CHAPTER - I

INTRODUCTION

1.1 Background

Nepal is a land-locked country bordered by China in the north and India in the remaining three sides. About 86 percent of its population resides in rural area and the literacy rate is estimated to be 56 percent. The per capita income of a single Nepali is US $250. Agriculture is the mainstay of Nepalese economy contributing about 40 percent to the GDP with the engagement of 80 percent people mostly in the rural area of Nepal. The contribution of industrial sector to GDP is about 21.1 percent with the full time engagement of about 5.8 percent economically active population in manufacturing sector. Nepal is measured in terms of size of GDP the Chinese and Indian economies are respectively 115 times and 85 times larger than that the Nepalese economy.

Rapid economic development is important for all countries of the world. It is more urgent for the least developed countries like ours. In this context it is but natural that existing agricultural predominance in our country has to be reduced by and transformed into an industrialization process. Nepal like other developing countries has been facing the problem of acceleration the pace of economic development.

A bank is the financial institutions whose principle operations are concerned with the accumulation of the idle money of the public for the purpose of advancing to other for expenditure. A Bank is a person or corporation, which holds it out to receive from the public deposits pa1/2ble on demand by cheque. In other word a bank is financial institution whose business is to trade in money. Bank is an organization, which is engaged in monetary transaction. It deposits money from those having saving and lends to those who need money for some purpose on charging at some interest rate percent per annum.

Singh & Khadka argued that a Bank is one who in the ordinary course of his business, receives money which he pays by honouring cheque whom or whose account receives.[1]

Bank plays an important role to the economy development of National economy. Bank is that cooperated or institution which performs the indispensable work of intermediating among to two or more institution and individual to increase fund and then to give loan of those funds or accumulated amount. In another word, Bank is a dealer in capital and he is intermediate party between the borrower and the leader.

Joshi and Shrestha declared that a Bank is an establishment which makes to individuals such advances of money or other means of payments as may be required and safely made and to which individuals entrust or means of payment when not required by them for use[2]

Upadha1/2y argued that a Bank or a banker is a person firm or company, having a place of business where credits are opened by the deposit or collection of money or currency subject to be paid or loaned on stocks bonds and bills of exchange and promissory notes are received for account and sale[3]

Bank is a very important institution because he acts several roles such as intermediation role, payment role; guarantor role, agency role etc. Same way, Bank motives to the people to mobilize saving, for economic development Bank promote the private investment and capital formulation for safety of wealth, transfer of money Bank is needed.

' Singh Hridaya and Khadka Sherjung, (2056), *Banking Principle Legislation and Practice,* Nabin Prakashan Kathmandu, P.-l

[2] Joshi Shyam and Shrestha, Hari Prasad, (2028) *Principles of Banking and Insurance,* Taleju Pustak distribution, Kathmandu P.

[3] Upadhayay, Y. B. and Ti wari, N. R., (1982) *Principles of Money and Banking in Nepal*, Ratna Pustak Bhandar, Kathmandu P-167

In summarized, Banks are those financial institutions who offer the widest range of financial services especially saving, credit and payment service. And receiving deposits of various kinds, leading money, issuing cheques and collecting cheques etc are the essential function of a bank.

1.1.1 History of Banking in Nepal

In Nepal, there is no long history of bank as financial institution. About to 8th century there was placed scrounge or loan lending transaction. In 780 BC the king of Kathmandu Guanakamdev who had borrowed loan to build the city of Kathmandu but later on 937BS Shankhadhar who was the famous merchant, had paid borrowing loan of people and started" Nepal Shambat". But later on, in 14th Century the famous -Malla king Ja1/2sthiti Malla divided people in 67 castes of the basis of their profession then among different casts there was a people who used to perform borrowing and bending function at that time he was known as "Thankadhari", But during the Rana period, Priminister Ranodeep Singh established, "Tejarth Adda' at Kathmandu. At that time, the main function of Tejarath Adda was to provide loan for government officer and staff and also for general public under the collateral of silver gold at 5% p. a. interest rate. But later on due to increasing of the banking transaction modern bank or institutional was going to establish.

The history of organized banking business in Nepal began with establishment of Nepal Bank Ltd. NBL in 1994 B.S. After the establishment of democracy in 2007 B.S. having felt need of the development of banking sector, to help government to formulate the monetary policy, NRB was setup in 2013 B.S. as the form of central bank, which was a significant, plus dimension in the development of banking sector.

To develop and promote a scientific commercial industrial agriculture system and capital market activities, NBL alone was not able to extend adequate services in the national economy. Thus, Rastri1/2 Banij1/2 Bank (RBB) was setup in 2022 B.S. as fully government owned commercial bank. In addition to this, Nepal Industrial Development corporation NIDC 1954 A.D., Agriculture development bank (ADB 1967 AD), and securities Exchange Centre (SEC) were also established. However, with the coming up of this financial institutions, the banking and financial activities spread to both urban and rural area but customers failed to have the taste of quality and competitive banking service because of excessive political and bureaucratic interference and absence of modern managerial concept. Despite of the government effects financial sector were still found sluggish. Banking service to the satisfaction of customer's service was a far way.

During the post two decades, Nepalese financial sectors, especially banking sectors has under gone a drastic change. The opening of financial market to foreign joint Venture Banks (JVBs), ending the monopoly of two state owned banks. NBL and RBB, is a notable step after which a number of private foreign affiliated Joint Venture Banks (JVBs) emerged. Nepal Arab bank Ltd. (NABIL - 1967), Standard Chartered Bank Ltd. (Former Nepal Grind Lays Bank Ltd. 1987, and Nepal Investment Bank Ltd. (former Nepal Indosuez Bank Ltd.) Started their operation in the decade 1980s

Further after the restoration of multiparty democratic System, the elected government has also adopted the policy of economic liberalization and open market oriented. The policy has given more importance to the private sector and government has encouraged for the establishment, growth and development of financial institution.

Thus, the speedy opening up of private commercial banks did not stop and they are excepted to enhance the inflow of foreign capital, technical know-how, experiences and concept of healthy competition. As a result, Himala1/2n bank Ltd. [HBL -1992] came into existence as the Joint venture Bank of Nepalese promoters and Joint Venture with Hobib Bank of Pakistan. Further more, Nepal SBI Bank ltd.

[2050 BS], Nepal Bangladesh Bank Ltd. [1993], Everest Bank Ltd., Nepal Bank of Cylon [Present NCC Bank Ltd.] , Bank of Kathmandu Ltd. among others came into existence^ According to the latest report of NRB there are 17 commercial Banks, 24 development banks, 5 Regional Rural ^ Development Banks, 59 finance companies, 21 cooperative [with Limited banking transactions] and 45 NGO's [With micro finance] transaction][4]

A commercial bank exchange money accepts deposits, grants loans and performs others commercial bank. Function and is not a bank mean for cooperative, agriculture, industrial as per specific function.[5]

Origin and Growth of Banks in Nepal

Fourth Stage	Origin of modern bank	**G**
Third stage	Origin of Rastri1/2 Banij1/2 Bank	**R**
Second stage	Origin of Nepal Rastra Bank	**O**
First stage	Origin of Nepal Bank Ltd.	**W**
Preliminary stage	Traditional Bankers	**T** **H**

Source: Sing Hrida1/2 and Khadka Sherjung', "Banking Principle legislation and practice"-Nabin Prakashan Kathmandu 2056 P. - 6

Reducing poverty is the fundamental objective of economic development. It is estimated that more than one billion people in the developing word are poor, and nearly half of those in extreme poverty line in South Asia. Nepal's level of income (US$230) per capita is one

of the lowest in the world. More than half of the population survives on less than one dollar than that of the Asia and South Asia countries More than 85% population lives in rural area in Nepal, People's economic condition is very poor. To improve their economic condition, Many NGOS, INGOS, Banks and other related parties are given contribution.

[4] *Banking & Financial statistics,* Published by NRB mid Jan. 2004
[5] *Kanon Kitab Byabastha Samitee,* Commercial Bank Act 2031 B.S.

Many Banks like commercial bank, development bank and other financial institutions and enterprises play significant role for improving the economic condition. One of them is rural development bank that is playing vital role to alleviate poverty since it is establishment. With the realization of these facts, urgent need of a program, which is targeted effectively towards poorest of the poor is felt. Highly impressed with performance of Grameen Bank of Bangladesh and its operational management and organizational system some sort of government sponsored formal banking institution to introduce. Grameen Bikash Financial system (GBFS) concept in Nepal was tried but failed to achieve the above mentioned objective during 1980. In 1991 with encouragement from Professor Muhammad Yunus, founder of Grameen Bank and in cooperation with some friends, from the Nepalese Banking on NGO namely, NIRDHAN was registered to replicate the GBFS. This was the first effort to replicate the GBFS in Nepal.

1.1.2 Concept of GB

More and more people are convinced that the removal of poverty is a do-able thing. One does not have to wait around for many other rounds of things to happen before poverty starts declining. Poverty can be addressed and redressed even in a person-by-person, or in a family-by-family way. Bigger and broader policy changes and faster growth in the economy under certain condition may expedite the process, but there is no reason why one cannot make a beginning directly and surely.

Grameen bank describes itself further in the following manner:

The rural people who are desperately in need of credit generally remain outside the orbit of the banking system. Dr. Muhammad Yunus, professor of economics, Chittagong University, launched an action- research programme in 1976 to explore the possibilities and to design a framework which will bring the rural poor within a viable banking network. Prof. Yunus reasoned that if financial resources can be made available to the landless people, at terms and conditions which are appropriate and reasonable, "these millions of small people with their millions of small pursuits can add up to create the biggest development wonder.

The objective of Grameen bank is to introduce and institutionalize a non-traditional banking system in rural areas which would provide credit facilities under special terms and conditions. This project attempts to serve those rural people who are not covered by the traditional banking system. The success of the project depends entirely on sincere efforts to follows the rules and regulations.

Grameen bank will provide credit facilities to the rural landless and asset less people through the formation of particular organizational structure. The primary and most important element of this structure is the group. Only the landless and asset less poor will be eligible to form a group. Any member of a household owning less than 0.5 acre of cultivable land and whose total assets do not exceed the value of one acre of medium quality, single-cropped land in that area will be eligible to join. A group must be composed of five people. All members of a group must come from the same village. They shall be formed with persons who are like-minded, are in similar economic condition and enjoy mutual trust and confidence.

1.1.3 Brief Description of PGBBL

After the restoration of multiparty democracy system in July 1992 government decided to create two Rural Development Banks, Purbanchal Grameen Bikash Bank and Sudur Paschimanchal Grameen Bikash Bank with the share capital of NRS 30 millions each and recently increased to NRS 63 millions of the total share holding of the banks, the government holds 8.25%, Nepal Rastra Bank 34.95% , 5 commercial bank having 5% share each and customer, people and employee holds 31.8%. These two Grameen Bikash Banks started their loans disbursement in July 1993 with the June 1996 total number of GBBL has reached five.

The Grameen Bank Nepal Biratnagar semi-government organization registered under company act (2021 BS) in Nepal. PGBBL came into existence in 1993, with the establishment of its central office in Biratnagar in eastern development region of Nepal. The Bank started field based activities from July 1994; selecting 80 village development committees (VDC) located in Sunsari, Morang, Jhapa, Siraha, udaypur and Saptari districts. Upon completion of preparatory work like baseline survey, motivation to local people, compulsory group training based on the plan of action, the first loan was disbursed on the 16th of July 1995.

According to 13th annual report, Ashadh last week 2065, the PGBBL is operating through a network 41 Branches offices and 11364 groups with 52052 members have been formed in 9 municipalities and 253 village development committees spread over six districts. 312,312 people are gained from PGBBL activities.

Cumulative loan amount of Rs. 5215968000 was disbursed and the total loan repayment was 4692455000/- and total loan outstanding was Rs.523516300/-. The loan scenario showed that most of borrowers had taken loan on trade and services. Total income of PGBBL in FY 063/64 77116300/- and a total expense was Rs. 76573000. In the above report, there has been profit Rs. 543000. In recouped 8135000 from the loss provision fund. Therefore, the current year profit has been Rs. 543000. However it gets loss, it is going to in profit way. To meet the profit margin it must cross the break-even point. The Banks financial performance most be sound to get BEP level financial performance is messed the financial ratio and statistical tools, Financial ratio is used the firm's strength and weakness. If the Bank gets the good financial soundness then it can reach its goal like poverty alleviation, top-level quality service to offer the clients.

❖ Objectives of PGBBL:

The major aims of these banks are to provide easy access to credit to the deprived section for the society especially the women for undertaking income-generating activities for reducing the level of poverty. The objectives are as follows:

- To extent banking facilities to poor men and women.
- To create opportunities for self-employment for the country's vast unutilized and under-utilized manpower resources.
- To eliminate exploitation of the poor by money-lenders.
- To bring the disadvantaged people within the folds of some organizational format which they can understand and operate and from which they can find socio-political and economic strength through mutual support.
- To reverse the age-old vicious circle of "low income, low savings, low investment, low income" into an expanding system of" low income, credit, investment, more income, more credit, more investment, more income.
- To develop institutional mechanism from the gross-root level to link saving with credit and initial self-reliant economic activities for strengthening rural economy.
- To conduct research on mobilizing resources to support the poor.

Policies of PGBBL:

a) The bank provides credit to the rural poor marginal people having less than one Bigha (0.67 hectare) of land in the Terai and 10 Ropani (0.5 hectare) of land in hilly areas.
b) To provide credit and banking services to poor women on priority basis.
c) To disburse credit with primary focus on using traditional skills and physical assets and assist to increase income within a short period of time.
d) To develop financial system through participatory approach for poverty alleviation and provide facilities for infrastructure development for the development of financial system.
e) To organize the members into groups and provide credit on group liabilities without any collateral securities.

f) To develop co-ordination with line agencies to transfer technology in rural areas.

g) Loan repayment schedule is fixed for every week and installments are collected as per repayment schedule.

h) To involve women with first priority for the participation in banking program.

i) To initiate banking activities preferably in the deprived areas based on the norms and value of bank.

j) To provide banking services at their doorsteps through the formation of groups and establishment of the centers.

❖ Strategies of PGBBL:

a) Beneficiaries are organized into groups. Each group comprised of five members either sex from different households. So far, beneficiaries are exclusively women members.

b) Training is considered as an entry point and integral part of the program to change the knowledge status of the beneficiaries. Training on banking program and procedures, literacy-classes, creating awareness, skill development, child immunization, health and sanitation are organized on regular basis to enhance the existing knowledge. (7 days orientation class should be attended compulsorily by the women otherwise they will not be eligible to be a group member.)

c) Group member must deposit Rs. 2.00 per day for nine days during the training period.

d) Borrowers are obliged to deposit 5%of the credit amount in the group fund. A member can use group fund for emergency needs whenever they encounter trouble and problems.

e) Besides the compulsory saving, each member must deposit Rs. 1.00 every week as his or her individual savings. The saving should be deposited in-group meeting held every week.

f) Members should pay loan borrowed every week. Amount repaid per week is 3 percent of the principal amount, i.e. amount borrowed should be rapid in five equal installments.

g) Loan is disbursed on staggered basis i.e. (2+2+1) all five members will not receive loan at one time. Initially, only two members (poorest of the poor among them) will be eligible to receive credit. Credit ceiling has been fixed as Rs. five thousand. These borrowers should pay the amount loaned on weekly installment, attend meeting on regular basis and follow the group's norms for at least eight weeks to enable additional two members of the group for borrowings. All four members should behave well and follow the rules and regulations strictly till 16 weeks to provide borrowing opportunities to the chairperson of the group.

❖ Credit Management of PGBBL:

All loans provided by the branch office of GBB are given to its members under group responsibility with sixteen decisions, which are rules for receiving and utilizing credit properly without any security. The loan disbursement procedure is designed to simple, quick and efficient. A group consists of five members and a center consists of at least three and at most eight groups. All credit disbursement is a set limit to the amount that can be borrowed. The interest rate for all loans is same, regardless of the purpose of loan. Loan repayment is done weekly. Te interest on the loan is calculated during the last two weeks of the loan period.

Women are provided top priority in GBB programs. The monitoring, supervision and evaluation are conducted in the weekly group meeting where members and groups sit together and discuss. Every branch, area and district office is required to submit regular progress reports to the respective departments of the bank. In addition to that, external evaluators may also be appointed to assess the impact on the poor of the GBB's activities.

The GBB does not accept the liabilities of the rural poor as done by other commercial banks. The commercial banks have been collapsed because of the successful activities of GBB. The GBB does not lend such creditors until they pay off all their previous loans.

1.2 Focus of the Study

Nepal is the country of rural poverty. Grameen Bikash Bank is playing vital role. Majority of people depend on agriculture income. Population of the kingdom is steeply increasing day by day. Our country has not technically developed enough in manufacturing sector. By the cause of these, larger amount of foreign currency is spending for import the goods. On the other hand, there is no more attention of commercial bank in rural areas. Private money lenders charges high rates of interest to local poor. In this context, rural bank has established in Nepal. The PGBBL is operating its business in the eastern development region's Terai belt. It is naturally a matter of interest to peep in to its financial performance especially due to striking fact that it never ask for any securities for the disbursement of loan. The researcher wants to find out what the financial performance is in the PGBBL. The profitability study the organization will be the add to save the organization for the long life to help to poverty alleviation programs. Financial performance shows its efficiency, capital structure, profitability, liquidity and future progressive trend which is helpful for the bank management client and ministry of finance of Nepal to provide supportive decision.

1.3 Statement of Problem

Grameen Bikash Bank has been established in five development regions of the kingdom under development bank act 2052 BS. Purbanchal Grameen Bikash Bank is situated its heads office in the Biratnagar, Nepal. PGBBL has become third large bank of its kind in the world within few years of establishment. The bank is still in growing stage. It has been success to gain popularity among the Terai belt people of the eastern development regions. Since its commencement of business PGBBL has been facing serve lose in each year except 2054/55, 2063/64, 2064/65and 2065/66 BS. The share capital of the bank is 63 million rupees. Its reserve fund is Rs. 8 million, it the short light of view it is existence seems to be at stake. A business enterprise is obviously making profit. In the case of development, bank activity of PGBBL is definitely not at the cost of its own existence. Principally, it must attain at least the break-even point every year; other wise it may be financial crisis for existence in future.

1.4 Objectives of the Study:

The objective of the financial performance of PGBBL is mainly to identify the existing financial position. The detail objectives of the study are the following:

(i) To identity the existing financial position of PGBBL

(ii) To evaluate the liquidity, profitability, activity, capital structure analysis.

(iii) To compare the present and past situation with the help of trend analysis.

(iv) To find out the relationship among the variable (i.e. borrowing , outstanding loan , disbursement &repayment of loan).

1.5 Limitation of the Study:

The study has the following limitation,

(i) The study has used five years data only.

(ii) This study is based on secondary data and therefore, the findings are based on information provided by the bank .

(iii) Its financial performance is based only on the funds flow analysis, ratio analysis trend analysis and correlation analysis.

1.6 Organization of the Study

A study on the financial performance of PGBBL has been divided into five chapters,

CHAPTER -I

[INTRODUCTION]

This is the introductory chapter which is related to the introduction of the study.

CHAPTER-II

[REVIEW OF LITERATURE]

The second chapter deals with review of literature relating to the financial performance.

CHAPTER-III

[RESEARCH METHODOLOGY]

In this chapter the research methodology used for the study has been described. It included as introduction, research design nature of data processing procedure and tools for analysis.

CHAPTER-IV

[PRESENTATION AND ANALYSIS OF DATA]

In the fourth chapter, Presentation analysis and interpretation of data are presented analyzed and interpreted by using differs financial tools and present the result relating to the study.

CHAPTER-V

[SUMMARY CONCLUSION AND RECOMMENDATION]

Summary conclusion and recommendation is included in this chapter.

The bibliography and appendixes are given there after.

CHAPTER – II

REVIEW OF LITERATURE

This chapter presents the review of pertinent literature on financial performance. It includes conceptual review and review of some research studies carried out by some eminent authors.

It covers the review of analysis of the financial performance. The objective of the review of literature is to review the literature to develop the research effectively. "The purpose of reviewing the literature is to develop some expertise in one's area to see what new contribution can be made and to receive some ideas for developing research design."[6] Some light has been thrown with a purpose of reviewing the literature in this chapter. It contains financial performance, financial statement, financial statement analysis and interpretations of tools and techniques of financial statement analysis and review of the research study.

During the study the researcher consulted various books, < journals, articles, seminar's papers, various relevant acts, rules, some thesis presented by various students, regulations and policies on related subject. Some of their logics, issues, finding and suggestions are mentioned, which are found to be guideline to prepare the current study. It also walked in various related organizations to review the literature of financial performance of PGBBL.

2.1 Conceptual Review of Financial Performance Analysis

Financial performance analysis can be considered as a heart of the financial decision. The growth and development of any enterprises is directly influenced by the financial policies. Rational evaluation of the financial performance of the enterprises is essential to prepare sound financial policies. The financial performance prefers to treatment of the information confined in the financial

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[b] .Wolf, Howard and Pant, Prem Raj, (1996), *A Hand Book for Social Science Research and Thesis writing,* Buddha Academy Enterprises, Katmandu, 2nd edition , P.-30.

statement to afford a full diagnosis of profitability and financial position of the concerned company. Financial performance is concerned with analysis of financial statement of an enterprise by using different tools and techniques. The real picture of financial performance mainly depends upon the past, present and anticipated future profit of an enterprise.

The profit earned and well service offered by the company is the main financial performance indicator of the business enterprise. Profit is the result of successful managerial technique, effective cost control, risk management, credit extension and efficiency of the operation. But it also affected by many other factors, mainly, It is affected by the government economic rules, regulation, policies of interest rate, investment tax policy, labour law and inflation etc. "profit is essential for an enterprise to service and grow as well as the maintain capital adequacy through retained earnings. It is also essential to access market for both debit and equity to provide funds for increased assistance to the productive sector".[7]

Liquidity refers the ability to lay ones hand on cash when it is needed without having to sell long term assets on loss in an unfavourable situation. Enough liquidity is needed to honor the cheques and at the same time to enable to make profitable loans when an opportunity arises. If not do this, question arises like the position of Nepal Bangladesh bank on 2nd week of November 2006.

Any bank manages adequate equity capital to make less risky. Inadequate equity capital in the capital structure makes use of more debt of fixed cost and generally, fixed expiration date. At this time, when debt are more enough, but firms fails to earn revenue sufficiently, it will be unable to meet its obligation like interest. At this condition, the firm or bank may fails on insolvency position. On the other side, lower position of the debt in capital structure also reduces

[7] Ronald L. Robinson, (1952) *The Management of Bank Fund,* Mc Grew Hill Book Companying , New York, edition , chap. -21,22

shareholders profit or bonus. In the above-mentioned case, we conclude that either lower equity capital structure or higher equity capital structure is best for business or other enterprises. There must be adequate equity capital structure to operate smoothly.

Long term creditors, like debentures holders are more concerned with the fund for long-term financial strength or solvency. Therefore, while evaluating the financial performance, solvency is widely used, which measure the funds supplied by the owners and creditors?

Development Bank is the bank which helps to make strength national economic. The main business of the development bank is the mobilization of the resources of national economy, which scatter in different economic level of people, is collected as deposit. The bank must have utilized its adequate deposits it curtails profitable opportunities. If it fails to utilize its collected resources it can't generate proper revenue. Resources mobilization is one of the important functions of the development bank like Grameen Bikash Bank, which includes resources, collection, investment portfolio, loan and advances, working capital management etc. it measures the extent to which the bank is successful to utilize its resources.

Financial performance is that managerial activity, which has concerned with the planning, raising, controlling, administrating of financial resource of an enterprise. The main activities essential to successful administration are the financial performance in any organization. Therefore financial performance is not only the evaluation of financial condition. But also the evaluation of planning and it helps to improve the planning in future." Management should be particularly interested in knowing the financial strengths of the firm to make their best use and to be able to spot out the financial weaknesses of the firm to take suitable corrective actions. The future plans of the firm should be laid down in view of the firm's financial strengths and weaknesses."[8]

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[8] Pandey, I.M., (1983), *Management Accounting*, Vikas Publishing House, New Delhi, P.-89 .

Adequate capital structure is necessary to smoothly operation of running business for every enterprise. An effective financial performance is that performance, which has management effectiveness by the returns, generated investment, the firm ability to maintain its economic position in a competitive market and the growth of the economy to use proper advantage and to take the corrective action of financial strengths and weaknesses. "Effective planning and control are central to enhancing enterprise value. Financial plans may take many forms, but any good plan must be related to the firm's exiting strengths and weaknesses. The strengths must be understood if they are to be used to proper advantage and the weaknesses must be recognized if corrective action is to be taken."[9]

We conclude that if the enterprise have been operating effective efficiency financial policy and management effectiveness by the returns generated on investment which is able to maintain its economic position in the growth of economy and the ability to achieve market value is excess of cost outlays, its financial performance fs better on the competitive age of twenty first century. Financial performance means to generate its reasonable profit by giving high quality of goods and service offered of the consumers. In the manufacturing and processing sectors the main source of income is profit of selling goods and services.

□ Financial Management

"Financial management is a business activity which is concerned with the acquisition and utilization of capital funds in meeting the financial needs and overall objectives of the business organization."[10] In other words, financial management can be defined as the management of the flow of money and any credit instrument in an organization whether it is corporation, school, enterprise,

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[9] Weston, J.F. & Copeland T.E., (1990) *Managerial Finance*, The Dryden Press, New York, 9th edition, P.-185
Prentice Hall of India, New Delhi, 9th edition, P.-3

and bank or government agency. The successful financial management of an organization is beneficial to customers' employees, investors and also to the general people.

"Financial management is concerned with the acquisition financing and management of assets with some overall good in mind."[11]

Financial management is considered as an integral part of overall management and decision of each and every functional area are made only after analyzing its financial consequence as well as contribution to achieve the financial objective of the business organization. The functions and scope of financial management covers the three major decision making area, i.e. The investment decision The financing decision The dividend decision

One of the main objectives of any business organization is the higher return involving the least cost. So that it can give good returns to investors in the form of dividends, in the form of bonus and other different facilities to employee's attraction and to the creditors to invest more by providing the interest and returns on loan on time and some contribution to mention economic objectives of nation.

□ **Financial Statement**

Financial statement is used in modern business activities refers to the two statements prepared by the finance manaqex at the end of period of time for a business enterprise. They are balance sheet and income statement or profit and loss account. In the corporation, another statement is prepared i.e. retained earning (surplus) statement. Which reconciles the balance in this account at the period with that at the beginning.

The financial statement provide a summary of the accounts of a business enterprise, the balance sheet reflects the assets, liabilities and capital as of a certain date and the income statement showing the results of operations during a certain period.

Financial statement is the collection and presentation of historical data organized according to logical and consistent accounting procedure. The basic purpose of financial statement is to provide information about the financial aspects of a business enterprise. "The financial statements provide a summary of the accounts of a business enterprise, the balance sheet reflecting the assets, liabilities and capital as of a certain date and the income statement showing the results of operations during a certain period."[11]

"Financial statement reports what has actually happened to earnings and dividends over the past few years. It may show a position at a moment in time as in the case of activities over a given period of time in case of an income statement".[12]

Financial statement is prepared for the purpose of presenting a periodical review as report on the progress by management and deal with the starts of investment in the business and the result achieved during the period under review. Thus, "financial statement contains summarized information of the firms financial affairs organized systematically."[13] Financial statements are the means to present the firm's financial condition to investors, creditors and general people. The basic objective of financial statements is to assist to decisionmaking. The basic financial statements prepared for the owners, investors, creditors and others are;
Balance sheet Income statement Director's reports A copy of the chairman speech.

"Financial statement at least to the two statements which are prepared by a business concern at the end of the year. These are (i) Income statement or Trading, profit and loss account, which is prepared by a business concern in order to know the profit earned and loss sustained during specified period (ii) position statement

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[11] Myer, Jhon. N. , (1974) *Financial Statement Analysis*, Prentice Hall of India , P.-95
[12] Hampton, Jone J., (1981) *Financail Decision Making,* Prentice Hall of India, New Delhi. . P.-63
[13] Meigns W.B.& Others, (1978) *Intermediate Accounting,* Mc Graw Hill, New York, P.-1049.

or balance sheet, which is prepared by a business concern on a particular date in order to know its financial position"[14]

Thus, among the above financial statements, the main financial statements are Balance given below sheet or statement of financial position. Income statement or profit & loss account.

□ Balance sheet

"Balance sheet presents the position of company's assets, liabilities and stock holder's equity in a particular data; the liabilities indicate the amounts owed by the firm to its creditors"[15]

Balance sheet is a statement, which is prepared with a view to present the true picture of the business organization at a certain fixed date, usually at the closing date of an accounting period. Therefore, it presents the financial position of a business organization or firm on the given date. The financial information contained in the balance sheet is presented into two sides as assets side and liabilities and net worth side. Assets side presents all items of fixed and current assets of the business organization as existed at a point of time. Liabilities side of balance sheet presents all the long- term as well as short-term liabilities including equity capitals. So, "Balance sheet contains information about resources and obligation of a business entity and about its owner's interest in the business at a particular point of time[16]".

The comparison of the balance sheet prepared at the beginning and closing date of an accounting period shows the changes in the structure of assets and liabilities between two points of time. This change is the results of business

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[14] Jain,S.P. & Narayan, K.L., (1993) *Financial and Management Accountancy,* Kalyani publisher. New Delhi, 3rd edition, P.-15

[15] Lawrence D.Schall & Charles W. Haley, (1994) *Introduction to Financial Management,* Mc Graw Hill book Company, London, 4th edition , P.-381

[16] Knnedy, Ralpa, Dale, (1947) *Financial Statement for Analysis and Interpretation*, Richard P. Irwin Inc, Chicago, edition P.-l

activities carried out in between two accounting periods. This change also gives simple idea about the financial performance of the business organization. Thus "Balance sheet may be defined as a statement prepares with a view to measure the exact financial position of a business on a certain fixed date."

Although it provides useful information, the balance sheet has its limitations. It does not show the events or activities that resulted in the balance in each of the accounts or accounting techniques used to prepare them. Many accounting methods are standard, but some variance is permitted, which would greatly change the amounts reported in certain accounts in certain time. Another weakness is that the analyst preparing the balance sheet may make improper assumptions either mistakenly or to distort the picture shown on the balance sheet. Assumptions as to when obligations have been incurred or when revenues have accrued can have marked effects on the final figures on the balance sheet.

The four important facts with respect to the limitation Of the statements in point are as follows:

a) Precision of the financial statement data is impossible because the statements deal with matters that can't be stated precisely. The data are produced by conventional procedures developed by the accounting profession through many years of experience implemented by various postulates as assumption and applied by judgment.

b) The assets shown on a balance sheet are largely un-expired or unamortized costs. The balance sheet does not usually show the market value of the assets. It follows that the balance sheet doesn't show what a business is worth, that is, what might be obtained for it if were sold.

c) The statement doesn't show the financial condition of a business since there are usually financial statement data that have an important bearing on financial accountant for a business.

d) The net income shown in the income statement is not absolute but relative dependent as it is on the particular conventional procedures in its accounting by the enterprises for which the statement is complied. These procedures have been selected from coming various alternatives.

In conclusion, balance sheet is classified summary of all assets and debit balance as well as liabilities and credit balances, which shows the financial position of company on a given date.

□ **Income Statement**

It is recognized as the profit and loss account. Profit and loss account is the statement that shows the results of operation for a period of time. It is the summary of the income and expenditure of a firm within a particular period of time. It serves as a measurement of its profitability. The income statement is the scoreboard of the firm's performance during a particular period of time.

"Income statement is designated to report the point performance of business entity for specific period of time such as a year, quarter or month. Business revenues and expenses results from the accomplishment of the firm's operation"[17]

Income statement is the financial statement, which is the presentation of accumulated accounting data, prepared with a view to show the profit made or loss incurred during an accounting period of time. It is also known as profit and loss account. All the items of income, revenue, costs and expenses, which are accumulated during the accounting period, are included in this statement and profit or loss made during the period is determined. "The profit and loss account is condensed and classified record, prepared from various subsidiary and nominal accounts of the gains or, losses to the business for a period of time."[18]

Wilcox Kirkland A & Et. AL, (1984), *Introduction to Financial Accounting,* Hamper and Row publisher, New Work, 2nd edition
P.-18 ~ Chaudhary, S.B., (1978), *Management Accounting"* Kalyani Publisher, New Delhi, India, 4'"edition,
P.-21

"The income statement of the profit and loss account presents the summary of revenues, expenses, and net income (or net loss) of a firm for a period of time. Thus, it serves as a measure of the firm's profitability"[19]

The profit and loss account includes all outstanding expenses and revenue as well as non-cash expenses like depreciation, amortization of preliminary expenses etc. Inclusion of such expenses is essential to find out the true profit and loss made during the accounting period. Therefore, the profit and loss account or income statement reflects the earning capacity and potentials of the firm. It explains the change in retained earnings caused by operations from one balance sheet to next. It usually encompasses yearly operations, although interim statements may be issued for short period such as monthly, quarterly etc.

□ Uses of Financial Statements

Financial statements are major tools in understanding what happen to the firm's money as the firm pursues its business activities when used together the balance sheet, income statement and funds flow statement offer valuable insights into the firms' efforts to achieve liquidity and profitability. The generally accepted accounting principles and procedures are followed to prepare these statements. The main use of the financial statement is to assist in investment decision making. It is major tools to understanding what happen to the firm's wealth or money as the firm pursues its business activities. Financial statements are used to present a historical record of firm's financial development, when completed over a number of years. Using the trend analysis of financial statement, determine useful financial factors that have influenced the growth and current status of the business organization. Financial statement is useful to forecast a course of action for the business by preparing performs financial statement with a view to firm's future financial performance.

□ Limitations of Financial Statements

[19] Pandey, I.M.,(1983), *Management Accounting,* Vikas Publishing House Pvt. Ltd, New Delhi, India, P.-26

Although it has many advantages, but not free from limitation. Some limitations, which also affect the data presented in the financial statements. Valuations of assets are made in a different way, if the company is liquidated. The value of the assets realized from the market may be higher or lower than its value shown in the books of accounts. Similarly accounting records are based on monetary units, which do not present the impact of inflation. Though, the provisions for bad debts are made unrealized revenue, but there are the chances that the actual profit may be different due to the changes in the realization of such outstanding revenue.

The important facts with respect to the limitation of the statement are as follows:-

a) Financial statements are essentially interim reports and therefore, cannot be final because true profit cannot be computed unless the business is sold or liquidated. So the net income shown in the income statement is not absolute but relative depending upon the particular conventional procedure used by the enterprise, for which the statement is compiled, this procedure having been selected from various alternatives.

b) Precision of the financial statement data is impossible because the statement deal with matters that can't be stated precisely. The data are produced by the professional accountant through many years of experience implemented by various postulates or assumptions and applied by judgment.

c) The assets shown in the balance sheet are largely unexpired and un-amortized costs. It doesn't usually show the market value of assets. From above view, it follows that the balance sheet doesn't show what a business is worth and that is what might be obtained for it if it were sold.

d) The statement does not show the financial condition of business enterprise because these are many factors which are not parts of the financial statement data that have an important bearing on financial condition of enterprise rather the financial statement show the position of the financial accounting for the business enterprise.

e) In the financial statement both income statement and balance sheet reflect rupee (money) value of transactions on different date. The rupee (money) value is fast changing and as such the accounting conclusion based on their figures might be misleading for the business enterprise.

In conclusion, A researcher, in order to analysis and interpret financial statement, requires to have a throughout understanding of the nature of each item expressed in this financial statement and should also know the limitation of the financial statements.

□ **Financial Statement Analysis**

Financial statement analysis can be undertaken by management of the business enterprise or by different parties outside the firm, such as, owners, creditors, investors and others. The nature of financial statement analysis will differ depending on the purpose of the analysis i.e. trade creditors are interested to analysis about the evaluation of the firm's liquidity position. Similarly the supplies of the long-term debt are interested to analysis the firm's profitability over the time, its ability to generate cash to be able to pay interest and return their claims. Long term creditors on the other hand are interested to analysis about the firm's future solvency and profitability and investors, who have invested their money in the firm's shares, are most concerned about the earning of the firm. In conclusion they all are concentrated on the analysis of the present and future profitability of the firm.

"Financial statement analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account."[20]

"Financial statement analysis is an information processing system designed to provide data for decision making. The process of analysis of financial statement involves the compilation and study financial and operating data the preparation and interpretation with measuring devices such as ratios, trends and percentages."[21]

Management, creditors, investors and others use. the information contained in these statements to firm's judgment about operating performance and financial position. From the analysis of financial statement, user can be pointed out better insight about the financial strength and weakness or favourable and unfavourable of the firm when they analysis properly information reported in these statement. In conclusion, financial statements analysis is the starting point for making plans before using any sophisticated forecasting and planning procedures.

"The focus of financial analysis is key figures contained in the financial statement and the significant relationships and exists between them."[22]

Business organizations, firms, enterprises and other parties may have different types of objective of financial statement analysis. So the users of financial statement such as firm's investors, creditors, management and academicians and students use different types of financial statement such as external and internal, short-term, and long- term analysis for their convenience.

□ Need of Financial Statement

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[20] Pandey,I.M., (1993),*Financial Statement,* 6th revised edition Vikas Publishing House Pvt. Ltd. New Delhi, India, P. -96

[21] Agrawal,N.P., (1981), *Analysis of Financial Statement,* National Publishing House, New Delhi , Edition, P.-5

[22] Khan, M.Y. & Jain,P.K.,(1989), *Management Accounting and Financial Management,* Tata Mc Grew-Hill Publishing Company Limited, New Delhi, India, 1st Edition, 1989 ,P.-29

Every financial statement is prepared according to generally accepted accounting records maintains by experience accounting profession of the institution or business enterprises. Financial management analysis plays important role on every management decision in a much-coordinated way. "Financial statement analysis is helpful in assessing the financial position, performance of profitability of a firm". Therefore the financial management analysis is needed for the owners, creditors, investors, management, students, academicians and general people with respect the following point of views are as follows:-

a) It helps to forecast of future earnings and dividend.
b) It shows the financial position of the enterprises and firm.
c) It communicates the information for all party who are related to financial transactions.
d) It helps the proper management of required capital of the firm has been able to internally and externally.
e) It provides needed information about change in economic resources and obligations.
f) It tells about the strength and weakness of the firm with their expected cash flows.

a Tools and Techniques of Financial Statement Analysis

A numbers of important tools and techniques of financial statement analysis have been identified in modern industrial era and used to analysis the financial aspects of business organization. Using the tools and techniques of financial analysis, it can be judged a particular business organization is financially well managed or not.

The following tools and techniques are applied to analyze and interpret the financial statement.

1. Funds flow statement.
2. Financial analysis.
3. Trend analysis.

4. Correlation analysis.
5. Trend least square method analysis.

1. Funds Flow Statement:

The efficiency of the company is reflected in the inflow and outflow of funds in the business. Funds flow statement contains details of the sources or amount of incoming funds as well as utilization of fund during the accounting period for which this statement is prepared. Therefore, it shows the movement of fund from one item of assets or liabilities to another item of assets or liabilities. Comparison of balance sheet of two dates (i.e. opening and closing balance sheet) is used for funds flow statement analysis. A fund flow statement is a report on movement of funds explaining where from working capital originates and where into the same goes during an accounting period. This statement contains of two parts: (1) sources of funds and (2) application of funds, the different between the two parts is known as the net change in the working capital during the period. It describes not only the sources from which addition funds were derived but also the uses to which these funds were put. The transaction, which increase working capital are sources of funds and the transaction which decrease working capital are application of funds. "A statement of sources and application of funds in a technical device designed to analysis the change in the financial condition of a business enterprise between two dates"

"The funds flow statement is a statement which shows the movement of funds and is a report of the financial operation of the business undertaking. It indicates various means by which funds were obtained during a particular period of time and the way to which these funds were employed." [23] With the help of funds flow statement we study changes in the financial position of a company between two financial statement dates, beginning and ending. Funds flow statement is also known as different titles such as statement of working capital

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Manankarmi, Shiva Prasad,(1999), *Text Book of Accounting and Auditing,* Educational Enterprises (P) Ltd, Kathmandu, 2nd Edition , P.-258 change, statement of source and application of funds, summary of financial operations, and statement of funds supplied and applied, statement of funds received and disbursed of fund and so on.

The basic purpose of the statement is to indicate where funds came and where it was used during the certain period. The statement is useful as a tool of historical analysis with following importance.

a) Funds flow statement determines the financial consequences of business operations. It shows how the funds were obtained and used in the past. Financial manager can take corrective actions.
b) It serves as a control device, when comparing with budgeted figures. The financial manager can take remedial steps; it there is a deviation.
c) The management can formulate its financial polices dividend, reserve etc. on the basis of the statement.
d) It point out the causes for changes in working capital.
e) It point out the sound and weak financial position of the enterprise.
f) The management can rearrange the firm's financing more effectively on the basis of the statement.
g) It unable the bankers, creditors or financial institutions in assessing the degree of risk involved in granting credit to the business.
h) The statement compare with the budget concerned will show to what extent the resources of the firm were used according to plan and what extent the utilization was unplanned.
i) Various uses of funds can be known and after comparing them with the uses of various years, improvement or downfall in the firm can be assessed.
j) It tells whether sources of funds are increasing or decreasing or constant.

Limitations of Funds Flow Statement

Although funds flow statement has a number of user and become a significant tool of financial analysis it has also certain limitation. These limitations must be kept in mind while attempting to use, are following:

a) It is not original in nature; it is only a systematic rearrangement of accounting data given in financial statement.
b) It does not provide information about change in cash, which are more important and relevant than working capital.
c) It indicates the funds flow in summary form and it does not show various changes which takes place continuously.
d) When the both aspects of transaction are current they are not considered and when the both aspects of transaction are non- current even then they are also not include in this statement.
e) It is related to past analysis, due to historical nature. So projected funds flow statement give only an idea about the future.
f) It is not an ideal tool for financial performance.

2. Financial Analysis

Financial analysis is one of the important and age old technique of financial analysis. "Financial analysis is a 1/2rd stick tool to evaluate the financial performance and conditions of the firm".25 Financial analysis is a powerful tool of financial analysis. Data given in financial[24]

statements in absolute form are dumb and are unable to communicate anything. 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 an index or 1/2rdstick for evaluating the financial position and performance of a firm. The absolute accounting figures reported in a financial statement do not provide a meaningful understanding of the performance and financial position of a firm. So an accounting figure conveys the meaning when it is related to some other relevant information. Financial Analysis indicates a quantitative relationship, which can be in turn used to make a qualitative judgment about the firm's financial position and performance.

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[24] James C. Van Horne,(1991), *Financial Management and Policy,* Prentice Hall of India, 8[lh] edition, P. -753

Financial analysis is a technique of analysis and interpretation of financial statement to evaluate the performance of an organization by creating the ratio from the figures of different accounts consisting in balance sheet and income statement is known as financial analysis

"Khan and Jain argued that financial is defined as the systematic use of ratio to interpret the financial statements so that the strengths and weaknesses of a firm as well as its historical performance and current financial condition can be determined."[25]

In conclusion financial analysis is a tool to evaluate the performance and current financial condition of an organization. Objectives of financial analysis is to provide necessary information for trade creditors, investors, suppliers' management and student etc. for well managed of business firm. "Most of the analysis to judge the soundness of financial position and policies is based on the balance sheet.[26] Financial analysis can be classified, for purpose of exposition, into four broad groups which are the following.

a. Liquidity analysis:

The liquidity analysis measure the ability of a firm to meet its short- term obligations and reflect the short-term financial strength solvency of a firm and indicate the liquidity of the firm.

Liquidity analysis is used to judge the company's ability to meet its obligations at maturity[27] Liquidity analysis is computed either by comparing fixed charges and earnings from the income statement or by relating the debt and equity

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[25] Khan, M.Y. and Jain,P.K,(1994), *Management Accounting,* Tata Mc Grew-Hill Publishing Company Limited, New Delhi, 2nd edition, P.-60

" Shukla, M.C.Grawal, T.S. & Gupta S.C,(1997), *Advanced Accounting*,S. Chanda Company, New Delhi ,13th edition, P.-29.9

Weston,J.F.and Brigham, F., *Essential of Managerial Finance,* Holt Richhart Wiston Inc.. 1968, P-items with assets from the balance sheet. It measures the company's ability to fulfil short-term commitment out of its liquid assets. In other words it measures the company's short-term strength to meet the short liabilities.

i. Current Ratio.

The current ratio measures the company's short-term solvency. It indicates the availability of current assets in rupees for everyone rupee of current liability. As a general rule 2:1 ratio is considered acceptable for most companies, although it is only a rule of thumb standard, higher the current ratio greater is the probability of prompt and full payment of current liability. Low ratio indicates the company's inability to pay its future bills when due.

ii. Quick Ratio:

This ratio establishes a relationship between quick or liquid assets and current liabilities. The ratio is found out by dividing the total quick assets by total current liabilities. As a guideline 1: 1 quick ratio is deemed adequate for most companies but it should not be relied dangerously. It also measures and analyses the liquidity position of a company.

b. Leverage analysis /Capital Structure analysis

Leverage analysis is used to measure the company's ability to meet long-term obligations. Generally assets of the companies are financed both by equity and debt. Financial leverage can work in opposite direction as well. If the cost of debt is higher then the company's overall rate of return of earning of shareholders will be reduced. If the equity base is thin, the creditors risk will be high. Thus leverage analysis are calculated to measure the financial risk and the firm's ability of using debt for the benefit of stockholders

In conclusion it can be said that the companies with high leverage analysis run the risk of larger losses but also have a chance of gaining high returns and vice-versa.

i. Total Debt Ratio/ Debt to Total Assets Ratio

Debt ratio may be used to analyze the long-term solvency of the company. The debt ratio can be completed by dividing total debt by capital employed or total assets. Here total debts include both long-term debt and short-term debts and total assets include current and fixed both assets, which are derived from balance sheet of the company.

ii. Long term debt to net worth ratio

This ratio is also known as debt to net worth ratio. Long-term debt to net worth ratio indicates to what extent the company depends upon outsiders for its existence. For the creditors this ratio provides a margin of safety for the owners. It is useful to measure the extent to which they can gain the benefit by maintaining control over the firm with a limited investment.

This ratio is very important for the creditor's owners and the business itself. It provides a margin of safety to creditors to measure the extent to which they can gain the benefits by maintaining control over ***rhe*** company with a limited investment to owners and what is the long**-** term solvency position to the business itself. **A** high debt to net worth ratio shows that the claims of long**-** term creditors are greater than these of owners. **A** low long **-**term debt to net worth ratio implies a greater claim of owners than creditors. In other words, the high ratio is unfavourable from the business point of view.

iii. Total Debt to Net worth Ratio

Total debt to net worth ratio is calculated by dividing total liabilities by net worth. It measures the percentage of total funds provided by creditors and owners. The creditors prefer moderate ratio. Lower the ratio the greater the cushion against the creditor's loans in the event of liquidation. It contrast, the owner may seek high ratio to magnify earning because raising of new equity means giving up some degree of control and earning as well.

If the debt ratio is too high, there is a danger tempting irresponsibility in the part of the owners.

iv. Interest Coverage Ratio

Interest coverage ratio is useful for the company's debt servicing capacity. Sometime, it is also called "time interest earned ratio". It measures how many times interest charges are covered by funds that are available to pay the interest charges. This ratio indicates the extant to which the earning may fall with out causing any embarrassment of the company regarding the payments of the interest charges.

v. Net Fixed Assets to Long-term Debt Ratio

This Ratio is also useful to measure the long-term position of a company. This ratio is helpful to creditors, owners and business itself. It measures the condition of fixed assets to cover the long-term debt. Higher the ratio is an indication of higher overall efficiency of the business.

c. Activity Analysis

The activity analysis represents the intensity with which the company uses its assets in generating sales. It indicates whether the companies' investment in current and long-term assets in properly used. Too large investment means lying down of funds in unproductive activities, this analysis gives signal to use funds for more productive purpose. If investment is too small, the company may provide poor service to customers because of inefficiency in the production. This analysis measures the company's efficiency and indicates how the companies have utilized its different assets. Inventory turnover, debtor turnover, fixed assets turnover are some of the important ratio within activity analysis. Thus, activity analysis is employed to evaluate the efficiency with which the company manages and utilizes the available resources put by an enterprise. Khan and Jain argued that an activity analysis may, therefore, be defined as a test of the relationship between sales (more appropriately with cost of sales) and the various assets of a firm.[28]

[25] Khan, M. Y.& Jain, P. K. op, cit, pg—90

i. Inventory Turnover Ratio

This ratio indicates the efficiency of the company in selling its products. It is calculated by dividing the cost of goods sold by the average inventory or by dividing sales by inventory. The inventory turnover ratio shows how rapidly the inventory is turning into receivable through sales. Generally a high inventory turnover is indicative of good inventory management. A low inventory turnover implies excessive inventory levels than warranted by production and sales activities, or a slow moving or obsolete inventory. A high level of sluggish inventory amounts to unnecessary tie up of funds impairment of profit and increased costs. If the absolute inventories have to be written off, this will adversely affect the working capital and liquidity position of the firm.

ii. **Debtors Turnover Ratio:**

The liquidity position of the company depends upon the quality of debtors to a great extent. The debtor's turnover ratio indicates the number of times on the average that debtor's turnover each year. Generally the higher the value of debtors' turnover, the more efficient is the management of credit. Financial analysts apply two ways to judge the quality of debtors. The first ratio is found out by dividing credit sales by average debtors. The second ratio is found out by dividing total sales by the end balance of debtors.

iii. **Average Collection Period**

The average collection period measures the quality of debtors. It indicates how rapidly the debtors are collected, shorter the average collection period, the better the quality of debtors, because short collection period implies the indication of timely payment by the debtors. The average collection period is compared with the company's credit terms to judge its credit and collection efficiency. As a rule of thumb, the average collection period should not exceed the period of payment mentioned in the terms of sale Notational.

iv. Total Assets Turnover Ratio

The total assets turnover ratio represents the ratio between total assets to net sales. It reveals the efficiency in managing and utilizing the total assets. Total assets turnover ratio is calculated by dividing the total sales by total assets. A high ratio indicates over trading on fixed assets, while low ratio shown excessive investments a symptom of idle capacity.

d. Profitability Analysis

Profit is necessary to survive in any business field for its successful operation and further expansion. It measures management's overall effectiveness as shown by the returns generated on sales and investment. These analyses give final answer about how effectively the company is being managed. It is a central measure of the earning power and operating efficiency of a company. Not only any business concern has to earn profit but also it has to remember social responsibility. Here two contrast things has been arisen a good entrepreneur most make proper balance between them.

The difference between total revenues and total expenses over a period of time is known as profit. Efficient operation of a company and its ability to pay an adequate return to different parties depends upon company's profit. Profitability ratios are calculated to measure the operating efficiency of the company.

Profitability is a measure of efficiency and the search for it provides an incentive to achieve efficiency. S.K. Bhattachar1/2 & Derdon argued that Profitability analysis essentially relates to the profit earned by an enterprise during a particular period to various parameters like, sale, owner's equity (i.e. net worth), and capital employed and total sales.[29]

S.K. Bhattacharya & Derdon,(1980), *Accounting for Management,* Vikash Publication House Pvt. Ltd .India, P.-283

The profitability analysis examined thus reveal some interesting things about the way the firm is operating, but the profitability analysis give final answer about how effectively the firm is being managed. For the analytical purpose, different measurement tools of profitability are used in this study. Mainly gross profit margin , net profit margin , return on total assets, return on equity, cost of goods sold ratio, earning per share, are used in the study.

i. Gross Profit Margin

Gross profit margin indicates the percentage of profit after cost of production. It also indicates the efficiency of operation of the company. Gross profit is the result of the relationship between, prices, sales volume and cost. If profit margin falls down, the cost of production increases. A high ratio of gross profit margin is a sign of good management. It means that the company is able to produce relatively at lower cost. A low gross profit margin is definitely a dangerous sign. This occurrence, in turn may be due to lower sales prices or lower operating efficiency in relation to volume.

ii. Net Profit Margin

Net profit margin is the overall measure of the company's ability to turn each rupee sales into net profit. It is very useful to the proprietors and prospective investors because it reveals the overall profitability of the company. This is the margin of net profit after tax to net sales. It would really be difficult for a low net margins company to with stand these adversities. Similarly a company with high net margin can be better use of favourable condition by raising sales prices or reducing cost of production or increasing demand for the product. Such a company will be able to accelerate its profits at a faster rate than a company with a low net profit margin.

iii. Return on Total Assets

The return on total assets measures the profitability of the total funds or total investment of a company. It, however throws no light on the profitability of the different sources of funds that finance the total assets. In point of fact, real return on the total assets in the net operating earning including interest. A more reliable indicator of the true return on assets is the net profit inclusive of interest. This margin judge's effectiveness in using the "pool" of fund, which is useful to measure the profitability of all the financial resource invested in the company's assets.

iv. Return on Capital Employed

Return on capital employed is an important from the owner's point of view. It measures the return on the collected funds. The margin indicates how well the company has used the resource of owners and creditor. The ratio of net profit to capital employed shows the extent to which profitability objective is being achieved. Higher the margin the better it is.

v. Expenses Ratio:

Expenses ratio is the indicator of change in the net profit. It is computed by dividing expenses by sales. The expenses ratio is in a way reciprocal of the profit margin, gross as well as net. It is very important for analysis the profitability of the company. It should be compared over a period of time with the company average as well as the company of similar type. As a working proposition, a low ratio is favourable while a high ratio is unfavourable. The implication of a high expenses ratio is not only a relatively small percentage share of sales is available for meeting financial liabilities like, interest, tax, and dividends etc. Thus the profitability ratios of expenses based on sales are an important indicator of the operational efficiency of manufacturing and processing enterprises. Mainly cost of goods sold ratio, operating ratio are used in the study.

e. Limitation of Financial Analysis

Financial analysis is a worldwide technique for business enterprise to evaluate the financial position and performance. Yet, it suffers from various limitations. Some of the limitations of financial analysis are given below: -

1. The price level changes make the interpretations of ratio invalid.
2. The analyses are generally calculated from past financial statement and thus are not indicators of future for business.
3. Financial Analyses are constructed from accounting data, and these data are subjected to different interpretations and even to manipulation.
4. Conversely, conformance to industry composite ratio does not establish with certainty that the firm is performing normally and is managed well.
5. The Financial Analysis calculated at a point of time are less informative and defective as they suffer from short-term change.
6. It is difficult to decide on the proper basic of comparison.
7. Financial Analysis is related with quantitative analysis only but not with qualitative analysis. Qualitative analysis is ignored by ratio analysis.
8. The result shows by the Financial Analysis are not fully dependable. It must be understand those analysis are only the symptoms. It required further investigation for pinpointing the underlying factors.
9. Financial Analysis is helpful tool to aid judgment in complex situation. It can never be a substitute for sound judgment.
10. Financial Analysis can be applied to analyze and interpret only the static phenomena of the financial situation and the dynamic aspect of the flow of funds and cash cannot be analyzed.

3. Trend Percentage Analysis

Trend analysis is one of the tools of financial analysis. Trend analysis shows percentage changes in several successive years instead of between two years. Trend analysis indicates the direction of change. The change and deviation on item of financial statement of a number of years can be analyzed by determining and studying the data shown on the statement. Trend analysis refers to the position of •'avorable or unfavourable (up ward or downward) of variable in the given ceriod of time with the base year and its helpful to identify the controllable items of financial and operation data contained in the zalance sheet and income statement. According to Chaudhary and Roy n order to express the figure in terms of percentage, the comparative figures of the financial statement are analyzed by calculating percentages, furthermore, the percentage of one period is compared with the base year's percentage usually a particular past year is chosen as a base year and all items of the financial statements for that year are reckoned as 100. There is no doubt that expressing the figure in terms of percentage is a more practical approach for the analysis, interpretation and study of the facts and figure. Thus the change in figures expressed in terms of percentage over a period of yeas, will disclose the trends or change that are occurring in financial and operational data to judge whether the trends are favourable or otherwise.[30]

This method involves the calculation of percentage relationship each item bears to the same item in the base year. Trend percentage discloses changes in the financial and operating data between specific periods and make possible for the analyst to from an opinion as to whether favourable or unfavourable tendencies are reflected by data.

An analysis of the trend of certain business facts is extremely helpful in budgeting and forecasting with comparative study of the financial statement of several years. Trend analysis involves the calculation of percentage. Relationship that each item of financial statement bears to the some item in the base year or for trend analysis the use of index number is generally advocated. The procedure followed is to assign the number 100 to items of the base year and to calculate percentage changes in each item of other years in relation to the base year. This procedure may be called as trend percentage method.

The trend of significant aspects (such as seller, profit, wages, cost etc) of business activities can be analyzed by taking the figure for number of years and

[30] Choudhary, Anil, &, Roy B,(1985), *Financial Ratio and Working Capital,* Easter Law House Calcutta, P.-34

tabulating them in an intelligent manner then presenting them on graphs or charts. Therefore, it makes easy to understand the changes in an item as a group of items over a period of time and to draw the conclusion regarding the changes in data. Trend analysis is a significant tools of financial performance to know the direction of movement i.e. whether the movement is favourable or unfavourable.

Limitation of Trend Percentage Analysis

a) Trend percentage should also be carefully studied after considering the absolute figures on which these are based, otherwise they may give misleading conclusions.

b) The accounting principle and practice followed must be consistent over the period for which the analysis is made.

c) Trend percentage should be calculated only for those items, which have logical relationship with one another.

d) Trend analysis does not state the affairs of the firm when compared with the base year. It is different to select an appropriate base year for comparison of various items of financial statement.

e) If the base year is normal year than trend analysis only can reflect actual picture of the firm.

f) The trend analysis ignores the sudden or short-term fluctuations.

There is also a next method of trend analysis that is trend least squares method. Trend least squares methods is an universal tool of financial performance to describe the trend of the business firm, which helps to the management to know the condition of favourable and unfavourable of the business organization. Bajrachar1/2 argued that a widely and most commonly used method to describe the trend is the method of least square.[31]

4. Simple Correlation Analysis (Coefficient of Determinant)

~ Bajracharya, B.C,(2057), *Business Statistics and Mathematics,* M.K.. Publishers and Distributors, P.- 302

Correlation analysis reveals the degree of relationship between two or more than two variable. Relationship between two variable is called simple correlation can be positive or negative.

Coefficient of correlation is calculated when it is believe that there is cause and affect relationship one of the variables will be casual variable and another will be effect. When there is change casual variable, there will be corresponding change in dependent variable.

Gupta argued that the correlation is a statistical tool which studies the relationship between two variables and correlation analysis involves various methods and techniques used for studying and measuring the extent of the relationship between the two variables.[32]

Shrestha & Dhruba argued that Correlation is defined as the relationship (or association) between (among) the dependent variable (or factor) and one or more than one independents variable or factors. In other words correlation is the relationship between (or among) two or more variable(s) (i.e. only one variable dependent and or more variable(s) independent.[33]

Among the various methods of studying correlation the Karl Pearson's co-efficient of correlation is most widely used in practice for financial performance of business enterprises. One of the widely used mathematical methods of calculating the correlation coefficient between two variables is Karl Person's correlation coefficient. It is also known as person's correlation coefficient. The Karl Person's coefficient of correlation is denoted by symbol(r). It measures the relationship between two variables.

1. Interpretation of Correlation Coefficient (r)

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[32] Gupta, S.C.,(1996), *Fundamentals of Statistics,* Himalaya Publishing House, India, 5[th] Edition, P.- 510

[33] Shrestha, Sunity & Dhruba Prasad,(2057), *Statistical Methods in Management,* Taleju Prakadhan, kathmandu, 2[nd] edition, P. -315

a) The Coefficient of correlation as obtained by the above formula always lies between + 1 and -1.
b) When r is + 1, there is positively perfect correlation between the two variables.
c) When ns -1, there is negatively perfect correlation between the variables.
d) When "are between 0.7 to 0.999 these 'is a high degree of correlation between the variables.
e) When ns between 0.5 to 0.699, there is moderate degree of correlation between variables.
f) When ns less then 0.5, there is low degree of correlation between the variables.
g) When ns 0 (zero), there is no correlation between the variables or the variables are uncorrelated.

2. Merits and Limitations of Karl person's Correlation Coefficient

Merits:

- Karl Person's method of finding correlation coefficient is based on all the observations.
- These method summaries in one figure the degree of relationship as well as direction.

Limitations:

- It is affected by extreme values.
- This method always assumes lines relationship between two variables whether this assumption is true or not.
- In comparison of other methods, it is most time consuming method.
- Interpretation of the value of r is not an easy attempt.

2.2 Review of Related Studies.

The literature relating to this study was received and views expressed by various sectors of research and researcher is been presented in chapter.

A study carried out by Ranjit Lama on An evaluation of financial operation of NIDC in 1986.[34] In this study the sources of data were used secondary. The major findings in the study period of five years i.e. form F.Y. 1980/081 to 1967/085 were concluded as:

- The liquidity position of the corporation was satisfactory up to the year 1966/1967.
- The current ratio, debt equity ratio, debt to total assets ratio of the corporation was observed poor performance thought out the study period.
- The whole financial performance of the corporation in term of the operation seems dissatisfactory.
- It was found that the corporation possessed enough resources taking loans and the amount of that outstanding loan was unfavorably increased.

Likewise, Bhesraj Bhurtel conducted a study on Financial analysis of manufacturing company on Uda1/2pur cement industry.[35] The study based on secondary sources of data and converted period of six years i.e. from F.Y. 2062/063 to 2066/067. As per the objectives to reveal the financial performance of UCIL to evaluate the financial strength and give the basic guide lines, he concluded his finding as under:

- The Liquidity position of the company was unsatisfactory up to the F.Y. 2064/065
- The company had higher level of costs than the volume of its sales by the cause of which profitability position of the company was poor.

Lama, Ranjit,(1986), *An Evaluation of Financial Position of NIDC,* Unpublished masters thesis Submitted to the faculty of Mgmt T.U.,Kritipur,

Bhurtel, Bhesraj, (2000),*Financial Analysis of Manufacturing Company on Udayapur Cement Industry,* Unpublished Masters ThesisSubmitted to the Faculty of Mgnt, T.U Kritipur

- The solvency position of the company treated by the trend analysis is very poor and unfavourable.
- Changes in working capital of company is unsatisfactory that is indicates the short-term solvency position of the company become worse and worse day by day.
- All the positions are fluctuating and below the satisfactory level because of result the return are placed in the negative region by using the tools of financial performance.

Similarly, Laxman Shrestha carried out a study on financial performance of the popular plastic private Limited Dharan.[36] The objectives of this study were to identify the existing financial position of the company. The study based on secondary data of five years period. The major findings of the study period i.e. 2050/051 to 2055/056 was summarized as:

- The liquidity position of the popular plastics private limited was not sound.
- The nature of the net profit was in fluctuating trend thought it was not so bad.
- High cost of goods sold, heavy operating expenses, low owners capital, traditional concept of financial management, traditional pricing policy etc are the main variable which reflected the poor financial performance of popular plastics private limited.
- The whole financial performance of the company was not good and bad but normal.

Another researcher Khagendra Pokharel study on An analysis of financial position of D.K textile Pvt. Ltd.[37] The objectives of the study was not examine an evaluate financial performance using funds flow analysis, financial analysis and

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Shrestha, Laxman,(1999), *Financial Performance of Popular Plastics Pvt. Ltd. Dharan Nepal,* Unpublished Masters thesis submitted to the Faculty of Mgnt. T.U., P.G. Campus, Biratnagar,

! Pokhrel, Khagendra,(1995) *An Analysis of Financial Position of D.K. Taxtile (pvt) Ltd. Nepal,* unpublished Masters thesis submitted to Faculty of Mgnt, T.U. ,P.G. Campus Biratnagar, trend analysis on the basis of secondary data of five years i.e. from 2062/063 to 2066/067. The major findings were:

- The capital structure of D.K textile (Pvt) Ltd. was not proportionate. There was heavy debt rather than ownership capital.
- The company was suffered losses during the study period due to inefficient management administration and selling expenses.
- The solvency position of the company was not satisfactory during the study period.
- The study indicated that the management had not exercised any control over the expenses of the company.

Similarly, researcher SantiRam Khanal studied on financial performance of Biratnagar Jute mills Ltd. Nepal. [38] In this study source of data were used secondary to identify the comparative picture of sales, profit and loss, to observe and evaluate the sources and uses of fund, to identify profitability of BJM Ltd. The major findings in this study period of five years from FY.2062 to 2067 were pointed as under:

- The liquidity position of the company was weak. Both liquidity ratios were very low as compared to the normal standard.
- The company suffered from the operating loss during the study period to higher rate of interest payment, negative working capital.
- The debt equity capital ratio, debt to total assets ratio, profit margin ratio was observed poor performance of the Mills for the time period of study.
- The whole financial position of Mills in term of operation seemed unfavourable during the study period.

Likewise, Binod Krishna Shrestha conducted a study on Evaluation of the financial performance of the DDC. [39] The study based on secondary source of data

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Khanal, Santiram,(1994) *Financial Performance of Biratnagar Jute Mills Ltd, Nepal,* unpublished Masters thsis submitted to faculty of Mgnt., T.U., P.G. Campus Biratnagar

[39] Shrestha, Binod Krishna, (1988)^/1 *Evaluation of Financial Performance of DDC,Nepal,* unpublished Master thesis submitted to Central Dept of Mgmt T.U.Kritipur .

and covered period of six years i.e. from the fiscal year 2037/038 to 2042/ 43. As per the objective to reveal the financial performance of DDC to evaluate financial strength and give the basic guidance, he concluded his finding as under.

- Assets utilization was dissatisfactory despite the satisfactory liquidity position
- The investment policy of corporation was found defective.
- The DDC had a sound long-term solvency that the fixed assets alone pay the double the amount of loss term loan.
- The corporation was more dependent on the foreign subsidies that 92% of the total loan was profited by the foreign agencies.
- The corporation had higher level of costs than the volume of its sales by the cause of which profitability portion of the cooperation was poor.

Bhaba Nath Ghimire concludes that the current asset is not sufficient, it has not used creditor ship capital and it has fully ownership capital. Its net worth is down, and profitability position is satisfactory to some extent only because company has not earned sufficient profit from under writing function. So the financial performance with parameter ratio analysis, common size statement and trained analysis of insurance company is in average condition.[40]

Y.P. Pokhrel, in thesis financial performance of agricultural development bank concludes that the current ratio of ADB/N is quite low, debt to total asset shows improvement condition fixed assets to equity has increased, activity analysis shows the average and profitability analysis reveals the week condition. Trend percentage analysis of income statement reflects mixed results. On the basis above result the financial performance with parameter: Financial analysis, funds flow analysis and trend percentage analysis of ADB/N shows the mixed result.[41]

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[40] Ghimire, Bhaba Nath,(2001), *Financial Performance of Insurance Company Nepal Ltd.,* PG Campus, Biratnagar.

[41] Pokhrel, Y.P., *Financial Performance of Agricultural Development Bank,* Faculty of Management in PG Campus, Biratnagar.

CHAPTER-III

RESEARCH METHODOLOGY

The main target of the research is to explain the financial performance of PGBBL to judge its performance from FY 2062/63 BS to 2066/67 BS. Research methodology is the process by which the objectives of the study can be derived. It provides the instruction regarding the methods and process associated with the overall study of financial performance.

The term research methodology is composition of the two words research and methodology. Research means the search for truth and methodology refers to the various sub sequential steps that are adopted by the researcher is studying a problem with certain objectives in view. This chapter is derived in to seven sub-heading. They are research design, nature and sources of data, population and sampling of study, data collecting procedures, data processing procedures, research questions and uses of analytical tools. Researcher explains it briefly as follows:

3.1 Research Design

It is devising the plane for the research. It describes the general framework for collecting, analysis and evaluating data after identify: (i) what the researcher wants to know and (ii) what has to be dealt with in order to obtain required information.

The basic aim of this study is to evaluate the situation and to provide constructive suggestions for better mobilization and utilization sources and resources and other aspect of financial management of PGBBL. Evaluation has been done on the basis of profit and loss A/C and balance sheet by using financial tools and statistical tools.

3.2 Nature and Sources of Data

This study is based upon the secondary data published in the form of annual report about profit and loss A/C balance sheet and concerned notes of PGBBL for five year from FY 2062/63 BS to 2066/67 BS. The chairman's reports for different AGM have also furnished some important data.

3.3 Population and Sample of the Study

The population of the study is the totality of all observations that have been selected for the study. Thus, in the case of PGBBL if the researcher studies the past whole life of PGBBL is called population study. It is quite difficult to analysis all the data of population. So the sample has been selected for the study, which starts from FY 2062/63 BS to 2066/67 BS.

3.4 Data Collection Procedures

The study is mainly based on the secondary data. The data related to financial performance of PGBBL is directly obtained from the head office. The supplementary data and information are obtained from the journals NRB's yearly book and other sources.

3.5 Data Processing Procedures:

The data collected from the above sources of the bank are classified, tabulated and analyzed. Financial ratios are basically used for interpretation.

3.6 Research Questions

The researcher tries to give answer of the following questions to measure the financial situation of PGBBL. These questions are as follows:

a) How are the funds collected and applied by the PGBBL?
b) How is the financial position shown by the relevant analysis?
c) What is the trend of financial performance of PGBBL with parameters like trend of percentage analysis and trend least square method analysis?

d) What is the relationship among the deposit and investment, loan disbursement and collection, borrowing and loan outstanding?

3.7 Uses of Analytical Tools

The performance measurement of business is more difficult and complex. With regard to the financial performance of firm depend on effectiveness in capital management, efficiency and profitability in operation, risk and uncertainty in competition etc. The collected data are analyzed by using various financial tools, out of these are given and defined below:

(1) **Financial tools:**

(i) Funds flow analysis

(ii) Ratios analysis

(2) **Statistical Tools**

(i) Trend percentage analysis

(ii) Trend least squire method analysis

(iii) Simple correlation analysis (coefficient of determinants)

3.7.1 Financial Tools *(i) Funds Flow Analysis*

A statement of the sources as the funds flow statement. It is a technical device designed to highlight the changes in the financial
purpose of funds flow analysis.

(a) Sources of fund: During the study periods of FY 2062/63 BS to 2066/67 BS. Fourteen different sources of fund have been available in different years of PGBBL. They are:

(1) Increase in capital

(2) Increase in reserves

(3) Operating income/profit

(4) Increase in borrowing

(5) Increase in deposits

(6) Increase in other liabilities and provisions

(7) Decrease in fixed assets
(8) Decrease in investment
(9) Decrease in interest receivable
(10) Decrease in account receivable
(11) Decrease in other assets
(12) Decrease in cash and bank balance
(13) Government capital subsidy
(14) Total uses of fund

(b) Application of fund: During the fiscal year 2062/63 BS to.2066/67 BS total sources of funds of PGBBL have been applied in twelve different uses, They are:

(1) Increase in cash and bank balance
(2) Increase in investment
(3) Increase in loan outstanding
(4) Increase in interest receivable
(5) Increase in account receivable
(6) Increase in other assets
(7) Increase in fixed assets
(8) Decrease in reserves
(9) Decrease in borrowing
(10) Decrease in other liabilities and provisions
(11) Operating loss
(12) Total uses of fund

(ii) Ratio Analysis

An arithmetical relationship between two figures is known as ratio. The ratio is used as an idea or 1/2rds stick for evaluating the financial position and performance of a firm. "A ratio helps to the researcher to make qualitative judgment about the firm's financial position and performance". Various tools are used to analysis the performance of the firm. Among the available various financial tools and techniques ratio analysis is a powerful tools and techniques are created from the figures of different account consisting in balance sheet and income statement. It can be grouped into following classification.

a) Liquidity Analysis
b) Leverage Analysis
c) Activity Analysis
d) Profitability Analysis

(a) Liquidity Analysis:

The ability of a firm to meet its obligation in the short term is known as liquidity. On other words, Liquidity Analysis measure the firm's ability to meet current obligations. These examine the adequacy of funds. The solvency of the firms ability to pay its obligation when due. If a firm has sufficient net working capital deemed to have sufficient liquidity. There are four reasons in order to measure the liquidity position of PGBBL the following are considered:

i. Current ratio
ii. Working capital to current assets ratio
iii. Cash and bank balance to total deposits ratio
iv. Cash and bank balance to current assets ratio

i. Current Ratio

The current ratio is a ratio of the firm's total current to its total current liabilities. A low ratio is an indicator that a firm may not be able to pay its future bills on time, particularly if conditions change, causing a slowdown in cash collections. A high ratio may indicate an excessive amount of current assets and management's failure to utilize the firm's resources properly. It is calculated by the following way:

Current ratio = $\frac{Current\ Ratio}{Current\ Liabilities}$

ii. Working capital to current assets ratio

It shows the portion of the working capital on the assets. This ratio is calculated in percentage, in mathematically, it can be written as follows:

Working capital to current $= \frac{Working\ Cpital}{Current\ Assets} \times 100\%$

iii. Cash and bank balance to total deposit ratio:

This ratio shows the ability of banks immediate funds to cover their deposit. Dividing cash and bank balance it is calculated it by total deposits. The ratio can be expressed as:

Cash and bank balance to total deposit ratio $= \frac{Cash\ and\ bank\ balance}{Total\ Deposit} \times 100\%$

The higher ratio indicates the sound payment position and vice versa. However, since cash and bank balance is a non-performing asset, they bear cost and harmful in profitability point of view. Thus, neither higher nor lower ratio is desirable.

iv. Cash and bank balance to current assets ratio

The cash and bank balance to current assets ratio is also one measure of liquidity. It is the most liquid form of the current assets. It shows the percentage of readily available fund within the banks. Dividing the cash and bank balance by the current assets can derive it. This can be done by the following expression:

Cash and bank balance to current assets ratio $= \frac{Cash\ and\ bank\ balance}{Current\ Assets} \times 100\%$

b. Leverage Analysis:

Leverage Analysis show the proportions of debt and equity in financing the firm's assets. The short-term creditors, like debentures 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 funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets.

The manner in which assets are financed has a number of implications. First between debt and equity: debt is more risky firm's point of view. The firm has a legal obligation to pay interest to debt holders, irrespective of the profits made or losses incurred by the firm. If the firms fail to pay to debt holders in time, they can take legal action against to get payments and in extreme cases, can force the firm into liquidation. Second, employment of debt is advantageous for shareholders in two ways (a) They can return control of the firm with a limited stake and (b) Their earning will be magnified, when the firm earns a rate of return on the total capital employed higher than the interest rate in the borrowed funds. The process of magnifying the shareholders return through the employment of debt is called financial leverage or trading on equity. However leverage can work in opposite direction as well, if the cost of debt is higher than the firm's overall rate of return, the earning of shareholders will be reduced. In addition, there is threat of insolvency. Third, a highly debt-burdened firm will find difficult in raising funds from creditors and owners in future. Creditors treat the owners/equity as a margin of safety; if equity base is thin; the creditors risk will be high. Thus Leverage ratios are calculated to measure the financial risk and the firm's ability of using debt to shareholders advantage.

In short cut, leverage refers to the ratio of debt to equity in the capital structure of the firm. Leverage ratio gives the important information interested creditors, investors, moneylenders; social investigators. The different leverage ratios are maintained to measure the financial risk and the firm ability of using debt for the benefits of the shareholders. These ratios are used to measure the proportion of outsider's fund and owner's capital used by the firm. The following ratios are estimated in order to evaluate the capital structure of the PGBBL to the desired objectives.

(i) Debt-equity Ratio

(ii) Debt-Assets Ratio

(iii) Debt to Capital Ratio

(iv) Net fixed Assets to Equity Ratio

(v) Interest Coverage Ratio

(vi) Current Asset to Equity

i. Debt-Equity Ratio

This ratio has been calculated to measure the relative proportions of outsider's fund and shareholders fund invested in the firm. This ratio shows a favourable or unfavourable financial position of the concern depending upon the nature of institutions. Debt and equity have their own identical features. More debt in capital structure also produces higher financial risk because it has fixed claim and fixed maturity, But in contrast, equity capital is more flexible and residual claim on the earnings of the firm.

The difference between equity and refers to margin of safety, which is crucial to the lenders in providing loans. The ratio can be computed as the given formula.

Debt-Equity ratio $= \frac{Total\ Debts}{Share\ Holders\ equity}$

ii Debt-Assets Ratio

It measures the contribution of creditors to own the assets of the company. This ratio is computed by applying the following formula.

Debt to asset ratio $= \frac{Total\ Debts}{Total\ Assets} \times 100\%$

iii. **Debt to Total Capital Ratio**

It is relationship between long-term debt and total capital. Total capital includes owner's equity as well as borrowed capital. A high ratio shows the large share of financing by the borrower as compare to that of total capital. Creditors would suffer here in times of distress than the owner. That is why creditors prefer low debt capital ratio. It is calculated in following way.

Debt to Total Capital Ratio = $\frac{Total\ Debts}{Total\ Captial} \times 100\%$

iv. **Net fixed assets to equity:**

This ratio shows how much of shareholder's fund is being invested in fixed assets. It is calculated by using the formula.

Total Net Fixed Assets

Fixed assets to equity ratio =$\frac{Total\ Net\ Fixed\ Assets}{Sareholders\ Eqyity} \times 100\%$

v. **Interest Coverage Ratio**

It reveals the ability for payment of interest on borrowed capital. This ratio measures the debt servicing capacity of a firm. It is computed by dividing net profit before interest and tax by interest. A high ratio is sign of low burden of borrowing of the business and lower utilization of borrowing capacity. From the point of the view of the creditors, the larger the coverage, the greater the ability of the firm is to make the payment of interest to creditors mathematically:

Interest coverage ratio = $\frac{NIBT+Interest}{Interest}$

Current Assets to Equity Ratio

It ratios reveals that how much of shareholders fund is being deployed in current assets. If the deployment is too small, working capital may be inadequate.

It is calculated in this way.

Current assets to equity ratio = $\frac{Total\ Current\ Assets}{Shareholders\ equity}$

c Activity Analysis:

Activity Analysis reflect the firm's efficiency in utilizing its assets and profitability ratios measure overall performance and effective of the firm. This Analysis are called efficiency or turnover Analysis. This Analysis measures the degree of effectiveness in use of funds by enterprise. Out of several activity ratios the following ratios are calculated for the financial performance of the PGBBL.

Loans outstanding to collection ratio.

Loans collection to disbursement ratio

Loans outstanding to disbursement ratio

Loans outstanding to equity ratio

Administrative expenses to loans outstanding ratio

vi. uver aue loan ratio

vii. Loans collection rate ratio

i. Loans outstanding to collection ratio:

It shows the relationship between loans outstanding and collection. It shows the efficiency of a financial activities institution in realization of the loans disbursed by it. It is expressed in mathematically:

$$\text{Loans outstanding to collection ratio}= \frac{Loans\ outstanding}{Loans\ Collected} \times 100\%$$

ii Loans collection to disbursement ratio:

It indicates that how efficiency has been gain from loan disbursement. This ratio is calculated by using following formula:

Loans collected

Loans collection of Disbursement ratio $= \frac{Loans\ Collected}{Loans\ Disbursement}$ x 100%

iii Loans outstanding to disbursement ratio:

It measures what percentage of loans outstanding has remained yet in clients. It shows the effectiveness and efficiency to operate loans disbursement activities. Higher ratio is not good for the Bank. It is computed by the following way.

Loans outstanding to disbursement ratio $= \frac{Loans\ outstanding}{Loans\ Disbursement}$ x 100%

iv. Loans outstanding to equity ratio:

It shows the relationship between loans outstanding and equity ratio. It is calculated by dividing loans outstanding by equity ratio.

Loans outstanding to equity ratio $= \frac{Loans\ Outstanding}{Equity\ Ratio}$

v Administrative expenses to loan outstanding ratio

It shows the relationship between administrative expenses to loan outstanding. It is computed by dividing administrative expenses by loans outstanding.

Administrative expenses to loan outstanding ratio =

$$\frac{Administrative\ Expenses}{Loans\ Outstanding} \times 100\%$$

vi Investment to total deposit ratio:

It reveals that how portion of the deposit is invested in investment. The bank collects the deposit from the clients by paying the fixed rate o1 interest. It invests the deposit for buying shares and investment in other profitable sectors. If the bank can be increase in the investment proper sectors, it earns profit, which is used for the payment of the interest on deposits. When the bank has a higher ratio of its then it shows the effectiveness and efficiency its activities. It is calculated by dividing the investment by the total deposit ratio. Mathematically:

Investment to total deposit ratio = $\frac{Investment}{Total\ Deposit\ ratio}$100%

vii Loans outstanding to Total deposit ratio:

This ratio reveals what portion of deposit has been carried by the loan outstanding. This ratio is computed by dividing loans outstanding by total deposit ratio. Mathematically:

Loan outstanding to total deposit ratio = $\frac{Loans\ outstanding}{Total\ Deposit}$

viii Over due Loans Ratio

This ratio shows what percentage of the over due loan are on loans outstanding. It is computed by using the following formula:

Over due loans ratio = $\frac{Over\ Due\ Loans}{Loans\ Outstanding}$x100

ix Loans collection rate ratio:

This ratio measures the efficiency of the financial institution. It is calculated by the following formula.

Loan collection ratio=

$$\frac{Total\ Loans\ Collection}{Total\ Collection\ of\ loan+Overdue+Interest\ receivable} \text{x } 100\%$$

d. Profitability Analysis:

Profitability Analysis indicate the overall efficiency of the business concerns. A company should earn profits to survive and grow over a long period of time profit are essential, but it would be wrong to assume that every action initiated by management of a company should be aimed at maximizing profits, irrespective of social consequences. It is unfortunate that the word profit it looked upon as a term of abuse since some firms always want to maximize profits at the cost of employees, customers and society. Except such infrequent cases, it is a fact that the sufficient profit must be earned to sustain the operations of the business to be able to obtain funds from investors for expansion and growth and to contribute towards the social overheads for the welfare of the society.

Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate output of a company and it will have no future if it fails to make sufficient profits. Therefore financial manager should continuously evaluate the efficiency of its company in term of profits the profitability ratios are calculated to measure the operating efficiency of the company. Besides management of the firm or company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principle regularly. Owners want to get a reasonable return on their investment. This is possible only when the company earns enough profits.

Generally, profitability position of PGBBL is evaluated on the basis of following ratio analysis.

i. Net profit to total assets ratio
ii. Net profit to total deposit ratio
iii. Operating ratio
iv. Interest earned to total assets ratio
v. Return on equity ratio

i. Net profit to total assets ratio:

This ratio indicates whether the total asset of the business has been properly used or not. It helps also to measure the profitability of a firm. It is expressed symbolically as follows:

Net profit asset ratio = $\frac{Net\ Profit}{Total\ Assets}$X100%

ii. Net profit to total deposit ratio:

Deposits are mobilized for investment. Loans and advances to the public in generating revenue. This ratio measures the percentage of profit earned from the utilization of the total deposits. It is calculated as following manner:

Net profit to total deposit ratio = $\frac{Net\ Profit}{Total\ Deposit}$x 100%

iii. Operating Ratio:

This ratio shows the changes in the net profit margin. It is calculated by dividing operating expenses by operating revenue.

Operating Ratio = $\frac{Operative\ Expenses}{Operating\ Revenue}$x100

iv Interest earned to total assets ratio:

It is calculated to fund out the percentage of interest earned by the total assets of the firm. The following formula employed for this purpose.

v. Return on equity ratio:

It reveals the earning power on shareholders book investment i.e. net worth. It is computed by dividing net profit after tax by net worth.

Return on Equity = $\frac{Net\ profit\ after\ Tax}{Net\ worth}$x 100%

3.7.2 Statistical Tools

(I) Trend Percentage Analysis:

Is shows the financial performance trend. It is calculated by using selected as the base year and is set to 100%. All other years are represented as a percentage of the base year. An index number can be calculated by the following formula for trend analysis.

Index Percentage = $\frac{Index\ Yearly\ Amount}{Index\ Percentage}$x 100%

The general tendency of the time series data to increase during a long period of time is called trend. Trend analysis indicates the direction change. If is always desirable to express the trend on absolute term as well relatives term. The index percentage can be plotted on group in various ways to facility the study of trends in a firm.

(II) Simple Correlation Analysis (Coefficient of Determinant)

Correlation analysis reveals the degree of relationship between two or more than two variable. Relationship between two variable is called simple correlation can be positive or negative.

Coefficient of correlation is calculated when it is believe that there is cause and affect relationship one of the variables will be caused variable and another will be effect. When there is change causal variable; there will be corresponding change in dependent variable.

Degree of correlation or coefficient of correlation will lie in between 0 to +1 when the value is nearer to one, the relationship is strong. Similarly when the coefficient of correlation is nearer to '0' the relationship is weak and hence causes and effect relationship doesn't exist.

In statistical analysis, instead of using coefficient of correlation 'r' there is a tendency of using coefficient of determination ^.Interpretation of r^2 is very simple when r = 0.9 then coefficient of determination $(0.9)^2 = 0.81$. It means 81% change on dependent variable is explained by a change independent variable. The remaining 19% change is unexplained. It means the changed is caused by other variable not included in the modal. Researcher must calculation to find out the 'r' as follows:

R_{xy} (coefficient correlation) $= \frac{\sum xy - \sum x . \sum y}{\sqrt{x^2}\sqrt{y^2}}$

Where, x = X- $\bar{X}$

Y = Y - $\bar{Y}$

OR

R= $\frac{\sum xy - \sum x . \sum y}{\sqrt{N\sum x^2 - (\sum x)^2}\sqrt{N\sum y^2 - (\sum y)^2}}$

The above formula is called Karl Pearsons Correlation coefficient, which is the one of the widely used mathematical method of calculating correlation co-efficient between two variables.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

It is the main part of the study researcher comes to know in the ground of reality about the financial performance of PGBBL where he test the data with financial and statistics tool. Financial performance is the matter of interest in the inner of the organization. All different shareholder and concerned parties look into it with different views on their interest. The shareholders are interest. The shareholders are integrated in creditor is interested to know whether the firms is in position to meet up its obligation like current liabilities on the other hand the long term creditors give interest to know the working capital and fixed assets of it. Especially the financial management is interested in the fact that the resources of the firm are used effectively and most efficiently.

Management should particularly be interested in knowing the financial position of the firm to make their best use and to be able to spot out the financial weakness of the firm to take correct action for future. It financial statement is properly analyzed it shows the financial strength and weakness. The important part of the study is presentation and analysis of data which helps to find out the fact matter about organization so to get fact results researcher uses the modern tools such as funds flow financial analysis trend percentage analysis, trend least square method analysis and correction analysis. In conclusion this chapter gives answer the research question and derives certain conclusion.

4.1 Funds Flow Analysis

The terms funds flow indicates the inflows and outflows of funds during a particular accounting period, generally year. The flow exhibits the movements of funds in both the directions inside the business and outside the business. However the flow of funds must arise due to external not internal transactions of the business for instance the capitalization of reserves by the issue of bonus shares is an internal transaction. Such transactions are not included in the statement as there is no real addition to the funds of the company. When the term fund is used in the sense of working capital, funds flow will mean inflow and outflow of working capital.

In fact, funds flow analysis reveals about the sources and uses of fund properly. The sources and user of fund are calculated from balance sheet of the bank on the last day of the FY of five consecutive years 2062/63 up to 2066/67 BS. The current year is compared with previous year, increases in amount of any item in the liability side of balance sheet is accounted as uses of fund during the FY.

a) Source of Fund

The sources of fund for different years are detected from five year balance sheet for the purpose of funds flow analysis for the bank. The different sources of funds have been available for PGBBL during the study periods of 2062/63 up to 2066/67 BS. They are as follows:

(a) Increase in capital
(b) Increase in reserve
(c) Operating income
(d) Increase in borrowings
(e) Increase in deposits
(f) Increase in other liability and provisions
(g) Decrease in fixed assets
(h) Decrease in investment
(i) Decrease in interest receivable
(j) Decrease in account receivable
(k) Decrease in other assets
(l) Decreases in cash and bank balance
(m) Governmental capital subsidy.
(n) Total use of fund

Table 4.1

Sources of Fund of PGBBL from FY 2062/63 to 2066/67 BS

(Rs. in Millions)

S.N.	Particular	062/63	063/64	064/65	065/66	066/67
1	Increase capital	-	-	-		
2	Increase in reserve	-	-	0.29	7.53	0.26
3	Operating profit	-	3.11	0.01	0.01	0.01
4	Increase in Borrowing	13.47	13.92	28.50	65.97	109.10
5	Increase in deposit	33.48	35.71	30.16	-	10.17
6	Increase in liabilities & provision	4.21	19.69		41.16	
7	Decrease in fixed assets	0.49	0.50	0.19	0.37	0.16
8	Decrease in investment	-	-	-	-	-
9	Decrease in interest receivable		0.28	-		36.35
10	Decrease in accounts receivable			0.46	2.77	
11	Decrease in other assets	-	-	-	0.41	-
12	Decrease in cash and bank balance					
13	Government capital subsidy	67.10				
Total		115.75	72.93	59.64	115.22	156.05

Source: *Annual Report of PGBBL*

1. *Increase in Capital*

The issued share capital of PGBBL is remained same in every year of the study period. It is found that the bank has of Rs. 63 millions of issued share capital.

2. Increase in Deposit

Deposit includes group saving, institutions deposit, personal, saving, central fund and other saving. The total deposit amount has been continuously increasing. Every study FY 2062/63 to 2066/67 its deposit has increases Rs. 33.48, 35.71, 30.16, 0 and 10.17 millions respectively. It is the main source of the fund. So its contribution on the total source of fund is 28.92%, 48.96%, 50.63%, 0% and 6.52% in respectively of the study period. The contribution of the deposit amount in total source in five years period is 27% on the average. The PGBBL has been successful in increasing the resources by acceptance in deposit. Such an increase in deposit is due to faithful of public towards the bank. It reveals that the bank has been popular among the people in rural sector of the eastern region of our kingdom. It is the good symbol for the PGBBL.

3. Operating Profit

Profit is the important thing for the firm to get survival. However, the PGBBL has been suffering loss in a year of the study period i.e. 062/63. In other four years it earned by Rs. 3.11 million, Rs. 0.01, Rs 0.01 and Rs. 0.10 millions in FY 2063/64 to 065/066 respectively. This amount is also sources of fund which has given contribution to 4.26%, 0.02%, 0.01 % and 0.06% respectively.

PGBBL is performing the role of development banking in rural sector, many face loss in the initial year. The PGBBL is bearing the loss due to expand its area and branch office. This has created the liabilities. Now it is going to ground reality of profit in coming day. Due to many unsound economic situations it is earning a nominal profit.

4. Increase in Borrowing

Borrowing is the major source of fund; it includes national and international institution at loan, NRB rural self help fund loan and different type of loan. The amount of increase in borrowing is Rs. 13.47, 13.92 and 28.50, 65.97 and 109.01 millions respectively of the study period. It contributes on the total sources of fund

8.65%, 19.09%, 47.81%, 54.22%, and 69.86% respectively. It covers 43.90% the total sources of fund on average. It's contribution on total sources and average fund, which has been shown in above figure.

In total an economically sources institution doesn't need the heavy borrowing amount the need utilize its internal resources to mobilize its funds. Evaluation of PGBBL doesn't indicate good result but it success has been dependent based customer tendency.

5. Increase in Reserves

It is also source of fund. It consists of capital reserve and employee welfare fund. The reserve has been decreased in the FY 062/63 and FY 063/64 BS respectively. It increased in fiscal years 064/65 to 066/67 in the whole study period. The amount of increase on reserve is Rs. 0.29, 7.53 and 0.26 millions respectively. It contributes 1.56% only of the total sources of fund.

The higher the reserve shows the better position of the bank. The capital reserve is generated by the value of the lands received as grant from different village committees for the purpose of creation of branch office building of the bank. Financial performance of the bank hasn't satisfactory condition due to decreased in reserve year to year.

6. Increase in other Liability and Provisions

Other liabilities and provisions include provision for doubtful advances, pending interest sundry creditors, earnest money, tax deducted at source (TDS), other unpaid taxes, interest pa1/2ble, unclaimed sum and center fund. Employees provident fund and inter branch transactions are included herewith. It is also increased gradually in study period. It has contributes the source as 3.67%, 27%, and 35.72% respectively for the FY 062/63, 063/64 and 065/66. Its average contribution on sources of fund is 12.53%.

Increase in other liabilities and provision shows the increase in source of funds. There is not constant source of fund from it during the study, period. Decrease in other liabilities and provisions show the unhealthy economic situation for institute.

7. Decrease in Fixed Assets

Fixed assets include land building, furniture and fixture office equipment, vehicle, computer and miscellaneous etc. The amounts of figure of the fixed assets are Rs. 4.06, 3.56, 3.36, 2.99 and 2.66 millions respectively and increased by the 0.49, 0.50, 0.19, 0.37 and 0.16 millions respectively for the FY 2062/63, 063/64, 064/65, 065/66 and 066/67. Its contribution on total sources of fund is 0.42%, 0.69%, 0.32%, 0.32% and 0.10% respectively of the study period. A good performance of the bank isn't given by such decrease in fixed assets.

8. Decrease in Investment:

Decrease in investment is also the source of fund. The total amount of investment is Rs. 0.80, 0.80, 0.80, 0.80 and 0.8 millions respectively for the FY 2062/63, 063/64, 064/65, 065/066 and 066/67. There is not any amount of decreases and increases in investment during the study period.

9. Decrease in Interest Receivable:

Decrease in interest receivable is found only once during the entire study period. Decrease in interest receivable is good for bank. If the bank has been successful in collecting 100% of the interest receivable then its borrowings can be lowered. So it can use its funds systematically, PGBBL has realized a sum of Rs. 36.35 millions. It is 23.27% of the total sources of fund for FY 2066/67.

10. Decrease in Account Receivable:

Decrease in account receivable also a source of fund. There is decreased in account receivable by 0.46 and 2.77 millions in the FY 2064/65 and 2065/66 respectively, which is 0.77% and 2.39% of the total source of the corresponding years. The quicker the accounts receivable realization is better the position for the financial institution.

Other assets include stationary stock, other stock and goods in transit. The amount of the other assets in Rs. 2.06, 5.29, 5.65, 6.13, 9.73 is respectively of the study year. PGBBL has decreased by sum Rs. 0.41 millions in FY 2065/66 BS as a source of fund. It has contribution that year 0.26% of total sources of fund of that year. Decrease figures revert that the fund of the bank is not used efficiently due to lock of proper inventory management.

12. Decrease in Cash and Bank Balance:

Decrease in cash and bank balance of PGBBL has no any amount during the study years. It decreases by Rs. 2006 millions. There often banks cash is important for a liquidity position but holding of excess of cash is no good for bank like PGBBL.

13. Government capital subsidy:

The government capital subsidy is a source of fund. Sometime NRB and government give subsidy to improve activity of the institute PGBBL has been given capital subsidy to amounting Rs. 67.1 millions of FY 2061/62 BS by NRB and government of Nepal. A contribution on total source of the fund comes to be 55.38%. It helps to the bank to reach BEP. This type of subsidy i.e. capital subsidy may be fortune to the bank, which is suffering from the loss.

14. Total sources of fund:

Total sources of fund available for the bank from FY 062/63 BS to 066/67 are Rs.115.75, 72.65 59.64, 115.22 and 156.05 millions respectively. In 2066/67 source of fund is highest than forms and latter year because in this yr PGBBL has increased its borrowings with a big amount. Its total sources of fund should be gradually increased to increase its activities and operating smoothing, but bank is fund in fluctuating condition so it shows the unhealthy situation for the bank.

b) Application of Funds:

The following are found to be the uses of fund of the in different year from FY 2062/63 BS to 2066/67 BS.

(i) Increase in cash and bank balance
(ii) Increase in investments
(iii) Increase in loan outstanding
(iv) Increase in interest receivables
(v) Increase in account receivables
(vi) Increase in other assets
(vii) Increase in fixed assets
(viii) Decrease in reserves
(ix) Decrease in Borrowings
(x) Decrease in other liability and provision
(xi) Operating loss
(xii) Total uses of fund

The uses of fund are presented in the following table.

Table 4.2

Uses of funds of PGBBL from FY 2062/63 to 2066/67 BS

(Rs. in Millions)

S.N	Particular	062/63	063/64	064/65	065/66	066/67
1	Decrease in deposit	-	-	-	42.19	-
2	Increase in cash balance	15.46	6.99	29.30	49.37	47.66
3	Increase in loan outstanding	90.23	59.99	16.71	6.74	65.05
4	Increase in interest receivable	2.87	3.25	5.99	16.92	
5	Increase in account receivable	1.92	2.06	-	-	2.37
6	Increase in other assets	3.23	0.33	0.51	-	4.01
7	Increase in fixed assets	-	-	-	-	-
8	Decrease in borrowing	-	-	-	-	-
9	Decrease in other liabilities & provision			7.10		36.79
10	Operating loss	2.03	-	-	-	-
11	Decrease in reserve	0.01	0.31	-	-	-
Total		**115.75**	**72.93**	**59.64**	**115.22**	**156.05**

Source: *Annual Report of PGBBL*

1. Increase in Cash and Bank Balance:

The PGBBL has utilized its resources to increase in cash and bank balance. At the end of the FY 2062/63 2063/64, 063/064, 2065/66 and 2066/67 the cash and bank balance of the PGBBL are increased by Rs. 15.46, 6.99, 29.30, 49.37 and 47.66 millions respectively. Its contribution on the application of the fund is

13.36%, 9.58%, 49.15%, 42.85% and 30.65% respectively of study year. It contributed to the total fund utilization by 28.71% during the study period.

The cash and bank balance is the best for liquidity but it is very expensive for financial institution if it keeps balance in excess. The bank could not make any investment for generate of any income. Minimum cash and bank balance shows that total fund utilization by PGBBL as cash and bank balance properly has not been used.

2. Increase in Loan Outstanding

It includes general loan, irrigation loan, saving loan, grouping fund loan etc. The amount of loan outstanding in the current FY 2066/67 is Rs. 566.12 millions. The loan out standing has increased by 90.23, 59.99, 16.71, 6.74 and 65.05 millions respectively for the study years. It established with a view to upgrade the rural public economic condition. The figure of loans outstanding revels enlistment in the rural sector. On the other aspect, increase in loan outstanding is to rise in revenue income of the bank by receiving as interest. Since the bank has not increased its share capital in order to meet up the fund required for loan disbursement because it has adopted the policy of taking the aid of borrowings. However, the increase in borrowings is found to be less than the increase in loan outstanding comparing with the previous year without 065/66 BS in this year. Borrowing is increased by 54.65% and loan outstanding increased by 5.85% only.

3. Increase in Investment

Investing corresponding area of the bank uses the fund. These are government bonds company share as well as fixed deposit of commercial banks. The amount of investment figure of the bank is Rs. 0.8 millions of all remaining study year. The un fluctuated condition of the investment reveals that the investment policy of it is satisfactory.

4. Increase in Interest Receivable

The PGBBL has utilized its fund to increase interest receivable to the increased by Rs. 2.87, 3.25, 5.99 and 16.92 millions. The above figures reveals that 2.48%, 4.46%, 10.05% and 14.68% of the fund have been used on account of interest receivable by the bank in the FY 2062/63, 063/64, 065/66 and 066/67 respectively of the study year. The amount of interest receivable of the bank in FY 2066/67 is decreased which is explained above.

5. *Increase in Account Receivable*

The account receivables include many items: are sundry debtors, security deposits and staff advances etc. The amount of account receivable increased by Rs. 1.92, 2.06 and 2.37 in 062/63, 2063/64 and 2066/67 respectively. Its contribution on uses of fund is 1.66% in 062/63, 2.65% in 063/64 and 1.52% in 066/67 BS. The scarce resources of any financial institution should be so utilized so that it can generate some income at least and higher the best.

6. *Increase in Other Assets*

Other assets of the PGBBL consist of stationary stock, store in transit goods in transit and other stock. It increased by Rs. 3.23, 0.33, 0.51 and 4.01 in 062/63, 063/64, 064/65 and 066/67 BS respectively which is 2.79%, 0.45%, 0.86% and 2.57% of fund uses of those years. Decreasing way of the other assets doesn't show the good condition of bank. The bank should adopt properly minimum balance of stationary and other storage. Equipment should be maintained. These types of activities help to the bank to some extent to comeback security of fund.

7. *Increase in Fixed Assets*

Fixed assets of PGBBL include land, building, furniture and fixture, office equipment, vehicle, computer and miscellaneous etc. The PGBBL hasn't increased its fixed assets. So bank has become unable to utilize its fund properly in respect of fixed assets. If the bank wants to improve existing position its amount should increase regularly.

8. Decrease in Reserves

Reserve has been changing in this study period the reserve is decrease by 0.01 millions in FY 062/63 and 0.31 millions in FY 063/64. These types of decrease have happened due to continuous declaim in capital reserves as well as reduction in the employees welfare fund. Decrease reserves don't indicate good performance of the bank. The bank is success to avoid decrease in reserve at the later fiscal years.

9. Decreasing in Borrowings

Decrease in borrowing gives two side of view. One side at decrease in borrowing indicates the proper utilization of internal resources. On the other side it indicates the lack of task efficiency to utilization of funds now a day an institution like PGBBL can't survive by itself. There in not found decreased amount of the bank in the years of the study.

10. Decrease in Other Liabilities and Provision

Decrease in other liabilities gives rise to uses of fund so decrease in other liabilities and provision shows the decline in performance of the bank. The PGBBL has Rs 7.1 and 36.79 millions of amount decreased in other liabilities and provision in FY 064/65 and 066/67 respectively, which are 11.91% and 23.58% of application of the fund of the corresponding years.

11. Operating loss

PGBBL has suffered by loss entire study period. But is gained profit in FY 062/63 BS. The amount of loss suffered by Bank is Rs. 2.03 millions. The cumulative loss has reached amounting to Rs. 3.11 millions by adjusting profit. But in 062/63 government has given capital subsidy amounting Rs. 67.10 millions. The source of fund is utilized to maintain the operating loss.

In this situation PGBBL should be consistence for profit generation. The main causes of suffering loss are to increase its liabilities by expanding the branch office and invest to non-profit sector. If the conditions stay same the financial performance will appear a challenge for the survival.

12. Total use of Fund

Total use of fund is exactly equal to the total source of fund in each year. The total uses of fund are Rs. 115.75, 72.93, 59.64, 115.22 and 156.05 millions from FY 2062/63 to 2066/67. To release from anxious position of the bank. Sources of fund should be utilized in proper place in proper time where is gained profitability as soon as possible.

4.2 Financial Analysis:

Financial analysis is a technique of examination and explanation of financial statement. To evaluate the concert of an organization by creating the ratio from the figures of different accounts consisting in balance sheet and income statement is known as ratio analysis. "One cannot arrive at a definite conclusion about the financial health of an enterprise simple by studying and scanning the complete figures contained in the conventional from of financial statement viz. revenue statement (i.e. P/L account) and balance sheet. The same is possible only when the absolute figures are analyzed further in term of ratios.

Financial analysis is an important tool of financial analysis. A ratio is a statistical two figures tape that dealings the relationship between is used as a measuring tape evaluating the financial position and performance of an enterprise and by its help we can make proper qualitative judgment according. We are calculating the following ratio in this study.

(1) Liquidity analysis.
(2) Leverage analysis.
(3) Activity analysis.
(4) Profitability analysis.

4.2.1 Liquidity analysis.

Liquidity analysis evaluates the firm's ability to meet current obligations. It reflects the short-term financial strength of the firm. The most important to measure liquidity position of PGBBL the following are considered:

(i) Current ratio
(ii) Working capital to current ratio
(iii) Cash and bank balance to total deposit
(iv) Cash and bank balance to current assets.

(i) Current ratio:

Current assets includes cash and bank balance, loan outstanding, investment, interest receivable, inventories, sundry debtors, account receivable and other assets accept motorbike advance etc. on the other side, current liabilities includes overdraft loan, saving and deposit, other liabilities and provision, employees reserve fund, doubtful debts provided fund and inter-branch account etc. Current ratio is computed by the following formula:

$$\text{Current ratio} = \frac{Current\ Asset}{Current\ Liabilities} \times l00\%$$

Table 4.3

Current ratio of PGBBL from FY 2062/63 to 2066/67 BS

Rs. 0000

FY	Current Assets	Current Liabilities	Current ratio
2062/63	46638	20644	2.3:1
2063/64	53955	26455	2.06:1
2064/65	59308	23565	2.5:1
2065/66	66593	23459	2.66:1
2066/67	74567	20807	3.58:1

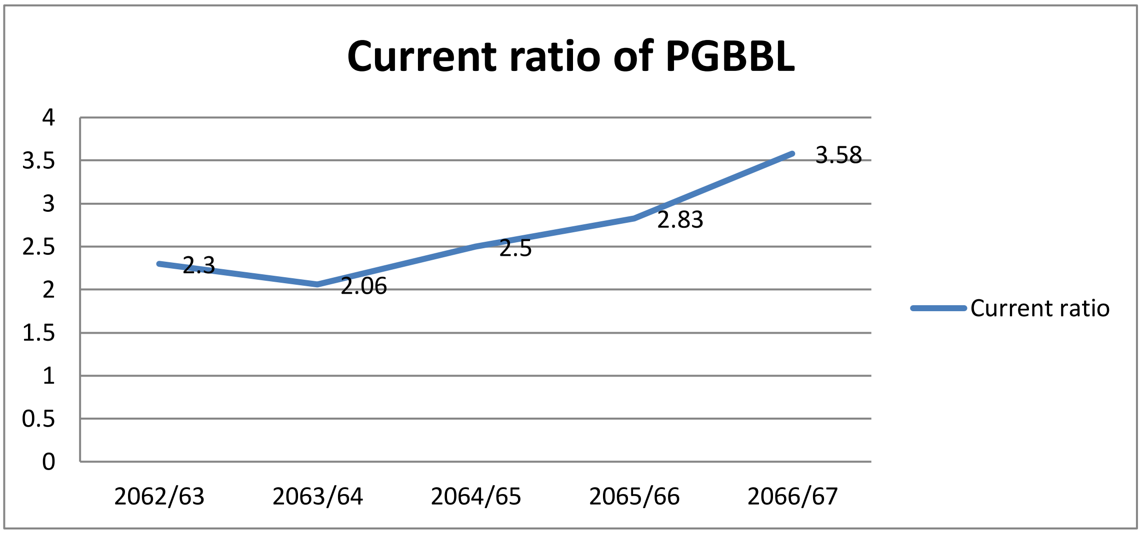
Source: *Annual Report of PGBBL*

CA = TA- fixed assets

CL = TL- capital - reserve – borrowings

The current ratios of PGBBL from FY 2062/63 BS to FY 2066/67 have been shown in the table 3. It is clear that the current ratios of the 5 year period are more than two times. So there is no adverse effect on operations through the view of current ratio. It the ratio is less than two times difficulty may be created in the payment of current liabilities and daily operations of the business may suffer.

Current ratio of PGBBL for the study years is 2.3:1, 2.06:1, 2.5:1, 2.66:1 and 3.58:1 respectively. It indicates sufficient liquidity position in bank. The current ratio represents a margin of safety i.e. a cushion of protection for creditors. So the current ratio can also be called the card and quick measure of the firm's liquidity. Through the viewpoint of current ratios the liquidity position is in balance. So it is favourable for the good financial performance of the bank.



Source: *From Table No. 4.3*

(ii) Working capital to Current Assets Ratio:

Working capital has been calculated by total current assets minus current liabilities. Working capital to current assets is calculated by dividing the working

Working capital to current assets ratio = $\frac{Working\ Capital}{Current\ Assets}$ 100%

<u>Table 4.4</u>

Working Capital to Current Assets ratio of PGBBL from FY 2062/63 to 2066/67 BS

Rs. 0000

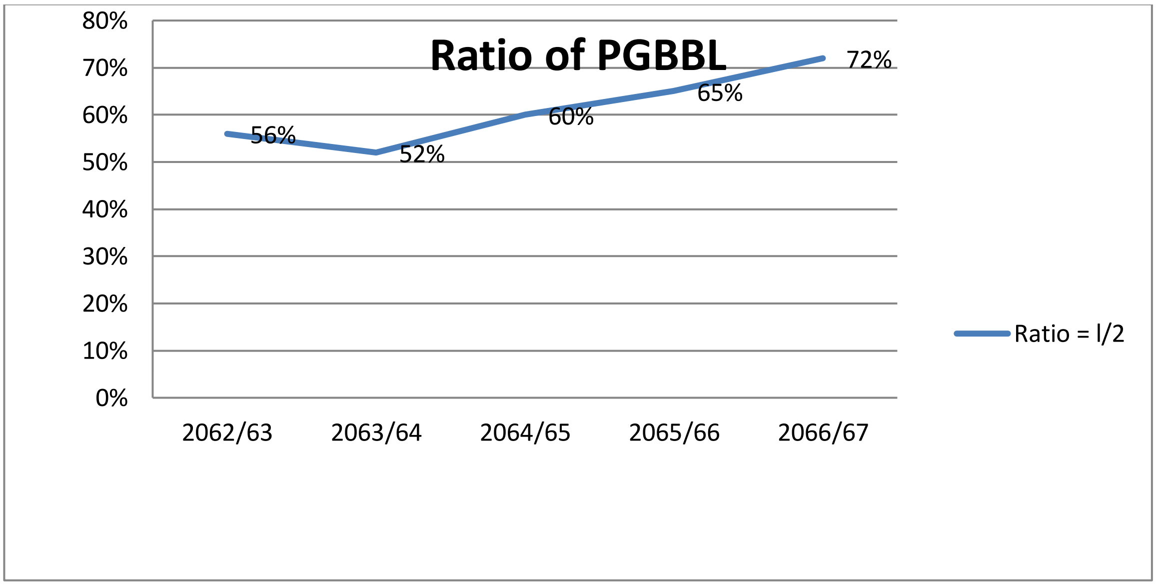
FY	Working Capital	Current Assets	Ratio = ½
2062/63	25994	46638	56%
2063/64	27801	53955	52%
2064/65	35746	59308	63%
2065/66	42664	66593	65%
2066/67	53777	74567	72%

Source: *Annual Report of PGBBL*

W/C = CA - CL

The working capital of the PGBBL from FY 2062/63 BS to 2066/67 BS is as follows (in thousand rupees) in the corresponding years are respectively: 259.94, 278.01, 357.46, 428.34 and 537.77 millions rupees.

According from this study period, working capital to current assets ratios on FY 2062/63 BS to FY 2066/67 are found to be 56%, 52%, 63%, 65% and 72% respectively. The above figure shows that the working capital to current assets ratio is more than 50% above during the study period. In the study period PGBBL has faced the low working capital on BS 2062/63 and 2063/64 but it has improved on current year. So the present situation is good because the average standard value of working capital to current assets ratio is 64 %.



Source: *From Table No. 4.4*

(iii) Cash and bank balance to total deposit ratio

The cash and bank balance to total deposit ratios calculated by dividing cash and bank balance by total deposit.

$$\text{Cash and bank balance to total deposit ratio} = \frac{Cash\ and\ Bank\ Balance}{Total\ deposit} \times 100\%$$

Table 4.5

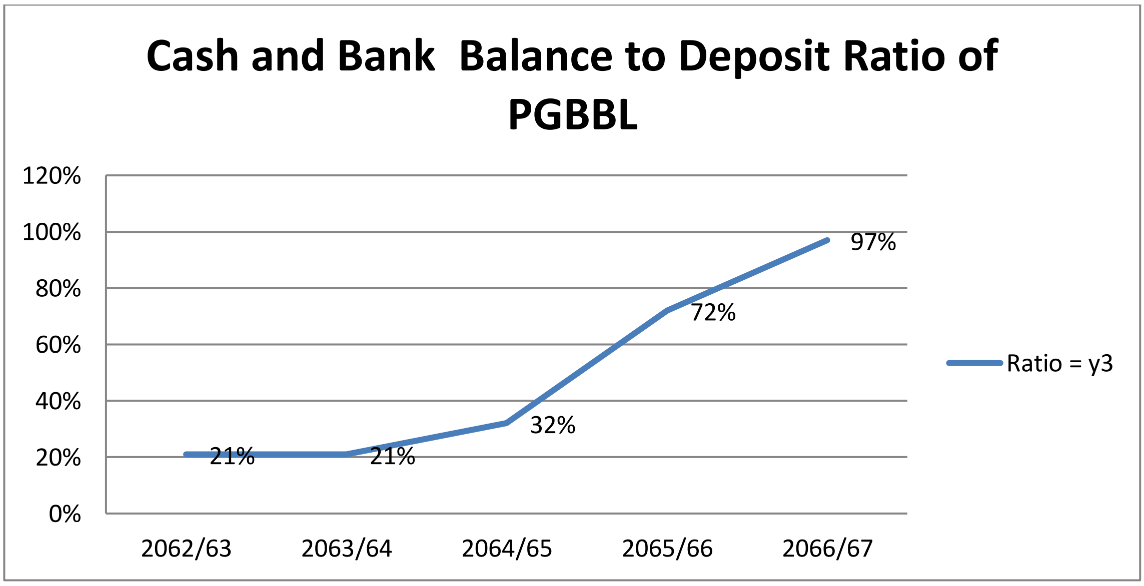
Cash and Bank Balance to Deposit Ratio of PGBBL FY 2062/63 to 2066/67 BS

Rs. 0000

FY	Cash and Bank Balance	Total Deposit	Ratio = ½
2062/63	2905	13586	21%
2063/64	3634	17157	21%
2064/65	6534	20172	32%
2065/66	11471	15954	72%
2066/67	16554	16771	97%

Source: *Annual Report of PGBBL*

The ratios are found to be 21%, 21%, 32%, 72% and 97% from FY 2062/63 to FY 2066/67 BS respectively. Higher ratio indicates the sound payment position and vice-versa.



Source: *From Table No. 4.5*

(iv) Cash and bank balance to current assets ratio:

It is computed by dividing cash and bank balance by current assets

$$\text{Cash and bank balance to CA ratio} = \frac{\textit{Cash and Bank Balance}}{\textit{Current Assets}} \times 100\%$$

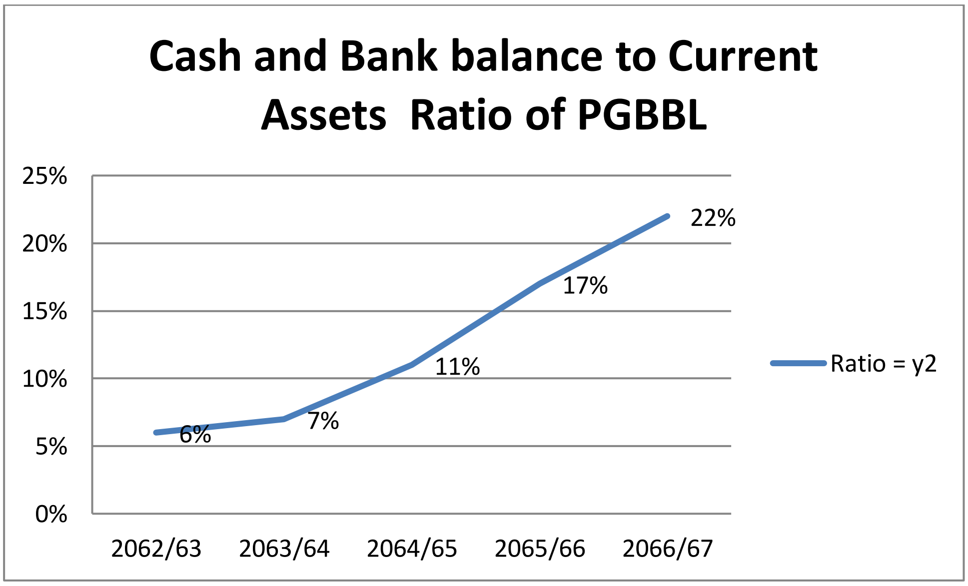
Table 4.6

Cash and Bank Balance to Current Assets Ratio of PGBBL FY 2062/63 to 2066/67 BS

Rs.0000

FY	Cash and Bank Balance	Current Assets	Ratio = 1/2
2062/63	2905	46638	6%
2063/64	3634	53955	7%
2064/65	6534	59308	11%
2065/66	11471	66593	17%
2066/67	16554	74567	22%

Source: *Annual Report of PGBBL*



It shows the percentage of readily available fund within bank. It is found to be 6%, 7%, 11%, 17% and 22% from FY 2062/63 to 2066/67 BS respectively. It may be favourable 5% to 10% range for the bank. The above figure indicates that the favourable condition is in FY 2062/63 FY 2064/65 and FY 2066/67 BS. But other two years i.e. FY 2062/63 and FY 2064/65 BS have lower and higher than average range. Through the view points of its ratio, it is not favourable for the liquidity position. So it doesn't give financial soundness of the bank.

4.2.2 Leverage analysis:

These analyses are also called solvency analysis or capital structure analysis. The use of finance is refers by financial leverage. The capital structure position of PGBBL has been evaluated with the help of the following ratios:

(i) Debt- equity ratio

(ii) Debt - Asset ratio

(iii) Debt capital ratio

(iv) Net fixed asset to equity

(v) Interest coverage ratio

(vi) Current assets to equity

(i) Debt-equity ratio:

This ratio is computed by applying the following formula:

$$\text{Debt-equity ratio} = \frac{Total\ Debt}{Shareholders\ equity}$$

Table 4.7

Debt-equity ratio of PGBBL FY 2062/63 to 2066/67 BS

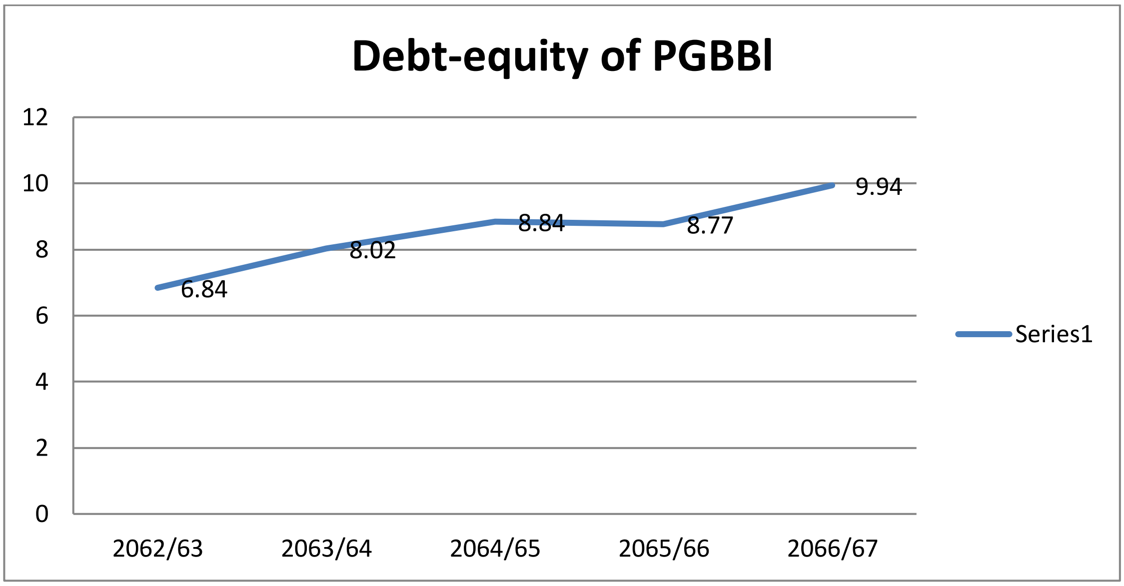
(Rs. 0000)

FY	Total Debt. 1	Total Equity 2	Ratio = ½
2062/63	41492	6365	6.67:1
2063/64	46726	6334	8.02:1
2064/65	53581	6366	8.67:1
2065/66	59775	6817	8.77:1 .
2066/67	68024	6673	9.94:1

Source: *Annual Report of PGBBL*

Total debt = borrowings + deposit + other liabilities Total equity = issued capital + reserve. It shows the relationship between the borrowed fund and owner's equity. Total dept is the sum total of long term debts and current liabilities. Shareholders equity is the sum of share capital and reserves.

A high ratio shows the large share of financing by the creditors as compare to that of owner. This means creditors would suffer more in times of distress than the owner. That is why creditors prefer low debt equity ratio. The ratio has been increasing continuously year to year from FY 2062/63 up to 2066/67 BS respectively. The ratio like 2:1 is considered as safe from the view point of the interest of the shareholders and creditors. The given figures show the rising tendency of the ratio because of the rapid increased in borrowing but equity is found increase very slowly. Due to high ratio of debt equity it gives sign of the solvency condition if it doesn't improve its action activities.



Source: *Annual Report of PGBBL*

(ii) Debt-Assets Ratio:

The relationship between total liabilities and total assets is known as debt-asset ratio. It is calculated by the following formula:

Debt Asset ration = $\frac{Total\ Debt}{Total\ Assets}$x100

Table 4.8

Debt-Assets ratio of PGBBL FY 2062/63 to 2066/67 BS

(Rs. 0000)

FY	Total Debt. 1	Total Assets 2	Ratio = 1/2
2062/63	41492	47247	88%
2063/64	46726	54459	89%
2064/65	53581	59674	90%
2065/66	59775	66592	90%
2066/67	68024	74867	91%

It is expressed in percentage. Deducting the loss from total assets of the balance sheet has brought total assets. The debt-assets ratio from the FY 2056/57 to 2064/65BS are 99%, 101%, 88%, 89%, and 90% respectively. The ratio is found in crease from FY 2056/57 to 2047/58 to respectively there after its decrease in 88% on FY 2062/63 BS where debt assets ratio is 88%. It means 88% of the assets of the bank finance by its debt. This type of increasing ratio indicates pitiable condition of the bank.

(iii) Debt to capital ratio:

This ratio is proportion of total liabilities out of total capital. It uses to test of solvency. Total capital includes owner's equity as well as borrowed capital. It is calculated as following:

Debt to capital ratio $\frac{Total\ Debt}{Total\ capital}$ x100%

Table 4.9

Debt to capital ratio of PGBBL FY 2062/63 to 2066/67 BS

(Rs. 0000)

FY	Total Debt. 1	Total Capital 2	Ratio = ½
2062/63	41492	31672	130%
2063/64	46726	33203	146%
2064/65	53581	36365	148%
2065/66	59775	43133	139%
2066/67	68024	54063	126%

Source: *Annual Report of PGBBL*

Total capital = equity + borrowing + reserve

A high ratio shows the large share of financing by the borrower as compare to that of total capital creditors would suffer here in times of distress than the owner. That is way creditors prefer low debt capital ratio. The ratio tendency shows increase in all years of the study period. In the last year the ratio is 148%, which is highest percentage among them. It obviously indicates pitiable condition of the bank.

(iv) Net fixed asset to equity ratio:

It is the relationship between net fixed assets to equity. This ratio has been computed by dividing equity to net fixed asset:

$$\text{Net fixed assets to equity} = \frac{Net\ Fixed\ Assets}{Equity} \text{x } 100\%$$

Table 4.10

Net Fixed Assets to Equity Ratio of PGBBL FY 2062/63 to 2066/67 BS

(Rs. 0000)

FY	**Net fixed assets (1)**	**Total Equity (2)**	**Ratio = ½**
2062/63	406	6365	6.7
2063/64	356	6334	6
2064/65	336	6366	5.5
2065/66	299	6817	4
2066/67	266	6673	4

Source: *Annual Report of PGBBL*

This ratio indicates how much of shareholders fund is being invested in fixed assets. The above ratio figures reveal the fluctuation in Net fixed asset to Equity Ratio. The highest ratio is 8% which is fall continuously and other years of the study period have the low ratio. Sufficient fixed assets is necessary for financial in situation. It is not to be highest fixed asset. It disturbs the firm's liquidity position to meet the safe point for bank. It should be either increase in equity or decrease the shareholder should be invested in fixed assets". The ratio is gradually decreasing after FY 2062/63 BS since the ratio is relevant to the solvency of a firm. It can be inferred that the solvency position of the bank is quite poor.

(v) Interest coverage ratio:

The ratio also is known as the interest earned ratio. A high ratio is a sign of low burden of borrowing of business and lower utilization of borrowing capacity from the point of the view of the creditors, larger the coverage the greater the ability of the firm to make the payment of interest to creditors.

It is calculated by dividing interest to Net Profit Interest and tax.

Interest coverage = $\frac{EBIT+Interest}{Interest}$

Table 4.11

Interest coverage ratio of PGBBL FY 2062/63 to 2066/67 BS

Rs. 000

FY	EBIT + Interest (1)	Interest (2)	Ratio = 1/2
2062/63	2320	2505	0.93:1
2063/64	2676	2566	1.11:1
2064/65	2777	2747	1.01:1
2065/66	2731	2677	1.02:1
2066/67	2766	2756	1.01:1

Source: *Annual Report of PGBBL*

In the beginning year of the study period, it is lower value to higher value ratio. It shows the ability to pay the interest. All years have the low ratio except in 2063/64 and FY 2064/65 BS. Lower coverage ratio of the PGBBL indicates poor the ability of firm to make the payment of interest creditors.

(vi) Current assets to Equity Ratio:

Current Assets to equity has been computed by dividing equity into current assets.

Current asset to equity ratio = $\frac{Current\ Assets}{Equity}$ x100%

Table 4.12

Current Assets to Equity Ratio of PGBBL FY 2062/63 to 2066/67 BS

(Rs. 0000)

FY	Current Assets (1)	Equity (2)	Ratio = 1/2
2062/63	46638	6365	7.68:1
2063/64	53955	6334	8.94:1
2064/65	59308	6366	9.74:1
2065/66	66593	6817	9.72:1
2066/67	74567	6673	10.90:1

Source: *Annual Report of PGBBL*

It indicates how much of shareholders fund is being deployed in current assets. If the deployment is too small, working capital may be inadequate. The ratio went on increasing year by year. Such incremental sum of current assets over the shareholders equity is contributed by the debt of the bank as revealed from its debt equity and debt assets ratios. But the cost of debt has already proved to be clearer to PGBBL from the figures of loss of it year after year. So, the bank should increase its equity capital by issuing new shares.

4.2.3 Activity Analysis:

Activity analysis are also called efficiency or turnover analysis: These analysis reflect that how effectively and efficiently the bank has been using its resources. Higher the activity analysis the better the profitability and use of capital or resources will be greater the amount of collection from over due loan larger the amount available for providing loan to public or rural.

(i) Loan outstanding to collection ratio

(ii) Loan collection to disbursement ratio

(iii) Loan outstanding to disbursement ratio

(iv) Loan outstanding to equity ratio

(v) Administrative expenses to loan outstanding

(vi) Investment to total deposit ratio

(vii) Loan outstanding to total deposit ratio

(i) Loan outstanding to collection ratio:

A relationship between loan outstanding and total collection is represented by this ratio. This ratio is calculated by dividing loan collection into loan outstanding.

Loan outstanding to collection ratio = $\frac{Loan\ Outstanding}{Collection}$ x100%

Table 4.13

Loan Outstanding to Collection Ratio of PGBBL FY 2062/63 to 2066/67 BS

FY	**Loan outstanding (1)**	**Collection (2)**	**Ratio =** 1/2
2062/63	41466	65920	66%
2063/64	47465	79193	63%
2064/65	49133	65537	75%
2065/66	49807	56647	88%
2066/67	56612	35344	159%

The ratio is calculated in percentage in realization of the loan disbursement by it. The above ratio are fluctuate that in the all years of the study periods, loan outstanding figures are less than the amount of loans collection. In fact in 62/63 and 63/64 the bank earned profit in second time after its establishment. But rest years the bank suffered by the loss. The outstanding loan should collect in time to mobilize the fund again for disbursement. It helps to increase the bank activities. So the bank should try to finish the ratio further by timely collection loan.

(ii) Loans collection to disbursement:

The loans collection to disbursement ratio is obtained by dividing loans disbursement to loan collection

Loan collection of disbursement ratio = $\frac{Loan\ Collection}{Loan\ Distribution}$ x 100%

Table 4.14

Loan Collection of Disbursement Ratio of PGBBL FY 2062/63 to 2066/67 BS

(Rs. 0000)

FY	Loan collection (1)	Loan Disbursement (2)	Ratio = 1/2
2062/63	65920	71751	88%
2063/64	79193	85385	93%
2064/65	65537	68938	95%
2065/66	56647	57665	97%
2066/67	35344	42405	66%

Source: *Annual Report of PGBBL*

Financial institutions are generated income on loan disbursed. It can exist and efficiently if the loan disbursements are collected in time so the ratio is significant for a bank like PGBBL. Higher ratio is preferable for financial institution like PGBBL. The loan collection to disbursement ratio for the financial institution should be maintained 80% level. In the FY 2062/63 BS the ratio is 86% which is less than other ratio of the study period. However, all ratios are greater than the expected level 80%. The average ratio of loans collection to disbursement ratio is 91.2%, which is also greater than the expected ratio. The given figure of its ratio shows the satisfactory condition of the bank.

(iii) Loan Outstanding to Disbursement:

The ratio shows the relationship between loans outstanding and disbursement. It measures what percentage of the loans outstanding has remained yet in client in comparison with disbursement. It is computed by the following way.

Loan outstanding to disbursement = $\frac{Loan\ Outstanding}{Loan\ Disbursent}$x100%

Table 4.15

Loan Outstanding to Disbursement Ratio of PGBBL FY 2062/63 to 2066/67 BS

(Rs. 0000)

FY	Loan outstanding (1)	Loan Disbursement (2)	Ratio = 1/2
2062/63	41466	71751	58%
2063/64	47465	85385	56%
2064/65	49133	68938	71%
2065/66	49807	57665	86%
2066/67	56612	42405	133%

Source: *Annual Report of PGBBL*

Higher ratio is not good for the bank. Interest is received from loan, in that view the higher loan outstanding is to source of the interest but there may be doubtful in repayment of the loan. The loan should be repayment in right time. The calculated figure of it's ratio is more than 80.8 on average that is in satisfactory position because the lowest and highest amount of outstanding is not good condition for the bank.

(IV) Loan outstanding to equity ratio = $\frac{\textbf{\textit{Loan Outstanding}}}{\textbf{\textit{Shareholders Equity}}}$

Table 4.16

Loan Outstanding to Equity Ratio of PGBBL FY 2062/63 to 2066/67 BS

(Rs. 0000)

FY	Loan outstanding (1)	Equity (2)	Ratio = 1/2
2062/63	41466	6365	6.67:1
2063/64	47465	6334	7.87:1
2064/65	49133	6366	8.10:1
2065/66	49807	6817	7.31:1
2066/67	56612	6673	8.23:1

Source: *Annual Report of PGBBL*

The shareholders equity is considered as equity. Share plus reserves a higher ratio is preferable because it shows the greater efficiency. The first years of study period is noticed to be steadily increasing and in the final year of the study period it is more than 6 times the capital. It reveals clearly that activities of the bank has really increased and expanded by creating a great impact in rural financing among the woman.

(v) Administrative expenses to loan outstanding ratio

This ratio shows the relationship between administrative expansion and loans outstanding. It is calculated as follows:

Administrative expenses to loan outstanding ratio=

$$\frac{\boldsymbol{Administrative\ Expenses}}{\boldsymbol{Loan\ Outstanding}} \textbf{x 100\%}$$

Table 4.17

Administrative Expenses to Loan Outstanding Ratio of PGBBL FY 2062/63 to 2066/67 BS

(Rs. 0000)

FY	Administrative (1)	Loans outstanding (2)	Ratio = 1/2
2062/63	3920	41466	9.5%
2063/64	3867	47465	8.1%
2064/65	4467	49133	9.1%
2065/66	3975	49807	8%
2066/67	4166	56612	7%

Source: *Annual Report of PGBBL*

It is expressed as percentage the administrative expenses include staff and office expenses. The ratio reveals how the institution has been operating its activities. The ratio gives a relation between a balance sheet item and income statement item. Higher ratios show the higher level of expenses.

To increase its administrative expenses is to expand branch office of the bank. It creates the liability and expenses i.e. staff expenses office expenses and machinery expenses. This ratio shows that it the PGBBL has properly of outstanding loan Rs. 100 than expenses have 9.5% on administrative purpose on FY 2062/63 BS. If it has increased largely then it can't exist.

(vi) Investment to total deposit ratio:

This ratio is calculated by dividing total deposit to investment

Investment to total deposit ratio = $\frac{Investment}{Total\ Deposit}$ x100%

Table 4.18

Investment to Total Deposit Ratio of PGBBL FY 2062/63 to 2066/67 BS

(Rs. 0000)

FY	**Investment (1)**	**Total Deposit (2)**	**Ratio =** 1/2
2062/63	80	13586	0.59%
2063/64	80	17157	0.47%
2064/65	80	20173	0.40%
2065/66	80	15954	0.50%
2066/67	80	16971	0.47%

Source: *Annual Report of PGBBL*

It is expressed as percentage. It shows the relationship between investment and total deposit. A bank may be two types of investment namely, capital (which includes share capital, shareholders equity on net worth) and deposit etc. In PGBBL investment consist of share investment only. A sound investment policy of bank such that its funds are distributed on different types of assets with good profitability in one hand provides maximum safety and security to the depositors and the bank. On the other hand the objectives of a bank is the earn maximum profit by giving facility loans and the bank. On the other hand the objective of a bank is to earn maximum profit by giving facility loans and qualitative services to rural area's public. Its income accurse mostly form its investments in store, loan and deposit etc. This ratio reveals decreased of first year to last years respectively. The above calculate ratio figures shows the pitiable condition of the bank in the following last two year of the study period where the investment has decreased less than 1%. The ratios show the negative result on aspect of the investment. So the bank must be increasing its investment because highest ratio is preferable for bank.

(vii) Loan outstanding to total deposit ratio:

The ratio shows what portion of deposit has been carried by the loan outstanding. The bank has to mobilize deposits collected income generating purpose so that it will be able to pay the interest to its deposits and to earn profit. The loan outstanding to total deposit ratio measures the extent, which the banks under consideration are successful on utilizing the outsider's funds for the profit generating purpose. In other words the ratio measures the bank ability to mobilize its deposits, i.e. current saving call and short deposits and others deposit in terms of grading loans outstanding which yield higher return. The ratio is computed by using following formula.

$$\text{Loan outstanding to total deposit ratio} = \frac{Loan\ Outstanding}{Total\ Deposit}$$

Table 4.19

Loans Outstanding to Total Deposit Ratio of PGBBL FY 2062/63 to 2066/67 BS

(Rs. 0000)

FY	**Loan Outstanding (1)**	**Total Deposit (2)**	**Ratio = 1/2**
2062/63	41466	13586	3.1:1
2063/64	47465	17157	2.8:1
2064/65	49133	20173	2.4:1
2065/66	49807	15954	3.12:1
2066/67	56612	16971	3.32:1

Source: *Annual Report of PGBBL*

The higher ratio is non preferable for financial company. The ratio of the loan outstanding to total deposit are 3.1:1, 2.8:1, 2.4:1, 3.12:1 and 3.32:1 respectively for the years of the study. These activities are in satisfactory condition in view with loans outstanding and deposits.

4.2.4 Profitability analysis:

Profitability analysis is a measure of overall efficiency and the search for it provides an incentive to achieve efficiency. Its measures the management overall performances and effectiveness. Profitability is the net result of a large number of policies and decisions. This analysis gives final answer to how effectively the firm is being managed. Management along is not interested in the profitability of the bank but also the government and owner's or investors are equally interested. Creditors want to return of principal at the due data. Owners want to get a reasonable return on their investment. Employees want many facilities, which is possible only when the bank earns sufficient profit. Profit ability position of PGBBL is evaluated on the basis of following ratio analysis.

(i) Net profit to total assets ratio.

(ii) Net profit to total deposit ratio.

(iii) Operating ratio.

(iv) Interest earned to total assets ratio

(v) Return on equity ratio

(i) Net Profit to Total Assets Ratio:

The net profit is the essential factor for an institution to survive and expand its function. From the financial statement of PGBBL loss can be seen in the beginning year of the study period i.e. FY 2062/63 BS. "Financial statements are essential interim reports and therefore can't be final because the actual gain or loss of a business can be determined only after it put down its shutter."

The ratio of the net profit total asset is calculated by the following formula.

Net profit to total asset ratio = $\frac{Net\ Profit}{Total\ Asset}$ x100%

Table 4.20

Net Profit to Total Assets Ratio of PGBBL F.Y. 2062/63 to 2066/67 BS

(Rs. 0000)

FY	Net Profit or Loss (1)	Total Assets (2)	Ratio = 1/2
2062/63	-203	47247	(0.43%)
2063/64	266	54459	0.52%
2064/65	30	59674	0.05%
2065/66	54	66592	0.08%
2066/67	27	74867	0.04%

Source: *Annual Report of PGBBL*

The ratio is (0.43%) in FY 2062/63 BS, 0.52% in FY 2063/64, 0.05% in FY 2064/65, 0.08% in FY 2065/66 and 0.04% in FY 2066/67. The above ratios point out the weak position of the institution like PGBBL. Net profit to total assets ratio indicates whether the total assets of the business has been properly used or not. The given figure shows that the bank must be attention for utilization assets properly in right track.

Table 4.21

Net Profit to Total Deposit Ratio of PGBBL F.Y. 2062/63 to 2066/67 BS

(Rs. 0000)

FY	Net profit (1)	Total deposit (2)	Ratio = 1/2
2062/63	-203	13586	(1.5%)
2063/64	266	17157	1.7%
2064/65	30	20173	0.15%
2065/66	54	15954	0.34%
2066/67	27	16971	0.16%

(ii) Net Profit to Total Deposit:

It is computed by dividing the total deposit into profit.

Net profit to total deposit ratio = $\frac{Net\ Profit}{Total\ Deposit}$ x100%

It is also expressed at percentage. The above negative ratio shows that the bank has not been able to mobilize and utilized the deposits. It indicates an ineffective financial performance of the bank because in would be relevant to analysis this ratio in order to know the operating management for the institution is well efficient or not in mobilizing its total deposit.

(iii) Operating ratio:

Operating ratio is an important ratio that shows the change in the net profit margin ratio. This ratio is computed by total operating revenue to total operating expenses.

Operating ratio = $\frac{\boldsymbol{Operating\ Expenses}}{\boldsymbol{Operating\ Revenue}}$ **x 100%**

Table 4.22

Operating Ratio of PGBBL 2062/63 to 2066/67 BS

(Rs. 0000)

FY	**Operating Expenses (1)**	**Operating Revenue (2)**	**Ratio =** 1/2
2062/63	6725	6672	103%
2063/64	6711	7986	93%
2064/65	7231	7634	99.6%
2065/66	6674	7712	88.74%
2066/67	7065	7677	92.35%

Source: *Annual Report of PGBBL*

It is expressed as percentage ratio. The lower ratio expresses the higher profitability. The operating ratios of the PGBBL in FY 2062/63 to FY 2066/67 BS are 103% 93%, 99.6%, 88.74% and 92.35% respectively. The ratio is more than 100% in FY 2062/63. It means that the operating expenses are higher than operating income. The ratio is 93%, 99.6%, 88.74%, 92.35% which are under 100% in FY 2063/64, FY 2064/65, 2065/66 and 2066/67 BS respectively, so in these year the bank earned profit. The lower percentage is preferable for the bank. In the case of PGBBL it has the in satisfactory condition of the bank. Thus the profitability position of the bank looks like hopeful.

(iv) Interest earned to total assets:

It is computed by the following formula.

Interest earned to total assets ratio = $\frac{Interest\ Earned}{Total\ Assets}$

Table 4.23

Interest Earned to Total Assets Ratio of PGBBL F.Y. 2062/63 to 2066/67 BS

FY	**Interest Earned (1)**	**Total Assets (2)**	**Ratio =** 1/2
2062/63	6556	47247	13.2%
2063/64	7917	54459	14.5%
2064/65	7466	59674	12.5%
2065/66	7538	66592	11.32%
2066/67	7517	74867	10.04%

Source: *Annual Report of PGBBL*

It is expressed also percentage ratio. The higher ratio is preferable and favourable on the financial institution. The interest earned to total assets is 13.2%, 14.5%, 12.5%, 11.32% and 10.04% respectively of the study year. It has not seen increased in 14.5% so it reveals not a good financial performance of the bank.

(vi) Return on Equity Ratio:

The relationship between net profit and equity is known as return on equity. It is calculated by following way:

Return on equity ratio = $\frac{Net\ Profit}{Equity}$ x 100%

Table 4.24

Net Profit to Equity Ratio of PGBBL F.Y. 2062/63 to 2066/67 BS

FY	Net profit (1)	Equity (2)	Ratio = 1/2
2062/63	-203	6365	(3.3%)
2063/64	266	6334	4.7%
2064/65	30	6366	0.5%
2065/66	54	6817	0.79%
2066/67	27	6673	0.39%

Source: *Annual Report of PGBBL*

All years have the positive ratio except in FY 2062/63 BS. It shows that the performance of the profitability is satisfactory. But the decreasing profitability of the bank from the FY 2063/64 to 2066/67 is considerable.

4.3 Correlation Analysis:

Two variables are said to have correlation when they are related that the change on the value of one variable is accompanied by the change in the value of the other. In this study, the researcher follows the Karl Pearson's correlation. Coefficient method is used to find out the correlation among the various aspects deposits and investment, loan disbursement and collection and borrowing and loan outstanding. But, due to the constant investment during the study period, it is not calculated the coefficient correlation between deposits and investment. Only the next two correlations and coefficient of determinations are calculated in this study. They are as under:

4.3.1 Borrowings and loans outstanding:

PGBBL has taken its loan by the national and international bank. The national or domestic sources of banks are Nepal SB1 Bank. Standard chartered bank, Nepal Everest Bank, Nepal Bank ltd., Rastri1/2 Banij1/2 Bank, RMDC and NRB rural self-help loans etc. International loan is taken from Plan International, Rural Trust Bangladesh and UNHCR. Borrowings are the main source of the fund. On the other sides the loan outstanding includes general loan, shallow tube-well loan, seasonal loan and group fund loans, the loan outstanding found to be Rs. 414.66, 474.65, 491.29, 498.33 and 566.12 millions from FY 2062/63 to 2066/67 BS respectively.

Table 4.25

FY	**Borrowing (X)**	**Loan outstanding (Y)**	**X = (x-300.19)**	**X^2**	**Y = (y-491.33)**	**Y^2**	**xy**
2062/63	257.77	414.66	-42.42	1799.46	-76.7	5865.89	3253.64
2063/64	271.69	474.65	-28.5	812.25	-16.71	279.22	476.24
2064/65	300.19	491.33	0	0	0 .	0	0
2065/66	366.16	498.07	65.97	3965.22	6.74	45.43	424.42
2066/67	472.17	566.12	171.98	29577.12	71.79	5153.8	12346.44
Total		N=5	X* = 167.03	Xx2 36454.05	ly = -14.88	11364.34	16500.71

Source: Calculation based on *Annual Report of PGBBL*

Calculation of correlation between borrowing and loan outstanding

$$\frac{\sum xy - \sum x \sum y}{\sqrt{N \sum x^2 - (\sum x)^2}\sqrt{N \sum y^2 - (\sum y)^2}}$$

$$= \frac{5(16500.71) - 167.03 \times (-14.88)}{\sqrt{5(6154.05) - (167.03)^2}\sqrt{5(l\,1364.34) - (-14.88)^2}}$$

$$= \frac{82503.55+2440.77}{\sqrt{180770.25}-26905.84 \quad \sqrt{56806.7-221.42}}$$

$=\frac{84944.32}{392.26x237.88}=\frac{84944.32}{93310.81}0.91$

$R^2=(0.91)^2$

= 0.83 Approx.

The bank pays interest for borrowings and it receives interest from loans and outstanding. The main source of income is interest receipts. Different type of expenses is maintained by the interest earned on loan outstanding However, there must be positive relationship between borrowings and loans outstanding. The PGBBL has the higher degree correlation between borrowings and loan outstanding because its correlation coefficient is higher degree positive i.e. 0.91. It reveals that activities of the bank are going to right track.

The coefficient of determination between the borrowings and loan outstanding is 0.66, which means 1% change in independent variable changes 0.66% in dependent variable.

4.3.2 Correlation between Disbursements & Collections (Repayment):

PGBBL has disbursed loans for general loans sundry loans, irrigation loans, group fund loan etc. The objective of the PGBBL is to flow the loans in rural poor people in the facility rate of interest to decrease the poverty growth of the nation. It conducts its activities upon who have no land and property to deposit on the bank for the security. In the other word it seems that the gives loan to rural public with out any security. So it has more chance to increase its overdue loan To meet its objectives PGBBL disbursed amounting to Rs.717.51, 853.85, 689.38, 578.35 and 424.05 millions of the study year respectively.

There is not possible to operate its function without collection of the loan. The amount of loan is collected from where the loan is invested i.e. clients. The collection of the loans is Rs. 659.20, 791.93, 655.37, 566.47 and 353.44 millions respectively of the study year. The ratio of the loan disbursement and collection must be equal to perform its activities smoothly.

Table 4.26

Calculation of correlation between Loan Disbursements & loan Repayment

FY	Loan Disbursement (X)	Loan Repayment (Y)	X= (x-689.38)	X^2	Y = (y-655.37)	Y^2	XY
2062/63	717.51	659.20	28.13	791.30	-26.17	667.87	-736.16
2063/64	853.85	791.93	167.47	27050.38	136.56	18678.66	22463.02
2064/65	689.38	655.37	0	0	0	0	0
2065/66	578.35	566.47	-111.03	12327.66	-91.90	6745.64	10203.66
2066/67	424.05	353.44	-265.33	70400.00	-301.93	91164.72	80111.09
Total		N=5	$\sum x = -183.76$	$\sum x^2 = 110569.34$	$\sum y = 283.44$	$\sum y^2 = 118940..83$	$\sum xy = 112038.61$

Source: Calculation based on *Annual Report of PGBBL*

$$\frac{\sum xy - \sum x \sum y}{\sqrt{N\sum x^2 - (\sum x)^2}\sqrt{N\sum y^2 - (\sum y)^2}}$$

$$= \frac{5(112038.61) - (-183.76)\,(-283.44)}{\sqrt{(5)6154.05) - (167.03)^2}\sqrt{5(l\,1364.34) - (-14.88)^2}}$$

$$= \frac{82503.55+2440.77}{\sqrt{180770.25-26905.84}\quad\sqrt{56806.7-221.42}}$$

$$= \frac{84944.32}{392.26x237.88} = \frac{84944.32}{93310.81}\ 0.91$$

$R^2=(0.91)^2$

= 0.66 Approx.

There is higher position correlation rate i.e. 0.98 between loans disbursement and collection (repayment). If indicates that loans disbursement and loans collections have closer relationship as 98%. It helps to create the good financial performance of the bank.

The coefficient of determination between the borrowings and loan outstanding is 0.97, which means 1% change in independent variable changes 0.97% in dependent variable.

4.4 Trend Percentage Analysis:

Trend analysis is the very important tool for financial performance analysis. It has been conducted for the evaluation of financial performance of PGBBL. The direction of change is shown by the trend analysis. Such analysis reveals at what rate of percentage the item of the:

i. Balance sheet
ii. Income statement

Increase or over a period of year FY 2062/63 B.S. has been taken as base year. The measurement of variation in terms of percentage is very much helpful because such rate of change is often more vital than the absolute change for detecting the trend comparison is done with the same items of the base year 2062/63 B.S. to 2066/67 B.S. respectively which shows the result of increase or decrease over a period of year. Balance sheet, profit and loss A/C and Activities of PGBBL are compared with the corresponding items in the base year. By help of such analysis we can judge whether the financial performance of PGBBL is improving over five study *years considering the base year as* 2062/63 B.S. The base year has been considered as 100 percent. The data computation has been done by dividing he amount of each items of the statement with the amount of corresponding items of the base year.

(i) Trend Percentage Analysis of Income Statement:

The following table shows the trends percentage analysis of income statement.

<u>Table 4.27</u>

Trend percentage of income statement of PGBBL from FY 2062/63 to 2066/67 (in %)

	Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Expenditure	Interest on borrowing and deposit	100	102.32	109.68	106.87	110.02
	Staff expenses	100	97.29	114.13	98.88	104.68
	Office and other expenses	100	107.46	116.12	117.90	116.78
	Provision & Doubtful loan and advance	100	663.87	228.33	542.33	371.80
	Average	100	241.98	142.06	216.49	175.65
	% increase	-	141.98	-41.29	52.39	-18.79
Income	Interest earned on loan and investment	100	126.55	119.64	120.49	120.15
	Other income	100	59.07	103.89	150.00	112.26
	Capital subsidy gains	100	109.40	-	70.29	186.75
	Emergency reserves fund	-	-	-	-	-
	Average	100	98.34	74.50	113.59	139.72
	% increase	-	-1.66	-24.24	52.47	23.00

Source: *Annual Report of PGBBL*

The table no. 4.27 presents the trend percentage figures of income statement. The trend percentage average figure of expenditure are 100, 152.8, 112.0, 242.0 and 91.8 respectively of the study period and the rend percentage average figure of income are 100, 92.7, 79.1, 119.5 and 136.8 respectively. In above calculated data about the expenditure has highly increased in FY 2063/64 B.S. Although bank has been made profit in FY 2063/64. In the expenditure side the provision for doubtful loan .and advance are highly increase in FY 2057/058 and FY 2062/064.

In the income side average income of trend percentage analysis are negatively compared with the base year and the average figure is positive compared with the base year when bank has been mode profit.

In totally, income and expenses is seen on profit and loss account, which indicates the current situation of PGBBL shows the poor situation. Year to year total expenses are seen increase except FY 2063/64 and 2064/65 BS but the total income has not increased in FY 2063/64 and 2064/65 BS with compared of expenditure. Main source of income is the intention loan outstanding. But it is not being collected sufficiently. It has been bearing loss year to year except FY 2063/64 and 2064/65 BS. So the trend percentage analysis indicates a week financial performance of the PGBBL.

(ii) Trend percentage analysis of Balance Sheet

Table 4.28

Trend Percentage Analysis of Balance Sheet PGBBL from F.Y 2062/63 to 2066/67 (in %)

	Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Liability	Share capital	100	100	100	100	100
	Reserve fund	100	52.3	96.9	1296.9	1296.9
	Borrowing	100	105.4	116.46	140.89	166.17
	Deposit	100	126.28	148.48	117.43	124.92
	Other liability and Provision	100	192.44	159.11	352.35	180.09
	Total	100	114.51	125.41	140.02	157.42
Assets	Fixed assets	100	87.68	65.76	73.65	69.7
	Investments	100	100	100	100	100
	Loans Out.	100	114.47	118.5	120.12	135.81
	Cash and bank Balance	100	124.06	224.92	394.87	559.52
	Other asset	100	106.24	115.88	108.13	166.93
	Account receivable	100	124.38	118.93	86.15	114.21
	Interest receivable	100	139.02	166.36	265.08	495.91
	Total	100	114.51	125.41	140.02	157.42

Source: *Annual Report of PGBBL*

Total liability and capital of the bank has 100, 116.3, 112.1, 115.3 and 112.5 percent FY 2056/057 to 2064/65 BS respectively. The above table shows that 102.3, 124.6, 192.2 and 128.1 percent respectively FY 2057/058 to 2064/65 of total liability & provision when same topic the base year figure is 100.

Out of the total liabilities sides of bank share capital have not increased it is constant with compared the base year. The capital was 63 millions in base year and other next years are also same amount the study period. Reserve fund also not increased it is going to decrease with compared the base year FY 2066/067. It is not good sign for the financial performance of the PGBBL. The borrowing has highly increase in FY 2066/067 after then it is not cross that figure near about it is constant. The borrowing amount hasn't free cost of money it's cost has been must to pay the party by the bank. As a result it is facing loss year after year.

The figure of the deposit is gradually increased from the base year to 100, 112, 133, 126.3 and 117.6 percent from FY 2062/063 to 2066/67 B.S. respectively. The deposit could be made a vital source of fund for disbursement of loans. This would lead to its profitability scenario because the cost of deposits is cheap then the cost of borrowings. Therefore the bank should adopt the best policy to increase its deposit. Increasing figure of the deposit shows the good performance of the bank. Other liabilities and times highly increase and same times increase slowly but it is ever greater then base year. The fluctuation on the other liability and provision is due to considerable change in pending interest, sundry creditors and interest increasing in other liabilities and provision may be increasing activities of the PGBBL.

The other sides (assets) totals of assets and properties of PGBBL by 16.3, 12.1, 15.3 and 12.5 percent up to 2064/65 BS respectively to the total assets are found to be 12.5% more than base year in FY 2056/057.

The fixed assets are decrease by 5.9% compared with the base year. Such decrease in fixed assets show the poor financial performance of the PGBBL. The investments are also decrease in FY 2062/063 and the rest remaining are the same? The above figure shows that the bank has not invested in government bonds, company shares as well as fixed deposit of commercial bank. As a whole, the investment policy of the PGBBL is not found to be satisfactory.

The loan and advances outstanding have increase from base year to others years. Increase in loans outstanding indicates that the activities of the bank have been for going continuously. The cash and bank balance are also increased compared the base year but it is extremely high in the FY 2062/63 BS. It means the bank has not efficiently managed its cash and bank balance at appropriate level. If bank has managed its liquidity and idle cash balance, banks performance has well.

The other assets include goods inventory (stationary, other goods transit) receivable assets (sundry debtors, insurance claimed, deposit, and interest receivable) and employee's advances and loan, alary, social loan, cycle loan, motorcycle, calculator and medicine :vanes etc. It is fluctuated but it is higher than the base year always -9 study period. Decrease in assets is not favourable for the bank.

The bank couldn't earn profit in FY 2062/063, 2064/065 and 66/67 B.S. other rest year the bank earn small unit of profit on the FY 2063/64 and 2064/65 B.S. The bank received the subsidy from Government in FY 2062/63 BS; it is good opportunity to reach BE level.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Purwanchal Grameen Bikash Bank Limited is the main rural financier for the poor people. It is the foremost rural bank in this kingdom. It plays the vital role in the alleviation of poverty. So it's financial performances should be sound. It can't render service to the rural development more effectively if it's financial position is well. So this study mainly focuses to find out its financial position. To find out the financial position of the bank, the following tools and techniques are applied.

(1) Funds flow analysis
(2) Financial analysis
(3) Correlation analysis
(4) Trend percentage analysis

(1) Funds Flow Analysis

There are different sources of funds available of PGBBL. They are increase in capital, increase in borrowing, increase in deposits, and increase in other liabilities and provisions etc. They are main sources of funds. From the FY 2062/63 B.S. the bank has not increased its capital. Due to loss year to year its reserve fund is in a declining state and contains a very meager sum. So the other above sources is the main sources of the bank. It is found that on the average, 21.11% of the sources of fund is contributed by deposits during the study periods.

In Borrowings have contributed to 43.92% of the source of funds in average by this period. The average contribution of other liabilities and provisions in this respect is 12.54% only. Except the above sources of fund, other are available in the bank e.g. operating income, decrease in fixed assets, decrease in investment, decrease in interest receivable, decrease in account receivable, decrease in other assets, cash and bank balance and government capital subsidy received etc. it play vital role for funds.

This fund of the bank is mainly used in average disbursement of loans 46.02% of the fund is used on investment during the study period. Increase in interest receivable and account receivable have given rise to a use of 1.22% and 5.63% during the study period. Fixed assets and other assets are the out come only 0% and 1.56% respectively of the average fund of the bank. The fund of the bank is used on loan outstanding increasing by 46.02% on average during the study period. 28.71% of the fund balances is increasing in the bank as cash and bank on average. The striking matter is that on the average 11.5% of the total used of the fund is meant for the loss suffered by it year after year. Decrease in reserves, borrowings and other liabilities and provision also consist in the application of the fund.

The above given result data, the researcher come to be near the conclusion that the PGBBL has weak position. It has not sufficient capital to invest in proper sector. Although deposit ratio increases, it is not sufficient for the bank. Reserve is decreasing year-to-year due to the suffered by losses. The borrowing condition is in average ratio. However, sometime the bank gets government capital subsidy. It has been helpful for the survival of the bank. The main source of fund should be invested in the safe side and profitable business. From this study funds flow analysis shows the precaution care of funds in the bank for the future growth of the bank.

(2) Financial Analysis:

(a) Liquidity Analysis

The liquidity position of the PGBBL is tested by current ratio, working capital to current ratio, cash and bank balance to total deposit and cash and bank balance to current assets.

The current ratio is quite balance. The current ratio represents the margin of safely i.e. a cushion of protection for creditor. The PGBBL meets its standard value i.e. 2:1 during the study period. The Working Capital ratio has improved year to year. It is above 52% in all study years. It indicates that the present situation is good. Cash and bank balance ratio gives mix result because in some year of the study, its ratio in the FY 2065/66 and 2066/67 is 72% and 97% respectively, which is higher than the standard value of current ratio. This is not good in liquidity.

(b) The Leverage Analysis

The leverage analysis are tested by Debt-Equity ratio, Debt- Assets ratio, Debt to capital ratio, Net Fixed Assets to Equity ratio, Interest Coverage ratio and Current Assets to equity ratio.

Debt-equity ratio like 5:1 is considered as safe to the bank according to its objectives. Its main objective is paid to serve the poor not to earn profit. In the final year of the study period it attains the highest value i.e. 9.94:1 due to high ratio of Debt-Equity, it gives sign of solvency condition, if it does not improve its action activities.

The Debt-Assets ratio for the bank is found to fluctuated increase continuously from the very beginning. In the FY 2063/64 B.S., the value becomes as high as 88%. It means 88% of the assets of the bank are financed by its debt. The last year of the study period has 91%. It means that 91% of the assets of the bank are financed by debt. This type of increasing ratio indicates pitiable condition of the bank.

The Debt-Capital ratio tendency shows increase in all years of the study period, In FY 2064/65, the ratio is 148%, which is highest percentage among the study periods. It obviously indicates pitiable condition of the bank.

The Net assets to Equity means how the fixed assets should be manage to meet the safe point. PGBBL the trend of fixed assets to equity is increasing every year 4% to 6.7% is treated as the normal value of this ratio. But through out the study period, the highest value of it is 6.7% only. So the bank is in quite poor condition.

The ratio of the interest coverage is poor 0.93:1 in the FY 2062/63 B.S. It means that the firm has not ability to payment of interest. Lower coverage ratio of the PGBBL indicates poorer the ability of firm to make the payment of interest to creditors.

Current Asset to Equity ratio means how to balance current assets compared to equity. The current assets to equity ratio for PGBBL have got an upward tendency from beginning. In the final year, the ratio attains the value of almost 10.90:1. The incremental sum of current assets (over the shareholders equity) is contributed by the debt of the bank as revealed from the above mentioned debt-equity and debt- assets ratios, Such over burden of debt is causing loss of the bank year after year.

So the leverage of borrowings for the function of PGBBL has not at all good position at the present.

(c) Activity Analysis

The activity position of the PGBBL is analyzed by loans outstanding to collection ratio, loan collection to disbursement ratio loans outstanding to disbursement ratio, loans outstanding to equity ratio, administrative expenses of loans outstanding ratio, investment to total deposit ratio, loans outstanding to total deposit ratio, overdue loans ratio and loans collection rate.

A loan outstanding to collection ratio shows the efficiency in collection of loans to be maximized in FY 2066/67B.S. The ratio indicates the average condition of the bank because the overdue loan is increasing in this year.

The loans collection to disbursement ratio for the financial institution should be maintained above 80% level. The ratios are greater that the expected level i.e. 80%. The average ratio of loans collection to disbursement ratio is 91.2%, which also greater that the expected ratio. This given figures of its ratio shows the satisfactory condition.

The loans outstanding to disbursement ratio indicate the average position of the bank, which is 70.2% on average.

Loans outstanding to equity ratio show that the activities of the bank are steadily increasing year by year. It reveals clearly that activities of the bank have really increased.

The administrative expenses to loans outstanding ratios are greater than 8%. 8% is regarded the better level of the administrative expenses ratio. In the final year of the study period, the ratio is 7%. It is some positive condition for the bank activities.

Investment to total deposit ratio has not given satisfactory conditions. In FY 2064/65 B.S. 0.40% is the ratio of the investment to total deposit. It's very small ratio for the banks.

Loans outstanding to total deposit ratio is satisfaction condition. Higher ratio is preferable for the bank. In the FY 062/63 BS of the study period the ratio is 0.59%, its ratio is higher then rest financial year.

The loans collection ratio shows the 95% more than in case of PGBBL on average. The loan collection rate should be more than 90%. So the bank has sufficient condition in loan collection.

So the activity ratio of the bank is not found bad as a whole. It indicates the mixed result, but looking to the loss and overdue of loans are not satisfactory. It should try for further betterment of its activities.

(d) Profitability Analysis

Profitability analysis are analyzed from Net Profit to Total Assets ratio. Net profit to total deposit ratio, operating ratio, interest earned to total assets ratio and return on equity ratio in the case of PGBBL.

Operating ratio 93% to 99.6% is acceptable as normal. The lower percentage is preferable for the bank. In the case of PGBBL, it has the pitiable condition of the bank. Thus the profitability position of the bank look like not hopeful.

Net profit to total assets ratio indicates whether the total assets of the business has been properly used or not. The result figure shows that the bank has not properly used its assets.

Net profit to total deposit indicates an ineffective financial performance of the PGBBL.

Interests earned to total assets are revealing bad financial position of the bank.

Return on equity ratio also indicates that the performance of the profitability is not good.

All above results reveal that the profitability condition of the bank is zero or it indicates the bad profitability position of the bank due to the huge amount of loss year after year except FY 2063/64 and 2064/65 B.S. In conclusion, the financial ratio of PGBBL has become a matter of anxiety. Its financial position is not condition or sound level. It shows the poor financial performance.

There is higher positive correlation rate i.e. 0.9663 between loans disbursement and collection. So it helps to create the good financial activities of the bank. The coefficient of determination is 0.97, which means 1% change in independent variable changes 0.97% in dependent variable.

The PGBBL ha the higher degree correlation between borrowings and loans outstanding because its correlation coefficient is higher degree positive i.e. 0.91 it indicates that the bank is doing effectively its financial activities. The coefficient of determination is 0.66. , which means 1% change in independent variable changes 0.66% in dependent variable.

The correlation analysis gives the mixed result on the hand of financial activities for the PGBBL.

(4) Trend Percentage Analysis

The balance sheet and income statement of the bank are tested by trend percentage analysis. To analyse the actual values of balance sheet and income statement the first year i.e. FY 2062/63 is considered as the base year.

The trend percentage analysis showed the unaltered trend of capital. Reserve of the bank is increasing year after year which is good sign. The highest increment is in FY 2065/66 and 2066/67 i.e. 1296.90%. Borrowings have increasing from base year to final year by 166.17% compared to the loan portfolio borrowings amount plays vital role. To increase in deposit is the sign of customer faith and satisfactory but this amount is also risky for the institution because deposit amounts are drawn by the customer every time. So to maintain faithfulness certain amount is required in balance. On the other hand, the cash & bank balance is found to be increasing rate comparison with the base year. But in the last period of the study period, it increased by 559.52%, which is 5.6 times more than base year. Investment is nil in first of the study period and it has neither decreased nor increased in the study period. It means that the bank has not invested in government bonds, company shares and fixed deposit of commercial bank during the study periods. It is not good sign of investment policy of the PGBBL. A fixed asset is an equal to decrease during the study period. Other assets have been increasing in a fixed trend. It includes the interest receivable, account receivable as well as other assets. The loans outstanding figures too increase each and every year. So the naturally, the interest receivable on loan goes on increasing continuously. Such increase in the volume of loaning activity has also given rise to increase in interest receivable on loans. There was no overdue loan up to FY 2062/63 but thereafter it is also continuously increasing. The bank has been suffered by the loss from the beginning of the study period but in the last year, the losses have come to be minimized.

The major source of income of the bank is the interest earning from the loans disbursed. In this ways the interest income goes on in increasing trend. Side by side the interest on borrowing also increases every year. Interest expenses have increased year to year. But office expenses have decreased in the final year of the study period. Other expenses are found to be zero from FY 2062/63 B.S. Provision for doubtful advances has increased in the last year of the study period. Capital subsidy gain and other income sources are decreasing and net losses have also decreased in the final year in comparison with other year

5.2 Conclusion

After the presentation and analysis of data the following points are drawn as follows:

a) Borrowing is the main sources of fund although the main source
of fund is used in loan disbursement.

b) Financial ratio indicates poor financial position except FY 2063/64 and 2064/65 B.S. but it is minimum.

c) Trend of operating expenses is increasing day by day except FY 2063/64 and 2064/65 B.S.

d) The relationship between deposit and investment is not in good condition.

e) Share capital has been decreased during the study periods it is also permanent source of fund.

f) Loan disburse by the bank are quite small in amount, it is not practicable to legal action against the defaulters.

g) The PGBBL is going to break even level in the last two years it activities are also expanding day by day.

h) Loan has not timely recovered so interest receivable has been increased in the study period.

i) The bank has shown overdue loans in FY 2064/65.

j) The bank has not charged interest of it's branches against borrowing amount therefore not show the actual viability position of the branches.

5.3 Recommendations

From the conclusion derived from the different analysis and considering the practical problems faced in reality, following main points are recommended to secure financial strength of PGBBL.

a) PGBBL is not at all non-profit oriented organization. Keeping in this mind, it must try to overcome the breakeven point for the survival by minimizing the unproductive expenses and cost and investing profitable area.

b) PGBBL must be serious in timely recovering of loans because if the loan disbursed by the bank is not timely recovered, its liquidity position will be hampered.

c) Equity is the permanent source of funds, Its help manage the [1] source of funds. The PGBBL must be increased its share capital and decrease in its borrowings. Therefore, the bank can operate its financial activities on low risk.

d) To increase in deposit amount is to increase its financial activities; such an increase in deposit is helpful for the further investment. Increase in deposit is the sign of the faithful of public towards the bank. On the other side, an interest expenses is lower in deposit by comparing the interest expenses on borrowings of loans. Its helps to minimize the cost of the bank. So deposit amounts must be increase by convincing and attracting people.

e) PGBBL has low investment in government bonds, company share as well as fixed deposit of commercial bank. It helps to reach in the access of the capital market.

f) The PGBBL has been managing its function by the leverage of borrowings for a long time. In this way, it has now become overburden with debt. The bank must attention towards that matter and tries to enhance its internal resources.

g) The PGBBL has poorer liquidity position. So it should be increase in cash and bank balance for good liquidity position.

h) It is recommended to control the majors' costs of PGBBL along with reducing the operating costs of Head Office and field offices through applying cost control measures.

i) Employees should be sufficiently motivated with proper incentives.

j) The accounts receivable and interest receivable should be collected with due care.

k) Since the abandonment of subsidy scheme of the bank has been suffering from the problem of overdue loans. Under the circumstances, the bank should try its level best to convince the villagers that it has nothing to do with government policy and for

Government of Nepal their own interest they should respond to the bank's appeal for timely repayment of loans.

I) Employees should be given training how to behave with clients. Its helps to increase client's beliefs on the bank that makes huge amount of deposits.

m)The bank should be expanding its activities in hills side by establishing branch offices.

n) The base of the bank (PGBBL) is the poor people. So it is necessary to create good relation with public. For that purpose, the bank can't do anything without the help of non-government organization, social groups and other pressure groups. So, the bank should keep close relationship with related parties for the good vision in the publics' eyes.

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APPENDIX

Purwanchal Grameen Bikash Bank Composite

(As at the end of different Years)

Amount in '00000'

	Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Liabilities and Capital	Issued capital	63	63	63	63	63
	Reserve	0.65	0.34	0.66	8.17	8.43
	Borrowing	257.77	271.69	300.19	366.16	472.17
	Deposit	135.86	171.57	201.73	159.54	169.71
	Other liabilities and provision	21.3	40.99	33.89	75.05	38.36
Total		***475.58***	***544.59***	***596.44***	**665.92**	**748.67**
Assets	Cash and bank	29.05	36.04	65.34	114.71	165.54
	Investment	0.8	0.8	0.8	0.8	0.8
	Loan outstanding	414.66	474.65	491.33	498.07	566.12
	Fixed assets	4.06	3.56	3.36	2.99	2.66
	Interest receivable	10.19	13.44	19.43	36.35	0
	Other assets	13.74	16.13	16.18	13	19.38
Total		**472.47**	***544.59***	**596.44**	**665.92**	**748.67**

Source: *Annual Report of PGBBL*

Purwanchal Grameen Bikash Bank Composite

(As at the end of different Years)

Amount in '000'

	Particular	2062/63	2063/64	2064/65	2065/66	2066/67
Expenses	Interest on Borrowing	25049	25661	27473	26770	27563
	Staff Expenses	33986	33067	38788	33635	35576
	Office Expenses	5213	5632	6353	6446	6388
	Other Expenses	0	2815	0	1917	1395
	Provision for doubtful advances	1500	9913	3425	8135	5577
Total		***65748***	***77025***	***75739***	76573	76496
	Interest on Loan & Investment	65565	79174	74663	75380	75166
	Other Income	1148	950	1006	1279	2010
	Capital subsidy gain	10	11	-	14	20
	P/L A/c	2028	(3110)	(100)	(100)	(1000)
Total		65748	***77025***	***75739***	76573	76496

Source: *Annual Report of PGBBL*