

**“A STUDY ON FINANCIAL PERFORMANCE OF
DEVELOPMENT BANKS”**

**(A Comparative study of Siddhartha Development Bank Ltd.
Pashimanchal Development Bank Ltd. and Bhrikutee Development Bank
Ltd.)**

A Thesis

Submitted by:

Asmita Gyawali

Central Department of Management

Class Roll No: 02/065-066

T.U. Registration No. 1711-95

Exam Roll No: 280196

Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

Kirtipur, Kathmandu

**In Partial Fulfillment of the requirement for the Degree of
Master in Business studies**

Kathmandu, Nepal

March, 2013

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Asmita Gyawali

Entitled:

A Study on Financial Performance of Development Banks(A Comparative study of Siddhartha Development Bank Ltd., Pashimanchal Development Bank Ltd. and Bhrikutee Development Bank Ltd.)

has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

Lecturer Achyut Gyawali
(Thesis Supervisor)

Prof. Dr. Bal Krishna Shrestha
(Chairperson, Research committee)

Prof. Dr. Bal Krishna Shrestha
(Head of Department)

Date:

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by:

Asmita Gyawali

Entitled:

A Study on Financial performance of Development Banks (A Comparative study of Siddhartha Development Bank Ltd. Pashimanchal Development Bank Ltd. Bhrikutee Development Bank Ltd.)

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master's Degree in Business studied (M.B.S.)

Viva – Voce committee

Chairperson, (Research Committee):

Member (Thesis Supervisor):

Member (External Expert):

Member (Central Department of Management):

Date :

DECLARATION

I hereby declare that the work reported in this thesis entitled “**A study on Financial performance of Development Banks** (A Comparative study of Siddhartha Development Bank Ltd. Pashimanchal Development Bank Ltd. and Bhrikutee Development Bank Ltd.) .” Submitted to Central Department of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillment of the requirement for the Master of Business studies (M.B.S) under the supervision and guidance of Mr. Achyut Gyawali, Lecturer, central Department of Management .

.....

Asmita Gyawali

Roll No: 02/065-66

T.U Reg.No:1711-95

Central Department of Management

ACKNOWLEDGEMENTS

First of all, I would like to thank Tribhuvan University for giving chance to prepare the thesis. This thesis entitled “**A study on Financial performance of Development Banks** (A Comparative study of Siddhartha Development Bank Ltd. Pashimanchal Development Bank Ltd. and Bhrikutee Development Bank Ltd.)” has been prepared for partial fulfillment of the requirement of the degree of Master in Business Studies (M.B.S)

It is very complicated to prepare this thesis being student of MBS. I could not prepare this thesis without taking help of many individuals. So, I would like to thank all of the individuals who help me to prepare this thesis.

I would like to express my bottomless gratitude to my thesis supervisor **Mr. Achyut Gyawali**, Lecture, Central Department of Management, who helps me in every step with constructive suggestions, techniques and procedure of research and valuable suggestions that catered me the necessary energy and confidence to make this thesis possible.

I also heartily thanks to all the library members of central library T.U. who help me by providing required books and thesis for preparing my thesis.

I also need to thanks to my all family members especially for their help in computer work and various supports during my work and also thank to Mr. Rubin Shakya of Jyotivarna Desktop Computer.

Lastly, I would like to thanks to my friends who inspire and support me throughout the study period.

Asmita Gyawali

March, 2013

TABLE OF CONTENTS

	Page No.
Recommendation	i
Viva-Voce Sheet	ii
Declaration	iii
Acknowledgement	iv
Table of Contents	v
List of Table	x
List of Figure	xi
Abbreviations	xii
CHAPTER 1 INTRODUCTION	1-17
1.1 Background of the Study	1
1.2 Evolution of Banking	1
1.3 Evolution of Banking Sector in Nepal	2
1.4 Concept of Development Banks	4
1.2 Profile of Sample Banks	8
1.2.1 Bhrikutee Development Bank Limited	9
1.2.2 Pashimanchal Development Bank Limited	10
1.2.3 Siddhartha Development Bank Limited	10
1.6 Focus of the Study	12
1.7 Statement of the Problem	13
1.8 Objectives of the Study	15
1.9 Significance of the Study	15
1.10 Limitation of the Study	16
1.11 Organization of the Study	16
CHAPTER 2 REVIEW OF LITERATURE	18-38
2.1 Conceptual Review of the Study	18

2.1.1 Analysis of Financial Statement	20
2.1.2 Objectives of Financial Statement	22
2.1.3 Need for Financial Statement Analysis	23
2.1.4 Methods of Financial Statement Analysis	24
2.1.5 Limitations of Financial Statement	26
2.1.6 Features of Financial Statement	27
2.1.7 Comparison of Financial Data	30
2.1.8 The Need to Look Beyond Ratios	30
2.1.9 Process of financial Analysis	30
2.2 Review of Related Studies	31
2.2.1 Review of Journal and articles	31
2.2.2 Review of the Thesis	34
2.3 Research Gap	37
CHAPTER 3 RESEARCH METHODOLOGY	39-64
3.1 Research Design	39
3.1.1 Sources of Data	40
3.1.2 Population and Sample	40
3.1.3 Data Collection Techniques	40
3.2 Method of data Analysis	41
3.2.1 Financial Tools/Analysis	41
3.2.2 Statistical Tools	56
CHAPTER 4 PRESENTATION AND ANALYSIS OF DATA	65-108
4.1 Presentation and Analysis of Data	65
4.1.1 Ratio Analysis	65
4.1.1.1 Liquidity Ratios	66

4.1.1.1.1 Current Ratio	66
4.1.1.1.2 Cash and Bank Balance to Total Deposit Ratio	67
4.1.1.1.3 Cash and Bank Balance to Current Assets Ratio	69
4.1.1.2 Activity Ratio / Assets Management Ratios	70
4.1.1.2.1 Loan and Advance to Total Deposit Ratio	70
4.1.1.2.2 Loan and Advance to Fixed Deposit Ratio	71
4.1.1.2.3 Loan and Advance to Total Working Fund Ratio	73
4.1.1.2.4 Investment on Govt. Securities to Total Deposit Ratio	74
4.1.1.2.5 Investment on Govt. Securities Total Working Fund Ratio	75
4.1.1.3 Profitability Ratios	76
4.1.1.3.1 Net Profit to Total Assets Ratio	76
4.1.1.3.2 Net Profit to Total Deposit Ratio	77
4.1.1.3.3 Net Profit to Net Worth Ratio	79
4.1.1.3.4 Total Interest Earned to Total Working Fund Ratio	80
4.1.1.3.5 Total Interest Paid to Total Working Fund Ratio	82
4.1.1.4 Leverage Ratios	83
4.1.1.4.1 Debt-Asset Ratio	83
4.1.1.4.2 Debt-Equity Ratio	85
4.1.1.5 Capital Adequacy Ratios	86
4.1.1.5.1 Shareholder's Fund to Total Deposit Ratio	86
4.1.1.5.2 Shareholder's Fund to Total Assets Ratio	88
4.1.1.6 Growth Ratio of Net Profit, EPS and DPS	89
4.1.2 Statistical Analysis	89
4.1.2.1 Coefficient of Correlation Analysis	90
4.1.2.1.1 Coefficient of Correlation between Deposits	

and Loans & Advances	90
4.1.2.1.2 Coefficient of Correlation between Deposits	
and Investmen	91
4.1.2.1.3 Coefficient of Correlation between Investment	
and Net Profit	92
4.1.2.1.4 Coefficient of Correlation between Loans &	
Advances and Net Profit	93
4.1.2.2 Simple Regression Analysis	94
4.1.2.2.1 Regression Analysis between Net Profit and	
Total Deposit	94
4.1.2.2.2 Regression Analysis between Net Profit and	
Loans & Advances	95
4.1.2.2.3 Regression Analysis between Net Profit and Investment	96
4.1.2.3 Trend Line Analysis	97
4.1.2.3.1 Trend Line Analysis of Total Deposit	98
4.1.2.3.2 Trend Line Analysis of Loans & Advances	99
4.1.2.3.3 Trend Line Analysis of Investment	100
4.1.2.3.4 Trend Line Analysis of Net Profit	101
4.2 Major Finding of the Study	102
4.2.1 Liquidity Ratio	102
4.2.2 Activity Ratio / Assets Management Ratio	103
4.2.3 Profitability Ratio	104
4.2.4 Leverage Ratio	105
4.2.5 Capital Adequacy Ratio	105
4.2.6 Growth Ratio	106
4.2.7 Coefficient of Correlation Analysis	106
4.2.8 Simple Regression Analysis	107

4.2.9 Trend Line Analysis	107
CHAPTER 5 SUMMARY, CONCLUSION AND RECOMMENDATION	109-117
5.1 Summary	109
5.2 Conclusions	111
5.3 Recommendation	114
Bibliography	118-120
Appendices	121-145

LIST OF TABLE

Table no.	Name	Page
(a)	List of Licensed Development Bank	5
(b)	Capital Structure of BDBL	9
(c)	Board of Directors of BDBL	9
(d)	Capital Structure of PDBL	10
(e)	Board of Directors of PDBL	10
(f)	Capital Structure of SDBL	12
(g)	Board of Directors of SDBL	12
1.	Current Ratio	66
2.	Cash and Bank Balance to Total Deposit Ratio	67
3.	Cash and Bank Balance to Current Assets Ratio	69
4.	Loan and Advance to Total Deposit Ratio	70
5.	Loan and Advance to Fixed Deposit Ratio	72
6.	Loan and Advance to Total Working Fund Ratio	73
7.	Investment on Govt. Securities to Total Deposit Ratio	74
8.	Investment on Govt. Securities to Total Working Fund Ratio	75
9.	Net Profit to Total Assets Ratio	77
10.	Net Profit to Total Deposit Ratio	78
11.	Net Profit to Net Worth Ratio	79
12.	Total Interest Earned to Total Working Fund Ratio	81
13.	Total Interest Paid to Total Working Fund Ratio	82
14.	Debt-Asset Ratio	84
15.	Debt-Equity Ratio	85
16.	Shareholder's Fund to Total Deposit Ratio	87
17.	Shareholder's Fund to Total Assets Ratio	88
18.	Growth Ratio of Net Profit, EPS and DPS	89
19.	Coefficient of correlation between deposits and loans & advances	90
20.	Coefficient of Correlation Between Deposits and Investment	91
21.	Coefficient of Correlation between Investment & Net profit	92
22.	Coefficient of correlation between Loan and advances & Net profit	93
23.	Regression Analysis Between Net Profit and Total Deposit	94
24.	Regression Analysis Between Net Profit and Loan & Advances	95
25.	Regression Analysis Between Net Profit and Investment	96
26.	Trend Line Analysis of Total Deposit	98
27.	Trend Line Analysis of Loan & Advances	99
28.	Trend Line Analysis of Investment	100
29.	Trend Line Analysis of Net Profit	101

LIST OF FIGURE

Figure no.	Name of Figure	Page
(a)	Process of financial Analysis	31
1.	Current Ratio	67
2.	Cash and Bank Balance to Total Deposit Ratio	68
3.	Cash and Bank Balance to Current Assets Ratio	70
4.	Loan and Advance to Total Deposit Ratio	71
5.	Loan and Advance to Fixed Deposit Ratio	72
6.	Loan and Advance to Total Working Fund Ratio	73
7.	Investment on Govt. Securities to Total Deposit Ratio	74
8.	Investment on Govt. Securities to Total Working Fund Ratio	75
9.	Net Profit to Total Assets Ratio	77
10.	Net Profit to Total Deposit Ratio	79
11.	Net Profit to Net Worth Ratio	80
12.	Total Interest Earned to Total Working Fund Ratio	81
13.	Total Interest Paid to Total Working Fund Ratio	83
14.	Debt-Asset Ratio	84
15.	Debt-Equity Ratio	86
16.	Shareholder's Fund to Total Deposit Ratio	87
17.	Shareholder's Fund to Total Assets Ratio	88
18.	Trend Line Analysis of Total Deposit	98
19.	Trend Line Analysis of Loan & Advances	99
20.	Trend Line Analysis of Investment	100
21.	Trend Line Analysis of Net Profit	102

ABBREVIATIONS

AD	:	Anno Domini –abbr. of the Christian Era
BS	:	Bikram Sambat
VDC	:	Village Development Committee
GAAP	:	Generally Accepted Accounting Principles
CFO	:	Chief Financial Officer
TU	:	Tribhuvan University
ATM	:	Automatic Teller Machine
JVBs	:	Joint Venture Bank
HMG	:	His Majestic Government
NRB	:	Nepal Rastra Bank
RBB	:	Rastriya Banjiya Bank
BDBL	:	Bhrikutee Development Bank Limited
PDBL	:	Pashimanchal Development Bank Limited
SDBL	:	Siddhartha Development Bank Limited
EBL	:	Everest Bank Limited
ABBS	:	Anywhere Branch Banking Service
Govt.	:	Government
ROA	:	Return on Total Assets
CAR	:	Capital Adequency Ratio
CRAR	:	Capital to Risk Assets Ratio
FV	:	Future Value
PV	:	Present Value
r	:	Rate of Interest
n	:	no. of Year
NPAIT	:	Net profit after interest and tax
OI	:	Operating Income

TE	:	Total Expenditure
IP	:	Interest Paid
T	:	Taxes
EPS	:	Earning Per Share
PD	:	Preference Dividend
DPS	:	Dividend Per Share
TDD	:	Total Distributed Dividend
C.V.	:	Co-efficient of Variations
S.D.	:	Standard Deviation
P.Er	:	Probable Error
R^2	:	Co-efficient of Determinants
FY	:	Fiscal year