INTRODUCTION
CHAPTER I

1.1 Background of the study

Nepal is a least developed country. Most of the Nepalese people are engaged in agricultural sector. Nepalese economy is dominated by agricultural sector. Industrialization is most important for the rapid economic development of the country like Nepal. Now days, banks as part of the service sector are giving better impetus for raising the economy of our country.

Bank is such an institution which generates financial resource either from their partners or from the general people who are interested to save there. Finance is the backbone of the country without which speedy economic development is supposed to be impossible. Development of the country is the result of mixed work of all sectors such as manufacturing sector, agricultural sectors, service sector etc. These sectors can't able to run smoothly without finance.

Speedy development of the country is possible when it reinforces in upgrading the economic condition. For this, development in agriculture sector alone is not sufficient, industrial sector also should be promoted. Financial sector plays vital role for development of economy of the country.

Finance is defined as the art and science of managing money. Either individual or organization, all is engaged in work which helps them to raise or earn money. They earn money to spend on their requirement or to invest for further earning in future. Finance is concerned with the process, institutions, markets and instruments involved in the transfer of money among and between individuals, businesses and governments.

Finance can also be defined as the management of the flows of money through an organization, whether it be a corporation, school, bank, or government agency. Finance concerns itself with the actual flows of money as well as any claims against money. Previously, finance was limited for the pronouncement of the long term funds. The traditional concept of the finance is changed due to industrialization, technological innovation and intense competition. The key financial functions are investment, financing and dividend decision for the organization.

Financial analysis is the process of the analyzing the balance sheet and profit and loss accounts to detect the strengths and weaknesses of the organization. We can also say that financial analysis is also to look after the financial performance of the organization. Only after the analysis of the financial performance one can be able to decide whether to invest or not.

In financial analysis, a ratio is used as an index or yard sticks for evaluating the financial position and performance of the bank. Analysis and interpretation of various ratios should give an experience and skilled analyst a better understanding of financial condition and performance of the bank than researcher would obtain from analysis of the financial data alone, so financial analysis depends to a very large extent on the use of ratio through other equally important tools of such analysis.

We have various ratios for the purpose of analyzing of strength and weakness of the bank. They are-

- Liquidity ratios indicate a firm's ability to meet its short-term financial obligation.
- Asset management ratios indicate how efficiently a firm is using its assets to generate sales.
- Financial leverage management ratios indicate a firm's capacity to meet short and long term obligations.
- Profitability ratios indicate how effectively a firm's management generates profits.
- Market based ratios reflect the financial market's assessment of a company's performance.
- Dividend policy ratios indicate the dividend practice of a firm.

1.2 Introduction of a Bank

A bank is an institution for the depositing, lending and exchange, etc of the money. In other word the bank is the financial institution in which people who have saved cash, deposit it and who need funds, borrow it. Bank mobilize saving and make funds available for needy investors in trade, industry, agriculture and from other economic activities. Therefore we can say that it manufactures credit and sells it among people called bank "factory of credit." The banks are indispensable sector of the economy and play a vital role for the overall development of the country.

A bank is an institution which deals with money and credit. It accepts deposit from the public and mobilizes the fund to productive sectors. It also provides remittance facility to transfer money from one place to another. Generally, bank accepts deposit from business institutions and individuals, which is mobilized into productive sectors mainly business and consumers lending. Bank is therefore; know as a accepting deposits and disbursing loan. In additional to this, a bank may be engaged in different types of function such as remittance, exchange currency, joint venture, underwriting, bank guarantee, discounting bills etc. in a short, the term modern bank refers to an institution having the following features:

- It deals with money; it accepts deposit and advances loans.
- It also deals with credit; it has the ability to create credit by expanding its liabilities.
- It is commercial institution, its main aim at earning profit.

Banks are principal source of credit for millions of individual and families and for many unit of government. They are among the most important financial institution in the economy. Moreover, for small local business ranking from grocery store to automobile dealers, bank is often the major source of credit to stock the shelves with merchandise. Banks grant more installment loan to consumers than any other financial institution.In most years, they are among the leading buyer of bond and notes issued by government to finance public facilities moreover bank reserve are the principal channel for government economic policy to stabilize the economy.

Banks are among the most important source of short term working capital for business. They have become increasingly active in recent years in making long term business loans for a new plant and equipment. When business and consumers must make payments for purchase of goods and services, more often they use bank provided cheques, creditor debit cards or electronic account connected to a computer network. It is the banker to whom they turn most frequent for advice and counsel, when they'll need financial information and financial planning.

Regarding the function of banks, a commercial bank Act state that a commercial bank is one of that exchanges money, accept deposit, grant loans. The functions and services of modern banks are classified under the following heading;

1) Accept deposit:-

   Banks accept deposit from customers in the form of current, saving and fixed deposits. These deposits are repayable on demand. The deposits are repayable on demand. The depositors other than current account are paid interest.

2) Granting loan and advances:- The second main function of the commercial bank is to grant loans and advances to business man, the industrialist, the individuals, the different organization etc. Banks charge interest on such loan and advances, which is the largest source of total income.

3) Agency service: - A modern banks act as an agent of individual customer, business institutions and different organization. The agency services of banks may involve collection of interest and dividends on debt and share capital. A bank buys and sells securities on behalf of the customers. Bank also collects cheques, draft promissory notes etc and receives their payment. Sometimes it make payments of insurance premium, bills of electricity, telephone etc. it takes commission for services rendered.

4) Guarantee on behalf of customers:- The need of the bank guarantee arises in business generally business customers enjoy this service. Sometimes, personally customers may also need a bank guarantee. A guarantee is defined and irrevocable under taking by a bank on behalf of its customers to make payment up to a specified sum of money to the beneficiary on demand incase of default by its customers.

5) Issuance of Traveler's Cheque: - The people traveling outside the country want to reduce the fear of getting money stolen during the travel. Bank sells the traveler's cheque. The unique feature of the traveler cheque that unless the buyer of the traveler cheque signs for encashment it cannot be cashed.

6) Remittance function: - Sending and receiving fund to or from various places is the necessity of today the remittance service has benefited both business and personal customers. Funds transfers are made through various models like demand drafts, telegraphic payment order, and fax mail payment orders.
7) Other services:- Modern banks are equally important in undertaking safe custody of important valuable and documents. Banks also offer some of the bank services at the door of highly valued customers few large banks conduct research and survey in the economic conditions

and they supply trade statistics and information. In addition to these, banks also inform their customers about the credit standing of other practices.

Banking is the necessity of every country as it plays crucial role in enriching economic and social life of country. Banks are the backbone of the country. It is the financial institution, which provides wide range of banking service such as the financial supermarket providing all kinds of monitory service, which is necessary for the industrialization and economic development of the country.

1.3 Historical Development of Bank

The brief history of modern banking was started from 7th century. There was a reference the activities of money exchanger in the temple of Jerusalem in the New Testament. In ancient Greece the famous temples of Delphi and Olympia served as the great depositors for people’s surplus funds and these were the centers of money lending transaction. Indent the trace of “Rudimentary Banking” was found in the Chaldean, Egyptian & Phoenician history. The development of banking in ancient Rome roughly followed the Greek pattern.

An organization functioning and acting with money called bank. It receives deposits from various customers and refunds the deposit of customers’ on demand. It is of German origin though some persons trace its origin to the French word ‘Banqui’ and the Italian word ‘Banca’. It referred to bench for keeping, lending, and exchanging of money or coins in the market place by money lenders and money changers.

There was no such word as ‘banking’ before 1640, although the practice of safe-keeping and savings flourished in the temple of Babylon as early as 2000 B.C. Chanakya in his Arthashastra written in about 300 B.C. mentioned about the existence of powerful guilds of merchant bankers who received deposits, advanced loans and issued hundis(letters of transfer). The jain scriptures mention the names of two bankers who built the famous Dilwara Temples in Mount Abu during 1197 and 1247 A.D.
The first bank called the ‘Bank of Venice’ was established in Venice, Italy in 1157 to finance the monarch in his wars. The bankers of Lombardy were famous in England. But modern banking began with the English goldsmiths only after 1640. The first in ‘India was the Bank of Hindustan’ started in

1770 by Alexander& Co., an English agency house in Calcutta which failed in 1782 with the closure of agency house. But the first bank in the modern sense was established in the Bengal Presidency as the bank of Bengal in 1806.

In Nepal banking tradition was started before 8th century. Before 12th century the goldsmiths or similar type of bankers had started to collect the money and disbursed it as on demand.

The systematic banking system was started after the unification of Nepal. Modern banking system was started after the establishment of Nepal Bank Limited in 1938 A.D. After than other commercial, development and industrial banks were established. After the restoration of democracy in1990 A.D, the establishment of banks increased rapidly. Right now dozens of banks of different types are in operation. Nowadays, banks are various types. They are commercial banks, development banks, industrial banks, saving and co-operatives, finance companies and central bank etc.

1.4Commercial Banking in Nepal

Institution banking systems come into existence in Nepal on nineteen century. Nepal bank limited which was established in 1937 A.D, is the first modern bank of Nepal and taken as the milestone of modern banking of the country. From the beginning it has rendered the following services to the customers.

1) Accept deposit
2) Extent loan
3) Render customer-related service i.e. issue of bill of exchange
4) Perform agency function
5) Act as banker to government

Until mid – 1940s only metallic coins were used as medium of exchange. So the Government of Nepal felt the need of separate institution or body to issue national currencies and promote financial organization in the country. Hence the Nepal Rastrya Bank Act 1955 was formulated which was approved by Government of Nepal. Accordingly, the Nepal Rastrya Bank was established in 1956 A.D as a central bank.

In 1957 A.D Industrial Development Bank was established to promote the industrialization in Nepal which was latter converted into Nepal Industrial

Development Corporation (NIDC) in 1959 A.D. Rastrya Banijya Bank was established in1956 A.D as second commercial bank of Nepal. As the agriculture is the basic occupation of major Nepalese, the development of this sector plays the prime role in economy. So separate agriculture development bank was established in 1968 A.D this is the first institution in agricultural financing. Fore more than two decades, no more banks have been established in the country. After declaring free economy and privatization policy, Government of Nepal encourages the foreign banks for joint venture in Nepal. As a result, Nepal Arab Bank Ltd. (NABIL) was established in 1984 A.D this is the first modern bank with latest banking technology. Then lot of commercial banks has been opened in the country. Nepal Indosuez Bank Limited was established in 1986 A.D as private joint venture bank. Nepal Grindlay bank was established in 1987 A.D as joint venture between ANZ Grindlalys and Nepal Bank Limited. Since 2001 A.D it is known as Standard Chartered Bank Nepal Limited. Himalayan Bank Limited is a joint venture with Habib Bank of Pakistan. It started its operation in 1993 A.D with paid- up capital of 60 Millions. Nepal SBI bank Ltd is a joint venture between employee's provident fund and state Bank of India, where Indian bank holds 50% of equity. The initial paid-up capital was Rs 119.95 million in 1993 A.D. Everest Bank limited started its operation in 1994 A.D. It entered into joint venture with Punjab National Bank of India (PNB). PNB holds 20% equity of the bank.

Similarly, Bank of Kathmandu was established in a joint venture with Syan Bank of Thailand in 1995 A.D. Lumbini Bank was established in the year 1998 A.D. Nepal industrial and Commercial Bank was established in 1998 A.D. It doesn't have any joint venture yet but it has employed senior manager from India to handle its operations. Machhapuchhre Bank started its operation from 2000 A.D. Its head office is established in Pokhara. Kumari Bank was established in 2001 A.D.This bank has introduced internet banking which is Hi-Tec banking system of the world. Laxmi Bank was established in 2002 A.D. Siddartha Bank was established in 2002 A.D. Likewise Global Bank limited, Citizen Bank and Sunrise Bank Limited etc are newly established bank. There are so many development bank in the banking sectors but regarded as second level bank because they have less paid-up capital than commercial bank. Jyoti Bikash Bank, Kastamandap Development Bank, Parthivara Development Bank, Mahaksli Development Bank, Miteri Development bank, Annapurna Development Bank, Gorkha Development Bank etc. are some development Bank which are performing their function in the banking sectors. Till this year, we have 26 listed commercial banks registered in Nepal Rastrya Bank.

1.5 Introduction of Pashupati Development Bank LTD. (PDBL)

Development bank is such bank which has access at regional and national level. To have access at national it must have total capital rupees two hundred millions. But for commercial bank it must have total capital rupees one thousand millions. All commercial banks must have rupees two thousand milions till 2010A.D. Pashupati Development Bank is regarded as well reputed bank among development bank. It is one of the development bank established in Nepal having limited liability. Its head office is at Banepa, Kavre district, ward no 6.

Pashupati Development Bank is one of the popular development banks among all development banks. It started to work since Magh 1st 2060BS. It head office is in Banepa and having others two branches in Pokhara and Narayanghat. Today the business world is very competitive; those who can compete only are able to run business smoothly. Recently, PDB has Rs 400 millions authorized capital, Rs 200 millions issued capital and Rs120 millions paid up capital. This bank is concerned and gives emphasis to institutional discipline for the long run development and success.

Future planning of PDBL

PDBL is operating in a situation of high competition between different financial institutions. It should perform following activities to take the bank in high level along with maintaining continuous success:-

- Bank should issue share for general people-
  In financial year 2065/2066, eight lakhs share are issued for general people. But bank got 23 times more application for it. This proves that bank is able to gain beliefs of the people. PDBL always tries to maintain this belief of the people forever.
- Minimizing risk related to loan-
  PDBL has able to manage so many risky loans in past years. So the bank tries to search new opportunities in future for achieving the objectives of the bank.
- To increase its branches in different places to get access for more and more people.
- PDBL will expand its technological development according to the need of time.

PDBL has 7 boards of directors. They are given below:

Name	Position	Number of Shares
Mr. Lob Kumar Thapa	Chairman, Board of directors	54000
Mr. Bidur Thamala	Director	300000
Mr. Min Man Shrestha	Director	136932
Mrs. Rita Shrestha	Director	30000
Mr. Devraj Tamang	Director	5000
Mr.Himalay B. M Thakuri	Director	30000
Mr. Joglal Lama	Director	30000

PDBL always search those types of new opportunities so that it can prove it's self as a good development bank of Nepal. But so many obstacles reduce its effort. Unstable national politics & lack of peace and safety prevailing in the country, unmanageable competition among bank and financial institutions, comparing interest rate with commercial bank, fast changing government 's rules and regulation and narrow criteria of safe investments are some obstacle of PDBL. These elements are negative effort which will not give more space to move ahead for the banks.

PDBL is listed in Nepal stock Exchange. Every day its transaction is running in the Nepal stock Exchange. Its management factors are very sound. Its profit earning pattern is also remarkable. So many people are interested to invest in this bank for earning profit. Till this year PDBL has not distributed profit. But it is very certain that it will distribute bonus for the stock holders.

1.6 Statement of Problems

Pashupati Development Bank has been improving its performance from the beginning since its establishment. PDBL has achieved its remarkable success in the banking sector and provided high image in the eyes of public. So it has been planning to open other branches at different place to provide more access to the public. The basic objectives of PDBL are to uplift the economic activities and strengthen the welfare of the people by providing loan in different sector and by providing banking service.

The financial analysis of PDBL gives us the detail information about its profitability, liquidity position, earning capacity, efficiency in operation, creditworthiness, source and use of funds, financial achievements and status.

The study attempts to find out the answer of the following question:

- Does the overall financial statements analysis and financial position indicate any strengths and weakness?
- What are the major factors effecting the financial performance of PDBL?

1.7Objectives of the Study

The main objectives of the study are to find out the financial position of the PDBL using various financial tools such as ratios analysis and other statistical tools.

- To evaluate the financial position of Pashupati Development Bank Ltd. In terms of different kinds of ratios.
- To see the relationship between deposit and profit, investment and profit.
- To examine income and expenditure of Pashupati Development Bank Ltd
- To examine expected profit and total deposit.

1.8Limitation of the Study

There are many limitations while going through this study, they are listed below:

- The study is based on only five years data from the year 2061 to 2065.
- Research has used secondary data (i.e. data from annual report) for the analysis of financial position of Pashupati Development Bank.
- Although there are large financial sector like commercial bank, finance company, the researcher has selected the development bank that is Pashupati Development Bank.
- Although there are other aspects which directly or indirectly affect the financial position of the bank, the study is only focused on financial aspect of sample bank to find out its financial position.

1.9 Significance of the Study

It has already stated that without financial sector, for the economic development of the country is impossible. So banks are such institutions which give necessary impetus for the economic development. Financial analysis is such a tool which helps us to acquire the information of the bank. There is no possibility of economic development of the country without the development of banking sectors. So the study of financial performance of the development bank is useful to stakeholders as well as general public.

1.10 Organization of the Study

The research study has been classified into five chapters as follows:

Chapter-I: Introduction

The introduction chapter includes background study, introduction of bank, introduction of Pashupati Development Bank Ltd. Statement of the problem, objectives of the study, limitation of the study, significances of the study.

Chapter-II: Review of Literature

Review of Literature includes the basic framework for the present study on "financial performance analysis of Pashupati Development Bank Ltd" which has drawn from past research study, books, articles, journals etc .In this chapter attempt has been made to review the literatures pertinent to study. It includes theoretical and research review of related study by different researcher.

Chapter- III: Research Methodology

This research methodology chapter is based on secondary data. For the purpose of the study, financial statements, balance sheets, profit and loss account, annual reports of the bank, brochures etc, are the basic source of the secondary data. Thus collected and processed data are analyzed by using relevant tools and techniques .i.e. financial and statistical tools.

Chapter-IV: Data Presentation and Analysis

This Data presentation and Analysis chapter includes presentation and analysis of data using different relevant financial and statistical tools.

Chapter-V: Summary, Conclusion and Recommendation

The fifth chapter is the final chapter of the study, which consists of the summary of the four earlier chapters. This chapter tries to fetch out a conclusion of the study and attempts to offer various suggestion and recommendations for the improvement of the future performances.

CHAPTER – II
REVIEW OF LITERATURE

2.1 Review of Conceptual Framework

A basic limitation of the traditional financial statement comprising the balance sheet and profit & loss account is that they do not give all the information regarding the financial operation of the firm. Nevertheless, they provide some extremely useful information to the balance sheet mirrors the financial position on a particular data in terms of the structure of assets, liabilities and owner's equity, etc. and profit and loss account shows the result of operation during a certain period of time in terms of the revenues obtained and the cost incurred during the year. Thus, the financial statements provide a summarized view of the financial position and operation of the firm. Therefore, much can be learnt about a firm from a careful examination of its financial statements is thus, an important aid to financial analysis.

The focus of financial analysis is on key figure in the financial statement and the significant relationship that exist between them. The analysis of financial statement is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance. The first task of the financial analysis is to select the information relevant to the decision under consideration from the total information contained in the financial statement. The second step involved in financial analysis is to arrange the information in a way to highlight significant relationship. In brief, financial statement analysis is the process of selection, relation and evaluation.

The present study is developed to an in-depth analysis of financial statement and its use for decision making by various parties interested in them. The focus of the study is on ratio analysis as the most widely used technique of financial statement analysis.

“Financial analysis is the process of determining the significant operating characteristics of a firm from accounting data and financial statement. The goal of such analysis is to determine the efficiency and performance of the firm’s management, as reflected in the financial records and reports. The analyst is attempting to measure the firm's liquidity, profitability and other indications that business is conducted in a rational and orderly way. If a firm doesn't achieve financial norms for its industry to relationships among data that seen reasonable, the analyst note the deviations. The burden of explaining the apparent problems may then be placed upon management" (Hampton; 2006:98).

"Financial statements analysis includes the study of relationship within a set of financial statement at a point in time and with trends in these relationships over the time" (Foster; 2002:58).

"Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "the indicated quotient of two mathematical expressions and as the relationship between two or more things". In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm" (Pandey; 1999:109).

"Ratio analysis is the process of determining and interpreting numerical relationship based on financial statements. A ratio is a statistical yardstick that provides a measure of the relationship between two variable and figures. This relationship can be expressed as percent (cost of goods sold as a percentage of sales) or as a quotient (current assets as a certain number of times the current liabilities)" (Kuchhal; 1976:21).

"A comparison of ratio of same firm over is important in evaluating changes and trends in the firm's financial condition and profitability. This comparison may be historical; it may also be judged in comparison with those of similar firms in the same line of business and when appropriate, with an industry average. Much can be gleaned from a through analysis of financial ratios with empirical testing of the predictive power of ratios financial ratio analysis is likely to become for more scientific and objective than formerly" (Van Horn; 1979:689).

"Ratio analysis is a widely used tool of financial analysis. It is defined as systematic use of ratio interprets the financial statement so that the strengths and weakness of a firm as well as its historical performance and current condition can be determined" (Khan and Jain; 1996:60).

"Ratio analysis satisfies the interests of investor creditors, government, institutions, and other to form their opinions for enabling them to have guideline towards effective decision making" (Shrestha;1980:255).
"Ratio analysis is one of the most commonly used techniques in the analysis of financial statement and evaluation of managerial performance. The analysis points out the problems. If there are any areas of business operation and provided a basis to recommend corrective actions. There are many parties who often refer to financial ratio in order to keep track of their investment performance or for some other reasons of their interest"(Pradhan;1992:35).
"Financial analysis involves the use of various financial statement the first is the balance sheet, which represents a snapshot of firms financial position at a moment in time and next is the income statement that depicts a summary of the firms profitability over time"(Van Horne and Wachowiez;1997:120).

"Ratio analysis which relates balance sheet and income statement items to one another permits the charting of the firm's history and the evaluation of its present position. It also allows the financial manager to anticipate relations of investors and creditor and thus to gain insight how attempts to acquire fund are likely to be received" (Weston and Brigham; 1980:160).

The following are the some important financial ratios to analysis the financial
Performance of selected banks:

(i) Liquidity Ratio

A liquidity ratio measures the ability of the firm to meet its current obligations. In fact, analysis of liquidity need the preparation of cash budgets and cash and funds flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity a firm should ensure that it doesn't suffer from lack of liquidity, and also that it doesn't have excess liquidity. The failure of company to meet its obligation due to lack of sufficient liquidity, will result in poor creditworthiness, loss of creditors‟ confidence, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad; idle assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

(ii) Leverage Ratio

The short-term creditors, like bankers and suppliers of raw materials, are more concern with the firm's debt-paying ability. On the other hand, long-term creditors, like debenture holders, financial institutions etc., are more concerned with the firm's long-term financial strength. In fact, a firm should have a strong short as well as long-term financial position. To judge the long-term financial position of the firm, financial leverage, or capital structure ratios are calculated. These ratios indicate mix of debt and owners" equity in financing the firm's assets. The process of magnifying the shareholders return through the use of debt is called financial leverage or financial gearing or trading on equity.

(iii) Activity Ratio

Activity ratios are concerned with the measuring of efficiency in assets management. This ratios are employed to evaluate the efficiency with the bank manages and utilizes funds. These ratios are also called turnover ratios because they indicate the speed with which the assets are being converted or turned over into sales.

(iv) Profitability Ratio

A company should earn profits to survive and grow over a long period of time. Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate output of the company, and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of the profits. The profitability ratios are calculated to measure the operating efficiency of company. Besides management of the company, creditors and owners are also interested in the probability of the firm. Creditors want to get interest and repayment of principal regularly only when the company earns enough profits.

(v) Credit Ratio

Credit ratios are calculated in order to measure the credit position of the banks. It shows what portion of collected deposits are used to make credit and remain cash and bank balances to make immediate payments.

2.2 Review of Journal and Article

Some journals and article are reviewed as below:-

Diamound and Rajan (2005), in "Liquidity shortage and Banking Crises" concluded that how liquidity shortage and solvency problem in banks interact and how each can caused the others. Interestingly, the possibility of the contagion of banking failures arises precisely because of the structure of banks to deals with a commitment problem; they finance illiquid assets with demandable claims. But if deposits cannot be made perfectly state, contingent this structure can cause or exacerbate a liquidity shortage when depositors losses are unavoidable, each depositors demands payments. This can force banks to foreclose on loans that otherwise would soon produce real liquidity.

Krishna, Ritchken and Thomas (2005), "*Monitoring and Controlling Bank Risk: Does Risky Debt Help*" concluded that whether risky debt issued by Banks and Holding companies (BHCs) enhances risk monitoring and helps control risk taking. In theory if investors accurately understand changes in a firm's condition and incorporate their assessment promptly into the prices of risky debt issued by a firm, then changes in credit spreads should provided useful information on how firm- specific risks have changed. In this way, risky debt may be less likely to adopt risk strategies in first place, because if they take excessive risks, debt prices may reflect the risk taken by the firm and make borrowing costlier for the firm. This is the preventing influence benefit of risk debt that serves to control risk taking.

Boyd and Nicolo (2005), in *" The Theory of Bank Risk Taking and Competition Revisited"* explained that when confronted with increasing competition moral hard is exacerbated and bank intentionally take on more risk, shown that a positive relationship between the number the bank competitors and risk seeking is fragile. In particular it makes an enormous difference when one allows for the existence of loan markets and requires that there be the same number of banks competing for both deposits and for loan. They assumed that borrowers entirely determine project risk conditional on the loan rate set by banks. In effects bank a raised portfolio problem and transform it into a contracting problem with moral hard. Without structure, banks use increasing market power to raised loan rates and when confronted with increased funding cost, borrowers optimally choose higher risk projects.

Pant (2006), in *"Nepal Membership in WTO and Financial Service Sector"* explained that Globalization and Liberalization have flounced across the world no longer it is choice but reality. A financial service is the key sector that undermines global economic growth and plays a major role in the development of infrastructure for trade in goods and services. Liberalization of trade in goods and services, when undertaken in conjunction with transparent and strong regulatory regimes, benefits countries in many ways, with this said, there is mammoth proportion to gain for Nepal from the liberalization of the financial sector. But insurgency and the political instability have raised the risk for foreign investors to invest in the country. Risk rating of Nepal is at the highest degree.

Pradhan (2006), in *" Opportunities and Challenges on WTO Accession in Insurance and Banking and Financial Services in Nepal"* explained that Nepal is scheduled to open its banking sector to foreign competition by 2010 A.D. Banking community needs to accepts the challenges and be prepared to enter into global market with proper strategic plan.

In order to grab the opportunities, banking sector need to explore geographical comparative advantage for providing financial services globally. International financial center could be established and explored. Similarly, in order to strengthen them domestic financial institutions and to expand the business, merger, acquisition, management contracts, technical service and management agreement can explore. Regional, bilateral and multilateral integration have already created foundation for global integration which needs to be continuously strengthened in the future too.
The key integration today is to accept fair competition and achieve development benefit. Therefore, the banking industry should be prepared to accept the challenges concerned and explore the opportunities contained there in by enhancing capital.

Norris (2007), in *"Be Cautious While Licensing a New Foreign Bank"* studies about the possible impact of foreign banks setting up their branches here said if proper regulations are not made by Nepal Rasta Bank, then the Nepali banks stand to lose a lot. Banks have been assuming that when foreign banks come in, they will only be interests in wholesale lending. But if the right rules are not set in place, nothing will stop foreign bank, going into the retail sector. They might do bank going into the retail sectors. They might do it just to kill off competition and monopolies' the Nepali retail sectors which is profitable given the number of bank making profit in retail business currently. The solution suggested is to adopted policies to prohibit foreign banks from entering the retail sector.

2.3 Review of Thesis

Masters degree students have accomplished studies on various aspects of commercial and development banks. Before this study, several thesis works have been carried out by various student regarding the various aspect of banks such as financial performance, lending policy, investment policy, interest rate structure, resources mobilization,, capital structure etc. some of the relevant findings of the research works for study are presented below:

Kumar Bhattarai (2005), *concluded his master thesis on "A Comparative Study of Financial Performance of Nepal SBI Bank Limited and Everest Bank Limited"* had a objective to examine and evaluate the performance of two joint venture bank.

Major findings of the study are given below:

- Total deposit, total investment, loan and advance are net worth have been growing in faster pace in Nepal SBI Bank Limited.
- The growth rate of net worth has been growing in faster in Everest Bank Limited. This means the net profit of Everest Bank Limited exceed than that of Everest Bank Limited.
- Everest Bank Limited had high growth rate of earning per share and market value per share.

Arun Darshandhari (2005) conducted his master thesis on *"Financial Performance Analysis of Everest Bank Limited"* had major objectives which are listed below:-

- To evaluate the earning generating capacity
- To analyze the liquidity, turnover and profitability of the Everest Bank Limited

Similarly, the major findings of the study are given below:-

- The current ratio of the bank over five year is 1.03 times on a average.
- The margin for safety for customers has not been maintained satisfactorily.
- The average of cash and bank balance to current assets ratio is 14.26 percent that indicates that the cash and bank balance proportion with respect to the current assets is moderate.
- The ratios for loan and advance to current assets have been lent to the customers as loan and advances.
- The share of fixed deposit is high in the total deposit, which may be termed as favorable one from viewpoint of liquidity.
- Cash and bank balance has been maintained properly against anticipated calls of its depositors.
- In general the Liquidity position of the bank is good enough to meet the short term obligation.
- Operating efficiency of the bank is fair enough.

- Interest earned in comparison to total assets is not fair enough; this might be the reason that the bank has average operating profit.
- Interest paid to total assets is relatively low which is good from the view point of profitability.
- Net profit earned in comparison to total assets and total deposit is relatively low.

Basnet, (2005), has made a study on, " *A Comparative Study on Financial Performance Between the Commercial Banks*." The main objective of the study is to examine the financial performance of SBI bank and NBBL bank. The other objective are;

- To study the liquidity position of both banks.
- To analyze the lending position of both banks.
- To examine marketability position and the efficiency ratio of SBI bank and NBBL bank.

His major findings are;

- The analysis of liquidity position of these commercial banks shows different position. The current ratio measures only total rupees worth of current assets and total rupees worth of current liabilities, i.e. it indicates the availability of current assets in rupees for every one rupee of current assets than current liabilities. The average current ratio of SBI (1.05) is greater than that of NBBL (0.98). Therefore, the liquidity position of SBI bank is in normal standard and NBBL is also trying to gain that position.
- From the analysis of turnover of these two banks, NBBL has better turnover than SBI bank in terms of loans and advances to total deposit ratio. Thus, NBBL has better utilization of resources in income generating activities, than SBI bank.
- The analysis of profitability of these two commercial banks is also different. The overall calculation seems to be better for NBBL. Though certain ratio like dividend per share, dividend payout ratio etc better for SBI Bank. The writer has also conduced that earning per share of NBBL is better than that of SBI bank.

Kasaju, (2006), has conducted a study on, " *A Comparative Study on Performance Analysis of Top Five Commercial Banks of Nepal.*" The main objective of the study is to analyze and compare liquidity, profitability, stability and market value position among the top five commercial banks. The other specific objectives are;

- To trace out the trend of loan and advances.
- To find out the relationship between deposits and loans & advances, and deposits and net profit.
- To analyze the trend of profit and dividend distribution.

His majors' findings are;

- EBL and NIBL have been getting lower net profit out of total income with comparison to all the banks.
- EBL comparatively fails to maintain operating ratio on total assets whereas NIBL did best. HBL, EBL and NIBL have been suffering from ineffectively using the total fund. so, they are getting lower return than SCBNL and NABIL.
- All top five commercial banks have been earning sufficient interest income on loan and advances. It means they have been high utilizing the loan and advances.
- NABIL has been providing comparatively greater cash dividend on share capital in a consistency manner too. SCBNL and NIBL have been providing lower cash dividend in inconsistency manner. SCBNL has been providing dividend on share capital comparatively greater than other banks in a consistency manner.
- NABIL has also been providing better dividend in a consistency manner to some extent too. As a lower average, NIBL has not provided dividend on share capital. NABIL shows greater inconsistency too.

Rajendra Baskota (2006) conducted his master's thesis on "*Analysis of Financial Performance of Himalayan Bank Limited*" has main objective to examine the financial statement of the bank and analyzed them to see the financial soundness.

Major findings of the study are given below:

- The bank had utilized their resource in proper order in profit generation sectors. Therefore, there is no doubt that banking has been operating smoothly and succeeds in becoming the pillars of economic system of the country.
- The bank has direct contribution to the economic field which includes high amount of the corporate tax paid by it, good dividend to the shareholder and employment to the qualified personals in order to make them equipped with all the technical knowledge of banking.

Gokul Bahadur Saud (2006), conducted his master thesis on" *A Study of Financial Performance of Selected Commercial Bank in Nepal (Himalayan Bank, Nepal Bangladesh Bank and Everest Bank)"* had a main objectives to evaluate the trends and growth of loan, investment and total deposit patterns.

Major findings

Sample banks have gain normal position of different financial ratio. Lower liquidity position and highly leveraged capital structure gives sample banks more profitability position. In case of earning capital and utilization of profit researcher come into the following conclusion.

- Himalayan Bank has performed better in terms net profit during the study period. All of these three sample banks are able to earn above 1 percent on total asset and to mobilize deposit properly.
- In case of dividend all sample banks are not able to pay regular dividend to its stockholder. However they are maintaining its earning per share above its value.
- Regarding earning per share of all sample banks is not able to retain its earning per share on its previous level. The researcher concluded that during the study period trend line shows the decreasing pattern of net income after tax.

Suchita Joshi (2006), concluded her master's thesis on "*Financial Performance of Joint Venture Banks in Nepal with reference to Everest bank limited."* Had objectives to evaluate liquidity, profitability, capital structure, turnover, and cost effectiveness and growth position of Everest Bank Limited.

Major findings,

- The liquidity position of Everest Bank Limited is efficient.
- Everest Bank Limited cannot maintain the convenient standard of current ratio of 2:1.
- The saving deposit of bank increasing trend as compared to fixed deposit.
- Everest Bank Limited has used higher proportion of debt in their capital structure.
- Everest Bank Limited is not able to maintain the capital Adequacy ratio as directed by Nepal Rastrya Bank Limited.
- Everest Bank Limited is maintaining its interest coverage ratio.

Mr. Milan Sadula (2007), in his thesis entitled "Financial *Performance of Commercial Banks and Returns to Investors: With special reference to BOK, EBL, SCBNL, NIBL and NABIL"* has pointed out following objectives:

- To evaluate Liquidity position of these Banks.
- To analyze comparative financial performance of these banks.
- To study comparative position of selected banks.
- To offer a package of suggestion to improve the financial performance.

Major findings of this study are as follows:

- Commercial Bank except SCBNL and NABIL are not maintaining constant DP Ratio, It is recommended to maintain a constant DP Ratio so as to have the confidence of general shareholders.
- Net income of SCBNL is the highest and that of BOK is lowest during the study period. SCBNL has highest EPS and that of BOK is the lowest. SCBNL and NABIL are continuously paying the dividend maintaining higher DP Ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.

Mr. Pramod Upreti,(2007), in his thesis entitled "*A Comparative Study of Financial Performance of NIBL, HBL, SCBL and EBL*", has pointed out following objectives:

- To study the present of the four joint venture banks
- To do the comparative study about the financial performance of these banks with regard to-their profitable liquidity, efficiency and capital structure.
- To provide recommendation and suggestion on the findings to improve financial performance of these banks.

Major findings of the study are as follows:

- Among all the sample banks, HBL has the lowest ratio and EBL has not mobilized its assets into profit generating projects.
- SCBNL has been successful in earning more net profit by the proper use of its available assets.
- EBL with the highest ratio has been successful in generating more interest by the proper use of its available assets.
- EBL and HBL seem to have held more cash and bank balance rather than other commercial banks

Mr. Om Prakash Aryal (2008), in his thesis entitled *"Financial Performance of EBL"*, has pointed out following objectives:

- To analyze the financial indicators of the bank such as liquidity ratio, leverage, capital structure and profitability ratio.
- To examine the trend of income and expenditure of EBL.
- To find the future trend of total deposit, loan & advances and net profit.

Major findings of the study are as follows:

- EBL couldn't maintain conventional standard of 2:1 but it seems to be satisfactory.
- Cash and bank balance to the current and saving deposit ratio seems to be inconsistent.
- Interest coverage ratio seems to be lower in all five years of study period.
- EBL has been efficiently utilized its deposit on loan and advance which is depicted by loan & advance to total deposit ratio.
- Performing assets to total assets ratio showed that EBL has funded total assets for income generation purpose.
- EBL is efficiently utilized the creditor's fund.
- Interest earned to total assets ratio was very low through out the study period.
- Office expenses to total income ratio remained moderate.
- Deposit & net profit, performing asset & net profit, total deposit and loan & advance and total deposit & investment is positively correlated at significant level.
- The trend analysis of total deposit, loan & advances and net profit shows increasing trends.

Raju Pandey (2009), in his thesis entitled *"A Comparative Analysis of Financial Performance of NABIL Bank Ltd, Investment Bank Ltd and Standard Chartered Bank Ltd"*, has pointed out following objectives:

- To evaluate the liquidity position to measure the strength of financial performance of selected banks.
- To evaluate the activity and operation with reference to mobilization of the collected funds.
- To evaluate the earning and profitability position of selected banks.
- To identify the relationship between total deposit and total investment.

- To identify the relationship between interest earned and operating profit.

Major findings of the study are as follows:

- The current ratio of all samples banks i.e. NABIL Bank, NIBL and SCBNL is greater than 1 but NABIL bank has the highest current ratio. It means NABIL bank's solvency position is better than NIBL and SCBNL.
- The cash and bank balance of NIBL with respect to total deposit is more liquidity than other sample banks.
- Among all the sample banks, NIBL has the lowest ratio of net profit to total assets.
- NIBL has used more percentage of its total deposits into loan and advances than other sample banks.
- Earning per share of SCBNL has the highest than other selected joint venture banks.
- NIBL and SCBNL have positive coefficient of correlation between net profit and total deposit but NABIL bank has negative coefficient of correlation.
- Loan and advances of each bank have increased trend but average growth of NABIL bank is higher than other selected joint venture bank.

2.4 Research Gap

The above reviewed literature provides the researcher the bases and inputs for this study. This study tries to fill the gap not covered by previous studies and will be helpful for the further studies.

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge. This is required to make the study meaningful and positive. There has been lots of article published related to financial performance of Pashupati Developmet Bank Ltd... But the individual firms may have its own strategy for business. In such a case comparative study may mislead the researcher. So, this is the exclusive study of PDBL. While reviewing other studies on financial performance analysis related to signal company the researcher found that only last few years data are used but in this study data are used from its established date.

CHAPTER – III
RESEARCH METHODOLOGY

3.1 Introduction

Research in common sense represent to a search for knowledge. It can be defined as a scientific and systematic search for information on a specific topic. In fact, research is an art of scientific investigation. From Advance Learner's Dictionary of Current English 'a careful investigation or inquiry especially through search for new facts in any branch of knowledge.'

Research is systematized effort to gain new knowledge. It is the manipulation of things, to extend, correct or verify knowledge, whether that knowledge aids in construction of theory or in the practice of an art." Some people consider the research as a movement, a movement from the known to unknown. The scientific purpose may be academic (i.e. a problem of theory) or applied (i.e. problem of practice) or both.

"Research Methodology is a way to systematically solve the research problem. It may understand as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by researcher problem along with logic behind them" (Kothari; 1990;10).

3.2 Research Design

Research design means drawing an outline of planning or arranging details and in an economic, efficient and relevant manner before the data collection and data analysis. It is a process of making decisions before the situation arises in which the decision has to be carried out. It guided the researcher to progress in the right direction in order to achieve the goal. So, the research design is to be made efficiently in advance.

"Research design is like philosophy of life no one is without one, but some people are more aware of theirs and thus able to make more informed and consistent decisions"(Maxwell;1996:34).

3.3 Nature and source of Data

In the study researcher used secondary data. All data need for the study of investment, profit, deposits and so on are directly taken from the balance sheet and profit and loss account of Pashupati Development Bank Ltd.'s annual report.

According to the need and objectives, all the secondary data are compiled, processed and tabulated in time series. In order to judge the reliability if data provided by the banks and other sources, they were complied with annual report of auditor.

3.4 Population and Sample

All those people or objects concerned within the content of a particular research problem which the researcher wants to study is said to be population. Similarly the small part of observation drawn from the population under purpose of study which represents the whole characteristics of the study is called sample.

In this study whole development banks are population and the researcher choose Pashupati Development Bank Ltd. as a sample bank. It is not possible to study all the data related with all banks of Nepal. There are so many commercial and development banks in our country and their stock are traded actively in the stock market. So the financial analysis of Pashupati Development Bank Ltd. is compared with the performance of same bank for different periods.

3.5 Methods of Analysis

In this study, the researcher used various financial, statistical and accounting tools to find out the problems of the study. The analysis of data will be done according to pattern of data available.

The calculated results are tabulated under different heading. Then they are compared with each other to interpret the result.

3.5.1 Financial Tools

Financial tools are very important to acquire information about the financial performance of the business. This helps to find out strength and weakness of the business from the financial data provided by the business organization. The ratio analysis is the important tool for scanning the financial performance of the firm. The ratio analysis is the relation between two accounting figure which are expressed mathematically. The various tools which are used to study the financial position of the PDBL are listed below:-

- Liquidity Ratio: - It measures the adequacy of the firm's cash resources to meet it's near- term cash obligation. This includes current ratio, cash and bank balance to current and saving deposit ratio, cash and bank balance to total deposit ratio, and investment in government securities to total deposit.
- Long term debt and solvency analysis: - it examines the firm's capital structure in terms of the mix of its financing sources and the ability of the firm to satisfy its long term debt and investments obligation. This includes loan and advance to total deposit ratio, loan and advance to fixed deposit ratio, loan and advance to saving deposit ratio, and total investment to total deposit ratio.
- Activity analysis: - It evaluates the levels of output generated by the assets employed by the firm. It primarily measures the extent of asset management in the firm. This includes return on total assets, return on total deposits ratio, total interest expenses to total interest income ratio, interest earned to total assets ratio, office expenses to total income ratio, and staff expenses to total income ratio.
- Assets quality ratio: - It measures the turnover of economic resources in terms of quality. Only the investment is not of great significance but the return from them with minimum default in payment by debtors is significant. A firm may be in state of enough profit but unable to meet liabilities. Assets quality ratios are intended to measure the quality of assets contained by the bank. This includes loan loss provision to total income ratio, loan loss to total deposit ratio, loan loss coverage ratio.

3.5.2 Statistical Tools

Various statistical tools related to this study will be drawn out to make the conclusion more reliable according to the available financial data. For this following statistical tools are used.

3.5.2.1 Karl Pearson's Coefficient of Correlation (r)

Correlation analysis is a statistical tool can used to describe the degree to which one variable is linearly to another. The coefficient of correlation measures the degree of relationship between two sets of figures. In its study simple coefficient of correlation is used to determine the relationship of different variable. The data related to profit investment and deposit over the different periods are tabulated and their relationship with each other is drown out. Its value lies between 1 to -1, this tools is used for measuring the intensity or the magnitude of linear relationship between two series. It measures correlation coefficient between two variables. This tool is used for measuring the intensity or the magnitude of linear relationship between two variables X and Y is usually denoted b ‘r’ can be obtain as.

$$\mathbf{r} = \frac{\mathbf{N}\Sigma XY - \Sigma X \Sigma Y}{\sqrt{N\Sigma X^2 - (\Sigma X)^2}\ \sqrt{N\Sigma Y^2 - (\Sigma Y)^2}}$$

Where,

N = No. of observation in series X and Y

ΣX = Sum of observation in series X

ΣY = Sum of observation in series Y

ΣX^2 = Sum of squared observation in series X

ΣY^2 = Sum of squared observation in series Y

ΣXY = Sum of the product of observation in series X and Y

r = correlation of coefficient value lies between -1 to +1

r =+1 perfectively positively correlated

r =-1 perfectively negative correlated

3.5.2.2 Probable Error of Correlation Coefficient

The probable error of correlation coefficient is denoted by P.E. which tests the reliability of the calculated value of ‘r’. if r be the calculated value of ‘r’ from the sample of ‘n’ pair of observations, then P.E. is defined by;

$$P.E = 0.6745\ \frac{1-r^2}{\sqrt{n}}$$

It is used to interpret whether calculated value of ‘r’ is significant or not.

- If r< P.E, it is insignificant. So, perhaps there is no evidence of correlation.
- If r>6P.E, it is significant.

3.5.2.3 Trend Analysis

Trend analysis is very useful and commonly applied tool to forecast future event in quantitative term on the basis of tendencies in the dependent variable in the past period. Straight line trend implies that irrespective of seasonal, cyclic and irregular fluctuation the trend value increases or decreases by absolute amount per unit of time. The linear trend values from a series in arithmetic progression.

Mathematically,
$Y = a + b X$
Where,
Y = value of dependent variable
A = y intercept
b = slope of trend line
X = value of the independent variable i. e. time

Normal equations fitting above are
$\Sigma Y = Na + b\,\Sigma X$
$\Sigma XY = a\,\Sigma X + b\,\Sigma X^2$
Since $\Sigma X = 0$

$$a = \frac{\Sigma Y}{N} \qquad b = \frac{\Sigma XY}{\Sigma X^2}$$

CHAPTER IV
DATA PRESENTATION AND ANALYSIS

The main objective of this study is to draw a vital conclusion of PDBL as mentioned earlier in chapter one. This chapter deals with the analysis and interpretation of data according to the research methodology to attain the objective of this study. During analysis data gathered from various sources have been inserted in tabular form. Using financial and statistical tools the data have been analyzed.

4.1 Ratio Analysis

Ratio analysis is the numerical relationship between any two variables of financial statements, which should serve some meaningful purpose. Ratios are expressions of logical relationships between items in the financial statements. The goal of such analysis is to determine the efficiency and performance of the firm's management as reflected in the financial records and reports. It gives the researcher a way making meaningful comparisons of a firm's financial data at different points in the time and with other firm.

The technique of ratio analysis is considered as significant tool for studying the financial stability, liquidity, profitability of the firm. It has been used to evaluate the financial health, operating result and growth of the sample bank.

4.1.1 Liquidity Ratio

Liquidity ratio measures the firm's ability to meet its short term obligation and shows the short term financial strength. It also refers the solvency of the firm's overall financial position. The following current ratio, Cash and Bank Balance to Current &Saving Deposit ratio and Cash &Bank Balance to Total Deposit ratio are used to measure the liquidity position of the firm.

4.1.1.1 Current Ratio (CR)

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

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Where, current assets = Cash and bank balance + money at call or short Notice + loans and advances+ investment in government securities + interest receivable+ debtors + bills purchased

Current liabilities = Bills payable + Deposit+ tax provision + staff bonus + bank overdraft + accrued expenses

Table 4.1.1.1
Current Ratio

Amounts in "000"

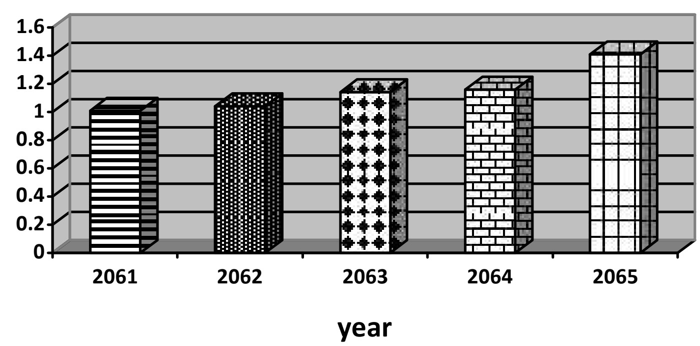
Year	Current Assets	Current Liabilities	Current Ratio
2061	484,910	477,536	1.01
2062	144,026	138,129	1.04
2063	186,671	163,447	1.14
2064	217,791	187,599	1.16
2065	437,288	310,410	1.41

Source: Annual report of PDBL

Table 4.1.1.1 shows the current ratio of PDBL. This analysis covers five of year's data from the year 2061 to 2065. Current assets remained 1.01, 1.04, 1.14, 1.16 and 1.41 respectively for the 2061, 2062, 2063, 2064 and 2065. Current assets include cash balance, bank balance, investment, money at call, investment in government securities, loan and advance and bills purchase and other liabilities. Similarly, current liabilities include deposit liabilities, bills payable and other liabilities. Data of Table 4.1.1.1 is plotted in the figure 4.1.1.1

Figure 4.1.1.1

Current Ratio



Source: Table 4.1.1.1

Figure 4.1.1.1 shows current ratio is below than standard 2:1. However looking at the nature of assets and liabilities of the development banks the ratio below the standard may be accepted as satisfactory.The current ratio seems to be in increasing pattern which shows the improving position. Low ratio is not good for the bank. The bank may loose their goodwill incase of delay in the payment of liabilities. Bank will have the problem in winning the confidence of current depositors and short term lenders.

4.1.1.2 Cash and Bank Balance to Current and Saving Deposit ratio

This ratio is used to measure the bank's ability to meet the current obligation to its current and saving depositors. This ratio examines the banks liquidity capacity on the basis of its most liquid assets i.e. cash and bank balance. This ratio reveals the ability of the banks to make the quick payment of its customer deposits. This ratio is computed by dividing cash and bank balance by current and saving deposit. It is calculated by following formula;

$$\text{Cash \& Bank Balance to Current \& Saving Deposit ratio} = \frac{\text{Cash and bank Balance}}{\text{Current and Saving Deposit}} \times 100$$

A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposits and vice versa. Both higher and lower ratios are not desirable. The reason is that if bank maintains higher ratio of cash it will lose some earning from the investment of that liquid cash. In contrast, if bank maintains low ratio of cash, it may fail to make the payment for presented cheques by its customer. So, sufficient and appropriate cash reserve should be maintained properly.

Table 4.1.1.2

Cash and Bank Balance to Current and Saving Deposit ratio

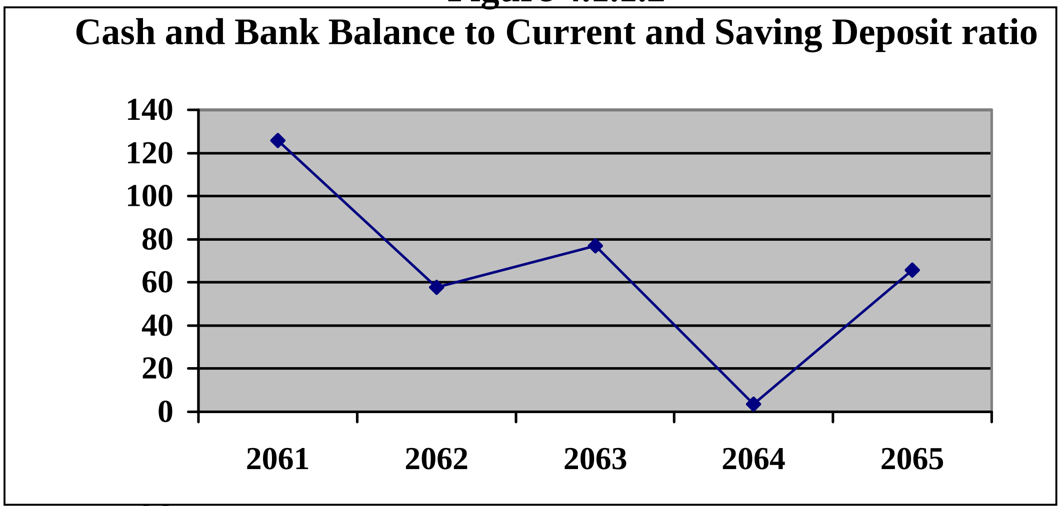
Amount in "000"

Year	Cash and Bank Balance (Rs.)	Current and Saving Deposit (Rs.)	Ratio%
2061	8,840	7,028	125.78
2062	19,214	33,210	57.86
2063	39,485	51,359	76.88
2064	2,990	85,003	3.52
2065	118,288	180,281	65.61

Source: Annual report of PDBL

Table 4.1.1.2 shows cash and bank balance to current and saving deposit ratio. The cash and bank balance to current and saving deposit ratio remained 125.78%, 57.86%, 76.88%, 3.52%, and 65.61% respectively for the year 2061, 2062, 2063, 2064 and 2065. The data of table 4.1.1.2 is plotted in the figure 4.1.1.2.

Figure 4.1.1.2



Source: Table 4.1.1.2

Figure 4.1.1.2 shows the graph of cash and bank balance to current and saving deposit ratio. In first year, 2061 the data shows higher ratio than all others, it may be because of more cash and bank balance in that year. This year bank keeps more balances than current and saving deposit. Similarly, in the year 2062 and 2063 there was increasing trend of the ratio percentage but in year 2064 it remained at lowest percentage than all other years. Again in the 2065 it increased.

There was so much fluctuation in the ratio percentage. The bank always should maintain correct balance with relation to deposits. PDBL gave its existence in the banking market in the year 2061. PDBL was in the banking market just from five year so due to this it is not able to maintain correct level of balance.

4.1.1.3 Cash and Bank Balance to Total Deposit ratio

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors.

A high ratio indicates the sound ability to meet their daily cash requirement of their customer deposit and vice versa. Both higher and lower ratio is not desirable. The reason is that if bank maintain higher ratio of cash it has to pay interest on deposit but couldn’t invest its cash or current assets in a profitable areas. So, it may lose opportunity to earn something. In the opposites, if a bank maintain low ratio of cash, it may fail to make the payment for presented checks by its customer. So, sufficient and appropriate cash reserve should be maintained properly.

This ratio is computed by dividing cash and bank balance by total deposits. This can be presented as follows.

$$\text{Cash and Bank Balance to Total Deposit ratio} = \frac{\text{Cash and bank Balance}}{\text{Total Deposit}}$$

Table 4.1.1.3
Cash and Bank Balance to Total Deposit ratio

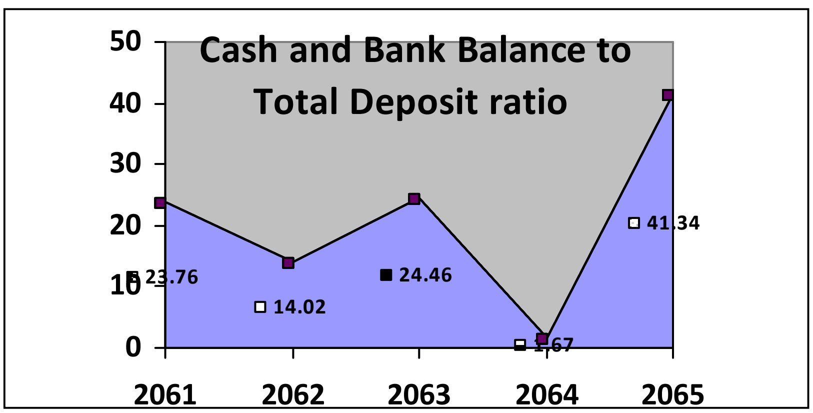
Amount in "000"

Year	Cash and Bank Balance (Rs.)	Total Deposit (Rs.)	Ratio%
2061	8,840	37,212	23.76
2062	19,2144	137,013	14.02
2063	39,4855	161,456	24.46
2064	2,990	178,549	1.67
2065	118,288	286,123	41.34

Source : Annual report of PDBL

Figure 4.1.1.3 shows cash and bank balance to total deposit ratio. The ratio remained 23.76%, 14.02%, 24.46%, 1.67% and 41.34% respectively for the year 2061, 2062, 2063, 2064 and 2065. The data of Table 4.1.1.3 is plotted in the figure 4.1.1.3.

Figure 4.1.1.3



Source: Table 4.1.1.3

Figure4.1.1.3 shows the graph of cash and bank balance to total deposit ratio. In a year 2065 the ratio is 41.34 which indicate strong liquidity position and in a year 2064 the ratio is just 1.67 which indicates liquidity position. There were so many fluctuations. For the bank too low liquidity is not good. Goodwill of the bank may reduce if it becomes to fulfill withdrawal of short term debt. Similarly, high liquidity also push bank in the loss sector due to idleness of the high interest bearing funds.

4.1.2 Assets Management Ratio\Assets Management Ratio

Activity ratio evaluates the efficiency with which the firm manages and utilizes its assets. This ratio is also known as turnover ratio. It measures how effectively the company employs the resources at its command. Funds are created by the collection of shares as well as debt from the owner, creditor and outside parties. Those funds are invested in procuring various kinds of assets to generate profits or income. Activity ratios are the indicators of a concern with regard to its efficiency in assets management hence they are often referred as efficiency ratio. This ratio measures the efficiency of the firms. Loan and Advance to Total Deposit Ratio, Loan and Advance to Fixed Deposit Ratio, Loan and Advance to Saving Deposit Ratio, Investment to Total Deposit Ratio, Performing Asset to Total Assets Ratio and Performing Asset to Total Debt Ratio are used to measure efficiency of the PDBL.

4.1.2.1 Loan and Advance to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to utilize the outsider's fund (Total deposit) for the profit generating purpose on the loan and advance. Generally, a high ratio reflects higher efficiency to the utilization of funds and vice versa. It can be calculated by dividing the amount of loans and advances by the amount of total deposits, which is given below:

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

Where, Loan and advance refers to loans, advances, bills purchased and bills discounted and total deposit refers to total of all kinds of deposits.

Table 4.1.2.1
Loan and Advance to Total Deposit Ratio

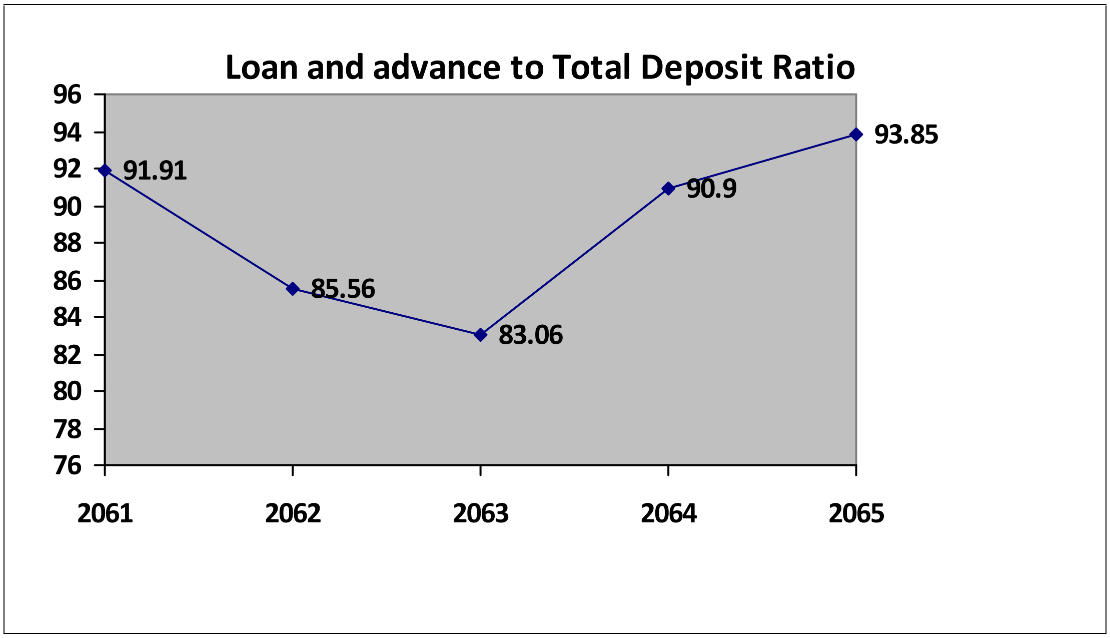
Amount in "000"

Year	Loan and Advance (Rs)	Total Deposit (Rs)	Ratio%
2061	34,203	37,212	91.91
2062	117,227	137,013	85.56
2063	134,112	161,456	83.06
2064	162,298	178,549,	90.9
2065	268,523	286,123	93.85

Source: Annual report of PDBL

Table 4.1.2.1 shows the ratio of loan and advance to total deposit. The loan and advances to total deposit ratio remained 91.91%, 85.56%, 83.06%, 90.9% and 93.85 for the year 2061, 2062, 2063, 2064 and 2065 respectively. The data of Table 4.1.2.1 is plotted in the Figure 4.1.2.1.

Figure 4.1.2.1



Source: Table 4.1.2.1

Figure 4.1.2.1shows fluctuation throughout the study periods. The ratio indicates of total deposit invested in loans and advances. In the year 2065, 93.85 % of the total deposit was invested in loan and advance which is higher of the study period. In the year 2063, the ratio is 83.06 % which is lowest of the study period. Too low ratio gives a picture of the idle cash in bank.

4.1.2.2 Loan and Advance to Fixed Deposit Ratio

This ratio indicates how many times the amount is used in loans and advances in comparison fixed deposits. Fixed deposits are the main source of deposit of bank and are high interest bearing obligation whereas loan and advances are major sources of investment to generate income for the banks. This ratio is calculated by dividing the amount of loans and advances by fixed deposits that is given below.

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

Table 4.1.2.2
Loan and Advance to Fixed Deposit Ratio

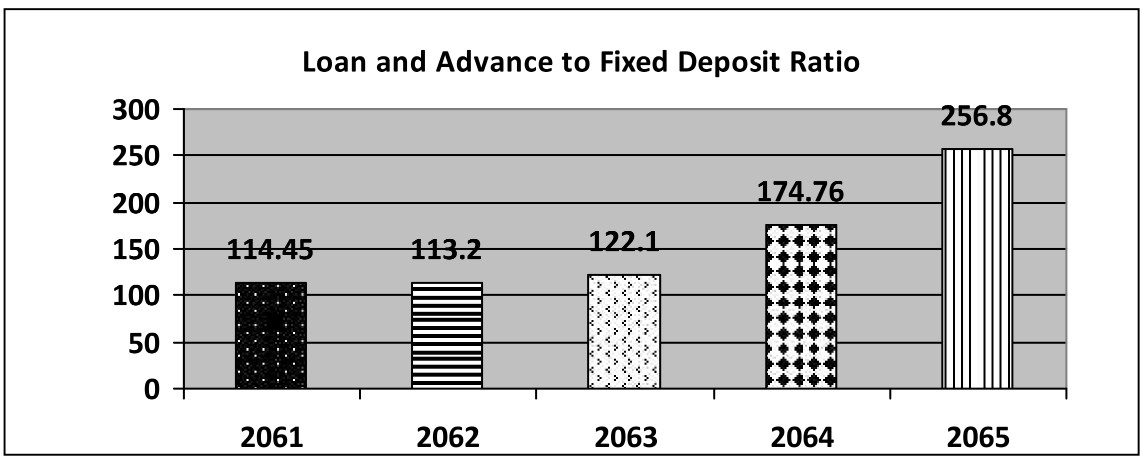
Amount in "000"

Year	Loan and Advance (Rs.)	Fixed Deposit (Rs.)	Ratio%
2061	34,203	29,885	114.5
2062	117,2277	103,556	113.2
2063	134,112	109,841	122.1
2064	162,298	92,868	174.8
2065	268,523	104,564	256.8

Source: Annual report of PDBL

Table 4.1.2.2 shows the ratio of loan and advance to fixed deposit. The ratio of PDBL remained 114.45%, 113.20%, 122.10%, 174.76%, and 256.80% for the year 2061, 2062, 2063, 2064 and 2065 respectively.

Figure 4.1.2.2
Loan and Advance to Fixed Deposit Ratio



Source: Table 4.1.2.2

Figure 4.1.2.2 revealed an increasing trend of loan and advance to fixed deposit ratio from the year 2062 to2065. Above calculated ratios shows that PDBL has good performance and efficiency utilized the high interest bearing fixed deposits in the loan and advance. Fixed deposit are main source of deposit of the bank and high interest bearing obligation whereas loan and advance are major sources of investment to generate income for the development banks.

4.1.2.3 Loan and Advance to Saving Deposit Ratio

Loan and advance to saving deposit ratio measures what extent saving deposit has been turned over to loan and advances. This ratio is calculated by dividing loans and advance to saving deposit as follows:

$$\text{Loan and Advance to Saving Deposit} = \frac{\text{Loan and Advance}}{\text{Saving Deposit}}$$

Table 4.1.2.3
Loan and Advance to Saving Deposit Ratio

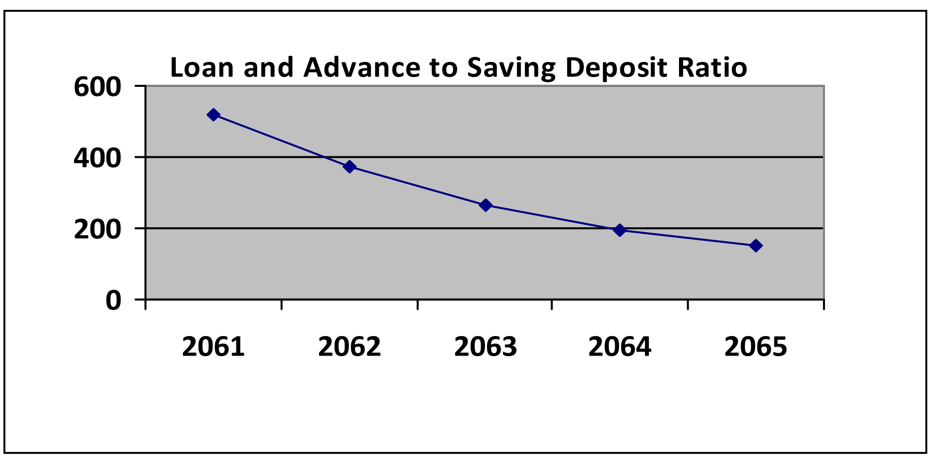
Amount in “000”

Year	Loan and Advance (Rs.)	Saving Deposit (Rs.)	Ratio%
2061	34,203	6,579	519.88
2062	117,227,	31,625	370.68
2063	134,112	50,329	266.47
2064	162,298	84,359	192.39
2065	268,523	179,842	149.31

Source: Annual report of PDBL

Table 4.1.2.3 shows the ratio of loan and advance to saving deposit. The ratio of PDBL remained 519.88%, 370.68%, 266.47%, 192.39%, and 149.21% for the year 2061, 2062, 2063, 2064 and 2065 respectively. The Table 4.1.2.3 is plotted in the figure 4.1.2.3.

Figure 4.1.2.3
Loan and Advance to Saving Deposit Ratio



Source: Table 4.1.2.3

Figure 4.1.2.3 shows decreasing trend of the ratio. In year 2061 the ratio was519.88% and in 2065 it comes down to 149.21%. It indicates insufficient utilization of saving deposit in a form of loans and advances because the calculated ratio is more than standard. So the bank should follows different policy to increase the amount of loan and advance to saving deposit which generate the income and reduce the interest cost.

4.1.2.4 Investment to Total Deposit Ratio

Investment to total deposit ratio shows how efficiently the major resources of the bank have been mobilized. Investment consists of investment in Government Treasury bills, development bonds, company shares and other types if investment. This ratio is calculated by dividing investment by total deposit collected in bank as follows:

$$\text{Investment to Total deposit} = \frac{\text{Investment}}{\text{Total deposit}}$$

Table 4.1.2.4
Investment to Total Deposit Ratio

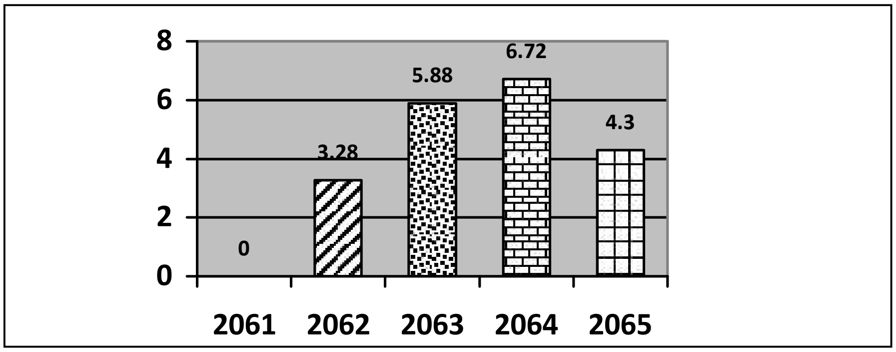
Amount in "000"

Year	Investment(Rs.)	Total Deposit(Rs.)	Ratio%
2061	-	37,212	-
2062	4,500	137,013	3.28
2063	9,500	161,457	5.88
2064	12,000	178,549	6.72
2065	12,300	286,123	4.3

Source: Annual report of PDBL

Table 4.1.2.4 shows the ratio of investment to Total Deposit which remained 0%, 3.28%, 5.88%, 6.72%, and 4.30% for the year 2061, 2062, 2063, 2064 and 2065 respectively. Table 4.1.2.4 is plotted in the figure 4.1.2.4.

Figure 4.1.2.4
Investment to Total Deposit Ratio



Source: Table 4.1.2.4

Figure 4.1.2.4 shows irregular pattern of investment to total deposit ratio during five years of study period. During first year (2061) there was zero investment because that year was staring period for the bank. The ratio shows very less investment pattern which may not sufficient to bear payable interest of deposit. Anyway PDBL invested more in the year 2064 (60.72%) during the five year study period. Bank should invest certain percentage of deposit in different sector. If bank is unable to invest in proper way it increases interest expenses, idle fund do not gives any return to bank.

4.1.2.5 Performing Asset to Total Assets Ratio

This ratio measures what portion of assets has been funded for income generation. Performing assets includes loans and advances, bills purchased and discounted investment and money at call or short notice. This ratio is calculated by dividing performing assets by total assets as follows:

$$\text{Performing Asset to Total Assets Ratio} = \frac{\text{Investment}}{\text{Total Assets}}$$

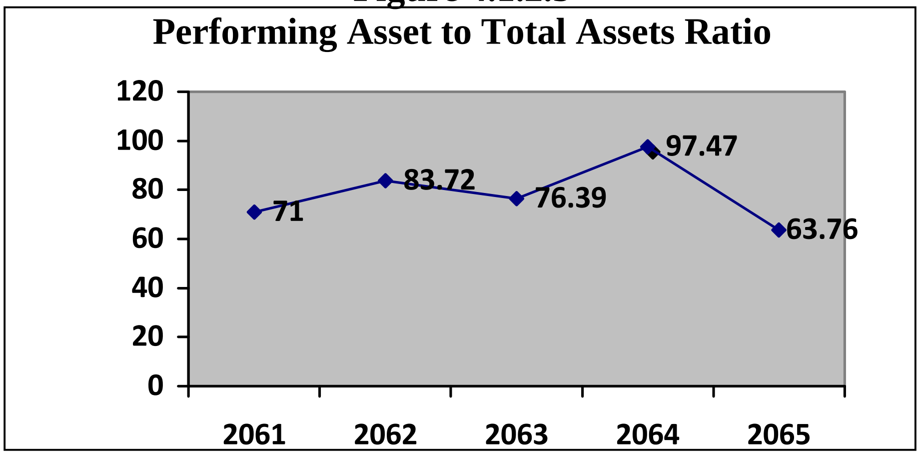
Table 4.1.2.5
Performing Asset to Total Assets Ratio (Amount in "000")

Year	Performing Asset(Rs.)	Total Assets(Rs.)	Ratio%
2061	34,203	487,174	71.00
2062	121,727	145,389	83.72
2063	143,612	187,987	76.39
2064	214,148	219,712	97.47
2065	280,823	440,469	63.76

Source: Annual report of PDBL

Table 4.1.2.5 shows the ratio of performing assets to total assets. The ratio remained 71%, 83.72%, 76.39%, 97.47% and 63.76% respectively for the year 2061, 2062, 2063, 2064 and 2065. The data of Table 4.1.2.5 is plotted in the figure 4.1.2.5.

Figure 4.1.2.5



Source: Table 4.1.2.5

Figure 4.1.2.5 shows the tend line of performing assets to total assets ratio. PDBL had maintained high ratio through out the study period. Most of the bank's total assets have been funded for income generation. Higher ratio indicates excellent utilization of assets that leads to sound profitability position of the bank. The PDBL had used its assets efficiently in the year 2064. It is also good during last year, 2065 (63.76%).

4.1.2.6 Performing Asset to Total Debt Ratio

The ratio shows the pattern of use of the fund collected from the outside. High ratio shows the success of the bank in utilization of creditors fund in productive areas. Low ratio shows idleness of the cost bearing resources.
The ratio is calculated by dividing performing assets to total debt as follows:

$$\text{Performing Asset to Total Assets Ratio} = \frac{\text{Investment}}{\text{Total Debt}}$$

Where total debt refers all short term and long term debt liabilities

Table 4.1.2.6

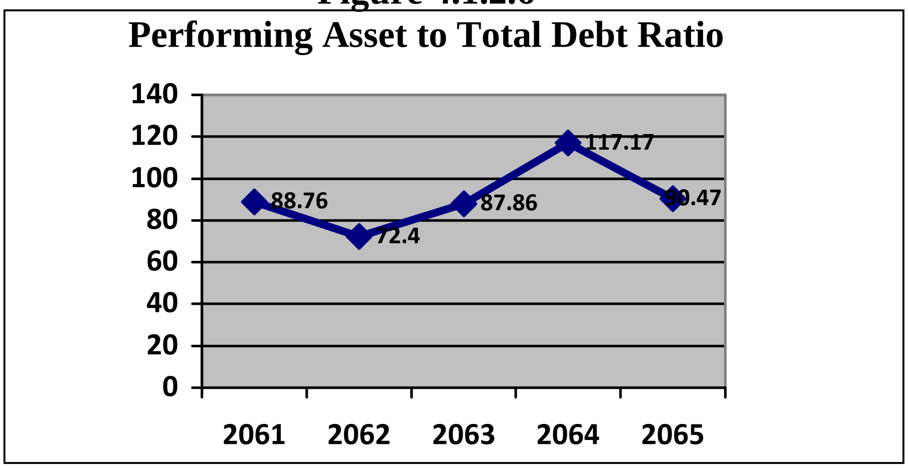
Performing Asset to Total Debt Ratio (Amount in "000")

Year	Performing Asset(RS)	Total Debt(Rs.)	Ratio%
2061	34,203	38,536	88.76
2062	121,727	138,129	88.13
2063	143,612	163,447	87.86
2064	214,148	187,569	114.2
2065	280,823	310,410	90.47

Source: Annual report of PDBL

Table 4.1.2.6 shows the ratio of performing asset to total debt which remained 88.76%, 88.13%, 87.86%, 117.17% and 90.47 % for the year 2061, 2062, 2063, 2064 and 2065 respectively. The Table 4.1.2.6 is plotted in the figure 4.1.2.6.

Figure 4.1.2.6



Source: Table 4.1.2.6

To generate income, bank should use the outside fund in proper way. This ratio shows bank efficiency of utilization of outsider's fund. Figure 4.1.2.6 shows that the Performing Assets to Total Debt Ratio fluctuated over the five years of the study period. In year 2064, PDBL had highest ratio (117.17%) and in year 2062 it has lowest ratio. High ratio indicates the success in utilizing the fund.

4.1.3 Profitability Ratio

Profitability ratios are measures of performance showing how much the bank is earning compared to its assets or equity. This ratio includes operating profit margin, net profit, return on assets and return on equity. Following profitability ratio are used to measure the performance of PDBL.

4.1.3.1 Return on Asset

This ratio measures the productivity of assets. It shows the relationship of net profit and total assets and determines how efficiently the total assets have been used by the management. This ratio evaluates the overall return on investment earned by the bank. Net profit refers to the profit after deduction of interest and tax. A total asset means the assets that appear in assets side of the balance sheet. It measures the efficiency of bank in utilization of the overall operation. Higher ratio shows the higher return on the assets used in business thereby indicating effective use of the resources available and vice versa. This ratio is calculated by dividing net profit after tax by total asset as follows:

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

Table 4.1.3.1

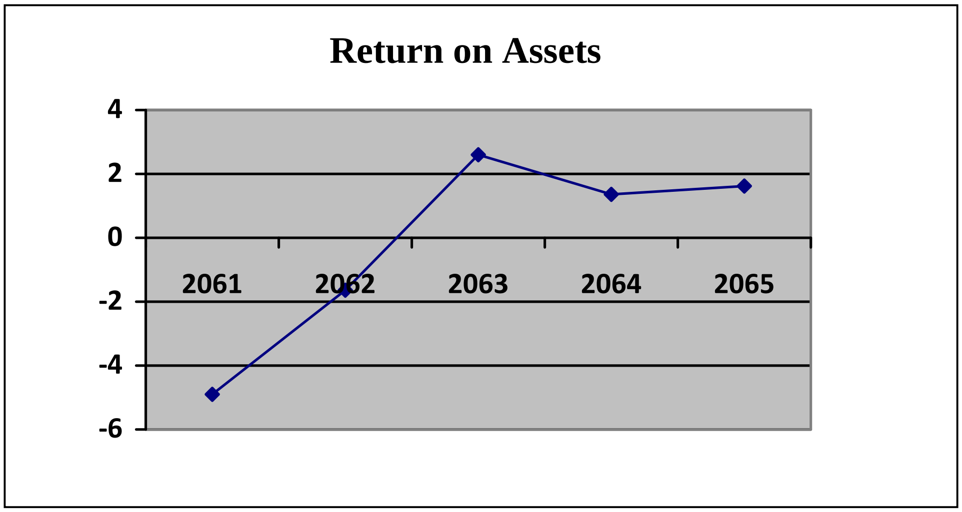
Return on Assets (Amount in "000")

Year	Return(RS)	Total Assets(Rs.)	Ratio%
2061	(2,362)	487,174	(4.90)
2062	(2,377)	145,389	(1.64)
2063	4,880	187,987	2.60
2064	3,002	219,712	1.37
2065	7,150	440,469	1.62

Source: Annual report of PDBL

Table 4.1.3.1 shows the ratio of return on assets which remained -4.90%, -1.645, 2.60%, 1.37% and 1.62% for the year 2061, 2062, 2063, 2064 and 2065 respectively. Table 4.1.3.1 is plotted in the Figure 4.1.3.1.

Figure 4.1.3.1



Source: Table4.1.3.1

Figure 4.1.3.1 shows the graph of Return on Total Assets ratio. The ratio remained negative in a year 2061 and 2062 after that the bank is able to earned profit so its ratio were in positive form. Its ratio fluctuated over five years of study period. Higher ratio indicates the success of management in over all operation. In 2063 PDBL has higher ratio which means successful year among the study period.

4.1.3.2 Return on Total Deposit

Return on total deposit shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ratio indicates strong profitability position and vice versa. The ratio is calculated by dividing net profit after tax by total deposit as follows:

$$\text{Return on Total Deposit} = \frac{\text{Net Profit After Tax}}{\text{Total Deposit}}$$

Table 4.1.3.2

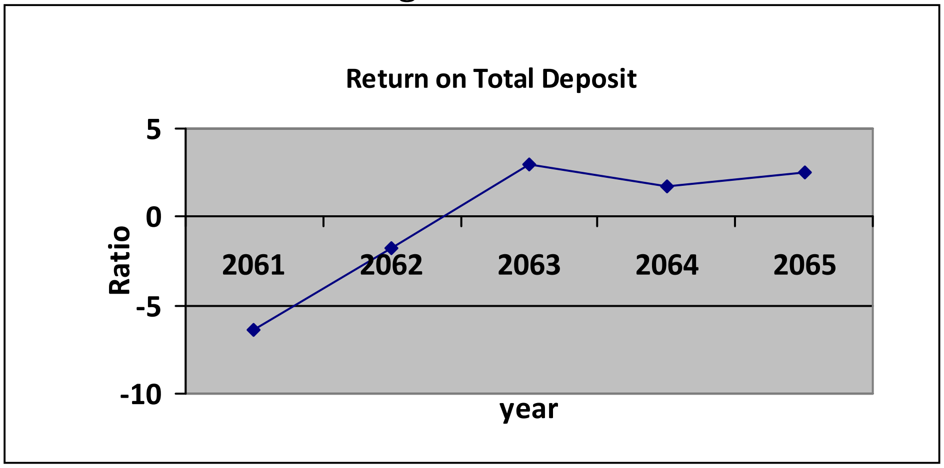
Return on Total Deposit (Amount in “000”)

Year	Return(RS)	Total Deposit(RS)	Ratio%
2061	-2,362	37,212	-6.35
2062	-2,377	137,013	-1.74
2063	4,880	161,457	3.02
2064	3,002	178,549	1.68
2065	7,150	286,123	2.5

Source: Annual report of PDBL

Table 4.1.3.2 shows the ratio of return on total deposit. The ratio remained -6.35%, -1.745, 3.02%e, 1.68% and 2.50% for the year 2061, 2062, 2063, 2064 and 2065 respectively. Table 4.1.3.2 is plotted in the figure 4.1.3.2.

Figure 4.1.3.2



Source: Table4.1.3.2

Figure 4.1.3.2 shows the graph of the ratio of return on total deposit. Year 2063 shows higher ratio (3.02%) similarly, in year 2061 the data shows lower ratio (-6.35&).Return on Total deposit Ratio fluctuated over five years of study period. It measures the contribution of Net Profit after Tax to Total Deposit. From the year 2061 to2063 the ratio increased then decreased, again in last year 2065 the ratio seems to be increased.

4.1.3.3 Total Interest Expense to Total Interest Income Ratio

A total interest expense consists of interest expenses incurred for deposits, borrowing and loans taken by the bank. Total interest income includes interest income received from loans, advances, cash credit, overdraft and government securities, inter bank and other investment. Lower ratio is favorable from profitability point of view.

This ratio is calculated by dividing total interest expenses by total interest income as follows:

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

Table 4.1.3.3
Total Interest Expense to Total Interest Income Ratio

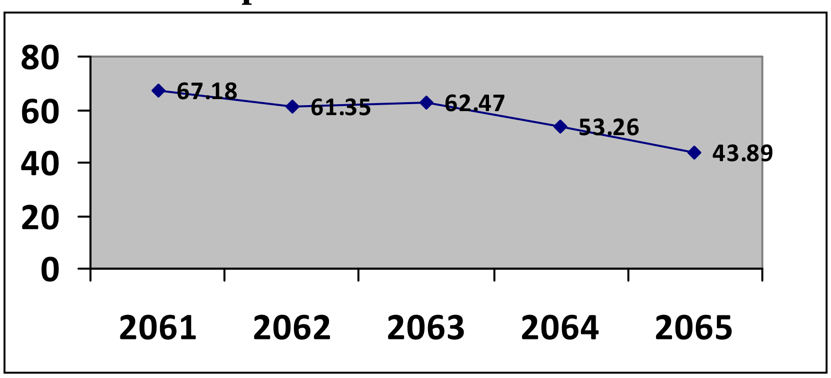
(Amount in "000")

Year	Total Interest Expense (RS)	Total Interest Income (Rs.)	Ratio%
2061	440	655	67.18
2062	8,079	13,169	61.35
2063	10,767	17,235	62.47
2064	10,411	19,547	53.26
2065	12,638	28,794	43.89

Source: Annual report of PDBL

Table 4.1.3.3 shows the ratio of total interest expenses to total assets. The ratio remained 67.18%, 61.35%, 62.47%, 53.265 and 43.89% for the year 2061, 2062, 2063, 2064 and 2065 respectively. Banks main source of income is interest incomes. The data of Table 4.1.3.3 is plotted in the Figure 4.1.3.3.

Figure 4.1.3.3
Total Interest Expense to Total Interest Income Ratio



Source: Table 4.1.3.3

Figure 4.1.3.3 shows the graph of the ratio calculated in table 4.1.3.3. Total Interest Expenses to Total Interest Income of PDBL remained in decreasing tend over the five years of study period. It indicates that PDBL earned more interest income than interest expenses. PDBL is more successful in later year in allocating interest bearing debt in profitable sectors.

4.1.3.4 Interest earned to Total Assets Ratio

This ratio shows the earning capacity of bank on its total assets (working fund). This exhibits the extent on which banks are successful in mobilizing their working funds to generate income as much as possible. The higher ratio indicates higher earning power of the bank on its total assets. Total interest earned is calculated by adding the total income from loans, advance cash, credit overdraft and government securities etc. This ratio is calculated by dividing interest income by total assets as follows:

$$\text{Total Interest Earned to Total Assets Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Assets}}$$

Table 4.1.3.4

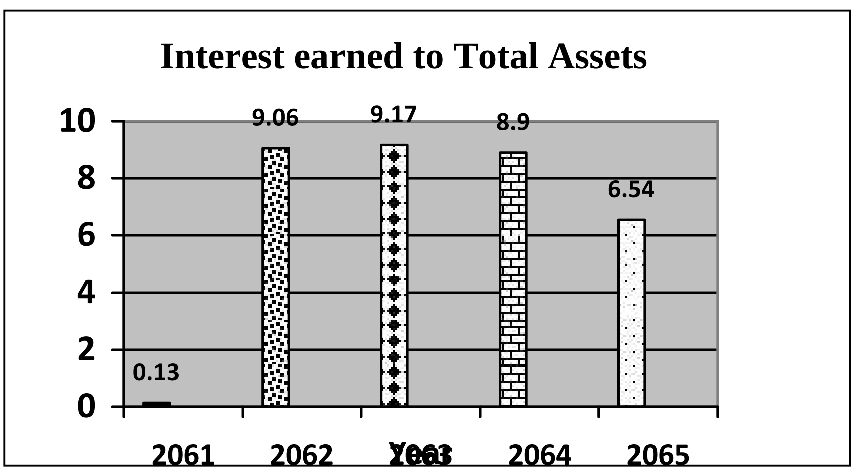
Interest earned to Total Assets Ratio (Amount in”000”)

Year	Total Interest Earned (Rs.)	Total Assets (Rs.)	Ratio%
2061	655	487,174	0.13
2062	13,169	145,389	9.06
2063	17,235	187,987	9.17
2064	19,547	219,712	8.9
2065	28,794	440,469	6.54

Source: Annual report of PDBL

Table 4.1.3.4 shows the ratio of interest earned to total assets. Ratios of PDBL remained 0.13%, 9.06%, 9.17%, 8.90% and 6.54% respectively in the year 2061, 2062, 2063, 2064 and 2065. In the year 2063 the ratio was higher and in the year 2061 the ratio was lower. The table 4.1.3.4 is plotted in Figure 4.1.3.4.

Figure 4.1.3.4



Source: Table 4.1.3.4

Figure 4.1.3.4 shows bar diagram of interest earned to total assets ratio. The higher ratio indicates that the bank is able to utilize its assets for income generating purpose properly. In the year 2061, PDBL was able to utilize its assets for income generating purpose because that year was the starting period of PDBL in banking sector. But in other years PDBL seemed to be in satisfactory level.

4.1.3.5 Staff Expenses to Total Income Ratio

Staff expenses include the salary and allowances contribution to provident fund and gratuity funds, staff training expenses and other allowance and expenses made to staff. It measures the proportion of income spent for the staff whose contribution is great significance in the success of the bank.

This ratio is calculated by dividing staff expenses by total income as follows.

$$\text{Staff Expenses to Total Income Ratio} = \frac{\text{Staff Expenses}}{\text{Total Income}}$$

Table 4.1.3.5

Staff Expenses to Total Income Ratio (Amount in”000”)

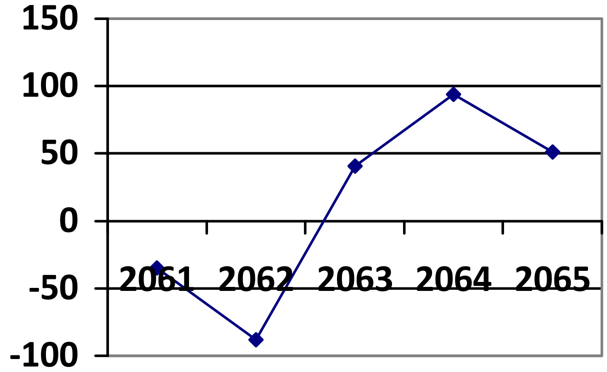
Year	Staff Expenses (Rs.)	Total Income (Rs.)	Ratio%
2061	818	-2,362	-34.65
2062	2,097	-2,377	-88.2
2063	1,991	4,880	40.79
2064	2,813	3,002	93.68
2065	3,643	7,150	50.95

Source: Annual report of PDBL

Table 4.1.3.5 shows the ratio of staff expenses to total income. Total income expanded for staff remained -34.65%, -88.2%, 40.79%, 93.68%, and 50.95% for the year 2061, 2062, 2063, 2064 and 2065 respectively. Staff expenses of PDBL include salary, allowances, provident fund contribution, training, uniform, medical insurance, gratuity and other staff expenses .Table 4.1.3.5 is plotted in the Figure 4.1.3.5.

Figure 4.1.3.5

Staff Expenses to Total Income Ratio



Source: Table 4.1.3.5

Figure 4.1.3.5 shows trend line of staff expenses to total income ratio. PDBL has higher ratio in a year 2064 and lowest in 2062. Low ratio is good for the bank point of view but staff always expected different kinds of facilities. So lower ratio may have negative effect in staff's morale which in turn profit will decrease and high ratio directly affects the profitability of bank.

4.1.3.6 Operating Expenses to Total Income Ratio

Office operation expenses consist expenses incurred house rent, water supply, electricity, repair, maintenance, legal expenses audit expense and other miscellaneous expenses made in course of operation. This ratio is calculated by dividing office operation expenses by total income as follows

$$\text{Operating Expenses to Total Income Ratio} = \frac{\text{Operating Expenses}}{\text{Total Income}}$$

Table 4.1.3.6

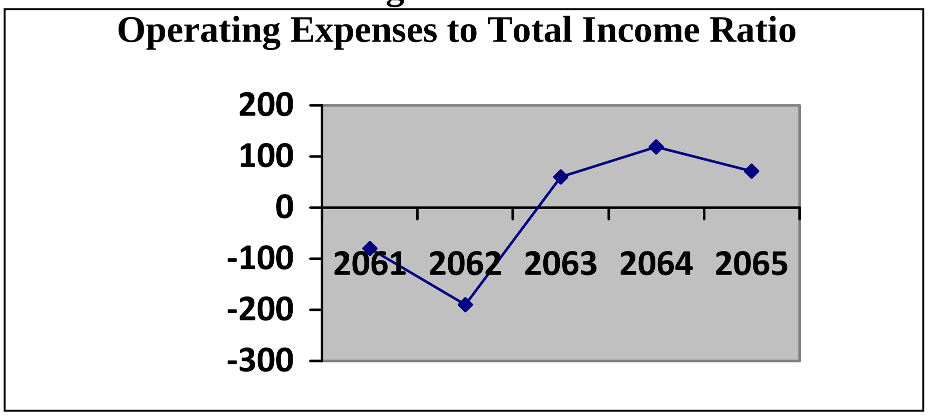
Operating Expenses to Total Income Ratio (Amount in "000")

Year	Operating Expenses(Rs.)	Total Income Ratio(Rs.)	Ratio%
2061	1,879	-2,362	-79.57
2062	4,508	-2,377	-189.63
2063	2,953	4,880	60.51
2064	3,572	3,002	118.98
2065	5,095	7,150	71.26

Source: Annual report of PDBL

Table 4.1.3.6 shows the ratio of operating expenses to total income ratio from the year 2061 to 2065. The ratio remained -79.57%, -189.63%, 60.5%, 118.98% and 71.26% for the year 2061, 2062, 2063, 2064 and 2065 respectively. Office operating expenses fluctuated over the study period.
Table 4.1.3.6 show high percentage; this means that PDBL was not earning properly to maintain its all expenses. Office expenses include rent, water and electricity, repair and maintenance etc. lower ratio is good for banking sector. Table 4.1.3.6 is plotted in Figure 4.1.3.6.

Figure4.1.3.6



Source: Table 4.1.3.6

Figure4.1.3.6 shows the graph of operating expenses to total income ratio. The trend line is negative till 2062 after that it seems to raise .There is high fluctuation in the ratio which is very clear from the graph.

4.1.4 Leverage Ratio

This ratio is also called solvency ratio or capital structure ratio. A firm should have strong short term as well as long term financial position. To judge the long term financial position of the firm, these ratios, helps to measure the financial contribution of owner and creditors comparatively. These ratios indicate the situation of the capital structure, which is calculated to measure the company’s ability of using debt for benefit of shareholders. Long term creditors like debenture holder, financial institution etc. are interested to the firm’s long term financial health, debt serving capacity and strength and weakness of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. In summary debt ratio tell us the relative’s proportions of capital contribution by creditor and owners.

4.1.4.1 Debt Equity Ratio

It is a test of long term solvency of the bank. Debt equity ratio measures the relative claims of creditors and owners against the assets of the bank. This ratio indicates the relationship between debt and equity i.e. outsider's funds and shareholders funds which are sometime called as external and internal equities. It is calculated to measure the extent of debt financing used in the business. Total debt consists of all interest bearing long term and short term debts. These include loans and advances taken from other financial institution, deposits carrying interest etc.

Share holders' equity includes paid up capital, reserves and surplus and undistributed profit. This ratio shows the mix of debt and equity in capital. Higher ratio shows that the creditor's claims are greater than those of owners. This brings inflexibility in the firm's operation due to increasing interference and pressures from the creditors. Low ratio implies a greater claim of owners than creditors. The ratio should be neither too high nor too low. The ratio is computed by dividing total debt by shareholder equity as follows:

$$\text{Debt Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholder's Equity}}$$

Table 4.1.4.1

Debt Equity Ratio (Amount in "000")

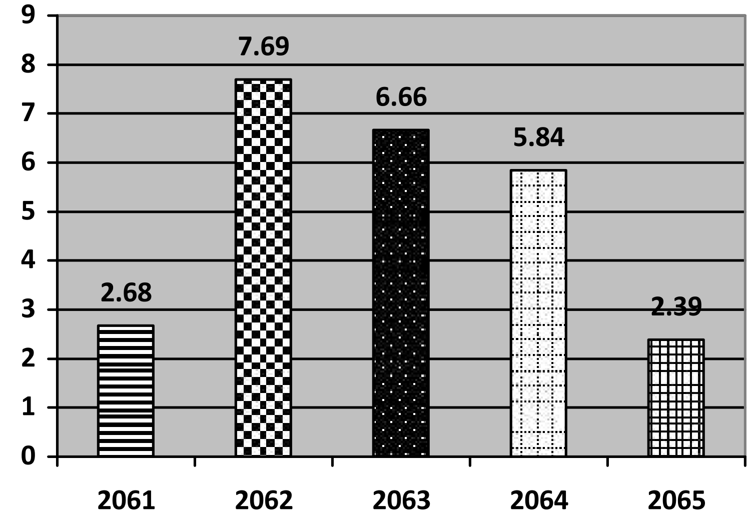
Year	Total Debt (Rs.)	Shareholder's Equity(Rs.)	Ratio(Times)
2061	38,536	14,362	2.68
2062	138,129	16,739	7.69
2063	163,446	24,541	6.66
2064	187,569	32,143	5.84
2065	310,410	130,059	2.39

Source: Annual report of PDBL

Table 4.1.4.1 shows that Debt Equity Ratio of PDBL which remained 2.68, 7.69, 6.66, 5.84 and 2.39 times for the year 2061, 2062, 2063, 2064 and 2065 respectively. The table 4.1.4.1 is plotted in figure 4.1.4.1.

Figure 4.1.4.1

Debt Equity Ratio



Source: Table 4.1.4.1

Figure 4.1.4.1 shows the bar diagram of debt equity ratio. This ratio shows PDBL has high portion of debt in capital structure in the study year 2062 but the ratio in 2065 it is very low among the study period.

4.1.4.2 Debt Assets Ratio

This ratio exhibits the relationship between creditors fund and owner capital. This ratio shows the proportion of outside fund used in financing total assets. It also provides financial safety to outside i.e. potential shareholder, depositor or investors. High debt ratio indicates higher financial risk as well as decreasing claims of outsider over the total assets of the firm. This ratio implies a finance company success in exploiting debt to more profitable areas. This ratio is presented as follows:

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

Where, total debt includes long term and short term interest bearing obligation which are loans and advances taken from other financial institution and deposits carrying interest i.e. saving deposit, fixed deposit and call deposit and total assets includes all types of current assets and fixed assets

Table 4.1.4.2

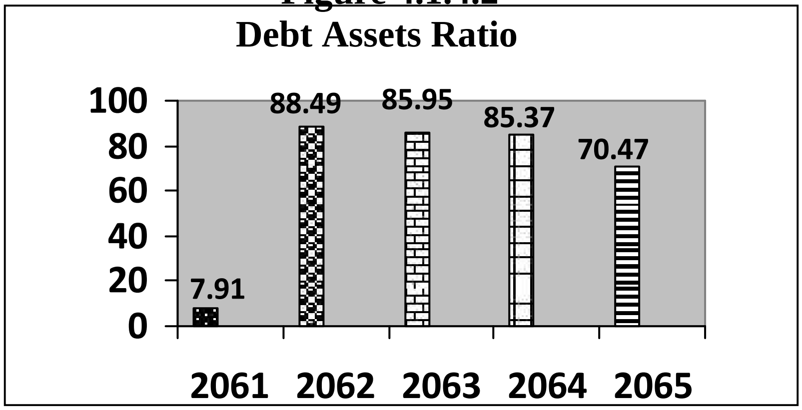
Debt Assets Ratio (Amount in "000")

Year	Total Debt (Rs.)	Total Assets(Rs.)	Ratio (%)
2061	38,536	487,174	7.91
2062	128,650	145,389	88.49
2063	163,446	187,987	86.95
2064	187,569	219,712	85.37
2065	310,410	440,469	70.47

Source: Annual report of PDBL

Table 4.1.4.2 shows the ratio of debt assets ratio. Debt Assets Ratio of PDBL remained 7.91%, 88.49%, 85.95%, 85.37% and70.47% for the year 2061, 2062, 2063, 2064 and 2065 respectively. The ratio shows larger portion of the bank's assets has been financed through outsider's fund. These ratios show the bank is following high risk strategy. Table 4.1.4.2 is plotted in figure 4.1.4.2.

Figure 4.1.4.2



Source: Table 4.1.4.2

Figure 4.1.4.2 shows the graph of debt assets ratio. From the graph it is clear that in the year 2062 debt assets ratio is highest and lowest is in the year 2061.

4.1.4.3 Interest Coverage Ratio

This ratio measures how much net income before interest and tax could decline and still coverage of total interest expenses. It is sometimes called as debt serving ratio. This ratio is developed with the expectation that annual operation earning can be considered a basic source of funds for debt service. The prospective debt holder often requires convenience in the loan arrangement spelling obligations. This ratio emphasizes the ability of the firm to generate enough income to cover interest expenses. This ratio is directly connected to the ability of the firm to pay interest.

This ratio is obtained by dividing net profit before deduction on interest and tax by interest expenses as follows:

$$\text{Interest Coverage Ratio} = \frac{\text{Profit before Interest and Tax}}{\text{Interest Expenses}}$$

Table 4.1.4.3

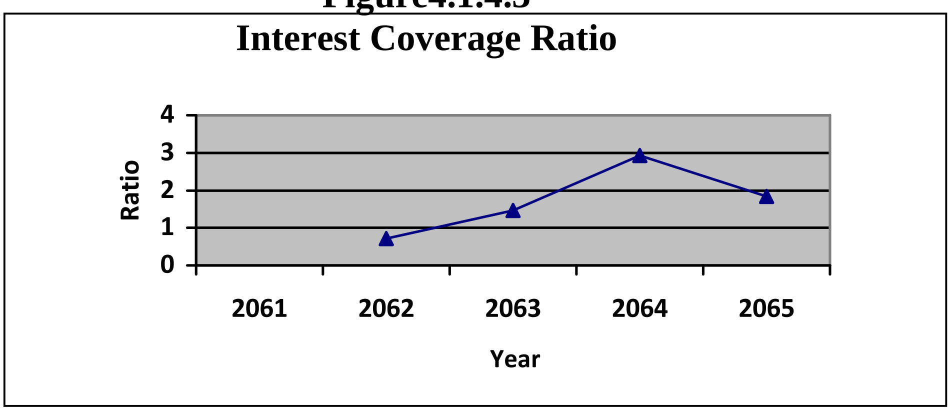
Interest Coverage Ratio(Amount in "000")

Year	Profit before Interest and Tax (Rs.)	Interest Expenses(Rs.)	Ratio(times)
2061	-1,922	440	-
2062	5,673	8,079	0.71
2063	15,712	10,767	1.46
2064	30408	10,411	2.92
2065	23,235	12,638	1.84

Source: Annual report of PDBL

Table 4.1.4.3 shows the interest coverage ratio. The ratio remained 0, 0.71, 1.46, 2.92 and 1.84 times for the year 2061, 2062, 2063, 2064 and 2065 respectively. A high ratio is a sign of low burden of the bank and lower utilization of borrowing capacity. Lower ratio indicates more use of debt for which interest is to be paid or insufficient operation. The data of table 4.1.4.3 is plotted in the figure 4.1.4.3.

Figure4.1.4.3



Source: Table 4.1.4.3

Figure 4.1.4.3 shows the trend line of interest coverage ratio. It is clear in the figure 4.1.4.3 that in the year 2061, there was no interest coverage ratio due to negative Profit before Interest and Tax and in other year (2062, 2063, 2064 and 2065) trend line shows the increasing trend.

4.2 Income and Expenditure Analysis

Bank is institution of depositing, lending, and exchanging and so on. For smoothly running of bank, it needs lot of income sources and so many heading on which it needs to expend in the right manner. For profit earning of the bank, income and expenditure plays vital role.

4.2.1 Income Analysis

Bank needs to analyze its income sources properly so that they can able to plan how much to expend, and in which heading to expend. The main sources of income are interest income, commission and discount, other income, foreign exchange fluctuation income etc. Researcher is not able to analyze foreign fluctuation (not given in the annual report of PDBL).

4.2.1.1 Interest Income Ratio

Interest income ratio shows how much percentage of total income is gained from interest income. For the banks interest income is the main source of income. This ratio is calculated by dividing total interest income by total income of the bank which is given as follows:

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

Table 4.2.1.1

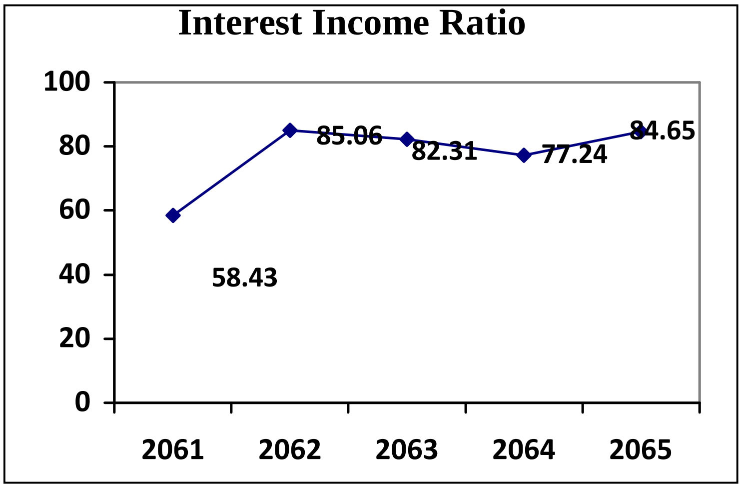
Interest Income (Amount in "000")

Year	Interest Income (Rs.)	Total Income(Rs.)	Ratio
2061	655	1,121	58.43
2062	13,169	15,482	85.06
2063	17,235	20,940	82.31
2064	19,547	25,308	77.24
2065	28,794	34,015	84.65

Source: Annual report of PDBL

Table 4.2.1.1shows the ratio of Interest income which remained 58.43%, 85.06%, 82.31%, 77.24%, and 84.65% for the year 2061, 2062, 2063, 2064 and 2065 respectively. Interest income dominated other income of the bank. Interest income is the main source of all type banks. It includes income from investment in government securities, interest on balance with other banks, money at call. The table 4.2.1.1is plotted in the figure 4.2.1.1.

Figure 4.2.1.1



Source: Table 4.2.1.1

Figure 4.2.1.1 shows the trend line of interest income ratio. In the year 2061, interest income ratio is very low that is just 58.43% and in the year 2062 it is very high that is 85.06%.

4.2.1.2 Commission and Discount Income

Commission and discount include income received as commission and discount from letter of credit, drafts, bank transfers, guarantee, selling share, remittance charge are other potential items of commission and discount.

Bank provides different services to their customer needs such as remittance facility, purchase and discount of bills of exchange, guarantees standing instructions, agency function for their services bank charge commission and discount to their clients. This ratio is calculated by dividing the commission and discount by total income of the bank which is given below.

$$\text{Commission and Discount Income} = \frac{\text{Commission and Discount}}{\text{Total Income}}$$

Table 4.2.1.2
Commission and Discount Income

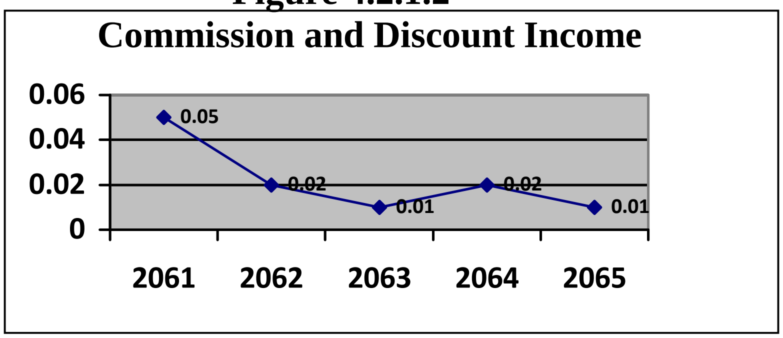
(Amount in "000")

Year	Commission and Discount(Rs.)	Total Income(Rs.)	Ratio(Times)
2061	56	1,121	0.05
2062	257	15,482	0.02
2063	181	20,940	0.01
2064	389	25,308	0.02
2065	368	34,015	0.01

Source: Annual report of PDBL

Table 4.2.1.2 shows Commission and Discount earned by PDBL which was 0.05, 0.02, 0.01, 0.02 and 0.01 respectively for the year 2061, 2062, 2063, 2064 and 2065. The table 4.2.1.2 is plotted in the figure 4.2.1.2.

Figure 4.2.1.2



Source: Table 4.2.1.2

Figure 4.2.1.2 shows the trend line of commission and discount income ratio. It is very clear in the graph that all years of the study period ups and down alternatively.

4.2.2 Expenditure Analysis

Cost have been occurred in reducing revenue are called expenses. This analysis shows the proportionate expenses under the different headings.

4.2.2.1 Interest Expenses

Bank has to pay interest on various types of deposits and loan taken from the outside parties, like other bank and financial institutions. Interest expenses are that type of expenses that every bank has to pay for its outsiders and creditor. Every bank has outsiders fund i.e. depositors which may be current, saving or fixed. Interest expenses ratio shows how much interest expenses with comparison to total expenses is spend. This ratio indirectly shows about how much fund are collected from the depositors.

This ratio is calculated by dividing the interest expenses by total expenses, which is given below:

$$\text{Interest Expenses} = \frac{\text{Interest Expenses}}{\text{Total Expenses}}$$

Table 4.2.2.1

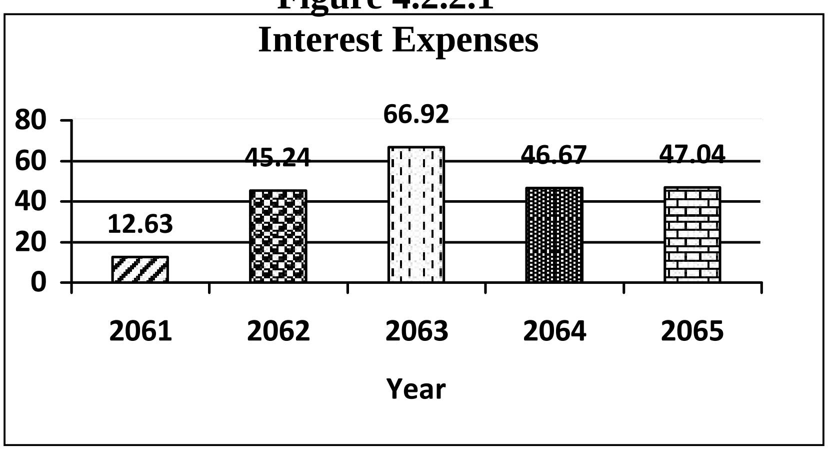
Interest Expenses (Amount in "000")

Year	Interest Expenses (Rs.)	Total Expenses (Rs.)	Ratio (%)
2061	440	3,483	12.63
2062	8,079	17,860	45.24
2063	10,767	16,090	66.92
2064	10,411	22,305	46.67
2065	12,638	26,866	47.04

Source: Annual report of PDBL

Table 4.2.2.1 shows the interest expense ratio which remained 12.63%, 45.24%, 66.92%, 46.67% and 47.07% for the year 2061, 2062, 2063, 2064 and 2065 respectively. Table 4.2.2.1 is plotted in the figure 4.2.2.1.

Figure 4.2.2.1



Source: Table 4.2.2.1

Figure 4.2.2.1shows the bar diagram of interest expenses. In the year 2063 its expenses seems to be higher which shows that, in year 2063 bank had collected more fund from the outsiders.

4.2.2.2Staff Expenses

Staffs are the wealth of an organization. They provides service to the customer in a return bank have to pay remuneration. Staff expenses include salary, allowances, P.F. contribution, training expenses, uniform, medical allowance, insurance; festival allowances etc. the staff expenses ratio is calculated by dividing staff expenses by total expenses, which is given below:

$$\text{Staff Expenses} = \frac{\text{Staff Expenses}}{\text{Total Expenses}}$$

Table 4.2.2.2

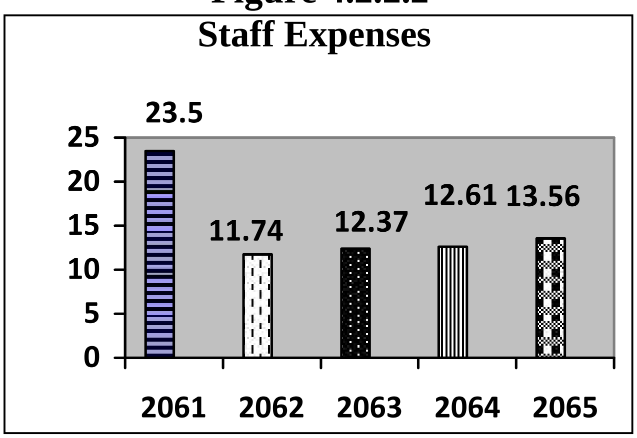
Staff Expenses (Amount in "000")

Year	Staff Expenses(Rs.)	Total Expenses(Rs.)	Ratio (%)
2061	818	3,483	23.5
2062	2,097	17,860	11.74
2063	1,991	16,090	12.37
2064	2,812	22,305	12.61
2065	3,642	26,866	13.56

Source: Annual report of PDBL

Table 4.2.2.2 shows the ratio of staff expenses. Staff expenses ratio of PDBL remained 23.5%, 11.74%, 12.37%, 12.61% and13.56 % respectively for the year 2061, 2062, 2063, 2064 and 2065. The table 4.2.2.2 is plotted in figure 4.2.2.2.

Figure 4.2.2.2



Source: Table 4.2.2.2

Figure 4.2.2.2 shows the graph of staff expenses ratio from the year 2061 to 2065.. Figure 4.2.2.2 shows in the year 2061 staff expenses seems more but in other years staff expenses pattern is similar.

4.2.2.3 Operating Expenses

Operating expenses includes rent, water supply and electricity, repair and maintenance, insurance premium, telephone, telex, office equipment, traveling expenses printing and stationary, newspaper, advertisement, meeting expenses and depreciation etc

$$\text{Operating Expenses} = \frac{\text{Operating Expenses}}{\text{Total Expenses}}$$

Table 4.2.2.3

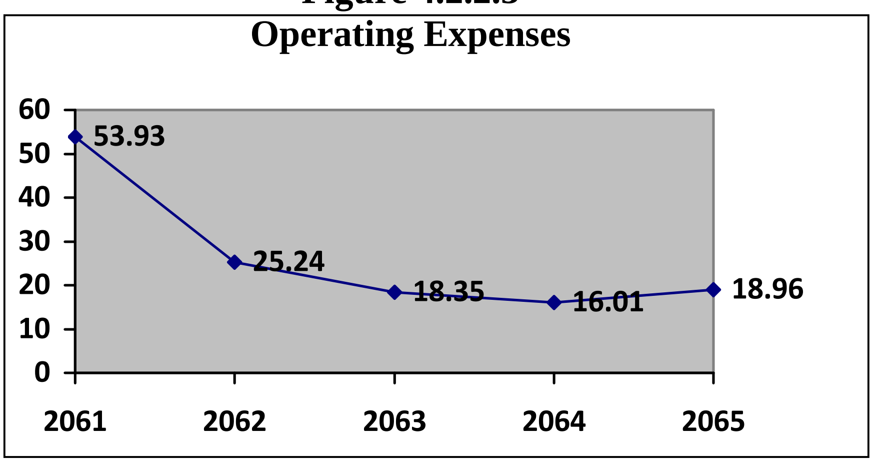
Operating Expenses (Amount in "000")

Year	Operating Expenses(Rs.)	Total Expenses(Rs.)	Ratio(%)
2061	1,879	3,483	53.96
2062	4,508	17,860	25.24
2063	2,953	16,090	18.35
2064	3,572	22,305	16.01
2065	5,095	26,866	18.96

Source: Annual report of PDBL

Table 4.2.2.3 shows operating expenses ratio with respect to total expenses. Operating expenses remained 53.96%, 25.24%, 18.35%, 16.01% and 18.96% for the year 2061, 2062, 2063, 2064 and 2065 respectively

Figure 4.2.2.3



Source: Table 4.2.2.3

Figure 4.2.2.3 shows the trend line of operating expenses ratio with respect to total expenses. In a year 2061, PDBL had high operating expenses i.e. 53.96% and lowest in a year 2064 was 16.01%. High operating expenses is not good for profit earning purpose. PDBL always should try to reduce operating expenses to increase profit.

4.2.2.4 Bonus facility

To increase staffs performance, organization should provide incentive to their staff. So the organization distributes certain portion of profit as bonus. To motivate staff, organization provides bonus. Since it is related to the profit, the researcher has analyzed bonus facility as expenses to the bank. This ratio is calculated by dividing bonus provided to the staff by total an expense, which is given below:

$$\text{Bonus facility} = \frac{\text{Bonus facility}}{\text{Total Expenses}}$$

Table 4.2.2.4
Bonus facility

Year	Bonus facility(Rs.)	Total Expenses(Rs.)	Ratio (%)
2061	-	3,483,053	-
2062	-	17,859,596	-
2063	-	16,090,217	-
2064	470,162	22,305,291	2.11
2065	1,059,600	26,865,689	3.94

Source: Annual report of PDBL

Table 4.2.2.4 shows that PDBL was unable to distribute bonus to its staff for three year 2061, 2062 and 2063 because that years, it had negative EBIT. Since bonus is related to profit, there were zero bonuses to its staff. But from 2064, bonus distribution seemed to be satisfactory because it was in increasing trend.

4.3 Statistical Tools

Statistical tools are very useful for analyzing different related topics. The researcher has used correlation analysis and trend analysis for the study.

4.3.1 Correlation Analysis

Correlation analysis is the statistical tool that we can use to describe the degree to which one variable is linearly related to other variables. Two or more variable are said to be correlated if change in the value of one variable appears to be related or linked with the change in other variables. In correlation analysis, one variable is treated as dependent and one or more variables are treated as independent.

4.3.1.1 Correlation Analysis between Total deposit and Profit

The correlation analysis between total deposit and profit shows the relationship between total deposit and profit. To find out positive and negative relation, correlation analysis is suitable.

Table 4.3.1.1
Correlation Analysis between Total deposit and Profit

Amount in'000'

Year	Deposit(X)	Net Profit(Y)	X^2	Y^2	XY
2061	37,212	(2,362)	1,384,732,944	5,579,044	(87,894,744)
2062	137,013	(2,378)	18,772,562,169	5,654,884	(325,816,914)
2063	161,456	4,880	26,068,039,936	23,814,400	787,905,280
2064	178,549	3,003	31,879,745,401	9,018,009	536,182,647
2065	286,123	7,150	81,866,371,129	51,122,500	2,045,779,450
	$\sum X$=800,353	$\sum Y$=10,293	$\sum X^2$ =159,971,451,579	$\sum Y^2$ =95,188,837	$\sum XY$ =2,956,155,719
Correlation coefficient (r)			0.8522		
Probable error P.E			0.0826		
6 ×P.E			0.4956		

Now,
Correlation Coefficient(r)

$$r = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (X)^2}\ \sqrt{n\sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{5 \times 2{,}956{,}155{,}719 - 800{,}353 \times 10{,}293}{\sqrt{5 \times 159{,}971{,}451{,}579 - (800{,}353)^2}\ \ \sqrt{5 \times 95{,}188{,}837 - (10{,}293)^2}}$$

$$r = \frac{6{,}542{,}745{,}166}{399{,}114.44 \times 19{,}235.34}$$

$$r = \frac{6{,}542{,}745{,}166}{7{,}677{,}101{,}952}$$

$$r = 0.8522$$

$$\text{Probable Error P.E} = 0.675 \times \frac{1-r^2}{\sqrt{n}}$$

$$= 0.675 \times \frac{1-(0.8522)^2}{\sqrt{5}} = 0.0826$$

Table 4.3.1.1 shows calculation of correlation coefficient between total deposit and net profit and shows that correlation coefficient of PDBL is highly positive. Its correlation coefficient and probable error remained 0.8522 and 0.0826 respectively. Correlation coefficient between total deposit and net profit was 0.8522, means it is almost range of 1, so it is perfectly positive correlation. Correlation Coefficient appeared greater than six times of probable Error (r>6P.E) i.e. 0.8522>0.4956 which means that relationship between total deposit and net profit is significant. This shows the net profit of PDBL increases almost to the same degree with increase in the amount of deposit.

4.3.1.2 Correlation Analysis between Investment and Profit

It is very necessary to know whether investment and profit change in the same degree or not which is possible only by calculating correlation between investment and profit.

Table 4.3.1.2
Correlation Analysis between Investment and Profit

Amount in'000'

Year	Investment (X)	Net Profit(Y)	X2	Y2	XY
2061	34,549	(2,362)	1,193,633,401	5,579,044	(81,604,738)
2062	125,247	(2,378)	15,686,811,009	5,654,884	(297,837,366)
2063	147,417	4,880	21,731,771,889	23,814,400	719,394,960
2064	179,463	3,003	32,206,968,369	9,018,009	538,927,389
2065	285,911	7,150	81,745,099,921	51,122,500	2,044,263,650
	$\sum X$ = 772,587	$\sum Y$ = 10,293	$\sum X^2$ = 152,564,284,589	$\sum Y^2$ = 95,188,837	$\sum XY$ = 2,923,143,895
Correlation coefficient (r)			0.8504		
Probable error P.E			0.0836		
6× P.E			0.5016		

Now,

$$\text{Correlation Coefficient(r)} = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^{2} - (X)^{2}}\ \sqrt{n\sum Y^{2} - (\sum Y)^{2}}}$$

$$r = \frac{5 \times 2,923,143,895 - 772,587 \times 10,293}{\sqrt{5 \times 152,564,284,589 - (772,587)^2}\ \ \sqrt{5 \times 95,188,837 - (10,293)^2}}$$

$$r = \frac{6,663,481,484}{7,835,438,752.07}$$

$$r = 0.8504$$

$$\text{Probable Error P.E} = 0.675 \times \frac{1-r^2}{\sqrt{n}}$$

$$= 0.675 \times \frac{1-(0.8504)^2}{\sqrt{5}}$$

$$= 0.0836$$

Table 4.3.1.2 shows calculation of Coefficient correlation between investment and net profit of PDBL and find out that the relation between them is high positive. Its Correlation and Probable Error remained 0.8504 and 0.0836 respectively. Correlation Coefficient appeared greater than six times of probable error(r>6P.E) i.e. 0.8504>0.5016, which indicates that the investment and net profit are highly positive correlated. The ratio shows that PDBL is able to invest its deposits in the profitable sectors.

4.3.1.3Correlation Analysis between Deposit and Investment

It is very necessary to know whether investment increase with the increase of deposit and vice versa. To find out the relationship between deposit and investment with respect to correlation is calculated in table 4.3.1.3.

Table 4.3.1.3

Correlation Analysis between Deposit and Investment

Amount in'000'

Year	Deposit (X)	Investment (Y)	X2	Y2	XY
2061	37,212	34,549	1,384,732,944	1,193,633,401	1,285,637,388
2062	137,013	125,247	18,772,562,169	15,686,811,009	17,160,467,211
2063	161,456	147,417	26,068,039,936	21,731,771,889	23,801,359,152
2064	178,549	179,463	31,879,745,401	32206968369	32,042,939,187
2065	286,123	285,911	81,866,371,129	81,745,099,921	81,805,713,053
	$\sum X$ = 800,353	$\sum Y$ = 772,587	$\sum X^2$ = 159,971,451,579	$\sum Y^2$ = 152,564,284,589	$\sum XY$ = 156,096,115,991
Correlation coefficient (r)			0.9973		
Probable error P.E			0.016		
6× P.E			0.096		

Now,

$$\text{Correlation Coefficient(r)} = \frac{n\sum XY-\sum X\sum Y}{\sqrt{n\sum X^{2}-(X)^{2}}\sqrt{n\sum Y^{2}-(\sum Y)^{2}}}$$

$$r = \frac{5 \times 156{,}096{,}115{,}991 - 800{,}353 \times 772{,}587}{\sqrt{5 \times 159{,}971{,}451{,}579 - (800{,}353)^2} \quad \sqrt{5 \times 152{,}564{,}284{,}589 - (772{,}587)^2}}$$

$$r = \frac{162{,}138{,}256{,}744}{162{,}577{,}664{,}141.03}$$

r= 0.9973

$$\text{Probable Error P.E} = 0.675 \times \frac{1-r^2}{\sqrt{n}}$$

$$= 0.675 \times \frac{1-(0.9973)^2}{\sqrt{5}} \qquad = 0.0016$$

Table 4.3.1.3 shows calculation of Coefficient Correlation between total deposit and investment of PDBL and find out highly positive relationship between them. Its Coefficient of Correlation and probable error remained 0.9973 and 0.016 respectively. Coefficient of Correlation appeared greater then six times of probable error (r>6P.E) i.e.0.9973>0.096 which indicates that the deposit and investment are highly positive correlated. The ratio shows that PDBL is able to invest its' almost of deposit.

4.3.1.4 Correlation Analysis between Income and expenditure

It is very necessary to know the relationship between income and expenditure. There must be always positive relation between them otherwise bank may get loss. For profit earning purpose expenditure should be minimum than income. So to find out the actual position between income and expenditure of PDBL, researcher finds out correlation coefficient between them in table 4.3.1.4.

Table 4.3.1.4
Correlation Analysis between Income and expenditure

Amount in'000'

Year	Income (X)	Expenditure (Y)	X2	Y2	XY
2061	3,483	3,483	12,131,289	12,131,289	12,131,289
2062	15,224	17,860	231,770,176	318,979,600	271,900,640
2063	20,959	16,090	439,279,681	258,888,100	337,230,310
2064	25,308	22,305	640,494,864	497,513,025	564,494,940
2065	34,016	26,866	1,157,088,256	721,781,956	913,873,856
	$\sum X$ = 98,990	$\sum Y$ = 86,604	$\sum X^2$ = 2,480,764,266	$\sum Y^2$ = 1,809,293,970	$\sum XY$ = 2,099,631,035
Correlation coefficient (r)			0.9593		
Probable error P.E			0.0241		
6×P.E			0.1146		

Now,

$$\text{Correlation Coefficient(r)} = \frac{n\sum XY-\sum X\sum Y}{\sqrt{n\sum X^{2}-(X)^{2}}\ \sqrt{n\sum Y^{2}-(\sum Y)^{2}}}$$

$$r= \frac{5 \times 2{,}099{,}631{,}035 - 98{,}990 \times 86{,}604}{\sqrt{5 \times 2{,}480{,}764{,}266 - (98{,}990)^2}\ \sqrt{5 \times 1{,}809{,}293{,}970 - (86{,}604)^2}}$$

$$r= \frac{1{,}925{,}225{,}215}{2{,}006{,}885{,}156.66}$$

$$r= 0.9593$$

$$\text{Probable Error P.E} = 0.675 \times \frac{1-r^2}{\sqrt{n}}$$

$$=0.675 \times \frac{1-(0.9593)^2}{\sqrt{5}} = 0.0241$$

Table 4.3.1.4 shows calculation of Correlation Coefficient between income and expenditure of PDBL abd find outs highly positive relatioship between them. Its Correlation coefficient and Probable Error remained 0.9593 and 0.0241 respectively. Correlation Coefficient appeared greater than six times of probable error (r>6P.E) i.e. 0.9593>0.1146, which indicates the income and expenditure are highly positive correlated.

4.3.2 Trend Analysis

Trend analysis is very useful and commonly applied tool to forecast future event in quantitative term on the basis of tendencies in the dependent variable in the past period. Straight line trend implies that irrespective of seasonal, cyclic and irregular fluctuation the trend value increases or decreases by absolute amount per unit of time. The linear trend values from series in arithmetic progression

4.3.2.1Trend Analysis of Total Deposit

Trend analysis of total deposit shows increasing or decreasing trend. Increasing trend shows the success of the bank to gain beliefs of its client due to which it increases its deposits and vice versa. Similarly, to predict future deposit trend, it is necessary to find out the trend of total deposit.

Table 4.3.2.1
Trend Analysis of Total Deposit

Amount in'000'

Year(X)	Deposit(y)	Year(x)=2063	x^2	xy	y=a+bx
2061	37,212	-2	4.00	(74,424)	149,283.44
2062	137,013	-1	1.00	(137,013)	154,677.02
2063	161,456	0	0.00	-	160,070.6
2064	178,549	1	1.00	178,549	165,464.18
2065	286,123	2	4.00	572,246	170,857.76
	$\sum y=$ 800,353	$\sum x=0$	$\sum x^2$ =10	$\sum xy=$ 539,358	
2066					176,251.24
2067					181,644.92
2068					187,038.5

Now, we have

$$a = \frac{\sum y}{n} = \frac{800,353}{5} = 160,070.6$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{539,358}{10} = 5,393.58$$

Now, trend equation becomes y= a+bx

y= 160070.6 + 5393.58 x

For the year 2061, y =160,070.6 + 5,393.58 x (-2) =149,283.44

For the year 2062, y =160,070.6 + 5,393.58 x (-1) =154,677.02

For the year 2063, y =160,070.6 + 5,393.58 x (0) =160,070.6

For the year 2064, y =160,070.6 + 5,393.58 x (1) =165,464.18

For the year 2065, y =160,070.6 + 5,393.58 x (2) =170,857.76

Again, the calculation of **y** for coming year 2066, 2067 and 2068 are given below:

For the year 2066, x=2066-2063=3

y =160,070.6 + 5,393.58 x (3) =176,251.24

For the year 2067, x=2067-2063=4

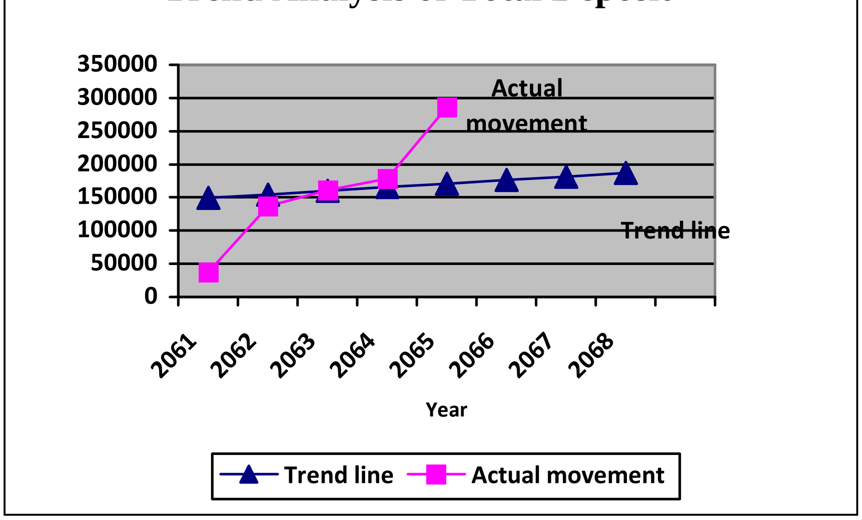
y =160,070.6 + 5,393.58 x (4) =181,644.92

For the year 2068, x=2068-2063=5

y =160,070.6 + 5,393.58 x (5) =187,038.5

Figure 4.3.2.1

Trend Analysis of Total Deposit



Source: Table 4.3.2.1

Table 4.3.1.4 shows the amount of deposit for five years from 2061 to 2065 and forecasted value for next three years (2066 to 2068). Y intercept (a) and slope of trend line (b) of the total deposit appeared to be 160,070.6 and 5,393.58.

Figure 4.3.2.1shows trend line of deposit and actual movement of deposit. It is clear in the figure that both trend line and actual movement line is in increasing trend. Actual movement of deposit seems to be lower than trend value of deposit till the year 2063. This indicates that PDBL is not getting belief of customer sufficiently.Similarly, the actual movement of deposit is greater than trend vlaue of deposit after the year 2063. This indicates that bank was able to collect deposit by gaining belief of customer and improving goodwill in the market.

On the basis of the above trend equation forecasted total deposit for coming three years would be Rs 176,251.24, 181,644.92 and 187,038.5 thousand. Trend analysis shows that its deposit will increase in coming three year.

4.3.2.2Trend Analysis of Profit

Forecasting profit for next coming year is very necessary to make decision and plan of the bank. To know about bank's profit earning trend, it is very important to analysis the trend of profit which is done in table 4.3.1.4.

Table 4.3.2.2

Trend Analysis of Profit Amount in "000"

Year(X)	**Profit(y)**	**Year(x)=2063**	**x2**	**xy**	**y=a+bx**
2061	-2,362	-2	4.00	4,724	1,570.5
2062	-2,378	-1	1.00	2,378	1,814.55
2063	4,880	0	0.00	-	2,058.6
2064	3,003	1	1.00	3,003	2,302.65
2065	7,150	2	4.00	14,300	2,546.7
	∑y= 10,293	∑x=0	$\sum x^2$ =10	∑xy= 24,405	
2066					2,790.75
2067					3,034.8
2068					3,278.85

Now, we have

$$a = \frac{\sum y}{n} = \frac{10,293}{5} = 2,058.6$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{24,405}{10} = 244.05$$

Now, trend equation becomes y= a+bx

y= 2,058.6+ 244.05x

For the year 2061, y =2,058.6+244.05 x (-2) =1,570.5

For the year 2062, y =2,058.6 + 244.05 x (-1) =1,814.55

For the year 2063, y =2,058.6+ 244.05x (0) =2,058.6

For the year 2064, y =2,058.6 + 244.05x (1) =2,302.65

For the year 2065, y =2,058.6+ 244.05x (2) =2,546.7

Again, the calculation of **y** for coming year 2066, 2067 and 2068 are given below:

For the year 2066, x=2066-2063=3

y =2,058.6+ 244.05x (3) =2,790.75

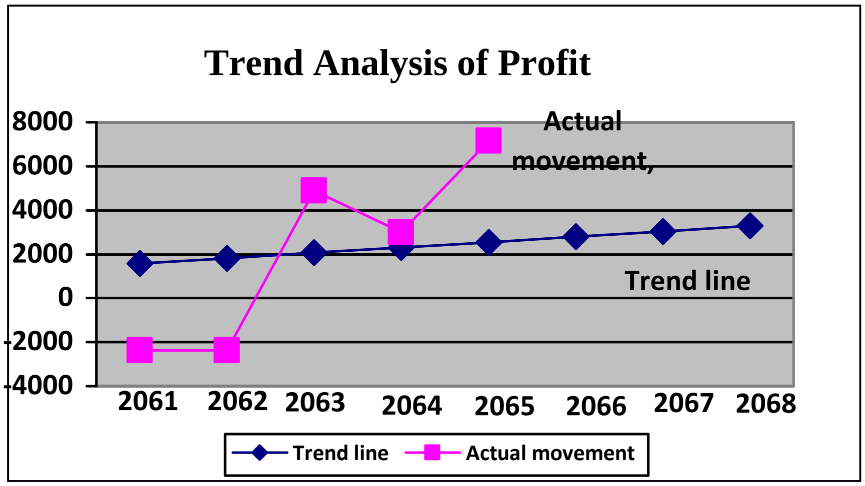
For the year 2067, x=2067-2063=4

y =2,058.6+ 244.05x (4) =3,034.8

For the year 2068, x=2068-2063=5

y =2,058.6+ 244.05x (5) =3,278.85

Figure 4.3.2.2



Source: Table 4.3.2.2

Table 4.3.1.4 shows the amount of profit for five years from 2061 to 2065 and forecasted value for next three years (2066 to 2068). Y intercept (a) and slope of trend line (b) of the profit appeared to be 2,058.6 and respectively 244.05.

Figure 4.3.2.2 shows actual movment of profit and trend line of profit.Comparing to actual profit and trend value of profit, the actual value of profit is lower till year 2062. After that year actual value of profit seems to be increased, again in the year 2064 it decreased and increased in the year 2065 and increasing rate in 2065 is higher than any other years of study period. It is clear in the figure 4.3.2.2 that trend line of profit is in increasing pattern but actual movement of profit is not constant (both increasing and decreasing pattern seems in the line).This shows that bank was more successful in earning profit only in theyear 2065.

On the basis of the above trend equation forecasted profit for coming three years would be Rs. 2,790.75, 3,034.8 and 3,278.85 thousand. Trend analysis will increase in coming three years.

4.4 Major Finding of the Study

Major finding of five years of study are as follows:

- PDBL didn't meet current ratio 2:1 over the five years of study period; it is a satisfactory comparing to a banking industry.
- PDBL had maintained more cash & bank balance and Current & savings deposit. It had very high ratio of cash and bank balance and Current and savings deposit (139.04%) and very low ratio (3.54%), this indicates that PDBL was not able to maintain right liquidity position.
- By studying Cash & Bank balance and Total Deposit, it indicates that bank hold very less liquidity which is not good. Goodwill of the bank may reduce if it becomes unable to fulfill withdrawal of short term debt. Similarly, high liquidity also push bank in the loss sector due to idleness of the high interest bearing funds.
- Loan and Advance to Total Deposit ratio of PDBL shows inconsistent during the study period. As per banking practice, banks maintain the ratio 70-75%. So the ratio is not satisfactory.
- Loan and advance to fixed deposit ratio increased during the study period. So the PDBL has efficiently utilized the high interest bearing fixed deposit in the loan and advance.
- Loan and advance to saving deposit seems to be in decreasing trend.

It indicated insufficient utilization of saving deposit in the form of loans and advances. So the PDBL should follow different policy to increase the amount of loan and advance to saving deposit.

- Investment to Total Deposit ratio shows very less investment pattern which may not sufficient to bear interest of deposit.
- PDBL invested more in the year 2064 (60.72%) during the five years of study period.
- The PDBL had used its assets efficiently in the year 2064. It is also good during last year, 2065 (63.76%).
- Performing Assets to Total Debt Ratio fluctuated over the five years of the study period. In year 2064, PDBL had highest ratio (117.17%) and in year 2062 it has lowest ratio. High ratio indicates the success in utilizing the fund.
- While analyzing Return on Assets of PDBL, researcher fined that first two years (2061, 2062) it seems negative ROA. After that year it is positive and fluctuated.
- Return on assets during the study period was less than 2%. This shows that profitability with respect to financial resources investment of bank assets was unsatisfactory. Only in the year 2063, it seems to be in satisfactory (ROA=2.63)
- Return on Total deposit Ratio fluctuated over five years of study period.
- From the year 2061 to2063 Return on Total Deposit ratio increased then decreased, again in last year 2065 the ratio seems to be increased.
- PDBL is more successful in later year in allocating interest bearing debt in profitable sectors.
- Total Interest Expense to Total Interest Income Ratio was unstable and decreased during the study period.
- In the year 2061, PDBL was able to utilize its assets for income generating purpose because that year was the starting period of PDBL in banking sector. But in other years PDBL seemed to be in satisfactory level.
- PDBL has higher Staff Expenses to Total Income Ratio in a year 2064 and lowest in 2062.
- Operating Expenses to Total Income Ratio fluctuated over the study period. The calculated ratio shows high percentage which means PDBL was not earning properly to maintain its all expenses.

- Debt Equity Ratio also fluctuated over the five years of study period. Debt Equity Ratio was higher in the year 2062 (7.65 times) and lowest in the year 2065 (2.35 times).
- Debt Assets Ratio of PDBL remained 79.99%, 88.49%, 85.95%, 85.37% and70.47% over the five years of study period. Large portion of bank's asset has been financed through outsider's fund.
- The Interest Coverage ratio was high in the year 2065 but in year 2061 there was no interest coverage ratio because that year had EBIT.
- PDBL's interest income is main sources of income. It dominates all other income sources. Its interest income seems to be satisfactory.
- PDBL also able to earn income form the commission and discount sources.
- PDBL has able to manage all its expenses - interest expenses, staff expenses, operating expenses and bonus – in the right track as a result profit increases.
- Correlation coefficient of deposit and profit, investment and profit, deposit and investment and income and expenditure remained 0.8522, 0.8504, 0.9973 and0.0241respectively. Which indicates highly positive correlated.
- Trend analysis of deposit and profit shows the increasing trend.

CHAPTER-V
SUMMARY, CONCLUSION AND RECOMMENDATIONM

5.1 Summary

Banks in Nepal have come across a long way to reach at the present status They hold in the national economy. Since from the beginning of the establishment of Nepal Bank limited (NBL) in 1937 A.D. to present scenario with the emergence of new and growing banks have brought tremendous change in terms of services, capacity development and the way they serve customers. Modern banking practices have been introducing by almost all the commercial banks in Nepal. Banks that were initially involved merely in lending and deposit sector have now modified their traditional business concept and introduced new services to Nepalese customer like, credit card, debit card, SMS banking, E-banking etc. banking sector has significant improvement after the adopted liberal economic policy. But intense competition and lack of sufficient investment opportunities have created threat to banks. Therefore in future banking sector will be more competitive with quality and speedy service. Bank has to provide quality and speedy service and attain objectives along with maintaining social responsibility to sustain in the market.

Now a day, so many banks are in the banking sector, in other words we can say that banks are growing like mushroom in the market. So each and every bank has to face competition. Those which can compete can give their existence otherwise root out from the market. There are so many examples in banking sector which becomes unsuccessful. Some months before Nepal Bikas Bank Limited was given order to leave the banking sector by Nepal Rastrya Bank Limited, it is just because of failing to compete with market. To compete with other banks of the banking sector first bank itself should avoid its weakness and make its strength more strong so that it can give answer to its opposition. Ratio analysis is the best tool for finding its weakness and strength. So the researcher has used this tool to measure the performance of Pashupati Development Bank Limited.

Financial analysis is the process of indentifying the financial strength and weakness of the bank by properly establishing relationship between the items of balance sheet and profit and loss account. Ratio analysis is used by financial analyst for making decisions. It will compare the bank's ratios to its past performance. Among so many development banks of Nepal, Pashupati Development Bank Limited has been selected with their five years data starting form 2061 to 2065 is used for the study.

Pashupati Development Bank Limited is development bank which is running in banking sector since 2061. We can say that it is new bank for the market. Only five years of running can't make bank a old one, because it need to see so many ups and downs of the banking sector and it need to collect all its effort to stands against it. Researcher is so much interested to know about its internal factor and performance which give it success in the future or not.
For this purpose, ratio analysis, correlation analysis and trend analysis has been calculated.

Main objectives of this study are to find out financial performance of PDBL. Descriptive and analytical analyses have been done for the purpose by using various methodologies and based on the secondary data.

Comparing from first year (2061) to last year (2065) of the study period, bank was in loss till the year 2062 (net profit in 2061 is Rs -2.63 millions and in the year 2062 is Rs -2.377 millions), but in last year net profit increases to Rs 7.15 millions. It deposit increases form Rs.37.21 million to Rs 286.12 millions in the year 2061 and 2065 respectively. Investment increased from the year2061 to 2065 is Rs 34.55 million and Rs 285.99 million respectively. Market value of share increased form RS 80.32 to Rs 430. PDBL established branch in Pokhara and Narayanghat and its head office is at Banepa. PDBL is planning to open its other branches at kathmandu and other place.

This remarkable progress of the PDBL can be attributed to its culture of Corporate Governance on which the bank lays almost emphasis. Thus the bolstering growth, outstanding performance and commitments to customer satisfaction over half decade have earned PDBL the reputation in the market.

5.2 Conclusion

Pashupati Development Bank is one of the growing banks of Nepal. It has been steadily growing in its size and operation ever since its inception and it has established itself as one of the leading development bank in the private sector of nation reckoned as a one of the fastest growing development of the country.

Liquidity position of the PDBL is efficient. It shows the PDBL didn’t maintain the convenient standard of current ratio of 2:1. Comparing to the banking industry its current ratio is satisfactory. A notable strength of the bank’s are invested large portion in loan and advance of the fixed deposit.

PDBL followed more profit more risk strategy, in its capital structure more than 50% capital was outsider’s fund. Income and expenditure analysis shows fluctuated tend. An interest income is the main source of income its contribution is more than 75% of the total income except first year, 2061. Beginning year most of the bank can’t able to show its performance. An interest expense is also higher than other expenses. The aggregate interest expenses from the year 2061 to 2065 are 43.7%.

PDBL deposit remained Rs 286.123 Millions, which is 60.23% more than same period in the previous year 2064. PDBL earned a net profit of Rs 7.15 Million in the year 2065 and in the 2064 net profit is Rs 3 Million. This means PDBL was able to earn more than 50% of net profit with comparison to last and second last year.

PDBL has also increasing its no of share. In the year 2061 and 2062 the number of share remained as 0.12 million and in 2063 it was 0.244 million a, in the year 2064, 0.29 million and in the final year2065 1.2 million. PDBL internal strength seems to be increasing and its no of staff also in increasing trend in the beginning year it remained 13numbers and in the final year of study period it remained 20 numbers.

In conclusion, we can say that being new banks there are certain weakness but PDBL is trying its best in competing in the banking sectors. It‘s net profit is increasing year by year. Its total deposit also increasing, this tells that PDBL becomes successful in gaining belief and respect from the client. This is the positive symptoms for achieving success in the completive world. It is also using the right planning for staff remuneration and other facility. Except some expenses, some are within the capacity level. It market share value is also increasing. Every day its share transaction is in optimal level. So many people are attracted to invest in this bank. In over all, PDBL has good financial condition and improving day by day to become number one development bank.

5.3 Recommendations

On the basis of major finding some important suggestion has been forwarded, so that they might help the PDBL to strengthen weaker aspects of financial activities.

1. PDBL should maintain accurate level of liquidity every year. Keeping liquidity very high in one year and low in other year is symptoms of going far from its success point.
2. PDBL was able to increment in deposit, investment and profit by 60.25%, 59.32% and by more than 100% respectively. It is recommended to give attention to increment in deposit and investment to success in competitive environment of banking industry.
3. It is good for the PDBL to maintain certain limit of amount of cash and bank balance for every. Researcher finds PDBL maintain cash and bank balance randomly every year. In the year 2064 researcher maintain low amount of cash and bank balance with respect to current & saving deposit and total deposit.
4. PDBL main sources of income are interest income, in present competition market, PDBL needs to find some other sources of income apart from traditional interest income
5. It is very necessary to motivate its staff for PDBL success, but in the name of motivation the PDBL should not increase staff expenses. PDBL should search and other factors and element of motivating staff. So that PDBL will get increment in profit
6. PDBL was earning income from commission and discount, every year it is increasing but with comparing to total income it is not satisfactory level. So, PDBL should try to search more and more clients for earning commission and discount.

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ANNEX 1
PASHUPATI DEVELOPMENT BANK LIMITED
Five year's Financial Summary
(Balance Sheet)

"Amount in Rupees"

Items	Fiscal Year				
	2061	2062	2063	2064	2065
Cash Balance	1,053,123	5,039,172	2,721,844	2,282,660	5,333,032
Bank Balance	7,787,304	14,174,715	36,762,658	706,899	112,955,140
Money at call	-	-	-	39,850,304	-
Investment	-	4,500,000	9,500,000	12,000,000	12,300,000
Loan, advance and Bill Purchase	34,203,042	117,226,937	134,112,178	162,297,819	268,523,133
Fixed Assets	2,263,643	1,363,096	1,316,098	1,920,708	3,180,402
Other Assets	2,866,413	3,085,281	3,574,235	653,454	38,176,805
Total Assets	**487,173,528**	**145,389,203**	**187,987,016**	**219,711,576**	**440,468,514**
Share Capital	12,000,000	12,000,000	24,400,000	29,000,000	120,000,000
Reserve and Surplus	(2,362,049)	(4,739,461)	140,565	3,142,820	10,058,683
Borrowings	1,198,235	-	-	-	20,000,000
Deposit	37,212,150	137,013,258	161,456,317	178,548,553	286,122,859
Bills Payable	-	-	-	-	-
Income Tax Liabilities	-	-	64,639	689,369	2,037,714
Other liabilities	125,192	1,115,406	1,925,494	8,330,832	2,249,229
Total Capital and Liabilities	**487,173,528**	**145,389,203**	**187,987,016**	**219,711,576**	**440,468,514**

ANNEX 2
PASHUPATI DEVELOPMENT BANK LIMITED
Five year's Financial Summary
(Profit & Loss Account)

"Amount in Rupees"

Items	Fiscal Year				
	2061	2062	2063	2064	2064
(1) Interest Income	654,684.62	13,168,830.46	17,234,931.26	19,547,433.22	28,793,952.09
(2) Interest Expenses	439,837.18	8,079,486.15	10,767,304.74	10,410,892.23	12,638,366.36
(A) Net interest Income(1-2)	**214,847.44**	**5,089,344.31**	**6,467,626.52**	**9,136,540.99**	**16,155,585.73**
(3) Commission and Discount	56,178.26	256,998.27	180,995.59	388,795.15	367,690.42
(4)Other Operationg Income		1,863,136.36	3,524,319.43	3,382,519.49	2,743,015.30
(5) Exchange Income					
(B) Gross Operating Income(A+3+4+5)	**271,025.70**	**7,209,478.94**	**10,172,941.54**	**12,907,855.63**	**19,266,291.45**
(6) Staff Expenses	818,361.00	2,096,848.63	1,990,670.00	2,812,477.74	3,642,446.69
(7)Other Operating Expenses	1,879,370.58	4,508,325.81	2,953,067.07	3,572,002.69	5,094,963.43
(8) Exchange loss					
(C) Operating Income Before Provision (B-6-7-8)	**(2,426,705.88)**	**604,304.50**	**5,229,204.47**	**6,523,375.20**	**10,528,881.33**
(9)Provision for Possible Loss	345,485.28	3,174,937.49	284,537.94	3,340,389.53	983,973.93
(D)Operationg Income(C-9)	**(2,772,191.16)**	**(2,570,632.99)**	**4,944,666.53**	**3,182,985.67**	**9,544,907.40**
(10) Non Operating Income/Expenses(Net)		193,221.60		8,260.00	1,050,000.00
(11) Write Back of Provision for Possible Loss				1,980,541.95	1,060,699.21
(E)Profit from Regular Activities(D+10+11)	**(2,772,191.16)**	**(2,377,411.39)**	**4,944,666.53**	**5,171,787.62**	**11,655,606.61**
(12) Extraordinary Income/Expenses (Net)	410,141.31				
(F) Profit Before Bonus and Taxes(E+12)	**(2,362,049.85)**	**(2,377,411.39)**	**4,944,666.53**	**5,171,787.62**	**11,655,606.61**
(13) Provision for Staff Bonus				470,162.51	1,059,600.60
(14) Provision for Tax			64,639.67	1,699,369.99	3,446,341.90
Net Profit / Loss(F-13-14)	**(2,362,049.85)**	**(2,377,411.39)**	**4,880,026.86**	**3,002,255.12**	**7,149,664.11**

ANNEX 3
PASHUPATI DEVELOPMENT BANK LIMITED
Five year's Total Deposit Summary

Amount in "000"

Items	Year				
	2061	**2062**	**2063**	**2064**	**2065**
Fixed Account	29,885	103,556	109,841	92,868	104,564
Saving Account	6,579	31,625	50,329	84,359	179,842
Current Account	670	1,585	1,030	644	439
Provident fund Deposit	78	247	256	221	452
Other(Staff Saving)				457	826
Total Deposit	**37,212**	**137,013**	**161,456**	**178,549**	**286,123**

ANNEX 4
PASHUPATI DEVELOPMENT BANK LIMITED
Net Profit before Tax

Amount in "000"

Items	Fiscal Year				
	2061	2062	2063	2064	2065
Net Profit(A)	**(2,362.00)**	**(2,377.00)**	**4,880.00**	**3,002.00**	**7,150.00**
Interest(B)	440.00	8,050.00	10,767.00	10,411.00	12,639.00
Tax(C)			65.00	16,995.00	3,446.00
Net Profit before Interest and Tax(A+B+C)	**(1,922.00)**	**5,673.00**	**15,712.00**	**30,408.00**	**23,235.00**

ANNEX 5
PASHUPATI DEVELOPMENT BANK LIMITED
Net Profit

Amount in Rupees

Items	Fiscal Year				
	2061	2062	2063	2064	2065
(1) Interest Income	654,684.62	13,168,830.46	17,234,931.26	19,547,433.22	28,793,952.09
(3) Commission and Discount	56,178.26	256,998.27	180,995.59	388,795.15	367,690.42
(4)Other Operationg Income		1,863,136.36	3,524,319.43	3,382,519.49	2,743,015.30
(5) Exchange Income					
(10) Non Operating Income/Expenses(Net)		193,221.60		8,260.00	1,050,000.00
(11) Write Back of Provision for Possible Loss				1,980,541.95	1,060,699.21
(12) Extraordinary Income/Expenses (Net)	410,141.31				
Total Income(A)	**1,121,004.19**	**15,482,186.69**	**20,940,246.28**	**25,307,549.81**	**34,015,357.02**
(2) Interest Expenses	439,837.18	8,079,486.15	10,767,304.74	10,410,892.23	12,638,366.36
(6) Staff Expenses	818,361.00	2,096,848.63	1,990,670.00	2,812,477.74	3,642,446.69
(7)Other Operating Expenses	1,879,370.58	4,508,325.81	2,953,067.07	3,572,002.69	5,094,963.43
(8) Exchange loss					
(9)Provision for Possible Loss	345,485.28	3,174,937.49	284,537.94	3,340,389.53	983,973.93
(13) Provision for Staff Bonus				470,162.51	1,059,600.60
(14) Provision for Tax			64,639.67	1,699,369.99	3,446,341.90
Total Expenses(B)	**3,483,054.04**	**17,859,598.08**	**16,060,219.42**	**22,305,294.69**	**26,865,692.91**
Net Profit(A-B)	**-2,362,049.85**	**-2,377,411.39**	**4,880,026.86**	**3,002,255.12**	**7,149,664.11**