FINANCIAL PERFORMANCE OF MALIKA DEVELOPMENT BANK LIMITED

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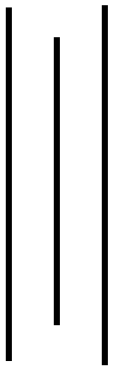

In partial fulfillment of the requirement for the degree of Master of Business Studies (MBS)

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RECOMMENDATION

This is to certify that the Thesis

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FINANCIAL PERFORMANCE OF MALIKA DEVELOPMENT BANK

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

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VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

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

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**Financial Performance of Malika Development Bank Ltd."** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.) under the supervision of **Shree Bhardra Neupane** and **Arun Neupane** of Shanker Dev Campus.

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ABBREVIATIONS

ABB	:	Anywhere Branch Banking
ATM	:	Automated Teller Machine
BAFIA	:	Banking and Financial Institution Act
C.V.	:	Correlation of Variation
CAR	:	Capital Adequacy Ratio
EBL	:	Everest Bank Limited
EPS	:	Earning Per Share
FY	:	Fiscal Year
HBL	:	Himalayan Bank Limited
i.e.	:	That is
MBO	:	Main Branch Office
MDBL	:	Malika Development Bank Limited
NBA	:	Non- Banking Assets
NBBL	:	Nepal Bangladesh Bank Limited
NIBL	:	Nepal Investment Bank Limited
NPA	:	Non Performing Assets
NRB	:	Nepal Rastra Bank
P.Er	:	Probable Error
ROA	:	Return on Assets
ROE	:	Return on Equity
ROI	:	Return on Investment
Rs.	:	Rupees
S.D.	:	Standard Deviation
SCBNL	:	Standard Chartered Bank Limited
SCT	:	Smart Choice Technology
WTO	:	World Trade Organization

CHAPTER - I
INTRODUCTION

The development of any country largely depends upon the economic health and conditions of the country. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of the domestic resources is one of the key factors in the economic development of the country. Development banks and other financial institutions collect immobilized money in the form of deposits from every corner and parts of the country. This will provide capital for the development of the industry, trade and business and other resources deficit sectors. Banks formulate sound investment policies to make it more effective, which eventually contribute to the economic development of the country. Formulation of sound investment policies and coordinated and planned efforts pushes financial performance in individual to forward the forces of economic growth.

Banking industry plays an important role in the development of an economy by providing short-term funds needed to finance investment expenditures and facilitating accumulation of real wealth. A developed banking industry provides a link between saving and investment and offers greater opportunities for individuals and society to increase wealth and raise the standard of living. A well-developed banking industry signifies a developed financial system of a nation. Evidence shows that countries with developed and efficient banking industry also have higher standard of living. Development finance institutions are specialized development banks that are wholly or partly owned by national governments. They serve to implement their government's foreign development policy while retaining strong operational independence. They provide funds for foreign or domestic investors to initiate or development projects in industry

fields or countries. Development Finance institutions are equally fundamental in the small and medium enterprise sector where micro loans, traditionally viewed as high-risk form the bulk of investment activity. Economic development is backbone of the development of any nation. For the economic development of any country, optimum utilization of natural resources,

Technological development, formation of capital and capital market developments are equally important. Among these capital formations is the most important element that is possible from the development of financial sector. It is argued sometimes that financial development is impossible without economic development. Similarly, economic development is also impossible without financial development. So, there is a casual relationship between economic development and financial development. The role of development financial institutions should be directed towards supporting the infrastructures required for economic development. The role of financial system is considered to be the key to economic growth. A well developed financial system promotes investment by identifying and financing beneficial business opportunities, mobilizing savings, efficiently allocating resources, helping diversify risks and facilitating the exchange of goods and services. Economists have generally reached a consensus on the central role of financial system in economic development. The theoretical argument is that policies to develop the financial systems are expected to raise economic growth and, therefore, more developed countries have more developed financial systems. Financial sector liberalization is a gradual process and more liberalized financial systems require better tools and techniques to assess financial system's strengths. So, it is prove that economic development is essential to the development of any nation. Thus, financial institutions play a genetic role in the economic development. The existence of banks and other non-bank financial institutions in a formal and organized way is collectively known as the financial system of a country. Financial system can be grouped into banking and non-

banking financial institution. The banking system is made up commercial banks and investment banks. The non-banking financial institutions comprises of development banks, finance companies, saving and credit unions, insurance companies etc. Few of those non-bank financial institutions are also engaged in the business of accepting deposits from the general public.

As Nepal has formally become the 147th member of WTO on 11th Sept. 2004 and has open the financial services sector specially the banking sector foreign competition, the management skill and other banking practices should be further Strengthened in order to reap the benefits of globalization. The financial system of Nepal will be opened up for the branches of all the international banks and other financial institution by 2010 as per Nepal's WTO Commitments or open branches by international bank cannot be denied. The competency of effective service delivery of existing Nepalese Financial system, the debt has to increase. So, bank and financial institutions have to challenges, to face these challenges, bank and financial institutions should make competitive, healthy and effective.

1.1 Introduction of Malika Development Bank

The Malika Development Bank Limited was registered under the development bank Act 2052, primarily and other relevant statutes like the company act. But at present, the bank and financial institutions licensed, operated and regulated by Nepal Rastra Bank according to Bank and Financial Institution Act (BAFIA) 2063. The need of a development bank, which operates all over, the country, was felt for long particularly due to limitations of services of certain development and commercial banks in the public sector. The role of the private sector is being increasingly emphasized at all the levels. Different enactments were bought into force for the growth of the national economy. In the same process as a part of the far western region’s main spring the Malika Development Bank Ltd. was

commenced its operation since November 10, 1999 (Kartik 24, 2056 BS) in Tikapur, Kailali.

Malika Development Bank Ltd. has been established with the objectives of expanding professionals banking services to various sections of society in the far western region of Nepal and there by contributes in the economic development of the country. According to the Development Bank Act 2052, Malika Development Bank had started its banking transaction after getting the approval of NRB in B.S. 2056/07/25 (1998/12/27). The central office was located at Tikapur, Kailali from the initial banking transaction had been started. After that, another branch was opened at Dhangadhi, Kailali in B.S. 2058/11/24 and the third branch expanded at Mahendranagar, Kanchanpur in B.S. 2059/07/18. In B.S 2058, Central office of MDBL has transferred from Tikapur to Dhangadhi, Kailali to remove the difficulties of reporting and coordination to concerned department. It can be said that Malika Development Bank is the first development bank in the country that has extended its branches in Far Western Development Region from private efforts. It has also started Anywhere Branch Banking (ABB) service to get the payment of cheque and payment deposit the saving from one branch to another. The slogan of the bank is Banking For Development. It has nine districts as working areas, which are Kailali, Kanchanpur, Dadeldhura**,** Doti, Accham, Bardiya, Banke, Dang Rupandehi and upcoming branches at Basgadhi, Nepalgunj, Lamahi, Tulsipur. It has also opened extension offices to granted banking services to the people of remote areas. The extension offices have opened at Bauniya, Tikapur and Lamki in Kailali, Belauri and Mahendranagar in Kanchanpur, in Dadeldhura Pipalla in Doti, and, Sanfebagar and Mangalsen in Achham, Bansgadhi in Bardiya, Nepalgunj in Banke, Lamhi and Tulshipur in Dang, Butwal in Rupandehi Districts. The authorized capital was forty million rupees and the paid-up capital was Rs.10737000 when the bank started its transaction. But at present time, all bank and financial institutions are established and regulated under

the NRB unified directives governing by Bank and Financial Institutions Act (BAFIA). In this way MDBL has also operated its transaction under the BAFIA by getting licensed from NRB. AS per the BAFIA 2063 bank and financial institutions are classified into four categories i.e. A, B, C, and D. In this way Malika Development Bank Ltd. also falls in class 'B'. Malika Development Bank Ltd. has been providing various types of loan such as Fixed capital loan, working capital loan, trading loan, Hire purchase loan, contract loan, loan against own FD receipt, livestock loan, consortium financing, project loan, housing loan, educational loan, foreign employment loan, personal loan, agricultural loan etc. In this way, it has provided the different types of deposit facility to its customers such as saving, general saving, especial savings, super saving, corporate deposits, grihalaxmi bachat yojana, bidhyarthi bachat yojana, baristha nagrik bachat yojana, fixed deposits schemes and mero muddhati. Malika Development bank has been issuing Malika Debit Card (ATM) to our customers since May 2008. MDBL is associated with SCT network company in Nepal to provide 24 hours account access facility to its customers. MDBL ATM can be used in more than 560 ATMs and 1,000 POS terminals throughout the country. Malika debit card can be issued at opening saving or personal current account. MDBL ATM Network are in Malika Vikas Bank, MBO, Dhangadhi, Kailali, Malika Vikas Bank, Mahendranagar, Kanachanpur and Malika Vikas Bank, Butwal, Rupandehi.

1.2 Statement of the Problem

Malika Development Bank Ltd. is operating in far western region of Nepal as the regional level development bank. Malika Development Bank Ltd. has major objective of facilitation of economic development through collection of fund, utilization of it in productive sector and creating competition in financial market. Now the spontaneous question may arise; whether Malika bank has achieved its goal or is in the right track for achieving its goal. As a student research paper, one cannot cover each and every aspect of analysis to know the above-mentioned

questions. In this consequence, the general hypothesis has been made. The financial position and achievement of the bank can be observed to solve the questions. Assuming that the financial position of the bank is satisfactory and then the bank is achieving its goals. So the proposed study attempts to seek the answer of the following questions beside other analysis.

- What is the financial position of the bank in terms of liquidity, profitability and turnover?
- What are the net profit and investment trend of the bank?
- Are there relationships between total deposits to investment and net profit variables?

1.3 Objectives of the Study

Each and every study has its own specific objectives to reach in its logical conclusion. This study broadly attempts to know the overall performance of the bank in term of financial position. We cannot study each and every aspect of performance; so we have specified the following basic study objectives:

- To analyze the financial performance of the bank's in terms of liquidity, profitability, and turnover.
- To identify the trends of net profit and investment.
- To analyze the relationship between the variables i.e. investment, deposit collection and net profit.
- To recommend major findings for correction and proactive steps for the improvement and development.

1.4 Justification of the Study

Financial institutions play a crucial role on economy**.** Economic development of a country depends up on financial institutions**.** 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**.** In modern times, Development Banking occupies quite on important place in the framework of every economy because of the continuing challenge it present to those who are responsible for managing the affairs of nations and to those who observe and study their performance. The working of development bank must be flexible to enable them to face new economic problems and policy issues in order to play their useful role in the economy. Malika Development Bank Limited was established as a regional development bank**.** It has main focuses on Far Western Region for this time being. Each and every bank and financial institution have their own mission, vision, goal and objective**s.** But the primary objective in common can be supposed as the wealth maximization of the firm. In achieving bank can contribute nation in two ways one by providing services to stake holder and other creating wealth and value to stake holder**.** Either the objective of the bank is, but ultimate benefit must go to the society in term of profit, Service and wealth maximization. MDBL is the first development bank of its nature and size for far western region. Well functioning of this bank can contribute to this region's development. Better performance of bank contributes this region directly. So, this study also attempt to reveal that either MDBL is faithful or not for Far Western Region. Hypothesis, for this is that if the MDBL is financially sound, then it has contributed to Far western Region as well as whole nation. Besides, financial strengths and weakness of the bank mostly vary depending upon the business environment and the prevailing competitors in the market, therefore the periodic changes in financial position of the bank need to be analyzed and evaluated.

1.5 Limitations of the Study

Every study requires various types of data and information to complete it. But all the data and information can not be obtained and accommodate due to different factors e.g. coverage of companies or institutions, time period taken, reliability of statistical data, tools used and variables. In other words each study has certain

limitations because no one can go beyond the boundary while collecting, analyzing and interpreting the data. Some limitations are found while conducting the data. The following limitations are pointed out of the Financial Performance of Malika Development Bank Ltd.

a) The study is limited on only five years data from FY 20061/062 to FY 2065/066B.S.
b) The study is limited only on the Financial Performance of MDBL.
c) All the data has been taken as per the annual report published by MDBL and the time value of money has been fully ignored while analyzing.

1.6 Organization of the Study

This study has organized into the following five chapters:

Chapter I: Introduction

Chapter explains the background of the study, focus of the study, statement of the problems, objective of the study, limitation of the study and organization of the study.

Chapter II: Review of Literature

The second chapter is concern with the review of relevant subjects and includes conceptual framework and review of articles and past studies.

Chapter III: Research Methodology

Chapter three present methodologies adopted for the research. It comprises research design, selection of development bank, sources and collection of data, data processing procedure and method of data analysis employed for presenting the data.

Chapter IV: Presentation and Analysis of Data

Chapter four deals with the technique that is used for analyze the collected data; its presentation and analysis with study and presets the findings of the study.

Chapter V: Summary, Conclusion and Recommendations

On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization for further improvement.

CHAPTER - II
REVIEW OF LITERATURE

This chapter presents a review of literature on various study related to the present study. In this study, the review of literature covers the aspects of financial statement, financial statement analysis and review of the related studies. In addition to these, some logics, issues, findings are mentioned which are found to be guideline to prepare the current study. In course of reviewing the literature various books, journals, articles relative acts, rules, regulations and policies on the subject matter have been used. This chapter has been divided into three categories.

- Conceptual Framework
- Review of NRB Unified Directives 2067
- Review of Related Studies
- Research Gap

2.1. Conceptual Framework

2.1.1. Financial Statements

"Financial performance means financial activities of the company directed towards achieving its value maximizing objective. For the better financial activities, effective and efficient decisions are necessary and those better financial activities contribute to excellent financial performance which in turn results to growth of the organization. In other words we can say that financial analysis is performed to obtain a better under standing of a firm's position and performance i.e. its strength and weaknesses. Thus financial analysis involves the use of various financial statements. First the balance sheet, which represents a snapshot of the firm's financial position at a moment in time and next the income statement, that depicts a summary of the firm's profitability overtime" (*Van Horne; 1997:120).*

"Financial statement is a collection of data organized according to logical and consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm. It may show a position at a moment in time, as in the case of an income statement. Financial statements are the major means employed by firms to present their financial situation to stockholders, creditors, and the general public. The majority of firms include extensive financial statements in their annual reports, which receive wide distribution" (*Hampton; 2001:63*).

"The control variables for the ROA equation were designed to hold firm size, risk, asset port folio composition, local economic environment, holding company affiliation, level of investment in branch offices, cost of funds, and overhead expenses constant. Banks do not directly account for R&D expenditures in their financial statements but any expenditure for R&D that might exist would probably be included in overhead expenses. The control variables for the loan loss equation were included to hold constant firm size, risk of the loan portfolio, size of the loan portfolio, and economic conditions in the local loan market. Industry effects were held constant in both equations by using only firms from the same industry. Ordinary least squares regression was used to estimate the regression parameters and standard regression diagnostics were performed to evaluate the reliability of the results" (*Simpson and Kohers; 2002:103*).

Financial statements are prepared from the accounting records maintained by the firm. The generally accepted accounting principles and procedures are followed to prepare these statements. The basic objective of financial statements is to assist in decision-making with reference to provide reliable financial information about economic resources and obligations of a business enterprise. To provide reliable information about changes in net resources of an enterprise that results from the profit-directed and other activities. Financial statement provides financial

information that assists in estimating the earnings potential of the enterprise to disclose, to the extent possible, other information related to the financial statement that is relevant to statement users. They are means to present the firm's financial situation to the users. Preparation of the financial statements is the responsible of top management. As these statements are used by the investors and financial analysts to examine the firm's performance in order to make investment decisions, they should be prepared very carefully and contain as much information as possible.

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

a) Balance Sheet
b) Income Statement
c) Statement of Retained Earning

These statements are contained in a company's annual reports. A typical annual report also includes the chairman's speech, the director's report, the auditor's report and accounting policy changes. For internal management purposes, i.e. planning and controlling, much more information than that contained in the published financial statements is needed. Therefore, the financial accounting information is presented in different statements and reports in such a way as to serve the internal needs of the management.

a) Balance Sheet

"Balance sheet is the most significant financial statement. It indicates the financial condition or the state of affairs of business at a particular moment of time. More specially, balance sheet contains information about resources and obligation of a

business entity and about its owners' interest in the business at a particular point of time. Thus, balance sheet of a firm prepared on the last of the year. In the language of accounting, balance sheet communicates information about assets, liabilities and owner's equity for a business firm as on a specific date" (*Pandy; 1999:30*).

b) Income Statement

The second major statement of financial information is income statement. It is also known by several other titles such profit and loss account, statement of earning, statement of operation and profit and loss statement. Income statement portrays as statement, the operation during a particular period of time. Purpose of every business firm is to earn profit. The operation of a firm in a given period of time will truly be reflected in the profit earns by it.

"The income statement profit and loss account of a firm reports the result of operation in terms of income/net profit of a year. Thus income statement basically provides information on the various revenue and expense items during a certain period. This statement shows the total income generated in a period and the express made by the firm on that date. The earning capacity and potential of the firm are reflected by income statement and it is the 'Score board' of the firm's performance during a particular period of time" (*Khan & Jain; 1999:1*).

c) Statement of Retained Earning

This statement explains about the Company's position of earnings to be paid as dividend and the portion of profit to be retained for future uses. It also explains how profit, dividend and other transaction affect the retained earnings and share-holders' equity. Financial analysis is done on the basis of financial statement of the concerned company. The objective of financial analysis can be described as:

- To get the entire information that can be used at the time of decision making.
- To judge overall performance and management effectiveness.

- To identify the deficiencies and weaknesses.
- To take corrective action in time to check such deficiencies and improve the performance.
- To evaluate the possible implications of alternative course of actions.
- To get in dept information of possibilities of brining changes worthwhile.

Financial 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 management, as reflected in the financial records and reports. The analyst is attempting to measure the firm's liquidity, profitability, and other indications that business is conducted in a rational and orderly way. If a firm does not achieve financial norms for its industry or relationships among data that seem reasonable, the analysts note the deviations. The burden of explaining the apparent problems may then be placed upon management.

2.1.2 Ratio Analysis

Ratio Analysis has been used as a major tool in the interpretation and evaluation of financial analysis. The term ratio refers to the numerical quantitative relationship between the two variables. A ratio is calculated by dividing one item of the relationship with the other base. In financial analysis, a ratio is used as a yardstick for the evaluation of financial performance of the firm. The analysis of financial ratio involves two types of comparison. First, the present ratio may be compared with the past and expected future ratios for the same company and second, the method of comparison involves comparing the ratios of one firm with those of similar firm or with industry averages at the same point, in time. Such comparison gives insight into the financial performance of the firm. Ratio analysis is widely in use. It may not give the entire picture of an enterprise. Ratios themselves are not conclusion. They are only the means. The Ratios are calculated from data

available in the financial statement of an enterprise. The Ratio completed from the available data are numerical, there should not be the tendency to regard them as a precise portrayals of a firm true financial status. For some firms, accounting data may closely approximate economic reality, for others, it is necessary to go beyond the figures in order to obtain their financial condition of performance.

Ratio analysis as the primary tool for examining the firm's financial position and performance. we will recognize two view points in receiving and evaluating financial data

a. External Analysis: this is performed by outsiders to the firm, such as creditors, stockholders, or investment analysts. It makes use of existing financial statements and involves limited access to confidential information on a firm.
b. Internal Analysis: This is performed by the corporate finance and accounting departments and is more detailed than external analysis. These departments have available more detailed and current information than is available to outsiders. They are able to prepare Performa or future, statements and are able to produce a more accurate and timely analysis of the firm's strengths and weakness.

"Ratio analysis is widely used tool of financial analysis to interpret the financial statement so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. The term ratio refers to the numerical or quantitative relationship between two variables. The relationship can be expressed as; percentage, fraction and proportion of numbers. Alternative methods of expressing items, which are related to each other, are for the purpose of financial analysis referred to as ratio analysis. A rationale of ratio analysis lies in fact that makes related information comparable. Single figure by

itself has no meaning but when expressed in items of a related figure. It yields significance instances"(*Khan and Jain, 1996:60*).

In financial analysis, ratio analysis is used as an index of yardstick for evaluating the financial position and performance of the firm. It helps in making decisions as it helps establishing relationship between various ratios and interprets there on. It helps analysts to make quantitative judgment about the financial position and performance of the firm.

Types of Ratios

Different Ratios can be calculated from the available data in the financial statement. Broadly ratios are classified in four groups. They are:

i) Liquidity ratio
ii) Profitability ratio
iii) Activity ratio

i) Liquidity Ratio

Liquidity refers to the ability of enterprises to pay its current liabilities. Liquidity implies the utilization of such funds of the firm which are idle or in very little amount. A proper balance between the two contradictory requirements i.e. liquidity and profitability are required for the efficient financial management. The more current assets associated with high liquidity and low profitability and vice versa. The less current Ratio and quick Ratio are the most widely used ratios for the general purpose to measure the liquidity position of an enterprise.

ii) Profitability Ratio

"Profitability is very important aspect of management of any enterprise. It shows the overall performance of an enterprise. The Profitability Ratios are calculated to measure the operative effectiveness of an enterprise. Besides management of the

company, creditors and owners are interested in the Profitability Ratios of the firm. Profitability Ratios can be calculated on the basis of either sales or investment. The important Profitability Ratios, calculated in relation to sales are Net Profit Margin, Gross Profit Margin, and Operating Expenses Ratio etc. Similarly, the important Profitability Ratios, calculated in relation to investment are Return on Shareholders' Equity, Return on Capital Employed, and Return on Fixed Assets etc. Together these Ratios indicate the firm's efficiency of operation"*(Panday; 1998: 133).*

iii) Activity Ratio

An Activity Ratio may be defined as the test of relationship between sales and various types of Activity Ratios. Activity Ratios are employed to evaluate the efficiencies with which the firm manages and utilizes its assets. These Ratios are also called Turnover Ratios because they indicate the speed with which the assets are being covered or turned over into sales. So Activity Ratios presume that there exists an appropriate relationship between sales and various assets. The more important Activity Ratios for general - purpose analysis are Inventory Turnover Ratio, Total Assets Turnover Ratio, Fixed Assets Turnover Ratio, Capital Employed Turnover Ratio etc.

2.1.3 Market Value Analysis

"The market value ratios represent a group of ratio that relate to the firms stock price to its earning and book value per share. These ratios give management an indication of what investors think of the company/banks past performance and future prospectus. If the firm's liquidity, asset management, debt management and profitability ratios are all good then its market value ratio will be high its price will be probably be as high as can be expected"(*Weston & Brighan, 1996:104*).

Earning Per Share

Apart from the return of return, the profitability of a firm from the profit view of the ordinary shareholders is the earning per share (EPS). It measures the profit available to the equity shareholders on per share basis i.e. the amount they can get on each share held. In other words, this ratio measures the earning available to an equity shareholder on a per share basis. The objectives of computing this ratio is to measure the profitability of the firm on per equity share basis.

Price-Earning Ratio

Price –earning ratio is widely used by the security analyst to value the firm's performance as expected by investors. It reflects investors' expectation about the firm's growth in the firm's earning. This ratio measures investors' expectation and the market appraisal of the performance of the firm. Price-earning ratio shows how much investor are willing to pay per dollar of reported profits .

Cash Dividend on share Capital

The amount of earning distributed and paid as cash dividend is considered as the cash dividend on share capital or dividend per share. The net profit after taxes belongs to the equity shareholder.

2.1.4 Non-Performing Asset (NPA)

Non- performing asset (NPA) in terms of banking sectors consists of those loans and advances which are not performing well and likely to be turn as bad loan. It may be simply define as bad loan. As per NRB directives, it has been categorized all classifieds loans and advances. NPA has several impacts on the financial institution. On the one hand investment becomes worthless, as expected return cannot be realizable. The profitability is directly affected.

NPA as categorized by NRB are classified as loans and advances. For the probable loss on lending that cannot be recovered even after liquidation. NRB has directed to maintain loan loss provision. The loan loss provision is to be maintained by debiting profit and loss account. Thus as the quality of loan degrades the ratio of loan loss provision is increased. This shows that, NPA reduction is still tough challenge for banking industry due to high rate than international standards. So, NPA is becoming imminent challenge for banking industry.

Causes of NPA in Nepalese Banks

1. Lack of clear lending policy
2. Lack of proper analysis of loan and advances
3. Lack of good governance debt management inside the bank
4. Overall economic crisis in the country
5. Weakness in consortium financing
6. Lack in internal control and auditing system
7. Lack of proper supervision of central bank
8. Bad intention of borrowers

2.2 Review of Unified Directives 2067

NRB is authorized bank to regulate, control and develop the banking system; it gives permission for the setting up of the development banks and financial institutions. The NRB's mandate incorporates the supervision, regulation and monitoring issuing some guidelines to all development banks, commercial banks, and finance companies as well as licensed NGOs and the co-operative engaged in micro finance, which we called directives. The main aim of issuing directives is to ensure the stability and healthy development of banking and financial system and towards enhancing the public creditability toward it.

With an objective to analyze the financial performance associated with the regulatory authorities for the enforcement of prudential regulations such as capital adequacy ratio, asset classification. Provisioning for impaired assets, exposures limit and enforcement of international accounting standard etc. Subsequently, the banking sector faced the problem of bad debts, overdue loans, accrued interest, accumulation of non-banking assets and excess liquidity in the banking system. In addition to these expected happenings new challenger were added to the Nepalese banking sector due to the adverse development in the domestic economy resulting from deteriorating peace and security situation and continuous persistence of natural calamities inside the country on one hand and the global recession primarily caused by international terrorism on the other. Viewing the need of structural reformation of these adverse implications, NRB issued unified directives 2066 to run all the banks and financial institution in a healthy competitive manner to ensure the sustainable development of the overall banking system.

Directive no. 1: Eligible Capital Funds (Clause no. 2)

According to new unified directive No. 1, banks should identify the capital and determined the minimum capital requirement to meet the NRB directives to it.

Definition of Capital

Qualifying capital consists of Tier 1 (core) capital and Tier 2 (supplementary) capital elements, net of required deductions from capital. Thus, for the purpose of calculation of regulatory capital, banks are required to classify their capital into two parts as follows;

a) Core Capital (Tier 1)

The key element of capital on which the main emphasis should be placed is the Tier 1 (core) capital, which comprises of equity capital and disclosed reserves. This key element of capital is the basis on which most market judgments of capital

adequacy are made; and it has a crucial bearing on profit margins and a bank's ability to compete.

The BCBS has therefore concluded that capital, for supervisory purposes, should be defined in two tiers in a way, which will have the effect of requiring at least 50% of a bank's capital base to consist of a core element comprised of equity capital and published reserves from post-tax retained earnings. In order to rank as Tier 1, capital must be fully paid up, have no fixed servicing or dividend costs attached to it and be freely available to absorb losses ahead of general creditors. Capital also needs to have a very high degree of permanence if it is to be treated as Tier 1.

b) Supplementary Capital (Tier 2)

The Supplementary (Tier 2) Capital includes reserves which, though unpublished, have been passed through the profit and loss account and all other capital instruments eligible and acceptable for capital purposes. Elements of the Tier 2 capital will be reckoned as capital funds up to a maximum of 100 percent of Tier 1 capital arrived at, after making adjustments referred to in 2.4. In case, where the Tier1 capital of a bank is negative, the Tier 2 capital for regulatory purposes shall be considered as zero and hence the capital fund, in such cases, shall be equal to the core capital.

Elements of tier 1 Capital

- Paid up Equity Capital.
- Irredeemable non-cumulative preference shares which are fully paid-up and with the capacity to absorb unexpected losses. These instruments should not contain any clauses whatsoever, which permit redemption by the holder or issuer upon fulfillment of certain condition. Banks should obtain prior

approval of NRB for this kind of instruments to qualify as a component of core capital.

- Share Premium
- Proposed Bonus Equity Share
- Statutory General Reserve.
- Retained Earnings available for distribution to shareholders.
- Un-audited current year cumulative profit, after all provisions including staff bonus and taxes. Where such provisions are not made, this amount shall not qualify as Tier 1 capital.
- Capital Redemption Reserves created in lieu of redeemable instruments.
- Capital Adjustment reserves created in respect of increasing the capital base of the bank.
- Dividend Equalization Reserves.
- Any other type of reserves notified by NRB from time to time for inclusion in Tier 1 capital

Elements of Tier 2 Capital

- Cumulative and/or redeemable preference shares with maturity of five years and above.
- Subordinated term debt fully paid up with a maturity of more than 5 years; unsecured and subordinated to the claim of other creditors, free of restrictive clauses and not redeemable before maturity. Since, subordinated term debt is not normally available to participate in the losses; the amount eligible for inclusion in the capital adequacy calculations is limited to 50% of core capital. Moreover, to reflect the diminishing value of these instruments as a continuing source of strength, a cumulative discount (amortization) factor of 20% per annum shall be applied for capital adequacy computations, during the last 5 years to maturity. The banks should obtain written approval of

NRB for including any subordinated debt instruments (like Debenture/Bonds) in supplementary (Tier-2) capital.

- Hybrid capital instruments. Those instruments which combine certain characteristics of debt and certain characteristics of equity. Each such instrument has a particular feature, which can be considered to affect its quality as capital. Where these instruments have close similarities to equity, in particular when they are able to support losses on an ongoing basis without triggering liquidation, they may be included in Tier 2 capital with approval from Nepal Rastra Bank.
- General loan loss provision limited to a maximum of 1.25% of total Risk Weighted Exposures. General loan loss provision refers to the provisions created in respect of Pass Loans only and it does not include provisions of rescheduled/restructured and classified loans. The additional loan loss provisions created in respect of Personal Guarantee loans and loans in excess of Single Obligor Limits are specific provisions and hence cannot be included under this category. Such provisions however can be deducted from the gross exposures while calculating risk weighted exposures for credit risk. However, provisions created in excess of the regulatory requirements or provisions which is not attributable to identifiable losses in any specific loans shall be allowed to be included in the General Loan Loss Provision and shall be eligible for Tier II capital subject to a maximum of 1.25% of total risk weighted exposures.
- Exchange equalization reserves created by banks as a cushion for unexpected losses arising out of adverse movements in foreign currencies.
- Investment adjustment reserves created as a cushion for adverse price movements in bank's investments falling under "Available for Sale" category.
- Revaluation reserves often serve as a cushion against unexpected losses but may not be fully available to absorb unexpected losses due to the subsequent

deterioration in market values and tax consequences of revaluation. Therefore, revaluation reserves will be eligible up to 50% for treatment as Tier 2 capital and limited to a maximum of 2% of total Tier 2 capital subject to the condition that the reasonableness of the revalued amount is duly certified by the internal auditor of the bank.

- Any other type of reserves notified by NRB from time to time for inclusion in Tier 2 capital

Deductions From Core (Tier 1) Capital

Banks shall be required to deduct the following from the Tier 1 capital for capital adequacy purposes. The claims that have been deducted from core capital shall be exempt from risk weights for the measurement of credit risk.

- Book value of goodwill.
- Miscellaneous expenditure to the extent not written off. e.g. VRS expense, preliminary expense, share issue expense, deferred revenue expenditure, etc. However, software expenditure or software development expenditure, research and development expenditure, patents, copyrights, trademarks and lease hold developments booked as deferred revenue expenditure are subject to 100% risk weight and may not be deducted from Tier 1 capital.
- Investment in equity of financial institutions licensed by Nepal Rastra Bank2.
- All Investments in equity of institutions with financial interest.
- Investments in equity of institutions in excess of the prescribed limits.
- Investments arising out of underwriting commitments that have not been disposed within a year from the date of commitment.
- Reciprocal crossholdings of bank capital artificially designed to inflate the capital position of the bank.
- Any other items as stipulated by Nepal Rastra Bank, from time to time.

Capital Funds

The capital fund is the summation of Tier 1 and Tier 2 capital. The sum total of the different components of the tier 2 capitals will be limited to the sum total of the various components of the Tier 1 capital net of deductions as specified. In case the Tier 1 capital is negative, Tier 2 capital shall be considered to be "Nil" for regulatory capital adequacy purposes and hence, in such a situation, the capital fund shall be equal to the Tier 1 capital.

Minimum Capital Requirements

Unless a higher minimum ratio has been set by Nepal Rastra Bank for an individual bank through a review process, every bank shall maintain at all times, the capital requirement set out below:

a. A Tier 1 (core) capital of not less than 6 per cent of total risk weighted exposure.
b. A total capital fund of not less than 10 per cent of its total risk weighted exposure.

The Capital Adequacy Ratio (CAR) is calculated by dividing eligible regulatory capital by total risk weighted exposure. The total risk weighted exposure shall comprise of risk weights calculated in respect of bank's credit, operational and market risks.

$$CAR\ \mathrm{X}\frac{Tier\ \mathrm{Z}1\Gamma Tier\ \mathrm{Z}2Capital}{RiskWeightedAssets}$$

The sum of core capital and supplementary is called total capital fund. Capital adequacy ratio is calculated on basis of core capital, supplementary capital and risk weighted assets. Capital adequacy as a legal requirement that a financial institution should have enough capital to meet all its obligations and fund the

services it offers. The provision of minimum capital fund to be maintained by the bank as per directed by NRB since fiscal year 2065/66 is as follows.

Table: 2.1

Capital Fund to be Maintained

Class of Bank	Capital Fund in % on the Basis of Total Risk Weighted Assets	
	Core Capital	Capital fund
"A" Class	6.0	10.0
"B" and "C" Class	5.5	11.0
"D" Class	4.0	8.0

Source: www.nrb.org.np

For the calculation of capital fund or CAR, the risk weighted assets has been classified in following components:

On- balance sheet risk-weighted assets

Off-balance sheet risk-weighted assets.

Directive no.2: Classify Outstanding Loan and Advances (Clause no. 1)

Licensed by NRB to the bank and financial institution should maintain loan classification and maintain probable loss to it under section 79 of 2058 NRB Act grant following directives. Loan classified under the time span over the principle and interest of flow of loan by licenses financial institute.

Table 2.2

Classification of Loan and Advances

Loan Classification	Basis of Classification
Pass	Loans and advances no overdue and overdue by 3 months
Sub standard	Loans and advances above 3 months to 6 months above
Doubtful	Loans and advances above 6 months to 1 year overdue
Loss	Loans and advances overdue by above 1 year

Source: www.nrb.org.np

Directive no.2: Additional Arrangement in Respect of Pass Loan (Clause no. 2)

Loans and advances fully secured by gold, silver, fixed deposit receipts and HMG securities shall be included under loan/Pass Loan category. However, where collateral of fixed deposit receipt or HMG securities or NRB Bonds is placed as security against loan for other purposes, such loan has to be classified on the basis of ageing. Loans against Fixed Deposit Receipts of other banks shall also qualify for inclusion under Pass Loan.

Directive no.2: Additional Arrangement in Respect of Bad Loan (Clause no. 3)

Even if the loan is not past due, loans having any or all of the following discrepancies shall be classified as Bad Loan.

i. No security at all or security that is not in accordance with the borrower's agreement with the bank
ii. The borrower has been declared bankrupt.
iii. The borrower is absconding or cannot be found
iv. Purchased or discounted bills are not realized within 90 days from the due date.
v. The credit has not been used for the purpose originally intended
vi. Owing to non-recovery, initiation as to auctioning of the collateral has passed six months and if the recovery process is under litigation.
vii. Loans provided to the borrowers included the black list and where the credit information Bureau blacklists the borrower.

Note: Bills purchased/Discounted are to be classified into Bad Loan if they are not realized within 90 days from the due date. Accordingly, bills would have only two classifications (i.e. Pass and Bad).

Directive no.2: Loan Loss Provisioning (Clause no. 9)

The loan loss provisioning on the basis of the outstanding loans and advances and bills purchases are classified as per the new unified directives 2067, shall be provided as follows:

Table: 2.3

Loan Classification and Provision for Loan Losses

Loan Classification	Loan Loss Provision
Pass	1%
Sub standard	25%
Doubtful	50%
Loss	100%

Source: www.nrb.org.np

Loan loss provision set aside for performing loan is defined as General Loan Loss Provision and Loan Loss provision set aside for non-performing loan is defined as Specific Loan Loss Provision. Where the banks provide for loan loss provisioning in excess of the proportion as required under directives of NRB, the whole amount of such additional provisioning may be included in General Loan loss Provision under the supplementary Capital.

Directive no. 18: Gradation of Development Banks (Clause no. 1)

In accordance to Bank and financial institutions act 2063 section 36, a development bank that presently falls under grade B can be upgraded if it fulfills all requirements for up grading from grade 'B' to 'A'.

- Bank should maintain upgraded level minimum capital requirement.
- Bank should be in profit for five years of operation
- Non-performing loan should be under the limit as determined
- All rules should be followed as directed by NRB

2.3. Review of Related Studies

This part incorporates the review of journals and an article as well as the past thesis works relevant to this study from universities graduates.

2.3.1. Review of Journals & Articles

2.3.2. Review of Thesis

2.3.1 Review of Journals &Article

Simpson and Kohers (2002), in their article *"The Link Between Corporate Social and Financial Performance: Evidence from the Banking Industry"* has focused on the two measures of financial performance that are generally considered to capture major dimensions of financial performance in the banking industry were utilized: return on assets (ROA) and loan losses to total loans. The return on assets is probably the most widely recognized measure of financial performance in the industry. Return on assets measures the ability of bank managers to acquire deposits at a reasonable cost, invest these funds in profitable loans and investments, and profitably perform the daily operations of the bank. For most banks, the largest portion of total assets is loans and the largest amount of revenues comes from interest on loans. As a result, the ability to make collectible loans directly affects net income and capital, which determine financial success. Loan losses can be a major expense for banks and the ratio of loan losses to loans is an important indicator of the success of the credit function.

Sau (2003), in his article *"Banking, Information, and Financial Instability in Asia"* has analyzed that the rise in indebtedness tends to make the financial structure of the banks increasingly fragile, and it gradually prompts them to re-duce the amount of credit given and to hike up interest rates. This is followed by a drop in income and employment. Furthermore, because of adverse selection, the banks may also decide to ration the credit, exacter-bating even further the drop in income and employment. Consequently, firms may face liquidity crises, and they may decide to meet their financial commitments by reducing their assets or even

by selling their capital goods. Where this process leads to price deflation, the increase in the debt burden further causes a worsening of their financial structures (reduction in the internal net worth), an increase in the "lender's risk," and a reduction in the credit supply and hence in economic activity. In the case of emerging countries, the fall in the companies' internal net worth occurred both because of the deflation process and the unanticipated devaluation of the currency, which in turn prompted a further deterioration in the overall financial structure (both of the banks and companies) and drove many financial institutions to bankruptcy. At this point, panic phenomena within and outside of emerging countries led to the collapse of the whole financial-economic system.

Diamond & Rajan (2005), in their article *"Liquidity Shortages and Banking Crisis"* has argued that the profitability of a contagion of banking failure arise precisely because of the very structure of banks to deal with a commitment problem, they finance illiquid assets with demandable claims, but if deposits cannot be made perfectly state contingent, this structure can cause or exacerbate a liquidity shortage when depositor losses are unavailable, each depositor demands payment. This can force banks to foreclose on loans that otherwise would soon produce real liquidity.

Tarawneh (2006), in his article, *"A Comparison of Financial Performance in the Banking Sector: Some Evidence from Omani Commercial Banks"* has analyzed that the commercial banks in Oman in cohesive categories on the basis of their financial characteristics revealed by the financial ratios. A total of five Omani commercial banks with more than 260 branches were financially analyzed, and simple regression was used to estimate the impact of asset management, operational efficiency, and bank size on the financial performance of these banks. The study found that the bank with higher total capital, deposits, credits, or total assets does not always mean that it has better profitability performance with the

findings indicate that the ranking of the banks based on their return on equity is classified as Bank Dhofar to be the first, Bank Muscat is the second, Oman International Bank is the third, Alliance is the fourth, and the lowest rank is the National bank Of Oman. Based on the reported ranking, it is concluded that the bank with higher predictors of total assets, credits, deposits, or shareholder equity does not always mean that it has better profitability performance. This study examined these predictors impact on the financial performance of Omani commercial banks. The regression analysis results showed that financial performance of the banks was strongly and positively influenced by the operational efficiency, and asset management, in addition to the bank size. This was agreed with the correlation analysis among the variables of the study which indicated the existence of positive relationships.

Parlour & Plantin (2008), in their article *"Loan Sales and Relationship Banking"* has focused on that the expected return on banks loans always decrease with the advent of a liquid market as banks no longer a liquidity premium. This effect is intending of the credit rating of the underlying name and only depends on the bank's opportunity cost of capital. By contrast, as the credit quality of a firm increases, increasing amounts of advent of a liquid market. Loans to firms with higher credit quality are very valuable in the secondary market and thus there is a proportionally larger benefit to shirking. Far large enough profitability of success, the quantity effect outweighs the price effect and a liquid market is socially inefficient.

Okeahalam (2010), in his research article "*Internationalization and Firm Performance: Evidence from Estimates of Efficiency in Banking in Namibia and Tanzania"* has assessed and compared the impact of internationalization on the economic performance of firms in the banking sector in Namibia and Tanzania. With the aid of financial ratios and econometric analysis, measures of efficiency are used as proxies for overall economic performance and comparisons are made.

In Namibia, the market is more concentrated than in Tanzania, all the foreign banks are from one country, and they have had a presence in the country for a long time. In Tanzania, the market is less concentrated than in Namibia, foreign entry is from a number of countries and has been more recent. The study finds that in Namibia, all the foreign banks are larger but more inefficient than domestically owned banks. In Tanzania, foreign banks are more efficient than domestic banks. These results suggest that the generation of foreign entry and industry structure are significant determinants of positive spillovers of internationalization. They also indicate that the type of foreign entrant, not, just foreign entry determines the impact on efficiency and the competitive landscape.

2.3.2 Review of Thesis

Master's degree researches are the important sources of literature review. Masters degree students have accomplished studies on various aspects of banks. Before this study, several thesis works have been carried out by various students regarding the various aspects of banks. Prior to this study some of relevant studies have been gone through. Some of the major findings and conclusions are drowns by them are cited below:

Joshi (2002), in her thesis "*A Comparative Study of Financial Performance of NSBI Bank and NB Bank*" highlight on the objective.

- Relating to financial performance of NSBI and NB bank using appropriate financial tools.

Major Findings of this study are as follows:

i. The NB bank has managed to earn a steady rate of return on its employed asset in each fiscal year which is higher than NSBL that reveals NB bank is able to earn a better return on its total assets utilizing its resources successfully investing in more productive sector.
ii. The NB bank is able to generate more return on shareholder's equity, it shows the bank can tackle their investor more effectively than of NSBL which automatically increase in earnings per share.
iii. The net profit after tax is not satisfactory of NSBL each year but the dividend per share is rarely double than that of NB bank the higher DPS creates positive attitude of the shareholder towards the enterprises which consequently helps to increase the market value of the share that indicate the better financial performance of NSBL.
iv. The high leverage ratio can claims more by outsider in the total capitalization of banks but comparatively NB bank is more riskier in debt financing than of NSBL. NSBL has lower interest coverage ratio than NB bank which showing NSBL is utilizing excessive use of debt.
v. The bankruptcy ratio of both banks are crossed the limit so there is very rare chance of failure of both banks.

Achary (2003), in his thesis *"A Comparative Study of Financial Performance of Nepal SBI Bank and Everest Bank"* had main objective.

- To examine the profitability of the sample banks

The research findings of the study are as follows:

i) The ratio of interest earned to total investment of NSBI is investing their resource which is generating more interest than EBL with consistently in attaining the ratio over the study period.

ii) EBL has maintaining return on assets more consistently; if it has excluded initial first two year's deficit. Though it seems that EBL has better financial strength and long run viability with higher net worth to total deposit but fail to increasing to the return on shareholder's equity than NSBL.
iii) NSBL is more capable to cover the interest by its available fund so the current price paid for share is greater than EBL.
iv) Trend analysis represent the picture of investment is increasing by both banks and the deposit behavior of customer also in increasing trend.

Sharma (2003), in his thesis *"Financial Statement Analysis of Agriculture Development Bank"* had objective.

- To identify the trend of financial performance with regards to the liquidity, profitability, leverage and utilization over a series of years

Major Findings of this study are as follows:

i The liquidity of the bank is simply optimistic position except the expenses to the income ratio.
ii The profit of the bank is totally unsatisfactory with very minimum profit in relation to the volume of its activity ignoring the moderate type of leverage of the bank. So the bank need to utilize its fund as loan, advances in profitable area to have timely collection of the interest and the principle at maturity. The position of the bank is just survive and render services to the farmers and agricultural entrepreneurs as the only development bank in the agriculture sector.
iii The statically tool Karl personion co-efficient of correlation to evaluating the financial performance of the banks capability of net profit to total investment is significantly positive.

iv The increasing trend of net profit shows it is increasing by smaller amount each year not in considerable extent but the trend of expenses increasing so worse which cannot ignore by bank.

Banskota (2006), in his thesis "*Analysis of Financial Performance of Himalayan Bank Limited*" had major objective

- To examine the financial statement of the bank and analyze them to see the financial soundness of the banks.

Major findings and conclusion of the study

ii) The bank had utilized their resource in proper order in profit generating sectors but the liquidity position of bank is below than normal standard ratio i.e. 2:1, but the analysis of liquidity ratio's reveals liquidity position is better to some extent. Therefore, there is no doubt that banking has been operating smoothly and succeeds in becoming the pillars of economic system of the country.

ii) Banks has direct contribution to the economic field which includes high amount of the corporate tax paid by it, good dividend to the shareholder and employment to the qualified personals in order to make them equipped with all the technical knowledge of banking.

Khadka (2007), in his thesis *"Financial Performance Analysis of Everest Bank Ltd."* had pointed out following objectives:

- To evaluate the financial performance of Everest Bank Ltd in a terms different kind of ratio.
- To see the relationship between deposit and profit, investment and profit,
- deposit and investment of EBL.
- To examine income and expenditure of EBL.

Major Findings of this study

i) Overall liquidity position of the bank is satisfactory and rational considering the fluctuation of liquidity over the period which eventually affects the profitability due to idleness of high interest bearing fund.
ii) Return on asset during the study period was less than 2%. This shows that profitability with respect to financial resources investment of bank asset was unsatisfactory.
iii) Correlation Coefficient of deposit and profit, investment and profit, deposit and investment of EBL is highly positive correlated. Trend analysis of deposit and profit shows the increasing trend.
iv) The Investment to total deposit ratio shows that EBL is able to invest, its almost deposit in the profitable sectors.
v) Earning per share is in increasing trend over study period, and bank able to paid regular dividend 20% to 25% to its common shareholder.

Kuikel (2008), *"Financial Performance Analysis of Leading Commercial Banks in Nepal:SCBNL, NABIL, HBL and EBL"* has following objectives

- To measure liquidity, leverage, activity, profitability ratio and ownership/solvency ratios of SCBNL, NABIL, HBL and EBL.
- To analyze and compare the position of NPA.
- To examine whether these commercial banks are following NRB directives or not.

Major findings of the study

i. Among all the sample banks, EBL has the lowest liquidity and profitability ratio.
ii. SCBNL and Nabil had effectively used the total fund supplied by the owners and creditors which lead to the higher ROA. They also have successful to get higher return on the assets used in business.

iii. HBL is successful to earn higher and stable interest income through mobilizing it's loans and advances.

iv. SCBNL is successful on maintaining capital adequacy ratio as per the directives of central bank which was not seem other sample banks had follow the NRB directives.

v. Beside the HBL; other sample banks are comparatively lower NPA ratio indicating sound lending and recovery policy.

Bhattrai (2008), in his thesis "*A Comparative Analysis of Financial Performance of Nabil, Investment and Standard Chartered Bank Ltd*" with the main objective of

- Examining and evaluating the liquidity position to measure the strength of financial performance of selected banks.
- To evaluate the activity and operation with reference to mobilization of the collected funds.
- To analyze price earning, Market value to book value per share and dividend payout.
- To evaluate the earning and profitability position of selected banks.
- To identify the relationship between total deposit and total investment
- To identify the relationship between interest earned and operating profit.

Major Findings of the study as follows:

i) The sample banks or Nabil, Investment and Statdard Chartered bank shows the current ratio is below than standard ratio but Nabil bank has slightly more liquid than other banks.

ii) NIBL has more liquid to serve its depositors in time with enough case in hand with respect to total deposit and current assets.

iii) The average ratio of net profit to total assets shows how efficiently the Nabil bank and SCBNL have utilized their available assets into profit generating projects over the study period.

iv) NIBL has not mobilized the fund of shareholder effectively into profit generating Project which is indicate by less average ratio of return on shareholders' equity.

v) Nabil bank with the highest ratio of net interest earned to total assets has been successful in generating more interest by the proper use of its available assets.

vi) SCBNL has used highest percentage(i.e. 63.30%) of investment on its total deposit into non-risky ventures and is ahead of all the sample banks.

vii) The earning per share of SCBNL has been able to provide maximum profit to equity holder and has highest price currently paid by market with highest dividend per share to its equity shareholders.

Chand (2009), "*A Comparative Study of Financial Performance of Joint Venture Banks in Nepal: A Case Study of NBBL & EBL Banks*" had objective

- To analyze the financial performance joint venture banks.

Major Concludes of the study as follows:

i NBBL maintains above the standard liquidity, NBBL is better mobilizing it's fixed deposit to the opportunity of investment in sufficient profit generating area as long-term loans better than EBL.

ii EBL has strong and highly capital adequacy position to contribution to investors that indicate EBL is successful to utilized it's assets to generate net profit. The favorable capital adequacy ratio of EBL is the indicator for the mobilization of the total deposit, The debt ratio of EBL is more consistent than the NBBL with higher interest coverage, NBBL is more leveraged and riskier and may fail to satisfy the creditors,

iii EBL is able to generate more return on equity to the shareholders with higher cash dividend payout ratio and it also reflects the better performance of the company.

Subba (2009),in her thesis "*The Comparative Study on Financial Performance of Nabil Bank & Everest Bank Ltd*". The main objectives of the study was

- To examine the relative financial performance of NABIL and EBL in terms of different kinds of ratios.
- To analyze the deposit, investment and profit's trend and its projection for five years (2003/04-2007/08) of NABIL and EBL.

From the detail analysis researcher analyzed that

i EBL is capable to meet the minimum cash and bank ratio and maintain the liquidity position to meet the shorter requirement than Nabil bank.

ii NABIL is mobilizing its funds on investment in various securities efficiently comparing, EBL has little unsecured investment.

iii Nabil has successfully generating profit, utilizing its assets and loan and advances to investment which result Nabil efficient utilization of its equity capital.

iv The time series of both banks showing the increasing trend of deposited, loan & advances and investment; Nails is in aggressive position than that of EBL smoothly to achieve the net profit so Nabil has better financial performance than EBL.

Shrestha (2010), in her thesis "*Implementation and Impact of Nepal Rastra Bank Directives: A Case Study on Nabil Bank Ltd. and Standard Chartered Bank Nepal Ltd.*". The main objectives of the study was

- To review and analyze the selected directives of NRB.
- To examine the implementation and impact to NRB Directives by commercial bank.

- To analyze the steps taken by commercial banks to fulfill the requirement of NRB directives.

Major Concludes of the study as follows:

i. Capital adequacy ratio and core capital of Nabil bank and SC bank; during the study period were in excess position Core capital to RWA and CAR is the highest in the year 2062/63 for Nabil bank and year 2060/61 for SC bank. if we see the figure of the core capital, supplementary capital and total capital fund all is in increasing for both bank and trend of RWA is also increasing every year for Nabil bank while there is fluctuation in the supplementary capital. In the portfolio of total capital fund contribution of core capital is around 86% while that of supplementary capital is only 14% so that core capital plays dominate role in total capital fund. Both Bank gave more priority to core capital rather than supplementary capital. To meet the NRB requirement, Nabil Bank announced the bonus share and right shares timely. Nabil Bank has provided regular dividend every year but the current year the bank has paid dividend in 100% of par value.
ii. In the portfolio of total loan and advances, pass loan occupied around 96.25% and 96%while that of NPL is around 3.75% and 4% in average 5 year for Nabil bank and SC bank. The trend of pass loan is increasing every year while the trend of NPL decreased during the fiscal year 2060/61 to 2063/64 but in fiscal year the 2064/65 NPL has increased. The trend of pass loan is in increasing trend every year and NPL is increasing trend during the FY 2060/61 to 2062/63 thereafter it decreases in 2064/65. Bad loan of both bank is fluctuating every year. If the bad loan increases, loan loss provision also increase in the same ratio. Provision for all loans is not sufficient during the fiscal year 2060/61 to 2064/65 for Nabil bank and 2062/63 SC bank in the NRB requirement.

Research Gap

The purpose of the research work is quite different from the studies made by the above studies. The author focuses this study in financial performance of MDBL

operating in far western region of Nepal as a regional development bank. Financial tools and statistical tools are used in this study as ratio analysis, trend analysis and correlation coefficient. This study is a little bit different than previous studies in terms of case study made on Malika Development Bank Limited for the 2060/061 to 2065/066. It may be the first research study made of such regional development bank operating in far western region. This study has tried to indicate the effectiveness of the concerned bank has been operating for the economic development of the country, contributing it's banking activity in the regional level

CHAPTER – III
RESEARCH METHODOLOGY

Research Methodology is the process of arriving at the solution of a problem through a planned and systematic dealing with the collection, analysis and interpretation of the facts and figures. It presents research methodology adopted in achieving the objective stated in the earlier chapter. It contains research design, selection of bank, sources and collection of data, data processing procedure and data analysis tools.

Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigation, backed by collection, presentation and interpretation or relevant details or data. In other words, research methodology is a systematize way to solve the research problem.

The prime objective of this study is to analyze, evaluate the financial performance of Malika Development bank Ltd. Dhangadhi during the period of 5 years from 2061/062 B.S. to 2065/066 B.S. This chapter contains these methods that make convenience for comparison of the performance made, so far by the selected bank by analyzing the financial strength and weakness of the of the bank.

3.1 Research Design

The basic of this study is to examine and access the financial performance of Malika Development Bank Ltd. through the collection, evaluation, verification and analysis of data systematically for the improvement and exploration of certain facts. It will describe the financial situation for the period of five year from 2061/062 to 2065/066. The present study, tries to explore the true financial performance of selected institution i.e. Malika Development Bank Ltd.

At first, the obtained data will be arranged and classified to make easy to analyze. The data have been analyzed using financial and statistical tools and techniques. Financial tools, ratio analysis, as well as statistical tools, trend and correlation analysis, that helps to display the clear financial performance of the Malika Development Bank, Ltd

3.2 Selection of Development Bank

All the development banks operating in the country is the population of the country among Malika Development Bank Limited is selected bank for case study. Seventy eight Development Banks are operating in Nepal at the end of Fiscal Year 2065/066. So it is not possible to study all the data related with all Development Banks because of the limited time period and showed also taken into consideration of the partial fulfillment of the Master's Degree. Thus, One Development Bank i.e. Malika Development Bank Ltd. has been selected for the case study. The present study is related to the Financial Performance of Malika Development Bank Limited, which is operating in Dhangadhi. By there are altogether 263 banks and non-bank financial institutions licensed by NRB in operation. Out of them, 27 are "A" class commercial banks, 78 "B" class development banks, 79 "C" class finance companies, 18 "D" class micro- credit development banks, 16 saving and credit cooperatives and 45 NGOs.

3.3 Sources and Collection of Data

This study depends on the secondary data. The required data and information for analysis are collected from the annual reports of the respective banks. The supplementary data are collected from number of institution like Shanker Dev Campus Library and documentation section of T.U. Library, company office etc.. Similarly, related books, magazine, Journals, articles, reports, bulletins and data from Nepal Rastra Bank.

3.4 Data Processing Procedure

It may not be adequate of the purpose of the given data, information; facts and figures that have been edited, tabulated and calculated before analysis. Then, results were concluded and interpretations were made to reach in the best conclusion adequate data must be needed and arranged it in tabulated for the analysis. The data collected by researcher may be in raw form. There for those data are converted in to the form that gives some meaning and can be understand 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 table form and will analyze.

3.5 Data Analysis Tools

Presentation and analysis of data is one of the important part of the research work. The collected raw data will first be presented in systematic manner in tabular form and then will be analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these some tables will be presented to analyze and interpret the findings of the study.

3.5.1 Financial Tools

In this study the following financial tools have been used to measure the strength and weakness of the concerned banks.

3.5.1.1 Ratio Analysis

A ratio is a statistical yardstick that provides a measure of the relationship 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 ratios are used for accessing the financial performance

and financial position of the firm. In this study, the classified major financial ratios are as following:

a. Liquidity Ratio
b. Profitability Ratio
c. Utilization Ratio

a) Liquidity Ratio

Liquidity ratio is used to judge a firm's ability to meet short-term obligation. From them, much sight can be obtained into the present cash solving of a firm and it's ability to remain solvent in the event of requirement. Essentially, we wish to compare short-term obligation with the short-term resources available to meet these obligation. The importance of adequate liquidity in the sense of the ability of a firm to meet current obligation when they become due for payment can hardly be overstressed. As a Financial Analytical tools following liquidity ratios will be used.

i. Current Ratio

The current ratio indicates bank's liquidity and short term debt paying ability. It shows the relationship between current assets and current liabilities. It is calculated dividing the current assets by current liabilities. Thus;

$$\text{Current Ratio X} \frac{\text{Curent Assets}}{\text{Current Liabilities}}$$

The current ratio indicates bank's liquidity and short term debt paying ability. Current assets normally includes cash and bank balance, money at call of short notice, loan and advances, Investment on government securities and other interest, overdraft, bill purchase and discount, receivable and miscellaneous assets. Similarly current liabilities include deposit and other accounts, short terms loan,

bill payable, tax provision, staff bonus, dividend payable and miscellaneous liabilities. It is calculated dividing the current assets by current liabilities.

ii. Cash and Bank Balance to Non-Fixed Deposit Ratio

This ratio is to measure the liquidity position and refers to ability of the bank to meet its short-term obligation payment ability with its requirement to pay from current and saving deposits. If the current margin and saving deposits requirement cannot pay by the concern, the financial strength of the party will decline. This ratio can be computed by using the following formula:

$$\text{Cash and Bank Balance to Non-Fixed Deposit Ratio } X \frac{\text{Cash and bank Balance}}{\text{Non Fixed Deposits}}$$

iii. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balances are the most liquid current assets. This ratio measures the capacity of bank to meet unexpected demand made by depositors. It is said to be the first defense of every banks. The higher the ratio reflects the greater capability to cover their total deposit and vice versa. However, too high ratio is not beneficial as capital tied up in unproductive sector i.e. cash and bank balance. This ratio can be computed by using the following formula:

$$\text{Cash and Bank Balance to total Deposit } X \frac{\text{Cash and bank Balance}}{\text{Total Deposits}}$$

Cash and bank balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic and foreign banks. The total deposit

includes deposits made by customers though different accounts like current (demand deposit), saving, fixed deposit, call deposit and other deposit accounts.

iv. Fixed Deposit to Total Deposit Ratio

Fixed deposits are the main sources of financing because these are deposited for long term. Very high and low ratio of fixed deposit to total deposit has not been favorable for the bank. This ratio can be computed by using the following formula:

$$\text{Fixed Deposit to Total deposit ratio } X\frac{\text{Fixed Deposit}}{\text{Total Deposits}}$$

v. Current Assets to Non Fixed Deposit Ratio

It is the ratio between current assets and non-fixed deposits, which indicates the availability of current assets to pay out non-fixed deposits. Non fixed deposit refers the sum of saving deposit and other deposits except fixed deposits. The formula for this ratio is as follows:

$$\text{Current Assets to Non-fixed Deposit Ratio } X\frac{\text{Current assets}}{\text{Non Fixed Deposits}}$$

vi. Total Expense to Total Income Ratio

It is the ratio of different expenses to income and thus measures the portion of total income spent on different expenses. Total expenses includes interest expenses, personnel related expenses i.e. salary, allowance etc., house rent, electricity and water, legal expenses, advertisement etc. This ratio can be computed by using following formula:

$$\text{Total Expense to total Income ratio } X\frac{\text{Total Expenses}}{\text{Total Income}}$$

b) Profitability Ratio

This ratio is related to profit of the business. Profit is essential for the survival of the business and indicates economic progress. Profitability ratios are calculated to measure the overall efficiency of the business. The management of the firm is naturally eager to measure the expectation of reasonable return. The operating efficiency of a firm and its ability to ensure adequate return to its shareholder depends ultimately on the profit earn by it. The profitability ratios are calculated to enlighten the end results of business activities. Which is the sole criterion of the overall efficiency of the business concern profitability ratio can be determined on the basis of either sales or investment. The profitability of the institution should also be evaluated in terms of the firm's investment in assets and in terms of capital contributed by creditors and owners. In fact, sufficient profit must be earned to sustain the operation of the bank, to be able to obtain funds from investors for expansion and to contribute toward the social overheads for the welfare of the society. Profitability ratio measures how efficiently and effectively the bank has been operating its activities in earning enough profit.

i. Return on Assets

It is one of the important profitability ratios that measured in terms of relationship between net profit and assets. Return on assets may also be called profit to asset ratio as well as earning power ratio. Net profit refers to the profit after deduction of interest and tax. Total assets mean the assets that appear in asset side of the balance sheet. Particularly, this ratio measures the optimum utilization of the resources or assets. In other words, this ratio seeks to measure the effectiveness with which the bank has employed its total resources. The effectiveness in using the total fund supplied by the owners and creditors is judged by this ratio. Higher ratio shows the higher return on assets used in business thereby indicating effective use of the resources available and vice-versa. This ratio is calculated by dividing net profit after tax by total asset as follows.

$$\text{Return on Assets } X\frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

ii. Return on Equity

This ratio shows the capacity of the banks to utilize its owner's fund. It helps to judge whether the company has earned satisfactory return for its shareholders or not. Higher ratio represents the sound management and efficient mobilization of owner's equity. Shareholders equity includes the paid up capital, various reserve and profit and loss account etc. It is calculated by the following formula:

$$\text{Return on Equity } X\frac{\text{Net Profit After Tax}}{\text{Total Equity Capital}}$$

iii. Return on Investment

This ratio measures the overall profitability of an institution by establishing relationship between net profit and investment. It shows the percentage of profit on investment. It is also called net profit to investment ratio. This ratio is computed by dividing net profit after tax by investment, which shown in below.

$$\text{Return on Investment } X\frac{\text{Net Profit After Tax}}{\text{Investment}}$$

iv. Interest Incoming Ratio

This ratio reflects the extent to which the bank is successful in utilizing their loan and advances to generate high income as interest. The main source of income for the institution is interest earned from loan and advances. This ratio indicates the earning power of the bank on loan and advances in term of interest. Interest earning ratio is computed by dividing total interest earned by total loan and advances. The following formula is used to calculate this ratio.

$$\text{Interest Earning Ratio } X\frac{\text{Total Interest Earned}}{\text{Total Loan and Advances}}$$

v. Interest Expenses Ratio

As the MDBL is the banking institution, it accepts deposit from different depositors and in turn it pays interest to them. So, interest expenses refer the amount paid on deposit collected by the institution as deposit. So, lower ratio is suitable for an organization. The following formula is used to calculate this ratio.

$$\text{Interest Expenses Ratio} \quad X\frac{\text{Total Interest Expenses}}{\text{Total Deposits}}$$

vi. Spread Rate

Spread rate is the difference between deposit rate and lending rate through competition. Bank and financial institutions of Nepal, there is freedom to fixing the interest rates for deposit and lending. So, Bank and Financial Institutions lowered deposit rates and did not lowered lending rates to the extent at which they lowered deposit rates. Likewise, when they increased lending rates, did not increase deposit rates to the extent at which they increased lending rates. In both cases the result was increased interest rate spread. Cash reserve ratio is one of the instruments that were used to help bank and financial institutions lower their spread. The five percent spread is the weighted spread.

vii. Earning Per Share

It measures the profit available to the equity holder on a per share basis in the amount that they can get on every share held. It is widely used ratio. Equity share holders are mainly interested by the earnings of the bank in this regard; EPS tests the earning per share of the shareholders of the bank. Equity shareholders are the real owner of a company and they are primarily interested in the capital appreciates of their incitement. It is the mainly influenced by the earning of the bank.

c) Utilization Ratio

Utilization ratio measures the efficiency of the bank to manage and utilizing its assets in profitable and satisfactory manner. These ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. A bank must manage its asset properly to earn high profit. Utilization ratio is also termed as activity ratio. It refers to the investment and sales on different assets, utilization of deposits etc. To find out the utilization capacity of the bank, some ratios are follows:

i. Loan and Advances to Total Deposit Ratio

This ratio is used to see extent to which the banks are successful to mobilize the outsider's funds. It is the ratio between loans and advances and total deposit which indicates the proportion of loan and advances granted by the banks on total deposit. This ratio is calculated by dividing loans and advances by the total deposit.

$$\text{Loan and Advances to Total Deposit Ratio} \quad X\frac{\text{Loan and Advances}}{\text{Total Deposits}}$$

ii. Investment to Total Deposit Ratio

This ratio measures the extent to which the banks are able to mobilize their deposits on investment in various securities. In other words, it measures the mobilization of percentage amount of total deposits on investment. This ratio is computed by dividing net profit after tax by investment, which shown in below.

$$\text{Investment to Total Deposits} \; X\frac{\text{Investment}}{\text{Total Deposits}}$$

iii. Fixed Assets Turnover Ratio

This ratio measures the utilization of all the fixed assets of firm to generate total interest revenue. It measures the efficiency with which the firm is utilizing its

investment in fixed assets and interest earned. A higher ratio indicates efficient utilization of fixed assets in generating interest and better organization performance where as lower ratio indicates inefficient management and utilization of fixed assets. This ratio is computed by dividing the interest by the net fixed assets, which is below:

$$\text{Fixed Assets Turnover Ratio } X\frac{\text{Interest Earned}}{\text{Fixed Assets}}$$

iv. Total Assets Turnover Ratio

This ratio shows the relationship between total assets and interest earned. It measures the efficiency with which the firm is utilizing its investment in total assets and interest earned. A higher ratio indicates efficient utilization of total assets in generating interest and vice-versa. This ratio is computed by dividing the interest earned by total assets, which can be shown in below:

$$\text{Total Assets Turnover Ratio } X\frac{\text{Interest Earned}}{\text{Total Assets}}$$

v. Non-Banking Assets

It is one of the important banking indicator ratios to measure the financial performance of MDBL. Non-banking assets are also called non-performing assets. These assets are the portions of uncollected loan. Non-banking assets are generated by the default loans, corruption motive loan approval by staff, lack of appropriate assessment of assets, flow of loan in unproductive sector, pressure of board of director in selection of wrong project and pledging lower quality assets etc. As a result, the bank takes control over the pledged assets and after then the bank sells it in five year by evaluating its prices. Banking sector has too loose own profit and ultimately capital determination by increasing NBA / NPA. It should be less than 5 percent in each and every condition for the sound position of the banking organization. It can be measured by the using formula, which is as:

Non-banking Assets to Total Loan Outstanding Ratio $X \frac{\text{NBA}}{\text{Total Loan Outstanding}}$

3.5.2 Statistical Tools

"By using statistical analysis it is possible to talk about the relations and differences of variables. with the help of statistical analysis of data, the result can be presented in brief and precise language and complex and complicated problems can be studied in very simple way" *(Joshi; 2002: 134).* Some important statistical tools will be used to achieve the objective of this study. In this study statistical tool such as mean, standard deviation, coefficient of variation, coefficient of correlation and trend analysis will be used.

i) Mean

"Mean or average is a single value that represents a group of single value." (*Gupta;1999:136*). A mean is the average value or the sum of all the observation divided by the number of observations and it is given by the following formula:

$$\overline{X} = \frac{X}{n}$$

Where,

$\overline{X}$ = Mean of the values

X = Summation of the values

N = No. of Observations

ii) Standard Deviation

Standard deviation is most useful measure of dispersion and gives uniform correct and stable result. It is based on mean, which gives uniform and dependable results. A standard deviation is always a positive number and is superior to other absolute measure of dispersion because it used for further mathematical treatment. It is the positive square root of the average of the standard deviation of the observation

from the mean of the distribution "Standard deviation is the square root of the average of the square distance of the observation from the mean" (*Levin and Rubin;1991:98*).

$$\text{S.D. } (\sigma) = \sqrt{\frac{1}{n} (X - \bar{X})^2}$$

iii) Coefficient of Variation

The calculated standard deviation gives an absolute measure of dispersion. Hence where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on standard deviation. The coefficient of variation (C.V.) is given by the following formula in the percentage basis:

$$\text{Coefficient of variation (C.V.)} = \frac{\pm}{\bar{X}} \mid 100\%$$

iv) Correlation

Correlation is the measure of relationship between two or more variables. It is simply measure the changes between the phenomenons. If two quantities vary in the related manner so that a movement an increase or decrease in one trend to accompany by a movement in the same or opposite direction in the other, they are called correlated. It interprets whether variables are correlated positively or negatively. In fact, the correlation analysis refers to the techniques used in measuring the closeness of the relationship between variables. The reliability of the value of coefficient of correlation is measured by probable error. This tool analyses the relationship between those variables by which it is helpful to make appropriate investment policy for profit maximization. The Karl Pearson coefficient of correlation (r) is given by following formula:

$$r = \frac{Cov(xy)}{\pm x \pm y}$$

Where,

r = Karl persons co-efficient of correlation.

$Cov(xy)$ = Co-variance between the variable x and y.

$\pm x$ = SD of Variation X

$\pm y$ = SD of Variability

The Karl Pearson coefficient of correlation always falls between -1 to +1. The value of correlation in minus signifies the negative correlation and in plus signifies the positive correlation. As the value of correlation reaches to the value of zero, it is said that there is no significant relationship between the variables.

v) Trend Analysis

Trend analysis is a significant and widely used statistical technique for the analysis of time series data like investment, bank deposit, net profit etc., which spread over a long period of time. It helps in forecasting and planning the future courses of action It indicates the direction of changes or movement i.e. whether the movement is favorable or not. It enables a firm to take the time dimension into account. It helps to identify the controllable items of the given period and make forecast for future to an ongoing concern. In this study, least square method; the mostly used method of trend analysis, is applied for the analysis of trend of Malika Development Bank's net profit and investment over the five years. The following formula is used for least square method.

$Y\ \mathrm{X} a\ \Gamma bx$

Where,

$$a = \frac{Y}{N} \quad \text{and} \quad b = \frac{XY}{X^2}$$

y = Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

In the Y is used to designate the trend values to distinguish them from the actual Y values, a is the Y intercept or the computed trend figure of Y variable when X = 0, b= represents the slope of the trend line or the amount of change, in Y variable that is associated with a change of one unit in X variable. The X variable in time series analysis represents time.

In this study, least square method; the mostly used method in trend analysis is used to see the tendency of the following figures for the series of five years.

a) Trend of Net Profit

b) Trend of Investment

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

The chapter is related to the presentation and analysis of data collected from various secondary sources. This chapter has been divided into main two sections. The first section of the chapter deals with the analysis of secondary data and second section deals with major findings of the study. To evaluate the financial performance of selected development bank, ratio analysis, correlation analysis and trend analysis are used in this study.

4.1 Financial Analysis

4.1.1 Liquidity Analysis

Banks need liquidity to meet loan demand and deposit withdrawals. Liquidity is also needed for the purpose of meeting cash reserve ratio (CRR) requirements prescribed by NRB. The development and commercial banks should ensure that they do not suffer form the liquidity problem and should ensure that it does not have excess liquidity as well. The failure of the bank to meet this obligation will result bad credit image and loss of creditors confidence. Therefore, it is important to measure liquidity position of any firm. Some of the liquidity ratios are calculated in this study to find out the liquidity position of the bank, which are as follows**:**

4.1.1.1 Current Ratio

This ratio measures the liquidity position of the development banks. It indicates the ability of banks to meet the current liquidity. Apparently, higher the current ratio, greater short term solvency.

Table: 4.1

Current Ratio

(Amount in Rs.)

FY	Current Assets	Current Liabilities	Ratio (%)
2061/62	110,942,987.72	32,168,399.12	3.45
2062/63	206,660,776.97	42,685,645.80	4.84
2063/64	311,115,510.76	64,321,192.14	4.84
2064/65	386,702,384.51	40,799,630.64	9.48
2065/66	638,566,000.00	53,082,000.00	12.03
Mean ($\overline{X}$)			6.93
S.D (σ)			3.27
C.V.			47.16

(Source: See Annex 1)

Table 4.1 shows, the ratio position of current assets and current liabilities of Malika development Bank for five years period (2061/062 to 2065/066) which arrived 3.45:1, 4.84:1, 4.84:1,9.48:1 and 12.03:1 respectively. It indicates increasing trend to compare its base year. The maximum ratio in the study period in FY 2065/066 is 12.03, and the minimum ratio is 3.45 in the year 2061/062. As per current ratio standard, with the mean 6.93percent depicts that the liquidity position of the bank is more than required level which indicates firms has more availability of current assets in rupees for each one rupee of current liabilities. It means MDBL is not capable to mobilize its liquidity. Finally, it can be concluded that current ratio of the bank is above the standard ratio. From standard deviation point of view, high fluctuation or less homogeneity with respect to current assets to current liabilities. A distribution having greater C.V. is said to be more variable or less consistent. The coefficient of variation ratio with 47.16 percent reveals that the ratio is inconsistent during the study period.

4.1.1.2 Cash and Bank Balance to Non-Fixed Deposit Ratio

The position of cash and bank balance to non fixed deposit ratio of MDBL in different five years can be shown in table 4.2.

Table: 4.2

Cash and Bank Balance to Non-Fixed Deposit ratio

(Amount in Rs.)

FY	Cash and Bank Balance	Non Fixed Deposit	Ratio (%)
2061/62	94,665,613.72	245,013,314.92	38.64
2062/63	29,599,316.59	362,359,240.60	8.17
2063/64	44,913,138.93	524,478,618.01	8.56
2064/65	100,835,170.30	769,672,849.85	13.10
2065/66	548,126,000.00	970,023,000.00	56.51
Mean ($\overline{X}$)			25.00
S.D. (σ)			19.36
C.V.			77.45

(Source: See Annex 2)

The table 4.2 depicts the cash and bank balance to non-fixed deposit ratio for the FY from 2061/62 to 2065/66. The ratio for the study period appeared 38.64, 8.17, 8.56, 13.10, and 56.51 percent respectively. The ratio decreased from 30.47 percent on the 2062/63 year unexpectedly and gradually increased by 0.39, 4.54 and 43.41 percent in the year 2063/64, 2064/65 and 2065/66. The increasing ratio of cash and bank balance is lower than its non-fixed deposit of the same year. The amount of cash and bank balance had increased in its base year but it decreases from the year 2062/063 in the huge gap but the amount of non-fixed deposit has increased in the study period. From the above analysis, it can be concluded that the amount of cash and bank balance and non-fixed deposit is not properly utilized and may not be able to meet its immediate obligation as the bank balance is significantly lower than the current and saving deposit maintaining mean 25, similarly, S.D. 19.36 and C.V. 77.45 respectively.

4.1.1.3 Cash and Bank Balance to Total Deposits Ratio

Cash and Bank Balance to Total Deposit Ratio indicates the bank ability to meet their daily requirement of depositors. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits.

Table: 4.3

Cash and Bank Balance to Total Deposit Ratio

(Amount in Rs.**)**

FY	Cash and Bank Balance	Total Deposit	Ratio (%)
2061/62	94,665,613.72	419,229,634.92	22.58
2062/63	29,599,316.59	579,207,678.26	5.11
2063/64	44,913,138.93	680,246,798.67	6.60
2064/65	100,835,170.30	922,888,306.10	10.93
2065/66	548,126,000.00	1,055,274,000.00	51.94
Mean ($\overline{X}$)			19.43
S.D. (σ)			17.37
C.V.			89.40

(Source: See Annex 3)

The table 4.3, cash & bank balance to total deposit ratio has been calculated by dividing total cash and bank balance amount by total deposit amount. The above ratio reveals that the ability of banks to cover its short term deposits. It has been seen that the ratio of the bank from the fiscal year 2061/062 to 2065/066 remained 22.58, 5.11, 6.60, 10.93 and 51.94 percent respectively. It also shows decreasing trend from its base year. The table indicates that the ratio has been decreased unexpectedly from 2062/063 to 2064/065 than its base year. The amount of cash and bank balance and total deposit ratio has been increased in 2065/066 by 41.01 percent. From the above analysis it can be concluded that the bank has maintained lower cash and bank balance with an average of 19.43 percent, discharging its short term liabilities; which is more that banking norm limited by 5.5 percent as NRB directives.

From S.D. point of view, Malika Development Bank has the 17.37 S.D, it indicates that there is more homogeneity in cash and bank balance to total deposit ratio. And bank has highest C.V. i.e. 89.40 percent that implies bank is more inconsistent in cash and bank balance to total deposit ratio over the study period.

4.1.1.4 Fixed Deposit to Total Deposit Ratio

Fixed deposits to total deposits ratio shows the portion of fixed deposit in total deposit. Higher the ratio more chances will be to earn higher return in the future.

Table: 4.4

Fixed Deposit to Total Deposit Ratio

(Amount in Rs.)

FY	Fixed Deposits	Total Deposit	Ratio (%)
2061/062	174,216,320.00	419,229,634.92	41.56
2062/063	216,557,667.66	579,207,678.26	37.39
2063/064	155,054,680.66	680,246,798.67	22.79
2064/065	153,215,456.25	922,888,306.10	16.60
2065/066	85251000.00	1,055,274,000.00	8.08
Mean ($\overline{X}$)			25.28
S.D.			12.56
C.V.			49.68

(Source: See Annex 4)

Fixed deposit is the long term deposit and the bank can mobilize them on investment and loan and advances. The higher is the fixed deposit ratio lower is the short term deposit, which is current, call, saving deposit. Greater the ratio high the portion of fixed deposit account in the total deposit. Fixed deposits are high cost bearing deposits. However, high ratio indicates better opportunity available to the bank to invest in long term loans. Low ratio means the bank should invest in short term loans. But seeing the trend of ratio, it indicates that MDBL has opportunity to invest in low cost bearing short term loan. So, very high ratio is not

favorable for the purpose of increasing profit. Similarly, very low ratio may also cause the shortage of fund for long-term finance. The coefficient of variation ratio reveals that the ratio is quite inconsistent during study period.

4.1.1.5 Current Assets to Non fixed Deposit Ratio

The ratio indicates the availability of current assets to pay out non-fixed deposits shown in the table 4.5.

Table: 4.5

Current Assets to Non-fixed Deposit Ratio

(Amount in Rs.)

FY	Current Assets	Non fixed Deposits	Ratio (%)
2061/062	110,942,987.72	245,013,314.92	0.45
2062/063	214,264,488.00	362,650,010.60	0.59
2063/064	309,195,846.42	525,192,118.01	0.59
2064/065	386,702,384.51	769,672,849.85	0.50
2065/066	638,566,000.00	970,023,000.00	0.66
Mean ($\overline{X}$)			0.56
S.D. (σ)			0.07
C.V.			12.97

(Source: See Annex 5)

From the above table 4.5, current assets to non-fixed deposit ratio of MDBL has shown a good figure as the rate of increment of non-fixed deposit is higher than that of the current assets but the ratio seems to lower. It may be better to the bank to seek the ways of increasing the deposits, as they are important sources to it.

From the above analysis the average current assets to non fixed deposit ratio is 0.56 percent. On the C.V. of the bank, it is more consistent to its current assets to non fixed deposit ratio.

4.1.1.6 Total Expense to Total Income Ratio

Using total expenditure and total income analysis evaluate expenses out of income. This helps the analyst to conclude the areas to be focused for investment and the possibilities for effective control over expense which is presented in table 4.6:

Table: 4.6

Total Expense to Total Income Ratio

(Amount in Rs.)

FY	Total Expenses	Total Incomes	Ratio (%)
2061/062	30,344,028.44	47,121,106.85	64.40
2062/063	41,324,233.74	57,985,618.24	71.27
2063/064	44,674,800.03	70,211,604.24	63.63
2064/065	58,116,013.90	85,104,545.77	68.29
2065/066	77,066,000.00	105,158,000.00	73.29
Mean ($\overline{X}$)			68.17
S.D. (σ)			3.76
C.V.			5.51

(Source: See Annex 6)

The decreasing ratio indicates the increases in total expenses and contrary to it, increasing ratio shows decreases in total expenses comparatively. The ratio has been increase to compare the base year; it means the institution in satisfactory level with an average 68.17, S.D. 3.76 and C.V. 5.51 percent; which indicate the reliable closeness of variables.

4.1.2 Profitability Analysis

Profit is an important factor for every institution. Every bank and financial institution is established to achieve profit. MDBL is a financial institution. So it also cannot be segregated from profit. It has determined to earn profit to some extent from the banking institution by providing qualitative facilities and services to customers. It shows the banks performance efficiency as a good profit margin is

the measuring rod of performance efficiency. Profitability ratios are calculated to measures management overall effectiveness is shown by the returns generated on sales and investment.

4.1.2.1 Return on Assets (ROA)

This ratio measures the overall profitability of all working fund i.e. Total assets. A firm has to earn satisfactory return on working funds for its survival. The following table shows return on total assets ratio of selected bank.

Table: 4.7

Return on Assets Ratio

(Amount in Rs.)

FY	Net Profit After Tax	Total Assets	Ratio (%)
2061/062	4,968,000.22	114,500,726.23	4.34
2062/063	7,232,052.77	639,134,364.60	1.13
2063/064	7,680,729.24	856,123,369.50	0.90
2064/065	7,686,382.06	1,093,688,934.91	0.70
2065/066	23,528,000.00	1,302,139,000.00	1.81
Mean ($\overline{X}$)			1.78
S.D. (σ)			1.33
C.V.			75.18

(Source: See Annex 7)

As per table 4.7 it has been seen that the return on assets ratio is decreasing trend. The ratio for FY 2061/06d2 to 2065/066 has been seen 4.34, 1.13, 0.90, 0.70 and 1.81 percent respectively. The maximum ratio is 4.34 in the base year and the lowest is 0.70 in the 2064/65 year of the study period. In the same way the net profit has increased during the study period. The return on assets ratio is positive in the study period. Higher the ratio indicates the success of management in overall operation. In this sense, the resources utilization of the bank is satisfied. The average return on assets ratio of MDBL is 1.78 and S.D. and C.V. are 1.33 and 75.18 percent respectively. The return on assets ratio measures how

effectively the assets are utilize to generate profit after tax having less fluctuation of S.D. on the basis of C.V., the ratio shows highest fluctuation of ROA being 75.18 percent which indicates greatest inconsistent to the ROA.

4.1.2.2 Return on Equity (ROE)

Shareholders are the real members of every institution. They are entitled to get earn maximum profit so as to provide reasonable return to the owners. It also indicates towards the favorable condition of wealth maximizations of the bank.

Table: 4.8

Return on Equity Ratio

(Amount in Rs.)

FY	Net Profit After Tax	Total Equity Capitals	Ratio (%)
2061/062	4,968,000.22	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
2064/065	7,686,382.06	81,163,468.51	9.47
2065/066	23,528,000.00	170,540,000.00	13.80
Mean ($\overline{X}$)			13.92
S.D. (σ)			2.67
C.V.			19.20

(Source: See Annex 8)

The ratio has appeared 16.17, 17.10, 13.07, 9.47 and 13.80 percent respectively during the study period. The ratio has increased and decreased due increasing and increasing the amount of net profit as while, the amount of total equity capital increasing around the study period continuously. From the above analysis, it can be concluded that the figure of ratio is satisfactory level but ratio is decreasing continuously. Bank should use efficiently its equity capital by investing in profitable sector to earn more profit. It helps in determining the efficiency with which the affairs of the business are being managed. The bank has not been

success to control the situation so, be increase capacity by mobilizing its equity. Return on net worth of MDBL was in fluctuating trend. The ratio was lowest, 9.47 percent, in the fiscal year 2064/065 and highest, 13.80 percent, in the fiscal year 2065/066. In average, MDBL was able to convert 13.92 percent of the total amount invested by shareholder in the form of net profit with coefficient of variation only 19.20 percent indicating close to uniformity.

4.1.2.3 Return on Investment (ROI)

This ratio measures the banks net profit after tax earned by using total investment.

Table: 4.9

Return on Investment Ratio

(Amount in Rs.)

FY	NPAT	Investment	Ratio (%)
2061/062	4,968,000.22	99,629,500.00	4.99
2062/063	7,232,052.77	148,165,000.00	4.88
2063/064	7,680,729.24	132,745,000.00	5.79
2064/065	7,686,382.06	185,763,000.00	4.14
2065/066	23,528,000.00	216,338,000.00	10.88
Mean ($\overline{X}$)			6.13
S.D. (σ)			24.66
C.V.			39.59

(Source: See Annex 9)

As shown by the table 4.9, net profit to investment ratio of MDBL 2061/062 to 2065/066 arrived 4.99, 4.88, 5.79, 4.14 and 10.88 percent respectively. The maximum ratio appeared in the last year i.e. 10.88 percent and the minimum ratio is 4.14 percent in the just previous year of maximum ratio growth year i.e. 2065/66. The ratio is highly increased in the year because, NPAT has been increased comparatively by investment is arrived in that year and slightly up and down in rest four years. This ratio also indicates that the profitability on the

investment is in satisfactory level. The return on investment ratio of MDBL is very low as beside last year compared to its standard. It means the bank is incapable of investing its fund in profitable assets but recovering. Thus the bank should pay much effort in maximizing its profit in considerable extent. The net profit to total investment ratio has ranged between 4.14 percent in the year 2064/065and 10.88 percent in the year 2065/066 with an average 6.13; similarly, S.D. and C .V. are 24.66 and 39.59 percent respectively. The ratio of the bank is in fluctuating trend this reveals that the ratio is not in satisfactory level. Bank is not efficiently utilizing its investment activities. Coefficient of variation of the ratio reveals that ratio is inconsistency during the study period.

4.1.2.4 Interest Earning Ratio

This ratio shows the percentage of interest income in loan and advances. A high ratio is indicator of high earning power of the bank and vice versa

Table: 4.10

Interest Earning Ratio

(Amount in Rs.)

FY	Interest Earned	Loan & Advances	Ratio (%)
2061/062	41,256,498.39	289,069,018.46	14.27
2062/063	52,611,433.25	321,757,614.37	16.35
2063/064	64,030,735.19	384,104,199.70	16.67
2064/065	76,810,003.04	498,937,944.07	15.39
2065/066	95,442,000.00	412,653,000.00	23.13
Mean ($\overline{X}$)			17.16
S.D. (σ)			3.10
C.V.			18.05

(Source: See Annex 10)

The table 4.10 shows the interest-earning ratio of MDB for the year 2061/062 to 2065/066. This ratio seems to be increasing trend. Interest earning ratio arrived to

14.27, 16.35, 16.67, 15.39 and 23.13 percent respectively from the 2061/062 to 2065/066. The interest earning ratio seems to between 14.27 to 23.13 percent and there is volatile difference on 2064/065 year otherwise consistent each year. From the above analysis the interest earning ratio for different years is satisfactory level; shows the good recovery earning capacity in term of loan and advances with average mean 17.16.

4.1.2.5 Interest Expenses Ratio

This ratio measures the percentage of total interest paid against the total deposit. A high ratio indicates the higher interest expenses on total deposit and vice versa.

Table: 4.11

Interest Expenses Ratio

(Amount in Rs.)

FY	Interest Expenses	Total Deposits	Ratio (%)
2061/062	21,180,996.00	419,229,634.92	5.05
2062/063	30,155,843.92	579,207,678.26	5.21
2063/064	31,693,354.32	680,246,798.67	4.66
2064/065	38,322,677.97	922,888,306.10	4.15
2065/066	43,774,000.00	1,055,217,000.00	4.15
Mean ($\bar{x}$)			4.64
S.D. (σ)			0.44
C.V.			9.49

(Source: Annex 11)

The table 4.11 shows the interest-expenses ratio of MDB for the year 2061/062 to 2065/066 Interest-expenses ratio appeared 5.05, 5.21, 4.66, 4.15 and 4.15 percent respectively from the /062 to 2065/066. The lowest ratio seems to 4.15 percent in last two year and the highest ratio is 5.21 percent in 2062/063 year. The lower ratio is suitable for an organization. So, from the above analysis, it can be concluded that the interest-expenses ratio for different years in average is 4.64 percent. This ratio demonstrates how the banks were successful to generate

cheaper fund quote efficiently. On the basis of CV, MDBL's ratio is more consistent, due to lower CV.

4.1.2.6 Spread Rate Analysis

Thus, spread rate analysis is the difference between interest earning ratio and interest expenses ratio. Generally, speaking a high spread rate is indicates the inefficiency of bank and financial institutions. A higher spread rate denotes there is not competition in financial institution.

Table: 4.12

Spread Rate Analysis Ratio

(In Percent)

FY	Interest Earned Rate	Interest Expenses Rate	Spread Rate
2061/062	14.27	5.05	9.22
2062/063	16.35	5.21	11.14
2063/064	16.67	4.66	12.01
2064/065	14.35	4.15	10.20
2065/066	23.13	4.15	18.98
Mean ($\overline{X}$)			12.31
S.D. (σ)			3.46
C.V.			28.12

(Source: See Annex 12)

The Table 4.12 shows, the spread rate of the bank from 2061/062 to 2065/066. The ratio appeared 9.22, 11.14, 12.01, 10.20 and 18.98 percent respectively. The spread rate depicts in fluctuating trend due to the rate has dropped in 2064/065 year but from the base year to last year it has increased. From the above analysis, it is concluded that the spread rate ratio is very high. The average spread rate ratio is much high i.e. 12.31 percent. On the basis of C.V., MDBL is more inconsistent to the spared rate ratio with the most fluctuation. It means it had greater interest rate spread. The banks had been charging more interest rate on loan than offer on the deposit due to the liberal policy of NRB to determine interest rate.

4.1.2.7 Analysis of Earning Per Share (EPS)

It indicates the rate of earning available per share on equity shares. The earning per share shows the probability of the firm on a per share basis; it doesn't reflect how much is paid as dividend and how much is retained earning But as a profitability index, it is a jump and only used ratio which for banking in direction.

The EPS of the MDBL for five fiscal years period can be shown in table 4.13.

Table: 4.13

Earning Per Share

(Amount in Rs.)

FY	EPS
2061/062	39.19
2062/063	61.44
2063/064	21.94
2064/065	15.37
2065/066	18.70
Mean ($\overline{X}$)	31.33
S.D. (σ)	17.15
C. V.	54.75

(Source: Annex13)

The table 4.13 depicts the earning per share of MDB from the 2061/062 to 2065/066 financial years. The EPS shows the ratio is fluctuating trend and appeared 39.19, 61.44 21.94, 15.37 and 18.70 Rupees respectively during the study period. The lowest EPS is Rs. 15.37 in the year 2064/065 and the highest EPS is Rs. 39.19; which fluctuate undertaking by political instability affect on the price paid per share in the market as whole and the NRB directives effects to unfamiliar shareholders' exercise of buy and sale of share. From the above presentation, the EPS of the bank seems to be volatility nature position with an

average 31.33 percent. On the basis of C.V. of the MDBL has more inconsistent EPS with 54.75 percent. Thus, it can be concluded that the position of EPS of the bank is squeezed.

4.1.3 Utilization Analysis

This ratio refers how efficiently the organization is managing its resources. Thus, this ratio measures the degree of effectiveness in use of resources or funds by a firm. The higher the ratio is more efficient to the firm is in the management and utilization of the assets and vice-versa.

4.1.3.1 Loans and Advances to Total Deposit Ratio

Development banks utilize the outsider's fund for profit generation purposes. Loan and advances to deposit ratio shows whether the banks are successful in utilizing the outsider funds (i.e. total deposit) for the profit generation purposes
(i.e. loan and advances). If the ratio is high, the firm will be utilizing its deposits in the form of loans and advances but very high ratio creates risk in loans and advances. Contrary to it, the cash may be idle and it will create problem to pay interest to its depositors.

Table: 4.14

Loan and Advances to Total Deposit Ratio

(Amount in Rs.)

FY	Loan & Advances	Total Deposits	Ratio (%)
2061/062	289,069,018.46	419,229,634.92	68.95
2062/063	321,757,614.37	579,207,678.26	55.55
2063/064	384,104,199.70	680,246,798.67	56.47
2064/065	498,937,944.07	922,888,306.10	54.06
2065/066	412,653,000.00	1,055,274,000.00	39.10
Mean ($\overline{X}$)			54.83
S.D. (σ)			9.49
C. V.			17.31

(Source: See Annex 14)

The ratio of loan and advances to total deposit ratio seems to be decreasing in the way that it is appeared 68.95 percent in the year 2061/062 and 55.55, 56.47, 54.06 and 39.10 percent respectively in the remaining years. The ratio is decreasing in each year comparing to its previous year. As per its standard the loan and advances to total deposit ratio is not satisfied with an average mean 54.83 percent which means rest of total deposits are not utilize to generate profit which is the most usable sales item of the bank. On the basis of C.V., the loan and advances to the total deposit ratio near to consistent with 17.31 percent.

4.1.3.2 Investment to Total Deposit Ratio

It is the ratio between investments to total deposits, which indicate the proportion of investment made by the bank on total deposit. If the ratio is high the firm will manage its investment well and it will succeed to utilize its deposits through investment. Contrary to its firm will not manage investment well and it will fail to utilize its deposits.

Table: 4.15

Investment to Total Deposit Ratio

(Amount in Rs.)

FY	Investments	Total Deposits	Ratio (%)
2061/062	99,629,500.00	419,229,634.92	23.76
2062/063	148,165,000.00	579,207,678.26	25.58
2063/064	132,745,000.00	680,246,798.67	19.51
2064/065	185,763,000.00	922,888,306.10	20.13
2065/066	216,338,000.00	1,055,274,000.00	20.50
Mean ($\overline{X}$)			21.90
S.D. (σ)			2.36
C. V.			10.77

(Source: See Annex 15)

The table 4.15 shows that investment to total deposits ratio for five years period from 2061/062 to 2065/0646 are 23.76, 25.58 19.51, 20.13 and 20.50 percent respectively. The ratio seems to be fluctuating trend. The ratio is minimum i.e. 19.51 in the year 2063/064 and highest ratio is 25.58 percent in the year 2062/063. The amount of investment has increased in the study period and the amount of total deposit also increased from 2061/062 to 2065/066 but it decreased in the year 2063/064. Thus, the ratio is also decreased in that year. Investment and deposit collection are the major transactions of the banking organization. As the bank's important objective is to collect maximum deposit and utilize it in the productive sectors, it should pay attempts to increase the total deposition one side and increase the investment in profitable and needy sector in higher extent for the mobilization of the collection. The average ratio of MDBL is 21.90 which mean that in average the bank is investing 21 percent of its deposit in different sectors; greater average ratio indicates successful utilization of deposit.

4.1.3.3 Fixed Assets Turnover Ratio

This ratio indicates the ability of development bank is successful in mobilizing their fixed assets on interest income ratio for the purpose of income generation.

Table: 4.16

Fixed Assets Turnover Ratio

(Amount in Rs.)

FY	Interest Earned	Fixed Assets	Ratio (%)
2061/062	41256498.39	3557738.51	11.60
2062/063	52611433.25	3153134.02	16.69
2063/064	64030735.19	4198032.27	15.25
2064/065	76810003.04	15363905.56	5.00
2065/066	95442000.00	16590000.00	5.75
Mean ($\overline{X}$)			10.86
S.D. (σ)			4.78
C. V.			44.02

(Source: See Annex 16)

The fixed assets and interest earned and its position has been shown in the table 4.16 11.60, 16.69, 15.25, 5.00 and 5.75 respectively It has been seen that the ratios of study period is fluctuated. The ratio reached 11.6 and 16.69 times in the year 2061/062 and 2062/063 respectively and it is declined to 5.75 times in the last year, which increased by 0.75 times than previous year. The maximum ratio is 16.69 times in the year 2062/063 Interest earned has been decreasing every year even the fixed assets has been increasing each years. The above analysis indicates that the management is not successful for its proper utilization bank. S.D. point of view, MDBL has the 4.78 percent S.D. of. It implies that Malika bank has low fluctuation (more homogeneity) in generating more profit. On the C.V., the bank has highest C.V. it implies that the bank have higher degree of variability or inconsistent in generating more net profit by using fixed assets in a systematic way.

4.1.3.4 Total Assets Turnover Ratio

It is an also important turnover ratio to measure the efficiency of a firm to utilization of all the assets by generating interest income.

Table: 4.17

Total Assets Turnover Ratio

(Amount in Rs.)

FY	Interest Earned	Total Assets	Ratio (%)
2061/062	41,256,498.39	114,500,726.23	0.36
2062/063	52,611,433.25	639,134,364.60	0.08
2063/064	64,030,735.19	856,123,369.50	0.07
2064/065	76,810,003.04	1,093,688,934.91	0.07
2065/066	95,442,000.00	1,302,139,000.00	0.07
Mean ($\overline{X}$)			0.13
S.D. (σ)			0.11
C. V.			86.36

(Source: See Annex 17)

In the table 4.17, The interest earned and total assets ratio has been seen that the ratios is decreasing up to 0.07 percent which means the bank's profitability over the period is decreasing The ratio is 0.36, 0.2085 0.07, 0.07 and 0.07 times from the year 2061/062 to 2065/066 respectively. The maximum ratio is 0.36 times in the year 2061/062 and the lowest ratio is 0.07 percent in the last three years. With an average ratio 0.13 percent indicates that bank has not capital adequacy position to contribute to the investor. It is highly inconsistent with interest earned to the total assets utilized.

4.1.3.5 Non-banking Assets to Total Loan Outstanding Ratio

This is the proportion of non-performing assets in total Loan & Advances. Higher ratio indicates more risky assets in the volume of Loan & Advances of the bank and vice-versa.

Table: 4.18

Non-banking Assets Ratio

(Amount in Rs.)

FY	NBA	Loan Outstanding	Ratio (%)
2061/062	2,368,973.20	289,069,018.46	0.82
2062/063	2,368,973.20	321,757,614.37	0.74
2063/064	13,759,841.33	384,104,199.70	3.58
2064/065	6,921,700.77	535,141,210.77	1.29
2065/066	17,992,000.00	412,653,000.00	4.36
Mean ($\overline{X}$)			2.16
S.D. (σ)			1.51
C. V.			70.08

(Source: See Annex 18)

The table 4.18 presents the proportion of non banking assets to total loan outstanding of MDBL for the different five years from the FY 2061/062 to 2065/066. The ratio in the year 2065/066 is 4. 36 percent, this is highest in the study period; and 0.82, 0.74, 3.58, 1.29 percent respectively from 2061/062 to

2064/065. Above table shows the average NBA of MDBL is 2.16 percent it mean, it is more efficient to utilize its assets and loan recovery. On the basis of CV., MDBL is less consistent because of higher CV. Thought it is due to NBA has increased surprisingly and the amount of loan outstanding has not increased in that rate in the same year. As a result, the ratio has increased and reached 4.36 percent. As per NBA standard, the bank is efficient to control its standard by collecting loan disbursed by it but management body should be active to improve the situation and take action in time.

4.2 Statistical Analysis

4.2.1 Trend Analysis

Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms. Trend analysis is made for following heads respectively.

4.2.1.1 Straight Line Trend Analysis of Net Profit

In forecasting and planning of net profit for the future three years period, least square method is applied for the straight-line trend analysis of Malika Development Bank. The trend value of net profit is shown in the table 4.19 from 2061/062 to 2068/069.

Table: 4.19

Trend Line of Net Profit

(Amount in Thousands)

FY	Trend Value
2061/062	2704.00
2062/063	6461.40
2063/064	10218.80
2064/065	13976.20
2065/066	17733.60

2066/067	21491.00
2067/068	25248.40
2068/069	29005.80

(Source: See Annex 19)

As shown by the table 4.19, net profit of the MDB seems to be increased by Rs. 3757.40 Thousand each year. The expected net profit for fiscal years 2066/067, 2067/068 and 2068/069 is 21491 Thousand 25248.40 Thousand and 29005.80 Thousand respectively. The trend of net profit is increasing, not satisfactory level but it is positive.

4.2.1.2 Straight Line Trend Analysis of Investment

Straight line trend analysis of investment shows the trend value of investment for Malika Development Bank's succeeding three years period from 2066/067 to 2068/069 for future planning, the analysis is made by the least square method. The trend value of investment is shown in the table 4.20 from 2061/062 to 2068/069.

Table: 4.20

Trend Line of Investment

(Amount in Thousands)

FY	Trend Value
2061/062	102324.80
2062/063	129426.40
2063/064	156528.00
2064/065	183629.60
2065/066	210731.20
2066/067	237832.80
2067/068	264934.40
2068/069	292036.00

(Source: See Annex 20)

As shown by the table 4.20, the trend of investment seems to be increasing trend. The trend of investment has increased by Rs. 27101.60 Thousand each year. The expected investment for fiscal years 2066/067 2067/068 and 2068/069 is 237832.80 Thousand, 264934.40 Thousand and 292036 Thousand respectively. The trend of investment is satisfactory level.

4.2.2. Correlation Analysis

Correlation is the statistical tool, which studies the relationship between two variables. The study focuses on the correlation between total deposit and total investment, and investment and net profit; various decisions can be taken through the correlation analysis.

4.2.2.1 Correlation Between Total Deposit and Total Investment

Correlation between total deposit and total investment measures the degree of relationship between these two variables. It shows the effect of the investment with the variation in the deposit. The total investment is dependent variable and the deposit is independent variable. The magnitude of total investment varies as per the change in the magnitude of deposit. If the amount of total deposit or fixed deposit increase the bank has more capacity of the fund, thus the investment is also increases.

Table: 4.21

Correlation between Total Deposit and Total Investment

(Amount in Thousands)

	Evaluation Criterions		
r	**r^2**	**P. Er.**	**6 P. Er.**
0.9643	92.98%	0.02118	0.1271

(Source: See Annex 21)

The table 4.21 shows that the value of coefficient of correlation 0.9643 that signifies positive relationship between total deposit and total investment. It means if the deposit is increased by 100 percent the magnitude of investment will also be increase by the 96.43 percent. The coefficient determination (r^2) is 0.9298, which means 92.98 percent variation in the dependent variable i.e. total investment (Y) is due to the independent variable i.e. total deposit (X) and the remaining variables due to the other factors.

Since, 'r' lie 0.9643 is greater than 6P.Er. i.e. 0.1271, is significant. So the coefficient of correlation is practically certain.

Thus, from the analysis, it is observed that the total deposits and total investments are significant i.e. total deposit is successfully utilized in profitable investment areas. The coefficient of determination (r) ^{2} 0.9298 is significantly high.

4.2.2.2 Correlation between Investment and Net Profit

Correlation between investment and net profit measures the degree of relationship between these two variables. It shows effect of profit with the variation in the investment. Net profit is dependent variable and investment is independent variable. The magnitude of net profit varies as per the change in the magnitude of investment. If the amount of investment increases the bank has able to earn more profit.

Table: 4.22

Correlation between Investment and Net Profit

(Amount in Thousands)

	Evaluation Criterions		
r	**r^2**	**P. Er.**	**6 P. Er.**
0.8065	65.04%	0.1054	0.6325

(Source: See Annex 22)

The table 4.22 and above calculation shows that the value of coefficient of correlation is 0.8065, that signifies positive relationship between investment and net profit. It means if the investment is increased by 100 percent the magnitude of net profit will also be increase the 80.65 percent. The coefficient determination (r^2) is 0.6504, which means 65.04 percent variation in the dependent variable i.e. net profit (Y) is due to the independent variable i.e. investment (X) and the remaining variables due to the other factors.

Since, 'r' lie 0.80651 is greater than 6P.Er. i.e. 0.6325, is significant. So the coefficient of correlation is practically certain.

Thus, from the analysis, it is observed that the investment and net profit is significant i.e. investment is successfully mobilized in profitable areas. The coefficient of determination $(r)^2$ 0.6504 is significantly high.

4.3 Major Findings of the Study

- Current ratio shows the position of current assets and current liabilities of five years from 2061/062 to 2063/064.with the mean 6.93 So, present analysis depicts that the liquidity position of the bank is more than required level which indicates firms has more availability of current assets in rupees for each one rupee of current liabilities. The coefficient of variation ratio reveals that the ratio is inconsistent during the study period
- The cash and bank balance to non-fixed deposit ratio is fluctuated during study period. Non-fixed deposit is not properly utilized and may not be able to meet its immediate obligation as the bank balance is significantly lower than the current and saving deposit maintaining mean 24.99, having C.V. 77.44 percent that leads to more inconsistent.
- Cash & bank balance to total deposit ratio has been concluded that the bank has maintained more that lower cash and bank balance with an average of 19.43 percent which more that banking norm limited by 5.5 percent.

- An average fixed deposit to total deposit ratio is 25.28 percent that is total account of fixed deposit on the total deposit. Bank has opportunity to invest in low cost bearing short term loan due to low ratio of fixed deposit to total deposit.
- Total expenses to total income ratio in average is 68.17 percent indicates the rest o remaining amount retained after all expenses made from the available income of the bank as whole.
- The return on assets ratio is positive in the study period with an average 1.78 percent. In this sense, Bank has successful to get higher return on the assets utilization on resources.
- MDBL shows the average return on equity is 13.92 that have been showing its weakness regarding efficient utilization of its owner's equity it signifies that the shareholders of MDBL are getting lesser return on share they have owned.
- Return on investment ratio evaluates the inefficient and incapable of investing its fund in profitable sector might because of the weakness on feasibility analysis of profitable project.
- The average interest on loan & advances of MDBL seems 17.16 percent. It indicates that MDBL is able to get good rate of interest income on Loan & Advances. Besides its interest Income on loan & advance is closer consistent
- The analysis of Interest Expenses to Total Deposit Ratio indicates MDB.L had ability to generate cheaper fund with average mean 4.64 percent MDBL has moderate average ratio that means MDBL is moderately efficient to quote their fund.
- Interest earned rate to interest expenses rate ratio analyze that bank has high earning ratio with an average 4.64 percent through interest collected from the loan and advances, investment in government treasury bills, and bonds which help to increase interest earning to interest expenses ratio.

- The analysis of earning per share indicates the moderate position per share so MDBL had the moderate profitability on per share.
- Loan and advances to total deposit ratio shows MDBL followed moderate policy in mobilizing the total deposit in loans and advances
- The investment to total deposit average ratio of MDBL is 21.90 percent which means that, in average the bank is investing 21 percent of its total deposit in different sectors.
- The interest earned to fixed assets ratio was 10.86 percent, meaning MDBL generated Rs.10.86 as interest income from Rs. 100 investment in fixed assets on the long term investment high interest.
- The interest earned to total assets ratio has 86.36 percent of C.V., MDBL has higher inconstancies in the ratios during the study period. It can be concluded that MDBL has successfully mobilized their fund in interest generating assets.
- MDBL is efficient to control its NBA to loan outstanding ratio maintaining average 2.16 percent which is below than standard directed by NRB.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

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

5.1 Summary

The economic development of a country cannot be imagined without the development of commerce and industry. The role of development banks in the economic growth of nation can be estimated to be prominent. The very challenging job of development banks is to collect the scattered idle resources from the small savers. Actually, development banks collect the fund in the sizable volume in order to feed the fund requirement of productive sector promote trade and industrialization in the country there by raising the employment opportunity and earning to the labors and materials suppliers to such industries and traders. Development banks of course contribute a lot to the development of the economy, thus, to remain in the front line of the great contributor ability, the banks have sustainable existence and growth themselves. For the sustainable existence and growth of a bank, it must ensure reasonable profitability.

This study of "*Financial Performance of Malika Development Bank*" is primarily based on the secondary data provided by the concerned development bank. Among the existing listed development banks only one development bank has been

selected for the study. To obtain main objective of the study, the researcher has tried to cover the various aspects of selected bank covering the period of five years from 2061/062 to 2065/066. In the first introductory chapter, the study report has tried to give history and introduction of banking and its relation to the economy, brief profile of the concerned banks, general concepts of the statement of problem, objectives of the study and its limitation. During the research work, extensive review of various literature books, past thesis, journals have been studied and consulted. And as per requirement, internet materials from relevant websites are also visited. These works are complied in the second chapter titled "Review of Literature" of this report.

For this study the researcher has gathered the required data basically from annual reports published by the concerned bank for the last five years. And also website of Nepal Rastra Bank is used for necessary data to analyze the financial performance of selected bank; Financial ratios to calculate various ratios; Statistical tools such as trend analysis, correlation coefficient, coefficient of determination and probable error etc are followed for this research work in third chapter titled "Research Methodology".

Data relating to activities of the banks have been collected and presented in tabular as far as possible are tried to be interpreted in the study report in logical ways. Data are analyzed; applying various financial and statistical tools have been listed in a systematic manner. The various ratios have revealed the financial condition of the bank over the five years. Correlation analysis helps to establish the relationship between two variables which can be useful to know how one variable affect the another variable. Likewise trend analysis is used to find out the trend of some very important elements like total deposit and investment, net profit and investment on the basis of the past data of the bank. This can be used in predicting the value of

these elements. All these works are complied in the fourth chapter titled “Data Presentation and Analysis” of the study.

Finally, the summary, conclusion and the recommendation made by the researcher are presented in the current chapter titled “Summary, Conclusions and Recommendations.”

5.2 Conclusions

- The analysis of liquidity ratios of the bank showed that overall liquidity position is not satisfactory. The current ratio of MDBL remained greater than its standard that indicates firms has more availability of current assets in rupees for each one rupee of current liabilities.
- Cash and bank balance to non-fixed deposit is not properly utilized and may not be able to meet its immediate obligation as the bank balance is significantly lower than the current and saving deposit maintaining mean 24.99 percent.
- Bank has opportunity to invest in low cost bearing short term loan due to low ratio i.e. 25.28 percent of fixed deposit to total deposit.
- Due to the positive return ratio on assets, bank has successful to get positive return on the assets utilization on resources
- The average return on equity is 13.92percent signifies that the shareholders of MDBL are getting lesser return on share they have owned.
- Analysis of return on investment ratio clarify that, there is weakness on feasibility analysis of profitable project selection.
- From the analysis of interest earning ratio and interest expenses ratio, it shows the higher ratio in terms of interest earning and it in terms of interest expenses, it viewed lowest ratio. So it can be concluded that the bank has considerable position in terms of both ratio.

- With the higher spread rate ratio generally explained that bank is enjoying high rate to borrower and less rate offering to depositor
- The earning per share of the bank seems to be volatile declining position. Thus, it can be concluded that the EPS of the bank is not satisfied.
- Loan and advances to total deposit ratio shows MDBL followed moderate policy in mobilizing the total deposit in loans and advances
- In average, MDBL is investing 21 percent of its total deposit in different sectors.
- MDBL generating 10.86 percent interest in average employing it's fixed assets.
- MDBL has higher inconstancies in the ratios during the study period. It can be concluded that MDBL has successfully mobilized their fund in interest generating assets.
- Non-banking assets or non-profit asset is mostly considered as the banks efficiency indicator of assets utilization and efficient lending & recovery. At present practices, NPA is the major concern for measuring the banking performance. The less is NPA, the more is banks efficiency to utilize assets & manage loans. Non banking assets are the main problem for the bank and financial institutions, the NBA of the bank is in increasing last year so it should be take action to control it.
- The trend of net profit shows it is increased by smaller amount each year but the increasing trends of investment shows a better symptom.
- The result of Karl Person's Coefficient of Correlation indicates that the relationship between total deposit and total investment, and investment and net profit is significantly positive.

The existence of bank and financial institutions collectively, known as the financial system of any country. Financial system plays a vital role in economic

development. In Nepalese financial system is in critical stage. Development banks are essential organization for economic development of any country. It plays a hugely important role in servicing the investment needs developing and reforming economies. For the economic development of any country, optimum utilization of natural resources, technological development, formation of capital and capital market development are equally important. The development bank is only fulfills these elements. Therefore, development banks are so important for the development of our country. Thus, Malika development Bank is also important institution to the economic development of the Far Western Region, as well as the whole country. The main problem in banking system is inefficiency, inadequate financial discipline, as well as political and other influences in lending high spreads and increasing NPA.

5.3 Recommendations

Based on the analysis, interpretation & conclusions, some of the major recommendations are mentioned as bellow:

- The bank is suggested to maintain its liquidity position in normal standard, as their liquidity position is high and also recommended to follow consistency liquidity policy.
- Cash and bank balance to total deposit of bank needs to develop a system of keeping cash and bank balance as per requirement of the borrowers on the basis of scientific investigation on borrowers trend and also should invest the excess amount of cash and bank balance in government securities.
- As per the nature of current and saving deposits, if the bank does not invest for a long period of time, the cash will be idle and if it invests so, the bank may get problem in making payments to the depositors and the bank remained in a higher risk. So, the bank should develop such policies, which could attract depositor toward fixed deposit than the current and saving deposits.

- The increasing rate of total expenses is more than the total income. So, the bank should control its expenses as per necessity.
- The overall profitability position of the bank is not so satisfactory. Therefore, it can be recommended that the bank needs to search profitable projects for investment. Similarly, the bank also needs to generate return on assets and return on investment.
- The utilization position of the bank seems to be unsatisfactory during the study Period. It should make more efforts to invest the fund in the needy as well as profitable sectors.
- The spread rate of the bank has been increasing continuously. So, the bank should try to control the spread rate.
- The trend of investment seems to be satisfactory but the trend of net profit not to be desirable position, though it seems in increasing trend. So, the bank should invest the fund as portfolio basis that helps to minimize the risk.
- The earning per share of the bank is very low and dividend has just started to pay it is due to the low profit. Thus, it is recommended that the profit must be maximized by over viewing all the probable alternatives of minimizing expenses and maximizing income or both.
- The institution hasn't been able to utilize capital fund in generation more return on equity by bearing less risk. Therefore, the management should invest its capital fund on the basis of portfolio system to earn maximum return by bearing minimum risk.

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