, when it consider the value of coefficient of determination (r^2), .96.60 , means 96.60% of total variation in the dependent variable has been explained by the independent variable. Therefore, the correlation between deposits and loan and advances is very high significant and strong positive correlation. Thus, this indicates that the bank is successful in mobilizing its deposits in proper way as loans and advances.

4.7.2 Relationship between Deposits and Investment

Correlation between deposits and total investments measures the degree of relationship between these two variables. From this correlation, it can be concluded that how a unit increases in deposits impact in the volume of investment. Hence, deposit is the independent variable (x) and total investment is the dependent variable (y). The correlation between deposits and Investments of SWDB is as follows:

Table 4.31

Relationship between deposits and investment

Correlation Coefficient (r)	r2	P.ER.	6 P.ER.	Remarks
0.9626	0.9266	0.0221	0.1329	r > 6.P.ER. (Significant)

(Source: Appendix -7)

From the above table 4.31 it is found that the coefficient of correlation between deposits and total investment is .9626, which shows a high and positive relationship. Similarly, the value of coefficient of determination (r^2) is .9266 , the dependent variable has been explained by the independent variable. Since, r is positive and r>6P.Er. , it can be concluded that there is a very high significant and strong positive correlation between deposits and total investments. Thus, this indicates that the bank is successful in maximizing the investments of its deposits.

4.7.3 Relationship between Loan and Advances and Total Net Profit

The correlation between loans and advances and total and net profit measures the degree of relationship between these two variables. It measures that the impact in Net Profit by

loans and advances. Here, loans and advances is the independent variable (x) and total net profit is dependent variable (y).

Table 4.32

Relationship between loan and advances and total net profit

Correlation Coefficient (r)	r2	P.ER.	6 P.ER.	Remarks
0.7489	0.5609	0.1325	0.7947	r < 6.P.ER. (Insignificant)

(Source: Appendix -8)

The above table 4.32 depicts that the correlation between loans and advances and Net Profit of the bank is .7489, which shows the positive relation between two variables. Similarly, when it consider the value of coefficient of determination (r), .5609 dependent variable has been explained by the independent variable. Since r<6P.Er. , it can be concluded that value of r is insignificant. Thus, this indicates that the bank is not successful in maximizing the net profit regarding with loan and advances.

4.7.4 Relationship between Investment and Net Profit

The correlation between investment and net profit measures the degree of relationship between two variables. It measures that the impact in net profit by investment. Here, investment is the independent variable denoted by x and net profit is dependent variable denoted by y.

Table 4.33

Relationship between investment and net profit

r	r^2	P.ER.	6 P.ER.	Remarks
0.4319	0.1865	0.2454	1.4723	r < 6.P.ER. Insignificant)

(Source: Appendix -9)

The above table 4.33 reveals that the correlation between investments and Net Profit of the bank is .4319, which shows the little positive relation between two variables. Similarly, when it consider the value of coefficient of determination (r), .1865 , means 18.65% of total variation in the dependent variable has been explained by the independent variable. Since, r is positive and r<6P.Er. , it can be concluded that there is a less significant and little positive correlation between investments and Net Profit. Thus, this indicates that the bank is not successful in maximizing the net profit regarding with investments.

4.8 Impact of SWDB's credit operation

SWDB credit operation is different from other commercial bank. It gives small loan to poor and deprived woman without taking any collateral. Client members' satisfaction, fulfillment of their financial needs and their social empowerment is also very important factor to study the impact of SWDB's credit operation.

4.8.1 Client members' satisfaction

The main objectives of any institution are to satisfy its client members. Success of any financial institution depends upon satisfaction of its client members. SWDB's sample client satisfaction level is illustrated in the following table and figures:

Table 4.34

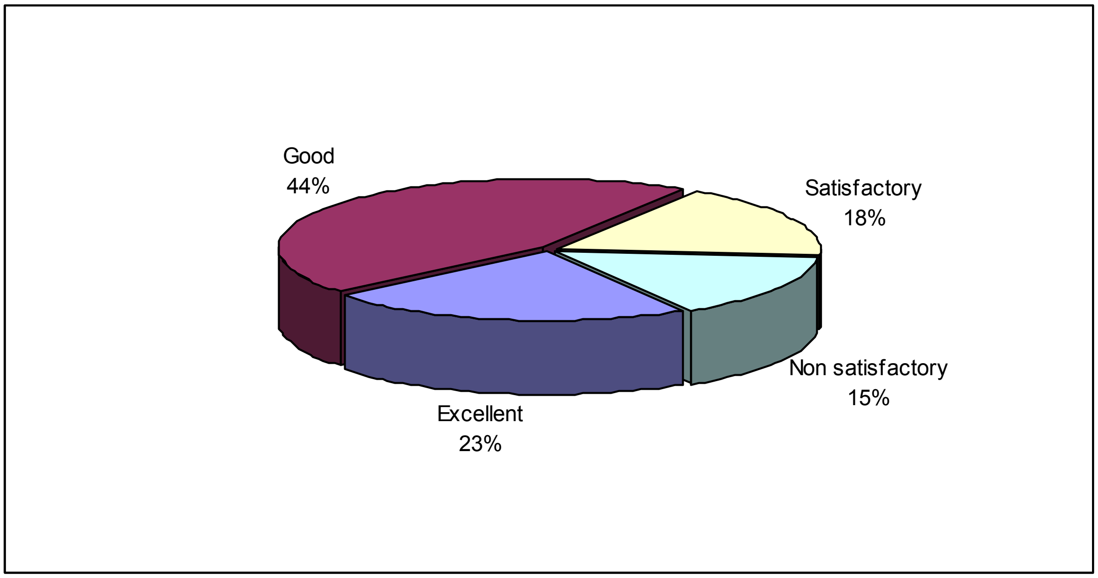
Client members' satisfaction

S.N.	Level of Satisfaction	Number	Percentage
1	Excellent	9	23%
2	Good	18	44%
3	Satisfactory	7	18%
4	Non satisfactory	6	15%
	Total	**40**	**100%**

(Source :Field Survey, May 2009)

Figure 4.30

Client members' satisfaction



The above table and figure 4.34 depicts that 23% members think the credit operation system of SWDB is excellent, 45% of members thinks it is only good. Likewise, according to 18% of client members, it is only satisfactory and 15% think the credit operation system of SWDB in not satisfactory. Although it is based upon very small sample size, it is notable that 85% of members consider the credit operation of SWDB is satisfactory and only 15% members consider it is not satisfactory.

4.8.2 Fulfillment of Client financial needs

SWDC is working with poor in rural areas. It has limitation in credit. Thus an attempt is made to find out whether SWDC's credit operation can fulfill client's financial needs or not. SWDC's sample client member's view toward fulfillment of their needs in given following table and figure

Table 4.35

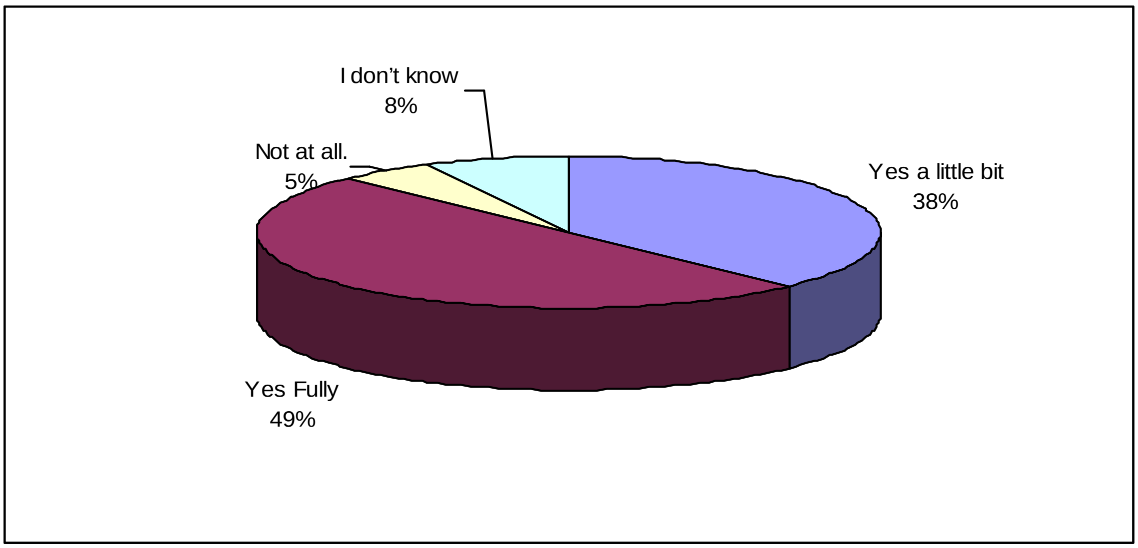
Fulfillment of clients' financial needs

S.N.	Fulfillment of client's Financial needs	Number	Percentage
1	Yes a little bit	15	38%
2	Yes Fully	20	49%
3	Not at all.	2	5%
4	I don't know	3	8%
	Total	**40**	**100%**

(Source :Field Survey, May 2009)

Figure 4.31

Fulfillment of clients' financial needs



The above table and figure 4.34 depicts that 49% members think their financial needs are fully fulfilled by SWDB microfinance program. Likewise, 38% of member thinks this program partly fulfilled their financial needs. 5% of member thinks their financial needs are not fulfilled whereas 8 % of member is indifferent towards this question. Although it is based upon very small sample size, it is notable that 87 % of members financial needs are partly or fulfilled by SWDC credit operation and left's requirement is either unknown or unfulfilled.

4.8.3 Client members' social empowerment

Rural and poor women are initiated to participate in the SWDB's microfinance program. A Pre- group training is conducted, whereby women would be exposed to the prevailing socio-cultural realities, concepts and importance of group savings and credit and rules, regulations and operational procedure of SWDB During the training women are formed into small self -help groups, consisting of five members. Two to eight self help groups are federated into a center. A fixed amount, as per the consensus of the participants is collected from the trainees as group savings during the training period. Regular two-weekly meeting is organized for Saving and Credit mobilization, review progress, determine group activities, accredit is provided to the members on group guarantee basis. SWDB staff constantly monitors and supervises the credit activities of the members. The two-weekly meeting is also used for the delivery of different social related program.. SWDC's sample client member's view toward their social empowerment is given following table :

Table 4.36

Client members' social empowerment

S.N	Issue	Yes a little bit	Yes Fully	Not at all	I don't know	Total
1	Going outside traveling	53%	13%	13%	23%	100%
2	Purchase and selling thing	63%	25%	8%	5%	100%
3	Decision making at household level	38%	33%	25%	5%	100%
4	Relative freedom from household level domination	45%	30%	13%	13%	100%
5	Political and legal awareness	43%	45%	5%	8%	100%
6	Participation on social program	75%	15%	3%	8%	100%
7	Keeping money and profit	25%	63%	5%	8%	100%
8	family co-operation	13%	50%	33%	5%	100%
9	talking to other people	13%	80%	5%	3%	100%
	Average Total	**41%**	**39%**	**12%**	**8%**	**100%**

(Source :Field Survey, May 2009)

The above table and figure 4.35 depicts that 41% members think the credit operation system of SWDB has partly empower them in social issue Likewise, according to 39% of client members think this program fully empowered them. But 12% of them think, this program does nothing to them and 8% are indifferent about the questions. Although it is based upon very small sample size, it is notable that 80% of members consider the credit operation of SWDB has fully or partly empowered them in social related issue like decision making, political awareness, participation in social program, relative freedom from household domination, traveling outside, talking to other people etc.

4.9 Major Findings of the Study

The major findings of the study, derived from the financial data analysis of SWDB are presented hereafter.

1. The current of SWDB have exceeded current liabilities in average in the study period form 2003/04 to 2007/08. The highest ratio is 2.63 in 2006/07 while the lowest ration is 2.28 in 2007/08 with on average ratio of 2.54 during the study period. The co-efficient of variation (C.V.) between the ratios for the study period is 5.85% which shows that the current rations during the study period are consistent. In general the bank is able to meet its short term obligations.

2. The cash and bank balance to current assets ratio of SWDB has fluctuating trend. The highest ratio is 33.45% in 2003/04 while the lowest ratio is 21.62% in 2005/06 with an average of 26.70% and S.D. and C.V. of cash and bank balance to current assets ratio over study period are 4.58 and 17% respectively. Based on the S.D. and C.V. it can conclude that the ratio is less consistent and more variable. However it does not mean that the bank is not in good position in terms of cash and bank balance. The bank can meet its daily balance requirements to make the payments on customer deposits withdrawals.

3. The cash and bank balance to total deposits ratios of SWDB has a fluctuating trend. Here the highest ratio is 99.81% in 2003/04 and the lowest ratio is 5.09% in 2007/08. The mean of the ratio, S.D. and C.V. for the study period are 73.91%, 17.09 and 23.13% respectively. Hence, based on the C.V., it can conclude that the ratios are variable and less consistent. Though the ratios are not consistent, the cash and bank

balance position of SWDB with respect to deposit is better to serve its costumers deposits withdrawal demands.

4. The investment on securities to current assets ratio of SWDB has fluctuating trend with the highest ratio 39.07% in 2007/08 and lowest ratio 1.07% in 2007/08. The ratios are increasing of the study period. The mean ratio of the bank is 20.02% and the SD. and C.V between them are 13.63 and 68%repectively. Based on the C.V., it can be concluded that the ratios are inconsistent and more volatile. The liquidity position of the bank from the point of view on investment on securities is good.

5.. Loans and advances to current assets ratio reveals that the ratios of the bank are in increasing and fluctuation trend. It is seen that the ratios are slightly increasing from the first year 2003/04 to 2007/08 of the study period. It was in increasing trend till 2005/06 and being highest ratio 77.63% and 62.93% is the lowest ratio. However, the mean ratio is 73.91% and standard deviation is 5.13 with C.V. between them is 7.13%. It shows the ratios are consistent and less variable during the study period.

6. The loans and advances to total deposits ratios are in increasing and fluctuating trend till 2005/06 and being highest ratio is 212.88 and after that the trend is going to be decreased and reached lowest ratio is 180.95% in 2007/08. Similarly the mean ratio for the study period is 197.25.% while S.D and C.V between them are 12.41 and 6.29% respectively. Based on the CV, it can be concluded that the ratios are more consistent and less variable.

7. The loan and advance to total working fund ratios are consistent trend. The highest ratio is 65.73% in 2005/06 and the lowest ratio is 53.16% in 2007/08, similarly the mean ratio is 59.95% and the S.D and C.V between them are 4.77 and 7.96% respectively which indicate that the ratios are very consistent or less variable over the study period.

8. The ratios of total investment to total deposit ratios of SWDB are in fluctuating trend during the study period. The ratio of each year is not constant i.e. the ratios are highly up down during the study period. The highest ratio is 95.25% in 2007/08 and the lowest ratio is 3.18% in 2003/04. Similarly the mean ratio is 52.98% and the S.D and C.V between them are 33.08 and 62.44% respectively which indicate that the ratios are not consistent over the study period.

9. The ratios of Investment on securities to total working fund are in fluctuating trend during the study period. The beginning year ratio 1.05 of 2003/04 is increased to the year 2004/05 and then it is decreased to 2005/06 while again it is increased to the year 2006/07 and the year 2007/08. The highest ratio is 27.98% in 2007/08 and the lowest ration is 1.05% in 2003/04 while the mean ratio during the study period is 15.73%, the S.D is 9.65 and C.V between them is 61.34%, which indicate the ratios are fluctuating.

10. From ratio of interest income to total income, it has been concluded that the ratios are in fluctuating trend. The trends are decreasing from 2003\04 to 2005\06 and it's going on increasing to second last of the studying fiscal year. The ratio 96.69% of the year 2003/04 is continuously decreasing to the year 2005/06 but it is continuously increasing to the year 2007/08. The highest ratio is 98.42% in 2007\08 and the lowest ratio is 96.16% in 2005\06 while the average ratio is 97.03% during the study period. Similarly, S.D. and C.V. are 0.91 and 0.93% respectively depict that the trends are less variable and more consistent during the study period.

11. Interest income to total income ratio are in fluctuating but increasing trend over the study period. The ratios are increased to the first third year and slightly decreased from 2005/06 to 2007/08. The highest ratio 37.70% in 2005/06 and the lowest ratio 30.21% The mean ratio is 34.97%. The S.D. and C.V. between them is 2.83 and 8.09% respectively, which indicates the ratios are less variable and consistent during the study period.

12. Interest earned to working fund ratios are fluctuating and decreasing trend over the study period. The ratio 18.17% of 2003/04 is decreasing to the year 2004/05 and after that slightly increased to the year 2005/06 i.e. 15.49% and then the ratios are continuously decreasing to the last of the study period. The highest ratio is 18.17% in 2003/04 and the lowest ratio is 13.17% in 2007\08. Similarly, the mean ratio is 15.30% and the C.V and the S.D. are 1.74 and 11.37 respectively, which indicates the ratios are variable and consistent.

13. Total Interest Expenses to Total Working Fund Ratio shows that the trends are fluctuating. The average ratio, S.D. and the C.V between them are 3.82%, 0.13 and 3.31% which implies the ratios are more variable and less consistent.

14. Total Income to Total Expenses Ratio depicts that the trends are in fluctuating trend over the study period. The ratio 1.62 times of 2005\06 is the highest ratio and it's going on 1.26 times in 2007\08 which is being the lowest ratio. The mean ratio is 1.44 times while the S.D and C.V between them is 0.13 and 8.91% respectively which shows the ratios are consistent in nature.

15. Total Income to Total Working Fund Ratio shows that the ratios are fluctuating and decreasing trend over the study period. The ratio 18.79% of the beginning year is going downward to the year 2004/05 and slightly increased to the year 2005/06 and after this year the ratios are continuously decreasing to the last of the study period, i.e. the last year ratio is 13.92% . The ratio 18.92% in 2003\04 which is the highest ratio is going to decreasing to the last of the fiscal year and is being the lowest ratio i.e. 13.92% in 2007\08. Similarly the average ratio, S.D. and C.V. are 15.77, 1.86, and 11.82% respectively indicate that the ratios are variable and consistent over the study period.

16. Return on Loans and Advances ratio depicts that the ratios are in fluctuating trends. The ratio 5.44% in the year 2003/04 is decreasing to the year 2004/05 and reached 4.37%. Then the ratio increased to highest point at 5.89%. Then it declined to 4.85%

and 3.33% in the year 2006 and 2007/08 respectively. The average ratio is 4.78 and S.D. and C.V. are 0.99 and 20.77%, which indicates that the ratios are less variable and more consistent.

17. Return on Total Working Fund Ratio (ROA) shows that the ratios are fluctuating and decreasing trend. The highest ratio is 3.87% in 2005\06 and the lowest ratio is 1.77% in 2007\08. The ratio is decreasing from 1 to 3 rd year of the study period and it's going on increasing. The average ratio is 1.37% while the S.D. and C.V. are .109 and 7.98% respectively, which indicates that the ratios are less variable and consistent during the study period.

18. Return on Total Equity Ratio discloses that the ratios are in fluctuating and decreasing trend over the study period. At first the ratio is decreased and after from 2004\05 it is increased to 25.66% and than it continuously decreased and reached to 14.04% at the last of the study period. The highest ratio is 25.93% in 2003\04 and the lowest ratio is 14.14% in 2007\08. Similarly the average ratio, S.D. and C.V between them are 21.,5.02 and 24% , which indicates the ratios are variable and consistent.

19. Earning Per Share (EPS) reveals that the EPS declined at first and then increased to highest point in 2005/06. After this it decreased continuously and finally reached to the lowest point at 61.80 in 2007/08 The average EPS is Rs.97.27. Similarly the S.D. and C.V. between them are 17.72 and 38.54% respectively that indicates the EPS are more variable and less consistent during the study period.

20.Net Interest Margin Ratio concluded that the ratios are fluctuating trends over the study period. In the first year there is 73.13% ratio and it's going 72.96% in 2004/05 then it is decreasing to 64.29% in 2005/06 , 69.51% in 2006/07 and 80.52% in 2007/08 which being the highest ratio. The Mean ,S.D. and C.V are 72.08, 5.92 and 8.22% respectively, from which it can be concluded that the ratios are less variable and more consistent during the study period of SWDB

21. Credit Risk Ratio is depicting that the ratios are fluctuating and increasing trend for earlier period and decreasing period in later period. The highest ratio is 65.73% in 2005\06 and the lowest ratio is 53.16% in 2007\08 with 59.95% average ratio between them. Meanwhile the S.D. and C.V. are 4.77 and 7.96% indicates that the ratios are less variable and more consistent during study period.

22. Capital Risk Ratio shows that the ratios are fluctuating continuously during the study period. The ratio 17.33% of first year 2003/04 is going decreased to 16.91% to the year 2004/05 and increased to the highest point at 17.72% in 2005/06. Then the ratios are continuously and rapidly decreasing to the last of the study period i.e. 16.82% in 2006/07, 14.28% (lowest point) in 2007/08, 3.86% in 2004/05, 3.14% in 2005/06 and 2.4% in 2006/07. Average ratio is Similarly, S.D. and C.V. are 1.35 and 8.14% reveals that the ratios are less variable and more consistent during the study period.

23. Growth ratio of deposit are continuously increasing up to year 2006/07. The ratio 17% of first year 2004/05 increased to 30% to the year 2005/06 and reached to the highest point at 37% in 2006/07. Then the ratio rapidly decreased to the lowest point of the study period i.e. 28% in 2007/08. Mean, S.D. and C.V. are 0.28, .08 and 29.79% reveals that growth ratios are less variable and more consistent during the study period.

24. Growth ratios of loan and advance increased to 41% in year 2005/06 from 20% in year 2004/05. Then, the ratio continuously decreased i.e 32% in the year 2006/07 and 13% in the 2007/08. The highest point is 41% in the year 2005/06 and the lowest point is 13% in the year 2007/08 with mean, S.D. and C.V. are 0.26, 0.12 and 46.63% reveals that growth ratios are more variable and less consistent during the study period.

25. Growth ratio of net profit of SWDB is very fluctuating. The growth ratio of net profit is less than 1% or even negative except in year 2005/06. The growth ratio reached highest point in 89% in year 2005/06 . Then, the ratio continuously decreased i.e. 9% in the year 2006/07 and -23% in the 2007/08. The mean, S.D. and C.V. are 0.18, 0.49

and 272.64% reveals that growth ratios are very much variable and not consistent during the study period.

26. From the trend analysis of deposits , it can concluded that the total deposit of the bank is in increasing trend. Other things remain same, total deposits Rupees 81.17 in the year 2003/04 of SWDB will be Rupees 447.23 million, which is the highest under the study period.

27. Trend Analysis of Loan and Advances reveals that the total loan and advances of SWDB is in increasing trend. Other things remain same total loans and advances will be Rs.917.11 million in 2013\14 which is the highest under the study period. According to above table, it can be said that the bank is able to mobilize it's funds as loans and advances to Rs.917.11 in the year 2013/14.

28. Trend Analysis of Total Investment depicts that it can be concluded that the trend values of Total investment of SWDB are in increasing trend over the study period. Other things remain same; the total investment will be Rs.530.67 million in 2013\14, which is the highest under the study period. According to above figure, it can be concluded that the will be increased its investment to Rs.530.67 million in the year 2013/14.

29. Trend Analysis of Net Profit of SWDB are in increasing trend during the study period. Other things remain same; the total net profit will be Rs. in 2011\12. According to above figure, it can be said that the banks net profit will be increased to Rs.31.58 million in the year 2013/14.

30. Analysis of relationship between deposits and loans and advances depicts that the coefficient correlation between deposits and loan and advances is .9828 which reflects a high and positive relationship between these two variables. Similarly, r>6 P.Er. And r is positive nearer to the 1, it can be concluded that there is a strong positive correlation between deposits and loans and advances. Similarly, when it consider the

value of coefficient of determination ((r^2), 96.60% , means 96.60% of total variation in the dependent variable has been explained by the independent variable. Therefore, the correlation between deposits and loan and advances is very high significant and strong positive correlation. Thus, this indicates that the bank is successful in mobilizing its deposits in proper way as loans and advances.

31. From analysis of relationship between deposits and investment it is found that the coefficient of correlation between deposits and total investment is .9626, which shows a high and positive relationship. Similarly, the value of coefficient of determination (r^2) is .9266 , the dependent variable has been explained by the independent variable. Since, r is positive and $r>6P.Er.$, it can be concluded that there is a very high significant and strong positive correlation between deposits and total investments. Thus, this indicates that the bank is successful in maximizing the investments of its deposits.

32. Analysis of relationship between loan and advances and total net profit depicts that the correlation between loans and advances and Net Profit of the bank is .7489, which shows the positive relation between two variables. Similarly, when it consider the value of coefficient of determination (r^2), .5609 dependent variable has been explained by the independent variable. Since $r<6P.Er.$, it can be concluded that value of r is not significant. Thus, this indicates that the bank is not successful in maximizing the net profit regarding with loan and advances.

33. Analysis of relationship between investment and net profit reveals that reveals that the correlation between investments and Net Profit of the bank is .4319, which shows the little positive relation between two variables. Similarly, when it consider the value of coefficient of determination (r^2), .1865 , means 18.65% of total variation in the dependent variable has been explained by the independent variable. Since, r is positive and $r<6P.Er.$, it can be concluded that there is a less significant and little positive correlation between investments and Net Profit. Thus, this indicates that the bank is not successful in maximizing the net profit regarding with investments.

34. Field survey of client members' satisfaction toward SWDB credit operationn reveals that 23% members think the credit operation system of SWDB is excellent, 45% of members thinks it is only good. Likewise, according to 18% of client members, it is only satisfactory and 15% think the credit operation system of SWDB in not satisfactory.

35. Field survey of client members fulfillment of their financial needs depicts that 49% members think their financial needs are fully fulfilled by SWDB microfinance program. Likewise, 38% of member think this program partly fulfilled their financial needs. 5% of member think their financial needs are not fulfilled whereas 8 % of member are indifferent towards this question

36. Field survey of client members empowerment of client members toward social issue depicts that 41% members think the credit operation system of SWDB has partly empower them in social issue Likewise, according to 39% of client members think this program fully empowered them. But 12% of them think, this program does nothing to them and 8% are indifferent about the questions.

CHAPTER-V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Economic development of the nation is largely depends on the development of different sectors of the national economy such as agriculture, industry, trade, tourism and other sector of infrastructure like as health, education, communication, transportation, electricity, construction etc. which need huge finance. Banking sector is the once which provide funds and finance to it. So, it is to be said that banking is one the most important sector which play vital role for economic development of the nation. Banks are grouped under the different categories as per the functions they perform. Now a day, Central bank, Commercial bank and development banks are exist in Nepal.

Investment is one of the important functions of commercial banks and the composition of loans and advances directly affects the performance and profitability of the bank. In today's context, where there is cutthroat competition, the banking business has to compete severely with others due to large numbers of banks with limited market, less investment avenues due to political problems, fluctuating interest rates etc. Today all the banking is facing the problem of default loan and the possibility of certain portion of loans and advances turning into non-performing loans. Investment operation or capital formation is very risky one for the commercial bank in the underdeveloped countries.

Mainly earning profit is the motto of each and every bank. The income and profit of the bank is depends upon its lending procedure, lending policy and investment of its fund in different securities. A good investment policy attracts both buyers and lenders which increase both the volume and quality of deposits, loans and investment; the greater the credit created by the bank, the higher will be the profitability. Since, investment is the most risky from the viewpoint of shareholders and the management of the bank, the bank should be cautious while formulating and implementing the investment policy.

The more emphasis is given in the study is to evaluate credit operation, measure the liquidity, profitability, assets management ratio etc of the bank and compute and measure the growth ratio and relationship of Total Deposits, Total Investments, Total Loans and Advances and Net Profit of Swabalman Laghubitta Bikas Bank Ltd. and to suggest to improve it. The study is mainly based on the secondary data from Fiscal year 2003\04 to 2007\08. The data have been obtained from the annual reports of the bank, magazines, journals and various published report and unpublished master's degree thesis, websites of the bank and Nepal Stock Exchange. Besides this, small field survey is conducted to find out the impact of credit operation of SWDB to its client members.

Financial as well as statistical tool have been used to analyze and interpret the data and information. Under financial analysis, various financial ratios such as liquidity, asset management, activity, profitability, risks and growth ratio are used. Similarly, under statistical tools like mean, standard deviation, Coefficient of Correlation, Coefficient of variation, trend analysis has been used. The findings from each of these ratios are presented which will give a better picture of the performance of the bank.

5.2 Conclusions

The current ratio of the bank for the study period is 2.54 times on an average. The international of the current ratio is 2:1, though the acceptability of the value depends on the nature of the business and industry. For banks, a current ratio of 1:1 or above to 2:1 is acceptable. Hence, based on this, the liquidity position of the bank is considered as better position from the view point of current ratio. The cash and bank balance to total deposit ratio is also sufficient to meet the short-term obligation of the bank. The mean cash and bank balance to total deposit ratio of 73..91% shows that the bank has enough liquidity to meet the customers deposit withdrawals demand. The cash and bank balance to current assets ratio shows that only 26.70% of current assets are liquid. The bank has able to maintain sufficient percentile of liquid assets with respect to its current assets and meet the daily requirements to make payments on customer's deposits withdrawal. The investment of securities to current assets ratio of the bank is in fluctuating trend with an average ratio of 20.02%. Liquidity position of the bank from the view point of the bank on securities is good. The ratio indicates that the bank has maintained a sufficient amount of liquid assets in securities to meet the unexpected future liquidity needs. The loan and advances to current assets ratio is 83.78% on an average during the study period. This shows that the bank has mobilized large percentage of its current assets as loans and advances in order to earn high profit rather than keeping it idle as cash and bank balance. Hence the liquidity ratios reveal that the liquidity position of the bank is in better position and is able to meet its short term obligation.

The loans and advances to total deposit ratio is 73.91% on an average. This shows that the bank is aggressively lending and takes more risks in order to earn profit.. Thus, the bank is able to mobilize properly the total deposits in loans and advances, which has higher return. The loans and advances to total working fund ratio is 59.95% in an average. According to the data, it is seen that the bank has satisfactorily utilized its total assets for the purpose of income generation. It has been able to mobilize more than one half of the total assets in average in productive areas. The investment to total deposit ratio is 52.98% on an average. This shows that the bank has satisfactorily invested of its deposit in investments on securities and shares and debentures of other companies. The bank has invested 15.73% of funds from its total working fund in an average. This shows that the bank has satisfactory investment in risk less area, which will yield a lesser return. However, the bank is able to utilize the funds without taking risks and at the same time maintain the level of liquidity since they are more liquid than loans and advances. The bank has invested its deposits more portion in loan and advances than in investment with the view to generate more income.

The interest income to total income ratio of the bank is 97.03% in an average with a increasing but fluctuating trend. This shows that the bank has invested its funds in higher income generating activities and able to earn income from interest. The interest expenses to total expenses ratio for the study period is 34.97% with a consistent ratio. The bank is decreasing its cost of funds over the year. Total interest earned to total working fund ratio is 15.30% with a decreasing trend. This shows that the ability of the bank to mobilize its total assets to generate high income as interest is deteriorating or in other words, the earning power of the bank is decreasing from 2005\06. Total interest paid to total working fund ratio for the study period is 3.82% and is in more or less consistent trend. This shows that the cost of funds utilizing in the form of different assets to generate income has been more or less consistent. . Total income to total expenses ratio is 1.44 times in an average and the ratios seem to be consistent over the years. Thus, we conclude that a unit of expenses could generate 1.44 units of income. Hence, the productivity of expense to generate income is shown by this ratio. Total income to total working fund ratio is 15.77% in an average and is in decreasing trend. This shows that the earning power of the assets is decreasing over the years. The return on loans and advances ratio is 4.78% with a fluctuating trend though the return seems to be good. Return on total working fund is 2.90% with decreasing trend. Thus, the bank has not been able to manage its total working funds effectively and efficiently. Similarly, the bank has not been able to attain a stable rate of return on its assets. The return on equity ratio is 21.00% in an average with decreasing trend over the years. This also shows that the bank has not efficiently used the funds of the owners and achieved a higher return to shareholder's equity. Earning per share is Rs.97.27 in an average and it is in decreasing trend. This shows that the overall performance of the bank is decreasing. Net Interest margin of the bank is 72.08% in an average with fluctuating trend. Though it is consistent, it is increasing slowly for last 2 years.

Hence according to the profitability ratios, it can be concluded that the bank is able to increase its interest income and its average total interest income ratio is 97.30%. The credit risk ratio is 59.95% in an average with a increasing trend. This shows that the risk of non- payment of loans or the chances of default is high though the bank has more stable credit policy. The capital risk ratio of the bank is 16.61% in average with a decreasing trend. Thus, this shows that the assets value of assets is declining over the years.

Growth ratio of deposit are continuously increasing up to year 2006/07. The ratio 17% of first year 2004/05 increased to 30% to the year 2005/06 and reached to the highest point at 37% in 2006/07. Likewise growth ratios of loan and advance increased to 41% in year

2005/06 from 20% in year 2004/05. Then, the ratio continuously decreased i.e 32% in the year 2006/07 and 13% in the 2007/08. But growth ratio of net profit of SWDB is very fluctuating. The growth ratio of net profit is less than 1% or even negative except in year 2005/06. The growth ratio reached highest point in 89% in year 2005/06 . Then, the ratio continuously decreased i.e. 9% in the year 2006/07 and -23% in the 2007/08. The mean, S.D. and C.V. are 0.18, 0.49 and 272.64% reveals that growth ratios are very much variable and not consistent during the study period.

The Trend analysis of Deposit, it can concluded that the total deposit of the bank is in increasing trend. Other things remain same, total deposits of SWDB will be Rs.447.23 million in 2013\14, which is the highest under the study period. The total loan and advances of the bank is in increasing trend. Other things remain same total loans and advances of bank in 2013\14 will be Rs.917.11 which is the highest under the study period. The trend values of Total investment of SWDB are in increasing trend over the study period. Other things remain same; the total investment of the bank will be Rs. 530.67 million in 2013\14, which is the highest under the study period. The trend values of total net profit of SWDB are in increasing trend during the study period. Other things remain same; the total net profit of the bank will be Rs.31.58 million in 2013\14.

The coefficient correlation between deposits and loan and advances is 0.9828 which reflects a high and positive relationship between these two variables. Similarly, r>6 P.Er. And r is positive nearer to the 1, it can be concluded that there is a strong positive correlation between deposits and loans and advances. Similarly, when it consider the value of coefficient of determination (r), is , means 99.5% of total variation in the dependent variable has been explained by the independent variable. Therefore, the correlation between deposits and loan and advances is very high significant and strong positive correlation. Thus, this indicates that the bank is successful in mobilizing its deposits in proper way as loans and advances.

The coefficient of correlation between deposits and total investment is .9626, which shows a high and positive relationship. Similarly, when it consider the value of coefficient of determination (r), .9266 , means 92.66% of total variation in the dependent variable has been explained by the independent variable. Since, r is positive and r>6P.Er. , it can be concluded that there is a very high significant and strong positive correlation between deposits and total investments. Thus, this indicates that the bank is successful in maximizing the investments of its deposits.

Analysis of relationship between loan and advances and total net profit depicts that the correlation between loans and advances and Net Profit of the bank is .7489, which shows the positive relation between two variables. Similarly, when it consider the value of coefficient of determination (r), .5609 dependent variable has been explained by the independent variable. Since r<6P.Er. , it can be concluded that value of r is not significant. Likewise, analysis of relationship between investment and net profit reveals that reveals that the correlation between investments and Net Profit of the bank is .4319, which shows the little positive relation between two variables. Similarly, when it consider the value of coefficient of determination (r), .1865 , means 18.65% of total variation in the dependent variable has been explained by the independent variable. Since, r is positive and r<6P.Er. , it can be concluded that there is a less significant and little positive correlation between investments and Net Profit.

5.3 Recommendations

Based on the above analysis and findings of the study, following recommendations have been put forward with a view to improve the inefficiencies and weakness in regards to the investment policy of SWDB The main source of banks in collecting deposits from public who don't need that fund recently. Without enough deposit collection, banks cannot operate smoothly. However, the growth rate is not sufficient for the coming year. So, it is suggested that the bank will lunch the program and policy for attracting depositors.

The mean ratio of loan and advances to working fund ratio during the study period is 59.95 % which seems to be under utilization of fund. So, it is recommended to increase the loan and advance ratio by more than 80.00% .

According to NRB guideline, microfinance development bank having rupees 100 million share capital can run its operation to all over the country. Since, SWDB has net worth of rupees 110.60 million, it is recommended that the bank should increase paid up capital and start operation all over the country.

SWDB has still manual system of operation. Thus, it is recommended to install software system which will reduce operating cost and increase productivity.

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Appendix -1

QUESTIONAIRE FOR FIELD SURVEY

1. Name of Member :

2. Date of enrollment :

3. How do you rank credit operation system of SWDB ?

   a. Excellent b. Good c. satisfactory d. not satisfactory

4. Do you think your financial needs are fulfilled by SWDB microfinance program?

   a. Yes a little bit b. Yes Fully c. Not at all. d. I don't know

5 Has your social situation changed or improved regarding the following issues just because you are participating in SWDB microfinance program ?

Issue	Yes a little bit	Yes Fully	Not at all	I don't know
Going outside traveling				
Purchase and selling thing				
Making decision at household level				
Relative freedom from household level domination				
Political and legal awareness				
Participation on social program				
Keeping money and profit				
family co-operation				
talking to other people				