

CHAPTER I

Introduction

1.1 Background

Nepal sandwiched between India and china, is one of the landlocked country in the world. It is regarded as least-development country in the south East Asia. From the human development prospective, Nepal is listed at 144th position in the world.¹

Nepal presents an example of being united in diversity over the history have maintained its pride to be an independent and sovereign state. The population growth is 2.2 percent p.a and the gain achieved by development activities has been over shadowed by growing population. Economic growth of the country has not improved substantially overtime to overtake population growth.²

Nepalese economy is mainly based on agriculture. It is major sources of employment, national income, food, fodder, industrial raw material, exportable item etc. Almost 80 percent of population totally on agriculture and 31 percent of the population are below the absolute poverty line³. The main problems of the low development in South Asia are illiteracy, inequity, and population growth. Lack of entrepreneurship, complex geographical structure. Malnutrition rural exodus unemployment lack of proper resource mobilization etc. But the non-agriculture activities have been increasing in the GDP. People living in the urban areas have become the particular of basic facilities. Such as education, health, drinking water, telephone etc. Rural areas are still backward from these basic facilities. The major source

1. Pradhan, Bindia and sita shrestha , "Micro Finance and women development in Nepal", NRB Samachar, 2061 Page No 64.

2: Central Bureau of Statistics, Nepal in Figures 2005.

3. Ibid Page no 69 " Bhatta gunakar" Growth and Globalization challenges for Nepal .

of foreign currency, tourism has been badly affected due to unfavorable environment in the country. There is need to make appropriate policies for promoting tourism industry to give recognition to our culture, religion, handicraft etc. at international level. If only natural and human resources had been harnessed in systematic manner with manpower planning, the situation would have quite different today. South Asia could become a leading supplier of agricultural and agro-based industrial products apart from feeding its own population.

In an economy, the importance of the financial sector in general and the Banking sector in particular cannot be undetermined. The banking sectors play a pivotal role in the overall development of an economy. The economic reforms initiated by the government 18 years ago have changed the landscape of several sector of the nepales economy. The banking sector is no exception. This sector has been going through major changes as a consequence of economic reforms.⁴ the change affects the ownership pattern of bank, regulatory, aspects, availability of fund the cost of funds as well as opportunities to earn, range of services, (fee- based and fund based). and management of priority sector lending. As a consequence of liberalization in interest rate and cut throat competition, bank are operating on a reduced spread.⁵

The economic development of a country depends upon the development of financial sector of the country. Financial institution contributes a lot to collect the scattered idle saving of the society and mobilize it in productive sectors, particularly in industrial and trading sectors. They work as an intermediate between the user or demand group and the saver group. In nepal too, to develop the economic condition of the

⁴ The boss 15th March - 14 April 2009 .

⁵ World Development Bank 2009 - International March 1961

country through non banking activities like as Asian countries the "*Financial company Act 2042*" was formulated. After this the first financial institutions named "Nepal Residential Development Finance Co. Ltd." had been established after the seven Years of this act transferred from Government ownership. Similarly, another financial institution was established in 2049 named "Nepal Finance and Saving co. Ltd." from private sector. Later on the number of financial institution has increased substantially. At present time, these financial Institutions are established and regulated according to the "*Bank and Financial Institution Ordinance-2062*".

Generally, bank refers the institution that deals the transaction of money and credit. In other words, it take deposits from savers and provides loans to the persons/institutions demand on different terms by pledging the valuable metals, securities, land and building. In this way, bank provides safety to the saving of public at one hand fulfils the requirements of customers i.e businessmen, farmers' entrepreneurs, public etc. on the other hand so bank is "a cause of prosperous society of today it is and it is a bless as well".

The word "Bank" has been derived from the Italian word 'Banco' during the mid age, any group was engaged in the transaction of money. They used to sit on the bench at public places. In Italian language banco refers the bank. Later on the word 'banco' came in to use as bank in english. The word bank has been only defined from the aspect of its work i.e transaction of money and credit. But bank also performs other function such deposits, Provides loans exchange money acts as an agency transfers money, invests in prioritized and backward areas.

According to Professor Kinley, "bank is an establishment which makes to individual such advances of money as may be required and safely

made and to which individuals entrust money when not required by them for use".⁶ In short, it can be said that banks are not only the traders of money but also the manufactures of money. Nepal has low growth rate for last decades. This growth has remained insufficient for substantial poverty reduction and re enhancing the competitiveness of the economy. After the initiation of specialization concept in the economic development field, different types of banks have been established in the banking field too. Due to the increasing activities in agriculture business and other areas different types of banking have been opened.

Commercial banks occupy an important place in modern banking system. They have been established to fulfill the financial requirement in the field of trade and business commercial banks are regarded as the first bank field of trade and business. Commercial banks are regarded as the first bank is the banking history of Nepal. "Nepal Bank Ltd." is the first bank of nepal established in 1994 B.S as a semi- govt. commercial bank. In the world context also, commercial banks are assumed as the originator of banking system. They are the integral part of monetary market as they fulfill the short-term requirements. Latter on "Rastriya Banijya Bank" was established as another Commercial Bank in 2022 B.S. Afterward, foreign investors are also given permission to make banking area competitive and qualitative by importing foreign technology after 2040 B.S in the context," Nepal Arab Bank " had been established in B.S. 2041 With the co-financing of foreign investors. This bank is also known as 'Nabil' in short from. Following the rule, many commercial banks have been running nowadays and banking activities have also been increased.

Development banks are those financial institutions that are concerned with the development activities of a nation. "Development Bank" can be

⁶ Khadka, Sherjung & Hridayabir Singh, "Banking and Insurance" Naween Prakashan Second Edition .pl

segregated into two words. The words "Development" refers the all round development or change in size of an organ system or structure and, the word "bank" reflects the institution engaged in transaction of money and credit. Development bank refers the national or regional financial institution designed to provide medium and long-term capital for productive investment, often accompanied by technical assistance, in the less development areas.⁷

To fulfill the requirement of capital in industrial sector, "Nepal Industrial Development Corporation (NIDC)" was established in 2016 B.S. as the first development bank. Furthermore, "Agriculture Development Bank (ADB/N)" was also established under the co-operative bank (2020) in 2024 B.S. as an organized agriculture bank. "Rural Development Bank" has been established in five development regions after 2049 B.S. To increase the income level of rural people by provides micro loan to them. In addition to it, many financial institutions have been established and registered legally.

"A development is an institution that often provides the missing ingredients in the process of industrial development of a country. In same countries, the missing ingredients may be only capital, while in some others, there may be other missing elements including entrepreneurship, technical and managerial skill also. A development is like a living organism that reacts to its socio-economic environment and its success depends on reacting aptly to that environment."⁸

A development may be defined as "an institution either wholly or partially owned by the government or by private interests (both domestic and foreign) primary banking type characteristics and one which is mainly-

⁷ Britinnia, Volume4

⁸ Shrestha, Mukunda Bahadur, "Development Banking in Nepal, Unpublished Ph.D. theseis, Patna university 1987, p 42.

concerned to the private corporate sector".⁹

United Nations has defined a development banks as "an institution with primary banking type characteristics and one which is mainly concerned with providing medium and long term loan capital".¹⁰

"The development bank intended not only to provide capital for private industrial investment in that sector, but also to mobilize saving, enterprise and skills for productive investment in that sector"¹¹.

In this way, development banks create proper environment in the country for the development of concerned sector i.e. industrial, agricultural and rural area of country. The concept of development banks depends upon the socio-economic condition, the policy of the government of that particular country etc. so, that nature, scope and function of development banks differ with another. Development bank is that institution, which performs both banking and development function. Therefore, development banks are regarded as prerequisite for the economic development of a country. It can be said that development banks, as their name indicates are concerned with both financing and development. At one hand, it acts for economic development by providing financial thought different financial institutions such as insurance companies, government departments and ministries and other agencies are also concerned with finance. so, development banks around the centre of such a spectrum maintain adequate and fair balance in performing twin objectives of finance and development.¹² Development banks play on important role in the industrial development of a planned economic by providing finance through equity

⁹ Singh,Prabhu N, "Role of Development Bank in an Planned Economy", Vikash Publication, New Delhi 1974 p 7

¹⁰ United Nation - UCAFE - mobilization of Domestic Capital, p 40-41

¹¹ Shirely Boskey "Problems and Practices of Development Bank", The John Hopkins Press, Baltimore, 1959,p3

¹² Kane, Joseph A , " Development Banking an economic Appraisal" . D.C. Health and co. New York, 1975, p17

participation, provision of mid-term and long-term loan, subscription to the bonds and debentures of the companies, underwriting of their shares, bonds and debentures issued by them and guaranteeing of loans raised from foreign or domestic sources, and by promoting industrial enterprises through the provision of various kinds of technical and managerial assistance, the undertaking of economic and technical research, the conducting of survey work, feasibility studies and the fostering of capital market.¹³

Some development banks of any country provides assistance particularly in industry or in agriculture. On the other hand, dev. banks of Srilanka and Philippines provide financial provides financial assistance for agriculture and industry. Similarly, development bank of some countries provides financial assistance for the development of tourism, transport and communication, commerce, residential project, fisheries business etc. in addition to agriculture and industry. So, the concept and scope of development bank can be narrow or broad.

To avoid these problems, there is need of an institutional body to mobilize saving, to grant necessary technical and managerial assistance, to help in getting sound and feasible projects. "Development Banks" are the only those institutions to fulfills the requirements for economic development. So, in the present context, development banks have more important role to play in underdeveloped countries than in developed once. Today, there are numerous advanced banks in the world that have contributed an important role in economic and business sector. Therefore, a world without banking service can't be imagined. There are ADB/N and World Bank operating for the regional and worldwide economic balance. At present there are, 25 commercial banks, 59 development banks including

¹³"Basu, S.K " A Review of current theory and practices,"Mac Millan co. of india 1974 . p16

micro-financial (Licensed by NRB), 78 finance companies, 12 micro credit development bank 16 saving and credit cooperatives ,45 non-government organization operating in Nepal. Globalization, liberalization, privatization, modernization and competitions are regarded as five pillars for strengthening financial sector of the country. Financial system was under government control till 1980s. Liberalization had started from mid 1990s and accelerated during nineties. It paved the way for increasing the contributions of non-agricultural sector in the economic growth with a commendable development financial sector and some achievements in trade. After the adoption of open and liberal economic policy, govt. started to implement the privatization of public enterprises as an important instrument of economic reforms with a view to initiate micro-finance in 1990^s, commercial banks came into existing along with many finance companies-development banks, cooperative institutions, non- government organizations. Along with this, "with the aim of mobilization internal resources and providing more competitive services in the financial sector, 8th plan had give priority to the setting up of financial institution. As a result, during mid-July 1997, 11 commercial banks and more than 40 fiancé companies were involved in banking transaction during the plan period. The 9th plan had also made policy regarding the gradual transfer of the ownership of HMG in commercial banks, development banks and other financial institution to the private sector and it had also given emphasis for increasing the efficiency of NICD and the ADB for long term industrial and agricultural development.¹⁴

As Nepal has got the membership of WTO on 11th Sept. 2003 as the 148th member, banks and financial institutions have to face challenges and it has also provided opportunities for maintaining overall financial stability to-

¹⁴Nepal Rastra Bank in Fiscal year 2005.

accelerate the speed of economic growth. The reform measures and changes should aim at transforming the business and investment climate that is crucial to economic growth, employment generation, rural development, poverty reduction and country's integration to the global economy.

Economic reforms have also generated new and powerful customers (the middle class) and new mix of players (Public sector units private bank and foreign bank). The emerging competitions have generated new expectations from the existing and new customers. There still lies an urgent need to introduce a new product. The existing product needs to be delivered in an innovative and cost effective way by taking full advantage of the emerging technologies. Currently the trend is increased the number of financial institution and not the quality of the financial services being delivered. With 25 Commercial Bank already up and running, seven new such banks are waiting for the green signal from 'Nepal Rastra Bank.' It is pretty evident that we have been seeing growth in the width of the Nepali financial sector, however the depth and specialization severally lacks quality.

I can precisely remember a seminar conducted a year and half ago on "role of education for financial sectors reforms" In which Nepal Rastriya Bank and IMF had invited vice chancellors of all four universities of the country. The seminar concentrated on the need of universities to play aggressive roles in the delivery of quality education relevant to the financial sector, thereby helping capacity building in the process of the financial sector reform programmed initiated by the government.

As the financial sector has evolved as the biggest sector in the economy, there is a high demand for quality human resources to manage this sector. Let's analysis table 1 below:-

Table 1.1
Growth of Nepalese financial market (Rs. In billion)

	Commercial Bank	Devt. Bank	Finance Companies	Micro Financial Institution	Cooperatives	NGO's Banking Act	Total
Number	25	58	78	12	17	47	237
Number of Employes	14273	2234	2568	989	1129	1842	20204
Assets size (Rs.)	316.08	82.36	91.42	7.8	0.94	3.23	501.9
Operating Profit (Rs.)	13.99	3.68	2.56	1.13	0.81	0.84	23.01
Net Profit (Rs.)	8.39	1.84	1.28	0.16	0.09	3023	13.02
Staff Exp. (Rs.)	1.62	0.65	0.32	0.01	0.00	0.20	3.23
Trainaing Exp. (Rs.)	0.13	0.03	0.02	0.01	0.00	0.20	0.20

From the above table it is evident that there is altogether 237 financial institution (other than Nepal Rastriya bank) in the country and currently more than **20,000** People are working in this institution. These human resources are responsible for managing approximately Rs. **502** billion worth of assets (Preliminary Loan and advances) out of which 21 Percent comprise of two governments owned banks Rastriya Banijya Bank. The annual net profit of Rs. **13.02** billion generated by creating assets worth Rs. **2.59** Percent which is even below the average saving deposit rate in the country which is at **4.75** Percent .

While doing root cause analysis for this scenario, two very strong reasons have evolved. The first reason being that the poor quality of loans due to non compliance of basic credit Principle while granting loan, couple with lack of credit skill assessment and the second reason being that almost all the financial institution are involve only in dealing with undifferentiated vanilla banking products. For example, if some one need for a Vehicle loan which is typically a commercial bank product. She/He can walk into development bank in the country. Yes, in the current scenario it is very

difficult for development bank in the country to burn their finger by going into long term project loans. However they should be able to create their own niche market. To give another example there are simple value added product like "Funded Risk Participation" and "Private Labeling in the Trade Finance Area" Option and other Derivative Products, in the global market area. And "Remittances Securities" in our most lucrative area of remittance

.¹⁵

1.2 History and Background of Development Bank

The history and origin of development banks is essentially a phenomenon of post second world war period. Development banks have constituted important institutional machinery for economic development. The infrastructure for development had already been set up.

But there was only the need of special financial institution to accelerate the economic growth and reach a higher level of prosperous economy by providing industrial finance. As a result, during the 19th century, European Nations had been succeeded to create an industrial environment by establishing specialized institution that represent today's development banks.¹⁶

Considering the fact, the first development bank emerged in Belgium in 1822 with the name of "The society General-de Belgium". The main activities of this bank were as follows:-

- i) To promote new industrial units,
- ii) To established financial subsidiaries,
- iii) To buy a considerable sum of the companies promoted and establish by it¹⁷

¹⁵ Resta Jha Chairman of KFA 15th March to 14 April 2009.

¹⁶ Ibid p 33

¹⁷ Ibid, p33

Likewise, another institution named "Credit Mobilizes" had been established in France on 18 Nov, 1852 with initiative of Emile and Issac Pereire.¹⁸

The Credit Mobilizes and similar institutions that followed it helped the development of Europe by mobilizing capital resources from individual and banking sources, by offering loans and participating in equity of the industrial ventures, by creating financial institution, facilitating the development of capital markets and, above all, providing entrepreneurial services.¹⁹

Later, in 20th century, many Asian countries had also followed the steps taken by European countries in 19th century. Japan was the first Asian to experience such development banks were "industrial Development bank" was established in 1902. This development bank was in the form of hybrid institution conducting the function of commercial bank and mortgage institutions.²⁰

During the period following the First World War, the massive task of rehabilitation, modernization and development of industries and the consequent need for long term finance gave birth to the formation of industrial mortgage banks in several European countries. These banks were authorized to issue mortgage bonds and supply long-term loans to industrial undertakings upon first mortgage of industrial plants, buildings, machineries and real properties. Again, the post depression period of 1930^s saw the emergency of a number of institution like 'Industrial Credit Company' of Ireland, Credit for Industry Limited In English, Company for Industrial Finance in Netherlands etc. which were different from the mortgage banks in that the formal combined underwriting and -

¹⁸ Mahat, R.S."Capital Market"Financial flows and industrial finance in Nepal. Sajha prakashan Ktm 1981.

¹⁹ Mahat R.S op. Cit P 82.

²⁰ Basu, S.K "Theory and practices of Development Bank Asia Publishing house, Delhi 1965 p3

holding business with that of mortgage lending.²¹

The important phase in the development for these institution can be witnessed after the second word war when a large number of institutions like Industrial Development bank of Canada (1944), Herstel Bank in Holland (1945), Industriekredit Bank in Germany (1949), Finance Corporation for Industry in England (1948), etc. were set up²²

Thus, the basic idea behind a development bank was originated and developed from the Industrialized European Nations. However, their emergence in the developing countries in Asia and Africa seems to have been strongly influenced by the organization of 'Corporation de Fomento' in several Latin American countries before and during the 2nd word war.²³

As a result, the institution set up to that end were Mexican National Financial in 1934, Chile's Corporation de foments de la production in 1939, Argentina's Banco Industrial de la Republication in 1943 and so on.²⁴

The number of development banks has been increased rapidly since 1950s; they have been encouraged by the "international bank for reconstruction and development" and its affiliates. The large regional Development Bank Include the Inter- American Development" established in 1995, the Asian Development Bank", which begin operation in 1966, and the African Development Bank", established 1964. They may make loans for specific national or regional projects to private or public bodies or may operate in conjunctions with other financial institutions. One of the major activities of development bank has been the recognition and promotion of private investment opportunities. Although the efforts of the majority of development banks are directed to wards the industrial sectors some are also-

²¹ Mahat R.S. op. Cit, p82-83

²² Ibid

²³ Mahat R.S . Op. Cit, p 83

²⁴ Murray, D.Bryce," Industrial Development", Mc Graw Hill Book Company, New York, 1960, p61.

concerned with agriculture. Development banks fill a gap left by underdevelopment capital markets and the reluctance of commercial banks to offer long-term financing. Development banks may be publicly owned and operated although government frequently makes substantial contribution to the capital of private banks.²⁵

Nepal is a developing country, for the balanced development of the country. It has been adopting planned economic development since decades. Now, it has just moved on the path of liberalization. It requires a steady supply of medium to long term capital fund for any development strategy. Development banks have been cooperating for the development of various sectors such as rural, agricultural, industrial by providing mid term and long term finance to these sectors which in turn helps in the economic development of the nation. On the basis of above explanations, the features of development banks can be written as below:-

- i. It is a specialized financial institution.
- ii. It provides medium and LT finance to business units.
- iii. It is not just a term-lending institution. It is a multi purpose financial institution.
- iv. It is essentially a development-Oriented bank. Its primary objective is to promote economic development by promoting investment and entrepreneurial activity in a developing economy.
- v. It aims at promoting the saving and investment habit in the community.
- vi. It doesn't compete with the normal channel of finance i.e. finance already made available by the banks and other conventional financial institutions.
- vii. Its motive is to serve public interest rather than to make profits. It works in the general interest of the nation.

²⁵ Britannia Vol. 4

The origin of development banks is related with the origin of banking system in Nepal has not been so long, but there used to be unorganized banking transactions in traditional method which can be known from religious and historical record. At the same time "Manusmriti" and "Kauthiya" had also explained about the loan transaction in the book "The economics". Consequently, different books, stone, coins etc. Can be regarded as the means of evaluation of banking system in Nepal the exact proof regarding the development of banking system hasn't been found yet but history shows that there used to be the transaction of money from ancient time.

The development of banking system can be studied from two conditions traditional and modern. Before the establishment of modern organized banking institution, different person/classes used to deal in unorganized way. At present condition also, most people of rural areas depend on unorganized trading (almost 80 %). The merchants, money lenders and goldsmith had played an important role for the development of modern banking in Nepal. So, these classes are also known as the "Three Ancestors of modern banking". Merchants used to exchange foreign currency and provide safety to valuable such as gold, silver etc. In turn, they used to take commission and give a bill "BHARPAI" (Tamshukh), which later on came in to use as 'Paper Money' in other transaction. Similarly, second ancestor, moneylenders had also begun to provide small amount of as long to fulfill the urgent necessities of rural people. Later on, they had started to keep safe the asset or money by providing Interest when their own capital was insufficient to meet requirements of people. By this work they started to earn profit by providing interest at lower and taking interest at higher rate another ancestor, goldsmith were also used to provide safety to valuable. As the main profession of goldsmith was to make jewelry, they had made-

provision of large " safes" to keep safety to the valuables. As a result, people had also given there saving money to the goldsmith for safety. In turn, goldsmith had also begun to take commission and give a "BHARPAI" to the people which can be taken as "Bank Note". Like wise, people had to take the written order of goldsmith to draw the money can be regarded as the initial of modern cheque system.²⁶

The history of banks in Nepal goes at least to the 'Lichchhavi era.' There were "Guthies" to work as credit banks established under the permission of the "Royal" order and they were conducted through local legislation called "Panchali".²⁷

During 780 B.S., King Gunakamdev had taken loan from public for the reconstruction of kathmandu valley which has been explained in history. There have been additional developments in the traditional banking system of Nepal after the fourteenth century. The Lichchhavi king 'Jayasthiti Malla' had classified people in 64 classes according to their profession and business. Among them, one class "Tankadhari" used to be involved in the transaction of gold, silver and deal in depositing and lending money.

Thought, it was seen the development of banking system in those early times, it could not materialized till the end of Rana regime. After that, the Rana Prime Minister Ranoddwip Singh opened a government office named "Tejaratha Adda" in 1933 B.S. which may be regarded as the father of modern banking institutions. The main purpose of this office is to provide loan at reasonable rate to government employees. There were no banking and financial institutions before B.S. 1994 in our country, but, the establishment of "Nepal Bank Ltd." in 1994 B.S. can be regarded as the founding stone in the history of banking institution in Nepal. It was a starting phase of modern

²⁶ Khadka Sherjung and a Hridyabir Singh, op. Cit, p3

²⁷ Dahal, B.N, " Financial Ratio as indicator of Profitability" A Comparatively study on foreign Venture and a Government owned Bank " TU July 1997

and organized banking system. And, the "Nepal Bank Limited" had provided modern banking services as an organized bank till B.S.2013. After that, "Nepal Rastra Bank" was established in B.S.2013/01/14 under the "NRB act 2012" as a central bank of the country considering the financial need of government framed various plans and programs for the all round development of the nations in which emphasis was given to the industrial sector. As most of the under-developing countries, Nepal had been also facing the problem such as shortage of capital resources, managerial and entrepreneurial talents, skilled and technical manpower which are prerequisite for the establishment and promotion of the industries.

The technical know-how and the capital which were the most essential ingredients for the industrial development were still shy in the country. In this situation, the country felt the necessity of having a helping hand to provide necessary guidance to the industrial sector and to study the problems of industrial development on the basis of scientific planning. Accordingly, a small scale industrial development co-operative service was brought in way in 2013 B.S. As the co-operative service was far-more inadequate, it was felt necessary to have an institution for providing financial assistance, technical assistance and exploring the industrial possibilities and dissemination of industrial information to the potential investors. At the same time, provision was made in the first five Year plan (2013-2018) to set up an Industrial Research Bureau as an "Industrial Finance Institution ". Later on, it was decided to set up only one institution to provide both the financial and technical assistance to industries. Considering the face, another financial institution named "Industrial Development Center" was established in 2014 B.S. by provided services in research, training, market and industrial analysis, industrial information and statistics and technical services. There was also a provision in the first five year plan to set up development bank. The country

in order to help accelerate the progress of economic growth and to avoid the situation of shyness of capital investment plan from private sector as a result the center was also converted into "National Industrial Development Center (NIDC), after two years in 2016 B.S, under the special Act 2014 B.S. (NIDC)

²⁸. The main activities of the NIDC were as follows,

- To extend medium to long term credit facilities,
- To promote foreign as well as indigenous private investment,
- To undertake industrial consolation and training,
- Furnish the government and private entrepreneurs with financial and technical guidance.²⁹

Likewise, the importance of agricultural credit in the agricultural area was also recognized and felt. So, "Co-operatives Bank" was established in 2020 B.S. as the operation of co-operation bank is limited within the sector of cooperative. It could not meet the total demand of increasing capital and technical assistance of agriculture sector. As a result, "Agriculture Development Bank" (ADB/N) was set up in B.S 2025. With enactment of "ADB Act 2024." After the establishment of ADB /N, co-operative bank was also merged with ADB/N. Again, the financial institution named "Small Industrial Development Corporation (SIDC) was established in 2026 B.S. (1971) to provide financial and technical assistance to small, Village and cottage industries. Later on, it was also merged with NIDC after one year. Furthermore, in the mean time another institution, "Land reform saving corporation (LRSC)" was created in the field of agricultural financing. In 2028 B.S, this institution was also merged with the banking order to avoid the further possibility of dual and over financing to an individual that resulted -

²⁸ Khanal Ganathnath, An evaluation of financial operation of Nepal Industrial Development Corporation", An unpublished Master's thesis TU November 1996.

²⁹ NIDC- "NIDC- Introduction", Ktm.1984, p4

from an undue competition and overlapping functions between them. So, now ADB/N has been the only institution specialized in area of agricultural financing in Nepal .There are two specialized development banks serving in the country till now with their best possible capabilities in the field of industrial development and agricultural development respectively³⁰.

There was a long in the establishment of bank until 2040 B.S after which government adopted the policy to open joint venture banks in order to encourage fair competition and to import foreign based technology. As a result, the joint venture bank establishment in Nepal was "Nepal Arab Bank" i.e. "Nabil".

In additions to it, many "Rural Development Bank" have been established in five development regions after 2049 B.S. to increase the level of earning of rural people by providing micro-finance to them. By this time, many other financial institutions have been operating legally. In this process, "Malika Development Bank Limited" was established B.S 2056/07/25 in Tikapur, Kailali later on, it was extended in Dhangadhi in 2058/11/24. At present there are all together 58 development banks including micro-finance operating in the country. They have been successfully operating in the country providing qualitative services to the customers despite the unfavorable situation for the investment. The sustainability of these banks has been based upon the appropriate planning, long term vision and coordination of management with employees in the competitive banking environment. Furthermore, based these bank have been amend the objectives, principles, policies according to the changing scenario in the banking environment. During some environment, these banks have been suffering some obstacles due to political instability, internal violence. It is necessary for today to make policies,-

³⁰ Manadhar Prushottam," A study on the performance analysis of NIDC, As a development Bank."Desrtation submitted to the institute of Humanity and Social Science, T.U. Kirtipur, 27 may 1987.

directives, and appropriate for the operation of these banks.

Development banks play the most important role for the economic development of developing countries like Nepal. There is lack of capital, Investors, under developed capital market, limited market, lack of proper accounting system and poor collective system and unavailability of appropriate environment for foreign investment, lack of technical and managerial capacity, lack of provision long-term industrial loan by commercial banks, low profit relative to risk from industrial investment. These are the direct or indirect causes which have interrupted for the development of agriculture, industry etc. For these reasons, development bank of any country acts as a “Living Element” in a socio-economic environment that provides life and accelerates the speed. Therefore, development banks must play as a means of fighting against poverty, illiteracy, illness and backwardness etc.

In this way, there are 59 development bank and 12 micro- finance development bank (Licensed by NRB) operating according to the bank and financial institution ordinance 2062.

1.3 A Profile of Malika Development Bank

According to the " Development Bank Act 2052", Malika Development Bank had started its banking transaction after getting the approval of "Nepal Rastra Bank" in B.S 2056/07/25 (1998/12/27). The central Office was located at Tikapur, Kailali from where the Initial Banking transaction had been started. After that, another branch was opened at Dhangadhi, in BS 2058/11/24 and the third branch was established at Mahendranagar Kanchanpur, in B.S. 2059/07/18, it can be said that “Malika Development Bank” is the first development bank in the country that was extended its branches in far western development region from private

efforts. It has started "Any where Branch Banking" (ABB)" service to get the payment of cheque and deposit the saving from one branch to another. It has 12 Districts as working areas which are Kailali, Kanchanpur, Doti, Achham, Bardia, Banke, Kapilbastu, Dang (Deukhuri), Rupandehi, Nawalparasi, Chitwan and Parsha. It has also aimed to expand its branches at Nepalgunj of mid-western development region and at Butwal of western development region. The authorized capital was 40 million rupees and the paid –up capital was Rs. 10,737,000. When the bank started its transaction in 2056/07/25 B.S. Similarly, eight employees were appointed for the operation of the bank at the beginning of the year. But now, there are altogether 102 employees involved in the bank including new extension counter and providing services to customers through its branches. The slogan of the bank is "Banking for Development" there are many other development banks operating in different parts of the country. As it can be known from the list that there are altogether 59 developments bank including micro-finance (Licensed by NRB) in our country and they are providing services to farmers, businessman, industrialist etc. for different purposes. The main objective of the developments banks is to act as intermediary to mobilized the saving in to productive sector and to help for the up liftmen of the economic developments bank are regarded as financial institution as per the "Ordinance-2062" that are concerned with development of economic condition of the country "Malika Development Bank Ltd." has been providing various types of loans such as education and foreign employment loan, residential loan, hire purchase loan, project loan, priority- sector loan , Livestock loan etc. It has just celebrated the sixth annual function and has transformed and converted the name of the bank as "Malika Development Bank Ltd" According to the "Company Ordinance 2062". And the sub-section (u), section (2) of "Bank and financial

Institution Ordinance 2062”. It has been operating successfully in the Far-western Development Region despite the deteriorating security condition and unfavorable investment climate. It has been able to collect the saving and invest the loan in large quantity other than those development banks at regional level and district level in the country. It has expended the banking transaction in the rural, remote and sensitive areas in terms of security. It has planned to expand its branches from rural areas to urban areas respectively despite the fact that it has been facing some challenges.

Table 1.2
Equity Capital and Profit of MDB:

FY	Authorized Capital	Paid up Capital	Profit	No of Shares
2057/058	40,000,000	10,737,000	-	107,370
2058/059	40,000,000	13,000,000	-	130,000
2059/060	40,000,000	14,000,000	4,493,558.02	140,000
2060/061	100,000,000	17,050,000	26,162,032.21	170,500
2061/062	100,000,000	21,850,000	4,968,000	218,500
2062/063	100,000,000	26,200,000	7,232,000	252,000
2063/064	100,000,000	35,000,000	7,680,000	350,000

Source: Annual Reports of MDB

1.4 Focus of the Study

Development banks have become an integral part of today’s banking system. Development banks are established with a view to achieve rapid rate of economic growth. Development banks have been operating in Nepal after the establishment of NIDC in 2016 B.S. Development banks play a significant role to utilize the saving of the society in productive sectors and for the up liftmen of the society.

In Nepal, it has not been so long of the operation of development banks, but, they are performing well and providing services to the people. They have adopted latest and advanced technology for the delivery of services to customers. Despite the fact they have been disturbed by the Maoist activities, insecure social condition and political instability form the decades.

The establishment of development banks has been regarded as the current demand or issue of overall economic development for every developing nation. Further this study may more applicable to the bank stake holder, like shareholder, creditor, and management and along with the regulating authorities e.g. government, again this study may be helpful to the forth coming analysis on the same field.

Financial viability of performance of development banks is essential for their existence and long- term survival. In other words, the financial strength of development banks should be presented for their sustainability. Development banks assist the government to improve the living standard of people and to promote the development activities. Therefore, development banks should be operated efficiently and as a sound organization. And the present study is concerned with the financial performance analysis of Malika Development Bank Limited.

1.5 Statement of the Problem

There is a serious problems in knowledge about the about mentioned products among the banking community of Nepal is depicted in the annual staff training expenses of this financial institution is very low at Rs 0.20 billion. This can be attributable to the non availability of a structured banking related course in the country. There are handful of banking training canter in the country, which however are only providing piecemeal training

courses in the various areas, which are not adequate for true learning .Someone who has completed of post graduate program in banking and finance from an overseas on university will be able to tell how much more we can do in the Nepali financial sector even if we implement just 10% of what he has learnt in his PG Program.

If we further analysis some of the analysis presented in table 2 .Our financial market needs to do a lot in improving the knowledge level of HR and use of technology, as well as in improving its corporate governance. One noticeable feature from the table is that there is a stringent regulation for financial institution, while the level of competition among the players is pretty intense.

Table 1.3
Challenges of Nepali financial market

Component	Commercial Bank	Development Bank	Finance Companies	Co- operatives
HR Knowledge	Fair	Needs	Below	Below
Level	-	Improvement	Average	Average
Use of technology	Fair	Fair	Needs improvement	Needs Improvement
Offering of product and services	Undifferentiated products and services	Undifferentiated products and services	Undifferentiated products and services	Undifferentiated products and services
Corporate governance	Fair	Fair	Need Improvement	Below Average
Level of Competition	Intense	Intense	Intense	Intense
Stringency of regulations	Stringent	Stringent	Stringent	Not- stringent

Sources: The Boss 15 March to 14 April 2009 by Resta jha.

After considering all these factors we can safely conclude that for true and sustainable financial sector reforms other than addressing issues of loan recovery and the loan management, we also need to focus on capacity building of the financial market players by providing them platforms which

will enable them to acquire specialized and focus knowledge on global banking products. It is highly evident that an in- debts exposure to these products will not only add significant value to the customers of the banking sector, but also will enable the banks to set up many new openings from where additional revenue streams can be generated .

The economy of any country could not be developed unless all the sector i.e. **(a)** Primary sector of agriculture sector **(b)** The secondary sector or the industrial sector **(c)** the tertiary sector or the sector comprising services, trade and commerce are developed and nation propensity consume and invest plays a key role in achieving economic stability. Fund collection and it mobilization on productive sector is the key sources of economic development. Agriculture sector contributes for about 60% of the countries GDP and 81 % of total population engaged on it and it's associated sectors. Out of the total land only 18 % is available for agriculture.

The basic infrastructure for development such as transport, communication, health, sanitation, employment etc. has not been provided to all the population, people have to struggle to get their basic necessities. The population of the country has been increasing day by day and, the country has been unable to feed the population. There is not shortage of resources whether human, natural or capital. They only necessity of today is to increase the efficiency of the country for better utilization of those resources. Financial institutions have played the significant role to utilize the resources into productive sectors, As it is the preference of people to accumulate their savings in the form of precious metals, jewelleryes etc, and financial institutions encourage them to deposit their savings and those institutions flow in productive sector and development of nation. The economic development of a country depends upon development banks. They flow the capital in different sectors such as education, health, hire

purchases, residential, projects, livestock, industries etc. which helps to achieve the better conditions of the economy. In addition to this, banks should focus in the potential areas where they should invest to fight the prevailing economic recession. Similarly, to sustain the current financial position in the long run. Banks should enter new areas by marketing their credit in the important sub-sectors such as hydro-electricity, tourism, irrigation etc. Furthermore, saving collection is another factor, which is necessary for banks to balance their operation and generate sufficient surplus in their cash flows. Mobilization of internal resources in the country demands that banks attract more financial resources from the public.

The government also needs to make policies appropriate for the welfare of the country considering the legal and regulatory framework concerning the financial institutions. In addition to it, the commitment of Nepal toward liberalization and the membership of WTO indicate development banks should remain competitive and take proactive and take proactive actions to face the potential challenges as it can not stay far though there may be opportunities available for it. In this context financial performance become the most important for the social and economic development of Nepal. Therefore it is most necessary for analyze the banks financial performance so that corrective measures can be applied for the improvement it's current operation and for its perpetual growth and development. In view of this, a study is carried out on the topic “Analysis of Financial Performance of Malika Development Bank Limited.” The study is directed toward answering the following questions:-

1. What is the financial position the 'Maliaka Development Bank' in terms of liquidity, profitability and asset management?
2. To what extent the bank is efficient in collecting loans given to the customers?

3. What is the income generating sources the bank?
4. What percent of the income is diversified to create reserve funds?

1.6 Objectives of the study

Financial institutions play a significant role in the economic development of the country which is the major issue for any kinds of financial organization. In reality financial institution are the backbones of country's economy. Bank came into existence mainly with the objective of collecting the idle funds, mobilizing them into productive sectors and causing overall development. And, financial management is a crucial factor of any organization. No organization can smoothly without finance. Finance is one of the basic elements for an organization. Government's policy of economic liberalization has opened its door to private investors as well as foreign investors. As a result, competition has been increasing which has also affected the profitability of the banks.

Hence, to face the challenges created by the environment and to become successful in this competitive environment, banks should move ahead with some specific objectives.

The basic objective of this study is to analyze the financial performance of the MDB Limited and the specific objectives are as below:-

- i. To analyze bank's progressive trend,
- ii. To determine the risk and return pattern of the bank,
- iii. To analyze the bank liquidity, profitability and solvency position by using necessary by financial ratio,
- iv. To assess the impact of income on reserve fund,
- v. To analyze the progressive about statement about loan activity of the bank,
- vi. To make suggestion to the stake holders.

1.7 Rational of the Study

No organization can run smoothly without finance. Finance is regarded as the pre-requisite for the successful operation of the organization. Therefore, finance is the life-blood of any organization. Financial management is concerned with the decisions involving finance. Financial performance analysis is a process of evaluating relationship between components parts of financial statements to obtain a better understanding of the firm's position and performance. ³¹

Financial Institutions play a crucial role on economy. Economic development of a country depends upon financial institutions. For an under-developed country like Nepal, there is great importance of financial institutions for the rapid economic development of the country. These institutions are regarded as the inter-mediator of mechanism to mobilize the idle saving providing various services and utilize in productive sector. Considering the fact, this study is conducted to throw light on the financial performance of financial institution i.e. development bank.

The study has following importance:-

- The study will help to know about the activities of the institution to the industrial and business organization and to the customer as well. It would provide feedback and contribute to make favorable relationship with them.
- It would be beneficial for stockholders to identify the liquidity, profitability, capital structure of the institution. In other word it would provide knowledge about the financial status of the institution.
- It may also be beneficial for the general readers to k now about the-

³¹Khan, M.Y.& P.K. Jain, "financial Management", Tata Mc Grow Hill Publishing Company Ltd. New Delhi, Second Edition,p.no.79

financial performance of the bank.

- It may be useful as reference of review for relevant researcher and for further investigation on this topic.

1.8 Limitation of the study:

A research study requires various types of data and information. All the information and data can't obtain and accommodated in the study due to many reasons. In other words, certain limitations are inevitable and need to be mentioned in the study. This study has also some limitations. It is because none of the study can go beyond the boundary while collecting, analyzing and interpreting the data. Some limitations are found while conducting the study. Following are the some of the limitations of the study:-

1. This study is based on only seven years data from 2057/058 to 2063/064 B.S.
2. The research work done is limited to the financial performance of MDB on the basis of secondary data provided by the bank.
3. Scarcities of the reference materials available at the local libraries and insufficient fund are the constraints of research environment.
4. Basically, financial tools have been used to analyze and evaluate the financial performance of MDB. Along with this, some statistical tools are also applied to analyze the data.
5. Evaluation made over the bank may not be base for the evaluation of other organization.
6. Rounding figures in zero is used somewhere mathematically in used to make easy in calculation of the study.

7. This study is one year back because the financial statement of MDB is not available up to in current date as per the rule s and regulation of the bank.

1.9 Organization of the study

Financial analysis is a complex task which is a measure issue for any kinds of financial organizations. This study also mainly focuses about the financial performance analysis of 'Malika Development Bank.' Being a complex task the study about financial analysis of MDB should be organized properly. Thus this study has been organized in five chapter consisting introduction, review of literature, research methodology, data presentation, analysis and summary, conclusion recommendation respectively. It has been explained in brief as below.

Chapter 1 Introduction

The first chapter relates to the introduction and includes background, profile of the Malika Development bank, focus of the study, statement of the problem, rationale of the study, objectives of the study, setting of the hypothesis and limitations of the study.

Chapter 2 Review of Literature

The second chapter comprises the review of literature relating to the conceptual framework of development banks and financial performance of related previous studies. Furthermore, review from books, articles and methods of evaluating financial performance are also reviewed.

Chapter 3 Research Methodology

This chapter describes the methodology employed in the study. In other words, research design and its types, natures of data, source of data,

data collection procedures and different types of financial and statistical tools are highlighted in his chapter.

Chapter 4 Presentation and analysis of Data

This is the most important chapter of the study. It is concerned with the presentation and analysis of data with the help of different tools specified on methodology and the interpretation of data.

Chapter 5 Summary, Conclusion and Recommendations

This chapter will provide summary, conclusion and recommendation. The researcher has made some conclusions and recommended some guidelines to the sampled organization for improving its weakness factors and offered suggestions for stakeholders and future research.

CHAPTER: II

REVIEW OF LITERATURE

2.1 Review of Theoretical Framework

Review of literature is an essential part of all studies. A research work is considered incomplete if it does not contain review of related materials in it. Almost all types of research work involve the use of reference materials. It provides the foundation of developing a comprehensive theoretical framework for which hypothesis can be developed for testing. The concept of review of literature involves reviewing research studies or other propositions in the related area of the study so that all the past studies, their conclusions and efficiencies can be known and further research can be conducted. In reality, review of literature provides knowledge about the past research studies in one's chosen area of study and suggests ideas to investigate the problem more effectively. Review of literature is the process by which the researcher learns and understands the concepts of related literature. An extensive process of such review may offer vital link with the various trends and phases in the research in one's area of specialization familiarizing with the characteristics, concepts and interpreting with special terminology for understanding one's proposed investigation. This chapter highlights the literature available relating to a present study with conceptual review of related studies. The researcher has reviewed books, articles, annual reports of sampled bank, review of theoretical Framework, needs for financial Analysis: "The literature survey also minimize of risk of purshing the dead-ends in research". The main purpose of reviewing the literature is to develop some expertise in one's area to see what new contribution can be made and to receive some ideas for developing a research design.³²

³² Wolff k. Howard Panta prem raj social science research and thesis writing. Buddha academic enterprises . Pvt Ltd 1999. Page No 30

Generally, the following parties are interested in the analysis of financial performance-

- Creditors
- Investors
- Management
- Shareholders or Owners
- Regulating Authorities

Creditors are interested in analyzing the financial statement in order to know the short term liquidity position and performance of the firm. They are interested in receiving their payment as and when due. At the same time, investors or lenders are interested to know him solvency position of the organization. They analyze the financial statements to know about the safety of their investment and the ability of the firm to pay interest and repayment of principal amount on due date. On the other hand, management is interested in the analysis of financial statements for measuring the effectiveness of its own policies and decisions for achieving organizational goal. It also analyzes the financial statement to know short and long-term solvency position, profitability in relation to turnover and investment and liquidity position of the business. Similarly, shareholders or owners are interested to in the analysis of financial statements to know the profitability and safety of their investment and also to know the operating profitability and growth potentially.

Financial analysis also helps regulating authorities like the Govt. in determining the tax liability and formulating effective plan and policies for economic growth. Financial performance and analysis is done by using various tools and techniques in the present study, mainly two major techniques are used which are as follows-³³

³³ Munakarmi, Shiva Prasad, "Management accounting," Buddha Academic Publishers and Distributor Pvt Ltd.First edition Ktm Nepal 2002.

- a. Ratio analysis
- b. Cash flow analysis

a. Ratio Analysis

The terms "Ratio" refers to the numerical or quantitative relationship between two item/ variables. A ratio shows or reveals the relationship in a more meaningful way so as to enable us to draw conclusions from them. The rationale of ratio analysis lies in the fact that it makes related information comparable. Ratio analysis is a widely-used tool of financial analysis.³⁴

Ratio analysis is a powerful tool of financial analysis's ratio is defined as "the indicated quotient of two mathematical expressions" and as "the relationship betⁿ two or more thing.

. "Ratio is an expression of one Figure in terms of another. It is the expression of the relationship the mutually independent figures. Absolute Figures alone convey no meaning unless they are compared to each other. It is an expression of quantitative relationship betⁿ two numbers. It can be defined as" a ratio is the relationship of one amount to another Expression as the ratio of or as a simple fraction, integer, and decimal fraction percentage". These are four types of ratios namely liquidity, profitability, activity and leverage ratios.

b. Cash Flow Analysis:

Cash flow analysis is done through the statement of cash flow, a cash flow statement of company's ability to generate cash from various activities such as operating, investing, and financing their need of cash. It shows the inflow and outflow of cash and cash equivalent during the years. Cash is the life-blood of a business enterprise. So, business enterprise must have an

adequate amount of cash to operate it continuously and smoothly. Enterprise needs cash to conduct their operation, to pay their obligation and provide return to their investors ³⁵

'John J.Hampton' in his book named " Financial Decision Making" expresses the financial performance analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statements. The goal of such analysis is to determine the efficiency and performance of the firm's Mgmt. As reflected in the financial records and reports. The analysis is attempting to measure the firm's liquidity, profitability and other indicators that business is conducted in rational and orderly way. If a firm does not achieve financial norms and values for its industry or relationship among data that seen reasonable, the analyst note explaining the apparent problems may then be placed upon management.³⁶ Professor 'Radhe Shyam Pradhan' writes the financial analysis is undertaken to asses the financial Strength and Weakness of the firm. The analysis is usually based on financial statements prepared by the firm. Financial Analysis can serve as the basis for decision making. The analysis whether to use debt or equity funds to finance planned expansion. The financial statement used as the balance sheet, income statement supplemented by the statement of cash flows.³⁷ 'M.Y.Khan' and 'P.K.Jain' describe that financial analysis is the process of selection, relation and evaluation. The first task of the financial analysis is to select the information relevant to the decision under consideration from the total information contained in the financial statements. The second step

³³Khan,my..NPK Jain Financial management op.Cit 6th edition New Delhi.

³⁴Pandey,I.M."Financial Management", Vikas Publishing house Pvt Ltd 4th edition New Delhi 1987

³⁵Munakarmi Shiva Prasad op. Cit.

³⁶Hampton, John J."Financial decision making", Prentice Hall of India Pvt Ltd.4th edition 1994.

³⁷Pradhan Radhe Shyam"Financial Management" Buddha Academic Publisher.&Distributer Pvt Ltd First Edition ktm 2004

involved in financial analysis is to arrange the information in a way so as to highlight significant relationship. The financial step is interpretation and drawing of inferences and conclusions. Financial statement analysis is a process of evaluating relationship between component parts of financial statement to obtain a better understanding of firm's position and Performance.³⁸ "Financial Management is that managerial activity which is concerned with the planning, controlling of the firms financial resources."³⁹ The function and scope of financial management covers the three major decisions which are:-

- a. The investment decision,
- b. The financing decision and,
- c. The dividend decision.

The above financial decisions are not sequential. They are performed by the firm simultaneously and continuously. Thus the process of rising fund, investing them in the required assets is the key point of the financial management. 'I.M.Pandey' concludes that financial analysis is the process of identifying the financial strengths and weakness of a firm by properly establishing relationship betⁿ the items of balance sheet and profit and loss account. Mgmt, should be particularly interested in knowing the financial strength of the firm to make their best use and to be able to spot out the financial weakness of the firm to take suitable corrective actions.

The future plans of the firm Should be laid down in view of the firm's financial strength and weakness, therefore, financial analysis is the starting for making plans before using any sophisticated forecasting and budgeting procedures. Users of financial statements can get better insight about the financial strength and weaknesses of the firm if they properly

³⁸Khan,M.Y,&P.K.Jain op. Cit, Second Edition.

³⁹Pandey I.M.Management accounting. Vikas publishing house New Delhi, 1991 .

analyze the information reported in these statements. The information contained in these statements is used by mgmt. creditors, investors and others to judge about the operating performance and financial position of the firm .⁴⁰

Financial analysis is the process of scientifically making a proper, critical and comparative of the profitability and financial health of a given concern through the application of the techniques of financial Statement analysis. complete financial analysis and interpretation of financial statement involves the assessment of past business performance, an evaluation of present condition of the business and the predictions about the future potential for achieving expected or desired results.⁴¹

Financial performance analysis can be considered as a heart of the financial decisions. The growth and development of an enterprise or an organization is directly influenced by the financial performance. Rational evaluation of the financial performance of the financial management in public enterprises is too much involved in record keeping, raising necessary funds and maintaining relationship with bank and other institutions, but the financial aspect is one of the most neglected aspects of public enterprises in Nepal. Financial performance analysis as a part of the financial management is the main indicator of the success or failure of the firm.

Financial condition of business firm should be sound form the point of view of shareholders, debenture holders, financial institutions and nation as a whole. The absolute accounting figures shown in the financial statements i.e, Balance sheet, Profit and loss account and other statements do not provide a meaningful understanding of the performance and financial position of the firm. Thus, financial analysis is the main quantities judgment

⁴⁰Pandey, I.M. Op. Cit

⁴¹Jain, Pramila, "Fianancial Management", pointer Publisher, Jaipur India 1996

process of identifying financial strength and weakness of the firm by properly establishing the relationship between the items of the balance sheet and Profit and Loss account. Aspect is one of the most reflected aspects of public enterprises in Nepal. Financial performance as the part of financial management is the main, indicator of the success or failure of the firm financial condition business firm should from the point of view of shareholders, debenture holders, financial institution and ration as a whole. 'Miss Rajeshwori Shrestha' writes in her project work that financial analysis assists in identifying the major strength and weakness of a firm. It indicates whether a company has enough each to meet its obligation and obligation and ability to utilize properly their available resources. Financial analysis can also be used to assess the companies viability as an out going enterprise and determine whether a satisfactory return is being earned for the risk taken.

Management of the firm is interested in all aspects of financial analysis to adopt a good financial management system and for the internal control of the organization. Similarly trade creditors are primarily interested in the liquidity position of a firm. Long term creditors are more interested in the cash flow ability of enterprises to service debt over a long run likewise all the concerned groups are directly interested in all about the financial performance of the company or a firm.

The financial analysis a ratio is used as an index or yardsticks for evaluating the financial position and performance of a firm, analysis and interpretation of various ratio should give an experience and skilled analyst better understanding of a financial condition and performance of a firm that He/ she would obtain from analysis of the financial data alone.⁴² Another Student of M.B.S 'Mr. Birendra Dahal' done a study entitled

⁴²Shrestha Rajeshwari "A comparative study on financial performance of Ace finance company limited lalitpur." A M.B.S Project report August 2004.

"A comparative study on Financial Performance of Everest Insurance Company and United Insurance Company". He explains that one of the Yardstick for the judging the worth of company is by studying its financial performance. It is the financial result of every organization, which is affected by financial decision; the decision must be based upon a financial data and the analysis data. To get the optimum result every organization has to take the best decision from among the various alternatives. It is a measurable factor, which can present the company's strengthen and weakness in the financial sectors. It is not only single fact of figure but the analysis of all financial data available with the various tools, ratio used for analyzing the different aspect of finance.

In order to improve the financial performance of sampled companies, he provides some sector is recommended which are as below:-

- To improve liquidity position the company should manage current assets and current liabilities at the desirable level,
- Turn over of current assets should be accelerated,
- Company should reduce their existing outstanding premium,
- Their should be improving their risk bearing capacity,
- To boost of income from investment, first of all review of the present conditions and provision should be made,
- Investment made in hydropower projects,
- Fund should be invested in equity shares of international graded commercial bank(A)"⁴³

2.2 Review of Books

It is another part of literature. IT is an important to review books written by various scholars and writer in their books to the topic. Some of the books reviewed by the researcher are as follows:-

⁴³Dahal Birendra."A comparative study on financial performance of Everst Insurance company Limited and United insurance company (Nepal)" An unpublished Master

Similarly, the book, "Financial management: the Theory and Practice" written by 'Dr.M.K Shrestha' had concluded that the bank has sufficient liquidity to meet the claim of depositors (excluding fixed deposits). The bank has a highly geared capital structure and is more depending on borrower funds. The rate of return on ownership capital is favorable. He further suggest that operational efficiency should be enhanced to achieve its higher profit goal for better performance.⁴⁴

"Agriculture Development in Nepal " a book written by 'Y P Pant' and S C jains has explained that the major problems of agriculture sectors is a heavy Indebtedness due to the domination of village money lenders who charge very high rate of interest while providing loans , the institutional financing practice in rural areas of Nepal has been quite inadequate and the lending procedure is also suffering from many weakness in spite of the fact that agriculture is that main occupation in economic life of Nepal. Most of the agricultural procedures are still poor and illiterate .⁴⁵

In this books , "Agricultural finance in Nepal ".K K jha has started that the consumption of loan , high cost of credit , indebtedness , low saving low productivity , excessive dependence on money lenders and the inadequate provision of institution credit are the main problems of all small farmers . Furthermore , he writes that there is me doubt to say that the farmers borrow loan for agriculture purpose but it has been found that a large part of the borrowed loan is used for family expenditure and only the remaining very party of it is used of agricultural purpose to omprove the productivity resources .⁴⁶

The book, "Evaluation of banking Supervision in Nepal Restar Bank" published by M.K. Shrestha has studied certain useful journals on domestic

⁴⁴Shrestha M.K Financial management theory and practice" Curriculum development,Center T.U 1980

⁴⁵ Pant Y.P.& S.C.Jain "Agricluture Development in Nepal", Vore & Company Bombay, 1979.

⁴⁶Jha K.K,"Agricultural Finance in Nepal", Heritage publishers , PP.1-26, New Delhi.1978 ⁴⁰

market, banking, financial statement analysis and monetary credit situation of Nepal. There has been substantial growth in the number of JVB in Nepal since 1990. The basic reason behind this is the government's deliberate policies of allowing foreign JVB to operate in Nepal.

Government's liberalization policy also encourages the traditionally run domestic commercial banks to enhance their efficiency and competitiveness through modernization, mechanization via computerization and prompt computer services by setting them to the exposure of the JVBs.⁴⁷

In the book, "Modern Banking", 'R S Sayers' stress in the economic importance of commercial bank and highlights in the functions of 'Creation of Money' by Banks. According to him, the special interest of economist in the activities of banks is due to the monetary nature of deposit liabilities of the bank. There lies in the community's interest in bank by using their operation, they can affect the monetary situation, in sense of the availability of the purchasing power. This can most readily be understood by reference to the ordinary lending business of the bank. When a bank makes an advance, by allowing a customer to overdraw his account the bank in effect, exchange its own promise to pay immediately against the customer promise to pay off the advance later on. The economic importance of this exchange is that the bank's promise to pay immediately is absolutely effective purchasing power, which plays an instrumental role in increasing the total demand of the goods and plays an instrumental role in increasing the total demand of the goods and services.⁴⁸

⁴⁷Shrestha evaluating a Banking supervision in Nepal Rastra Ban,"IMF, January 31, 1998.pg 4.

⁴⁸Sayers R.S,"Modern Banking, Clarendon Press, Oxford.

2.3 Review of Articles, Journals and Newspapers

This is an important part of review of literature. While preceding the present study, some articles, newspaper etc. were also reviewed written by different personals, academicians. This part shows the indication of performance of related financial institution to the public and concerned persons .In other words it tell about how different persons have experienced those financial institution in their field. Therefore, it helps to know about those intuitions and add knowledge regarding the present study. Considering the fact the researcher had reviewed some articles, papers which are as follows:-

In the same way an article written by D.P shah entiled, "for the continuity of reform program" has explained that due to the conflict situation of the country it has become very difficult to conduct banking activities, the staffs working in their related field have been threaded and sometimes they areas being looted by Maoist. Due to the security problem not only SFDP but also big branches area being shifted in the center. Many new officers haven't opened, due to 'Nepal BAND' and other incident happened in the country, many sectors are badly affected and ADB/N can not remain isolated by the situation.

To increase the disbursement and to boost up production according to the climate market feasibility, entrepreneurship e.t.c. is essential. And it should be given emphasis to the special type of crops. Though the ADB/N has been performing through SFDP, staffs are reluctant to stay in the village and Maoists are trying to remove SFDP from village Because of these reasons donor agencies have been discouraged.⁴⁹

"Commercial Bank Comparative Performance Evaluation" an article by Dr.-

⁴⁹Shah Devendra pratap "for the continuity of reform programme" Bank samachar monthly publication, ADB/N September 7, 2000.

'M.K. Shrestha' stressed on a proper risk management. He believes in the appropriate classification of loans under performing and non-performing category. Again, he writes that adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear-out criterion is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six months need to be considered a sun read income. Regarding the risk management of the bank, he has suggested following points-

-) Any customer having overdue loan of two years or more in his account should not be given other loan facilities,
-) Strong provisioning or reservations are in required in restructuring portfolio relating to overdue loans.
-) All credits including overdrafts should be given a maturity date and should be
-) subjected to revision at that date and consequently categorize as good standard of doubtful loans.
-) Financial credit-worthiness of the borrower must be evaluated properly before grating the loans.

Furthermore, he clarifies that joint venture banks (J.V.B.s) in Nepal are new and comparatively more efficient in operation and having superior performance amongst local banks. Due to their sophisticated technology, modern banking and skill, JVBs are performing better in comparison to local banks. Their better performance is also due to the burden local bank which are facing the burden of government's branching policy in rural areas and financing public enterprise. Local Banks are efficient and expertise in rural sector. But, having number of deficiencies, they have to face growing constraints of social, economic political system on one hand spectrum that

of issue and challenges JVBs commanding significant banking in other hand spectrum .⁵⁰

"Nepali Financial Sector Reform Capacity Building is indispensable" this article written by 'Resta jha.' In an economy, the importance of the financial sector in general and the banking sector in particular cannot be undetermined. The banking sectors play a pivotal role in the overall development of an economy. The economic refers initiated by the government 18 years ago have changed the landscape of several sector of the Nepali economy. The banking sector is no exception. This sector has been going through major changes as a consequence of economic reforms. The change affects the ownership pattern of bank, regulatory, aspects, availability of fund the cost of funds as well as opportunities to earn, range of services (fee- based and fund based) and management of priority sector lending. As a consequence of liberalization in interest rate and cut throat computation, banks are operating on a reduced spread.

Economic refers have also generated new and powerful customers (the middle class) and new mix of players (public sector units private bank and foreign bank). The emerging competition has generated new expectations from the existing and new customers. There still lies an urgent need to introduce a new product. The existing product need to be delivered in an innovative and cost effective way by taking full advantage of the emerging technologies. Currently the trend is increased the number of financial institution and not the quality of the financial services being delivered. With 25 commercial Bank already up and running, seven new such banks are waiting for the green signal from Nepal Rastra bank. It is Preety evident the we have been seeing growth in the width of the Nepali -

⁵⁰Shrestha, Dr. Manohar K."Commercial Banks Comparative performance evaluation" Karmachari Sanchaya Kosh Publication, 2047, Ktm,

financial sector, however the depth and specialization severally lacks quality .

I can precisely remember a seminar conducted a year and half ago on " Role of Education for financial Sectors Reforms " In which Nepal Ratriya Bank and IMF had invited vice chancellors of all four universities of the country. The seminar concentrated on the need of universities to play aggressive roles in the delivery of quality education relevant to the financial sector, thereby helping capacity building in the process of the financial sector reform programmed initiated by the government.

As the financial sector has evolved as the biggest sector in the economy, there is a high demand for quality human resources to manage this sectors analysis.

Table 2.1
Nepali financial market(Rs in billion)

	Commer- ial Bank	Devt. Bank	Finance Companies	Micro Financial Institution	Cooperativ es	NGO's Banking Act	Total
Number	25	58	78	12	17	47	237
Number of Employes	14273	2234	2568	989	1129	1842	20204
Assets size (Rs.)	316.08	82.36	91.42	7.8	0.94	3.23	501.9
Operating Profit (Rs.)	13.99	3.68	2.56	1.13	0.81	0.84	23.01
Net Profit (Rs.)	8.39	1.84	1.28	0.16	0.09	3023	13.02
Staff Exp. (Rs.)	1.62	0.65	0.32	0.01	0.00	0.20	3.23
Trainaing Exp. (Rs.)	0.13	0.03	0.02	0.01	0.00	0.20	0.20

Figures for those cooperatives that are registered with NRB have only been included. There are some 1000 plus additional cooperatives registered with 'National Cooperatives Boards Operating in Nepal'. Figure for operating, net profit, staff, expenses and training expenses pertain to a one year period.

From the above table 2.2 it is evident that there are altogether 237 financial institutions (other than 'Nepal Rastriya Bank') in the country and currently more than 20000 people are working in these institutions. These human resources are responsible for managing approximately Rs. 502 billion worth of assets (Preliminary, Loan and advances) out of which 21 Percent comprise of two government owned banks 'Rastriya Banijya bank.' The annual net profit of Rs. 13.02 billion generated by creating assets worth Rs 2.59 percent which is even below the average saving deposit rate in the country which is at 4.75 percent.

While doing root cause analysis for this scenario, two very strong reasons have evolved. The first reason being that the poor quality of loans due to non compliance of basic credit principle while granting loan, coupled with lack of credit skill assessment and the second reason being that almost all the financial institutions are involved only in dealing with undifferentiated vanilla banking products. For example, if someone needs a car loan which is typically a commercial bank product. She/He can walk into any development bank in the country. Yes, in the current scenario it is very difficult for development banks in the country to burn their fingers by going into long term project loans. However they should be able to create their own niche market. To give another example there are simple value added products like "Funded Risk Participation" and "Private Labeling in the Trade Finance Area" Option and other Derivative Products, in the global market area and "Remittance Securities" in our most lucrative area of remittance. There is a serious problem in knowledge about the about mentioned products among the banking community of Nepal is depicted in the annual staff training expenses of this financial institution is very low at Rs. 0.20 billion. This can be attributable to the non availability of a structured banking related course in the country. There are handful of banking training

center in the country, which however are only providing piecemeal training courses in the various areas, which are not adequate for true learning .Someone who has completed of post graduate program in banking and finance from an overseas on university will be able to tell how much more we can do in the Nepali financial sector even if we implement just 10% of what he has learnt in his PG Program.

If we further analysis some of the analysis presented in table 2.2. Our financial market needs to do a lot in improving the knowledge level of HR and use of Technology, as well as in improving its corporate governance. One noticeable feature from the table is that their is a stringent regulation for financial institution, while the level of competition among the players is pretty intense.

Table 2.2

Challenges of Nepali financial market

Component	Commercial Bank	Development Bank	Finance Companies	Co- operatives
HR Knowledge	Fair	Needs	Below	Below
Level	-	Improvement	Average	Average
Use of technology	Fair	Fair	Needs improvement	Needs Improvement
Offering of product and services	Undifferentiated products and services	Undifferentiated products and services	Undifferentiated products and services	Undifferentiated products and services
Corporate governance	Fair	Fair	Need Improvement	Below Average
Level of Competition	Intense	Intense	Intense	Intense
Stringency of regulations	Stringent	Stringent	Stringent	Not- stringent

After considering all these factors we can safely conclude that for true and sustainable financial sector reforms other than addressing issues of loan recovery and the loan management, we also need to focus on capacity

building of the financial market players by providing them platforms which will enable them to acquire specialized and focus knowledge on global Banking products. It is highly evident that an in- debts exposure to these products will not only add significant value to the customers of the Banking sector, but also will enable the Banks to set up many new openings from where additional revenue streams can be generated ⁵¹

An article by 'D.B Dahal' entitled, "Agriculture Development Bank: To day and tomorrow " concluded that ADB/N is only such type of financial institution which is working in remote places of the country. But, other financial institutions have not been able to provide their in remote areas and enlarge their services. The bank has been continuously using its efforts for providing services in rural sectors. It is familiar as bank which is doing lot efforts by modernizing agriculture sector It has extend its services in different fields such as fis- culture, horticulture, sugarcane, special crops though it has been assisting in crop cultivation. It has been also playing an important role in production processing, storage marketing management and so on. The bank has been helping to establish rural agro-based and cottage industry by providing loan facility, technical suggestion etc. As a results the bank countries to provide employment to many people indirectly in different sectors. It has also been providing a lot of supports to mobilize the agro-tools i.e. tractor irrigation medicine etc. It has also been engaged to give a lot of supports to the people of trial, hilly region families by providing capital and technical assistance to establish bio gas plant. It had also started group based work from 2032 B.S to increase the capacity of technical and management skill for poverty alleviation, so it is the first Bank which has stated such a group concept to enhance management and

⁵¹. "Nepali Financial Sector Reform Capacity Building is indispensable" The Boss 15 March to 14 April 2009 by Resta jha

technical capacity by grouping deprived section of the society.⁵²

In the same way, an article on "Problems Encountered by the Nepalese Financial System" written by 'B. R Dhaungana' has highlighted the major weakness of the banking sector, mainly of RBB and NBL and has suggested the reforms which these banks need to improve their health. He states that our financial sector is dominated by banking sector is still dominated by two fold government owned banks. The two banks constitute the largest components of total deposit and lending of banking system. But these banks are suffering from various problems which ultimately result towards the unsound financial health of the banking industry of Nepal. He has pointed the some major weakness of these banks which are as follows:-

- Concentration of loan to limited borrowers,
- Over valuation of goods and land building mortgaged,
- Poor Supervision and follow up after credit disbursement.

'Shrestha Dr Manohar' K," Commercial Banks Comparative Performance,"
'Karmachari Sanchaya Kosh Publication 2047 ,Ktm

Bajracharya ,Bodhi B ," Monetary Policy & Deposit Mobilization in Nepal
" , Rastriya Banijya Bank , Rajat Jayanti Samaria , P.93-97 Ktm , 2047 .

- Absence of systematic recording of credit information of borrowers:
- Large number of branches with limited transaction and heavy overheads,
- Negligence in recovery of overdue loans,
- Insufficient Staffs and absence of manpower development and planning,
- Lack of knowledge in examining industrial and innovations;
- Little familiarity with the new instrument and innovations;
- Little or no application of modern banking equipment in bank branches .⁵³

⁵²Dahal, Durga prasad"Agricultural Development Bank Today and tomorrow", Bank Samachar,Monthly publication, ADB/N, Magh.2054.

⁵³ Dhanguna, Visma raj,"Problems encountered by the Nepalese financial system,Neapl Bank Samachar, 2053.

2.4 Review of Thesis's related to the Study

Thesis reviews have also been taken as an internal part for this study. Mainly some available previous thesis related to the topic of the study have been study as they contribute to add more information regarding it. In the researcher knowledge, there are many research studies related to financial performance of different financial institution/banks. But a few researchers have been made about the financial performance analysis of 'Malika Development Bank'. Therefore the literature relating to this study was received and views expressed by the various researchers have been presented in this section

(a) 'Mr Rajib Raj joshi' (2001) reports on the financial performance of Nepal Arab Bank Limited (NABIL) and 'Nepal Grind land Bank Limited' (NGBL) in the following words.⁵⁴

1. The liquidity analysis reveals that overall liquidity position of NABIL in better than that of NGBL,
2. The activity ratio analysis reveals that NGBL is more that of NGBL in managing and utilizing its resources,
3. The overall profitability of NGBL is better than that of NABIL because it pays less interest to it's depositors than it earn interest on deposit,
4. The average price-earning ratio of NABIL is higher which reveals that NABIL was higher market price per share over earning per share and the investor will prefer to invest in stock (Shares) of NABIL because they will recover their investment quickly,
5. The stock of NABIL is highly priced than that of NGBL since it has higher book value per share.

⁵⁴Joshi Rajiv Raj of comparative study on financial performance on Nepal Arab Bank Limited and Nepal Grindlands Bank Ltd. Unpublished Master's thesis M.B.A T.U 2001, page no. 69

(b). Another research conducted by 'Mr.Prem Bahadur Mungmen' On the topic of Financial performance of purwanchal Grameen Bikash Bank Limited pointed out the following results and findings.⁵⁵

1. Borrowing is the main source of fund although the main resources of fund are used in loan disbursement. It is used for the recovery of losses,
2. Financial ratio indicates poor financial position over the period of 2051 to 2059 B.S.
3. Trend of operating expenses is increasing day by day in comparison as with operating profit,
4. The growth if net loss is negative. It is the sign of gradually improvement in financial performance,
5. Loan has not been timely recovered from clients,
6. The relationship between deposit and investment is not in acceptable condition,
7. Overdue loan has increased year to year.
8. Share Capital remains same during the study periods.

(c) Similarly a research study carried out by 'Dipak Babu' mainly about comparative financial performance of 'Nepal Bangladesh Bank' (NBB) and Bank of Kathmandu (BOK) limited carried out following conclusion.⁵⁶

1. NRB is more consistent in maintaining over all liquidity than **BOK Ltd.**
2. The capacity of providing long term loan and advances is greater in **NRB.**
3. Return on net worth of NRB is significantly higher than **BOK Ltd.**

In the same way, study conducted by **Gyanu maya Bohara** in her thesis

⁵⁵ Mungmen Prem Bahadur financial performance of purbanchal Gramin Bikas Bank limited, unpublished Master thesis M.B.S T.U 2004. Page 112.

⁵⁶ Mainaly, Deepak Babu"Comparative financial of Nepal Bangladesh Bank (NBB) and Bank of Kathamandu (BOK) Limited unpublished M.B.A thesis T.U 2001.

entitled" Study on the financial performance of "Malika Development Bank" has written that financial performance of a firm or organization is indicated by financial analysis. A financial analysis enables us to evaluate and depict the condition of a firm's financial position. Financial analysis measures the position of the business firm at a certain period of time. Financial analysis is the considerable at for different parties, such as creditors, investors, management, financial institutions and the nation as well. Furthermore, she has stated that financial analysis can be useful to predict future course of actions for planning purpose. Again she explains basically financial performance is not only the evaluation of financial condition but also the evaluation of planning and it help to improve the planning in future. She further highlight it helps to get knowledge about the financial aspect of a business firm or organization. The major finding of the study were as follows.⁵⁷

a) Liquidity Position

To assess the financial performance of the MDB Ltd., liquidity ratios have been calculated during the study period from 2057/058 to 2063/064. B.S.

1. The standard for current ratio is 2:1 but ratios are higher than standard during the study period.
2. 2."Case and bank balance to deposit ratio excluding fixed deposits" are 56.22, 72.71,48, 39, 42.11 and 38.64 percent respectively during the study period. The ratio is increased up to 2058/059 but later on, it has decreased till 2061/062. It shows the ability of the institution to meet their current margin calls and saving deposits.

⁵⁷ Bohara Gyanu Maya" study on the financial performance of Malika Development Bank", Master Degree thesis T.U 2006

b) Profitability Position

The researcher has computed following profitability ratios to examine the profitability condition:-

1. "Operating profit margin to interest earned ratio" has been fluctuating every year and which is considered more satisfactory than other years,
2. "Return on assets (i.e. total assets) ratio" is also fluctuating every year during the study. The ratio depends upon the organization's business nature and fixed assets which are major part of the assets. It indicates the efficiency of the institution to utilize resources,
3. "Return on Net worth Ratio" indicates how well the institution has used the resources of the owners to earn profit. The ratio is fluctuating till the year 2059/060. The ratio is -16.75,-16.13 and 29.41 percent in the year 2057/058, 2058/059 and 2059/060 respectively. Furthermore, it has decreased to 12.49percent and again, increasing to 16.17percent. Increasing return on net worth means increasing shareholder' wealth and vice versa,
4. Net profit margin ratio measure the overall the profitability of the institution. This ratio is also fluctuating during the study period. The ratio is high in the year 2059/060 and low in the year 2057/058,
5. All the profitability ratio are negative in the beginning year due the loss in the year 2057/058 and 2058/059 except "Opt. Profit margin interest earned ratio",
6. Higher ratio exhibits the maximum utilization of deposit as loan disbursement.
7. The trend percentage of loan and advantages as well as trend percentage of loan collection are increasing every year. It reflects the efficiency of the institution in disbursing loan and collection of loan.

8. The MDB has made the provision for depreciation to meet the expenditure on machineries and equipments.
9. For testing of hypothesis is essential relationship between two or more variables and provides solution to the problems. The calculated value of "t" for interest earned an interest paid is lower than the tabulated value. So, null hypothesis is accepted.

To make more purposeful and target oriented as well as more effected, some recommendation has been suggested by her who are as follows:-

1. It would be improve to develop cordial relation with the villagers, staffs, friends, philosopher and guide with them. This will lead to the creation of congenial atmosphere which will in a big way, help the bank in recovering the overdue.
2. The field staff of all the branches of MDB where the services are common or adjoining to each other should jointly go for recovery trips.
3. The bank should launch a campaign per imparting primary knowledge as a part of its function. It provides timely knowledge about modern innovation of the farmers.
4. The bank should watch those borrowers who do not repay the after the expiration of limitation period, misused, bank should take immediate action which may not only improved the chances of recovery of loan.
5. The management should keep relationship between managerial staffs, workers, Board of Directors and coordination among these parties to achieve efficiency in the present competitive.
6. The institution should apply cost reduction technique and applying new advance technology by information system

Similarly another researcher 'Mr. Bishnu Pandey' has measured the financial performance of 'Malika Development Bank Ltd.' Kailali from F.Y. 2058/059 to 063/064 B.S. On his research work about "Financial performance of MDB major tools for measuring its performance were finds liquidity position of MDB, profitability position as under⁵⁸

1. The liquidity position of the bank over five year for 2059/060 to 2063/064 quite satisfactory.
2. The cash and bank balance to non fixed deposit ratio for the study period due to rapidly decrease. Its shows the decreasing trend from its base year. The amount of patient bank balance has increased from its base year to 2061/062 but it decreases from the year 2062/063 and amount of non fixed deposit has increase in the study period. The cash and bank balance to total deposit ratio reflect the position of cash and bank balance to total deposit of the bank the due to 2059/060 to 2063/064 decreasing respectively. The increasing ratio of cash and Bank balance is lower than its total deposit after same year.
3. The over due loan and interest receivable amount are increasing every year.
4. The overall profitability position from the study period (i.e.2059/060 to 2063/064) as very week in an average. The bank has been facing the problems of countries internal conflict period.
5. The trend analysis of loan activities of the bank shows the mix result. Every year loan disbursement, collection, interest collection have been increased but on the other side over due and the interest receivable have also been increasing which shows the inactive position on of MDB.
6. Investment to total deposit ratio from **2059/0602 to 2063/064** are

⁵⁸ Bishnu Pandey" study on the financial performance of Malika Development Bank", Master Degree thesis T.U 2006.

13.83, 9.20, 23.76, 25.58 and 19.51 percent respectively. The ratio seems to be fluctuating trend as compared to its base year. The ratio is minimum in the year 2060/061 and highest ratio is in the year 2062/063. The total amount on investment has increased in the study period and the amount of total deposit also increased from 2059/060 to 2062/063 but it decreased in the year 2063/064. The increased rate of investment appeared higher than the increased rate of total deposit.

7. The fixed assets and interest earned and its position has been shown in this ratio. It has been seen that the ratios of study period is increased except the last year. The ratio is 3.22, 7.05, 11.6, 16.69 and 15.25 times in the study period. The maximum ratio is 16.69 times in the year 2062/063 interest earned has been increasing every year but fixed assets has been decreasing preceding four year. The ratio is 16.698 times in the year 2062/063 interest earned has been increasing every year but it has been increasing in the year 2063/064. The analysis indicates that the management is successful to using fixed assets.

8. The total assets turn over ratio is 0.28, 0.35, 0.36, 0.25 and 0.20 times from the year 2059/060 to 2063/064 respectively. It has seen that the ratio is increased to the year 2061/062 and the year 2062/063 and decreased to the year 2062/063 and 2063/064 respectively. As per its standard the analysis indicates that the management is not so successful to using total assets.

9. The portion of non Banking assets to total loan outstanding is 4.93, 1.63, 0.82, 0.74 and 3.58 percent respectively. The ratio in the year 2059/060 is 4.93 percent, which is highest in the study period. After then, it decreased for succeeding three years and it has increased in year 2063/064.

CHAPTER-III

RESEARCH METHODOLOGY

Research Methodology is another important chapter of the study. Generally, the word "Research" is made from two words "Re" and "Search". The word 'Re' refers to do something again and 'Search' means to look for something. Hence, research means to look for something again. Research has specified procedures and some of its essential characteristics. It is a process of investigation which involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding solutions to the problems.

"Research means to research the problems again and again to find out something more about the problems."⁵⁹

According to 'Karl Popper', "Research methodology means how the research objectives will be reached and how the problems encountered in the research will be tackled."

"Research methodology refers to the various steps that are adopted by a researcher in studying the research problem along with the logic behind it. Thus, the research methodology is a way to systematically analyze so that we can solve the research problems."⁶⁰ In fact, research may involve a scientific study or experimentation and result in discovery or investigation. Which would aid either scientific development or decision making? It may be concerned with general abstracts or concrete subjects. The research that involves that scientific analysis would result in the formation of new theories.

⁵⁹Kothari, "CRRM method and techniques" New Delhi, Wiley Eastern Limited, 1996.

⁶⁰Wolf, Howard K. and Prem R Pant, "Social Science Research and thesis writing" Sewa Printing press. Second Edition, 1991 Ktm.

The theory concept or technique thus "Research is the manipulations of themes, concepts of symbol for the purpose of generalizing to external correct or verify knowledge, where that knowledge add in constructions of theory or in the practice on an art".⁶¹

Methodology is the development face of research method by research methodology. We mean design research logic behind application of tools and techniques. In deed research methodologies try to give the answer the following questions:-

1. Why the research study has been undertaken?
2. How the research problem has been defined?
3. In what way and why the hypothesis has been formulated?
4. What data have been collected?
5. What particular technique of analyzing data has been adopted?

From the above description the procedures by which research goes about their work of describing and explaining the phenomena are called research methodology.

The present study includes the methodology utilized for research work to achieve includes the methodology utilized for research work to achieve the desired objective. The prime objective of the study is to analyze and evaluate the financial strength and weakness of Malika Development Bank' providing suggestive guidelines for improvement. During the seven years period 057/058 to 063/064 B.S. Methodology in the research work are used to test the hypothesis, analysis and interpretation of data acquired from the bank tables and figures are used with a view for systematic data collection and data presentational tools and financial tools have been used as well has it represents basically the description and analytical analysis of the relevant information and data.

⁶¹The encyclopedia of social sciences" vol. IX Macmillan. 1930

3.1 Research design

Research design refers to the overall framework or plan for conducting the research work. It is a blueprint for the collection, measurement and analysis of data. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. Research design is the conceptual framework created by the researcher within which the researcher will make conclusions and will obtain the answers to the research questions. It is a plan for the collection and analysis of data. It is also a scheme and an outline of the operation of variables for research purposes. At the same time, research design can be used as a structure, more specific than a plan that explains how the research objectives will be achieved and how the problems encountered in the research will be tackled. In reality, research design is the strategy of conducting research work in an organized approach.⁶²

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.⁶³

Research design is the most important aspect of any research work. Basically, research design has two purposes. The first purpose is to answer the research question or test the research hypothesis. The second purpose of a research design is to control variance. The research design followed in this study is descriptive as well as analytical. It will describe the financial situation of 'Malika Development Bank Ltd.' for the period of seven years from 2057/058 to 2063/064. The present study tries to explore the true financial performance of the sampled institution i.e. Malika Development Bank Limited.

⁶² Kerlinger, F.N, "Foundation of Behavioural Research". "Third Edition. New York Holt, Rinehart & Winston, 1986.

⁶³ Sellitz, Claire & Others, 'Research methods in social science, 1962.

In fact the research design is the conceptual structure with in which research is conducted it constitute the blue print for the collection, measurement and analysis of data.⁶⁴

The research design tries to the answer of the following questions.

1. What is the study about?
2. What is a study made?
3. Where were the study on carried out?
4. What type of data is required?
5. Where can the required data are found?
6. What will be the sample design?
7. What technique of data collection will be used?
8. How will the data be analyzed?
9. 9. In what style will be report prepared?

The basic aim of the study is to examines and access the financial performance of 'Malika Development Bank' through the collection, evaluation, verification and analysis of data systematically. Evaluation has been done on the basis of seven years performance from 2057/058 to 2063/064 B.S. To measure it performance income statement, balance sheet, cash flow statement is primarily required. The statements have been obtained from the seven year annual audit report of the 'Malika Development Bank.' Most of the relevant information has been taken from the website of NRB. This study totally depends on upon the secondary data.

The data have been analyze using various tools and the techniques such as common size statement, relevant ratio, cash flow analysis and trend analysis as well as statistical tools such as means, standard deviation, co relation analysis, student t-test study represent historical and exploratory-

⁶⁴Khotari C.R.research methodology method and technique. Wishwa Prakashan. Second Edition 1990. Page 39

as well as descriptive.

In this study ratio analysis is the process of determining and interpretation numerical relationship based on financial statement. Cash flow analysis is a more informative tool regarding bank cash flow (inflow and out flow) from its operating, investing and financing activities. Similarly trend analysis makes it easy to understand the change in old item on the group of items over a period of time. The correlation analysis shows the relationship between the certain variables. To draw the conclusion regarding the data, the common size statement shows the percentage change as increase and decrease in amount of statement over a period of time. So the structure of resource has been design to obtain the objectives which are mentioned in this study.

Research Variables

Research variables of the study are as follows:-

1. Capital employed.
2. Capacity utilization of profit and loss.
3. Total assets.
4. Size of current assets and current liabilities.
5. Total debt.
6. Volume of deposit and loan disbursement of customers.
7. Operating expenses.
8. Interest expenses.
9. Cash flow of short-term and long- term analysis.
10. Working and economic environment of the bank.

3.2 Population and sample of the study

The word population refers to the entire to the entire group of people, events or things that have been chosen for the purpose of study. It can be also said universe that includes any well-defined class of people, events or objects.

On the other hand, a sample is only a portion or subset of the universe or population. In other words, a sample includes some observations selected from the population .It is a representative of the total population.

The present study is related to the financial performance of Malika Development Bank Limited operating in Dhangadhi. At present, there are twenty-six development banks and eleven are micro-finance development banks licensed by 'Nepal Rastra Bank' conducting banking transactions in the country.

a) Non-random sampling/Non-profitability sampling

In this type of sampling design, all items or elements in the universe do not have equal chance of being selected. This sampling technique is applied when the number of elements in the population is either unknown or can not be usually identified. in this sampling design, the subjects included in the sample are colleted from the sampling frame without their probability of concurrency. The limitation of this sampling technique is that the decision is followed by personal convenience or judgment of the researcher. Therefore, there is probability of bias in this technique.

b) Random Sampling/Probability Sampling

If each item or elements in the universe has equal chance of being selection, than, random sampling design is applied. In this sampling

technique, the probability of selecting an item is known. At the same time, the subjects included in the sample rate selected from the sampling frame with their known probability of occurrences.

Population and sample size

Development banks	No.
Total Development banks	59
Micro finance (Licensed by NRB)	11

The sample institution for the study is Malika Development Bank Ltd. Dhangadhi. The researcher has used convenience sampling method for the study.

3.3 Source of Data

There are two types of data. They are:-

1. Primary data.
2. Secondary data.

The data which are collected by the researcher himself or in the original form is known as primary data. But, if data are collected in the form of published or unpublished source compiled by other parties is known as secondary data.

The data collected from primary sources may not be adequate or needed material may not be available. In some cases, information requirements cannot be satisfied from secondary sources. Therefore, it may be time consuming and insufficient too. Considering this fact, data are acquired from secondary sources. Primary data have not been previously collected or assembled for any other known project and they are in unorganized form. But, secondary data are acquired from unpublished source such as reports, records or statistics and published source refers the

studies carried out by governmental and non-governmental agencies in different titles. In the course of the study, basically secondary data have been used i.e. financial statement and annual reports and other official records of 'Malika Development Bank.' Besides these, some well-known magazines and other available empirical studies have been reviewed in this study. In addition to it, the study also incorporates the views, opinion and clarification received from the officials of the bank wherever necessary.

3.4 Data Processing Procedure

The data collected by the researcher may be in raw form. Therefore, those data are converted in transformed to the forms that give some meaning and can be understood to fulfill the research objectives. Hence, data processing procedure indicates the process of changing the assembled or acquired data so as to get information for further analysis. The information obtained from secondary data will be presented in an appropriate tabular form and will be analyzed.

3.5 Data Analysis Tools

The analysis of data is done according to pattern of the data available. Purpose of the analysis is to obtain answer to research questions to exhibit the true financial performance of the 'Malika development Bank Dhangadhi.' For this purpose, data obtained from financial account, and records and interviews, balance sheet, profit and loss account and income statement of the bank have been used. There are no of tools and technique can be used to analyze the banks financial performance all the tools and techniques may not applicable at a time due to the nature, objectives, scope and availability of time and cost. Thus some of well accepted and important

financial and statistical tools have been used to measure the financial performance of MDB Dhangadhi, Kailali. These tools and techniques are:-

Financial Technique

1. Comparative and commercial size financial statement
2. Ratio analysis
3. Net working capital analysis
4. Fund flow analysis
5. Cash flow analysis.

Statistical Techniques

1. Trend analysis
2. Mean
3. Standard deviation
4. Co-relation analysis

The comparative financial statement is a popular and well accepted tools for financial analysis which reflect the change in the financial data over a periodical and will be best understood if the statements containing data for a period two or more year placed side by side in adjustment columns. Similarly the common size financial statement indicates the relationship of various items with some items (Expressed in Percentage in common items). The percentage is calculated can be easily compared with the corresponding percentage in other period meaningful conclusion can be drawn.

Ratio Analysis

Ratio analysis is one of the widely-used techniques of financial analysis. A ratio indicates the relationship between two interrelated accounting figures of financial statements. It shows the numerical or arithmetical relationship between the two figures. A ratio is a statistical yardstick that provides a measure of the relationships between variables or figures. Ratio analysis is the process of determining and interpreting numerical relationship based on financial statements. It is one of the key financial ratios where the financial ratio is used for assessing the financial performance and position of the company. A ratio helps the analyst to make quantitative judgment about the firm's position and performance. In other words, ratio analysis is defined as the systematic use of ratio to interpret the financial statements like balance sheet, profit and loss account and income statement are used to calculate ratio analysis. In addition to this, ratio analysis also reflects the operating and financial characteristics of a form accounting data and financial statements. Different authors have classified financial ratios under various categories. The classified major financial ratios are as following:-

1. Liquidity ratio.
2. Asset management or efficiency ratio.
3. Debt management or leverage ratio.
4. Profitability ratio.

I. Liquidity Ratio

The word "liquidity" refers the ability of a firm to meet current obligations. And, liquidity ratio measures the ability of a firm to meet its short-time obligations and reflects the short-trim financial strength/solvency of a form. In fact, liquidity is a pre- requisite for the survival of a firm. The

consequence of inadequate liquidity will result in bad credit rating, loss of creditor's confidence, or even in law suits resulting in the closure of company. On the other hand, a very high degree of liquidity is also bad.; idle assets earn nothing. The firm may be unnecessarily tied up in current assets. Therefore, it is important to measure liquidity position of a firm for long-term survival and growth of firm. Some of the popular ratios are as follows:

a) Current Ratio

It is one of frequently used liquidity ratio. it indicates the extent to which current assets by current liabilities. it shows the rupees of current assets available for each rupee of current liability. By formula-

$$CR = \frac{CA}{CL}$$

Where, CR = Current ratio

CA = Current assets i.e. cash and bank balance, marketable securities, inventory, prepaid expenses, bills receivable, debtors, outstanding expenses,

CL = Current Liabilities

= Creditors, bills payable, bank credit, outstanding expenses, accrued expenses, income tax liability.

The standard for current ratio is regarded as 2:1 Higher current ratio indicates that the firm is in liquid and has ability to pay its current obligation in time as and when they become due as well as the greater safety of funds of short-term creditors. On the others hand, lower current ratio represents that the liquidity position of the firm is not sound and the

firm will face difficulty in paying its short-term obligations in time. The current ratio represents a margin of safety i.e. a "cushion" of protection for creditors. However, an arbitrary standard of 2:1 current ratio should not be blindly followed. It is because the current ratio is a 'test of quantity' not quality. It does not measure the quality of assets. Therefore, it should not be taken decision considering the current ratio only. However, the current ratio is a 'crude and quick' measure of the firm's liquidity.

b) Quick Ratio

A modified version of quick ratio known as second measure of firm's liquidity is the acid test or quick ratio. It is often referred to as quick ratio because it is a measurement of a firm's ability to convert its current assets quickly into cash in order to meet its current liabilities. The quick ratio is found out by dividing the total of the quick assets by total current liabilities. Quick Ratio is also known as "Liquidity Ratio".

By formula, $QR = \frac{QR}{CL}$

Quick Ratio = Quick Assets

= Current Assets – Inventory – Prepared expenses

Where,

Quick Assets = All current assets excepts inventory and prepaid expenses. A rupee of cash is considered equivalent to a rupee is more readily available (i.e more Liquid) to meet current obligation than a rupee of say, inventory.

The standard for quick ratio is considered to be 1.1 as satisfactory level. It is very useful to measure the liquidity the position or satisfactory financial condition. It is because a low condition ratio doesn't a necessarily imply bad liquidity position. Similarly a company with a high value of ratio

can flounder if it has slow paying, doubtful and stretched out in age receivables (books debt). Along with this a company with a company of quick ratio may really be prospering and paying its current obligation in time. If it ha been managing its inventories very efficiently with a continuous salability,

II Assets Management Ratio

Assets management ratio measure the efficiency of a firm in utilizing its assets. In others words, it shows how effectively the form is managing/utilizing its assets. it indicates the relationship between interest earned and various assets of a firm. The asset management ratio is also called "Turnover Ratio" as indicates the speed with assets are being converted or turned over into sales. A very efficient firm is one that utilizes its investment asset to generate the largest possible level of interest revenue. Some of the important types of asset management ratios are as follows:-

a) Inventory Turnover Ratio

The inventory turnover ratio indicates the efficiency of managing the firm's inventory. It measures how quickly the inventory is sold. This ratio explains the number of times inventory or stock is replaced during the year.

This ratio measures the velocity of conversion of stock into increase revenue. A high stock turnover ratio reflects the efficient management of inventory because more frequently the stocks are sold; the less amount of capital is required to financial the inventory.

Inventory turnover ratio is not computed by banks because there is no inventory in the bank.

b) **Receivable Turnover Ratio**

General measure of the productivity of the receivable investment is calculated by this ratio. It shows the number of time the firm collects its account receivable per year. This ratio indicates how quickly another current asset i.e. receivable or debtors is converted into cash. In other words, this ratio is a test of the liquidity of the debtors of a firm.

By Formula,

$$\text{Debtors Turnover Ratio} = \frac{\text{Total Interest Revenue}}{\text{Debtors (Ending/Closing)}}$$

Where, Total Interest Revenue = Total Interest Earned from loan and advances.

The higher the value of its turnover, the more efficient is the management of debtors or more liquid the debtors.

c) **Days Sales Outstanding**

It is also called "Average Collection period" that is used to appraise account receivables. It shows the number of days that sales are tied up in receivables. This ratio is interrelated with receivable turnover ratio. The formula for computing days

$$\text{Outstanding} = \frac{\text{Days/ Months in a year}}{\text{Debtors Turnover Ratio}}$$

or,

$$\text{DSO} = \frac{360}{\text{Debtors Turnover Ratio}}$$

A long collection period reflects an inefficient credit and collection performance. On the other hand, low collection period a restrictive credit

and collection policy. Therefore, the average collection period should be compared against the firm's credit terms and policy to judge its credit and collection efficiency. Generally, shorter ratio is considered to be better.

One of important method of measuring the quality of debtors is 'Again Schedule'. The again schedule breaks down debtors according to the length of time for which they have been outstanding. The usefulness of the again schedule is that it enables the analyst to identify the slow-paying debtors in respect of whom the firm may have to encounter a serious collection problem. Again schedule gives more information than the collection period.

d) Fixed Assets Turnover Ratio

It measures the efficiency with which the firm is utilizing its investment in fixed assets such as land and building, plant and machinery, furniture etc. it also indicates the adequacy of sales in relation to the investment in fixed assets. The fixed assets turnover ratio is sales divided by net fixed assets i.e. depreciated value of fixed assets which can be shown as below :-

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Total Interest Income}}{\text{Fixed Assets (Net)}}$$

Where, Net Fixed Assets = Fixed Assets- Depreciation.
= Depreciation value of fixed assets.

A higher ratio indicates efficient utilization of fixed assets in generating sales and better business performance whereas lower ratio inefficient Management and utilization of fixed assets.

e) **Total Assets Turnover Ratio**

It measures the efficiency of a firm to manage its total assets efficiency to generate maximum sales through their proper utilization. It indicates the sales generated per rupee of investment in total assets. The Total assets turnover ratio is calculated sales by total assets of the firms. By formula,

$$\text{Total Assets Turnover Ratio} = \frac{\text{Total Interest Income}}{\text{Total Assets}}$$

Where, Total Assets = Current assets, long term and fixed assets, intangible assets.

The amount of Total assets can be determined as below:-

Total amount of total assets said of balance sheet	xxx
Less: Total amount of fictitious assets.	(xx)
Total assets.	<hr/> xxx

Here, fictitious assets refer the assets like deferred expenditure, debit balance of profit and loss account etc.

Higher assets turnover ratio indicates the proper utilization of assets of the firm and vice versa. One considerable matter is that older assets with a lower book value may create a misleading impression of higher turnover.

(III) Debt Management Ratio

It is also known as "Leverage Ratio", "Solvency Ratio" or "Capital Structure Ratio". The long-term solvency of a firm can be examined by using leverage or capital structure ratio. There should be an appropriate mix of debt and owner's equity in financing the firm assets. The ratios calculate the extent to which a bank relies on debt. Other things being equal, a high leverage ratio indicates a riskier bank because the interest payment on debt

is fixed even if the earnings of the bank. Debt management has following implications:-

- By raising funds through debt, the owner can maintain control of the firm with a limited investment.
- Creditors look to the equity or owner supplied funds to provide a margin of safety.
- Return on owner's capital is magnified.

Higher debt ratio indicates the more claim of outsiders on firm assets which arises risk to shareholders. It is because shareholders claim on assets declines due to the use of higher proportion of debt. In case of any disability to pay the debts. Debt holders can liquidate the firm.

On the other hand, higher debt helps to increase profit due to the lower cost of financing as well as tax-shield on interest expenses.

Debt management ratios have been classified as below-

a) Debt to Equity Ratio

Debt equity ratio is an important tool of financial analysis to appraise the financial structure of a firm. It reflects the claim the creditors and share holders against the assets of the firm. Debt equity ratio is calculated by sampling dividing the long term debt by share holder' equity. Another is calculated dividing total debt (Long term –Current- Liabilities) by its share holder's equity. In fact the omission of current liabilities in calculating the D/E ratio would give lead to misleading reserve. Thus the debt equity ratio is calculated in following manner.

$$\text{Total debt equity ratio} = \frac{\text{Total Debt}}{\text{Share holder's Equity}}$$

$$\text{or, D/E ratio} = \frac{\text{LTD}}{\text{SHE}}$$

Where, LTD = Long term debentures
 SHE = Shareholder's equity or net worth.
 = (Equity + preference share capital + Share premium + Reserve and surplus)
 = Total assets – Total Liabilities.

The total debt includes borrowing, customer deposit and saving and other current liabilities and share holder's equity includes paid up share capital, general reserve and net profit. In fact, D/E ratio is an important tool of a financial analysis tools appraise the financial structure of a firm. This ratio reflects the relative contribution of creditors and owners of business in its financing.

b) Total debt to total assets ratio

It is another measuring tool of capital structure ratio. It measures the share of total assets finance by outside funds. The total debt of the firm comprises long term debt plus current liabilities. Similarly total assets consist of permanent capital plus current liabilities. The total debt to total assets ratio can be completed by dividing the total debt by total assets. By formula:

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

$$\text{Or, TD/TA ratio} = \frac{\text{TD}}{\text{TA}}$$

Where, Total Debt = Long term debt + Current liabilities.

Total assets = Permanent Capital + Current liabilities.

A low ratio of debt to total assets is desirable from the point of creditors as there is sufficient margin of safety available to them. A low ratio represents security to creditors. On other hand, a firm with a very high ratio

would expose the creditors and also the share holders to higher risk. In conclusion, a firm should have neither a very high ratio nor a very low ratio.

c) Interest Coverage Ratio of Times Interest Earned Ratio

It measures the debt- servicing capacity of a firm. It shows how many times the interest charges are covered by EBIT or funds that are ordinarily available to pay the charges. In others words, It shows the proportion of interest to the operating profit (EBIT). It is calculated by dividing operating profit or earning before interest the fixed interest charges on loans.

Interest Coverage Ratio/ Times Earned Ratio

$$\begin{aligned} &= \frac{\text{Net Profit Before Interest and Taxes}}{\text{Interest}} \\ &= \frac{\text{EBIT}}{\text{I}} \end{aligned}$$

Generally, higher interest coverage ratio is favorable. A high ratio indicates the ability of the firm to handle fixed charge liabilities. On the other hand a low ratio is a danger signal. It states that the firm should make effort to improve the operating efficiency or to retire debt. For example, the interest coverage ratio of 5 times indicates that the firm can still pay its interest in case of any decline in profit from one hundred percent to twenty percent (i.e. 1/5)

IV) Profitability Ratios

These types of ratios are used as an overall measure of the operating efficiency of the firm's investment management. In other words, the profitability of a firm can be measured by its profitability ratios. Unlike creditor's owners and management or the company itself is also interest in

the financial soundness of a firm. At one hand, management desires to operate the company providing adequate return to its shareholders. Similarly, creditors want to get interest regularly and return of principle at maturity. Therefore, financial manager should continuously evaluate the efficiency of its company in term of profits. The profitability of the company should be evaluated in term of firm investment in assets and in terms of capital contributed by creditors and owners. Profitability is the net result of a large number of policies and decisions. In fact, sufficient profit must be earned to sustain the operation of the business, to be able to obtain funds from investors for expansion and to contribute toward the social overheads for the welfare of the society. A contribute toward the social overheads for the welfare of the society. A company should earn profit to survive and grow over a long period of time. Some of important profitability ratios are as follows:-

a) Gross profit Margin

One of the most commonly used ratios in operational analysis is the calculation of gross profit as a percentage of sales i.e. interest earned in the present study. A firm should have a reasonable gross profit margin to ensure adequate coverage for operating expenses of the firm and sufficient return to the owners of the business. It is also known as "Gross Margin". It expresses the relationship between gross profit and sales. The ratio can be computed in the following way:-

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Total Interest Income}} \times 100$$

Where, Gross Profit = (Sales – Cost of good sold)

A high ratio of gross profit to sales is a sign of good management as it implies that the cost of production of the firms is relatively low. On other hand, a relatively low gross margin is a danger signal for firm. It needs a careful and detail analysis of the factors responsible for it. The causes of low ratios are as follows:-

- ❖ High Cost of production,
- ❖ Inefficient utilization of current as well as fixed assets,
- ❖ A low selling price resulting from server competition, inferior quality of the product, lack of demand etc.
- ❖ Over- Investment in assets.

For these reasons, the financial manager must be able to detect the causes of failing gross margin and initiate action to improve the situation.

b) Net Profit Margin :-

It measures the overall profitability of the firm establishing the relationship between net profit and sales of a firm. The relationship between net profit and sales indicates management's ability to operate the business with sufficient success not only to recover the cost of production funds, but also to leave a margin of reasonable compensation to the owners for providing their capital at risk. The ratio is an overall measure of the firm's ability to turn each rupee of sales into net profits. It also indicates the firm's capacity to withstand adverse economic conditions. IT is calculated by dividing net profit after tax and interest by sales.

$$\text{Net Profit Margin} = \frac{\text{Net Profit Margin after tax}}{\text{Total Interest Income}} \times 100$$

It indicates the margin of compensation left to the owner for providing their capital after all expenses have been met. A firm with a high

new margin ratio would be in an advantageous position, falling sales price of declining demand for the product. In other words, the firm can make better use of favorable condition. Such as rising sales price falling, cost of production or increasing demand for the product.

c) Return on assets

It is another useful measure of the profitability of the assets. The ratio shows the relationship between net profit and assets. So, this ratio can also be called "Profit to assets Ratio". It is computed as dividing the net profit after tax by total assets.

$$\text{Return on Assets} = \frac{\text{Net profit after tax}}{\text{Total assets}}$$

Or, ROA =%

Where,

This ratio judge the effectiveness in using total fund supplied by the owners and creditors. Higher ratio indicates higher return on the assets used in the business and effective use of the resources available and vice versa.

d) Return on equity

It is an important ratio to judge whether a firm has earned a satisfactory return for its equity holders/owners or not. In other words, a return on all shareholders equity is calculated to see the profitableness of the owner's investment. As the shareholders is the residual and real owner of the company, the performance of its operation if judged on the basis of return earned on common equity. The return on shareholder's equity is net profit after tax and after preference dividend by the common share holder's equity formula:-

$$\text{Return on equity} = \frac{(\text{Net profit after tax- Pref. dividend})}{\text{Shareholders equity}}$$

$$\text{Or, ROE} = \frac{\text{NPAT-PD}}{\text{SHE}}$$

Where,

SHE = Share holders equity or net worth

= Common share capital + Pref. Share capital Premium +
Reserve and surplus – Accumulated losses.

Or, total assets – Total liabilities.

This ratio indicates how well the firm has used the resources of the owners. The earning of a satisfactory return of a satisfactory return is the most desirable objective of a business. This ratio has great importance to present as well as prospective shareholders and also of great concern management.

d) Return on capital employed:-

e) The return on capital employed indicates how well the management has used the funds supplied by the creditors and owners. It shows the relationship between capitals employed and net profit after tax.

$$\text{Return on capital employed} = \frac{\text{Net Profit after tax}}{\text{Capital employed}}$$

$$\text{Or, ROCE} = \frac{\text{NPAT}}{\text{CE}}$$

Where,

CE = Capital Employed.

= Permanent Capital – Non current liabilities +
Shareholders equity.

= Working Capital + Non current asset

$$CA-AL = \text{Net FA}^s$$

Where,

AL= Accumulated Losses

= Equity + Preference share capital + Reserve +
R/E + Profit and loss a/c (Cr) + Share premium + Other undistributed profit
+ Debenture + Bond + Loan + P/L appropriation a/c - Investment on
government securities , fictitious assets i.e. preliminary expenses - Profit
and loss a/c (Dr) discount. The higher the ratio the more efficient the firm is
in using funds and vice versa. It shows how efficiently the management has
used the available resources supplied by owners and creditors.

The higher the ratios, the more efficient the firm is in using funds and
vice versa. It shows how efficiently the management has used available
resources supply by owners and creditors.

V) Market Value Ratio

These ratios relate to firm's stock price to its' earning and book value
per share. These ratio give management and indication of what investor
think of the company's past performance and future prospects.

a) Earning per share

It measures the profit available to the equity holder on a per share
basis i.e. The amount that they can get on very share held. It is computed
by dividing the profit after preferences dividend available to the
shareholders by the members of the outstanding shares. By formula -

$$\text{Earning Per share} = \frac{\text{Net profit after tax- Prêf. Dividend}}{\text{No of preference outstanding}}$$

$$\text{Or, EPS} = \frac{\text{NPAT} - \text{PD}}{\text{N}}$$

The EPs shows the profitability of the firm on a per share basis; it doesn't reflect how much is paid as dividend and how much is retained in the business. But as a profitability Index, it is a valuable and widely used ratio. In general, higher the figure is considered i.e. only the earning of the year should be included.

b) Dividend Per share

The net profit after interest, tax and preference dividend belongs to ordinary shareholders. The EPs represent what the owners are theoretically entitled to receive from the firm. Apart from the net profit belonging to them is retained in the business and the balance is paid to them as dividend. The dividend paid to the shareholders on a per share basis is the Dps. The amount of earning per share. It is computed by dividing the amount of dividend distributed to shareholders by the number of common shares outstanding. By formula:-

$$\text{Dividend Per share} = \frac{\text{Earning Paid to shareholders}}{\text{No of common shares outstanding}}$$

$$\text{Or, DPS} = \frac{\text{Net Profit after int preference dividend and tax}}{\text{No. of common share outstanding}}$$

Generally, the higher figure is considered to be better from the view point of common shareholders. The Dps would be a better indicator than EPs. It is because a large number of present and potential investor is more interested in the dividend per share than the earning per share.

VI) DU POINT IDENTITY

The Due punt chart was development by the "Due Point Company" of the USA. This chart shows the combined effects of net profit margin and the assets turnover. The company developed a famous way of decomposing ROE into its component parts. As above explained, the two measure of profitability, ROA and ROE are the reflection of the use of debt financing or finance leverage. The Due Pont identity states that ROE is affected by three things:-

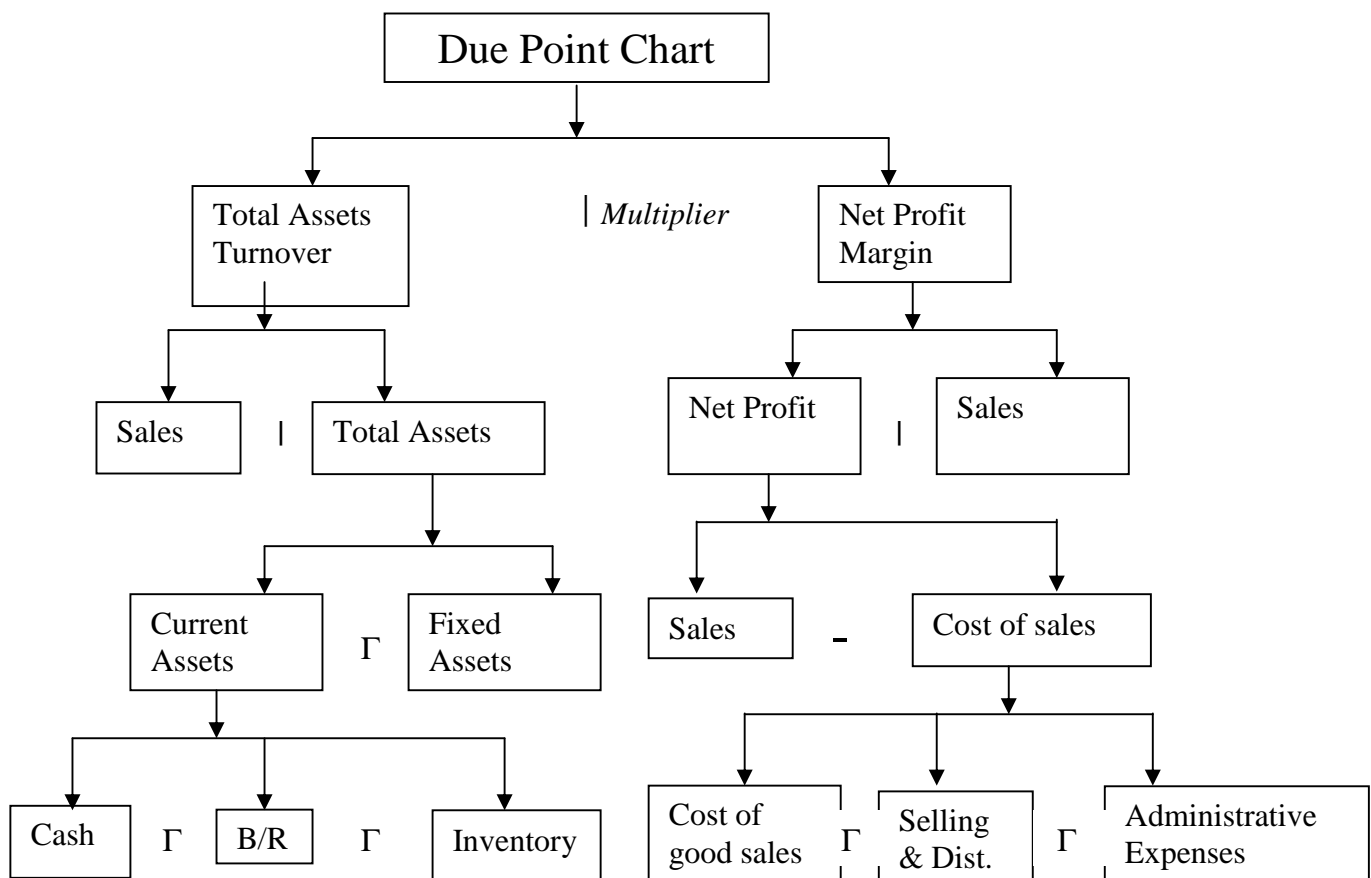
- ❖ Operating efficiency as measured by profit margin.
- ❖ Assets use efficiency as measured by total assets turnover ratio.
- ❖ Financial Leverage as measured by equity multiplier.

Return to Assets (ROA) = Profit Margin X Total Assets Turnover Ratio..... (I)

Again,

Return on Equity (ROE) = Return on Assets on X Equity Multiplier...

Chart 1.1



Users of Ratio Analysis

Ratio analysis has been regarded as an important and widely used tool of financing analysis. Different parties are benefited by the use of ratio analysis as it serves to them from different points of view i.e. liquidity, Profitability, solvency operating efficiency etc. In addition to it, ratio analysis helps to determine a particular characteristic of the firm in which they are interested. The ratio analysis is performed from the following concerned parties of firm:-

- ❖ Owners or shareholders
- ❖ Investors or Creditors
- ❖ Employees committee
- ❖ Employees
- ❖ Consumers
- ❖ Government

Limitation

All of these ratios are meaningful only in conjunction with a bank's past performance or in comparison with other bank. Also none of these measures has a "Correct" value. For example, it might seem that a higher debt to asset ratio is always better. After the entire higher ratio, the greater, the return on equity of the bank, according to DuPont Equation. However managing a firm to ensure a high debt to asset ratio may lead to an increased risk of default. Similarly any bank's liquidity can be improved by taking out a long term loan right before the end of the fiscal year and repaying it at the beginning of the next one. If the funds from the loan are kept in the form of vault cash, then the bank will appear to be very liquid. So the ratio should be viewed as part of a whole, not just insulation.

Cash Flow Analysis:

Cash is regarded as an economic fuel for the successful operation of any business firm. No business activities can be forwarded in the absence of cash. Hence, cash is the life blood of any business firms or institution. Cash flow statement is prepared through the statement of cash flow. A cash flow statement is a statement of firm's ability to generate cash from various activities such as operating, Investing and financing. In addition to it, it shows the cash inflow and outflow of firm during a period. Information is widely used by investors, analysts, creditors, managers and others.

Cash flow statement provides that type of information which is not covered by income statement and balance sheet. It measures the change that has been taken place in the financial position of firm.

The analysis of the events and transactions that affects the cash position of the firm is known as cash flow analysis. Therefore, decision maker must pay attention to these event and transaction that causes positive to change.

Cash flow statement is prepared by taking the opening balance of cash adding all the inflow of cash from total. While calculating operating profit for cash flow statement, adjustment for prepared and outstanding expenses and income are made to convert the data form accrual basis to cash basis.

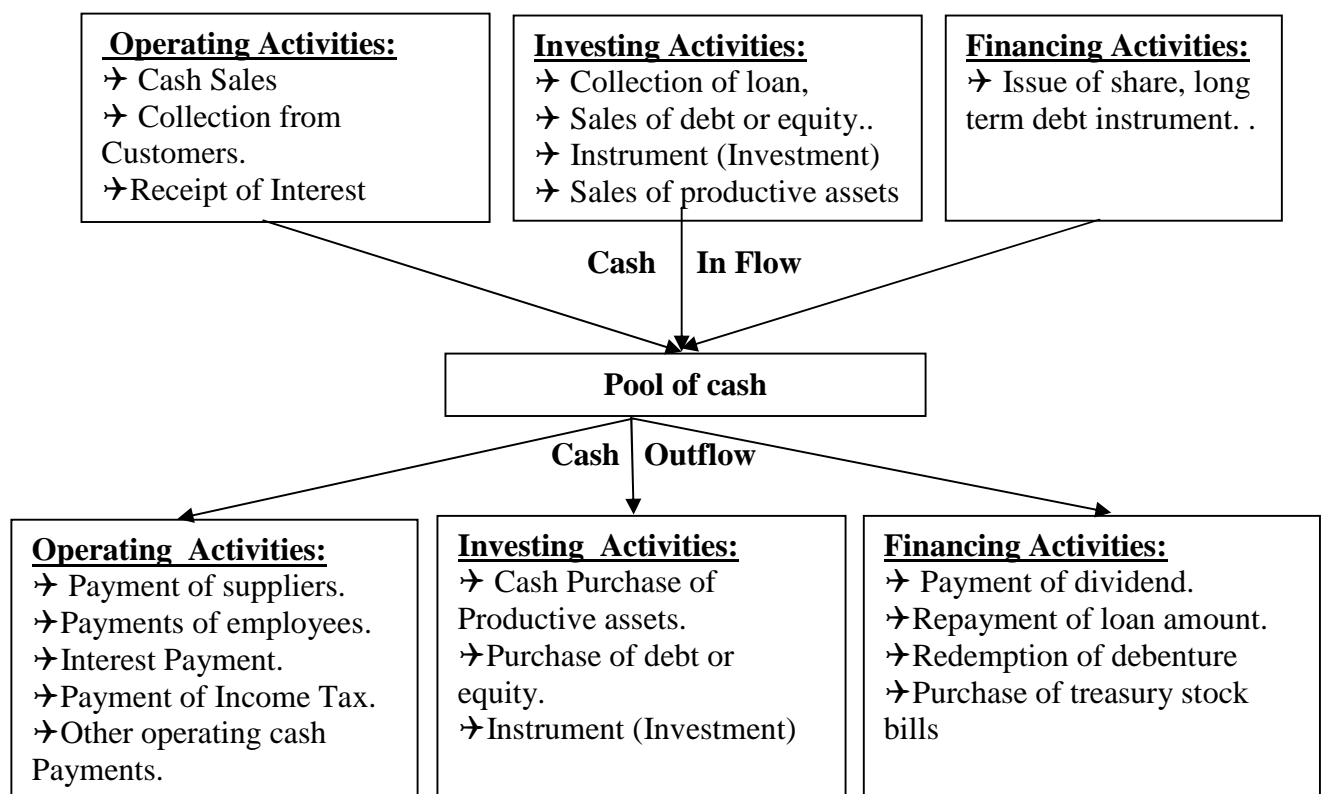
The starting of cash flow statement was begun in United States from 1988. Later on, British companies also made necessary to publish cash flow information in the beginning of 1992. Afterwards, many other countries such as New Zealand, Austrelia and South Africa also started to prepare statement. In 1992, the international accounting standard in cash flow statement. Nepal Company Act 2053 B S also made mandatory to present cash flows statement along with Balance sheet and Income statement. So

every enterprise should prepare a cash flow statement as an integral part of its financial statement for each period for which financial statements are presented.

It also helps to prepare cash budget for the specific Period and make plans and policies for taking decisions.

Chart 1.2

Cash Flow From different activities can be presented as below:



Trend Analysis

Trend Analysis is significant tool of horizontal financial analysis. It indicates the direction of change or movement i.e. whether the movement is favorable of unfavorable. It enables a firm to take the time dimension into account. It is one of the useful tools in making a comparative study of the financial statement of the numbers of year. It helps to identify the change in

an item or in a group of items or in a group of items over a time period of time and to draw conclusion regarding the change there on. Further more, It helps to identify the controllable items of the given period and makes forecast for future to an ongoing concern.

Trend analysis states the favorable or unfavorable situation of a business by analysis the different item if given period. As a result it can be known that whether the financial position of a firm is improving or deteriorating over the years. Therefore, trend analysis provides guidelines regarding the operating the operation of a firm in different years.

Arithmetic Mean (\bar{X})

Arithmetic Mean is the most popular and widely used measure of central tendency. It is also known as central tendency. It is also called simply "the mean": Arithmetic mean of given set of observation is calculated the sum of the observation by the total number of observations. IT is denoted by " \bar{X} " (x-bar). If X_1, X_2, \dots, X_n are the given observation, then their arithmetic mean is computed as below .

$$\begin{aligned} \text{Arithmetic Mean: } \bar{X} &= \frac{X_1 + X_2 + \dots + X_n}{n} \\ &= \frac{X}{n} \end{aligned}$$

Where, X = Variables

n = Number of observations.

X = the sum of observation.

Arithmetic mean may either be:-

1. Simple Arithmetic mean or ,

2. Weighted arithmetic mean.

Standard Deviation

The standard deviation is defined as the positive square root of the arithmetic means of the squared deviation from the given arithmetic mean of a set of values. It is also known as "Root Mean-Square Deviation". It is usually denoted by the Greek Letter "σ" (Sigma). It is used to measure the risk of two variables of a company. It measures the absolute dispersion or validity to the distribution. It is also useful in judging the representativeness to the mean. IT is calculated by using following formula:-

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}} \quad (\text{For individual series})$$

$$\text{Or,} \quad = \sqrt{\frac{\sum f(X - \bar{X})^2}{N}} \quad (\text{For discrete and continuous series})$$

Where, s.d or σ = Standard deviation
 X = Variable
 \bar{X} = Mean value of X series.
 N = Total Frequency.
 f = Frequency

It measure of dispersion or dispersion or spread of possible values. It is an estimate of the likely divergence of an actual return from an expected return it is a statistical measure of the variable of a distribution of return around its mean. It is also the square root of variance.

Coefficient of variation

The relative measure of dispersion (Risk) of dispersion across distribution is known as coefficient of variation. In other words it is the ratio of the standard deviation to the mean expressed in percent.

Coefficient of variation being a pure number is independent of the measurement. It is also used to compare the variability, homogeneity conformity of two or more distribution. It is useful in comparing the risk of assets with different expected returns.

It is calculated by using formula:-

$$\text{Coefficient of Variation (C.V)} = \frac{\text{S.D}}{\text{X}} \times 100$$

$$= \dots\dots\dots\%$$

Where,

S.D= Standard deviation of return.

X= Mean value of given variables.

Generally a distribution having less C.V is said to be less variable or more homogenous or more consistent of more uniform or more stable or more stationery of more equitable than other and vice versa.

Student's 't' Test

If the sample size is less than or equal to 30 (i.e.30) then, the sampling distribution of the sample mean is called "student's t- distribution" .it is also known as "t- distribution". It was first used by Irish Brewery employee william S. Gusset in the beginning of 20th century. Later on, it was extended by R.A Fisher.

The researcher had formulated some hypothesis (H0 and H1). Those hypothesizes are tested in the form whether the difference mean value of each selected ratio of 'Malika Development Bank Ltd' are statistically significant or not . Therefore, those hypothesis are tested by using student's t- test. By formula –

$$t = \frac{X1 - X2}{\sqrt{s^2(\frac{1}{n1} + \frac{1}{n2})}}$$

Where, X1 and X2 = Mean value of Malika Development Bank Ltd.

S²= an unbiased estimate of common population variance of both Samples.

Here,

$$S^2 = \sqrt{\frac{(X_1 - \bar{X})^2 + \dots + (X_n - \bar{X})^2 + (Y_1 - \bar{Y})^2 + \dots + (Y_m - \bar{Y})^2}{n_1 + n_2 - 2}}$$

The computed value of "t" is compared with the tabulated value of t for (n₁+n₂-2) degree of freedom at desired level of significance. Then the decision is made regarding the acceptance or rejection of null hypothesis (H₀).

Limitation of Methodology:

For every study certain methodology has been applied. Similarly for this study (Financial performance analysis of MDB. Some specific methodology has been adopted. Financial analysis is complex topic which can not be preformed in a limit period and at a limit cost. Although financial analysis is only one key tool to analyze the firm (banks) financial Performance and its position. Again, organization/firm with poor financial analysis could not make a better future for it perpetual growth. Financial analysis is a kind descriptive research in which facts are accumulated. Processed analyzed and lastly recommended for better future performance. This study is based on only past seven years data i.e.2057/058 to 2063/064. B.S. Annual audit report of agricultural development bank has been taken as major sources of data. Only these audit report may not be fully reliable source of data. The collected data has been arranged, processed and silently manipulated to make easily for analyzing. Further of detail analysis of bank financial and operating data sometime cannot be made by a external analysis because only condensed bank statement are available. Therefore the best analysis of the financial performance of the bank basically depends up on the fact- finding of the data. There are number of tools for analyzing

the financial performance of the bank because of inadequate data and time only some of the common and well- accepted tools like comparative and common size financial statement analysis trend percentage analysis, Net working capital and fund flow analysis, Cash flow analysis, ratio analysis along with some statistical tools mean, standard deviation and correlation have been adopted for analysis a financial performance of the selected banks.

A mere numerical analysis may not give the best result about the financial performance of the bank. Some of the abstract phenomenon, which cannot be expressed in monetary form, may effect the analyzing the data. The data received from bank's annual report has been taken as i.e. time value of money has been fully ignored and it is another limitation of methodology, in this study. Similarly only measure few statements is taken for analyzing the data. There are a number of statements which reflects the clear financial performance of the bank, and it has been fully ignored. Further this study doesn't compare with the financial performance of another bank and it compares between bank's is past performance and present performance only. Finally, this study gives recommendation to the bank for its best future performance which may not fully applicable to the bank in future environment.

CHAPTER: IV

DATA PRESENTATION AND ANALYSIS

4.1. Introduction

Presentation and analysis is another important chapter of the present study. Almost all research study includes this chapter. The analysis of data consists of organizing, tabulating, performing statistical analysis and drawing inference. The main purpose of the analysis the dare is to change it from an unproved from an understandable presentation. In other words, data analysis and presentation refers arranging the raw data collected by the researcher in different ways such as in the tables, graph, chart etc in order to get some senses to the reader regarding the study. The presentation of the data is basically organization and classification of data for analysis. Organization and processing of data requires knowledge of some technical methods. Classification refers to dividing the data into different categories, classes, group, or heads. After the classification of data are analyzed and interpreted to draw conclusion by examining them systematically. In this way, different types of data need different types of method and techniques. There are different types of methods and technique which can be used to present that data. There are various methods and techniques like charts, figures and graphs are commonly used in the presentation data. Therefore applying various statistical tools and techniques make the analysis of data. Such analysis arrange simple one like percentage, average, variation to complicate one like demanding, sophisticated technique. "The analysis of data consists of organizing, tabulating and performing statistical analysis. The main purpose of analysis the data is to change it form and unprocessed form to an understandable presentation".⁶⁵

⁶⁵ Wolff k.Horald and panta. Prem raj social science researcher and Buddha academic enterprises Pvt ltd
Second Edition 1999. Page 127

In previous chapters, the researcher has highlighted the overall development and condition of 'Malika Development Bank Ltd, Dhangadhi.' At the same time the relevant literature to the study has been stated .As a significant part of the study, this chapter is related with the analysis of financial performance of MDB Ltd. Dhangadhi with the help of different financial and statistical tools.

4.2 Analysis of liquidity Position

Generally liquidity refers the ability of a firm to met short term obligation. In other words liquidity represents the solvency power of the firm to meet short term obligation. It also reflects the financial strength or solvency of a firm. Generally a high liquidity ratio shows the efficiency of firm to pay debt. Immediately, some liquidity ratios that explain the liquidity position are as follows:-

I) Current ratio

It is most widely and frequently used liquidity ratio. This ratio is used to calculate the short- term solvency because of its merits of showing weather the claims made by short-term creditors can be covered with short-term creditors can be covered with short term assets that are explained to be converted in to cash with in a year . In other words, it shows the relationship between current assets and current liabilities. The standard for current ratio is 2: 1 which indicates two rupees of current assets should be available for each rupee of current liabilities. However the current ratios are not a conclusive index of the liquidity of the firm. As a conventional rule, a current ratio of 2.1 or more is considered satisfactory which may differ as

per the nature of the business. The current ratio of 'Malika Development Bank' has been presented in the table No. 4.1 which is as below

We know that

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Or,} \quad \text{C.R} = \frac{\text{C.A}}{\text{C.L}}$$

Table 4.1
Current Ratio (Times)

Financial	Current Assets (Rs)	Current Liabilities (Rs)	Ratio (CA/CL)
2057/058	11,144,236.00	4,233,444.00	2.63
2058/059	19,686,584.00	8,325,344.00	2.36
2059/060	44,027,815.09	9,027,073.35	4.88
2060/061	64,829,185.75	10,086,415.11	6.42
2061/062	16,312,484.01	2,377,913.12	6.86
2062/063	490,024,120.02	25,140,574.37	1.95
2063/064	75,317,731.06	33,474,547.14	2.25

Source : Annual Reports of MDB

Table 4.1 shows the current ratio i.e. position of current assets and current liabilities of the 'Malika Development Bank' to meet its short-time obligations. The current ratio of the bank has been calculated from the financial year 2057/058 to 2063/064 generally a current of 2: 1 is considered ideal for a concern. The current ratio of the bank from financial year 2057/058 to 2063/064 is 2.63, 2.36, 88, 6.42, 6.86, 1.92 and 2.25 respectively. Likewise it has 2.25 currents ratio for the financial year 2063/064 is in decreasing trend. Furthermore, it indicates that the bank is successful to maintain its solvency position as the current ratios of different financial year are able to meet the standard. It has doubled i.e. 4.88 from 2058/059 i.e. 2.36 similarly, the ratio has reached to 6.86 from 6.42 from

2060/061 to 2061/062. The range of the current ratio of the bank spans from 2.63 to 6.86. The study is based on financial performance of 'Malika Development Bank.' As it is a service- oriented Institution, inventories are less important for the bank. For this reason, only current ratio is used for analyzing purpose.

II) Cash and Bank Balance to deposit Ratio

It is another ratio to measure the liquidity position of the bank. It refers the ability of the bank to meet their current margin calls and saving deposits .The higher the ratio reflects the greater capability to cover their deposit (Excluding their Fixed deposit) and vice versa . However, too high ratio is not beneficial as capital is tied up in the unproductive sector i.e. cash and bank balance . This ratio can be computed by using following formulae:-

$$\text{Cash and Bank Balance} = \frac{\text{Cash and bank balance}}{\text{Deposit (excluding deposit)}}$$

Where,

Cash and Bank balance = cash in hand + Bank Balance.

Deposit = Saving deposit and daily deposit.

The condition of cash and bank balance to deposit ratio can be shown in the table no. 4.2 which is as below-

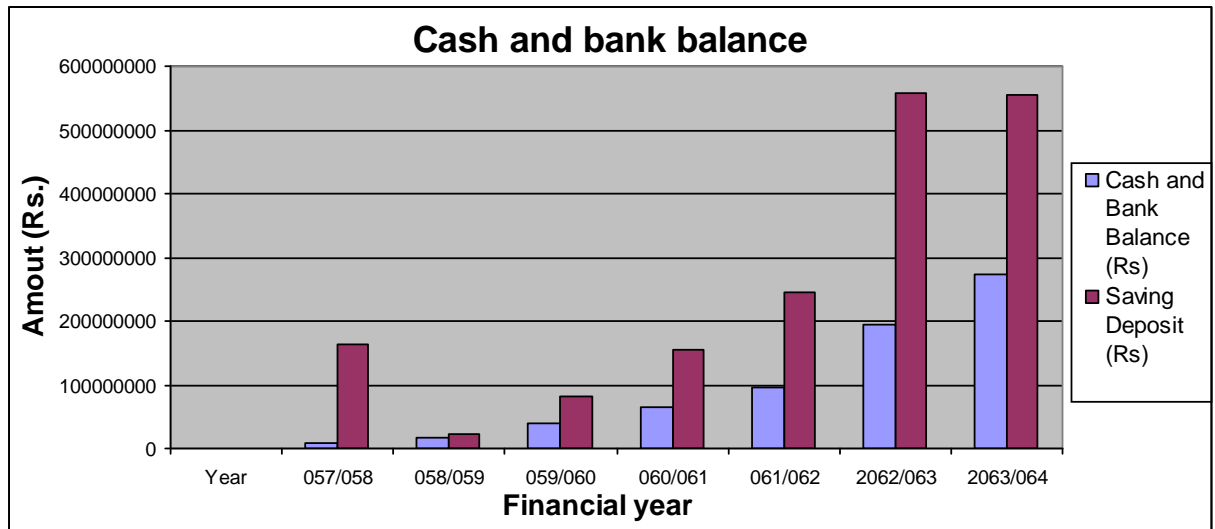
Table 4.2
Cash and Bank Balance to Deposit Ratio

Financial Year	Cash and Bank Balance (Rs)	Saving Deposit (Rs)	Ratio (%)
057/058	9,211,458.00	163,845,102.00	56.22
058/059	15,637,666.00	21,505,811.00	72.71
059/060	39,637,920.70	81,357,814.18	48.39
060/061	64,867,450.11	154,043,619.33	42.11
061/062	94,665,613.72	245,013,314.92	38.64
2062/063	194,861,392.00	557,522,831.2	34.95
2063/064	273,726,967.96	554,478,618.00	52.19

Source : Annual Report of MDB

The above table reflects the position of cash and bank balance to the deposit of the bank. It has been seen that the ratio of the bank from the financial year 2057/058 to 063/064 is 56.22, 72.71, 48.39, 42.11, 8.64, 34.95, and 52.19 respectively. The table indicates the ratio has been increased from 56.22 to 72.71 from financial year 2057/058. In other word the ratio has been increased in the year 2056/057. On the other hand, the ratio has decreased from the financial year 2059/060 to 2062/063 for four years continuously. Therefore it can be concluded that the bank is maintained lower balance of cash and bank relative to deposit and utilized the balance in productive sectors. There after 52.19% reach from 34.95 in the year 2062/063. This trend can be presented in figure 4.1 as below:-

Figure 4.1



On the basis of above analysis , It can be summarized that there would be the possibility of refunding deposits to overcome the problem that arise in future as the cash and bank balance to deposit has decreasing from the financial year 2058/059. But, it can be raid that overall liquidity position is better to some extent. It is suggested to invest in more productive sectors like government securities, bond, and treasury bills for the further advancement in its profitability position.

4.3 Analysis of Profitability

Every business organization is established to achieve profit. The bank also can not bed segregated from it. As the MDB is a financial institution, it has determined to earn profit to some extent from the banking transaction by providing qualitative services to customers. Profit is essential for the survival and growth of any organization. In fact it is an indication of the firm's efficiency and overall measuring rod of the organization. An organization should earn profit to sustain the operation smoothly and continuously. The profitability ratio is calculated to measure the operating efficiency of the organization. Therefore, financial manager should

continuously evaluate the efficiency of the organization / institution in term of profit irrespective of social consequence. The investor invests their money for the return. Besides management of the institution, creditors, depositors and owners are also interested in the profitability of the institute /business organization. For the reasons, the institution should try to earn sufficient surplus irrespective of social motive for it expansion, growth and long term, profitability in the present competitive business environment.

The profitability is another measure to evaluate the financial performance of an organization. The ratio measure the organization's effectiveness in term of managing funds to generate profit. Hence, the management of institution interested in the profitability. It is regarded as the most crucial element for the survival and growth of the organization. Some of the commonly used profitability ratios are below:-

(A) Operating Profit Margin to Interested Earned ratio

It is one of the important Profitability ratios that measures the efficiency and operation of the organization. Operating profit is calculated by deducting the amount of operating expanses from total income. And operating expanses is a sum of interest expanses, management expanses relating to operation of the bank. Like wise total income include total income interest income earned from loans and advances, dividend from investment (on shares) and miscellaneous receipts. Therefore operating profit margin is not actual realized profit of the bank as it comprises only operating expanses but not the non operating expanses. The ratio of operating Profit by the interest earned. It can be shown as below:-

$$\text{Operating profit margin to interest earned ratio} = \frac{\text{Operating Profit}}{\text{Interest Earned}}$$

Where, Opt profit = (Total Income – Opt. Expenses)

Interest Earned = Interest earned from loans and advances.

Total Income = Interest earned from loans and advances + Dividend from investment (on shares) + Mis- receipts.

Opt. Expenses = Interest expenses + Depreciation+ management exps. + Other operating expenses.

Generally, a high operating profit margin is a sign of good management as it reflects that the relatively lower operating expenditure has been incurred the period and vice versa. The financial manager should try to detect the cause of lower margin ratio and initiate action to improve the situation. The portion of operating profit earned can be presented as in table no. 4.3 which is as below:-

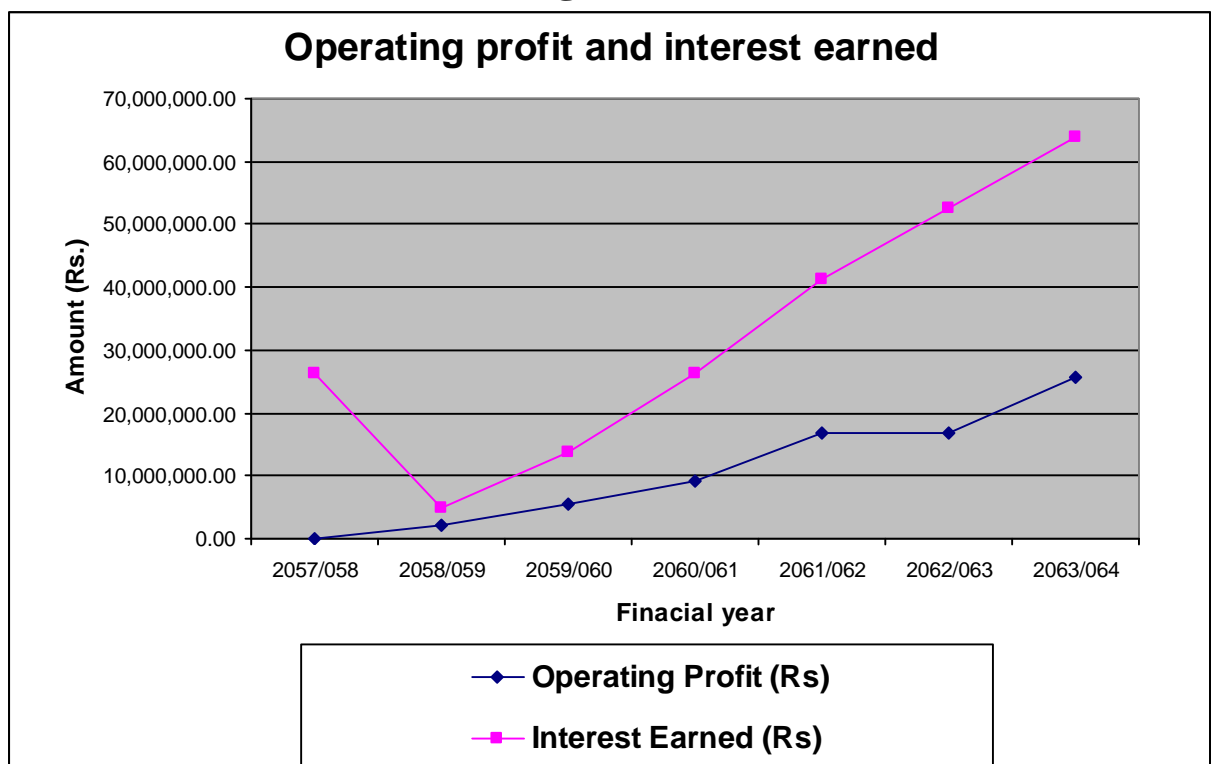
Table 4.3
Operating Profit Margin to interest Earned Ratio

Financial Year	Operating Profit (Rs)	Interest Earned (Rs)	Ratio (%)
2057/058	145,000.00	26,150,851.19	4.55
2058/059	2,052,000.00	4,838,502.00	42.41
2059/060	5,504,000.00	13,715,719.40	40.13
2060/061	9,056,000.00	26,150,851.19	34.63
2061/062	16,777,000.00	41,256,498.39	40.67
2062/063	16,669,000.00	52,611,433.25	31.68
2063/064	25,536,000.00	64,030,735.19	39.88

Source: Annual Report of MDB

The operating profit margin to interest earned has been shown in the above table no. 4.3 for seven different financial years from 2057/058 to 2063/064. It seen that the ratio of 2057/058 is 4.55 percent whereas it has been rapidly increased to 42.41 percent in the year 2058/059. The cause of the increase in operating expenditure of the bank. On the other hand, the ratio has dropped to 40.13 percent in the year 2059/060 and it has continued to fall up to the year 2060/061 from 40.13 percent to 34.63 percent. But the ratio has again increased from 34.63 percent to 40.67 percent in the year 2061/062 and 31.68 percent in the year 2063/064 further the ratio is increase operating expenditure of the bank as 39.88 from 38.68 in the year 2062/063. The average margin ratio is 33.42 percent. It is seen that ratios of different yeas has been fluctuated from average ratio. It is suggested that the management should concentrate toward increasing the profitability by reducing the higher operating expenses to tower level. This trend has been shown in figure 4.2 as below:-

Figure 4.2



(B) Return on Assets

It is another significant profitability ratio to measure the profitability of all financial resources invested and utilized by the institution/organization. It shows the relationship between net profit and total assets to determine the overall operating efficiency of an organization/institution. Higher ratio indicates satisfactory position, utilization of funds invested and vice versa. The ratio can be calculated by dividing the net profit after tax by the total assets. The ratio has been shown by the following formula:-

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

$$\text{Or, ROA} = \frac{\text{NPAT}}{\text{TA}}$$

Where,

NPAT= Net profit –Tax

TA= Total Assets

= Current Assets + Net Fixed Assets.

The position of net profit after tax and total Assets of the bank can be shown as below in the table 4.4:-

Table 4.4
Return on Asset Ratio

Financial Year	Net profit after Tax (Rs)	Total Assets (Rs)	Ratio (%)
2057/058	(1,526,712.00)	1,214,259.00	(12.50)
2058/059	(1,530,242.00)	21,211,028.00	(7.21)
2059/060	4,493,558.02	48,291,770.35	9.31
2060/061	2,616,032.21	68,538,288.83	3.81
2061/062	4,968,000.22	19,870,222.52	25
2062/063	7,232,052.77	493,177,254.00	1.46

2063/064	7,680,729.24	79,515,763.33	9.65
----------	--------------	---------------	------

Source: - Annual Reports of MDB

On the table 4.4 returns on assets ratio of the bank has been shown. It has been seen that the bank has negative ratio for the financial year 2057/058 and 2063/064 continuously as it has suffered losses for these two periods, but the bank has been able to earn profit in the financial year 2059/060. So the ratio is positive and has been increased than before 9.3 percent. On other hand the bank has earned lower profit compared to 2059/060 in the year 2060/061. As a result the ratio has been dropped to 3.81 percent from 9.31 percent. In the same way, the net has profit has rapidly increased in the year 2061/062 than the year 2060/061 as on 25 percent.

The return on assets ratio is 25 percent in that year. From the above table, it can be concluded that the ratio has been fluctuating in these seven financial years. Higher ratio refers the efficiency of the institution to utilize assets/ resource and vice versa.

(C) Return on Net Worth

It is another important profitability ratio to judge whether the firm has earned a satisfactory return on its equity. In other words, this ratio indicates how well the firm has used the resources of the owners to earn profit. Therefore, higher ratio is advantageous for the firm and for shareholders too. Furthermore, higher ratio represents the sound management and efficient mobilization of the owner's equity, sound mix of capital structure and operating efficiency and vice versa. This ratio is thus, of great concern to management which has the responsibility of maximizing the owner's welfare. A return on all shareholder equity is calculated to see the profitability of the owner investment. Net worth includes paid up capital, reserve and fund, share premium and other revenue that may distribute to the shareholders less accumulated losses. Total shareholders equity is called

net worth. The return on net worth is calculated by dividing net profit after tax by net worth which is as below:-

$$\begin{aligned} \text{Return on net worth} &= \frac{\text{Net profit after tax}}{\text{Net worth}} \\ &= \frac{\text{NPAT}}{\text{NW}} \end{aligned}$$

Where, NPAT = Net profit – Tax

NW = Net worth or Shareholders' Equity

= Paid up capital + reserve and fund + Share premium +
Other reserve – Accumulated losses.

The rate of return on net worth has been presented in the table 4.5 which is as below:

Table 4.5
Rate of return net worth

Financial Year	Net profit After tax (Rs)	Net Worth	Ratio
2057/058	(1,526,712.00)	9,210,974.00	(16.57)
2058/059	(1,530,242.00)	9,486,714.00	(16.13)
2059/060	449,358.02	15,280,271.58	29.41
2060/061	2,616,032.21	20,946,304.21	12.49
2061/062	496,800.22	30,714,304.44	16.17
2062/063	7,232,052.77	42,296,357.21	17.10
2063/064	7,680,729.24	58,777,086.45	13.07

Source: Annual Report of MDB

Table 4.5 shows the return on net worth of the bank for different financial years. It is seen that the ratio is negative in preceding two years 2057/058. And 2063/2064 as the net profit after tax is negative in that years. After this, the ratio is positive i.e. 29.41 percent in the year 2059/060 due to the increase in net profit after tax. On other hand the bank couldn't earn more return in the year 2060/061. Therefore the ratio has dropped to 12.49 percent from 29.41 percent but the bank has been capable to improve the situation and earn more return in 2061/062 i.e. 16.17 percent and 17.10 percent in the year 2062/063. After this the ratio is fall up from 17.10 percent to 13.07 percent in the year 2063/064. In this condition bank has been un capable to improve the situation and not able to earn more return in 2063/064 i.e. 13.07 percent so that it reflects that the management has becomes efficient to mobilize the owner's equity.

The ratio helps to maximize Shareholders' wealth and affects the market value of the shares. The term net worth can be referred as the market value of the shares. The ratio is helpful to assess the financial management of the institution.

(D) Return to Capital Employed

It is also one of the important profitability ratios to measures the profitability of as organization. It provides a test of profitability related to the source of long term funds provided by the creditors and owners of the firm. The ratio indicates how well the management has used the funds to achieve operating efficiency. The higher the more efficient the firm in using funds or capital employed includes share capital, reserve funds, long term debt. Alternatively, it is equivalent to net working capital plus fixed assets. Similarly, it is equal to non current liabilities (Long term liabilities) plus

owner's equity. Return on capital employed can be computed with the help of following formula:-

$$\text{Return on Capital Employed} = \frac{\text{Net profit after tax}}{\text{Capital employed}}$$

$$= \frac{\text{NPAT}}{\text{CE}}$$

Where,

$$\text{CE} = \text{Share capital} + \text{Reserve funds} + \text{long term debt}$$

$$= \text{Working capital} + \text{Net fixed assets}$$

$$= (\text{CA} - \text{CL} + \text{Net FA})$$

The ratio of ratio on capital employed can be presented as below on table 4.6 :

Table 4.6
Return on capital fund

Financial Year	Net Profit After Tax (Rs)	Capital Employed (Rs)	Ratio (%)
2057/058	(1526712.00)	79980815.00	(19.13)
2058/059	(1530242.00)	12885684.00	(11.88)
2059/060	4493558.02	39264697.00	11.414
2060/061	2616032.21	58451873.72	4.47
2061/062	4968000.22	17492309.40	28.40
2062/063	7232052.77	477936679.70	1.51
2063/064	7680729.24	46041216.19	16.68

Source : Annual Report of MDB

The return on capital employed for the financial 2057/058 to 206/064 has been shown in the table 4.6. The ratio is negative in year 2057/058 and 2058/059 due to the negative profit earnings, but the bank was able to earn profit in the year 2059/060. Therefore the bank has the positive ratio i.e. 11.44 percent in the year 2059/060 after this the ratio has decreased to 4.47 in the year 2060/061 and has rapidly increased to 28.40 percent in the year 2061/062. The ratio is highest in the year 2061/062 (i.e. 28.40 percent) and lowest in the year 2057/058 (i.e. -19.13 percent). It indicates that the firm has been successful to use the capital employed in the year 2061/062 and 2063/064. In addition to it, it shows the efficiency of the management to utilize the capital employed properly in the year 2057/058, 2058/059, 2060/061 and 2061/062. In addition to it shows the efficiency of the management to utilize the capital employees properly in the year 2057/058 058/059, 060/061and 2062/063. Hence it is suggested to consider about utilization of capital employed properly for the benefit of the institution.

(E) Net Profit Margin Ratio

The ratio measures the overall profitability of the organization by establishing relationship between net profit and sales. The word "sales" indicates "interest earned" here for analysis purpose. This ratio exhibits the management's efficiency to operate the business successfully and firms' capacity to withstand adverse economic condition. This ratio is an indicative if management's ability to operate the business with sufficient success not only to recover the operating expenses of the firm and cost of borrowed funds but also it leave a margin of reasonable compensation to the owners for providing their capital at risk . The ratio can be computed by dividing the net profit after tax by interest earns which is as below:-

$$\frac{\text{Net Profit After Tax}}{\text{Interest Earned}}$$

$$\text{Net Profit Margin} = \frac{\text{Net Profit After Tax}}{\text{Interest Earned}}$$

Where interest earned = Interest earned from loan and advances. The ratio is the overall measure of the firm's ability to turn each rupee of sales into the net profit. If the net profit margin is adequate, the firm will fail to achieve a satisfactory return on owners' equity. Generally, a high margin ratio indicates the effective and efficient operating of the organization and an advantageous position. The net profit margin ratio of the institution has been below in table 4.7.

Table 4.7
Net Profit Margin Ratio

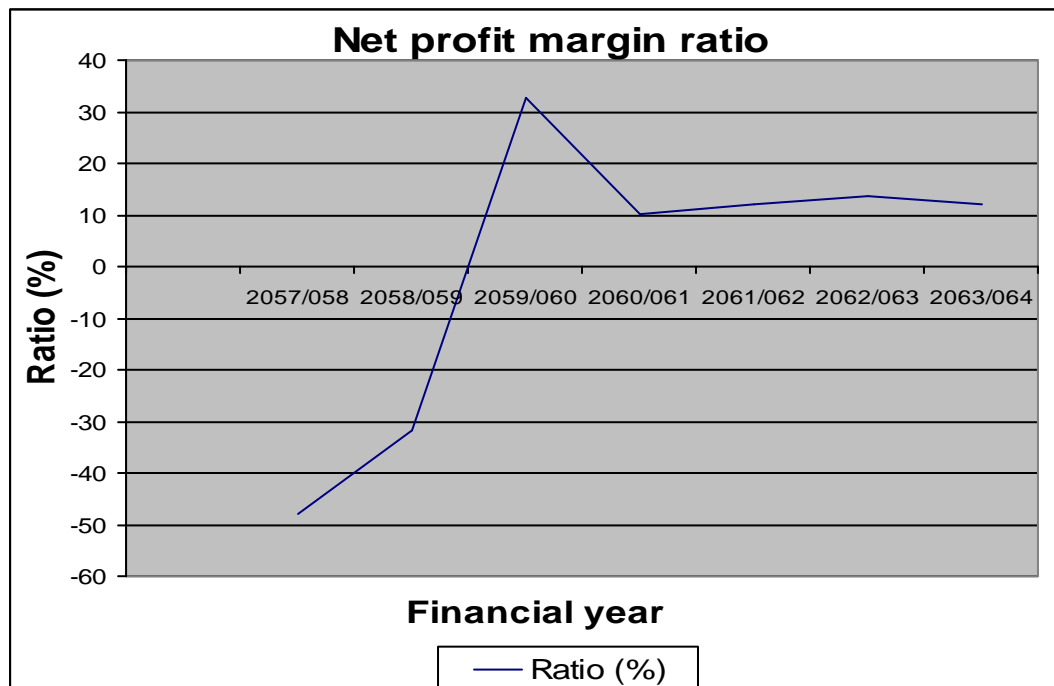
Financial Year	Net Profit After Tax (Rs)	Interest Earned (Rs)	Ratio (%)
2057/058	(1,526,712.00)	31,855,954.00	(47.92)
2058/059	(16,320,242.00)	4,838,502.00	(31.63)
2059/060	4,493,558.02	13,715,719.40	32.76
2060/061	2,616,032.21	26,150,851.19	10.004
2061/062	4,968,000.22	41,256,498.39	12.04
2062/063	7,232,052.77	52,611,433.25	13.75
2063/064	7,680,729.24	64,030,735.19	12.00

Source: Annual Report of MDB

Table 4.7 shows the net profit after tax and interest earned by the bank in seven different financial years. Due to the negative profit or losses in the years 2057/058 and 2058/059, the ratio is also negative. But the ratio increased in the later year 2059/060 to 32.7 percent because of the improvement in profitability situation. Along with this, it has been seen that the ratio has fallen to 10.04 percent in the year 2060/062 and ratio has risen to 13.75 Percent in the year 2062/063, and ratio has been decrease from 13.75 percent to 12 percent in the year of 2063/064 it can be said that the net

margin ratio has been fluctuating in these year. The range of the ratio if (-47.90 percent) to 32.76 percent in the year 2057/058 and 2059/060 respectively. Therefore it is suggested to investigate thoroughly to find out the causes of declining in ratio. The trend of net profit margin has been presented in figure 4.3 which is as below:-

Figure 4.3



4.4 Assets Management Ratio

Assets management ratio measures the efficiency of a firm in managing and utilizing its assets to generate sales revenue i.e. interest earned. The ratio shows the relationship between various assets i.e. current and fixed and sales of a firm. This ratio is also known as the "Investment Turnover Ratio ". The higher turnover ratio is the more efficient the firm in the management and utilization of the assets and vice versa. Furthermore the better management of assets turn over is the better indication if it's financial performance. Hence a very efficient firm is one that utilizes its investment assets to generate the largest level of revenue. Some turnover

ratios are calculated to assess the efficiency of the institution available resources. Those turnover ratios are as follows:-

(I) Fixed Assets Turn over Ratio

It is one of the turnover ratios. This ratio measures the efficiency of a firm in utilizing fixed assets to generate the total interest earned. It also indicates the adequacy of sales i.e. interest earned in relation to the investment in fixed assets. In other words this ratio shows the relationship between fixed assets and interest earned. Generally a higher ratio indicates the efficient utilization of fixed assets and vice versa. The ratio is computed by dividing the sales i.e. interest by the net fixed assets which is as below:

$$\text{Fixed Assets Turn Over Ratio} = \frac{\text{Interest Earned}}{\text{Fixed Assets}}$$

Where,

$$\begin{aligned} \text{Fixed Assets} &= \text{Net value of fixed assets} \\ &= \text{Fixed Assets} - \text{Depreciation} \\ &= \text{Depreciation value of fixed assets} \end{aligned}$$

Now the fixed Assets turnover ratio of the MDB can be shown as below in Table no 4.8:-

Table 4.8
Fixed Assets Turnover Ratio

Financial Year	Interest Earned (Rs.)	Fixed Assets (Rs.)	Ratio (Times)
2057/058	3,185,954.00	1,070,023.00	2.98
2058/059	4,838,502.00	152,444.00	3.17
2059/060	26,150,851.19	4,263,955.26	3.22
2060/061	26,150,851.19	3,709,103.08	7.05

2061/062	41,256,498.39	3,557,738.51	11.6
2062/2063	52,611,433.25	3,153,134.00	16.69
2063/064	64,030,735.19	4,158,032.27	15.25

Source : Annual Report of MDB

Table 4.8 shows the fixed assets turnover ratio of the bank in seven different years. The table indicates that the ratio has been increasing in these Seven years respectively. The ratio is 3.17 times in the year 2058/059. It states that the management is efficient in managing and utilizing fixed assets to generate revenue. In addition to it, the ratio is increased continuously up to the year 2063/064. Hence the ratio has reached to 3.22 times in the year 2050/060, 7.05 times in the year 2060/061 times, 11.6 times in the year 2061/062, 1.69 times in the year 2062/063 and from the 16.69 times has decreased in the year 2063/064 is 15.25 .From the above table, it is concluded that the institution is successful in using fixed assets.

(II) Loan and Advances to Total Deposit

Loan and advances to total deposit ratio measures the capacity of utilizing deposit in the form of extending loan and advances. The ratio shows the percentage of deposit mobilized for providing loan and advances. Loan and advances refers the total supplied to the outsiders i.e. customers. And total deposit includes the amount collected from its deposit i.e. saving fixed and daily. Generally high ratio indicates the efficient utilization of fund provided by the depositors and vice versa. The ratio is calculated by dividing loan and advances by total deposit. It can be shown as below:-

$$\text{Loan and advances to total deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

Where,

$$\text{Loan and advances} = \text{Total Loan and advances}$$

$$\text{Total deposit} = \text{Saving deposit} + \text{Fixed deposit} + \text{Daily deposit}$$

In other words, the ratio shows the proportion of total deposit flowed as loan and advances. The position of loan and advances to total deposit ratio can be presented as below:-

Table 4.9
Loan and advances to total deposit ratio

F Y	Loan and Advances (Rs.)	Total Deposit (Rs.)	Ratio (%)
2057/058	34,823.799	34,674,520.00	100.43
2058/059	45,402,169.00	40,813,506.00	111.24
2059/060	109,668,873.42	1,393,119,440.18	78.72
2060/061	215,254,763.40	252,065,429.33	85.36
2061/062	28,069,018.46	419,229,634.92	68.45
2062/063	321,757,614.37	579,207,678.26	55.55
2063/064	384,104,199.70	680,246,798.27	56.47

Source: Annual Report of MDB.

Table 4.0 shows the ratio of loan and advance to total deposit of the MDB for seven years. It is seen that the ratio is in increasing trend till 057/059 and has reached to 111.14 percent but it was 100.43 percent in the year 057/058. Later on the ratio has dropped to 78.72 percent in the year 059/060. The ratio has increased to 68.95 percent in the year 060/061. Again the ratio has fallen to 68.5 percent in the year 060/061. Again the ratio has fallen to 68.95 percent in the year 061/062, 55.55 percent in the year 2062/063. Again the ratio has increased from 55.55 percent to 56.47 percent in the year of 2063/064. The average ratio of the institution of 79.46 percent while mobilizing its deposits during these seven years. It has seen fluctuation from the year 059/060 to 062/063 after that again it has increased in the year of 2063/064 by 56.47 the causes of this can be regarded as the internal conflict, Nepal Banda and lack of security, number of demand for

country's civilization. To achieve their needs and wants people to keep their cast freedom as a nation of "New Ganatantra Nepal". The institution has been able to utilize its deposit at maximum level in the year 058/059 and the minimum utilization level is in the year 061/062.

4.5 Trend Analysis

Trend analysis indicates the direction of change. It helps to Know the direction of movement i.e. whether the movement is favorable or unfavorable. Trend analysis helps to understand the change in an item or group of item if the financial statement over a given period.

(a) Trend percentage of Loan and Advanced and Loan Collection

It enables a firm to take the tome dimension into account. The trend percentage shows the relationship of each item in statement with its proceeding year's percentage. Under this study, a base is selected and trend percentages are calculated for loan and advances and loan collection of MDB taking the figure of base as 100. The year 2057/058 is taken as the base year for the purpose of the study. Therefore, trend percentage is shown in the table in from the year 2057/058 to 2061/062, which is given below.

Table 4.10

Trend Percentage of Loan and Advances and Loan Collection

F Y	Loan and advances (Rs. 000)	Trend (%)	Loan Collection	Trend (%)
2057/058	34823	100	0	10
058/059	45402	130	0	0
059/060	109668	314	68398	100

060/061	215154	617	79439	116
061/062	289069	830	300562	439
062/063	321757	924	184140	269
063/064	384104	1103	2159200	316

Source : Annual Report of MDB.

Note: According to the direction of 'Nepal Rastra Bank', the amount of loan collected by the bank in the year 2057/058 has been made provision as a "Risk Bearing Fund". The trend of the loan and advances and loan collection can be shown as below in the figure.

Figure 4.4

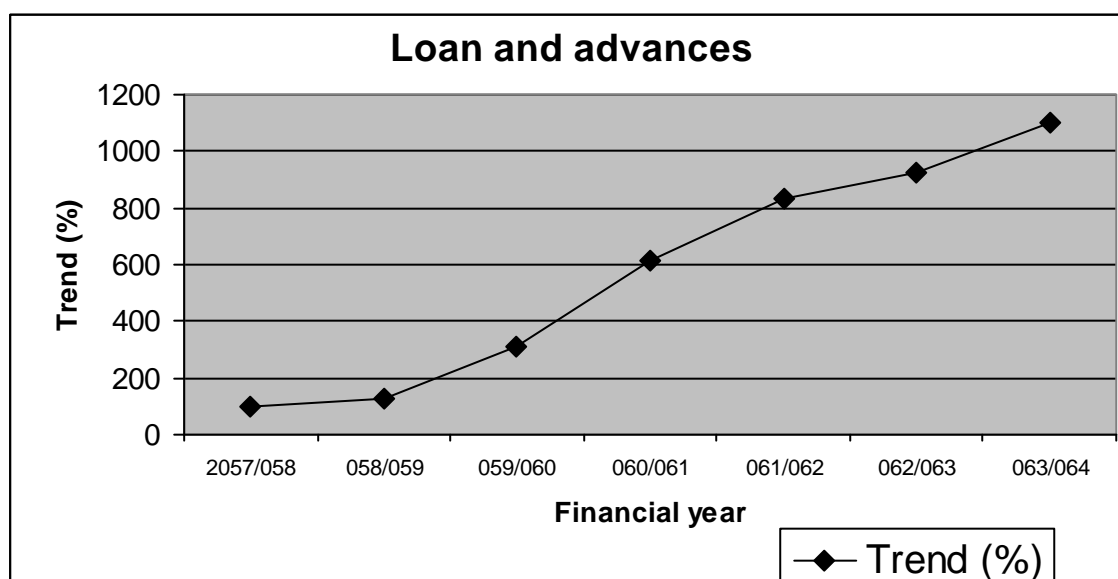


Figure 4.3 shows the trend of loan and advances of MDB Dhangadhi for the seven financial years. The trends percentage of loan and advances indicates the increasing trend from 2057/058 to 2063/064. In other words, the trend percentage of the base year 2057/058 is 100 and if has increased to 130 percent. 314 percent, 617 percent 830, 930 and 1103 percent in the year 2058/ 059, 2059/ 060, 2061/ 062, 2062/ 063 and 2063/ 064 respectively. The

increase in loan and advance reflects the reputation and goodwill of the bank on Kailali and Kanchanpur district.

Figure 4.5 shows the trend of loan collected by bank in different financial year. Loan collection is regarded as an important financial indicator of an organization as it reflects the efficiency of the institution in collecting loan and supplied by it. The amount of loan collection was made as provision in "Risk- Bearing Fund" in the year 2057/058 and 2058/059. Therefore, trend percentage value is assumed as 100 for base year 2059/060. It has been seen that the trend has increased to 116 percent in the year 2060/061 and 439 percent in the year 2061/062 and then the trend are decreased from 439 to 269. It means lower value of loan is collected by the institution for the year 2062/063.and then loan collection trend percent is increase from 269 to 316 in the year 2063/064. Therefore it indicates that the amount of loan collected has more than four times in the year 2063/064. The above table and figure explains that the amount of loan and advances has increased as well as the amount of loan and advances collection has also risen. It indicates the efficiency of the institution in loan disbursement and loan collection.

(b) Investment of Deposit Ratio

Invest& deposit collections are the major transaction of the banking operations. As the deposit increases investment particularly increase simultaneously. This ratio calculated as below:-

$$\text{Investment to deposit} = \frac{\text{Investment}}{\text{Deposit collection}} \times 100$$

Table 4.11
Investment of Deposit Ratio

Financial Year	Investment	Deposit	Ratio	Index
057/058	300,000.00	34,644,520.00	8.66	100
058/059	747,000.00	40,813,506.00	1.83	21.13
059/060	19,266,700.00	139,311,940.18	13.83	159.69
060/061	23,200,400.00	252,065,429.33	9.20	106.46
061/062	99,629,500.00	419,229,678.26	23.76	274.94
062/063	14,165,000.00	579,207,678.26	25.58	296.00
063/064	132,745,000.00	680,246,798.67	19.51	225.76

Source: Annual Report of MDB

Investment Includes treasury bills in employees welfare fund in share etc. Similarly the bank collects the deposit in current saving, fixed compulsory saving and customer guarantee fund etc.

In table no 4.11 it shows that the comparatively lower percentage of deposit amount has been invested in different sectors, in average only 14.62 % of deposit has been invested in Treasury bill. An employee welfare fund and in share further this rate has been double increase by 123.77 %. In average. Therefore the ratio is again comprehensive.

4.6 Risk and Return Analysis

Risk and return are the important aspects of financial management. Generally, risk refers the change if variability in the return. The greater the variability in the return, the higher the risk comprise in the investment. The return is the sum of regular earning and capital gain from investment that the investor expects over his investment. There fore, risk and return are a considerable aspect which influences the individual's decision regarding investment on particular stock and assets. It is very complex to determine that extent a stock and assets. It depends upon the individual ' attitude toward risk. As per the predetermined objectives, risk and return pattern of

the institution has been studied. The Return On Equity (ROE) is calculated by dividing net profit after tax by the paid- up fund. Every investment involves uncertainties that make future investment risky. The uncertainties can be reduced to some extent if the investment environment can be predicated before investment. The risk and return pattern of the institution is presented in the table given below:-

Table 4.12
Risk and Return Pattern

FY	Net Profit after tax	Capital fund	ROE	$(R - \bar{R})$	$(R - \bar{R})^2$
2057/058	-1526712	10,737,000.00	-0.142191674	-0.1421917	0.0202185
2058/059	-1530242	13,000,000.00	-0.117710923	-0.1177109	0.0138559
2059/060	4,493,558.02	14,000,000.00	0.32096843	0.32096843	0.1030207
2060/061	2,616,032.21	17,050,000.00	0.153432974	0.15343297	0.0235417
2061/062	4,968,000.22	21,850,000.00	0.227368431	0.22736843	0.0516964
2062/063	7,232,052.77	26,200,000.00	0.276032548	0.27603255	0.076194
2063/064	7,680,729.24	35,000,000.00	0.219449407	0.21944941	0.048158
N= 7			ROE= 0.937349194		$(R - \bar{R})^2 =$ 0.3366852

Source: Annual Source of M

$$\text{Return On Equity (ROE)} = \frac{\text{Net profit after tax}}{\text{Capital fund}}$$

Again,

$$\text{Return (R)} = \frac{ROE}{N}$$

$$= \frac{0.9373}{7}$$

$$= 0.1339$$

$$= 13.39\%$$

$$\text{Risk } (\dagger) = \sqrt{\frac{(R Z \bar{R})^2}{N}}$$

$$= \sqrt{\frac{0.3366852}{7}}$$

$$= \sqrt{0.04809788571} = 0.693 = 69.35 \%$$

Now ,

$$\text{Coefficient of Variation (CV)} = \frac{\dagger}{R} | 100$$

$$= \frac{0.693}{0.1399} | 100 = 495.35 \%$$

Here,

Capital Fund = Paid up Capital

ROE = return up Capital

NPAT = Net Profit After tax

N = Number of years

C.V = Coefficient of Variation

† = Sigma or standard Deviation

Table 4.12 Shows that the return on equity of the institution has been fluctuating during these seven years. It has been seen that the return on equity is negative in the year 2057/258 and 2058/059 due to the losses in that year. Later on the return on equity has increased to 32.10 percent in the year 2060/2061. In additional to it. the return has reached to 22.74 percent in the year 2061/062 .Then in the 2062/063 return has increased 27.60 then the return has fluctuating during the last year 2062/063 from 27.60 to

21.94percent . The decreasing trend of return on equity shows that the management has been slowly able to utilize capital fund on generating more return on equity. The expected /average return of the institution is 13.39 percent.

The standard deviation and coefficient of variation of variation are the measure to assess the risk on investment. The standard deviation measure the risk of two variables of firm but coefficient of variation measures the relative risk return pattern of investment. In other words, Coefficient of Variation shows the risk per unit of return and provides a more meaningful base. The above table also reflects the risk of the institution. It seen that the average return on each share is 13.39 percent where as the risk is calculated to be 69.35 percent. Along with these, the institution has to bear 495.35 percent return which is shown by coefficient of variation.

4.7 Some Other Important Financial Indicators:

4.7.1 Capital Adequacy Ratio

This ratio is used to measure the strength of sufficiency of capital structure adequacy. In other wards, it indicates the proportion of capital fund to total deposit. As the institution (i.e.MDB) is a banking sector organization, it is important to determine the ratio to examine the capital adequacy. A high or low ratio is not appropriate as it reflects the lower return and lower solvency respectively. The ratio is calculated by dividing the capital fund by the total deposit. It can be shown as below:-

$$\text{Capital Adequacy Ratio} = \frac{\text{Capital Fund}}{\text{Total Deposit}}$$

Where, $\text{Total deposit} = \text{Fixed Deposit} + \text{Saving Deposit}$.

$\text{Capital fund} = \text{General reserve} + \text{Paid capital and undistributed profit}$.

The ratio states that whether the institution is capable to meet the demand if customers as and when needed. Therefore, the ratio of different financial years has been presented as below in table and figure:-

Table 4.13
Capital Adequacy Ratio

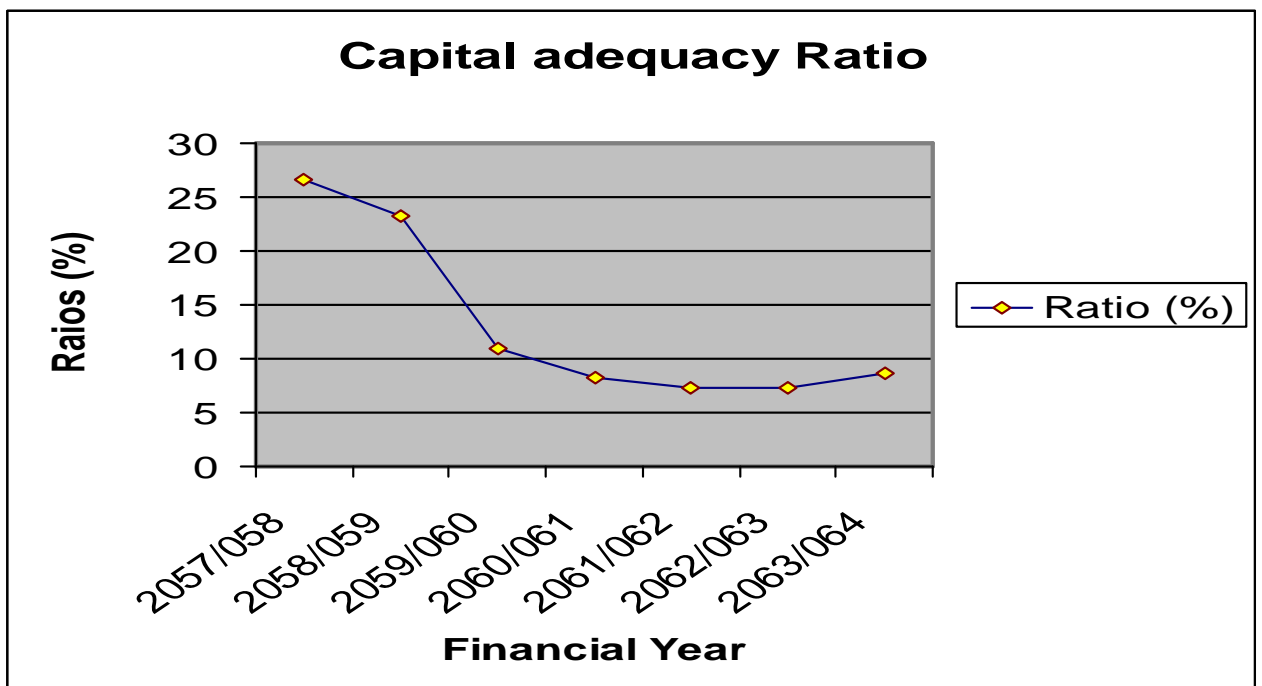
F Y	Capital Fund (Rs)	Total Deposit (Rs)	Ratio (%)
2057/058	9,201,584.52	34,644,520.00	26.56
2058/059	9,485,058.80	40,813,506.00	23.24
2059/060	15,282,519.82	139,311,940.18	10.97
2060/061	20,946,637.18	25,206,429.33	8.31
2061/062	30,714,304.00	419,229,634.92	7.33
2062/063	42,296,357.21	579,207,678.26	7.30
2063/064	58,777,086.45	680,246,798.67	8.64

Source: Annual Report of MDB.

The table indicate that the ratio has been decreasing continuously up to 2062/063 then after the ratio has slightly increase 2063/064. The ratio are 26.56 percent, 23.24 percent, 10.97 percent 7.33 percent, 8.31 percent, 7.33 percent, 7.30 percent and the ratio has increased by 8.64 percent from the year 2057/058 to 2063/064 respectively. The decreasing trends state that the capital adequacy is very weak during this year except in the year 2063/064. The cause of fluctuating ratio can be that the ratio can be that the increase in

total deposit is higher than the capital fund. However, there has been a slight increase in capital adequacy ratio 2063/064. Therefore, the higher and lower capital adequacy is unfavorable in terms of lower return and lower solvency. In general, it can be concluded that the capital adequacy of Malika Development Bank is appropriate.

Figure 4.5



4.7.2 Non Banking Assets to Total Loan Disbursement

It is another financial indicator to analyze the financial performance of the MDB. Non banking assets are also known as non performing assets. These assets are that portion of loan treated as uncollectible. The cause of the non banking assets can be regarded as the default loans, lack of appropriate assessment of assets, corruption motive loan approval staff, pressure of board of director, selection of wrong projects, much trust, flow

of loan in unproductive sector, pledging lower quality assets etc. As a result, the bank takes control over the pledge assets and evaluates its prices. Then, the bank sells it in seven year. As per the direction of the 'Nepal Rastra Bank,' the one third portions of these assets are made provision for "loan – loss provision". If the non performing assets are four percent out of loan disbursed, then considered the sound position of the banking organization. The non banking assets to total loan disbursement refer the proportion of non banking assets to total loan disbursement. It can be shown as below in table:-

Table 4.14

Non – Banking Assets to total loan Disbursement ratio ('000)

F Y	Non Banking Assets (RS)	Total Loan Disbursement (RS)	Ratio (%)
2057/058	-	34823	-
2058/059	-	45402	-
2059/060	5410	109668	4.93
2060/061	3502	215154	1.63
2061/062	2368	289069	0.82
2062/063	2368	321757	0.74
2063/064	1375	384104	0.36

Source: Annual Report of MDB

The table 4.14 explains the proportion if non banking assets with total loan disbursement. In the year 2057/058 and 058/059, there were not any non banking assets. So, the ratio has not shown. But the ratio is 4.93 percent in the year 2059/060, 1.63 percent in the year 2060/061, 0.82 percent in 2061/062, 0.74 percent in the year 2062/063 and 0.36 percent in the year 2063/064. It has been seen that the ratio is fluctuating yearly. It reflects the efficiency of the bank in collecting loan disbursed by it. The management body is appreciated to improve the situation and take action in time.

4.7.3 Interest Income to Total Ratio

It is also another financial indicator to assess the financial position of an institution. This ratio examines the proportionate contribution of interest income in total income. In other words, this ratio shows the portion of interest income in total income. The main source of income for the institution is interest earned from loan and advances as it is a banking organization that provides loan and advances as well as accepts deposits. The other source of income for the institution is income from government securities, commission, exchange fluctuation, non operating incomes and other misc. receipts. The ratio can be shown as below –

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

Where, Interest Income = Income from loan and advances
Total Income = Income from Government Securities + Commission + Exchange fluctuation Income + Non Opt. Income + Other Misc. Receipt

The higher ratio indicates the efficiency of the institution to supply and manage loan. It also reflects the goodwill of the institution. The ratio is presented in the following table:-

Table 4.15
Interest Income to Total Ratio

F Y	Interest Income (Rs)	Total Income (Rs)	Ratio (%)
2057/058	3,185,954	3,530,662.00	90.24

058/059	4,838,502.00	5,682,435.00	85.15
059/060	13,715,719.4	16,473,287.14	83.26
060/061	29,806,425.88	29,806,425.88	87.74
061/062	47,121,106.85	47,121,106.85	87.55
2062/063	52,611,433.25	57,985,618.24	90.73
2063/064	64,030,735.19	70,211,604.24	91.20

source: Annual Report of MDB

In the table 4.15, the ratio of interest income to total income has been shown for seven financial years. It is seen that contribute of interest income to total income from 2057/058 to 2059/060 is 90.24 percent and 83.26 percent respectively. It shows the declining ratio in these years. But the ratio has reached to 87.74 percent in 2061/062. It is seen that contribution of interest income to total income shows the slowly rising upward ratio from 87.55 to 90.73 in the 2062/063, 91.20, in 063/064 respectively. The institution has been able to earn highest interest income in the year 2062/063, 063/064 90.73 and 91.20 and lowest income in 2059/060 percent ratio i.e. 83.26.

4.7.4 Interest Expenses to Total Income Ratio

This ratio measures the portion of interest expanses in the total income. As the MDB is the banking institution, it accepts deposits from customers (i.e. depositors) and in turn it pays interest to them. So, interest expanses refer the interest paid on deposit collected by the institution. In additional to it, it provide loan to the demand group. The income earned from providing loan helps to meet the operating expenses and also assists for the smooth operation and long run existence by the total income , which is as below :-

Interest Expenses

Total Income

Interest Expenses to Total Income Ratio = _____

Where, Interest expenses = Interest Paid on Deposit

This Ratio states that what portion of total income has been expended in the interest expenses. The ratio can be shown as below in the table.

]

Table 4.16

Interest Expenses to Total Income Ratio

F Y	Interest Expenses (Rs)	Total Expenses (Rs)	Ratio (%)
2057/058	1,883,310.00	3,530,662.00	53.34
058/059	2,923,112.00	5,682,435.00	51.44
059/060	5,775,204.03	16,473,287.14	35.06
060/061	13,635,739.01	29,806,425.88	45.75
061/062	21,180,996.00	47,121,106.85	44.95
2062/063	30,155,843.92	57,985,618.24	52.00
2063/064	31,693,354.32	70,211,604.24	45.14

Source: Annual Report of MDB

Table 4.16 shows the ratio of interest expenses and total income. It has been seen that the ratio has decreased till the financial year 2059/060 but after that it again rises. Then the ratio has also fallen in 2060/061. In other words, the ratio is fluctuating in these years. In the financial year 2057/058, the ratio is 53.34 percent 51.44 percent in the year 2058/059, 35.06 percent in the year 2059/060, 45.75 percent in the year 2060/061 and 44.95 percent, in the year 2061/062, 52 percent in the year 2062/063 and ratio rapidly decline from these year by 45.14 in the year 2063/064 The

increasing ratio indicates the increase in interest expenses to deposit and the decreasing ratio refers the reduction in deposit collection.

4.7.5 Employee Expenses to Total Income Ratio

Employees are regarded as the essential element of an organization. The existence and operation of an organization depend upon employee. In addition to it, the success or failure of an organization also relies upon the employees. Employees refer the human resources employed in the organization. Therefore, the organization should appoint efficient, competent, Honest and energetic employees to sustain in the competitive environment and to earn maximum profit providing services to its stake holder. Employee expenses, gratuity, overtime salary, Dashain expenses etc. Hence it can be said that employee cannot be segregated from an organization. Employee expenses to total income ratio indicates the portion of employee expenses spent out of total income. The ratio can be calculated as below.

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

Where, Employee expenses = Salary and allowance, Provident, fund, Dashain expenses, Bonus, Overtime salary, Gratuity e.t.c.

The lower ratio is suitable for an organization. The ratio can be dropped by adopting computer network system which reduces the number of employees in the organization. The ratio has been presented in the following table:

Table 4.17

Employee Expenses to Total Income ratio

F Y	Employee Expenses (Rs)	Total Income (Rs)	Ratio (%)
2057/058	1,110,827.00	3,530,662.00	31.46
058/059	1,369,033.00	5,682,435.00	24.09
059/060	2,193,736.00	16,473,287.14	13.32
060/061	3,388,866.34	29,806,425.88	11.37
061/062	4,552,651.66	47,121,106.85	9.66
2062/063	5,160,848.52	57,985,618.24	8.90
2063/064	5,811,515.36	70,211,604.24	8.28

Source: Annual Report of MDB.

In the Above table 4.17 the employee expenses to total income ratio has been shown for seven financial years. It is seen that the ratio is decreasing. The percentage of employee expenses to total income is 31.46 percent in the year 2057/058 24.09 percent in 2058/059, 13.32 percent in 2059/060, 11.37 percent in 2060/061 and 9.66 percent in 2061/062, 8.90 percent in the year 2062/063 and 8.28 percent in the year 2063/064. It states that the institution may be adopted advanced system in banking transaction recording which has reduced the expenses made for employees. It is regarded a good sign for further improvement.

4.7.6 Office to Total Income Ratio

The portion of total income spent on office expenses is measured by this ratio. Office expenses refer the expenses made for regular operation of the organization. It helps to generate revenue/ total income. Office expenses includes all types of office related expenses such as house rent, repair and maintenance, electricity and water, office equipment, advertisement and promotion, postage and telephone, auditing and legal expenses, transportation expenses, supervision expenses e.t.c. The ratio of office expenses to total income ratio can be calculated as below:-

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

Where, Office expenses = House rent, repaired maintenance, electricity and water, office equipment etc.

Unlike other expenses, it is also appropriate that the office expenses should be lowered. The ratio can be presented as below in the table:-

Table 4.18
Office Expenses to Total Income Ratio

F Y	Office Expenses (Rs)	Total Income (Rs)	Ratio(Rs)
2057/058	1,122,000.00	3,530,662.00	31.78
058/059	1,439,514.00	5,682,435.00	25.33
059/060	3,000,334.09	16,473,287.14	18.21
060/061	3,725,346.91	29,806,425.88	12.5
061/062	47,121,106.85	47,121,106.85	9.78
2062/063	6,002,540.50	57,985,618.24	10.35
2063/064	7,169,930.34	70,211,604.24	10.21

Source: Annual Report of MDB

Table 4.18 shows that the ratio of office expenses to total income has been fluctuating during these seven years. In the financial year 2057/058, the ratio is 31.78 percent whereas it is 25.23 percent in the year 2058/059. In addition to it, the ratio has fallen to 18.21 percent in 2059/0602, 12.5 percent in 2060/061, 9.78 percent in 2061/ 062, then the ratio has slowly increase from 9.78 percent to 10.35 percent in the year 2062/ 063 and 10.21 percent in the year 2063/064. The decreasing ratio reflects to increase in

office expenses and vice versa. Therefore, the institution should try to minimize the expenses.

4.8 Testing of Hypothesis

It is another part of data analysis. While preceding the study, some hypothesis had been formulated. It is also essential to test hypothesis provides the guideline in investigation. Generally hypothesis is defined as a logically conjectured statement of relationship between two or more variables which need to be tested/ investigated. A hypothesis is a provisional formulation or possible solution of tentative or suggested answer to the problems facing by the scientists. A tested hypothesis help to obtain some reliable information on what kind of relationship exist among the variables and finding solution to the problem.

Hypothesis is regarded as a milestone in organizing the collected data systematic way. The refined hypothesis is more significant in research and the degree of significance depends on the level of abstraction underlying the Hypothesis. Hence hypothesis leads to economy of time and as well as significant conclusion for the advancement of knowledge. There are two types of hypothesis that have been tested in the course of study. They are as follows:-

1. Null hypothesis: This hypothesis assumes that there is no significant difference or relation between Population parameter and sample parameter. It is denoted by "Ho" (Hypothesis Zero).
2. Alternate hypothesis: it assumed that there is relationship between population parameter and sample parameter. It is separated by "H1" (Hypothesis One).

4.8.1 Hypothesis 1: Between Interests earn Interest Paid:

H0: There is no significant difference or relation between interest earned and interest Paid.

H1: There is significant relation between interest earned and interest paid

Table 4.19
Calculation Table of Interest Earned and Interest Paid

FY	X1(000)	(X1- \bar{X}_1)	(X1- \bar{X}_1) ²	X2(000)	(X2- \bar{X}_2)	(X2- \bar{X}_2) ²
057/058	3185	-26212.9	687113879.6	1883	-13580.4	184428040.2
058/059	4838	-24559.9	603186582.9	2923	-12540.4	157262348.8
059/060	13715	-15682.9	245952008.2	5775	-9688.43	93865648.18
060/061	26150	-3247.86	10548576.02	13635	-1828.43	3343151.041
061/062	41256	11858.14	140615552	21180	5716.571	32679188.9
062/063	52611	23213.14	538850001.3	31155	15691.57	246225413.9
063/064	64030	34632.14	1199385319	31693	16229.57	263398988.8
N=7	205785		3425651919	108244		981202779.7

Source: Annual Report of MDB

Here,

X1 = Interest Earned

X2 = Interest Paid

N = Number of financial year

\bar{X}_1 = sum of financial years

\bar{X}_2 = sum of interest paid.

Now,

Calculation if expected mean and standard deviation:-

Expected Mean:

$$\bar{X}_1 = \frac{X_1}{N}$$

$$\bar{X}_2 = \frac{X_2}{N} = \frac{205785}{7} = 29397.86$$

Standard Deviation: -

We know that

$$\text{Combined S.D (S)} = \sqrt{\frac{(\bar{X}_1 - \bar{X}_2)^2 \Gamma + (\bar{X}_2 - \bar{X}_2)^2}{n_1 \Gamma n_2 \Gamma}}$$

$$\begin{aligned}
&= \sqrt{\frac{3425651919 \Gamma 981202779.7}{7 \Gamma 7 - 2}} \\
&= \sqrt{\frac{4406854699}{12}} \\
&= 19163.45
\end{aligned}$$

Again,
Standard Error (S.E) = $s \sqrt{\frac{1}{n_1} \Gamma \frac{1}{n_2}}$

$$= 19163.45 \sqrt{\frac{1}{7} \Gamma \frac{1}{7}}$$

$$= 19163.45 \sqrt{\frac{2}{7}}$$

$$= \text{Rs. } 10319.83$$

Hence,

The test statistics value or calculated value of 't'

$$\begin{aligned}
t_{\text{cal}} &= \frac{\overline{X_1} - \overline{X_2}}{S.E} \\
&= \frac{29397.86 - 15463.43}{10319.83} \\
&= 4.35
\end{aligned}$$

$$\text{Degree of freedom (d.f.)} = n_1 + n_2 - 2 = 7 + 7 - 2 = 12$$

The tabulated value of "t" at 7 percent level of significance and 12 degree of freedom i.e.

$$t_{\text{tab}}(0.07,12) = 1.782$$

Decision: Since the tabulated value of "t" is lower than the tabulated value at 7 percent level of significance and 12 degree of freedom, the null hypothesis is not accepted. Hence, there is more significant difference between interest earned and interest paid.

4.8.2 Hypothesis 2: Between Liquidity and Profitability

Ho: There is no difference between liquidity and profitability.

H1: There is difference between liquidity and profitability.

Table: 4.20
Calculation table of liquidity and profitability

FY	Liquidity X1	(X1- \bar{X}_1)	(X1- \bar{X}_1) ²	Profitability X2	(X2- \bar{X}_2)	(X2- \bar{X}_2) ²
2057/058	2.63	-1.44	2.0736		-6.00286	36.03429
2058/059	2.36	-1.71	2.9241	-7.21	-13.2129	174.5796
2059/060	4.88	0.81	0.6561	9.31	3.307143	10.93719
2060/061	7.56	3.49	12.1801	3.81	-2.19286	4.808622
2061/062	6.86	2.79	7.7841	25	18.99714	360.8914
2062/063	1.95	-2.12	4.4944	1.46	-4.54286	20.63755
2063/064	2.25	-1.82	3.3124	9.65	3.647143	13.30165
	28.49		33.4248	42.02		621.1903

Source: Objective no 1, Presented Table 4.1 and 4.4

Now, Calculation of expected mean and standard deviation:-

Expected Mean:

$$\bar{X}_1 = \frac{\sum X_1}{N} = \frac{28.49}{7} = 4.07$$

$$\bar{X}_2 = \frac{\sum X_2}{N} = \frac{42.02}{7} = 6.00$$

Standard deviation: - We know that,

$$\begin{aligned} \text{Combined S.D. (S)} &= \sqrt{\frac{(X_1 - \bar{X})^2 + (X_2 - \bar{X})^2}{n_1 + n_2 - 2}} \\ &= \sqrt{\frac{33.4248 + 621.1903}{7 + 7 - 2}} = 7.39 \end{aligned}$$

Again,

$$\begin{aligned} \text{Standard Error (S.E)} &= S \sqrt{\frac{1}{n_1} + \frac{1}{n_2}} \\ &= 7.39 \sqrt{\frac{1}{7} + \frac{1}{7}} = 7.39 \sqrt{\frac{2}{7}} = \text{Rs. } 3.98 \end{aligned}$$

The test static value or calculated value of "t"

$$\begin{aligned} t_{\text{cal}} &= \frac{\bar{X}_1 - \bar{X}_2}{S.E.} \\ &= \frac{4.07 - 6.00}{3.98} = -0.48 \end{aligned}$$

$$\text{Degree of freedom (d.f.)} = n_1 + n_2 - 2 = 7 + 7 - 2 = 14 - 2 = 12$$

In the tabulate value of "t" at 7 percent level of significance and 12 degree of freedom. i.e.

$$t_{\text{tab}} (0.07, 12) = 1.782$$

Decision: Since the tabulated value of "t" is lower than the tabulated value at 7 percent level of significance and 12 degree of freedom, the null hypothesis is accepted. Hence, there is no significant difference between liquidity and profitability.

4.9 Net working capital analysis

Working capital refers to the investment made by a company in short term assets. Such as Marketable securities, Account receivable and other short term Investment. The net working capital refers to the current assets less current liabilities. The issue of holding of optimum working capital takes much of the financial managers time making decision. A company's profitability is one of the ways determined by the management of its working capital. In fact, the working capital is the circulating assets.

For banking organization working capital is must critical aspect. It will be serious event when the bank has to reject/return back the customer check in absence of adequate cash balance. Addition working capital will be required if the value of transaction of bank expense for investment in operating cost. It may also benefit. The undertaking because when the bank expended, and its credit states improves the bank can collected more fund and invest in different sector. The table no 4.21 shows that we of the bank in different years.

Table 4.21
Calculation of working capital

Year	057/058	058/059	059/060	060/061	061/062	062/063	063/064
C.A	11144236	19686584	44027815	64829185	16312484	490024120	75317731.
C.L	4233444	8325344	9027073	10086415	2377913	25140574	33474547
Net W.C.	6910792	11361240	35000742	54742770	13934571	404883545	41843184
Increase/ Decrease in W.C.		-4450448	-2363950	-19742028	40808199	-450948974	423040361

Source: Annual Report of MDB

Where,

C.A. = Current assets.

C.L. = Current liability.

W.C. = Working Capital.

The working depend upon period of time required for converting amount receivable of cash if less time is required for conversion the lower will be the amount of working capital required. As per the table no 4.21 the amount of working capital is more keeping less working capital the bank has to face more risk. Although, the bank has increase it's net working capital by Rs. -4450448, Rs. -2363950, Rs. -19742028, Rs. and -450948974 in the Financial Year 2057/058 to 2063/064 in the research time respectively. To avoid the possible risk the bank has to maintain a relatively larger amount of cash and temporary investment. As the bank as been expanding its transaction, it must increase the extent of working capital.

To reduce the risk of insolvency of the bank. (MDB), the difference between the minimum balance in the form of permanent investment in the current asset and minimum balance in current liabilities should be financed by the permanent sources of funds. Temporary increase in current assets should only be financed by temporary sources of fund.

4.10 Major finding of the study

Nepal is an agricultural country where Nepalese People basically depend upon agriculture. Like wise development is a must significant vehicle for mobilizing, the scattered saving and putting them in productive use the best institution support is needed which is 'Malika Development Bank' established in 2056, 7-25 under the development bank Act 2052. MDB has been working as an intermediary to mobilize the saving into the productive sector and to help for the enlistment of the economy. Development banks are regarded as financial institution as per the "Ordinance – 2062". That are concerned with development of economic condition of the country, for smooth running of any organization institution, the organization must be financially strong. For this a detail financial

analysis is needed. Therefore this study mainly focuses on the financial performance analysis of 'Malika Development Bank Ltd.' Kailali. The major findings of the study are as follows:-

- 1) The total income (consisting interest income and other) of MDB is Rs.3531, 5682, 16473, 29806, 47121, 97993 and 7021 thousand in F.Y.2057/058 to 2063/064 B.S respectively. Similarly expenses (consisting interest expenses and administration expenses) is 5057, 7213, 10969, 20750, 30344, 41324, and 44675 (thousand) in F.Y. 2057/058 to 2063/064 respectively. The net profit after tax is Rs. -1526, -1530, 4493, 2616,4968, 7232 and 7680 in respective seven year research period F.Y 2057/058 to 2063/064 B.S.

- 2) Shareholder fund (consisting paid up capital) 10737, 13000, 14000, 17050, 21850, 26200 and 35000 (thousands) in respective seven years research period from F.Y. 2057/058 to 2063/064. The customer deposit and saving major sources of fund of MDB Rs. 34674, 40813, 1393119, 252065, 419229, 579207 and 680246 in respective research period. Borrowing is another source of fund and amounting Rs. 128.97, 30.38, 141.55, 109.67, 215.15, 862.8 and 505.60 in respective research period. Similarly investment (consisting treasury bill, employees welfare fund and in share 300, 747, 192.67, 232, 99.62 and 148.16 thousand in respective research period F.Y. 2058/059 to 2063/064 B.S respectively. Loan investment a major operating transaction of the bank is Rs. 34.82, 45.40, 109.66, 215.15, 289.06, 321.75 and 384.10 thousand in the respective research period from F.Y 2057/058 to 2063/064. Fixed assets of the MDB is Rs. 1070.02, 1524.44, 4263.95, 3709.10, 3557.73,

3153.13 and 4198.03 thousand in respective research period from F.Y 2057/058 to 2063/064.

- 3) Out of operating profit margin to interest earned ratio has been found 4.55 %, 42.41%, 4.13%, 34.63%, 40.67 %, 31.68 % and 39.88 % in research period from 2057/058 to 2063/064. Interest expenses has covered -53.34 %, -51.44%, 35.06%, 45.75%, 44.95%, 52% and 45.14% out of respective research period and total income of the each year.
- 4) In Liquidity Position, to assess the financial performance of the MDB Ltd., liquidity ratios have been calculated during the study period from 2057/058 to 2063/064. B.S. as under.
 - a) "Current Ratios" of the institution during the study are 2.63 times, 2.36 times, 4.88 times, 6.42 times, 6.86 times, 1.95 times and 2.25 times respectively from 2057/058 to 2063/064. The standard for current ratio is 2:1 but ratios are higher than standard during the study period and in the F.Y 2062/063 there is 1.95 times ratio is less than the standard the research period.
 - b) Cash and bank balance to deposit ratio excluding fixed deposits are 56.22, 72.71, 48.39, 42.11, 38.64, 34.95, and 52.19 percent respectively during the study period. The ratio is increased up to 2058/059 but later on, it has decreased till 2061/062. Then after the ratio is increase in last year 2063/064 is 52.19 percent. It shows the ability of the institution to meet their current margin calls and saving deposits.

5. Profitability Position:

- a) The researcher has computed following profitability ratios to examine the profitability condition" Return on Assets (i.e. total assets) Ratio" is also fluctuating every year during the study. It was -12.5, -7.21, 9.31, 3.81, 25, 1.46 and 9.65 percent respectively. The range of the ratio is -12.5 to 9.31 percent. The ratio depends upon the organization's business nature and fixed assets which are major part of the assets. It indicates the efficiency of the institution to utilize resources.
- b) "Return on Net Worth Ratio" indicates how well the institution has used the resources of the owners to earn profit. The ratio is fluctuating till the year 2059/060. The ratio is -16.75,-16.13 29.41, 12.49, 16.17, 17.10 and 13.07 percent in the year 2057/058, 2058/059, 2059/060 and 2063/064 respectively. Furthermore, it has decreased to 12.49 percent and again, increasing to 16.17 percent, 17.10 percent then it has decreased from 17.10 to 13.07 percent increasing return on net worth means increasing shareholder' wealth and vice versa.
- c) "Return on Capital Employed Ratio" explains how well the management has used the funds. The ratio during the study period from 2057/058 to 2063/064 is -19.13,-11.88, 11.44, 4.47, 28.40, 1.51 and 16.68 percent respectively. It indicates that the ratio is negatively seen as F.Y 2057/058 and 058/059. It indicates that the ratio is increase in 059/060 11.44 percent then decreases 4.47 in 2060/061 but has rapidly increased 28.40 in the year 2061/062. After the F.Y 2061/062 there has been great decreased percentage 1.51 as F.Y 2063/064, but the later on last year 2063/064 bank was able to earn (increase) 16.68.

- d) 'Net Profit Margin Ratio' measures the overall profitability of the institution. This ratio is also fluctuating during the study period. The ratio is -47.92, -31.63, 32.76, 10.004, 12.04 13.75 and 12.00 in the year 2057/058 to 2063/064. The entire profitability ratios are negative in the beginning of F.Y 2057/058, 058/059 except "Opt profit margin" to interest earned ratio.
- 6) 'Assets Management Ratio' measures the efficiency of the institution to manage utilize its assets to generate sales revenue i.e. interest earned.
- 7) Trend analysis helps to know the direction of movement change in an item or group of item of the financial statement over a given time period. It shows that whether the movement is favorable or unfavorable. Trend percentage of loan and advance are 100, 130, 314, 617, 830, 924 and 1103 percent respectively from the F.Y 2057/058 to 2063/064. But trend percentage of loan collection is 100, 116, 439, 269, 316 percent respectively for the research time F.Y 2059/060 to 2063/064. Trend of 2057/058 and 2058/059 has not been calculated because there is the provision of "Risk Bearing Fund" of loan collected according to the 'Nepal Rastra Bank' direction. In the year 2061/062 there is 439 percent later it decrease 269, in lastly, loan collection trend percent 316 for 2063/064. It reflects trend percentage of loan and advances continuously increase in every year but percentage of loan collection are increasing and decreasing in the researching period of the time.
- 8) "Risk and return" are the trend important aspect of the financial management. Return refers the regular income and capital gain data

investor and except more over in his investment. Risk indicates the variability in the return from investment. The return in each share is 13.39 percent which risk is 69.35 percent further more, coefficient of variation states that each shareholder has to bear 495.35 percent in order to earn 100 percent return.

9). Other financial indicator's are as follows

Some other financial indicators have been calculated to evaluate the financial performance of 'Malika Development Bank Ltd.' Dhangadhi.

(I) Capital adequacy ratio

It measures the strength of the capital structure of institution, capital adequacy ratio for the study period 2057/058 to 2063/064 as 26.56, 23.24, 10.97, 8.31, 7.33, 7.30 and 8.64 percent respectively. It reflects that the ratio is in decreasing trend during the period of 2057/058 to 2063/064.

(II) Non-banking assets to Total loan disbursement ratio

It refers the assets taken by the institution because of not paying the loan by the loanees. The ratio is 4.93, 1.63, 0.82, 0.74, and 0.36 percent for the year 2057/058 to 2063/064. There were no banking assets in the year 2057/058 and 058/059. The lower ratio is appropriate for the institution as it is save from losses.

(III) Interest income to total income ratio

This ratio is appropriate contribution of interest income in generating in total income. As it is a banking sector organization prime sources of income by interest earned from loan and advances. The ratio is 90.24, 85.15, 83.26, 87.74, 87.55, 90.73 and 91.20 percent respectively. So that during this studies period 2057/2058 to 2063/2064.

(IV) Employee expenses to total income ratio

This ratio is calculated as to be 31.46, 24.09, 13.32, 11.27, 9.66, 8.90 and 8.28 percent respectively from 2057/058 to 2063/064. It explains that the institution has become able to reduce its employee expenses.

(V) Office expenses to total income ratio

It refers the expenses made for the successful and smooth operation of the institution. The ratio is 31.75, 25.33, 18.21, 12.5, 9.78, 10.354 and 10.21 percent respectively during the study period F.Y 057/058 to 063/064.

10) Testing of hypothesis

It is essential for the purpose of the study. Hypothesis shows the relationship between two or more variables and provides solutions to the problem while testing the hypothesis between interests earn and interest paid. The calculated value of "t" for interest earned and interest paid is more than the tabulated value so null hypothesis is not accepted.

CHAPTER: V

SUMMARY CONCLUSIONS AND RECOMMENDATION

The chapter is the last part of the present study entitled, Analysis of financial performance of 'Malika Development Bank Ltd.' Dhangadhi". It includes various aspects which helps understand about the organization in essence. In other words, summary is the brief description of the activities completed and it is the main text of the report. Summary gives an overall view of the entire study. On the other hand, conclusion gives the answers to the research question or the objectives set for the purpose of the study. In short, conclusion is the essence of the research work. Recommendation can be said as the final product of the research work. Therefore, on the basis of the previous analysis of this study, this part "Summary, Conclusion and Recommendation" expresses the main findings and recommendation for improving the financial performance of the sampled institution, 'Malika Development Bank Ltd.' This chapter is divided into the following three sub-chapters:-

- 5.1. Summary,
- 5.2. Conclusion,
- 5.3. Recommendations.

5.1 Summary

Nepal is predominately agricultural country where agriculture sector provides large contribute to the nation's economy, among various problems in financing performance of the major problem. So 'Malika Development Bank Ltd.' Dhangadhi is financial institution which is entrusted with the responsibilities of initiating effective approach for the intermediates and committed to raise the economic condition of the rural farmers, businessman and other to raise the economic condition of the farmers by availing credit and capital inputs in easy and smooth manner. MDB also engage in commercial banking activities for the mobilization of domestic resources.

To meet the basic objective of the banks financial strengthens is key variable. For this a regular financial appraised is must necessary. This stuffy therefore tries to display the financial performance of MDB over past seven years F.Y 2057/058, 2058/059, 2059/060, 2060/061, 2061/062, 2062/063 and 2063/064 B.S as per the data presentation and analysis following result was obtained from this study in brief. Income statement shows the following result over past seven financial years.

Nepal is one of the land- locked countries in the world situated ben^t India at southern, western and eastern part and China at northern part. Nepal is mainly based upon agriculture. The basic necessities of the population are fulfilled by setting the agro- products in the market. Most countries of the world are stepping toward development but Nepal is rather going backward. Development also depends upon the initiation, sacrifice, and devotion etc. of the population of the country. But population has been increasing rapidly. Almost 31 percent of population is still under the poverty. The causes of low development in south Asia can be lack of

entrepreneurship, lack of proper mobilization of resources, geographical complexity, rural exodus etc. Therefore, there should be financial institutions, commercial banks, co-operative organizations, insurance companies, other NGO etc. to achieve the rate of economic growth in the country. Considering the face, "Financial Company Act 2042" was formulation and the first financial institution was opened after seven year named "Nepal Finance and Saving Company Limited". These financial institutions have helped to collect and mobilize the scatters savings of the society in industrial and trade sector.

The word "Bank" has been derived from the Italian word "Banco". In Italian language, "Banco" refers the bench. Any group used to be engaged in the transaction of money at public place. Later on, this word comes into use as "Bank" in English. 'Commercial Bank' are the first bank in the banking history of Nepal. "Nepal Bank Limited" established in B.S. 1994 is the first bank of Nepal. Similarly, another bank, "Astray Anaya Bank" was opened in 2022 B.S." Nepal Arab Bank" is the first joint-venture bank established in 2041 B.S. Development banks indicate those banks concerned with the Development activities of a nation. Development banks provide medium and long-term capital for the productive investment and also provide technical, managerial and entrepreneurship skill for overall economic development of the country. Considering the face, NIDC was established in 2016 B.S. as a first development bank. Again, ADB/N was established in 2024 B.S. Later on, different 'Rural Development Bank' have been operated in the country after B.S. 2049 in five development region. Hence, development banks are essential for economic development. There are 25 commercial banks, 70 development banks including micro finance, 78 finance companies, 17 saving and co-operatives and 47 NGOs banking operating in Nepal.

For the purpose of analyzing the financial performance of sampled institution i.e. Malika development bank Ltd., necessary data and other related variables have been collected from secondary source and they are presented in tabular form. Later on, all the data are analyzed by applying financial and statistical tools. Similarly, available literatures concerning the financial performance analysis are reviewed and appropriate research methodology is also described. The study has highlighted on the liquidity position, profitability position, and asset management, risk and return pattern and cash flow pattern of the institution and some hypothesis have been formulated as well. Consequently, some other financial indicators are also utilized to analyze clearly. To obtain the objectives of the study, different financial variation and student's "t" test have been used for the meaningful interpretation of the data to find out the true financial picture of the institution.

The net working capital is Rs- 4450448, -2363950.74, -19742028.90, 4080919975, -450948974.70, 42340361 in financial year 2057/058 to 2063/064 B.S. respectively

The total expenses consists interest income and other income related total expenses consist interest expenses, administrative expenses and provision.

The total assets and liabilities in the bank past seven year based 49772, 71270, 182971, 318322, 693134 and 856123 in F.Y 2057/058, 2058/059, 2059/060, 2060/061, 2061/062, 2602/063 and 2063/064 respectively.

The shareholder fund consist paid up capital, share capital. General reserve and net profit and deposit consist, current – saving – customer guarantee fund etc.

5.2 Conclusion

As Nepal is one of the developing countries in the world, the establishment of banks and financial institution is essential for the economic development of the country. The scattered money of the society is utilized in productive sector by the bank and institution. In addition to it proper utilization of available fund is equally necessary to achieve the objective of the organization. In Nepal, different types of banks, financial institutions, insurance companies, cooperative organizations, foreign exchange market etc. have been providing their service to the people. Nepal is stepping toward development. Therefore, to achieve the rapid rate of economic growth, the banks and institutions should be extended in the country.

The Current Ratio of the institution during the study period 2057/0587 to 2063/064 is higher than the standard except in 2062/063, similarly cash and bank balance to deposit ratio shows strength position in 2058/059 but weak position in 063/064.

Profitability ratios measure the effectiveness of the institution to generate profit. Profitability ratios are negative in the initial two period due to the loss in that year except operating profit margin to interest earned Ratio". Therefore, from the analysis of the profitability ratios, it can be said that the management is inefficient to generate profit.

The 'Asset Management Ratio' measures the effectiveness of a firm in utilizing available assets to generate revenue. Fixed assets turn over ratio is in increasing trend during the study period. In addition to it, loan and advances to total deposit ratio is also decreasing trend for initial two years but it is in increasing trend for later five years. Hence, it can be said that the work performance of overall asset management is better in the study period. Trend percentage of loan and advances are also increasing during the study period which shows that the management has been able to disburse loan

during the period. Likewise, trend percentage of loan collection is also increasing trend except in the initial two years. It reflect that the management is able to collect its' disbursed loan.

From the risk return analysis, it is seen that the return on each share is 13.39 percent whereas its risk 69.35 percent is higher than return. Furthermore, It is concluded that each shareholder has to bear 495.35 percent earn 100 percent return.

Other important financial indicators have been computed for the purpose of the study” Capital Adequacy Ratio” is in decreasing trend during the study period and “Non Banking Assets to Total Loan Disbursement Ratio” is also decreasing in seven years period. The highest ratio of the “interest Income to total Income Ratio” is 91.20 percent and lower ratio is also fluctuating during the study period. But, “Employee Expenses to total income ratio” and “Office Expenses to Total Income ratio” are decreasing. Furthermore, null hypothesis paid. There is hypothesis is accepted between liquidity and profitability.

To overcome of above table problems in financing sector of the countries where best supportive financial institution called analysis of financial performance. Further it focused to developed agricultural sector, Industrial sector, trading sector, trading part foreign employment, consortium financing and housing loan to increase the quality of life of people. Further it provides and public companies and effective NGOs financial intermediacies. The following institutions rates determined by MDB ltd. Kailali till 2064 Ashad, which is comparison to the other financial institutions.

Lastly, it can be concluded that the MDB ltd Kailali is a financial institution which has been working for the development of difference sector to uplift the overall economy of the nation it is a specializes financing

institution which has direct impact in socio- economic development of rural nepal having it's net working all over the country. Over 55 % of the beneficiary services from MDB Ltd. Dhangadhi. The bank has major share in disbursement sharing over 70% of the rural loan port folio. This coverage contributes significantly in poverty alleviation of the target community living at scattered rural areas. Finally it has been gradually improving it's over all financial position to met its basic objectives.

5.3 Recommendations

Financial viability and sustainability is the key variable for the development of MDB led. Only financially string institution can met the requirement objectives. MDB Ltd has been facing much kind so problems to sustain/ live in the competitive environment some suggestion can be recommended for better performance and increase the efficiency of the institution. They are written as below:-

- 1) Principle collection and interest collection rate is low. The overdue amount gradually increasing for the loan reform program should be implemented. The bank should be more careful about the problems on implementation of the reform program in time and should lunch the necessary corrective action.
- 2) Problems relatively the employees are another types of problems existed in the bank. Efficient and intelligent employee is must necessary for any kind of organization. The employee selection and recruitment process must be effective and transparent. Similarly evaluation of employee's must be performance based. The employees should train time to time.
- 3) The commission process of the bank must be effective. The communication gap is the major problem for the bank. The lower

level staffs must understand the bank's plans, policies and strategies made by higher level immediately in the same manner.

- 4) Must of branch and extension counter of the bank and different program of MDB ltd have been craning because of the lack of peace and security in the rural area. So these program and extension counter of bank must be more lunched in the rural and village oriented.
- 5) Economic discipline is more important aspect of the institution. So lack of economics discipline/transparency is another problem in front of the bank. Internal control system is impractical, lack of economic discipline should irregularity, corruption is increasing for this regular supervision appraisal and control system must be effectively lunched.

Besides above, the bank has to create its centre by it's considering human resources potential and urban deposit mobilization capacity. The bank has to develop a pilot program in targeted area and has to finance in pilot way in to rural infrastructure. The bank should also link with other potential agencies or organization who are the ground specially involve in community mobilization to serve to better in growing competitive market. The working culture of the bank, efficient service couldn't be delivered in customer's needs we achieved. Therefore adopting this carrot stick approach at both customer and staffs level would be one of the strategies to follow in this direction. How increase documentation and make publics and donors more aware about bank's effort and contribution in the development process. MDB should be a dynamic institution to be able to serve change needs of people. It should be effortful to develop its loan products to suits the needs of its client, improve its commercial banking function enhancing it loan portfolio quality to the professionalize and established itself as an efficient and well organize development of Nepal.

Finally following additional recommendation have been given for MDB lid's perpetual growth and development in brief:

- 1) The institution should apply cost reduction technique by applying new and advance technology and information systematically.
- 2) There should be flow of financial information with the institution for effective managerial decision.
- 3) There should be good relationship between the management and other managerial staff's workers, board of directors. In other words, there should be cooperation and coordination among these parties to achieve efficiency in the present competitive environment and to provide more services to the customers.
- 4) The amount deposit is increasing every years, therefore it has more necessary to convert extension counter into the branches and in rural area (i.e. village) should kept extension counter their on. It provides more services to more people and to mobilize the deposit collected from customers.
- 5) The cash and bank balance is increasing every year, so there may need to utilize the balance in productive sector, that it would earn profit for their expansion, it would be better to invest in government securities, bond, treasury bills for the secured return,
- 6) Profitability ratios of the institution are negative in initial two periods due to loss in those years, but the ratio is fluctuating in other five years and it should reduce its operating expenses utilize the available resources properly and mobilize the owner's equity effectively in productive sector to improve the profitability position and for the existence and growth.
- 7) Incentive to the staff should be increased as compared with the other private/ public institution.

- 8) The existing staff should be evaluated on performance basis and regular appraisal is needed. Again they should be trained regularly.
- 9) The member of board of director should be selected as per the rules and regulation of the bank, not as per the director of other related political leader.
- 10) The fixed assets should be valued properly as per current market value and depreciate value are calculating diminishing balance method according to rules of NAS -06 – property plant and equipment where as depreciation of assets (i.e./ Land and building) as per income tax Act 2059. To depreciate them accordingly.
- 11) Current ratio should be increased by the bank because low level of current assets may not fulfill the liability of the bank.
- 12) The bank should needs to develop its business in globule perspective considering the international standard banking indicators.
- 13) The bank should focus on the transparent operation and management for enhancing. Ownership of stake holder's and staff at all levels- center- district and village.

Bibliography

- "Basu, S.K " **A Review of current theory and practices**,"Mac Millan co.
of india 1974 . p16
- Basu, S.K "**Theory and practices of Development Bank Asia** Publishing
house, Delhi 1965 p3
- Bishnu Pandey" **study on the financial performance of Malika
Development Bank**", Master Degree thesis T.U 2006.
- Bohara Gyanu Maya" **study on the financial performance of Malika
Development Bank**", Master Degree thesis T.U 2006
- Britannia Vol. 4
- Britinnia, Volume4
- Central Bureau of Statistics, Nepal in Figures 2005.
- Dahal Birendra."**A comparative study on financial performance of Evers
Insurance company Limited and United insurance company (Nepal)**'
An unpublished Master
- Dahal, B.N, " **Financial Ratio as indicator of Profitability**" A
Comparatively study on foreign Venture and a Government owned
Bank " TU July 1997
- Dahal, Durga prasad"**Agricultural Development Bank Today and
tomorrow**", Bank Samachar,Monthly publication, ADB/N, Magh.2054.
- Dhanguna, Visma raj,"**Problems encountered by the Nepalese financial
system**,Neapl Bank Samachar, 2053.
- Hampton, John J."**Financial decision making**", Prentice Hall of India Pvt
Ltd.4th edition 1994.
- Ibid
- Ibid p 33
- Ibid Page no 69 "**Bhatta gunakar**" **Growth and Globalization challenges
for Nepal** .

Ibid, p33

Jain, Pramila,"**Fianancial Management**", pointer Publisher, Jaipur India 1996

Jha K.K,"**Agricultural Finance in Nepal**", Heritage publishers , PP.1-26, New Delhi.1978

Joshi Rajiv Raj of comparative study on financial performance on Nepal Arab Bank Limited and Nepal Grindlands Bank Ltd. Unpublished Master's thesis M.B.A T.U 2001, page no. 69

Kane, Joseph A ,"**Development Banking an economic Appraisal**" . D.C. Health and co. New York, 1975, p17

Kerlinger, F.N,"**Foundationof Behavioural Research**". "Third Edition. New York Holt, Rimehart & Winston, 1986.

Khadka Sherjung and a Hridyabir Singh, op. Cit, p3

Khadka, Sherjung & Hridyabir Singh,"**Banking and Insurance**" Naween Prakashan Second Edition .p1

Khan, M.Y.& P.K. Jain, "**financial Management**", Tata Mc Grow Hill Publishing Company Ltd. New Delhi, Second Edition,p.no.79

Khan,M.Y,&P.K.Jain op. Cit, Second Edition.

Khan,my..NPK Jain **Financial management** op.Cit 6th edition New Delhi.

Khanal Ganathnath, **An evaluation of financial operation of Nepa Industrial Development Corporation**", An unpublished Master's thesis TU November 1996.

Khotari **C.R.research methodology method and technique. Wishwa Prakashan.** Second Edition 1990. Page 39

Kothari,"**CRRM method and techniques**" New Dellhi, Willey Eastern Limited, 1996.

Mahat R.S . Op. Cit, p 83

Mahat R.S op. Cit P 82.

Mahat R.S. op. Cit, p82-83

Mahat, R.S."Capital Market"**Financial flows and industrial finance in Nepal**. Sajha prakashan Ktm 1981.

Mainaly, Deepak Babu"**Comparative financial of Nepal Bangladesh Bank (NBB) and Bank of Kathamandu (BOK) Limited** unpublished M.B.A thesis T.U 2001.

Manadhar Prushottam," **A study on the performance analysis of NIDC, As a development Bank.**"Desrtation submitted to the institute of Humanity and Social Science, T.U. Kirtipur, 27 may 1987.

Munakarmi Shiva Prasad op. Cit.

Munakarmi, Shiva Prasad, "**Management accounting**," Buddha Academic Publishers and Distributor Pvt Ltd.First edition Ktm Nepal 2002.

Mungmen Prem Bahadur **financial performance of purbanchal Gramin Bikas Bank limited**, unpublished Master thesis M.B.S T.U 2004. Page 112.

Murray, D.Bryce," **Industrial Development**", Mc Graw Hill Book Company New York, 1960, p61.

Nepal Rastra Bank in Fiscal year 2005.

"**Nepali Financial Sector Reform Capacity Building is indispensible**"
The Boss 15 March to 14 April 2009 by Resta jha

NIDC- "**NIDC- Introduction**", Ktm.1984, p4

Pandey **I.M.Management accounting**. Vikas publishing house New Delhi, 1991

Pandey, I.M. Op. Cit

Pandey,I.M."**Financial Management**", Vikas Publishing house Pvt Ltd 4th edition New Delhi 1987

Pant Y.P.& S.C.Jain "**Agricluture Development in Nepal**", Vore & Company Bombay, 1979.

Pradhan Radhe Shyam"**Financial Management**" Buddha Academic Publisher.&Distributer Pvt Ltd First Edition ktm 2004

Pradhan, Bindia and sita shrestha , "**Micro Finance and women development in Nepal**", NRB Samachar, 2061 Page No 64.

Resta Jha Chairman of KFA 15th March to 14 April 2009.

Sayers R.S, "**Modern Banking**, Clearendon Press, Oxford

Selltiz, Claire & Others, '**Research methods in social science**, 1962.

Shah Devendra pratap "**for the continuity of reform programme**" Bank samachar monthly publication, ADB/N September 7, 2000.

Shirely Boskey "**Problems and Practices of Development Bank**", The John Hopkins Press, Baltimore, 1959, p3

Shrestha evaluating a **Banking supervision in Nepal Rastra Bank**" IMF, January 31, 1998. pg 4.

Shrestha M.K **Financial management theory and practice**" Curriculum development, Center T.U 1980

Shrestha Rajeshwari "**A comparative study on financial performance of Ace finance company limited lalitpur.**" A M.B.S Project report August 2004.

Shrestha, Dr. Manohar K. "**Commercial Banks Comparative performance evaluation**" Karmachari Sanchaya Kosh Publication, 2047, Ktm,

Shrestha, Mukunda Bahadur, "**Development Banking in Nepal**, Unpublished Ph.D. theseis, Patna university 1987, p 42.

Singh, Prabhu N, "**Role of Development Bank in an Planned Economy**", Vikash Publication, New Delhi 1974 p 7

The boss 15th March - 14 April 2009 .

The encyclopedia of social sciences" vol. IX Macmillan. 1930

United Nation - UCAFE - **mobilization of Domestic Capital**, p 40-41

Wolf, Howard K. and Prem R Pant, "**Social Science Research and thesis writing**" Sewa Printing press. Second Edition, 1991 Ktm.

Wolff k. Howard Panta prem raj social science research and thesis writing. Buddha academic enterprises . Pvt Ltd 1999. Page No 30

Wolff k. Horald and panta. Prem raj **social science researcher** and Buddha

academic enterprises Pvt ltd Second Edition 1999. Page 127

World Development Bank 2009