

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Prosperity of a country widely depends on many factors. Among them banking is a major factor. It is taken as the backbone of developed country. Among the banks, development banks play vital role for the development of the country.

Development Bank is a bank established to provide capital & technical assistance for the development of basic infrastructure of the country. Different countries have different provisions for the establishment of such banks even though the objective of its establishment is to develop the country. In Nepal, development banks are established under the provision of Development Bank Act, 2052 for the investment and development of particular sector of country.

Development banks create the proper environment in the country for the development of rural, industrial and agricultural sectors of the country. Development banks provide short-term and long-term loan to the industries and they provide capital, technical assistance, managerial & administrative suggestions to the development of industrial, agricultural and rural sectors of the country.

Performance reporting is an important part of a comprehensive budgetary system. The performance reporting phase significantly influences the extent to which the organization's planned goals and objectives are attained.

To indicate the extensive reporting requirements a business needs to focus on performance evaluation, the following overview of financial reports is presented and explained (Glenn A. Welsch, Ronald W Hilton, Poul N. Gordon 1999:542).

- i. Special external reports: these reports are for government agencies,

regulatory commissions, creditors, investigators and other group of external s to active management. Frequently, these reports are extensive and constitute a significant management attention.

- ii. Reports to owners: this is the traditional report to the owners and other special report prepared to the owners. These reports by and large are based on " generally accepted accounting principles" and report data that has been subject to an audit by an independent CPA.
- iii. Internal reports: these reports are prepared by the company for their internal use only. They do not have to meet the needs of external groups nor the test of "generally accepted accounting principles" but rather the test of internal management needs. internal report is sub divided in to three parts they are:
 - a. Statistical reports
 - b. Special reports
 - c. performance reports

All companies, regardless of their size, have reporting requirements for all the categories listed above. As the size and complexity of the company increase, there is greater need for regimentation of the reporting as suggested above.

Different financial tools are used to analyze the performance of the organization. These tools are ratio analysis, income statement and cash flow statement. Among them Ratio analysis tells about the relationship between its various variables. Ratio analysis highlights the factors in relation to success or failure of the activities. Ratio is useful tool with which one can infer the financial performance of enterprise. A period of time with help of ratio analysis conclusion t can drawn regarding several aspects such as finance position, performance, profitability and operational efficiency of the organization.

Ratio Analysis tells about the whole story of changes in financial conditions of the organizations. Ratio analysis highlights the factors in relation to success or

failure of the activities. Ratio is useful tool with which one can infer the financial performance of the enterprise. A period of time with help of ratio analysis conclusion can be drawn regarding several aspects such as financial position, performance, profitability and operational efficiency of the organization.

Accounting ratios refer to the numerical relation of component parts of financial statement to each other. Ratio relationships are computed to obtain information about various characteristic conditions of organization. Ratio has always been a basic tool of financial statement analysis although it has been subjected to frequent criticism. They have proved to be useful as explanatory and predictive variables in a wide variety of analysis.

Ratio analysis is the systematic use of ratios to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined (Jain, and Narang, 1988).

In financial analysis a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The absolute accounting figures reported in the financial statement do not provide a meaningful understanding of the performance and financial position of a firm. An accounting figure conveys meaning when it is related to some other relevant information. The relationship between two accounting figures expressed mathematically is known as financial ratio. Ratio helps to summarize the large quantities of financial data and to make qualitative judgments about the firm's financial performance (Pandey,1988).

1.2 Introduction of Sample Banks

Before starting to analyze the ratio position of sample banks it is necessary to introduce the banks in brief. The short introductions of sample banks are shown as follows:

1.2.1 Introduction of NDBL

Nepal Development Bank Limited (NDBL) is the first national level development bank in the private sector. It has been established under the Development Bank Act 2052, (1996) in 2055 BS. As envisaged by the mission statement "Partner in Development". NDBL has been actively participating to cater the demand of medium and long-term finance for the industrial, commercial, agricultural, tourism, infrastructure sectors and other services by offering various banking facilities. It mobilized its sources in the form of fixed, saving and other short-term deposits with competitive interest rates.

Above all, NDBL has long historical and fruitful tie-up with the economic development of Nepal and, since long it has created a congenial environment in the country to encourage domestic entrepreneurs and foreign investors to participate in the process of industrialization. It is the only leading and most experienced DFI in project financing. It provides loans to assist industries with long gestation period throughout their project development cycle, right from formulation or conceptual stage to the stages of nurturing and project establishment till they are well established and capable of self sustaining in their operation which is, in fact, very costly financing but equally important for real industrial development in the country.

The involvement of one of the most leading development banks of India, Industrial Development Bank of India (IDBI) as an important strategic investor will go a long way to further enhance the performance of the bank and for the technology transfer. IDBI with respect to development bank practices in general and merchant banking in particular sectors will add a new milestone in achieving its excellence in the cut-throat competitive market.

Since its inception, NDBL has been playing a crucial role as the financial catalyst of industrial development. NDBL is still the clear market leader for industrial term lending in terms of its contribution in the financial sector. Out

of the total deposits and investments of all development banks NDBL alone holds about 58 percent.

The capital Structure of NDBL is as follows:

) Authorized Capital	NRs. 320 million
) Issued Capital	NRs. 160 million
) Paid Up Capital	NRs. 160 million

The share holding pattern is illustrated as follows:

1. Private Sector Promoters	31%
2. Institutional Promoters:	29%
▪Nepal Rastra Bank (NRB)	
▪Employees' Provident Fund (EPF)	
▪Rastriya Beema Sansthan (RBS)	
▪Nepal Co-operative Society Ltd. (NCSL)	
3. Industrial Development Bank of India (IDBI)	10%
4. General Public	<u>30%</u>
TOTAL	100%

1.2.2 Introduction of DCBL

Development Credit Bank Limited (DCBL) was established in the year 2001 AD under the provision of Company Act, 1997 and Development Bank Act, 1996. It is the first National level private development bank without having any direct involvement of Government of Nepal and/ or Nepal Rastra Bank in the equity and/or management of this bank.

The bank came out with its initial Public offering on January 23, 2002 with its paid up capital of Rs.160 million. The individual promoters hold 51 percent, institutional shareholders hold 19 percent and the general public holds 30 percent of total share capital of this bank. DCBL's share was listed in Nepal Stock Exchange (NEPSE) on June 24 2002 and their shares are being regularly traded in the secondary market.

DCBL is a diverse development bank having presence in every key sector of financial service. This is reflected by its diversified and wide customer base. This bank has a history of five years of successful banking and has stood the test of time by growing steadily, offering vast, varied and versatile services with a personal touch. The bank is emerging as the most dynamically developing bank that is combined through knowledge of special characteristics of the Nepalese market with the very high standard.

DCBL is the first and the only financial institution of Nepal to acquire the ISO 9001:2000 certification which reflects the commitment of the management towards effective quality management within the organization.

The bank has been richly endowed with a blend of well experienced highly skilled professional management team having combined banking experience spanning well over 100 years, acquired mostly in key management positions in banking. A well-experienced and relatively young, dynamic and efficient manpower is one of the key factors of the bank's success. Excellence in performance and uniqueness in customer service form the central core of the bank's organization culture.

With the aim of enhancing customer service, the bank has introduced Automatic Teller Machines (ATM) and Point of Sales (POS) facilities in partnership with Smart Choice Network Pvt. Ltd. The DCBL ATM card holder has the easy access to their money in the major cities of Nepal through 49 ATM machines and 295 POS terminals all over the country.

DCBL is the most successful bank among the development banks of Nepal based on assets, performance and profitability. The bank's assets and net profit stood at Rs.1881.06 Million and Rs.35.64 Million respectively in the FY 2004/05. It is the first and only national level development bank to distribute cash dividends to its shareholders for the three consecutive years.

DCBL has acquired the following awards and recognitions:

- 1) ISO 9001:2000 certification by DET NORSKE VERITAS, Norway as on April 2003.
- 2) "Best Financial Institution 2003/04" awarded by the Boss Top 10 Business Excellence Awards 2003/04.
- 3) Letter of Appreciation for the "Excellent Performance" among the national level development banks by Nepal Rastra Bank, on the occasion of Golden Jubilee Ceremony of Nepal Rastra Bank.

The Capital Structure of DCBL is as follows:

Authorised Capital	Rs. 320,Million
Issued Capital	Rs. 240 Million
Paid-Up Capital	Rs. 240 Million

The share holding pattern is illustrated as follows:

Private Promoters	51%
Institutional Shareholders	19%
Pan World International P. Ltd.	9.5%
Pan World Holding P. Ltd.	9.5%
General Public	<u>30%</u>
TOTAL	100%

1.3 Statement of the Problem

It is told that development banks are not performing well in our country. They have bad-loan flow and the banks are going to be bankruptcy. They are not expanding their operation all over the country. The branches of private sector development banks are not established satisfactorily. It is also true that their performance evaluations are not done properly, although proper performance evaluation is back done for budgeting and budgetary control.

So, this research paper intends to explore the following research questions to make conclusion on above problems:

- 1) What types of control system the banks are adopting?

- J How performance evaluation can help in control system?
- J Do these Development Banks have proper analysis system for evaluation?
- J Do they use the result of performance evaluation in the banks further planning?
- J What are the deficiencies of these Banks in relation to financial position?
- J What type of contemporary steps are essentials for performance improvement of these banks?
- J Whether the financial performance of these banks are sound or not?
- J How they are operating in rural areas?

1.4 Objectives of the Study

This study entitled ‘Performance Evaluation as an effective tool for control’ deals with the analysis of financial position of selected development banks. The main objective of this study is to examine the existing performance evaluation system and its impact on development of Nepal Development Bank Ltd. and Development Credit Bank Ltd. However, the following are the specific objectives:

- J To analyze the existing evaluation system of banks.
- J To find out whether or not the banks are using the result of performance evaluation in further budgeting.
- J To find the competitive position of NDBL & DCBL.
- J To evaluate its major significance from findings of the study.
- J To make recommendations from the findings of the study.

1.5 Significance of the Study

This study entitled 'Performance Evaluation as an effective tool for control' is focused on evaluation of various ratios of selected sample banks. This study aimed to find out the financial position of selected banks in relation to ratios analysis.

By covering above mentioned objectives and statement of the problem, this study is aiming to following significances:

-) The main significance of this study is to fulfil the partial requirement of MBS examinations. Without completing a thesis report, MBS examination can not be completed. So this study plays great significance to complete the MBS degree.
-) It may explore the problems and potentialities of selected banks regarding accounting ratios.
-) It may be beneficial to the stakeholders i.e. investors, lenders, policy makers etc. and other interested parties to know the performance of selected development banks in Nepal.
-) It helps future researcher to study in same topic.
-) It may be helpful for the banks to improve its financial position after the recommendation.
-) It may be useful to the government to make policies and legal correction of vague terms for smooth operation of development banks.

1.6 Limitations of the Study

Every research study is constrained by various reasons. Having outlined the objective, scope, methodology and the plan of the study, it can be noted that the major limitations are mentioned below:

-) Among 9 Development banks established till 2062 chaitra, this study has focused only Nepal Development Bank Ltd. and Development Credit Bank Ltd.
-) The researcher has faced many problems in getting the data. In most of the cases, the executives tried to avoid filling up the questionnaires and they left answering some questions there-in.
-) This study was mostly based on accounting ratios analysis of sample development banks which were selected from sampling method. Under this

study only two selected development banks were taken as sample. The whole development banks were not taken. This made the study limited.

) The ratios were analyzed based on previous years' financial statements of the selected banks.

) The study has covered only 5 years data from FY 2059/060 to 2063/64.

1.7 Organization of the Study

This thesis has been divided into the following five chapters:

Chapter I -Introduction

This chapter includes background of the study, introduction of sample banks, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter II - Review of Literature

This chapter describes the conceptual/theoretical review and review of related studies from books, journals and previous studies.

Chapter III - Research Methodology

This chapter contains research design, population and sample size, data collection procedure and tools used for analysis.

Chapter IV - Data Presentation and Analysis

This chapter describes the presentation and analysis of data. It also includes major findings.

Chapter V -Summary, Conclusions and Recommendations

This chapter includes the summary, conclusions and recommendations of the study.

CHAPTER - II

REVIEW OF LITERATURE

Review of literature is a stocktaking of available literature in the field of research. The textual constraints would help the researcher to support the area of research in order to explore the relevant and true facts for the reporting purpose. While conducting the research study, previous studies cannot be ignored, as those instructions would help to check up the chances of duplication in the present study. Thus, one can find what research studies have been conducted and what remains to go with.

Therefore, this chapter is developed under two major headings: Review of Books & Articles and Review of Thesis & Dissertation Reports. The first part provides the fundamentals of supportive text that will ensure the interpretation whether it is under the principles and doctrines of the theories related to the topic. However, the second part includes the objectives set by different researchers in the similar field of study.

2.1 Review of Books & Articles

This study is related to ratio analysis of selected development banks. This section ensures to find out the literature of past studies on books. The topics on the books review is related with concept of financial analysis, objective of financial performance analysis, significance of financial performance analysis, major steps in financial analysis, types of financial analysis, techniques of financial analysis, limitations of financial performance analysis and financial performance analysis of bank. The parts of the literature reviewed from books are:

2.1.1. Concept of Financial Analysis

Financial analysis involves the use of various financial statements. The first is the balance sheet, which represents a snapshot of the firm's financial position at

a moment in time and next is the income statement that depicts a summary of the firm's profitability over time (Van Horne & Wachowicz, 1997: 120).

Analysis and interpretation of financial statements is an attempt to determine the financial performance of any organization so that a forecast may be made of the prospects for future earning, ability to pay interest, debt maturity, and probability of a sound dividend Policy.

In the words of Myers, financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statement and a study of trends of these factors as shown in series of statements (Moer, 1961: 4).

It is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and the profits and loss account in a proper way (Pandey, 1994: 96).

It is also the analytical and judgmental process that helps answer the questions that have been posed. Therefore, it is means to end. Apart from the specific analytical answers, the solutions to financial problems and issues depend significantly in the views of the parties involved in the relative issues and on the nature and reliability of the information available (Helfert, 1992: 2).

Besides, it can be taken as the starting point for making plans, before using any sophisticated forecasting and planning procedures. Financial data can be used to analyze a firm's past performance and assess its present financial strength. Management of the firm would be particularly interested in knowing the financial strength to make their best use and to spot out the financial weakness to take corrective actions.

The analysis makes an attempt to dissect the financial statements into their components on the basis of the purpose on one hand and individual companies and total of these items on the other. In course of study and evaluating the financial position of the organization, a study of trends of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization (Srivastava, 1993: 56).

Financial statement analysis involves a comparison of a firm's performance with that of other firms in the same line of business, which is often identifying the firm's industry classification (Weston, Besley & Brigham, 1996: 78).

With respect to the identified from the analysis, pertinent care should be made to distinguish between the cause and symptom of problem (Hiampton, 1998: 99).

The analysis of transaction determines the solvency of business and the major efficiency of operation as computed to similar concerns. The analysis reveals how far the dreams and ambitions of the top management have been converted into reality during each financial year. The analysis, being a technique of x-raying the financial position as well as progress of concern. It enables managers and investors take decision that will affect the company's future.

Hence, much information can be obtained about various aspects of a business through the analysis, which other ways would have been buried in a maze of details.

2.1.2 Objectives of Financial Performance Analysis

From the concept of financial performance analysis, it has been proved that one can explore various facts related to the past performance of business and predict out the potential for achieving expected results. Various parties are involved in the business directly or indirectly. Therefore, objective of the analysis also differs from one party to other. However, major objective of the analysis in broad sense, can be stated as follows (Needles, 1989: 63-64).

-) Assessment of past performance and current position.
-) Assessment of potential and related risks.

a) Assessment of Past Performance and Current Position

Past performance is often good indicator of future performance. Therefore, an investor or creditor is interested in the past sales, expenses, net income, cash flow and return in investment. In addition, an analysis of current position will

tell what assets the business owns and what liabilities must be paid. Besides, it will provide the information about various facts in relation to the business such as:

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

b) Assessment of Potential and Related Risks

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

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

2.1.3 Significance of Financial Performance Analysis

Significance of analysis lies on the objectives of financial analysis of any firm. Different groups associated with the concern perceive the fact discovered by the analysis differently. The facts and the relationships concerning managerial

performance, corporate efficiency, financial strengths and weakness and credit worthiness are interpreted based on objectives in the hand.

Such an analysis leads management of an enterprise to take crucial decisions regarding operating policies, investment value of the firm, internal financial control system and bargaining strategy for funds from external sources (Agrawal, 1993: 582).

Parties those benefited by the results or conclusions drawn from the analysis of financial performance can be enumerated as (Srivastava, 1993: 58-59).

-) Top management
-) Creditors
-) Shareholders
-) Economists
-) Labour unions

a) Top Management

It is the overall responsibility of top management to see that the resources of the firm are used most efficiently and effectively and that the firm's financial condition is sound. Understanding the past is a pre-requisite for anticipating the future. Hence, top management can measure the success or otherwise of a company's operations determine the relative efficiency of various departments, process and products appraise the individual's performance and evaluate the system of internal audit.

b) Creditors

The creditors can find out the financial strengths and capacity of the borrower to meet their claims. Trade creditors are interested in the firms to meet their claims over a very short period of time. The suppliers of long-term debt, on the other hand are concerned with the firm's long-term solvency and survival. A lending bank through an analysis of these statements can decide whether the borrower retains the capacity of refunding the principle and paying interest in time or not.

c) Shareholders

The investors, who have invested their money in the firm's shares, are most concerned about the firm's earning. They are able to evaluate the efficiency of the management and determine if there is any need of change. In a large company, the shareholder's interest is to decide whether to buy, sell, or hold the shares. If performance of the organization is excellent investors wish to buy the shares whereas, they simply intend to hold the shares in case of satisfactory performance. However, they are hurry to sell the shares in case of poor performance.

d) Economists

Economists analyze the financial statements with a view to study the prevailing business and economic condition. The government agencies analyze them for the purpose of price regulation, rate setting, and similar other purposes.

e) Labour Unions

Well-motivated labours are good source of productivity. Labour unions are interested in rights and benefits of labour to raise the moral of labours. To motivate the labours they expect increase in wages, fringe benefit and so on. Therefore the unions assess whether the company is in the situation or not to make facilities available.

2.1.4 Major Steps in Financial Analysis

The basis for financial analysis is financial information obtained from balance sheet and profit and loss account. The analysis of financial statement is completed in three major steps.

- a) The first involves the reorganization and rearrangement of the entire financial data as contained in the financial statements. This calls for regrouping them into few principle elements according to their

resemblance and affinities. Thus the balance sheet and income statement are completely recast and presented in the condensed form entirely different from their original shape.

- b) The next step is the establishment of the significant relationship between the individual components of balance sheet and profit and loss account. This is done applying the tools of financial analysis.
- c) Ultimately, significance of result obtained by means of financial tools is evaluated. This requires establishment of standard against which actual be compared.

2.1.5 Types of Financial Analysis

The nature of financial analysis differs depending on the purpose of analyst. Financial statement analysis can be categorized into different types on the basis of material used, objective of the analysis (Jain, & Narang, 1989: 23-25).

a) On the Basis of Material Used

On the basis of material available and used by analyst, financial analysis can either be external or internal. Persons who don't have access to the detailed records of the company make an external analysis. They have to depend almost entirely on published financial statements. Investors, credit agencies, government agencies and research scholars make such type of analysis.

Those persons who have access to the books of accounts and other related information to the business make an internal analysis. While conducting this analysis, the analyst is a part of enterprise. For example, analysis for managerial purpose is the internal type of analysis.

b) On the basis of Objective

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

is essential for the continued success of a business. Short-term analysis is made to determine the short-term solvency, stability and liquidity as well as earning capacity of the business concern. This analysis helps for short-term financial planning which is essential for continue success of the business.

c) On the basis of Modulus Operandi Analysis

On the basis of modulus operandi analysis, it can either be horizontal or vertical. Horizontal analysis is conducted to review and analyze financial statements of a number of years and therefore, it is based on date taken from several years. Hence it is also known as dynamic analysis. Vertical analysis is conducted to review and analyze the financial statements of one particular year only. As it is based on date from one year, it is also called static analysis.

2.1.6 Techniques of Financial Analysis

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

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

Out of the various techniques, selection of a technique or combination of the techniques depends on the purpose of analysis. Different techniques reveal different facts associated with the business, so some or all of the following

major techniques can be used for the analysis depending on the purpose and availability of the materials by the technique.

a) Funds Flow Analysis

The statements of change in financial position prepared to determine only the sources and uses of fund between two dates of balance sheets is known as funds flow statement. It is prepared to uncover the information that financial statements fail to describe clearly. It spells out the sources from which funds were derived and uses to which these funds were put.

This statement is prepared to summarize the change in assets & liabilities resulting from financial and investment transactions during the period as well as those changes occurred due to change in owners' equality. It is also aimed to depict the way in which the firm used its financial resources during the period.

The method of preparing funds flow statement depends essentially upon the sense in which the term fund is used. There are three concepts of fund: cash concept, total resources concept and working capital concept. According to cash concept, the word fund is synonymous with cash. Total resources concept represents the total assets and resources as fund. The term fund refers only to working capital on working capital concept.

However, the concept of fund as working capital has gained wide acceptance as compared to other concepts. Therefore, any transaction that increases the amount of working capital is taken as source of fund while conducting funds flow analysis. Transaction that decreases working capital is treated as application. But any transaction that affects current liabilities or current assets not changing in working capital is not taken as source or use.

The utility of this technique stems from the fact that it enables shareholders, creditors and other interested persons to evaluate the use of funds. It also

enables them to determine how these uses were financed. In the light of information supplied by statements, outsiders can decide whether or not to invest in the enterprise. It enables finance manager to detect the imbalances in the use of funds and undertake remedial actions. It serves as control device to measure the devaluation between actual use of fund and the estimated budget. An analyst can evaluate the financial pattern of the concern (What portion of the growth was financed internally and what portion externally).

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

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

b) Cash Flow Analysis

This statement is prepared to know clearly the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital.

It summarizes the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash receipts from debtor against credit sales are recognized as the source of case. Similarly, cash

purchases and cash payment to suppliers for credit purchase are regarded as the use of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

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

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

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

c) Trend Analysis

This method is immensely helpful for comparative study of financial statements of several years. This method of analysis involves the computation of percentage relationship that each statement item bears to the same item in the base year. Base year for the comparison may be earliest year, the latest year or any intervening year under the study. This exhibits the direction to which the concern is proceeding.

Trend analysis facilitates the horizontal study of the data. But trend ratios are generally not computed for all of the items in the statement, as the fundamental objective is to make comparison between items having same logical relationship to one another.

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

-) Trend for a single balance sheet or income statement is seldom very informative.
-) It does not give accurate result if accounting principles followed by the accountants is not consistent over the period of study.
-) Price level changes adversely affect the comparison.
-) Selected base year for some of the items in the statements may not be typical

d) Ratio Analysis

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

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

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

With the help of ratio, one can judge financial performance of a business concern over a period of time and against the industry average. The ratio helps

the analyst to form the judgment whether the performance of the firm is good, questionable or poor. Management of the firm can take strategic decisions on the basis of position revealed by ratio. Investors can decide about the future of their investment. Creditor's judge whether the firm is able to meet the obligations and whether the more lending would be beneficial for them or not.

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

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

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

2.1.7 Limitations of Financial Performance Analysis

From the above discussion, it has been evident that financial performance analysis has great significance to investors, creditors, management, economists and other parties having interest in business. It helps management to evaluate its efficiency in past performance and take decisions relating to the future. However, it is not free from drawbacks. Its limitations are listed below (Jain, & Narang, 1989).

a) Historical Nature of Financial Statement

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

b) No Substitute for Judgment

Analysis of financial analysis is a tool to be used by expert analyst to evaluate the financial performance of a firm. That's why; it may lead to negative conclusion if used by unskilled analyst.

c) Reliability of Figures

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

d) Single year analysis is not much valuable

The analysis of these statements relating to single year only will have limited use and value. From this, one can not draw meaningful conclusion.

e) Result may have Different Interpretation

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

f) Changes in Accounting Methods

Analysis will be effective with the figure derived from the financial statements are comparable. Due to change in accounting methods, the figures of current period may have no comparable base, and then the whole exercise of analysis will become futile.

g) Pitfall in Inter-Firm Comparison

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

h) Price Level Change Reduces the Validity of Analysis

The continuous rapid changes in the value of money, in the present day, economically also reduces the validity of the analysis. Acquisition of assets of different levels of prices make comparison useless as meaningful conclusion can be drawn from a comparative analysis of such items relating to several accounting period.

i) Selection of Appropriate Tool

There are different tools of analysis available to the analyst. The tools to be used in a particular situation depend on skill, training, intelligence and expertise of the analyst. If wrong tool is used, it may give misleading results and lead to wrong conclusions, which may be harmful to the interest of business.

2.1.8 Financial Performance Analysis of Bank

Traditionally, banks act as financial intermediaries to channel funds from excess units to deficit units. Unlike other non-bank financial companies, commercial banks do not produce any physical goods. They produce loans and financial innovations to facilitate trade transactions. Because of special role they play in economy, concerned authorities heavily regulate them. Analysis of bank's financial statement is different from that of other companies due to the special nature of assets and liabilities (Poudel, 2053: 64-69).

Balance sheet, profit and loss account and the accompanying notes are the most widely aspects of financial statements of the bank. Bank's balance sheet is composed of financial claims as liabilities in the form of deposit and as assets in the form of loans. Fixed assets account for a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans & advances and investment and interest paid on deposit liabilities are major components of profit and loss account. The other sources of income are fee, commission, discount, service charge etc.

The users of financial statements of a bank need relevant, reliable and comparative information to evaluate the financial performance and position and hence make economic decision. 'Commercial Bank Act, 1974' requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

Most of the users of financial statements are interested in assessing the bank's overall performance. Following factors affect the evaluation of bank's overall performance:

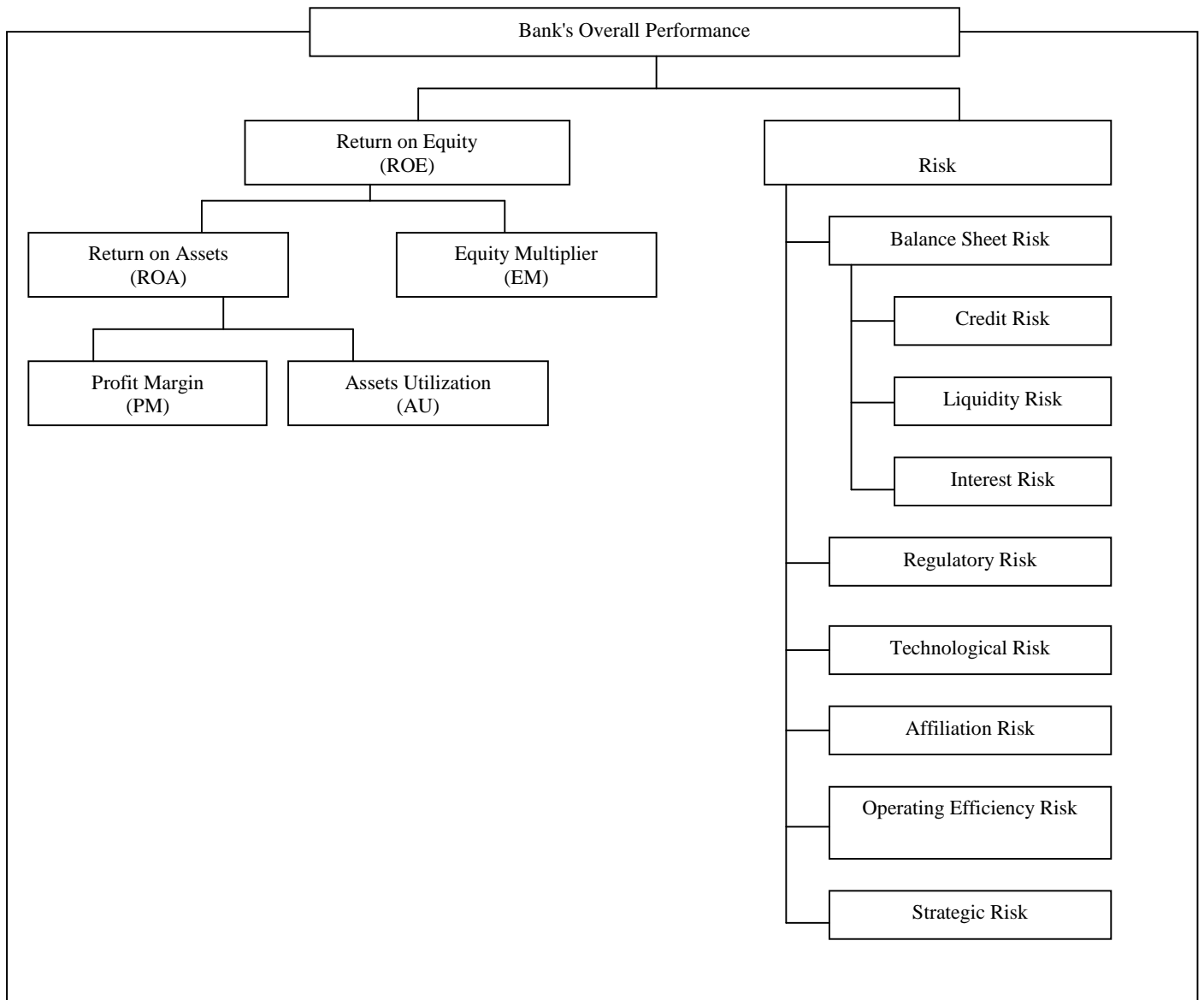
-) The structure of balance sheet and profit and loss account.
-) Operating efficiency and internal management system
-) Managerial decisions taken by the top management regarding interest rate, lending policies, exchange rates etc.
-) Environmental changes such as changes in technology, government, competition, economy etc.

Ratio analysis is one of the most frequent used tools to evaluate the financial health, operating result and growth of the banks. Financial ratios themselves do not indicate position of the institution. A standard or norm is needed to judge them. Mostly used criterion is analyzing trend in performance and making comparison over time with similar banks by computing trends, industry

average and a peer group ratings. Bank's overall performance can be shown under various headings.

Figure 2.1

General Risk-Return Frameworks for Bank's Overall Performance



ROE, $ROE = ROA \times EM = \frac{\text{Net Income}}{\text{Average Equity}}$

$ROA = PM \times AU = \frac{\text{Net Income}}{\text{Average Assets}}$

$EM = \frac{\text{Average Assets}}{\text{Average Equity}}$

$PM = \frac{\text{Net Income}}{\text{Total Income}}$

$AU = \frac{\text{Total Income}}{\text{Average Assets}}$

As loans account a substantial portion of bank's total assets, poor quality of loans would subject bank to a higher risk of default or non-payment. The quality of loan of a bank can be assessed by classifying total loans and advances into performing assets and non-performing category. In our context, commercial banks are required to classify their loan portfolio into different categories. The bases of classification are aging, overdue, repayment position and quality of collateral and financial position of borrowers. Capital adequacy of the bank is assessed on the basis of risk weighted assets. It indicates bank's financial strengths and solvency. Bank facing capital adequacy problem may increase capital or reduce the existing assets structure in order to maintain the required level of capital base. Liquidity is measured by the speed with which bank assets can be converted into cash to meet deposit withdrawal and other current obligations. A bank is subject to minimum cash reserve requirement imposed by central bank to ensure that minimum amount of total assets are held in liquid form to meet unexpected withdrawal.

2.2 Review of Thesis & Dissertation Reports

The researcher visited different libraries in the course of searching pilot studies. Various studies could be available in the field of financial analysis of joint venture banks. More than dozen of studies have been conducted. But no study was found with respect to development banks till 2062 B.S. More or less all the banks perform similar functions and execute financial activities under the direction NRB. Although their problems may differ to some extent, methods and techniques of analyzing financial performance may resemble. Therefore the studies on various joint venture banks have been reviewed keeping in mind to what extent to this study will stand distinct from them. On one study, Resta Jha has explained the comparative financial strength and weakness of NABIL, NIBL, NGBL and HBL by analyzing different financial ratios. Dividend policy and operational aspects has been studied in it (Jha, Resta, (1998) “ A case study of NABIL, NGBL and HBL (Comparative Analysis of Financial

Performance of the selected JVBS), Unpublished Master Level Thesis, TU , KTM].

In the same way, another study has found the reason of changes on profitability and liquidity trends of NSBIBL & NGBL and has identified their trading policies [Poudel, Balaram, (1999) "*A Comparative Financial Performance Analysis of NSBIBL and NGBL*", An Unpublished Master Level Thesis, TU, KTM]

A next study has evaluated the financial performance of commercial banks and has highlighted on their activities. This study has also examined credit policy and profitability position [Joshi, Keshav Raj, (1989) "*A study of Financial Performance of Commercial Banks*", An Unpublished Master Level Thesis, TU, KTM].

Sangeeta Shakya, in her thesis, has examined the financial strengths and weaknesses of HBL and NGBL comparing the liquidity, activity and profitability ratios. She has also shown the effectiveness and efficiency of in financial performance [Shakya, Sangeeta, (2000) "*Comparative Analysis of Financial Performance of Selected JVBS.: A case study of NGBL and HBL*", Unpublished Master Level Thesis, TU, KTM].

An another study has evaluated the financial performance of commercial banks named HBL and NGBL with regard to their profitability and liquidity position. [Lamsal, Rajendra, (1999) "*A Comparative Study of Financial Analysis of HBL and NGBL*", An Unpublished Master Level Thesis, TU, KTM].

An another study has highlighted on financial performance and role of JVBS in economy and has derived the strengths and weaknesses of two major JVBS (NABIL and NISBL) by calculating liquidity, profitability and other indicated ratios [Bohara, B.R., (1994) "*A Comparative Study of Financial Performance of NABIL and NSBIBL in Nepal*", An Unpublished Master Level Thesis, TU , KTM].

CHAPTER - III

RESEARCH METHODOLOGY

Research Methodology is the way to solve the research problems systematically. Research methodology refers to the various sequential steps to be adopted by a researcher. Methodologies followed in this study are as follows:

3.1 Research Design

Research design refers to the conceptual structure within which the research is conducted. A well set research design is necessary in order to make any types of research which fulfils the objectives of the study. This research design is basically the comparative evaluation of financial performance of NDBL and DCBL. Analytical & descriptive approaches were used to evaluate the financial performance of these banks. The points were discussed basically on the basis of secondary data and financial statement of past 5 years taken from the banks.

This research is a historical research design because it concerns with the past phenomenon. It is a process of collecting, evaluating and verifying the past evidence systematically to reach in conclusion. So, this study is the analysis of accounting ratios of selected development banks on the basis of historical data and records of the banks.

3.2 Population and Sample

Since the study was related with performance evaluation of Development Banks. In this study, the whole development banks could not be analyzed. So, the whole population was constrained by taking sample. Out of 9 development banks established till 2062 Chaitra, only 2 development banks were taken as sample to meet the requirement of at least 10% out of population. The names of sample development banks were as follows:

- 1) Nepal Development Bank Ltd. (NDBL)
- 2) Development Credit Bank Ltd. (DCBL)

3.3 Sampling Procedure

To meet the requirement of sample from population, some selected development banks were taken as sample. The sampling procedure was stratified sampling. Firstly the development banks were divided into two categories viz. government sector and private sector. And then among the various private sector banks two banks were taken, which had been operating since 5 years.

To meet the requirement of sample from population, some selected development banks were taken as sample.

3.4 Data Collection Procedure

Data collection procedure is the method, technique and process of gathering the necessary information for the study. The necessary information may already recorded or to be collected or both. The data were collected by applying following procedure:

3.4.1 Primary data

Primary data were gathered to ascertain the views of executives and employees of sample banks about the performance of the banks. For this purpose some questionnaires were developed and sent them to acquire the necessary information.

3.4.2 Secondary data

These data were related to quantitative nature that they may be Balance Sheet, Income Statement and other information which were necessary for the study. Data were acquired from annual reports, web page publications of sample banks and different newspapers.

3.5 Tools for Analysis

In order to ascertain financial position of a firm, various tools could be used. It is true that suitable or appropriate tools, according to the nature of statement and data make the analysis more effective and significant. Collected data were managed, analyzed and presented in proper table and formats. These data were interpreted and explained whatever they are necessary. The following accounting tools were used for analysis and interpretation of data.

3.5.1 Financial Tools

For analyzing the performance of NDBL and DCBL in this research researcher tried to find various ratios of them such as Current Ratio, Profitability Ratios, and Activities Ratios etc.

3.5.2 Accounting Tools

In Accounting Tools, researcher used CVP analysis and Cash Flow Statement. Cash Flow Statement is prepared to know clearly the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital.

3.5.3 Statistical Tools

Among the various tools of statistical analysis in this research only correlation analysis and chi-square test are done. Correlation analysis is a statistical tool which is used to describe the degree to which one variable is related to another. Under the correlation analysis, the intensity of linear relation between the following variables has been measured.

- Total deposit and net profit
- Net worth and net profit
- Total deposit and investment
- Total deposit and loan and advance

Since chi-square test doesn't make any assumption about population parameters, it is called distribution free test. This test is good for nominal or ordinal scale of measurement. Chi-square test is also used for analysis of quantitative variables such as opinions of person, religious affiliation, smoking habits and so on. Chi-square test is a test which describes the magnitude of difference between observed and expected (theoretical) frequencies under certain assumption. In other words, it describes the magnitude of the discrepancy between theory and observation.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation and analysis of data in readable manner. The data gathered according to chapter three and analyzing the data using the tools as specified in the above chapter are presented in systematic manner. This chapter is divided into three sub heads as presentation of data from secondary sources, presentation of the data from primary sources and major findings of the study.

4.1 Presentations of Data from Secondary Sources

This section includes the data related with the study from secondary sources. Secondary sources mean the data of the banks from their annual reports; web pages and other already published sources. These data were in numerical type. The data were analyzed according to the tools as mentioned in chapter three. These presentation and analysis include ratio analysis and correlation analysis, which are presented as follows.

4.1.1 Liquidity Ratio

Liquidity ratio measures the firm's ability to fulfil its short-term commitments. These ratios focus on current assets and current liabilities and are used to ascertain the short term solvency position of a firm.

In this context, liquidity was measured by the speed with a bank's assets that can be converted into cash to meet deposit withdrawals and other current obligations. A bank is subject to have a minimum cash reserve requirement (CRR) imposed by central bank to ensure a minimum amount to total assets to meet unexpected Withdrawals. The following ratios have been applied to find out liquidity position of the banks. This ratio includes cash and bank balance to total deposit ratio, current ratio, quick ratio, cash and bank balance to current

assets ratio, cash and bank balance to current liabilities ratio and NRB balance to total deposit ratio.

4.1.1.1 Cash and Bank Balance to Total Deposit Ratio

This ratio was calculated by dividing cash and bank balance by total deposits. Total deposits consist of current deposit, saving deposit, fixed deposit, money at call and short notice and other liabilities. This ratio shows the proportion of total deposits held as compared to the most liquid assets. High ratio shows the strong liquidity position of the bank but very high ratio is not favourable for the bank because it does not produce appropriate profit to bear the high interest.

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

Table 4.1
Cash and Bank Balance to Total Deposit Ratio

(Rs. in million)

Fiscal Year	Cash and bank balance		Total deposits		Ratios (%)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/060	527.14	421.69	1985.84	1308.01	26.54	32.24
2060/061	292.09	387.53	1845.50	1413.97	15.83	27.41
2061/062	295.48	406.69	1631.27	1479.07	18.11	27.50
2062/063	180.30	533.73	1537	2103.39	11.73	25.37
2063/064	200.25	422	1312	2539.7	15.24	16.62
Mean (\bar{x})					18.31	27.50
Standard deviation (σ)					4.38	4.08
Coefficient of variation (CV)					23.94	15.57

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows the cash and bank balance to total deposit ratio were 26.54%, 1583%, 18.11%, 11.73% and 1524% in NDBL in respective years of study period. Mean and CV of the ratios came 18.31% and 23.94% respectively. Similarly the ratios in NDBL came 32.24%, 27.41%, 27.50%, 25.37% and 16.62% in the respective year of study period. Mean and CV of the ratios came 27.50% and 15.57% respectively.

The ratios of both banks were in fluctuating trend. The mean ratio of DCBL was greater than that of NDBL which mean that there was not uniformity in the ratios in CV of DCBL which signifies greater consistency in it.

4.1.1.2 Current Ratio

A current ratio is the quantitative relationship between current assets and current liabilities. So, this ratio is calculated by dividing current assets by current liabilities. Here current assets are those items, which can normally be converted into cash within an accounting cycle. It includes cash, stock, debtor, bank balance, prepaid expenses, marketable securities etc. On other hand current liabilities refers to those obligations which must be paid within an accounting cycle. It includes creditors, bank overdrafts, bills payable, outstanding expenses etc. Although there is no hard and fast rule, conventionally a current ratio of 2:1 (current assets twice of current liabilities) is considered satisfactory.

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

Table 4.2
Current Ratio

(Rs. in million)

Fiscal Year	Current assets		Current Liabilities		Ratios (Times)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	700.40	436.71	2127.30	1367.33	0.33	0.32
2060/61	577.44	420.25	2017.37	1481.33	0.29	0.28
2061/62	755.14	448.66	1725.42	1568.29	0.44	0.29
2062/63	650.00	450.36	1875.22	1670.25	0.34	0.27
2063/64	600.00	470.13	1760.32	1530.58	0.34	0.31
Mean (€)					0.294	0.266
Standard deviation (₹)					0.088	0.040
Coefficient of variation (CV)					29.93	14.96

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows the current ratio of NDBL and DCBL in fluctuating trend through out the study period. The mean ratio and CV of NDBL were higher

than DCBL i.e. $0.294 > 0.266$. Similarly, CV of DCBL is lower than NDBL i.e. $14.96 < 29.93$ which means that NDBL has more fluctuations in ratios as compared with DCBL. Above tables shows both of the banks could not maintain the conventional standard of 2:1. The higher mean ratio shows the highly liquid position of NDBL which shows the banks did not have proper investment plan. DCBL has lower mean ratio than that of NDBL but the bank may face the problem of working capital if they need to pay the current liabilities at demand.

4.1.1.3 Quick Ratio

This ratio is calculated by dividing quick assets by current liabilities. Here quick asset includes the total current assets except prepaid expenses and stock of inventory. A quick ratio of 1:1 (quick assets is equal to current liabilities) is considered satisfactory as a firm can easily meet all current claims.

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

Table 4.3
Quick Ratio

(Rs. in million)

Fiscal Year	Quick assets		Current liabilities		Ratios (Times)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	699.21	435.81	2127.30	1367.33	0.33	0.32
2060/61	574.12	419.21	2017.37	1481.33	0.28	0.28
2061/62	751.83	447.54	1725.42	1568.29	0.44	0.29
2062/63	680.23	400.23	2000.25	1652.23	0.34	0.24
2063/64	568.29	425.02	1920.23	1589.12	0.29	0.27
Mean (€)					0.292	0.272
Standard deviation (₹)					0.088	0.034
Coefficient of variation (CV)					30.14	12.61

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows that the quick ratio of NDBL as 0.33, 0.28, 0.44, 0.34 and 0.29 in respective years of study period. Mean and CV of the ratios came 0.292

and 30.14% respectively. Similarly the ratios of DCBL came to be 0.32, 0.28, 0.29, 0.24 and 0.27 in respective years of study period. Mean and CV of the ratios came 0.272 and 12.61% respectively.

The ratios of both banks revealed fluctuating trend over the period. The mean ratio of NDBL was greater than that of DCBL which means that NDBL was more able to pay its current liabilities. The CV of NDBL was also greater than that of DCBL which shows more fluctuation in quick position.

4.1.1.4 Cash and Bank Balance to Current Liabilities Ratio

This ratio is obtained dividing total cash and bank balance by total current liabilities. Cash is most liquid means to pay its liabilities. This ratio indicates how much cash is available to meet the current liabilities. Especially this ratio is useful to lenders.

$$\text{Cash and Bank Balance to Current Liabilities Ratio} = \frac{\text{Total Cash and Bank Balance}}{\text{Current Liabilities}}$$

Table 4.4
Cash and Bank Balance to Current Liabilities Ratio

(Rs. in million)

Fiscal Year	Cash and bank balance		Current liabilities		Ratios (%)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	527.14	421.69	2127.30	1367.33	24.78	30.84
2060/61	292.09	387.53	2017.37	1481.33	14.48	26.16
2061/62	295.48	406.69	1725.42	1568.29	17.13	25.93
2062/63	300.89	370.23	1948.94	1542.12	15.40	23.99
2063/64	325.56	400.12	1856.12	1586.02	17.51	25.22
Mean (€)					17.13	24.94
Standard deviation (€)					4.13	3.88
Coefficient of variation (CV)					24.11	15.55

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows the ratios of both banks in fluctuating trend. The ratios in NDBL remained 24.78%, 14.48%, 17.13% 15.40% and 17.51% in the study

period. The mean and CV of These ratio came 17.13% and 24.11% respectively. Similarly the ratios in DCBL remained 30.84%, 26.16%, 25.93%, 23.99%, and 25.22% in the corresponding study period. The mean and CV of these ratio appeared 24.94% and 15.55% respectively.

Above ratios shows that both banks had not constant proportion of Cash balance and current liabilities through out the study period. Average ratio of DCBL was higher than that of NDBL which shows that DCBL had higher percentage of cash balance to pay its current liabilities. In other words DCBL was more successful in managing liquidity. CV of DCBL was also lower than the same of NDBL which indicates that the ratios in DCBL were more consistent than that of NDBL during the study period.

4.1.1.5 Cash and Bank Balance to Current Assets Ratio

This ratio is calculated dividing total cash and bank balance by current assets. Cash means the firms holding of currency and demand deposits. It is most liquid assets because a firm disburses it immediately with out any restriction.

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

Table 4.5

Cash and Bank Balance to Current Assets Ratio

(Rs. in million)

Fiscal Year	Cash and bank balance		Current assets		Ratios (%)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	527.14	421.69	700.40	436.71	75.26	96.56
2060/61	292.09	387.53	577.44	420.25	50.58	92.21
2061/62	295.48	406.69	755.14	448.66	39.13	90.65
2062/63	300.12	383.12	616.12	435.12	48.70	88.04
2063/64	315.13	425.12	500.15	485.12	63.00	87.62
Mean (€)					61.83	91.14
Standard deviation (₹)					15.15	3.45
Coefficient of variation (CV)					24.50	3.79

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows the cash and bank balance to current assets ratio of NDBL and DCBL. There should be certain percentage of current assets as cash and bank balance to have the liquidity. This ratio was decreasing in NDBL where it was fluctuating in DCBL. The ratios in NDBL remained 75.26%, 50.58%, 39.13%, 48.70% and 63.00% respectively through out the study period. Mean and CV of these ratios came 61.83% and 24.50% respectively. Similarly the ratios in DCBL came 96.56%, 92.21%, 90.56%, 88.04% and 87.62% in corresponding study period. Mean and CV of these ratios were 91.14% and 3.79% respectively.

The average ratio of DCBL was higher than that of DCBL which shows that DCBL had more liquidity of cash than that of NDBL. CV of DCBL was also lower which indicates that the ratios in DCBL were less fluctuating than that of NDBL during the study period.

4.1.1.6 NRB Balance to Total Deposit Ratio

This ratio is obtained dividing NRB balance by total deposits. Banks have to hold a balance of certain percentage of total deposits. The amount should be deposited in Nepal Rastra Bank in order to satisfy legal requirements.

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

Table 4.6
NRB Balance to Total Deposit Ratio

(Rs. in million)

Fiscal Year	NRB balance		Total deposits		Ratios (%)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	23.58	19.74	1985.84	1308.01	1.19	1.51
2060/61	26.16	14.53	1845.50	1413.97	1.42	1.03
2061/62	36.42	27.14	1631.27	1479.07	2.23	1.83
2062/63	30.00	28.12	1751.23	1402.21	1.71	1.99
2063/64	25.56	25.87	1832.12	1560.78	1.36	1.60
Mean (€)					1.54	1.02
Standard deviation (Ξ)					0.86	0.59
Coefficient of variation (CV)					55.84	57.84

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows that the ratios were 1.19%, 1.42%, 2.23%, 1.71% and 1.36% in NDBL in respective year of study period. Mean and CV of the ratios came 1.54% and 55.84% respectively. Similarly the ratios in DCBL remained 1.51%, 1.03% ,1.83%,1.99% and1.60 in the corresponding period. Mean and CV of the ratios came to be 1.02% and 57.84% respectively.

Above Table shows the ratios of both banks in fluctuating trend through out the study period. The mean ratio of NDBL was in some extent greater than that of DCBL. Likewise, CV in ratios of NDBL was lower which means that DCBL has more uniformity in ratios as compared to with NDBL. The higher mean ratio of balance at NRB to total deposits of NDBL reveals that its liquidity position regarding with this ratio was better than that of DCBL during the study period.

4.1.2 Profitability Ratio

Profitability ratios are calculated to measure the earning performance and operational efficiency of the banks. It is directly related to the earning of the banks for certain period. A bank should be able to produce adequate profit on each rupee of investment. If investments do not generate sufficient profits, it would be very difficult for the banks to cover operating expenses and interest charges. The profitability of the banks should also be evaluated in terms of its investment in assets and in term of capital contributed by creditors. If the bank is unable to earn satisfactory return on investment, its survival is threatened. Under this group the researcher has calculated the following ratios to obtain the stated objectives of the study.

4.1.2.1 Return on Total Assets

This ratio is calculated dividing net profit by total assets. This ratio represents the relationship between net profit and assets. Net profit indicates the profit after deduction on interest and tax. Total asset means the assets that appear in assets side of balance sheet. The increasing ratio shows favourable situation for

the banks. The higher ratio also shows that the bank could well manage their overall operations. But the lower ratio shows vice-versa.

$$\text{Return on Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

Table 4.7
Return on Total Assets Ratio

(Rs. in million)

Fiscal Year	Net profit		Total assets		Ratios (%)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	1.08	16.65	2340.38	1538.01	0.05	1.08
2060/61	(302.01)	30.75	2001.28	1666.88	(15.09)	1.84
2061/62	78.83	35.64	1675.92	1881.06	4.70	1.89
2062/63	25.12	20.12	1640.46	1719.45	1.52	1.16
2063/64	67.45	35.18	1920.58	1650.45	3.48	2.12
Mean (₹)					(2.004)	1.13
Standard deviation (₹)					6.78	0.695
Coefficient of variation (CV)					(338.32)	61.47

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows the return on total assets of NDBL and DCBL. Above table shows the ratios 0.05%, -15.09%, 4.70%, 1.52% and 3.48 in NDBL for the study period. The mean and CV of NDBL were -2.004 and -338.32 respectively. Similarly the ratios of DCBL came 1.08%, 1.84%, 1.89%, 1.16% and 2.12% in the study period. The mean and CV of DCBL came to be 1.13% and 61.47% respectively.

The average ratio of DCBL was higher than that of NDBL which implies that DCBL had more efficient operation of optimal utilization of the resource in comparison with same period of DCBL. Like wise CV of NDBL was less than that of DCBL which indicates that the variability of the ratio of NDBL was more uniform than that of DCBL. The profit of NDBL was positive from first to third year. In the case of fourth year, NDBL borne heavy loss due to loan

loss provisions. But in the case of fifth year NDBL improved the profit in positive way. Due to the reason of third year's loss, the mean and CV of NDBL was negative.

4.1.2.2 Return on Shareholder's Equity Ratio

This ratio is the important ratio to judge whether the firm has earned a satisfactory return for its equity shareholders or not. This ratio measures the return on shareholders' investment in the bank. This ratio is calculated by dividing net profit by share holders' equity. The higher ratio of return on equity is better for shareholders. It builds trustworthiness to the customers as well as reputation of the bank.

$$\text{Return on Shareholders' Equity} = \frac{\text{Net Profit}}{\text{Share holders' Equity}}$$

Table 4.8
Return on Shareholder's Equity Ratio

(Rs. in million)

Fiscal Year	Net profit		Shareholder's equity		Ratios (%)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	1.08	16.65	155.52	168.43	0.69	9.89
2060/61	(302.01)	30.75	(119.49)	180.35	252.75	17.05
2061/62	78.83	35.64	(49.50)	192.77	(159.25)	18.49
2062/63	25.12	20.12	15.12	170.25	166.67	11.76
2063/64	67.45	35.18	14.14	192.12	478.57	18.22
Mean (€R)					19.90	10.21
Standard deviation (Ξ)					132.12	6.920
Coefficient of variation (CV)					663.91	67.78

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows the return on shareholders equity of NDBL and DCBL. The ratios of NDBL in the study period were 0.69%, 252.75% , (159.25%)166.67% and478.57%. Mean and CV of the ratios were 19.90% and 663.91% respectively. Similarly these ratios of DCBL were 9.89%, 17.05%, 18.49%,11.76% and18.22% in corresponding year. Mean and CV of the ratios came 10.21% and 67.78% respectively.

The average ratio of NDBL for return on shareholders equity was higher than that of DCBL. Like wise the CV of DCBL was lower. This shows the return on shareholders equity of DCBL was more consistent. The ratios of DCBL were in increasing trend through out the study period. But the ratios of NDBL were in fluctuating trend. In respect to return on shareholders equity DCBL was better than NDBL.

4.1.2.3 Return on Working Capital Ratio

This ratio is calculated dividing net profit after tax by working capital. This ratio measures the proportion of net profit after tax and working capital. Working capital is obtained by subtracting current liabilities from current assets. The higher ratio is better which shows little working capitals utilized properly.

$$\text{Return on working capital} = \frac{\text{Net Profit}}{\text{Working Capital}}$$

Table 4.9

Return on Working Capital Ratio

(Rs. in million)

Fiscal Year	Net profit		Working capital		Ratios (%)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	1.08	16.65	(1426.90)	(930.62)	(0.08)	(1.79)
2060/61	(302.01)	30.75	(1439.93)	(1061.08)	20.97	(2.90)
2061/62	78.83	35.64	(970.28)	(1119.63)	(8.12)	(3.18)
2062/63	25.12	20.12	(1346.45)	(990.62)	(8.04)	(2.02)
2063/64	67.45	35.18	(1495.93)	(850.08)	(4.48)	(4.11)
Mean (€)					2.47	(1.84)
Standard deviation (Ξ)					9.75	1.14
Coefficient of variation (CV)					394.76	(61.85)

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows the working capital of both banks in negative. It means both of the banks had fewer current assets than current liabilities. There should have current assets two times more than current liabilities. Here, working capital did not earn any return in both banks.

In above table the return on working capital ratio in NDBL remained -0.08%, 20.97%, -8.12% , -8.04% and -4.48% for the study period. The ratio in fourth year was positive because of the negative profit. Mean and CV of NDBL were 2.47% and 394.76% respectively. Similarly the ratios in DCBL remained -1.79%, -2.90% , -3.18%-2.02% and -4.11% in the respective study period. The mean and CV of DCBL were -1.84% and -61.85% respectively.

The mean ratio of NDBL was higher than that of DCBL which shows that NDBL had higher return on working capital. NDBL had higher CV which indicated that DCBL had more consistency in ratios.

4.1.2.4 Investment Income to Investment Ratio

This ratio is calculated by dividing net profit by total investment. This ratio measures the bank's return from investment. The highest ratio is better which shows the higher profit on the little investment.

$$\text{Investment Income to Investment Ratio} = \frac{\text{Net Profit}}{\text{Total Investment}}$$

Table 4.10

Investment Income to Investment Ratio

(Rs. in million)

Fiscal Year	Net profit		Total investment		Ratios (%)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	1.08	16.65	238.93	76.16	0.45	21.86
2060/61	(302.01)	30.75	189.10	45.09	(159.71)	68.19
2061/62	78.83	35.64	144.20	28.82	54.67	123.66
2062/63	25.12	20.12	165.45	58.70	15.15	34.48
2063/64	67.45	35.18	195.58	59.23	34.35	59.32
Mean (€₹)					(19.57)	44.46
Standard deviation (₹)					72.95	46.06
Coefficient of variation (CV)					(372.76)	103.59

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows the return on investment of NDBL and DCBL. In above table the ratio remained 0.45%, -159.71% ,54.67%, 15.15%, and 34.35% in the study period. Mean and CV of the ratios came to be -19.57% and -372.76%.

Similarly the ratios in DCBL came 21.86%, 68.19%, 123.66%, 34.48% and 59.32% in the study period and mean and CV of these ratios came to be 44.66% and 103.59% respectively.

The ratios in DCBL were in increasing trend which indicates that this bank was improving its profit from the investment. The ratios in NDBL was in decreasing trend up to fourth year and increased in fifth year which shows that this bank was improving profit after fourth year. The mean ratio of DCBL was higher than that of NDBL which shows that DCBL had higher return on investment. The CV of NDBL was lower than that of DCBL which shows that the ratios in NDBL are more consistent than that of DCBL during the study period.

4.1.2.5 Net Profit to Total Deposits Ratio

This ratio is obtained dividing net profit by total deposit liabilities. This ratio measures net profit as percentage of total deposits. The higher ratio should be favourable for a bank which shows higher profit generation on little deposits liabilities.

$$\text{Net profit to total deposit ratio} = \frac{\text{Net Profit}}{\text{Total Deposit}}$$

Table 4.11

Net Profit to Total Deposits Ratio

(Rs. in million)

Fiscal Year	Net profit		Total deposits		Ratios (%)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	1.08	16.65	1985.84	1308.01	0.05	1.27
2060/61	(302.01)	30.75	1845.49	1413.97	(16.36)	2.17
2061/62	78.83	35.64	1631.26	1479.09	4.83	2.41
2062/63	25.12	20.12	1751.23	1402.21	1.42	1.42
2063/64	67.45	35.18	1832.12	1560.78	3.66	2.24
Mean (€)					(2.22)	1.38
Standard deviation (Ξ)					7.30	0.85
Coefficient of variation (CV)					(328.78)	61.91

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows the return on total deposit of NDBL and DCBL. The ratios in DCBL are increasing trend and ratios in NDBL were in decreasing trend up to fourth year and increased in fifth year. The ratios in NDBL remained 0.05%, -16.36%, 4.83%, 1.42% and 3.66% in the study period. Similarly the ratios in DCBL came 1.27%, 2.17%, 2.41%, 1.42% and 2.24% in the study period.

The mean and CV of NDBL were -2.22% and -328.78% respectively. Similarly mean and CV of DCBL were 1.38% and 61.96% respectively. The average ratio of NDBL was lower than that of DCBL. Similarly CV of NDBL was lower than DCBL which mean that there was more consistency in the ratio of NDBL in respect of return to total deposit. Finally it can be concluded that DCBL had utilized its outsiders fund in better way to generate return and it was increasing its profit every year.

4.1.3 Leverage Ratio

Leverage ratio is also known as capital structure ratio which shows long term solvency of banks. Capital generally refers to the composition of debt and equity component on overall capital of a firm. These ratios are calculated to judge the long-term financial position of the banks. Under this group the researcher has calculated the following ratios to obtain the stated objectives of the study.

4.1.3.1 Debt to Equity Ratio

This ratio is calculated dividing total debts by total shareholders' equity. Total debts refer to sum of long term debt, current liabilities and debentures. This ratio shows the relationship between debt capital and equity capital. High debt-equity ratio indicates greater financing by debt holders than those of equity holders. From the creditor's view-point, high debt to equity ratio of the bank is more risky to them. It means the bank may fail to satisfy creditors.

$$\text{Debt to equity ratio} = \frac{\text{Total Debts}}{\text{Shareholder's Equity}}$$

Table 4.12
Debt to Equity Ratio

(Rs. in million)

Fiscal Year	Total debts		Shareholder's equity		Ratios (%)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	2184.87	1353.60	155.52	168.43	1404.88	803.66
2060/61	2120.77	1473.31	(119.49)	180.35	(1774.85)	816.92
2061/62	1725.42	1662.27	(49.50)	192.77	(3485.70)	862.31
2062/63	2050.13	1525.85	125.12	170.25	1640.00	897.06
2063/64	1890.46	1680.12	134.14	192.12	1410.44	875.00
Mean (€̄)					(160.16)	684.57
Standard deviation (∑)					2092.43	186.85
Coefficient of variation (CV)					(1306.46)	27.29

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows debt to equity ratio of both banks. The ratios for NDBL came 1404.88%, -1774.85%, -3485.70%, 1640.00% and 1410.44% for the study period. Similarly the ratios for DCBL came 803.66%, 816.92%, 862.31%, 897.07% and 875.00% for the study period. This ratio is in decreasing trend for NDBL and increasing trend for DCBL. This shows that the bank DCBL has used more debt than equity financing. This shows the interest expense was high for DCBL.

Above table shows the Mean and CV of ratios for DCBL were 684.57% and 27.29% respectively. Similarly the mean and CV of the ratio of NDBL were -160.16% and -1306.46% respectively. The ratio of DCBL revealed rising trend up to the study period. In case of NDBL, the ratios were in fluctuating trend. In comparison of both banks capital structure of NDBL is less risky than that of DCBL. CV of ratios remained lower in NDBL which clarifies that the ratios of DCBL were less consistent.

4.1.3.2 Debt to assets ratio

This ratio is calculated dividing total debts by total assets. This ratio is calculated to know the proportion of debt and assets in the capital structure. This ratio shows the relationship between total debt and total assets of the banks. The higher ratio indicates the greater portion of outsider's fund investment in term of the banks' assets.

$$\text{Debt to Total Assets Ratio} = \frac{\text{Total Debts}}{\text{Total Assets}}$$

Table 4.13
Debt to Assets Ratio

(Rs. in million)

Fiscal Year	Total debts		Total assets		Ratios (%)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	2184.87	1353.60	2340.38	1538.01	93.36	88.01
2060/61	2120.77	1473.31	2001.28	1666.88	105.97	88.39
2061/62	1725.42	1662.27	1675.92	1881.06	102.95	88.37
2062/63	2050.13	1525.85	2090.48	1900.21	98.86	80.02
2063/64	1890.46	1680.12	1979.47	2000.12	95.50	84.00
Mean (€)					97.96	85.44
Standard deviation (₹)					5.41	3.90
Coefficient of variation (CV)					5.53	4.57

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows debt to total assets ratio of NDBL and DCBL. The ratios are in increasing trend for both banks. The ratios for NDBL came to be 93.36%, 105.97%, 102.95%, 98.86% and 95.50% for the corresponding study period. Similarly the ratios for DCBL were 88.01%, 88.39%, 88.37%, 80.02% and 84.00% in respective year.

The mean and CV of ratios for DCBL were 85.44% and 4.57% respectively. Similarly the ratios in NDBL were 97.96% and 5.53% respectively. This ratio is in increasing trend for both banks in different proportion. This shows both of

the banks employed varying proportion of interest bearing debt for the purpose. Mean of the ratios came greater in NDBL as compared to DCBL which signifies that the former followed more aggressive policy in rising capital. From the CV analysis it can be noticed that the ratio of NDBL varied considerably the study period because there was higher CV in NDBL.

4.1.3.3 Interest Coverage Ratio

This ratio is computed dividing earning before interest and tax (EBIT) by interest charges. This ratio evaluates the debt serving capacity of the banks. The higher ratio shows that bank can pay the interest easily.

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest Charges}}$$

Table 4.14
Interest Coverage Ratio

(Rs. in million)

Fiscal Year	EBIT		Interest charges		Ratios (Times)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	156.96	112.79	153.68	87.41	1.02	1.29
2060/61	(161.58)	137.29	140.43	92.88	(1.15)	1.48
2061/62	194.20	131.54	115.37	80.72	1.68	1.63
2062/63	165.86	125.85	112.55	91.52	1.47	1.37
2063/64	178.45	135.80	134.45	85.55	1.32	1.60
Mean (€)					0.73	1.33
Standard deviation (₹)					0.97	0.21
Coefficient of variation (CV)					133	15.71

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows the interest coverage ratio of both banks. The ratios for NDBL remained 1.02, -1.15, 1.68, 1.47 and 1.32 times in respective years of study period. Similarly the ratios in DCBL came 1.29, 1.48, 1.63, 1.37 and 1.60 times in corresponding year. The ratios are seen in increasing trend for DCBL and in fluctuating trend for NDBL. It was seen that in fourth year NDBL had difficulties in paying its interest but it was improved in fifth year.

The mean and CV of ratios for DCBL were 1.33 times and 15.71% respectively. Similarly the ratios in NDBL were 1.68 times and 133% respectively. This ratio was negative for NDBL in year 2060/061. These ratios of the bank are in fluctuation condition. But for DCBL this ratio is in increasing trend. The mean ratio of DCBL was much lower than that of NDBL which reveals the better debt servicing capacity of NDBL. By comparing CV of the ratios it can be concluded that the ratios of NDBL for different five years varied considerably because of higher CV ratio.

4.1.3.4 Long term debt to net worth ratio

This ratio is calculated dividing long term debts by net worth. This ratio measures the proportion of long term debt and net worth employed in the capital structure. The higher ratio indicates proportion of outsiders claim in capital structure.

$$\text{Long term debt to net worth ratio} = \frac{\text{Long Term Debts}}{\text{Net Worth}}$$

Table 4.15
Long Term Debt to Net Worth Ratio

(Rs. in million)

Fiscal Year	Long term debt		Net worth		Ratios (Times)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	57.57	2.25	155.52	168.43	0.37	0.01
2060/61	103.40	5.20	(119.49)	180.35	(0.87)	0.03
2061/62	0.00	120.00	(49.50)	192.77	0.00	0.62
2062/63	83.46	37.50	(227.69)	304.03	(0.36)	0.12
2063/64	83.05	25.78	(324.41)	347.43	(0.25)	0.072
Mean (€)					(0.10)	0.13
Standard deviation (Ξ)					0.41	0.25
Coefficient of variation (CV)					(410.80)	187.88

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows the ratios in NDBL were 0.37, -0.87, 0, -0.36 and -0.25 times for the corresponding study period. The mean and CV of the ratio came - 0.10 times and 410.80% respectively. Similarly the ratios of DCBL came 0.01, 0.03,0.62,0.12 and 0.072 times in corresponding year. The mean and CV came to be 0.13 times and 187.88% respectively.

The ratios for NDBL are in fluctuating trend for NDBL and in increasing trend for DCBL. In the first two years there was no outsiders claim over the capital structure of both banks. The mean ratio of NDBL was lower than that of DCBL which indicates that there was less outsiders claim over the capital structure of the bank. The CV of DCBL is higher which tells that the ratios in DCBL are highly consistent.

4.1.4 Utilization Ratio

Utilization ratio is known as activity ratio and assets management ratio also. These ratios measure a firm's efficiency in utilization of its assets. These ratios look at the amount of various types of assets and attempt to determine if they are too high or too low with regard to current operating levels. Mostly utilization ratios are used to evaluate managerial efficiency and proper utilization of assets. Under this group the researcher has calculated the following ratios to obtain the stated objectives of the study.

4.1.4.1 Investment to Total Deposits Ratio

This ratio is calculated dividing total investment by total deposits. Total investment includes government treasury bills, development bonds, company shares and other investments. This ratio presents how efficiently the resources of the banks have been mobilized. High ratio shows managerial efficiency regarding the utilization of deposits and vice-versa.

$$\text{Investment to Total Deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposits}}$$

Table 4.16
Investment to Total Deposits Ratio

(Rs. in million)

Fiscal Year	Total investments		Total deposits		Ratios (%)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	238.93	76.16	1985.84	1308.01	12.03	5.82
2060/61	189.10	45.09	1845.49	1413.97	10.25	3.19
2061/62	144.20	28.82	1631.26	1479.07	8.84	1.95
2062/63	483.00	37.52	1312.09	1537.63	36.81	2.40
2063/64	1279.50	29.12	1485.78	1499.12	86.12	1.93
Mean (€̄)					8.89	7.82
Standard deviation (σ)					2.74	5.40
Coefficient of variation (CV)					30.78	69.05

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows the investment to total deposit ratio of NDBL and DCBL. The ratios for NDBL came 12.03%, 10.25%, 8.84%, 36.81% and 86.12% in the study period. Similarly the ratios in DCBL came 5.82%, 3.19%, 1.95%, 2.40% and 1.93% for corresponding year. The ratios are in fluctuating trend for NDBL and decreasing trend for DCBL. Which shows that DCBL is decreasing the managerial efficiency regarding the utilization of deposits.

The mean and CV of NDBL were 8.89% and 30.78% respectively. Similarly the mean and CV of DCBL were 7.82% and 69.05% respectively. The average ratio of investment to total deposit of NDBL was considerably higher than that of DCBL. Similarly CV of NDBL was lower than that of DCBL. It means that the ratio of NDBL was more uniform than that of DCBL. In conclusion it can be said that NDBL had better utilization of its deposits in term of investment in comparison of DCBL.

4.1.4.2 Loans and Advances to Total Deposits Ratio

This ratio is calculated dividing total loan and advances by total deposits. Loan and advance consists of loans, advances, cash credit, overdrafts, local and

foreign bills purchased and discounted. This ratio indicates the proportion on total deposits invested in loans and advances. High ratio indicates greater use of deposits in loans and advances but low ratio may be the cause of ideal cash or use of fund in less productive sector. Very high ratio shows the poor liquidity position.

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

Table 4.17
Loans and Advances to Total Deposits Ratio

(Rs. in million)

Fiscal Year	Total loan and advance		Total deposit		Ratios (%)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	1381.03	1110.41	1985.84	1308.01	69.54	84.89
2060/61	1217.28	1189.67	1845.49	1413.97	65.96	84.14
2061/62	762.52	1390.86	1631.26	1479.07	46.74	94.04
2062/63	950.45	1250.58	1312.09	1537.63	76.00	81.32
2063/64	875.45	1240.98	1485.78	1499.12	70.00	74.98
Mean (€)					70.25	87.00
Standard deviation (€)					13.98	3.89
Coefficient of variation (CV)					19.90	4.41

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows the loan and advances to total deposit of NDBL and DCBL. The ratios in NDBL came 69.54%, 65.96%, 46.74%, 76% and 70% for the study period. Similarly the ratios in DCBL came 84.89%, 84.14% 94.04%, 81.32% and 74.98% in the corresponding year. The ratios of NDBL are in fluctuating trend and DCBL has the ratios in fluctuating trend.

The mean and CV of DCBL remained 87% and 4.41% respectively. Similarly the mean and CV of NDBL are 70.25% and 19.90% respectively. The ratios in DCBL fluctuated through out the study period. It depicted decreasing trend in NDBL up to the study period. Mean ratio of DCBL appeared considerably higher which signifies that DCBL is more successful in utilizing the resources

in profitable sectors than NDBL. CV of ratios depicted that the ratio remained more consistent in DCBL as compared to NDBL.

4.1.4.3 Loans and Advances to Fixed Deposits Ratio

This ratio is obtained dividing loans and advances by fixed deposits. It measures the proportion of total fixed deposit and loan and advances. If the ratio is high, firms will be succeeding in utilizing its fixed deposits in the form of loan and advances. If the ratio is low, firms will not be succeeding in utilizing its fixed deposits in the form of loan and advances.

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

Table 4.18
Loans and Advances to Fixed Deposits Ratio

(Rs. in million)

Fiscal Year	Loan and advance		Fixed deposit		Ratios (%)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	1381.03	1110.41	1858.16	1073.37	74.32	103.45
2060/61	1217.25	1189.67	1597.35	1036.40	76.20	114.79
2061/62	762.52	1390.86	1441.58	1030.50	52.89	134.97
2062/63	950.45	1250.58	1312.09	1029.84	72.40	121.47
2063/64	875.45	1240.98	1537.23	1031.02	56.92	120.37
Mean (€)					77.38	105.46
Standard deviation (₹)					14.67	18.15
Coefficient of variation (CV)					18.96	17.21

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows the loans and advances to fixed deposit ratio of DCBL and NDBL. The ratios in NDBL came 74.32%, 76.20%, 52.89% 72.40 and 56.92 in the study period. Similarly the ratios in DCBL came to be 103.45%, 114.79% 134.97%, 121.47 and 120.37 in the respective year of study. The ratios in both banks are in fluctuating trend.

The mean and CV of DCBL remained 105.46% and 17.21% respectively. Similarly the mean and CV of NDBL were 77.38% and 18.96% respectively. The ratio of DCBL was fluctuated through out the study period. The average of the ratios in DCBL seemed greater than NDBL which indicates that DCBL has more successfully utilized the high interest bearing deposit in term of loans and advances. Moreover; turnover position of DCBL is better than that of NDBL. CV also shows that DCBL has more consistent ratio than that of NDBL.

4.1.4.4 Loans and Advances to Saving Deposits Ratio

This ratio is calculated dividing loan and advances by saving deposits. This ratio indicates to what extent of saving deposits has been turned over to loans and advances. If the ratio is high the firm is assumed to be successful in utilizing its saving deposits to generate profit. If the ratio is lower the firm is assumed to be poor in utilizing its saving deposits.

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

Table 4.19
Loans and Advances to Saving Deposits Ratio

(Rs. in million)

Fiscal Year	Loan and advance		Saving deposit		Ratios (%)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	1381.03	1010.41	84.06	226.57	1642.91	445.96
2060/61	1217.25	1189.67	190.84	351.17	637.84	338.77
2061/62	762.52	1390.86	119.72	422.85	636.92	328.93
2062/63	950.45	1250.58	152.78	425.45	625.00	294.11
2063/64	875.45	1240.98	165.12	490.15	530.30	253.06
Mean (€)					583.53	222.73
Standard deviation (€)					601.51	186.44
Coefficient of variation (CV)					103.08	83.71

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows the loans and advances to saving deposit ratio in NDBL as 1642.91%, 637.84%, 636.92%, 625.00% and 530.30 respectively through out

the study period. The mean and CV of the ratios remained to be 583.53% and 103.08% respectively. Similarly the ratios in DCBL were 445.96%, 338.77%, 328.93%, 294.11% and 253.06% in the corresponding year. Mean and CV of these ratios appeared 222.73% and 83.71% respectively.

The ratios in both banks were zero in the first two years because both banks had no collection of saving deposits in that period. The ratios are fluctuated in both banks. Average ratio of NDBL seemed to be greater than that of DCBL which indicates that NDBL has mobilized its saving deposits in term of loans and advances more successfully. But CV Shows the ratios in DCBL were more consistent than that of NDBL.

4.1.5 Invisibility Ratio

An analysis of invisibility ratio helps the investors to know the performance of the banks. These ratios give management an indication of what investors think of the firm's past performance and future prospects. If the firm's liquidity, profitability, leverage and utilization ratios are good, its market value ratios will be high and its stock price will probably be as high as can be expected. The following ratios have been calculated to test earning capacity of the banks.

4.1.5.1 Earning per Share

This ratio is calculated dividing net profit after tax (EAT) by number of equity shares. The profitability of a firm from the point of view of ordinary share holders is the earning per share (EPS). EPS calculations made over years indicates whether or not the bank's earning power on per share basis has changed over that period. EPS shows the amount of earning attributes to each equity share. If earning per share is high, market price of the share may be increased in the market and vice-versa. High ratio shows the sound profitability position of the banks. It is favourable for the investors too.

$$\text{Earning per share} = \frac{\text{Net Profit after Tax}}{\text{No. of Equity Share}}$$

Table 4.20
Earning per Share

(Rs. in million)

Fiscal Year	EAT		No. of equity shares		Ratios (Rs.)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	1.08	16.65	1.44	1.60	0.75	10.41
2060/61	(302.01)	30.75	1.60	1.60	(188.76)	19.22
2061/62	78.83	35.64	1.60	1.60	49.27	22.28
2062/63	60.11	38.45	3.20	1.60	18.75	23.75
2063/64	65.88	39.00	3.20	1.60	20.31	24.37
Mean (€)					(26.61)	11.57
Standard deviation (€)					83.11	8.23
Coefficient of variation (CV)					(312.32)	71.13

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows earning per share in NDBL as Rs.0.75, Rs.-188.76, Rs.49.27, Rs 18.75 and Rs20.31 in respective year of the study period. The mean and CV of these ratios remained Rs.-26.61 and -312.32% respectively. Similarly the ratios in DCBL remained Rs.10.41, Rs.19.22, Rs.22.28, Rs 23.75 and Rs 24.37 in the corresponding year. Mean and CV of these ratios appeared Rs.11.57 and 71.13% respectively.

The ratios in NDBL were in decreasing trend up to fourth year and increased in fifth year. In the case of fourth year, NDBL borne heavy loss due to loan loss provision. But in the case of fifth year NDBL improved the profit in positive way. Due to the reason of third year's loss, the mean and CV of NDBL were negative. The ratios in DCBL were in increasing trend which shows that DCBL is increasing its earnings every year.

The average EPS of DCBL is greater than that of NDBL which implies that profitability of DCBL from viewpoint of ordinary shareholders was better than the same of NDBL. CV of DCBL is greater than NDBL which shows that ratios in NDBL are more consistent than that of DCBL.

4.1.5.2 Dividend per Share

This ratio can be obtained dividing total distributed dividend by number of equity shares. Dividend per share is the measure of profitability. This ratio shows the rupee earning actually distributed to common stock holders per share held by them. High ratio is favourable for the shareholders.

$$\text{Dividend per Share} = \frac{\text{Total distributed dividend}}{\text{No. of Equity Share}}$$

Table 4.21
Dividend per Share

(Rs. in million)

Fiscal Year	Total distributed dividend		No. of equity shares		Ratios (Rs.)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	0.00	16.84	1.44	1.60	0.00	10.53
2060/61	0.00	16.84	1.60	1.60	0.00	10.53
2061/62	0.00	20.21	1.60	1.60	0.00	12.63
2062/63	0.00	18.25	3.20	1.60	0.00	11.40
2063/64	0.00	20.55	3.20	1.60	0.00	12.84
Mean (€)					0.00	6.74
Standard deviation (Ξ)					0.00	5.55
Coefficient of variation (CV)					0.00	82.42

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows dividend per share of NDBL as zero in all the five years of study period. NDBL had not distributed any dividend to its shareholders. In fourth year, NDBL borne heavy loss due to loan loss provision. So it was unable to distribute dividend to shareholders. The ratios in DCBL were zero in first two years because it has also not distributed dividend in these years. But from the third year it has been distributing dividend to the shareholders in increasing trend.

Average ratio of DCBL was higher than that of NDBL which indicates that DCBL is more successful in paying dividend to its shareholders. The CV shows that NDBL is more consistent in distributing dividend because of zero value in all years.

4.1.5.3 Dividend Pay-Out Ratio

This ratio can be obtained dividing dividend per share by earning per share. It determines the portion of per share dividend paid, out of per share earning. The higher ratio is better to the shareholders. It builds faithfulness of the banks.

$$\text{Dividend Pay-Out Ratio} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

Table 4.22

Dividend Payout Ratio

(Rs. in million)

Fiscal Year	DPS		EPS		Ratios (%)	
	NDBL	DCBL	NDBL	DCBL	NDBL	DCBL
2059/60	0.00	10.53	0.75	19.41	0.00	54.15
2060/61	0.00	10.53	(188.76)	19.22	0.00	54.78
2061/62	0.00	12.63	49.27	22.28	0.00	56.69
2062/63	0.00	11.12	(101.03)	20.12	0.00	55.26
2063/64	0.00	10.78	(74.38)	19.17	0.00	56.23
Mean (€)					0.00	42.52
Standard deviation (Ξ)					0.00	38.48
Coefficient of variation (CV)					0.00	90.50

Source: Annual Reports of NDBL & DCBL from FY 2059/60 to 2063/64.

Above table shows dividend pay out ratio of NDBL as zero in all the five years of study period. NDBL had not distributed any dividend to its shareholders. In fourth year, NDBL borne heavy loss due to loan loss provision. So it was unable to distribute dividend to shareholders. The ratios in DCBL were zero in first two years because it has also not distributed dividend in these years. But from the third year it has been distributing dividend to the shareholders in increasing trend. Hence the dividend payout ratio is also in increasing trend.

Average ratio of DCBL was higher than that of NDBL which indicates that DCBL is more successful in paying dividend to its shareholders. DCBL was distributing higher percentage of EPS as dividend. The CV shows that NDBL is more consistent in distributing dividend because of zero value in all years.

4.1.6 Correlation Analysis

Correlation calculation is used to find out the relationship between various factors in following manners:

4.1.6.1 Correlation Analysis between Total Deposit and Net Profit

The correlation between total deposits and net profit measures the degree of relationship between these two variables. It shows what effect dependent variable (net profit) bears in time of variation independent variable (total deposit).

Annex 1 shows the coefficient of correlation between deposits (Y) and net profit (X) value of NDBL and DCBL. The correlation and PE of NDBL came - 0.2787 and 0.2782 respectively. This value of correlation indicates the negative relation between deposit and net profit. Correlation of coefficient came less than 6 times the PE i.e. $-0.2787 < 6 \times 0.2782$. It implies that the total deposits and net profit of the bank were negatively correlated but the correlation was not highly significant.

The correlation and PE of DCBL came 0.9245 and 0.0438 respectively. This value of correlation indicates the positive relation between deposit and net profit. Moreover while considering the probable error since the value $r > 6 \cdot PE$ the value of r is significant.

4.1.6.2 Correlation Analysis between Net Profit and Net Worth

Annex 2 shows the correlation coefficient and probable error of NDBL and DCBL with respect to net worth and net profit. The r and PE of NDBL seem to

be 0.5847 and 0.1985 respectively. Coefficient of correlation appeared less than six times of PE i.e. $0.5847 < 6 \times 0.1985$ which implies that the relation between net profit and net worth was very poor in NDBL. There was not seen any specific relations.

The r and PE in DCBL came 0.8705 and 0.0731 respectively. Coefficient of correlation in DCBL appeared greater than six times of PE i.e. $0.8705 > 0.0731$ which implies that the relation between net profit and net worth was positive at significant level. Net profit in the bank seems to rise almost in same degree as rise in the net worth.

On comparing two banks, net profit in DCBL seemed to rise continuously with increase in the amount of net worth. In other words, DCBL was successful to utilize the investor's fund more effectively to realize the return. Therefore DCBL retains the capacity of up lifting the net profit by increasing the net worth. In contrast, poor relation is observed between net worth and net profit in NDBL.

4.1.6.3 Correlation Analysis between Total Deposit and Investment

Annex 3 shows the correlation and probable error between investment and total deposit of NDBL and DCBL. The correlation and probable error in NDBL remained 0.8161 and 0.1008 respectively in the study period. Correlation coefficient came greater than 6 times of Probable error i.e. $0.8161 > 6 \times 0.1008$. This indicates that the correlation between total deposit and investment of NDBL was correlated at significant level. With increase in the amount of deposits, investment of the bank seems to be increased.

The correlation coefficient and probable error of DCBL came -0.4613 and 0.2375 respectively. Correlation coefficient came smaller than 6 times of probable error i.e. $-0.4613 < 6 \times 0.2375$. It indicates that the investment and total deposit of DCBL were negatively correlated which shows the calculated value

of correlation was not significant. Bank can not raise its investment for the raise in total deposits.

4.1.6.4 Correlation Analysis between Loans and Advances and Total Deposits

Annex 4 shows the correlation and probable error between loan and advances and total deposits of NDBL and DCBL. The correlation and probable error in NDBL remained 0.6337 and 0.1805 respectively. The correlation coefficient came less than 6 times of probable error i.e. $0.6337 < 6 \times 0.1805$. It indicates that total deposit and loan and advance of NDBL are positively correlated but have lesser relationship and correlation was not significant.

The correlation coefficient and probable error of DCBL came 0.9898 and 0.0061 respectively. Correlation coefficient came greater than 6 times of probable error i.e. $0.9898 > 6 \times 0.0061$. It indicates that total deposit and loan and advances of DCBL positively and highly correlated. Bank can increase in loan and advances for every increase in total deposits.

From above analysis, there seems a significant correlation between total deposit and loan and advances in DCBL whereas a low degree of correlation in NDBL. It means that DCBL can gear its profitability in greater speed by raising the volume of loan and advances.

4.2 Presentation of Data from Primary Sources

This study is based on interview made with the related body also. The details of data presentation are shown below.

4.2.1 Do you happen to know about Performance Evaluation?

The following groups gave answer of the above question in the following manners.

Table 4.23

Knowledge of performance evaluation

Group	Questioned to	Answered by	Yes		No		Total
			Nos.	%	Nos.	%	
Executives	8	8	8	100	-	-	8
Non-executives	25	24	22	91.67	2	8.33	24
Total			30		2		32

Source: Primary Survey

The respondents gave answer of the question in positive manner. This shows that they had adequate knowledge of performance evaluation.

Above question was asked and analyzed through chi-square method. In chi-square test two hypotheses should be taken. So, according to the chi-square method following two hypotheses was set:-

Null hypothesis (H₀) : There is adequate knowledge about performance evaluation in the banks.

Alternative hypothesis (H₁): There is not adequate knowledge about Performance evaluation in the banks.

Test Statistics: - Under H₀, the test statistic is: $\chi^2 = \frac{\sum \frac{(O - E)^2}{E}}$

Table 4.24

Calculation of Chi-square test of Knowledge of Performance Evaluation

Row, Column	O	$E = \frac{RT \times CT}{N}$	O - E	(O-E) ²	$\frac{(O - E)^2}{E}$
1,1	8	$8 \times 30 / 32 = 7.50$	0.50	0.25	0.033
1,2	0	$8 \times 2 / 32 = 0.50$	-0.50	0.25	0.500
2,1	22	$24 \times 30 / 32 = 22.50$	0.50	0.25	0.011
2,2	2	$24 \times 2 / 32 = 1.50$	0.50	0.25	0.167
Total				$\sum \frac{(O - E)^2}{E} =$	0.711

Here,

$$\text{Calculated } \chi^2 = 0.711$$

$$\text{Degree of freedom} = (r-1)(c-1) = (2-1)(2-1) = 1$$

$$\alpha = 5\%$$

$$\text{Tabulated value of } \chi^2_{0.05}(1) = 3.841$$

Conclusion: -

Since calculated $\chi^2 <$ tabulated χ^2 , H_0 is accepted which means that there is adequate knowledge of performance evaluation in the banks. From above test we can conclude that personnel think that they have the knowledge about performance evaluation.

4.2.2 Does ROE show the Performance of Banks?

The following groups gave answer of the above question in the following manners.

Table 4.25
View on ROE Shows Performance or Not

Group	Questioned to	Answered by	Yes		No		Total
			Nos.	%	Nos.	%	
Executives	8	8	6	75	2	25	8
Non-executives	25	24	22	91.67	2	8.33	24
Total			28		4		32

Source: Primary Survey

Majority of the respondents were in the favour of ROE to show the performance of the banks. 25% of executives and 8.33% of non-executives did not believe on ROE for performance evaluation.

Above question was asked and analyzed through chi-square method. In chi-square test two hypotheses should be taken. So, according to the chi-square method following two hypotheses was set:-

Null hypothesis (H_0) : ROE shows the performance in the banks.

Alternative hypothesis (H_1): ROE does not show the performance in the banks.

Test Statistics:- Under H_0 , the test statistic is:- $\chi^2 = \frac{\sum \frac{(O - E)^2}{E}}$

Table 4.26

Calculation of Chi-square test of ROE shows Performance or Not

Row, Column	O	$E = \frac{RT \mid CT}{N}$	O - E	$(O - E)^2$	$\frac{(O - E)^2}{E}$
1,1	6	$8 \times 26 / 32 = 6.50$	-0.5	0.25	0.038
1,2	2	$8 \times 6 / 32 = 1.50$	0.5	0.25	0.167
2,1	20	$24 \times 26 / 32 = 19.50$	0.5	0.25	0.013
2,2	4	$24 \times 6 / 32 = 4.50$	-0.5	0.25	0.056
Total					$\frac{\sum (O - E)^2}{E} = 0.274$

Here,

Calculated $\chi^2 = 0.274$

Degree of freedom = $(r-1)(c-1) = (2-1)(2-1) = 1$

$\alpha = 5\%$

Tabulated value of $\chi^2_{0.05}(1) = 3.841$

Conclusion

Since calculated $\chi^2 <$ tabulated χ^2 , H_0 is accepted which means that ROE shows the performance of the banks. From above test we can conclude that personnel think that ROE shows the performance of a bank.

4.2.3 Is ratio analysis used to measure the performance in your bank?

The following groups gave answer of the above question in the following manners.

Table 4.27

View on use of Ratio Analysis in Performance Evaluation

Group	Questioned to	Answered by	Yes		No		Total
			Nos.	%	Nos.	%	
Executives	8	8	8	100	-	-	8
Non-executives	25	24	20	83.33	4	16.67	24
Total			28		4		32

Source: Primary Survey

Out of the total respondents most of them said that ratio analysis is used to evaluate the performance. 16.67% of non-executives were not in favour of ratio analysis.

Above question was asked and analyzed through chi-square method. In chi-square test two hypotheses should be taken. So, according to the chi-square method following two hypotheses was set:-

Null hypothesis (H_0) : Ratio analysis is used to measure the performance in banks

Alternative hypothesis (H_1) : Ratio analysis is not used to measure the performance in the banks.

Test Statistics:- Under H_0 , the test statistic is:- $\chi^2 = \frac{\sum \frac{(f_o - E)^2}{E}}$

Table 4.28

Calculation of Chi-square test of use of Ratio Analysis in Performance Evaluation

Row, Column	O	$E = \frac{RT \mid CT}{N}$	O - E	$(O-E)^2$	$\frac{fO ZEA}{E}$
1,1	8	$8 \times 28 / 32 = 7.00$	1	1	0.143
1,2	0	$8 \times 4 / 32 = 1.00$	-1	1	1.000
2,1	20	$24 \times 28 / 32 = 21.00$	-1	1	0.048
2,2	4	$24 \times 4 / 32 = 3.00$	1	1	0.333
Total					$\frac{fO ZEA}{E} = 1.524$

Here,

Calculated $\chi^2 = 1.524$

Degree of freedom = $(r-1)(c-1) = (2-1)(2-1) = 1$

$\alpha = 5\%$

Tabulated value of $\chi^2_{0.05}(1) = 3.841$

Conclusion:-

Since calculated $\chi^2 <$ tabulated χ^2 , H_0 is accepted which means that ratio analysis is used to measure the performance in banks. From above test we can conclude that personnel think that ratio analysis is used to measure the performance of banks.

4.2.4 Is Fixed Deposit Major Dominant in your bank?

The following groups gave answer of the above question in the following manners.

Table 4.29

View on Major Dominance of Fixed Deposit than Others

Group	Questioned to	Answered by	Yes		No		Total
			Nos.	%	Nos.	%	
Executives	8	8	8	100	-	-	8
Non-executives	25	24	22	91.67	2	8.33	24
Total			30		2		32

Source: Primary Survey

Majority in the view of respondents was about fixed deposit was the major dominant. Only 8.33% of non-executives were not in favour of fixed deposit.

Above question was asked and analyzed through chi-square method. In chi-square test two hypotheses should be taken. So, according to the chi-square method following two hypotheses was set:-

Null hypothesis (H₀) : Fixed deposit is the major dominant.

Alternative hypothesis (H₁) : Fixed deposit is not major dominant.

Test Statistics:- Under H₀, the test statistic is:- $\chi^2 = \frac{\sum \frac{(O - E)^2}{E}}$

Table 4.30

Calculation of Chi-square test of Major Dominance of Fixed Deposits than Others

Row, Column	O	$E = \frac{RT \mid CT}{N}$	O - E	(O-E) ²	$\frac{(O - E)^2}{E}$
1,1	8	$8 \times 30 / 32 = 7.50$	0.50	0.25	0.033
1,2	0	$8 \times 2 / 32 = 0.50$	-0.50	0.25	0.500
2,1	22	$24 \times 30 / 32 = 22.50$	-0.50	0.25	0.011
2,2	2	$24 \times 2 / 32 = 1.50$	0.50	0.25	0.167
Total				$\frac{\sum (O - E)^2}{E}$	0.711

Here,

$$\text{Calculated } \chi^2 = 0.711$$

$$\text{Degree of freedom} = (r-1)(c-1) = (2-1)(2-1) = 1$$

$$\alpha = 5\%$$

$$\text{Tabulated value of } \chi^2_{0.05}(1) = 3.841$$

Conclusion

Since calculated $\chi^2 <$ tabulated χ^2 , H_0 is accepted which means that fixed deposit is the major dominant in the banks. From above test we can conclude that personnel think that fixed deposit is the major dominant deposit in the banks.

4.2.5 Is deposit utilized properly in your bank?

The following groups gave answer of the above question in the following manners.

Table 4.31

View on properly utilization of deposit

Group	Questioned to	Answered by	Yes		No		Total
			Nos.	%	Nos.	%	
Executives	8	8	5	62.5	3	37.5	8
Non-executives	25	24	18	75	6	25	24
Total			23		9		32

Source: Primary Survey

The respondents were mostly in favour of proper utilization of deposits. 37.5% of executives and 25% of non-executives argued that deposit was not utilized properly in their bank.

Above question were asked and analyzed through chi-square method. In chi-square test two hypotheses should be taken. So, according to the chi-square method following two hypotheses was set:-

Null hypothesis (H_0) : Deposit is utilized properly.

Alternative hypothesis (H_1) : Deposit is not utilized properly.

Test Statistics:- Under H_0 , the test statistic is:- $\chi^2 = \frac{\sum \frac{(O-E)^2}{E}}$

Table 4.32

Calculation of Chi-square test of deposit utilization properly

Row, Column	O	$E = \frac{RT}{N} \mid \frac{CT}{N}$	O - E	$(O-E)^2$	$\frac{(O-E)^2}{E}$
1,1	5	$8 \times 23 / 32 = 5.75$	-0.75	0.563	0.098
1,2	3	$8 \times 9 / 32 = 2.25$	0.75	0.563	0.250
2,1	18	$24 \times 23 / 32 = 17.25$	0.75	0.563	0.033
2,2	6	$24 \times 9 / 32 = 6.75$	-0.75	0.563	0.083
Total					$\frac{\sum (O-E)^2}{E} = 0.464$

Here,

Calculated $\chi^2 = 0.464$

Degree of freedom = $(r-1)(c-1) = (2-1)(2-1) = 1$

$\alpha = 5\%$

Tabulated value of $\chi^2_{0.05}(1) = 3.841$

Conclusion:-

Since calculated $\chi^2 <$ tabulated χ^2 , H_0 is accepted which means that deposit is utilized properly. From above test we can conclude that personnel think that the deposit collected is utilized properly in their bank.

4.2.6 Has government provided any assistance to your bank?

The following groups gave answer of the above question in the following manners.

Table 4.33

View on Government Assistance

Group	Questioned to	Answered by	Yes		No		Total
			Nos.	%	Nos.	%	
Executives	8	8	-	-	8	100	8
Non-executives	25	24	6	25	18	75	24
Total			6		26		32

Source: Primary Survey

Out of the 32 respondents giving answer, only 25% if non-executives said that they are assisted by the government. All other respondents were not in favour of government assistance.

Above question were asked and analyzed through chi-square method. In chi-square test two hypotheses should be taken. So, according to the chi-square method following two hypotheses was set:-

Null hypothesis (H_0) : Government has provided assistance.

Alternative hypothesis (H_1) : Government has not provided assistance.

Test Statistics:- Under H_0 , the test statistic is:- $\chi^2 = \frac{\sum \frac{(O - E)^2}{E}}$

Table 4.34

Calculation of Chi-square test of government assistance

Row, Column	O	$E = \frac{RT \mid CT}{N}$	O - E	$(O - E)^2$	$\frac{(O - E)^2}{E}$
1,1	0	$8 \times 6 / 32 = 1.50$	-1.50	2.25	1.500
1,2	8	$8 \times 26 / 32 = 6.50$	1.50	2.25	0.346
2,1	6	$24 \times 6 / 32 = 4.50$	1.50	2.25	0.500
2,2	18	$24 \times 26 / 32 = 19.50$	-1.50	2.25	0.115
Total				$\frac{\sum (O - E)^2}{E}$	2.461

Here,

$$\text{Calculated } \chi^2 = 2.461$$

$$\text{Degree of freedom} = (r-1)(c-1) = (2-1)(2-1) = 1$$

$$\alpha = 5\%$$

$$\text{Tabulated value of } \chi^2_{0.05}(1) = 3.841$$

Conclusion

Since calculated $\chi^2 <$ tabulated χ^2 , H_0 is accepted which means that government has provided some assistance. From above test we can conclude that personnel think that government of Nepal has provided some assistance to the development banks.

4.2.7 Have other researchers evaluated the performance of your bank?

The following groups gave answer of the above question in the following manners.

Table 4.35
View on Early Research

Group	Questioned to	Answered by	Yes		No		Total
			Nos.	%	Nos.	%	
Executives	8	8	5	62.5	3	37.5	8
Non-executives	25	24	14	58.33	10	41.67	24
Total			19		13		32

Source: Primary Survey

Out of the 32 respondents only 19 respondents know that other researchers had also evaluated the performance of their bank. 13 respondents were not known about it.

Above question were asked and analyzed through chi-square method. In chi-square test two hypotheses should be taken. So, according to the chi-square method following two hypotheses was set:-

Null hypothesis (H_0) : Other researchers have evaluated the performance.

Alternative hypothesis (H_1) : Other researchers have not evaluated the performance.

Test Statistics:- Under H_0 , the test statistic is:- $\chi^2 = \frac{\sum \frac{(O-E)^2}{E}}$

Table 4.36

Calculation of Chi-square test of early research

Row, Column	O	$E = \frac{RT \mid CT}{N}$	O - E	$(O-E)^2$	$\frac{(O-E)^2}{E}$
1,1	5	$8 \times 19 / 32 = 4.75$	0.25	0.0625	0.013
1,2	3	$8 \times 13 / 32 = 3.25$	-0.25	0.0625	0.019
2,1	14	$24 \times 19 / 32 = 14.25$	-0.25	0.0625	0.004
2,2	10	$24 \times 13 / 32 = 9.75$	0.25	0.0625	0.006
Total					$\frac{\sum (O-E)^2}{E} = 0.042$

Here,

Calculated $\chi^2 = 0.042$

Degree of freedom = $(r-1)(c-1) = (2-1)(2-1) = 1$

$\alpha = 5\%$

Tabulated value of $\chi^2_{0.05}(1) = 3.841$

Conclusion

Since calculated $\chi^2 <$ tabulated χ^2 , H_0 is accepted which means that other researchers have evaluated the performance. From above test we can conclude that personnel think that other researchers have also evaluated the performance of the banks.

4.3 Major Findings

Form the above analysis and interpretation of data; the following findings have been drawn:

4.3.1. Major Findings from Secondary Data

-) Cash and bank balance to total deposit ratio of both banks were in slightly fluctuating trend. The solvency position of DCBL was better than that of NDBL. Likewise NDBL was seen to be less successful to utilize the fund raised from the total deposits that may ultimately affect the profitability adversely. The ratios appeared less uniform in NDBL.
-) Current ratios were in slightly fluctuating trend for NDBL and in increasing trend for DCBL. Both the banks could not maintain the conventional standard of 2:1. However the average ratio of NDBL was greater than that of DCBL which signifies that NDBL was more capable of meeting immediate liabilities in contrast to DCBL.
-) Quick ratios of both banks were in fluctuating trend. Both banks could not maintain the conventional standard of 1:1. The average ratio of NDBL was greater than the same of DCBL which means that NDBL is more successful in maintaining the liquidity position. The ratios in DCBL found to be more consistent than that of NDBL.
-) Cash and bank balance to current assets ratios of both banks were in slightly fluctuating trend. The average ratio of DCBL was higher than that of NDBL which tells that DCBL had more liquidity of cash than that of NDBL. The ratios in DCBL found to be more consistent.
-) Average return on total assets ratio of DCBL was much higher than in NDBL. It implies that the profitability position of NDBL in the study period proved to be weaker in spite of improvement in later one year. The ratios varied more in DCBL.

-) Average Return on shareholders equity ratios of NDBL found to be greater in NDBL because of the negative net profit and negative shareholders equity.
-) Return on working capital was considerably higher in NDBL which signifies that NDBL was more successful to utilize the working capital for making profit. The ratio varied more in NDBL.
-) Average investment income to investment ratio of DCBL was higher which signifies that DCBL was improving its profit from investment in increasing trend. The ratios in NDBL were in decreasing trend up to fourth year and increased in fifth year. The ratios varied in NDBL
-) Debt to equity ratios of both banks depicted that employment of debt was higher than the capital. Comparatively, capital structure of NDBL seemed more levered i.e. more risky. The ratios remained more consistent in NDBL.
-) Debt to assets ratio remained higher in NDBL than in DCBL which reveals that the greater portion of assets in NDBL was financed through the outsider cost-bearing fund. The ratio appeared more uniform in DCBL.
-) Average interest coverage ratio in NDBL remained greater than in DCBL which reveals that interest paying capacity of NDBL was considerably better than that of DCBL. The ratios remained more consistent in DCBL.
-) Long term debt to net worth ratio showed both banks had no long term debt for the first two years. In the fourth year long term debt was

increased highly to overcome the heavy loss. Average ratio in DCBL was higher and the ratios in DCBL were not consistent.

-) As depicted by higher investment to total deposit ratio in NDBL, it seems more successful to utilize the depositor's fund in investment. The ratio disappeared slightly to greater extent in DCBL. The ratios varied in DCBL.
-) Loan and advance to total deposit ratio appeared significantly higher in DCBL. It indicates the better utilization of total deposits in DCBL than in NDBL. The ratios remained more uniform in DCBL.
-) The mean Loan and advance to fixed deposit ratio appeared higher in DCBL which indicates that turnover of fixed deposits in form of loan and advance was better in DCBL. The ratios varied less in same bank.
-) The saving deposits of both banks were zero in first two years because both banks had no collection of saving deposits in that period. The mean loan and advance to saving deposit ratio found higher in NDBL which indicates that turnover of saving deposits in form of loan and advance was better in NDBL. The ratios varied less in DCBL.
-) Greater mean EPS in DCBL shows that earning per share basis is higher in DCBL than in NDBL. In other words earning capacity of each share was higher in DCBL. EPS greatly varied in DCBL.
-) There was no dividend distribution in NDBL for the study period. DCBL distributed dividend from third year of study period. So, dividend per share in DCBL was higher which shows better return to the shareholders in DCBL. The ratios varied in DCBL.

-) Dividend payout ratios in NDBL were zero in NDBL for the study period because there were no any dividends distributed. This ratio was also higher in DCBL. The ratios varied in DCBL.

-) The coefficient of correlation in DCBL showed the significant positive relationship between net profit and total deposit, net profit and net worth, and loan and advance and total deposit. The correlation between net profit and investment and investment and total deposit were negatively and insignificantly correlated in DCBL. Similarly correlation in NDBL showed the positive relationship between net profit and net worth, significantly positive relationship between investment and total deposit and loan and advance and total deposits. The relation between net profit and investment and net profit and total deposit were negatively and insignificantly correlated in NDBL.

4.3.2. Major findings from Primary Data

-) It was found that all the respondents had the knowledge of performance evaluation. Majority said that their bank had good performance.

-) Return on equity showed the performance in their bank. Fixed deposit had major dominance, Government had not provided specific assistance, and Ratio analysis tool was used to measure the performance in their bank.

-) The hypothesis test also supported the above theories.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter shows the final report of the study. This chapter is divided into three sections. First section deals with the summary of the study. Shortcut of the decision that is found in previous chapter is presented in short manner. That is called summary of the study. The second section is related with the conclusion of the study in which over all decisions made under the study are presented. The third section of this chapter is remedies or recommendations of the study. The details of this section are presented below:

5.1 Summary

It is seen that banking activities have been growing up very fast for last ten years in Nepal. Many commercial banks, development banks, financial companies, insurance companies, cooperatives and others have been setup within a short period.

For analyzing financial data, the financial tools and statistical tools have been used. In the ratio analysis, five different categories have been tested with their sub-divisions. The ratios tested were liquidity ratio, profitability ratio, leverage ratio, and invisibility ratio.

-) Current ratios were in slightly fluctuating trend for NDBL and DCBL. Both banks could not maintain the conventional standard of 2:1.
-) Quick ratio of the banks was in fluctuating trend. The banks could not maintain the conventional standard of 1:1
-) The profitability position of NDBL in the study period proved to be weaker in spite of improvement in later one year.
-) Average Return on shareholders equity ratios of NDBL found to be greater than that of DCBL and fluctuating trend because of the negative net profit and negative shareholders equity.

-)] Debt to equity ratios of the banks depicted that employment of debt was higher than the capital. Capital structure of NDBL seemed more levered i.e. more risky than that of DCBL.
-)] Debt to assets ratio reveals that the greater portion of assets in NDBL was financed through the outsider cost-bearing fund.
-)] There was no dividend distribution in NDBL for the study period and DCBL has been distributing in increasing trend from third year.

5.2 Conclusion

This study deals with the Accounting Ratio analysis of NDBL by using ratio analysis. After analyzing the gathered data by using appropriate tools the following points are concluded:

-)] Liquidity position of DCBL was satisfactory which shows bank had readiness to serve its customers more efficiently for the purpose of meeting current liabilities with the comparison of NDBL.
-)] Debt to total assets ratio was in increasing trend for the both banks in different proportion. This showed the banks employed varying proportion of interest bearing debt for the purpose.
-)] The financial indicators like EPS and DPS of DCBL were found better in comparison to NDBL. NDBL had managed more loan loss provision as compared with DCBL. This indicates that DCBL had riskier strategy in advancing its loans to different sectors.
-)] The relation between net profit and investment and net profit and total deposit were negatively and insignificantly correlated in NDBL.

5.3 Recommendations

After completing the research entitled 'Performance Evaluation as an Effective Tools for control' and presenting, analyzing, concluding the data and related topics, some recommendations are presented below:

-)] It was found that the banks were suffered form high and low liquidity position. It may loose its credibility. NDBL needs to maintain its high

liquidity position. Otherwise it may lose the chance of profitable investment. NDBL has to prepare investment plan in the profitable sectors.

-) Profitability position of NDBL was much weaker than DCBL. It should improve overall efficiency by investing in more returnable sectors i.e. risky area after proper risk analysis.
-) Debt servicing capacity of NDBL appeared poor. So, it is better to search more profitable sectors for investment and utilizing of the deposit collected.
-) The quality of assets owned by NDBL seen to be poorer than DCBL. Therefore NDBL is suggested to advance the loans only after the proper analysis of customers.
-) Earning of NDBL could not grow proportionately. Therefore the both banks are suggested to invest in other current assets rather than in the lower yielding treasury bills on which interest rate is declining at present. If the liquidity position doesn't appear weaker, it will be better for the banks to increase the investment in long-term loan after analyzing risk.
-) It will be better the banks, to open branches in other Cities and rural areas in order to find profitable opportunities.
-) Government should formulate plans and policies and launch various programs for the growth of development banks focusing on private sector development banks.

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ANNEX- 5

Nepal Development Bank

Financials Report
Data shown in NRs. Million

Liabilities	2059/60	2060/61	2061/62	2062/63	2063/064
Share capital	160.0	160.0	144.0	144.0	96.0
Equity	-49.5	-119.5	155.5	154.4	102.8
Borrowing	0.0	103.4	57.6		
Total deposit	1631.3	1845.5	1985.8	1903.0	1687.3
Other liabilities	178.3	146.0	141.5	95.8	63.4
Non banking Provision		25.9			
Provision for loan loss	79.7	315.5	62.8	52.1	24.8
Sub-total	258.0	487.4	204.3	147.9	88.2
Total balance	1839.8	2316.8	2403.2	2205.3	1878.3

Assets	2059/60	2060/61	2061/62	2062/63	2063/064
Cash in hand	13.6	12.9	12.7	12.0	7.8
NRB bank	36.4	26.2	23.6	47.6	3.1
Domestic bank	245.5	253.0	490.8	201.0	282.7
Liquid means	295.5	292.1	527.1	260.6	293.6
Total investment	144.2	189.1	238.9	180.0	65.0
Total loan	842.1	1532.8	1443.9	1605.7	1427.6
Fixed assets	14.1	17.5	20.0	15.8	17.0
Non banking assets	215.8	77.7			
Other assets	328.1	207.6	173.3	143.2	75.1
Sub-total	558.0	302.8	193.3	159.0	92.1
Total balance	1839.8	2316.8	2403.2	2205.3	1878.3

Profit & loss	2059/60	2060/61	2061/62	2062/63	2063/064
Total interest income	117.4	184.5	210.5	226.0	184.5
Interest on deposit	115.3	140.4	153.7	154.6	129.4
Net interest income	2.1	44.1	56.8	71.4	55.1
Non interest income	2.5	2.7	3.0	2.5	4.7
Operating income	4.6	46.8	59.8	73.9	59.8
Operating expenses	56.9	47.6	45.5	40.3	33.8
Operating result	-52.3	-0.8	14.3	33.6	26.0
Net profit	78.8	-302.0	1.1	3.6	3.0

ANNEX- 6

DEVELOPMENT CREDIT BANK LIMITED

Financial Highlights up to 5 years

Details	2059/60	2060/61	2061/62	2062/63	Rs in '000 2063/064
Share Holders' Fund					
Paid up capital	112,000	160,000	160,000	160,000	160,000
General Reserve	25	1,897	5,227	11,377	18,505
Retain Earnings	99	7,586	3,204	8,971	14,262
Total Share Holder's Fund	112,124	169,483	168,431	180,348	192,767
Provisions and Other Reserves					
Provision for Possible Losses	3,574	11,866	15,981	13,221	26,025
Other Reserves	-	-	-	-	-
Total Provisions and other Reserves	3,574	11,866	15,981	13,221	26,025
Total Share Holder's Fund and Provisions	115,698	181,349	184,412	193,569	218,792
Assets and Properties					
Cash & Bank Balance	81,279	218,867	421,686	387,526	406,687
Investment in Share	-	51,990	51,660	4,471	4,771
Other Investments	65,000	59,500	24,500	40,615	24,050
Loan and Advances	357,415	770,065	1,010,406	1,189,672	1,390,859
Fixed Assets	13,638	17,726	14,405	11,875	12,721
Deferred Expenditures	6,682	7,564	3,713	2,533	2,193
Other Assets	6,765	15,537	11,309	30,185	39,779
Total Assets	533,809	1,141,249	1,538,009	1,666,877	1,881,060
Liabilities					
Borrowings	-	-	2,250	5,200	120,000
Deposit Liabilities	405,547	918,944	1,308,006	1,413,973	1,479,074
Other Liabilities	12,564	40,956	43,341	54,135	63,194
Total Liabilities	418,111	959,900	1,353,597	1,473,308	1,662,268
Net Assets	115,698	181,349	184,412	193,569	218,792
Profit & Loss Accounts					
Income					
Interest Income	18,202	95,376	139,248	156,712	171,755
Interest Expenses	10,399	57,294	87,414	92,875	80,723
Net Interest Income	7,803	38,082	51,834	63,837	91,032
Other Income	2,210	9,779	8,660	13,123	5,660
Total Income	10,013	47,861	60,494	76,960	96,692
Expenses					
Staff Expenses	2,527	9137	11,002	13,704	15,111
Operating Expenses	2,319	8,026	9,091	9,256	9,892
Depreciation/Amortization Expenses	1,381	6,861	8,090	4,653	4.68
Total Expenses	6,227	24,024	28,183	27,613	29,685
Operating Profit	3,786	23,837	32,311	49,347	67,007
Provisions					
Provision for Possible Losses	3,574	8,292	4,115	-	9,461
Provision for Staff Bonus	21	1,554	2,820	4,935	5,647
Provision for Staff Gratuity					1,079
Total Provisions	3,595	9,846	6,935	4,935	16,187
Profit Before tax	191	13,991	25,376	44,412	50,820
Provision for Income tax	67	4,632	8,722	13,662	15,182
Profit After Tax	124	9,359	16,654	30,750	35,638
Profit Appropriation					
Profit Brought Down	124	9,458	24,240	33,954	41,600
Statutory General Reserve	25	1,872	3,331	6,150	7,128
Proposed Dividend		-	16,842	16,842	20,211
Last Year's Tax			33	-	-
Staff Gratuity Fund			830	1,991	
Balance carried forward to Balance Sheet	99	7,586	3,204	8,971	14,261

