# CHAPTER-1
# INTRODUCTION

## 1.1 Background

Based on political map, Nepal lies on south Asia as a landlocked nation. The total area of the country is 147848 square k.m. According to the population census of 2001 Nepal's population is 23.5 million. Hill region covers 42% of the total land of the nation .Share of population of this region is 44.3%. Suitable land for cultivation is 40%. Among 22, 7 million people of the country 85.80% people live in rural areas. Per capita income of the average Nepali is US $ 237 according to the Central Bureau of statistics (2003).

The study conducted by UNDP (2000) in "Overcoming human Poverty has found that the people under Poverty line in Nepal is 50% .The major reasons traced out are :

1. Lower productivity
2. Lack of modern technology
3. Lack of discipline against corruption and punishment
4. Political instability and intervention
5. Ineffective institutional effort
6. Inferior condition of education, health, road and access of market
7. Inability to identify the poor and involving them in economic activities.

Uprety (2000) states that the economic growth in Nepal is primarily concentrated in urban areas particularly in Kathmandu valley neglecting the vast rural areas .Planned attempts have been made to address the problem of poverty with focus on agriculture rural development. Several credit programs have been initiated in an attempt to generate self-employment and increase production through bank credits and thereby increase income and improve standard of living of the poor people in rural areas.

Many programs have been implemented for the poverty alleviation in Nepal. But only micro-finance program is seen as a poor targeted rural based program. In Nepal agriculture based cooperatives were initiated in 1950s as a first step in micro -finance and poverty alleviation rural based program was initiated as a small farmers development program (SFDP) on pilots the Dhanusa and Nuwakot encouraged policy makers to expand rural based micro-finance program.

The SFDP now being transformed into autonomous self-help organization called Small Framers Cooperatives Limited (SFCL), which is managed by farmers themselves. Other micro-finance development programs such as Priority Sector Lending Program (PSLP), Intensive Banking Program (IBP), Production Credit for Rural Women (PCRW) and Rural Self-Reliant Fund (RSRF) have been implemented. After studying various pros and cons of the SFDP, community Based Organization (CBOS), Priority Sector and PCRW etc. Government stared to rethink for delivery mechanism of the micro finance.

In 1992, government set up two of five Grameen Bikash Bank as a replication of the Bangladesh Grameen model of micro-finance delivery system. Government also created a situation to participate in the micro-finance by the private sector, subsequently Nirdhan, CSD, Chimek and other private sector developed MFIs came into existence.

In Nepal, there are different kinds of financial institution which are fulfilling the credit needs to the different target people. The nature and scope of such institutions varies according to their service, such as Nepal Industrial Development Corporation has been established to provide credit for the medium and large-scale industries. Agriculture Development Bank (ADB) has been set up to provide credit for agriculture as well as small -scale industries. Commercial bank has been established to provide credit to agriculture, Industries, trade, and other. Similarly other joint venture and private banks are also established to provide credit facilities. Profit motive nature of such institution has result their absence in the rural area where nominal percent of people live. Very few institutions are providing these services in the rural area that are deprived of getting financial supplies with certain collateral, not fulfilling the poor people.

Adopting the role, Policy and programs of Bangladesh and its effectiveness in poverty alleviations, government of Nepal had brought the policy and program similar to it, and the result is an establishment of eastern and far western rural banks incorporated in Biratnagar and Dhangadi since 2049 B.S in first phase. It started to facilitate credit to selected families since 2050 B.S. Two years later, in 2nd phase another two western and mid western rural banks are established in Butwal and Nepalganj . Similarly another Mid-Eastern rural bank incorporated in Janakpur since 2053 B.S. In this way, there are 5 rural banks from government sector, beside this there are two micro-financing institutions (MFIS) in the private sectors namely, Center for Self help Development (CSD) and Nirdhan Uthan Bank and various NGOs and INGOs.

Paschimanchal Grameen Bikash Bank Ltd. is incorporated in 2051 B.S with authorized capital of Rs. 120 million , issued capital Rs. 60 million and paid up capital Rs. 60 million. Its head office is in Butwal. It has 36 branches which comprises maximum district of western region including 268 VDC and 12 municipalities. It has serviced in 13 districts. The number of total staff working in this organization is 214. The bank has mainly three levels of decisions making units, the board, the management, and the functional units.

It is a rural development bank and has launched different development activities under the priority sector especially women credit program. Mainly the investment is done in certain groups of women families in agriculture, cottage and small industries and service sectors without collateral provision.

The cumulative disbursement of loan up to mid July 2007 is 4196 million to 35895 member clients in different parts of the region. The outstanding loan in mid July 2007 was 402 million with 34952 borrower clients.

## 1.2 Statement of the Problem

Nepal is a least developed country. The economic condition of Nepal is very poor. Lack of effective utilization of natural resources and bio-diversity, it is meaningless to say that Nepal is rich. The major constraints of unused resources are lack of finance. Bank and financial institutions aren't concentrated in rural areas where the real seeker of such finance exists. Nepalese rural financing system depends on informal sector like moneylenders, merchants, friends, and relatives. The rural people have very limited access to the institutional credit to assist the rural people finance, the activities of rural development banks are considered important for the study. It is highly essential to protect the lower class of the population from every aspect by the government and other informal group. This study is focused on financial performance of Paschimanchal Grameen Bikas Bank Ltd. For this Purpose, banks financial soundness evaluated. Financial performance is studied using different tools and techniques, which include financial ratio analysis, trend analysis. Bank's strength analyzed through financial performance analysis works as the mirror of weakness and strength of the bank. A strong bank can contribute to national economy by flowing funds to the target group by collecting scattered money in the nation. The major focus of the study is whether the bank is able to achieve its objective or not. The structure of micro-credit investment and repayment on lower level of the economy is considered for the evaluation of future perspective and program effectiveness.

## 1.3 Research Question

- What is the existing condition of micro credit investment of the bank in terms of repayment and disbursement?
- What is the relationship between disbursement and repayment?
- Is micro credit investment of the bank is favorable in terms of repayment over disbursement?
- Whether the micro credit investment of the bank in terms of repayment and disbursement is significant?
- Is there a sound financial position of the bank?

## 1.4 Objective of the Study

The major objective of this study is

1. To evaluate recovery rate of the bank

2. To find out the relation between disbursement and repayment.

3. To find out liquidity position of the bank.

4. To find out profitability position of the bank.

5. To know the leverage position (Capital structure) of the bank.

6. To recommend suggestion to the policy maker and concerned authorities.

## 1.5 Significance of the Study

For the economic reform of the nation, banking sector plays vital role. Taking consideration of this view, government has a liberal policy of expanding financial sector. Currently there are increasing no. Of commercial banks, development bank, finance companies and cooperatives .In terms of Nepal's entry to the WTO, financial sector should be developed not only focusing on the urban area but also focus on the rural area. Due to high operating cost, lesser profitability, most of the banks are providing services only in urban areas ignoring poor people residing in the rural areas except few public ventures. Although the concept of Grameen Bikas Bank and some NGO and INGO, there is still lack finance to the major population.

This study is based on the performance analysis of PGBBL. This study is done to facilitate to the different stakeholders. By this study, the management of this bank can find shortcomings in their plan and policies regarding future perspective. It is also helps the government to find the true picture of the bank regarding its investment on the real poor people. It also helps the NRB to set directives, plan, and policies to the rural development bank. It also helps the other rural development bank to compare their financial soundness. It also helps the potential investor to analyze the banking performance investor to analyze the banking performance in terms of profit. Last but no means the least, the ultimate beneficiaries of the study will be the researcher who want to find out undiscovered problems regarding financial performances and soundness of rural development banks in Nepal.

The specific beneficiaries of the study are: -

- Management of this bank

- Lenders and borrowers of this bank
- Policymakers of this bank
- Future researcher
- People in general
- NRB as a regulatory body of the government

## 1.6 Limitation of the study

This study is conducted for partial fulfillment of the requirement of Master Degree in Business Studies. So it has some limitation, which are as follows:

- It covers the time period of 7 years from fiscal year 2001 to 2007 A.D.
- To measure the effectiveness of credit disbursed in rural area, investment and repayment and recovery rate are considered.
- Information is collected mainly from secondary data such as banks financial statements mainly balance sheet, income statement, annual reports, and journals from the bank.
- It is completed in limited time period.

## 1.7 Organization of the study

This study has been divided into following five chapters:

**Chapter 1**: Introduction

This includes background of the study, objective of the study, statement of the problem, significance of the study, limitation of the study

**Chapter 2**: Review of literature

This chapter includes conceptual and theoretical review, concept of a bank, evolution of rural investment in Nepal, Growth of formal and semi-formal institutions, problem of rural financing, financial performance, financial analysis, review of related research studies

**Chapter 3:** Research Methodology

This chapter includes introduction, research design, sampling, nature and sources of data, procedure employed, data processing procedure and tools of financial analysis

**Chapter 4:** Analysis and presentation of data

This includes almost all the presentation, tables, and charts required for achieving the objective of the study and major findings of the study.

**Chapter 5:** Summary and conclusion

This chapter includes summary, conclusion, suggestions and recommendation

# CHAPTER-2

# REVIEW OF LITERATURE

In this study, the review of literature covers the review of analysis of financial performance of rural development banks in Nepal and literature relevant to micro credit. "The purpose of literature review is to find out what research studies have been conducted in one chosen field of study and what remains to be done .It provides the foundation of developing a comprehensive theoretical framework for which hypothesis can be developed for testing. The literature survey also minimizes the risk of pursuing the dead – ends in research" (Wolf & Pant, 1999a). "The main purpose of reviewing the literature is to develop some expertise in one's area to see what new contribution can be made and to receive some ideas for developing a research design" (Wolf &pant 1999b). Some light has been mentioned with the purpose of reviewing the literature in this chapter. It contains the financial performance analysis of related studies .In addition to these, some lights logics, issues finding and suggestions are mentioned which are found to be guideline to prepare the current study.

Following relevant literatures are reviewed:

- Books
- Journals /Articles
- Publication
- Annual reports of concerned organization.
- Legislation related to commercial banks review of related dissertations /thesis.

## 2.1 Conceptual & Theoretical Review

### 2.1.1 Concept of a Bank:

"Bank differs in the services they provide and in how they are owned. Many financial experts use the word bank to refer only to the commercial bank. These experts believe that saving banks, building securities, and credit unions are not true banks because they do not perform all the function of commercial banks. Saving banks, building securities, and credit unions are a business to encourage saving". (World book encyclopedia, page 90, vol.2). Similarly the oxford advanced dictionary (1995) defines bank as "An establishment for keeping money and valuables safely, the money being paid out on the customers order (by means of cheque)". This traditional definition is too simple and incomplete because modern banking is not confined only to keep the money and make payment in this context Dr. Mali Ram (1992) says "Banking means the accepting for the purpose of money from the public repayable by cheques, drafts order or other." Here in the context of rural bank, the definitions given by expert do not match. The objectives of rural banks are somewhat different than any commercial bank. As a central bank of the country, one of the major functions of a Nepal Rastra Bank is economic development. In realization of the fact Nepal Rastra Bank established rural banks in different development regions to uplift the economic standard of rural sector's people. A rural bank provides micro credit to the people of rural area. Micro credit is taken as a weapon for the reduction of the poverty. Major role of rural bank is simply traced here as a institution of the nation not for owning major profit, but for rendering services to assist poor people by providing small amount loan (without collateral) and to encourage rural saving.

### 2.1.2 Evolution of rural investment program in Nepal:

Priority sector credit Manual (2000) concludes that the first institutionalization of rural credit had begun in Chit wan district of Nepal through credit cooperatives in 1956 A.D. In the 1st phase of banking history, Nepal bank, in which agriculture industry and commercial sector credit could be disbursed to its clients.

In this context, the Cooperative Society act has been formulated in 1959,under which credit cooperative existed on that time that in 1968 converted into Agriculture Development bank with a view to providing credit supports to individual as well as the cooperative.

Thus Agriculture Development Bank came up with a trust to access rural people with an objective of balancing resources. However Agriculture Development Bank alone couldn’t fulfill the demand and supply of rural credit gap. There it was felt the needs of commercial banks involvement in the fulfillment of credit supply to the deprived rural people. In these consequences Nepal Rastra Bank formulated the policy for commercial banks of investing rural credit of its 5% deposit liabilities to this sector mandatory called as "small sector" on 1975.During 1965 credit Guarantee Corporation was emerged as a guarantor to the extended loan of commercial banks to this sector.

In totality access to credit couldn't achieved as expected, though the developed policy was favoring to the commercial bank. In 1981, it has been experience that major part of the disbursed loan reached to the non-poor (the wealthier and cleaver farmers) only. As a result, small sector program was changed into area development approach concept. The concept was to lend poor family on the group basis without any physical collateral. This concept is gradually implemented to the commercial Banks branches, which on wards popularly renounced as “Intensive banking program" of commercial banks. During this period the level of disbursement was again raised to 10% of deposit liabilities.

## 2.1.3) Growth of formal and semi-formal institutions

## Rural Micro Finance Development Banks

Sharma (2006) concluded that two regional level rural micro finance development banks (also known as Grameen Bikash Banks), one each in the

Eastern and the far-western development Regions were established towards the end of 1992. By June 1996, other three such banks, one each in the other three-development region were also set up. These Grammen Bikas banks represent an innovative outreach model patterned on the Grameen bank of Bangladesh, which caters the financial needs of the deprived sections of the society in rural areas. His majesty's Government and Nepal Rastra Bank (NRB) own majority shares of these banks. Later on, Nirdhan (an NGO) promoted Nirdhan Uthan Bank in 1998 and CSD( also an NGO) the swabalamban Bikas Bank in 2001, both of which are Grameen bank replicators. Deprosc Bikas Bank and the chimek Bikas Bank established in 2000 and 2001 respectively are also poverty focused microfinance banks, but don't follow the Grammen Bank pattern. However all these nine microfinance institutions provide retail-banking services to the deprived sector of the societies without physical collateral.

With a view to provide wholesale loans to the SCCS and NGOs his majesty's Government established "Rural self Reliance Fund in 1990 and contributed a seed capital of Rs. 10 million in the fiscal year 1991/92 and another Rs. 10 million in the FY 1992 /1993 to the fund through budgetary provision. In the FY 2002/2003,Nepal Rastra Bank also provided Rs. 100 million as seed capital to the fund. In 1998 "Rural microfinance development center," a specialized institution for providing wholesale funds to MFFS was set up center Asian Development Bank's initiatives. Besides the wholesale fund for lending, it also provides support to MFIs for their institutional capacity building. After about four years, the Sanakisan Bikas Bank, another wholesale bank was established in 2001 under GTZ's initiatives. Both are second tier institutions. The former provides wholesale loans to micro finance institutions, such as poverty focused development banks, SCCs and FI-NGOs, whereas the latter extends such loans mainly to the member SCCs. By mid January 2004, a total of" rural micro finance banks, including two wholesale banks were in operation and all of them were licensed under the development Bank Act, 1996.

## Savings and Credit Cooperatives

Cooperative Act, 1992 was enacted in 1992 .It provided legal framework for the cooperatives to function as people based institutions. No savings and credit cooperatives were established till 1993/1994. It was only in 1994/95 that altogether 228 SCCs were registered. The member increased to 343 in mid July 1996, 1271 in mid July 1999,1971 in mid July 2002 and 2800 in mid January 2004 of a total of 2800 SCCs (including 125 SFCLs) in mid January 2004, 34 had been licensed by NRB under the cooperative Act, 1992 to undertake limited banking activities.

A process of institutionalizing the small farmers groups into the "Small farmer cooperative limited (SFCL)"has been under way since 1993/94. The purpose of this initiative is to create locality owned and managed micro finance institutions that can take over the activities of SFDF on a self-sustaining basis. By mid January 2004, 125 SFCLS were in operations in 32 Districts.

## Financial Intermediary Non-Governmental organizations

In Nepal, Society Registration Act, 1978 allows nonprofit welfare organization to register as an NGO. Enactment of financial intermediary societies Act, 1998 enables such NGOs to provide financial services to the deprived section of the societies under group guarantee basis. However, the NGOs willing to under take such functions will have to under take such functions will have to get license from NRB before they start the micro finance activities. Social welfare councils estimate indicates the existence of 18000 NGOS operating in the century of this total, 13 NGOs had taken license from NRB in 2000. The number of such FI-NGOs increased to 17 in 2001, to 40 by mid July 2003 and to 44 by mid January 2004. The financial intermediary society's part of FI-NGOs to provide financial services only to the people below the poverty line that too under the group guarantees system.

Besides these 44 FI- NGOs, the other NGOs namely the Chimek Samaj Sewa registered in Kathmandu in the FY1990/91, Center for Self- Help Development (CSD) registered in Kathmandu in the FY 1991/92 and the Development Project Services Center (DEPROSC) registered in kathmandu in the FY 1993/94 have also been providing micro finance services in five districts ( Siraha, Dhanusa, Mahottatri, sarlahi and kathmandu),one district(Dang) and one district (Morang) respectively. These three NGOs have applied to Nepal Rastra Bank for FI license.

### 2.1.4 Problem of rural financing:

Agriculture is backbone of Nepalese economy, means of livelihood for majority of the population and the main source of gross domestic product, income, and employment generation. It is therefore right deserves the top most priority to agriculture sector because the economy is still mired in the initial stage of development where the income generation through industrial sector as well as internal market expansion from non agriculture is nominal. Economic Survey (1999/2000) shows that an agriculture sector contributes above 43 % of gross domestic product in a country. In this way we can say that agriculture has been given a primary important of the nation. But agriculture is not sufficient enough to boost up the economic stage and the pace of development. Small-scale industries are equally essential for the rapid economic development of the nation because it can create employment revenue for the large member of unemployed people of the country. SCI contributes above 10% gross domestic product of our country.

In least developed countries like Nepal where the promotion of large industries are not feasible due to the several reason such as lack of adequate capital investment abilities, skilled labor, modern technology, productive marketing, necessary training. Thus, the promotion of priority sector in developing countries like Nepal for faster development is prime necessities.

These are several factors influencing the promotion of small-scale industries and increasing agricultural productivity. The most important factor is credit facilities. "One of the problems in rural community is lack of the credit facilities in time and right quantity to the rural poor" (Panta & Jain, 1980).

Mr. Pradhan (059) states that the policy on financial sector liberalization has led to the establishment of 18 commercial banks, 55 finance companies, 21 development banks (including micro credit development banks), however there are not many rural financial institutions to provide credit to the poorest people and these mobilize savings as well. Most of these financial institutions are located either in the district headquarters or in the urban areas. Two largest public sector commercial banks namely Nepal bank Ltd. and Rastriya Banizya Bank (RBB) and agricultural development Bank (ADB) are the only institutional vehicles for rural finance. But due to the recently developed political scenarios particularly the deteriorating security aspects, the rural branches of these banks are heading toward closing their business.

This has become another threat to deliver rural credit on the other hand; the private sector micro financing institutions (MFIS) which is institutional base as well is also small and will also take time to substitute this newly developed phenomenon. Like wise a number of saving and credit co-operatives operating legally as well as illegally are also concentrating their activities in commercially viable areas only. There are more than 1600 savings and credit cooperatives registered at the district. Cooperative offices, out of which only have got operating license to carry out limited banking business from the NRB. However, the area of operation of them is located in the capital city kathmandu. Thus, getting, banking services from the organized sector's financial institution has become like a drop of water in the desert. This is the biggest challenge to the policy makers. In this regard the need of priority sector and deprived sector credit program, which is implemented through commercial banks since 1975, is still valid. The largest micro-financing institution i.e., 5 Grameen Banks, are providing micro- credit services to the rural people particularly to those living below poverty level presently, these banks have been providing loan to women clients only and their activities are concentrated mainly in Terai areas. Thus reaching to the hill areas is also challenge to the Grameen Banks. Besides 5 Grameen Banks these are two MFIS (Micro financing Institutions) in the private sectors namely, center for self-help development (CSD) and Nirdhan, which activities are also based on the Terai areas and are focused effective in delivering micro credit services. Likewise, the recent conversion of small farmers co- operative limited (SFCL) is seen very promising and also getting popularity among small farmers. Now these are around 100 such SFCL. Out of this only 10 SFCL have got license from the NRB. Despite all these rural financing institutions, ADB/N continues to be the major player in rural finance. Compared to the rural credit supply from the formal financial institutional funding and fulfilling such gap internally is very difficult. Thus the finely available of the fund at cheaper rate for a relatively longer term is highly desirable.

To alleviate poverty is not only the challenge of Nepal but it is also a challenge for all over the world. It is estimated that 1/2 of the world population live below poverty level i.e., people earning less than a dollar per day. In the Nepalese context experiencing from the past, credit given to the poor people has resulted very positively in income generation and employment. Grameen Banks can be cited in this regard, where almost 160000 women borrowers have been able to generate group savings amounting to Rs 280 million, till jan.2002.It is also believed that around 900 thousand members of such families have been benefited indirectly from Grameen Banks. But, despite the creation of rural micro- Finance Development Center (RMDC), Purposefully established to provide wholesale fund to rural people, the 5 Grameen banks are still out of access to obtain fund from the center. Thus the government and NRB have taken a 5 yrs comprehensive re- structuring program to reform the obstacle and problems encountered by Grameen Banks. The reformatory process has already taken by NRB and HMG is the capital grants given to recover all accumulated losses of the Grammen Banks amounted to Rs. 163 million, such capital grant was provided by NRB and HMG on the basis of 70 and 30 percent respectively of the total accumulated losses.

No doubt, NRB pioneered a number of rural financing instruments to uplift the rural people. Thus NRB cannot be blamed for its role played so far in promoting rural finance. In this regard, NRB is also making avail of resources to participating financial institutions (PFIS) though different project. Third livestock Development project (TLDP), micro credit project for women (MCPW), poverty Alleviation Program in western Terai (PAPWT) and community ground water Irrigation sector Project (CGWISP). ADB/manila and IFAD found the above projects. And some are extent by HMG/N and CIDA.

NRB, through the finance Development is acting as a principal executing agency of the credit component of these projects directly provide benefits to the rural people living below poverty level and marginal farmers as well. Besides these donors supported credit projects. NRB through the rural self-reliance fund (RSRF) has also been providing wholesale credit to savings and credit cooperative and NGOs, which have operational network in the rural and un-banked areas. Till Jan. 2002, an amount of Rs.50 million has been disbursed under RSRF and Rs 33 million is repaid making very enthusiastic repayment level which is believed to be at around 50% level, managing resources for poverty is also difficult task ahead for policy makers. NRB as being a central bank of the country cannot be ruled out from such challenge.

### 2.1.5 Financial performance

It has been already mentioned that this study relates to the analysis of appraisal of financial performance of PGBBL. "Analyzing financial performance is a process of evaluating financial statement to obtain a better understanding of a firm's position and performance" (Metcalf & Tiland 1976). “Financial statements are sources of information for analyzing and understanding the financial performance of a firm in the process of pursuing its business objectives” (Paudel, Baral, Gautam, Dahal &Rana 2062) thus the financial performance prefers of treatment of the information confined in the financial statement.

### 2.1.6 Financial analysis

Financial performance is basically concerned with financial analysis. Financial analysis is mainly related with financial ratios. “Financial 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 the profit and loss account "(Pandey1990).

Saranavel (1983) concludes that financial analysis may be of two type viz. vertical analysis and horizontal analysis. When a financial statement like a balance sheet or a profit and loss account of a certain period only are analysis Since it measures the position of the business at a point of time, it is also known as static analysis .In horizontal analysis a series of statement relating to a number of years are reviewed and analyzed .It is also known as a dynamic analysis because it measured the change of a position or trend of the business over a number of years. This study is also to some extend based on horizontal analysis. Khan & Jain (1991) pointed out three steps in financial analysis.

- Selection of information relevant to the decision under consideration from the total information.
- Arrangement of the selected information in a way to highlight significant relationship.
- Interpretation and drawings of inferences and conclusions.

Jain & Narang (1991) opines that the analysis of financial statement refers to the treatment of the information contained in the financial statement in a way so as to afford a full diagnosis of the profitability and financial position of the firm concerned. For this purpose, financial statements are classified methodical analysis and compared with the figures of previous years or other similar firms. Pillai & Bhagirathi (1994) concludes that financial analysis includes;

- Breaking financial statement into simpler one.
- Regrouping
- Re-arranging the figures given in financial statement and

- Finding out ratios and percentage.

"A financial ratio helps us to find the symptoms of problems. The case of any problem may be determined only after locating the symptom. The operational and financial problems of a corporation can be ascertained by examining the behavior of these ratios" (Pradhan, 1986) .So the ratios in financial institution are regarded as the best indicators of their performance.

"Ratio analysis is the systematic use of ratio to interpret the financial statements so that the strength and weaknesses of a firm as well as its historical condition can be determined" (Khan & Jain, 1991). "A comparative study can be made between statistic concerning varied facets of a business unit with the help of ratio analysis. Besides, Just as the blood pressure, pulse and temperature are the measures of the health of an individual, so does ratio analysis measures the economic and financial position performance of a firm can be fully x-rayed through ratio analysis" (kothari, 1990)

## 2.2 Review of related research studies

Regarding the subject matter, various research studies are found; mostly they are related of commercial bank. The related research studies of different commercial banks Journals are taken consideration.

On the topic conducted thesis research such as investment of commercial banks in priority sector, performance of rural development bank and performance of some commercial banks relevant to this are briefly enumerated below.

Shrestha (1980) on, "Financial Management theory and practice" has found that the bank has sufficient liquidity position for meeting the prime depositor's i.e., excluding fixed deposits. The bank is explicitly depending more

on borrowed funds and as a highly geared capital structure. The bank has been able to meet the interest on deposit out of its profit; similarly the rate of return on ownership capital is favorable. Although the performance of the bank is satisfactory, operational efficiency should be enhanced to achieve its higher profit goals. Moreover, the intense competitive environment in the banking sector has also made it mandatory to improve operative efficiency in order to retain its market share.

Pradhan (2054) on the article of "rural finance system in Nepal" has found the increasing annual credit demand of the rural sector and cumbersome lending practices of formal financial institution, the need to formalize all unregistered saving and credit cooperatives and self help village banking is greatly felt such rural financing institutions are also getting popular day by day. However, the initiative should be taken up by the central bank.

Bajracharya (2057) on the article of "Investment of commercial banks in priority sectors" has found most of the people in his study area are based on agriculture as main occupation. Investment on agriculture is higher than investment or agriculture benefited a higher number of households cheep credit and repayment of loan on installment basis are the two provisions of PSIP, which has highly attracted small borrowers and entrepreneur towards PSIP. Generally PSIP will also have positive effect on income and employment. The study also revealed that the procedure of loan disbursing is complicated for the borrowers to understand if completely. They don’t have full knowledge about banking procedure so it is necessary to simplify the banking procedure.

The main findings of the study have been summarized below:

The target of 12% investment of total outstanding liabilities in priority sector and 3% out of which has been invested in deprived sector has been met by Rastriya Banizya Bank.The trend analysis of investment for 10 years from Asad 2047 to Asad 2056 shows that the investment are continued to increase in the following years. The increasing trend shows that the commercial banks are giving due consideration to increase investment in priority sector.

Besides that the trend analysis of repayment for 10 years from Asad 2047 to Asad 2056 shows that the repayment has also increase in the following years. This analysis shows that the efficiency and the improved condition of the borrowers are able to allocate the resources. Regression analysis of the investment and repayment of the bank have been shown positive relationship between investment and repayment, which means the investment increases, the repayment also increases. The chi-square test of effectiveness of the program in term of Investment has found out that the program is more effective in rural and semi rural areas as compared to the urban areas. With this result, it is concluded that the resources of the commercial bank have been to some extent properly utilized on poverty alleviation program, which is necessary for Nepal.

Sharma (2001) on the study titled "An appraisal on financial aspect of bank of ktm” found that liquidity ratios are relatively fluctuating over the analysis period. And the analysis also reveals that more than 50 % of total deposit has been utilized on the loan and advances from the initial year of the bank's establishment, which proves that the bank is efficient in term of its earning power.

In the period of the study the bank has invested more than 70 % of the total deposits on credit and investment by which the bank has earned more than 86.75 % of total earnings from the interest only.

Lamsal (2004) on the article "Performance of rural banks in Nepal (A case study of PGBB)" has found whether the bank has able to meet the target of escalating the living standard of rural people or not .The study has measured the effective of investment in terms of repayment and disbursement. Various other financial relationships have been extracted to conclude the objective of the study. Loan disbursement, its repayment, clients view toward the programs, Procedural technique and its effectiveness are major working of the study .The study has reveal several findings which are; The major components of current Assets of PGBB are cash and Bank balance and it is assumed that 60 % of fixed deposit and 40 % of loan and advance are categorized under current asset. Current asset on current liabilities is decreasing every year. It is found that the ratio of cash and bank balance to total deposit is decreasing every year. Similarly the bank has utilized the deposit of people for rural credit program effectively, however too fewer ratios are not good enough as it unable to make daily requirement for paying the deposited amount promptly. It is found that bank has unable to mobilize the resources effectively in most of fiscal years. The rate is little higher in yrs 054/055 and 057/58. The profit is mainly depends on direct investment of capital on fixed deposit in various banks and government securities rather than interest obtained from the debtors since the rate of bank deposit of people is not high enough and rate of disbursement is also not bigger in amount than fixed investment in deposit and securities.

Mungmen (2004) on the topic of "Financial performance of Purbanchal Grameen Bikas Bank Ltd. "Pointed out the following results and findings.

Borrowing is the main source of fund. Financial ratio indicates poor financial position over the period of 2051 to 2059 B.S. Trend of operating expenses is increasing day by day in comparison with operating profit. The growth of net loss is negative. Loan has not been timely recovered from clients. The relationship between deposit and investment is not in acceptable condition. Similarly overdue loan has increased year to year. Share capital remains same during the study periods. Loan disbursement by the bank is quite small in amount.

Similarly another research carried out by Ghimire (2002) on "Financial performance of Nepal Insurance Company Ltd. Concludes as follows:

The current asset is sufficient. Company has only ownership capital i.e. no Creditor ship capital has been used. Its net worth is slightly poor. However the profitability position is satisfactory to some extent any because the company hasn't earned sufficient profit from its underwriting function.

Timilsina(2007),Performance Evaluation of Development Banks (with reference to Nepal Development Bank Ltd. And Development Credit Bank Ltd.) Founded out following conclusion: -

In terms of solvency position DCBL was Better than that of NDBL according to cash and bank balance to total deposit ratio. Current ratio was in slightly fluctuating trend for NDBL and in increasing trend for DCBL. In terms of quick ratio, NDBL is more successful in maintaining the liquidity position. Cash and bank balance to current assets Ratios of both banks were in slightly fluctuating trend.

During the study period, average return on total assets ratio of DCBL was much higher than in NDBL. Average return on shareholders equity ratios of NDBL found to be greater in NDBL because of the negative net profit and negative shareholders equity. Return on working capital was considerably higher in NDBL, which signifies that NDBL was more successful to utilize the working capital for making profit.

Average investment income to investment ratio of DCBL was higher which signifies that DCBL was improving its profit from investment increasing trend. Whereas NDBL had decreasing trend.

During the study period, debt to equity ratios of both banks depicted that employment of debt was higher than the capital. Debt to assets ratio remained higher in NDBL than in DCBL that reveals that the greater portion o asset in NDBL was financed through the outsider cost bearing fund.

Average interest coverage ratio in NDBL remained greater than in DCBL which reveals that interest paying capacity of NDBL was considerably better than that of DCBL.

Long-term debt to net worth ratio showed both banks had no long-term debt for the first two years. Loan and advance to total deposit ratio appeared significantly higher in DCBL. The mean loan and advance to fixed deposit ratio appeared higher in DCBL, which indicates that turnover of fixed deposit in –terms of, and advance was better in DCBL.

There was no dividend distribution in NDBL for the study period. DCBL distributed dividend from the third year of study period.

In the same way, result of primary data depicted that all the respondents had the knowledge of performance evaluation and said their bank had good performance. Return on equity showed the performance in their bank. Fixed deposit had major dominance, government had not provided specific assistance, and ratio analysis tool was used to measure the performance in their bank. The hypothesis test also supported the above theories.

Bhusal (2008), Financial performance analysis of commercial bank in Nepal in the framework of camel (A comparative study of Kumari Bank and Machhapuchhre Bank) pointed out:-

Over the 5 studies year period, the core capital adequacy ratios of both the banks are in decreasing trend except in the fiscal year 062\63.The capital adequacy ratios of both the banks are above the NRB standard which are adequate and sufficient. It was found that both the banks have maintained the supplementary capital adequacy ratio as per NRB standard, which should not be more than the core capital ratio of the company. The non-performing loan ratio of both KBL and MBL are in decreasing trend. The loan loss ratios of KBL are fluctuating over the study period while the loan loss ratios of MBL are in decreasing trend. The earning per share per employee ratios of KBL and MBL are in increasing trend in all the years except of KBL in the fiscal year 062\63.The return on equity ratios of KBL and MBL are in increasing trend except in the Fiscal year 062\63 of KBL. The higher mean average ratio of KBL proves that it earned a better return for its equity shareholders than MBL. The return on assets ratios of both KBL and MBL are in increasing trend over the study period except in the fiscal year 062/63 of KBL and in the fiscal year 061\62 of MBL. The net interest margin ratios of both KBL and MBL are in fluctuating trend. Over the five studies year period, the earning per share of both KBL and MBL are in increasing trend except in the fiscal year 062\63 of KBL.  The liquid assets to total deposit ratios of KBL are in decreasing trend except in the fiscal year 060\61 but the ratios of MBL are fluctuating. The higher average liquid assets to total deposit ratios of MBL shows its better liquidity position than that of KBL. In terms of NRB balance to total deposit ratios, both the banks have maintained the balance as per the standard set by NRB in all the observed years. The cash in vault to total deposit ratios of KBL and MBL are in fluctuating trend during the review period.

Acharya (2008), cash flow management of commercial banks (with special: SCBNL, HBL, EBL and BOK),Kathmandu, NCC has following findings:

Primary objectives of the study were designed to assess the cash flow management capacity and conditions of the selected banks in terms of their annual performance. Similarly, it was also specified to explore the position of the banks at the banking and economic environment in terms of cash outflow and inflow in the focus to achieve excess annual earnings. Both secondary as well as primary sources of information were used to meet the stated objectives of the study.

From the standpoint of overall cash flow management condition and practice, Nabil and BOK have better investment, SCBNL and HBL have higher investment but Everest Bank Ltd. has lower investment trend in the relation with total deposit accepted. Investment deposit ratio should be better to be as in between thirty to forty percent. EBL and BOK have better investment in government securities, SCBNL have higher the investment but Nabil and HBL have lower investment trend. Nabil, EBL and BOK have better credit trend. Credit should be more than sixty percent in the relation with total deposit accepted to generate excess cash flow or income.

SCBNL, EBL and BOK have better debt service trend but Nabil and HBL have poorer the trend. All the banks have generated more cash from operations in each year than their annual capital expenditures. SCBNL and HBL have better cash flow adequacy in most of the year, EBL has not debt to recover in the most of the fiscal years but Nabil and BOK have lower cash flow adequacy. HBL, EBL and BOK have better per share income in the relation with cash from operation, SCBNL have fluctuated and Nabil has lower per share income in the relation with cash from operation. All the banks have better cash reserve in NRB account i.e., more than 5% cash in NRB account. All the banks also maintain cash and bank balance better. All the banks have maintained the capital adequacy ratio.

From the standpoint of banks practices all the banks have liquidity problem is less than by around 10 billion. SCBNL is unable to attract the savings of the people or depositors. Same way Nabil bank ltd. has also lower interest rates but banks are success to attract the savings of the people. Himalayan bank ltd. also lower interest rates, few branches and are not success to attract the savings of the people. Everest bank ltd. has lower interest rates and the banks are not success attract the remittance and savings of the people. In terms of BOK, increase interest rates can control this liquidity problem. Remittance is not going through banking way or formal way.

Based on above research studies, Journals and other publication, this study tried to analyze the relative financial performance of the bank, financial policies of the bank and to find out which has better ratio to examine the financial performance of existing rural banks working on micro credit.)))

# CHAPTER-3
# RESEARCH METHODOLOGY

A Systematic research needs to follow a proper methodology to achieve the pre-mentioned objective." Research methodology is a sequential procedure and methods to be adopted in a systematic study"(kothari, 1985). In other word research methodology describes the methods and process applied in the entire aspect of the study. Thus, this chapter highlights the research methodology used in the study for analysis of performance of PGBBL to draw some potential conclusion from this.

The research methodology adopted for the present study is mentioned in this chapter, which deals with research design, population and sample, size and types of data, data gathering procedure, methods of analysis (or tools and techniques of analysis).

## 3.1 Research Design:

Research Design is highlighted for obtaining the basic objectives of the study. Research Design includes definite procedures and techniques, which guides for analyzing and evaluating the study. "Research design is the plan, structure, and strategy of the investigation conceived so as to obtain answer to the research questions and control variance" (kerlinger, 1986). This study is based on secondary source of data. This study is descriptive analytical research design shows all procedure and handling practices and also financial position of the bank to meet there stated problem, it is an attempt to investigate various established relation of variables for the investigation of performance of the bank: query, table, statistical tools, financial tools are employed.

## 3.2 Nature and sources of Data:

The present study is based on secondary data. Primary data are not used in this study. An annual repots of the bank, financial report provided by the banks, related books, bulletins, Journals, magazine and other publications of NRB and government of Nepal are used as secondary data.

## 3.3 Sampling

This study is mainly based on secondary data obtained from various sources mentioned above. Besides a detailed review of literature has been conducted in order to collect data from library. Apart from this some useful data, information, facts and figures are also obtained from banks personnel through discussion with them. Such data, Information, facts, and figures have been processed by editing, tabulating, calculating prior to their analysis in order to obtain proper results and shown in the forms of ratios, percentage, graphs etc. for clear presentation. The credit department of the bank has provided number of tables, essentials, for the study. Tables are prepared according to the nature of data, which are taken for analysis and discussion of the problem.

## 3.4 Method of data analysis

The collected data are analyzed by using different Mathematical & financial tools such as mean, percentage, growth rate, sampling, correlation coefficient regression and other essential tools.

**a. Mean (X):**

Huge and wide data are confusion and difficult to remember so we need a unique tool that condenses a huge data into single value representing the whole data. Simply mean is computed dividing the total observation by the number of observation in symbolic order;

$$\overset{z}{X} = \frac{x}{N}, \overset{z}{y} = \frac{y}{N},$$

**b. Correlation Coefficient (r):**

In order to test the relationship between two variables dividing the period of the study Karl Pearson's correlation coefficient (r) is calculated as:

Where,

x = the first variable

Y= the next variable

N = No, of years (observations)

$(x - \bar{x})$ = Deviation from mean of first variable

$(y - \bar{y})$ = Deviation from mean of next variable

$$r = \frac{(x - \bar{x})(y - \bar{y})}{(x - \bar{x})^2 \; (y - \bar{y})^2}$$

**C. Probable Error (PE)**

$$PE = \frac{o.6745\ (1-R^2)}{\sqrt{N}}$$

If r is less than its PE, it is not at all significant .If it is more than PE, there is correlation. If r is more than 6 times, of its PE and greater than ± 0.5 than it is considered significant.

**d) Time series Analysis:**

One of the important and powerful tool of statistics is to estimate for the future consists of gathering information from the past .In this connection one usually deals with statistical data, which are collected, observed or recorded at successive interval of time such data are generally referred to as 'time series', Thus when one observed numerical data at different points of time the set of observation is known as time series. For our sake, time series is used for trend analysis of disbursement and repayment over the study (7 yrs) periods. For the analysis of trend values, least square method is used.

The straight-line trend is represented by the equation

YC = a + bx

Where yc is used to designate the trend values. 'A' is the y intercept or the computed trend line or the amount of change in y variable that is associated with a change of one unit (b) in x variable. The x variable in time series analysis represents time (yrs). To determine the values of a and b, the following normal equations are to be solved simultaneously.

$$y = Na + b$$

$$xy = a \quad x + b \quad x^2$$

$$a = \frac{y}{N}, \qquad b = \frac{xy}{x^2}$$

**e. Sample**

Sampling is the process of selecting a sample from a population. It is a tool, which helps to draw conclusion about the population after studying only those observation, which are included in sample. It is quite difficult to analyze the data of population. So the sample has been selected for the study, which starts from F.Y. 2001 to 2007

## f. Financial Ratio Analysis

Financial analysis is the process of determining the significant operation and financial characteristics of the firm from the accounting data.

For our purpose, various tools serve the mode of financial analysis of the various financial data extracted from different financial statements. Ratio analysis provides the information relating to strengths and weaknesses of financial data in relation to others.

For analysis of the financial performance of the bank various ratios related to the development bank features are tried to measure. The bank objective is service oriented than profit. It is therefore similar to these, some of the ratio are tried to extract to find the relations.

## Liquidity Ratio

for analyzing the financial performance of the firm liquidity ratio is one the powerful tools. Whether the company is able to meets its current obligations, due to lake of sufficient liquidity, will result in bad credit image loss of creditor's confidence. Very high degree liquidity is also bad, idle assets earn nothing. Short-term creditors increase solvency position of the firm so that the liquidity ratio must be calculated. The most common ratio, which indicates the extent of liquidity are

### a. Current Ratio

It measures short–term solvency of the bank. It is calculated as.

i.e., current ratio= $\dfrac{Current\ Assets}{Current\ Liabilities}$

### b. Cash and bank balance to current ratio

It is measured to find out the position of liquidity in terms of sash and bank balance to current asset ratio. It is computed by dividing the cash and bank balance by current asset.

Cash and bank balance to current ratio= $\dfrac{Cash\ and\ bank\ balance}{Current\ Assets}$

#### c. Cash and bank balance to total deposit ratio

It measures the ability to meet the daily requirement.

i.e., cash and bank balance to total deposit (saving) ratio= $\dfrac{Cash\ \ and\ \ bank\ \ balance}{Total\ \ deposit\ \ (saving)}$

#### d. Loan and advance to total deposit borrowing ratio

It measures the utilization of resources (total deposit and borrowing). High ratio is preferable.

Loan and advances to Deposit borrowing ratio= $\dfrac{Loan\ \&\ Advance}{Total\ Deposit\ Borrowing}$

## Profitability Ratio

Profitability ratio measures how effectively the company manage its fund to earn profit is the measuring rod of company's financial performance. It is also regarded as the most essential element for company's growth and bank servicing. As a development the objective of the bank however different than other commercial bank ever though bank has to serve for future strength and better performance. It is so; we have tried to depict the picture of its profitability.

### a. Net profit to total assets ratio

It measures the profitability with respect to each financial resources investment of the bank arrest.

I.e. Net profit to total assets $= \frac{Net\ profit}{Total\ assets}$

### Profit to total deposit ratio

It measures towards its deposit mobilization. Higher ratio is indication of higher utilization.

I.e. Net profit to total deposit $= \frac{Net\ profit}{Total\ deposit}$

### c) Interest Earned to Total Assets Ratio

It is calculated to find out the percentage of interest earned by the total asset of the form. The following formula is employed for this purpose.

i.e. Interest earned to total asset ratio $= \frac{Interest\ earned}{Total\ assets}$

### d) Return on Equity Ratio

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

Return on equity ratio $= \frac{Net\ profit\ after\ tax}{Equity}$

### e) Net profit Margin

For smooth operation of any organization net profit plays a very crucial rule. It establishes a relation between net profit and total income receipt. It is find out dividing total income by net profit.

$$\text{Net profit margin}=\frac{Net\ profit}{Total\ income}$$

### f) Earning Per Share

Earning per share (EPS) is one of the most widely quoted statistics. When there is discussion of company's performance, or share value it is the profit after tax figure that is divided by number of common share to calculate the value of earning per share. This figure tells us what profit the common shareholders for every share hold have earned. The EPS simply shows the profitability of the bank on a per share basis. EPS is calculated by using following formula.

$$\text{Earning per share (EPS)}=\frac{Net\ profit\ after\ tax}{Number\ of\ share}$$

### g) Interest Income to Total Income Ratio

This ratio measures the percentage of interest income against total income. This ratio can be computed by dividing interest income by total income. Here total income means interest income service fee, guarantee, commission, and other income. It can be calculated by this formula.

$$\text{Interest income to total income ratio}=\frac{Staff\ \exp enses}{Total\ income}$$

### h) Interest Expenses to Interest Income Ratio

How much interest expenses have gone against interest income. Financial performance is measure by interest expenses to interest income ratio this ratio can be obtained dividing total interest expenses by total interest income. Total interest expenses refer to interest on deposit, interest on borrowing. Total interest income includes interest from loan and advances, interest from investment.

$$\text{Interest expenses to interest income ratio} = \frac{Interest\ \exp enses}{Interest\ income}$$

### i) Staff Expenses to Total Income Ratio

Any organization cannot move without manpower and they should be paid by related organization. Staff expenses should be control to make the organization financially sound. Bank should minimize staff expenses to maximize profitability. Staff expenses include salary and allowances contributed to provident fund excluding bonus.

$$\text{Staff expenses to total income ratio} = \frac{Staff\ \exp enses}{Total\ income}$$

### j) Office Operating Expenses to Total Income Ratio

This ratio measures the percentage of office operating expenses against total income. Minimum operating expenses is desirable for the organization to make maximum profitability condition as well as sound performance. It can be computed by this formula:

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

## Leverage Ratio

Leverage ratios show the proportion of debt and equity in financing the firm's assets. The following ratios are estimated in order to evaluate the capital structure of PGBBL to the desired objectives.

a. Debt-equity ratio
b. Debt-asset ratio
c. Current asset to equity ratio

### a) Debt equity ratio

This ratio has been calculated to measure the relative proportions of outsiders fund and shareholders fund invested in the firm. The ratio can be computed by the given formula.

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

### b) Debt-Asset Ratio

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

$$\text{Debt-asset ratio} = \frac{\text{Total debt}}{\text{Total assets}}$$

### C. Current Asset to Equity Ratio

This ratio reveals that how much of share holders fund is being deployed in current assets. If the deployment is to small, working capital may be inadequate. It is calculated in this ways:

$$\text{Current asset to equity ratios} = \frac{\text{total current assets}}{\text{Shareholders equity}}$$

# CHAPTER-4

# DATA ANALYSIS & PRESENTATION

## 4.1 Introduction

It is the main part of the study. Researcher comes to know in the ground of reality about the financial performance of PGBBL when testing the data with financial and statistical tools. Financial performance is the matter of interest in the inner of the organization. All different stakeholder and concerned parties look into it with different views on their interest. The shareholders are interested in the capital appreciation and profit margin. The short-term creditors are interested to know whether the firm is in the position to meet up its obligation like current liabilities. On the other hand, the long-term creditors give interest to know the long-term financial position of the firm. Especially the financial management is interested in the facts 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 corrective action for future. If financial statement is properly analyzed, it shows the financial strength and weakness. The important part of the study is presentation and analyses of data, which help to find out the fact matter about organization’s to get fact results, researcher uses the modern tools such as financial ratio analyses, trend least square method analyses and correlation analyses.

In conclusion, this chapter gives answer of the research –question and derives certain conclusion.

### 4.1.1 Trend analysis of Disbursement

The disbursement in rural area of Paschimanchal Grameen Bikash Bank Ltd. for 7 yrs. from 2001 to 2007is as follows .The trend value is obtained from the appendix 2

**Table 4.1**

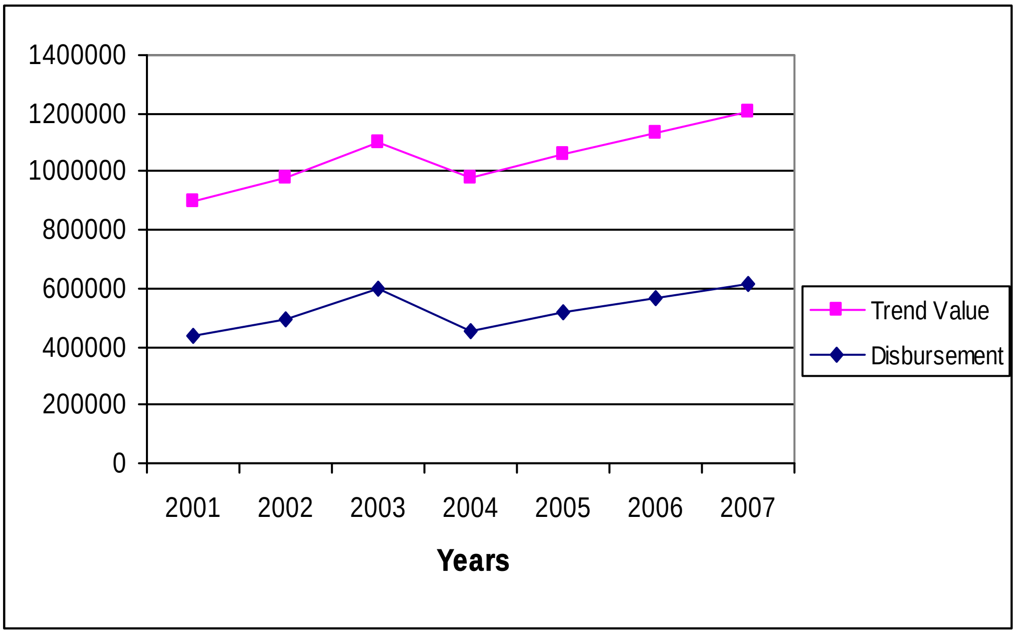
**Trend Value of Disbursement**

(In '000')

| Fiscal Year | Disbursement | Trend Value |
|---|---|---|
| 2001 | 435392 | 462261.72 |
| 2002 | 495411 | 483536.86 |
| 2003 | 599578 | 504812 |
| 2004 | 454452 | 526087.14 |
| 2005 | 516453 | 547362.28 |
| 2006 | 568145 | 568637.42 |
| 2007 | 613179 | 589912.56 |

Source: Account department of PGBBL

**Figure No. 4.1**



The trend value obtained for 7yrs period shows the increasing trend of disbursement in the rural sector since the growth rate (b=21275.14)per year is positive (appendix 3).The given figure of investment shows a rising trend comparison of trend value for 7yrs shows the investment growth rate is 4.044%

### 4.1.2 Trend analysis of repayment

The repayment of loan of Paschimanchal Grameen Bikash Bank for 7yrs from 2001 to 2007 is as follows. The calculated value of repayment trend is taken from appendix 3.

**Table No. 4.2**

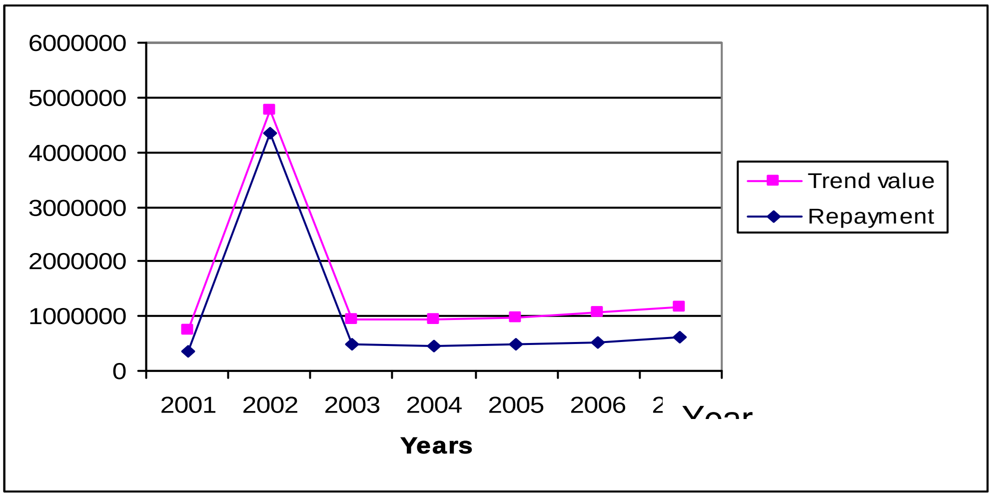
**Trend Value of Repayment**

(In '000')

| Fiscal Years | Repayment | Trend value |
|---|---|---|
| 2001 | 364790 | 385370.24 |
| 2002 | 4348870 | 416449.35 |
| 2003 | 492699 | 447528.46 |
| 2004 | 457177 | 478607.57 |
| 2005 | 476156 | 509686.68 |
| 2006 | 522815 | 540765.79 |
| 2007 | 601746 | 571844.90 |

Source: Account department PGBBL

**Fig No. 4.2**



The trend analysis for 7 yrs. From 2001 to 2007 shows that the repayment has increased in the following years. The trend values obtained for 7 yrs. shows the increasing trend of repayment in rural sector since the growth rate (b = 31079.11 per year) is positive (appendix 5), the given figure of repayment shows a rising trend .In general rising trend of repayment of loan is the good indicator of financial strength of the bank, improved economic condition of the borrower and proper utilization of resources on appropriate projects.

From above analysis it is found that the rural financing of Paschimanchal Grameen Bikas Bank Ltd is in good condition because its growth rate of repayment is greater than the growth rate of disbursement i.e. 6.49%>4.044%( see appendix 4 & 5).

#### 4.1.3 Relationship between investment & repayment:

The disbursement and repayment figure of PGBBL for 7 yrs.From 2001 to 2007 is tabulated as follows.

## Table 4.3

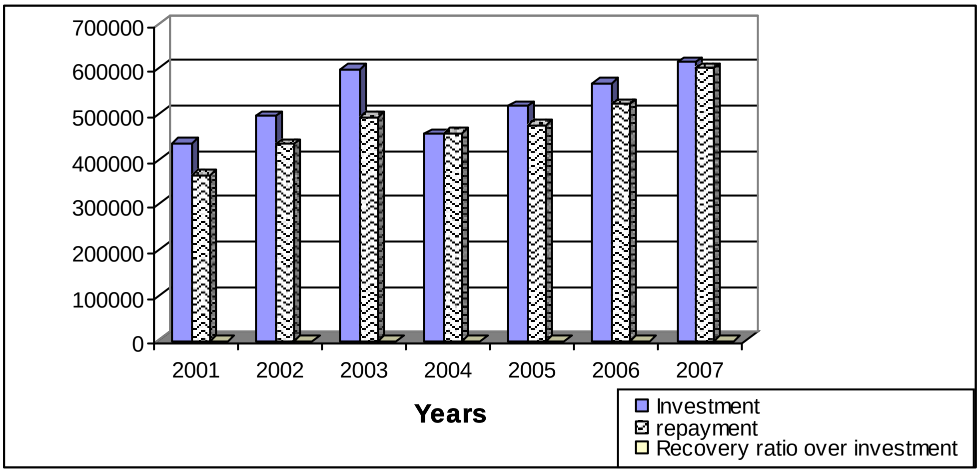
## Recovery ratio over investment

(In '000')

| Fiscal year | Investment | repayment | Recovery ratio over investment |
|---|---|---|---|
| 2001 | 435392 | 364790 | 83.78% |
| 2002 | 495411 | 434870 | 87.78% |
| 2003 | 599578 | 492699 | 82.17% |
| 2004 | 454452 | 457177 | 100.6% |
| 2005 | 516453 | 4576156 | 92.19% |
| 2006 | 568145 | 522815 | 92.02% |
| 2007 | 613179 | 601746 | 98.14% |
| Average percentage | | | 90.95% |

Source: Account department of PGBBL

**Fig. No. 4.3**




From above table, the recovery ratio (repayment ratio) over disbursement is favorable since year 2001 and, the repayment rate is also increasing.

From above table, the recovery ratio (repayment ratio) over disbursement is in fluctuating trend. In year 2002 the ratio is increasing (ie, 87.78%), again it is decreasing to 82.17%in 2003. Again it is increasing to 100.6% in year 2004.The ratio is decreasing for the 2yrs to 92.19% 92.02%in year 2005&2006.In the last year of the study period it increased to 98.14%.The average percentage of recovery is 90.95%whice is good enough for the bank.

In order to test the relationship between disbursement and repayment of PGBBL during the period of study, Karl Pearson's correlation coefficient (r) is calculated in appendix 6 and the result is as under

$r = 0.8701$

$PE = 0.000684$

i.e, $r > PE$

The above calculated value shows that correlation coefficient is between disbursement and repayment .During the study period, Karl Pearson's coefficient is highly positive and r is more than 0.5 and more six times of its P.E., the relationship is considered to be significant.

### 4.1.4 Financial Ratio Analysis

In order to find out the strengths and weaknesses of their financial performance various ratios have been calculated that are as follows:-

**Liquidity Ratio**

For analyzing the financial performance of the firm liquidity ratio is one of the powerful tools .Whether the company is able to meets its current obligation or not, is judged by liquidity ratio. If the company fail to meets its current obligation, due to lack of sufficient liquidity, will result in bad credit image, loss of creditors confidence. Very high degree of liquidity is also bad idle assets earn nothing, Short term creditors increase insolvency position of the firm so that liquidity ratio must be calculated. The most common ratio, which indicates the extend of liquidity are

## a) Current Ratio

Current ratio measures the short term solvency of the form .It is computed as dividing total current assets by current liabilities.

I.e. Current ratio = $\dfrac{Curresnt\ Assets}{Current\ Liabilities}$

Current assets includes cash in hand or bank and those assets ,which can be converted into cash within an accounting year such as A/C receivable ,bills purchased and discounted loan, advances, government securities ,bills for collection being receivable .Current liabilities include borrowing from bank ,deposit (excluding fixed because of paying earlier than for the period of years ) bills payable .the current ratio is the most commonly employed ratio for carrying out short -term solvency since its shows limit to which the assets which are expected to be connected into cash within a year is the claims of short term creditors. The computation of current ratio which is shown below:

## Table 4.4

## Current Ratio

(Rs. in '000')

| Fiscal year | Current assets | Current liabilities | Current ratio |
|---|---|---|---|
| 2001 | 473307 | 348400 | 1.36% |
| 2002 | 580258 | 467573 | 1.24% |
| 2003 | 665265 | 549502 | 1.21% |
| 2004 | 683004 | 586474 | 1.16% |
| 2005 | 687202 | 616290 | 1.12% |
| 2006 | 660366 | 594199 | 1.11% |
| 2007 | 641270 | 582515 | 1.10% |

Source: Account Department of PGBBL

Above table shows the trend of current ratio is in decreasing trend from fiscal year 2001 to 2007. It is clear that the current ratio is less than 2 times in every year. So there is adverse effect on operations through the view of current ratio. If the ratio is less than two times difficultly may be created in the payment of current liabilities and day to day operations of the business may suffer.

### b. Cash and bank balance to current asset ratio:

It is computed by dividing the cash and bank balance by current asset it shows the percentage of readily available asset within the bank.

Cash and bank balance to current assets ratio= $\frac{Cash\ and\ Bank\ Balance}{Current\ Assets}$

## Table 4.5

## Cash and bank balance to current asset ratio

(In '000')

| Fiscal year | Cash &bank balance | Current asset | Ratio |
|---|---|---|---|
| 2001 | 51304 | 473307 | 10.84% |
| 2002 | 50859 | 580258 | 8.76% |
| 2003 | 87554 | 665265 | 13.16% |
| 2004 | 59142 | 683004 | 8.66% |
| 2005 | 55509 | 687202 | 8.08% |
| 2006 | 44716 | 660366 | 6.77% |
| 2007 | 49063 | 641270 | 7.65% |

Source: Account Department PGBBL

The ratio are found to be 10.84%, 8.76%,13.16%, 8.66%, 8.08%, 6.77%, and 7.65% from fiscal year 2001 to 2007 respectively. It may be favorable between 5% to 10% range for the bank. The above figure indicates that the favorable condition in all the year except in year 2001 and 2003. Through the viewpoint of its ratio, it is favorable for the liquidity position .so it gives financial soundness of the bank.

## c) Cash and Bank balance to total Deposit Ratio

Cash and bank balance to total deposit measures the bank ability to meet their daily requirement .A high ratio indicates the greater ability to meet their deposit and vice versa. Moreover too high ratio is not good as capital will be tied up & an opportunity cost will be higher. This ratio is computed by dividing cash and bank balance with total deposits. The following table shows the cash and bank balance to total deposit ratio.

Cash and Bank Balance to total deposit ratio $= \dfrac{Cash \ \ and \ \ Bank \ \ Balance}{Total \ \ Deposit}$

## Table 4.6

## Cash and Bank Balance to Total Deposit Ratio

(In '000')

| Fiscal Year | Cash & Bank Balance | Deposit | Ratio |
|---|---|---|---|
| 2001 | 51304 | 67874 | 0.7558 |
| 2002 | 50859 | 88454 | 0.5750 |
| 2003 | 87554 | 104327 | 0.8392 |
| 2004 | 59142 | 91239 | 0.6482 |
| 2005 | 55509 | 92459 | 0.6004 |
| 2006 | 44716 | 103701 | 0.4312 |
| 2007 | 49063 | 111181 | 0.4413 |

Source: - Account department of PGBBL

Above figure shows that bank has able to use resources for rural investment effectively & minimize opportunity cost. But is not sufficient to meet the daily requirement of credit demand (i.e. less than 1), which is less than obligation. Above figure shows the ratio is below 1:1.

## d. Loan and advances to total deposit and borrowing ratio

This ratio measures the utilization of resources (deposit and borrowing).High Ratio is good indication of its utilization. This ratio is calculated on the table below:

Loan and advances to total deposit and borrowing ratio =

$$\frac{Loan\ and\ Advances}{Total\ Deposit\ and\ Borrowing}$$

**Table 4.7**
**Loan and advances to total deposit and borrowing ratio**

(In '000')

| Fiscal year | Loan &advances | Deposit &borrowing | Ratio |
|---|---|---|---|
| 2001 | 272245 | 405648 | 67.11% |
| 2002 | 330971 | 515058 | 64.26% |
| 2003 | 347851 | 586912 | 59.27% |
| 2004 | 345581 | 597010 | 57.89% |
| 2005 | 385697 | 592792 | 65.06% |
| 2006 | 430753 | 571150 | 75.42% |
| 2007 | 442187 | 546126 | 80.97% |

Source: - Account Department of PGBBL

The above table shows the ratio of loans and advances to total deposit borrowing which indicates the rate of utilization of resources (total deposit and borrowing). In the fiscal year 2001 to 2007, the ratio is in fluctuating trend. The ratio is 67.11% in year 2001.It is decreasing in year 2002,2003&2004(i.e,64.26%,59.27%&57.89%).Again it is increasing to 65.06%,75.42%&80.97% in year 2005,2006&2007.In last two year trend shows higher utilization of resources. The rate of utilization is greater than 50% in every year.

## Profitability Ratio

### a. Net profit to total asset ratio

Net profit to total asset ratio is a measuring rode of the profitability with respect to each financial resources investment of the bank assets. It also indicates utilization rate of total assets. The high ratio usually indicates high profit margin and high turnover of total assets and vice-versa. The calculation is shown below.

$$\text{Net profit to total asset ratio} = \frac{\textit{Net profit}}{\textit{Total assets}}$$

## Table: 4.8

## Net profit to total asset

(In '000')

| Fiscal Year | Net profit | Total asset | %Ratio |
|---|---|---|---|
| 2001 | 974 | 482171 | 0.20% |
| 2002 | 511 | 599330 | 0.085% |
| 2003 | 1144 | 685558 | 0.17% |
| 2004 | 6281 | 701998 | 0.89% |
| 2005 | 6287 | 708960 | 0.89% |
| 2006 | (3246) | 685894 | -0.47% |
| 2007 | 4369 | 678827 | 0.64% |

Source: Account Department of PGBBL

From the above table it can be easily known that the total assets have been growing from the base level of Rs 482171 thousand in fiscal year 2001 to 678827 thousand in fiscal year 2007. It seems that net profit to total asset ratio is fluctuating every year. In year 2001 the ratio is 0.20%, the ratio is decreased to 0.085%.Again it is increased to 0.17% in year 2003.It is decreased to 0.89% and 0.89% in year 2004 & 2005.In year 2006,the ratio is negative (i.e. =0.47%) showing net loss. But it increased to 0.64% in year 2002 which is less then 0.1% in year 2007.

## b. Net profit to total deposit ratio

This ratio is able to measure towards its deposit mobilization. Generally higher ratio indicates better utilization of total deposit and vice-versa. Following table reveals the percentage of net profit to total deposit.

$$\text{Net profit to total deposit ratio} = \frac{\textit{net profit}}{\textit{Total deposit}}$$

**Table: 4.9**
**Net profit to total deposit ratio**

(In '000')

| Fiscal year | Net Profit | Total deposit | Ratio |
|---|---|---|---|
| 2001 | 974 | 67874 | 1.435% |
| 2002 | 511 | 88454 | 0.578% |
| 2003 | 1144 | 104327 | 1.097% |
| 2004 | 6281 | 91239 | 6.88% |
| 2005 | 6287 | 92459 | 6.80% |
| 2006 | (3246) | 103701 | -3.13% |
| 2007 | 4369 | 111181 | 3.93% |

Source: - Account department of PGBBL

From above analyses this ratio is in fluctuating trend. In year 2004 and 2005 has a higher ratio (i.e. 6.88% and 6.80%) this shows that deposit mobilization of PGBBL is not good.

### c. Interest earned to total assets ratio

It is computed by the following formula:

Interest earned to the total asset ratio= $\frac{Intreste\,earned}{Total\,assets}$

**Table: 4.10**
**Interest earned to total assets ratio**

(In '000')

| Year | Interest earned | Total asset | Ratio |
|---|---|---|---|
| 2001 | 45,763 | 482171 | 9.49% |
| 2002 | 63,420 | 599330 | 10.58% |
| 2003 | 72,655 | 685558 | 10.60% |
| 2004 | 77,522 | 701998 | 11.04% |
| 2005 | 69,949 | 708960 | 9.87% |
| 2006 | 74,221 | 685894 | 10.82% |
| 2007 | 84,668 | 678827 | 12.47% |

Source: Account department of PGGBL

It is expressed in percentage ratio. The higher ratio is preferable and favorable in banking sector.

The interest earned to total asset ratio in fiscal year 2001,2002,2003,2004,2005,2006 and 2007 are 9.49%, 10.58%, 10.60%, 11.04%, 9.87%, 10.82% and 12.47% respectively. Ratio is in increasing trend in all the year except in year 2005.It is in satisfactory position.

### d) **Return on equity**

The relationships between net profit and equity are known as return on equity. It is calculated by following was

$$\text{Return on equity ratio} = \frac{\textit{Net profit tax}}{\textit{Equity}}$$

## Table: 4.11

## Return on equity ratio

(In '000')

| Fiscal Year | Net profit | Total equity | Ratio |
|---|---|---|---|
| 2001 | 974 | 61711 | 1.57% |
| 2002 | 511 | 61800 | 0.827% |
| 2003 | 1144 | 62032 | 1.84% |
| 2004 | 6281 | 63374 | 9.91% |
| 2005 | 6287 | 64693 | 9.72% |
| 2006 | (3246) | 63905 | -5.08% |
| 2007 | 4369 | 64772 | 6.75% |

Source: Account Department of PGBBL

Above table shows the ratio is 1.57% in fiscal year 2001, in 2002 it decreased to 0.827%, in year 2002.And again it is increased to 1.84%, 9.91% &9.72% in 2003, 2004 and 2005. In year 2006 it is decreased to -5.08.Again in year 2007 it is increased to 6.75%. It is also in fluctuating trend.

### e. Net profit margin:

For smooth operation of any organization net profit play very crucial role. It establishes a relationship between net profit and total income received. Net profit is the important measure of the banks ability to see each rupee income into net profit. Here 7 years relevant data of the banks are taken. They are presented in the table below:

$$\text{Net profit margin } \frac{Net\ \ profit}{Total\ \ income}$$

**Table No: 4.12**

**Net profit margin**

(In '000')

| Fiscal year | Net profit | Total income | Net profit margin |
|---|---|---|---|
| 2001 | 974 | 47266 | 2.06% |
| 2002 | 511 | 66132 | 0.773% |
| 2003 | 1144 | 76126 | 1.503% |
| 2004 | 6281 | 82338 | 7.63% |
| 2005 | 6287 | 74098 | 8.485% |
| 2006 | 3246 | 77066 | -4.212% |
| 2007 | 4369 | 87933 | 4.968% |

Source: Account department of PGBBL

Above table shows that the net profit margin is fluctuating trend. Net profit margin in year 2005 is 8.485%, which is highest in all the years. In year 2006 it has negative net profit margin (i.e.-4.212%). In overall profit margin is not satisfactory.

### f. Earning per share

Earning per share play a crucial role in any company or financial organizations performance. Earning per share has computed by dividing the net profit after tax by total number of common share issued. Generally higher EPS shows favorable condition for the company or financial organization and vice-versa. EPS of PGBBL has analyzed by 7 years relevant data of study period. The computation of EPS has shown in the table below.

$$\text{Earning per share} = \frac{Net\ profit\ after\ tax}{No.of\ \ share}$$

## Table No: 4.13

## Earning per share

(In '000')

| Fiscal year | Net profit | No. Of share | EPS |
|---|---|---|---|
| 2001 | 974000 | 600000 | 1.62 |
| 2002 | 511000 | 600000 | 0.85 |
| 2003 | 1144000 | 600000 | 1.90 |
| 2004 | 6281000 | 600000 | 10.46 |
| 2005 | 6287000 | 600000 | 10.48 |
| 2006 | (3246000) | 600000 | -5.41 |
| 2007 | 4369000 | 600000 | 7.28 |

Source: Account Department of PGBBL

The above table shows the EPS of PGBBL from fiscal year 2001 to 2007. According to the table EPS for the year 2001 is 1.62, it is decreased to 0.85 in year 2002. Again it is increased to 1.90, 10.46 and 10.48 in the year 2003, 2004&2005. In the year 2006 net profit is negative depicting negative EPS.

### g. Interest income to total income ratio

Under many types of income, interest income is also a part of income. So this ratio expose in what proportion of interest income obtained against total income. Though researcher is going to analyze and interpret this ratio by help of 7 years relevant data, which are presented in table below.

## Table No: 4.14

## Interest income to total income ratio

(In '000')

| Fiscal year | Interest income | Total income | Ratio |
|---|---|---|---|
| 2001 | 45763 | 47266 | 98.82% |
| 2002 | 63420 | 66132 | 95.90% |
| 2003 | 70655 | 76126 | 92.81% |
| 2004 | 77522 | 82338 | 94.15% |
| 2005 | 69949 | 74098 | 94.40% |
| 2006 | 74221 | 77066 | 96.31% |
| 2007 | 84668 | 87933 | 96.29% |

Source: Account department of PGBBL

Above table shows the interest income to total income from fiscal year 2001 to 2007 A.D. According to the table the ratio is more than 90% in every year .The ratio has clearly shows the fluctuating trend, It is no doubt that the ratio is very high but fluctuating trend is not good. Due to high ratio it is consider that the bank has better financial performance.

### h. Interest expenses to interest income ratio

Bank collects deposit from many types of accounts where bank should pay some interest, on the other hand bank invest its fund in various types of loans and get interest. This ratio measures the proportion of interest expenses as compared with interest income. Here researcher is going to analyze this ratio.

Interest expenses to interest income ratio= $\dfrac{Interest \quad Expenses}{Interest \quad Income}$

Related data are calculated in table below:

## Table No: 4.15

## Interest expenses to interest income ratio

(In '000')

| Fiscal year | Interest expenses | Interest income | Ratio |
|---|---|---|---|
| 2001 | 19934 | 45763 | 43.56% |
| 2002 | 28676 | 63420 | 45.22% |
| 2003 | 32459 | 70655 | 45.94% |
| 2004 | 32023 | 77522 | 41.31% |
| 2005 | 26594 | 69949 | 38.02% |
| 2006 | 25238 | 74221 | 34% |
| 2007 | 23996 | 84668 | 28.34% |

Source: Account Department of PGBBL

Above table shows the ratio is 43.56% in year 2001. It is increased to 45.22%, & 45.94% in year 2002, and 2003. It is in decreasing trend in year 2004, 2005, 2006 and 2007 to 41.31%, 38.02%, 34%&28.34%. The interest expenses to interest income ratio is decreasing in all the year except in year 2002&2003 which is good sign for the bank..

### i. Staff expense to total income ratio

Staff need to be operated in any organization but over expenditure in this sector is not in favor of the bank. This ratio identifies the percentage of staff expenses against total income.

$$\text{Staff expense to total income ratio} = \frac{Staff\ \ Expenses}{Total\ \ Income}$$

Researcher is going to analyze and explain this ratio by taking 7 yrs relevant data, which is computed, in following table.

## Table No: 4.16

## Staff expenses to total income ratio

(In '000')

| Fiscal year | Staff expenses | Total income | Ratio |
|---|---|---|---|
| 2001 | 17985 | 47266 | 38.05% |
| 2002 | 22239 | 66132 | 33.63% |
| 2003 | 20707 | 76126 | 27.20% |
| 2004 | 20674 | 82338 | 25.11% |
| 2005 | 22498 | 74098 | 30.36% |
| 2006 | 33765 | 77066 | 43.81% |
| 2007 | 30865 | 87933 | 35.10% |

Source: Account Department of PGBBL

Above Table shows the staff expenses to total income ratio. At fiscal year 2001 the ratio is 38.05%. In the year 2002, 2003 and 2004 the ratio is decreased to 33.63%, 27.20%, and 25.11%. Again it is increased to 30.36% and 43.81% in the year 2005 and 2006.In year 2007 the ratio is 35.10%. The bank is able to control staff expenses in first 3yrs & in last year but unable to control in year 2005 & in 2006.

### j. Office operating expenses to total income ratio

This ratio measures the proportion of office expense against total income.

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

It is going to analyze and explain this ratio by help of relevant 7 years data. All computation is exhibited in following table below:

## Table No: 4.17

## Office operating expenses to total income ratio

(In '000')

| Fiscal year | Office Expenses | Total income | Ratio |
|---|---|---|---|
| 2001 | 6948 | 47266 | 14.70% |
| 2002 | 9968 | 66132 | 15.073% |
| 2003 | 8988 | 76126 | 11.81% |
| 2004 | 10792 | 82338 | 13.11% |
| 2005 | 9211 | 74098 | 12.43% |
| 2006 | 9175 | 77066 | 11.91% |
| 2007 | 9271 | 87933 | 10.54% |

Source: Account Department of PGBBL

Above table clearly shows that this ratio is in decreasing trend except in year 2002&2004(i.e., 15.073%&13.11%). It can be identified that bank is able to control office expenses effectively year by year. Here decreasing trend shows positive financial performance.

## Leverage Ratio

These ratios are also called solvency ratios or structure ratios. The use of finance is refers by financial leverage. The leverage ratios are calculated to judge the long-term financial position of the firm. The capital structure positioning of PGBBL is calculated with the help of following ratio analyses.

a) Debt-equity ratio
b) Debt-asset ratio
c) Current asset to equity ratio

### a) Debt-equity Ratio

It shows the relationships between the borrowed fund and owner's equity. Total debt is the sum total of long-term debts and current liabilities. Total equity is the sum of share capital & reserve fund and surplus. A high ratio shows the large share of financing by the creditors as compared to that of owner's-equity. This means creditors would suffer more in times of distress than the owners. That is why creditors prefer low debt equity ratio.

This ratio is computed by applying the following formula:

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

## Table No: 4.18

## Debt-equity ratio (In '000')

| Fiscal year | Total debt | Total equity | Ratio |
|---|---|---|---|
| 2001 | 415985 | 61711 | 6.74:1 |
| 2002 | 528333 | 61800 | 8.55:1 |
| 2003 | 601428 | 62032 | 9.70:1 |
| 2004 | 609631 | 63374 | 9.62:1 |
| 2005 | 613648 | 64693 | 9.49:1 |
| 2006 | 584707 | 63905 | 9.15:1 |
| 2007 | 564694 | 64772 | 8.72:1 |

Source: Account Department of PGBBL

The debt–equity ratios from fiscal year 2001 to 2007 come to be 6.74, 8.55, 9.70, 9.62, 9.49, 9.15& 8.72 respectively. The ratio is in decreasing trend (except in year 2002 and 2003) from 2001 to 2007 respectively. The ratio like 2:1 is considered as safe from the viewpoint of the interest of the shareholders and creditors. The ratio is more than 5 times in every year which is not good sign as it is in the insolvency condition, if it does not improve its activities.

## b) Debt-assets Ratio

The relationship between total debt and total assets is known as debt – asset ratio. It is calculated by the following ways.

$$\text{Debt –Assets ratio} = \frac{Total \quad Debt}{Total \quad Assets}$$

**Table No: 4.19**
**Debt-assets Ratio**

(In'000')

| Fiscal Year | Total-debt | Total asset | Ratio |
|---|---|---|---|
| 2001 | 415985 | 482171 | 86.27% |
| 2002 | 528333 | 599330 | 88.15% |
| 2003 | 601428 | 685558 | 87.73% |
| 2004 | 609631 | 701998 | 86.84% |
| 2005 | 613648 | 708960 | 86.56% |
| 2006 | 584707 | 685894 | 85.25% |
| 2007 | 564694 | 678827 | 83.19% |

Source: Account department of PGBBL

The debt-asset ratios from the fiscal year 2001 to 2007 are 86.27%, 88.15%, 87.73%, 86.84%, 86.56%, 85.25% and 83.19% respectively. The ratio is found to be decreasing trend except in year 2002. Decreasing trend is good condition for bank.

### c) Current asset to Equity Ratio

Current asset to equity ratio has been computed by dividing equity into current assets. It indicates how much shareholder's equity is being deployed in current asset. If the deployment is too small, capital may be inadequate.

Current assets to Equity ratio: $= \frac{Current \quad Assets}{Equity}$

**Table No: 4.20**
**Current assets to equity ratio**

(Rs. In'000')

| Fiscal Year | Current Assets | Equity | Ratio |
|---|---|---|---|
| 2001 | 473307 | 61711 | 7.67:1 |
| 2002 | 580258 | 61800 | 9.39:1 |
| 2003 | 665265 | 62032 | 10.72:1 |
| 2004 | 683004 | 63374 | 10.78:1 |
| 2005 | 687202 | 64693 | 10.62:1 |
| 2006 | 660366 | 63905 | 10.33:1 |
| 2007 | 641270 | 64772 | 9.90:1 |

Source: Account department of PGBBL

Above table shows 7.67, 9.39, 10.72, and 10.72, 10.78, 10.62, 10.33, and 9.90 from fiscal year 2001 to 2007 respectively. The ratio is in increasing trend except in last 2 years.

## 4.2) Major Findings of the study

1.)Regression analysis of the disbursement & repayment of the bank have shown positive relationship, which means when the investment increases the repayment also increases(ie r=0.8701&P.E=0.0684).It indicates that the cavil person coefficient is highly positive and r is more then 0.5 &more than six times of its P.E.

2.) In analysis of trend value, it is found that the rural financing of the bank is in good condition because its growth rate of repayment is greater than the growth rate of disbursement (i.e., 6.49%>4.04%)

3.) It is found that the repayment rate (recovery rate) over disbursement of loan is positive and averaging 91%, which is good enough for bank. It clears that rural poor people are positive enough toward the banks activities.

4.) The current ratio is not balance. The PGBBL does not meet its standard value of 2:1during the study period which is not enough to pay current liabilities and day to day operation.

5.) Cash & bank Balance to current assets should be 5% to 10% range for the bank PGBBL has such a range except in two years of the study period (I.e,2001&2003), So the ratio is in satisfactory condition.

6.) The cash and bank Balance to total Deposit ratio is below 1:1 which is not good enough to meet daily requirement.

7.) In analysis of loan & advances to total deposit and borrowing, it is computed to measure the utilization of resources. It is found that the ratio is in fluctuating trend (i.e., Decreasing for the first 3 yrs & increasing in remaining years).However, the rate of utilization is greater than 50% in every year.

8.) Net profit to total asset ratio is in fluctuating trend.

9.) Net profit to total deposit ratio is also in fluctuating trend.

10.) Interest earned to total asset ratio is in increasing trend in all the year except in year 2005.It is in satisfactory position.

11.) Net profit margin is in fluctuating trend.

12) Earning per share of PGBBL is not good. The EPS in year 2004 & 2005 is 10.46 & 10.48 respectively. In other years, it has very low EPS.

13.) Interest income to total income ratio of the bank is more than 90% in every year. According to this ratio maximum portion of total income is fulfilled by interest income. Although it is in fluctuating, trend bank is successful to earn interest within 7 years study period.

14.) In analysis of interest expenses to interest income ratio it indicates that the ratio is in decreasing trend except in year 2002 &2003.It shows the bank is able to minimize the interest expenses later of the study period.

15.) Staff expenses to total income ratio is in fluctuating trend. The bank is able to control staff expenses for the first 3yrs &in the last year but unable to control in year 2005 &2006.

16.) Office operating expenses to total income ratio is in deceasing trend except in year 2002& 2004(i.e., 15.073% &13.11%).

17.) Debt to Equity Ratio is in decreasing trend except in year 2002&2003 (i.e., 8.55:18, 9.70:1). The ratio is more then 5times in every year.

18.)In the analysis of Debt asset ratio, it is found that it is in decreasing trend except in year 2002.Decreasing trend is good condition for the bank.

19.) In the analysis of current asset to equity ratio of PGBBL, the ratio is in increasing trend except in last 2yrs. The incremental sum of current assets over the shareholders equity is contributed by the debt of the bank as revealed from debt equity and debt asset ratio.

# CHAPTER-5

# SUMMARY, CONCLUSION, SUGGESTION AND RECCOMENDATION

## 5.1) Summary

This thesis is prepared mainly for the partial fulfillment of the requirement fro degree in Masters of Business Studies. An effort has been made to summarize the entire thesis in the following paragraphs which reveal the zest of the thesis at a glance.

The first chapter “Introduction” is mainly devoted for introductory part of the thesis. The first topic of this chapter is “Background” where the background essential for this thesis work is elaborated. This topic mainly tells about micro finance program in Nepal. It studies about the different program introduced in Nepal by government and others. The second topic “statement” of the problem” tells about the prevailing problems that has caused this research work. It describes about the problems related to rural financing system which depends on informal sector. People in such area are deprived of institutional credit .In such context the presence of Grameen Bikash Bank is significant. For the survival and growth, the bank must have sound financial performance. So it is tried to evaluate financial position through different tools and techniques. The third heading of first chapter is “Research Question” that provides guideline to go deeply in the research work and get the answer of the question. The main question of this research are what is the existing condition of micro credit investment of the bank in terms of repayment and disbursement ,the relationship between disbursement and repayment ,significance of micro credit investment in terms of repayment and disbursement and the financial position of the bank using different ratio analysis tools. Next topics say about the objective of the study which is same as the research questions. Another heading “Significance of the study” tells about the professionals, stakeholders, and institutions who can take benefit of this study. Next heading highlights about the limitations under which the study is confined. Next topic says about how the different chapters are organized in this study.

The second chapter “Review of literature” deals with the study of literature concerned with this research work. To get the conceptual framework essential for this study, different materials from books, journals, publications, annual financial reports of concerned institutions, relevant thesis and website information are consulted.

Third chapter “Research methodology” says about the research design. It also highlights about population and sample another heading of third chapter is sources and types of data. All the data considered for this study is secondary in nature. Tools and techniques of analysis used in this study is statistical and financial. The statistical tools used in this study are trend analysis and correlation coefficient. The financial tools used is liquidity ratio, profitability ratio and leverage ratio.

In fourth chapter the financial statements obtained from the data are presented in tabular form after necessary adjustment, analyzed by using different financial ratios and interpreted thereafter to draw some meaningful conclusion .Data is presented in chart where possible to make it more meaningful, comparable, and attractive. Ultimately the major findings of this thesis are summarized in the last part of the forth chapter.
In fifth chapter summary, conclusion in detail and some measures for improvement is given in suggestion and recommendation.

## 5.2) Conclusion

Under the statistical tools coefficient of correlation between different variable and trend analysis have been calculated. Regression analysis of the disbursement and repayment of the bank have shown positive relationship. The relationship is considered to be sufficient. In analysis of trend value of the rural financing in terms of growth rate of repayment is greater than growth rate of disbursement.

The repayment rate over disbursement of loan is positive. It clears that rural poor people are positive enough towards the banks activities. It seems that they are loyal and responsible in repayment. From the analysis of liquidity ratio of PGBBL, the current ratio is not enough to meet daily requirement of liquidity. The cash and bank balance to total deposit is below the standard .Same way cash and bank balance to current asset is in satisfactory position. Loan and advances to total deposit and borrowing is in fluctuating trend.

Profitability ratio shows fluctuating trend. Net profit to total asset, Net profit to total deposit, Net profit margin is in fluctuating trend. Interest earned to total asset ratio is in satisfactory position. The EPS is very low. Interest income to total income ratio of the bank shows the maximum portion of the income is covered by interest income. Interest expenses to interest income ratio shows the bank is able to minimize the interest expenses later on the study period. Staff expenses to total income ratio is in fluctuating trend. Office operating expenses to total income ratio shows the banks is able to control the operating expenses.

In analysis of leverage ratio, Debt to equity ratio is in decreasing trend. In analysis of debt asset ratio it is found that the ratio is in decreasing trend. It shows the ratio of debt is decreasing. Current asset to equity ratio shows the incremental sum of current assets over the Shareholders equity is contributed by the debt of the bank which is increasing.

## 5.3) Suggestions and Recommendations

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

1) The PGBBL has been managing its fund by the leverage of borrowing for the longtime. In this way, it has now become overburdened with

debt. The bank must be attention towards that matter and tries to enhance its internal resources.

2) The current ratio is below the standard and it is in decreasing trend so it should maintain its current ratio more than two times otherwise its liquidity position will be hampered.

3) All profitability Ratio are in fluctuating trend so PGBBL recommended to utilize its total working fund(total assets) shareholders fund and risky asset more efficiently for generating more profit margin

4) Main source of income of this bank is interest income. Proportion of other income is minimum or negligible. Which is not favorable so bank should expand its service in other sector like remittance and also increase investment in share.

5) Staff expenses should be controlled to maximize profit.

6) Bank should issue new share to fulfill its scarcity of fund, it should not increase its borrowing Even bank has not issued any share of its establishment.

7) As a financial institution the bank has to maintain appropriate capital structure and financial position, in study it is found that cash and bank balance to total deposit ratio, which measure the bank ability to meet their daily requirement is less than its obligation. It is therefore, considering the above fact bank should maintain little higher ratio.

8) Employees should be sufficiently motivated with proper incentives.

9) 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 as well as non- performing loan is increased.

10) The bank should expand its activities in hills side (Mountain region) by establishing more branch offices. There are few branches in such region till the study period.

11) The job in village and rural areas is very difficult. So for such program hardworking, dedicated and capable persons with high morality are required. The interest and encourage to be remained, capable and suitable personnel should be hired.

12) To uplift the operational and financial performance of staff members, there should be a provision of regular and timely training programs.

13) The base of the bank (PGBBL) is the poor people, so it is necessary to create good relation with public. The bank can't do anything without the help of government organization, social and other pressure group. So the bank should keep close relationship with related parties for the good vision in the public's eyes.

14) PGBBL should be an autonomous body away from political involvement. So that unnecessary trouble to staff members likes transfer, new recruitment, promotion etc are to be avoided unless it is very urgent and necessary. Provision should be made to promote and hire competitive, qualified, self driven and hardworking staff.

15) The bank is suggested to follow or adopt all directives of Nepal Rastra bank (NRB) for the sake of national development.

16) At last it is recommended that for the fair implementation of micro financing, government role should be as a guardian and referee by which all players can play fairly.

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# Appendix 1

**Profile of Pahimanchal Grameen Bikas Bank**

Paschimanchal Grameen Bikash Bank Ltd .Which is incorporated in 2051B.S with authorized capital Rs. 120 million, issued capital Rs. 60 million. Its registered office in Butwal.

**Composition of Capital**

| | |
|---|---|
| Authorized Capital | 120 million |
| Issued Capital | 60 million |
| Paid up Capital | 60 million |

**Investors**

Initially the bank's share composition was as follows:

| | |
|---|---|
| Nepal Rastra Bank | 61 % |
| HMG | 16.5% |
| Rastriya Banizya Bank Ltd. | 5% |
| Nepal Bank Ltd. | |
| Himalayan Bank Ltd. | 5% |
| Nepal Bangladesh Bank Ltd. | 5% |
| Nepal Investment Bank Ltd. | 5% |
| Total | 100% |

After the transformation of 51% share of NRB, the share composition of the bank is as follows:

| | |
|---|---|
| Group members of the bank | 37% |
| Commercial Banks | 22.5% |
| Gov. of Nepal | 16.5% |
| NRB | 10% |
| Other micro credit organization | 9% |
| Employee of the bank | 5% |
| Total | 100% |

The cumulative disbursement of loan up to mid July 2007 is 4196 million to member clients in different parts of the region. The outstanding loan in mid July 2006 is 402 million with 34952 borrower clients.

**Pascimanchal Grammen Bikash Bank Ltd.**
**Butwal ,Rupandehi**
**Balance sheet for the 7 years**
**(2001 to 2007)**

| Particulars | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Asset | | | | | | | |
| Cash | 2048 | 4986 | 4733 | 2732 | 2308 | 4027 | 5207 |
| Bank | 49,256 | 45873 | 82,821 | 56410 | 53201 | 40689 | 43856 |
| Investment | 138815 | 191815 | 222815 | 272815 | 239189 | 183224 | 157700 |
| Loan /advances | 272245 | 330971 | 347851 | 345581 | 385697 | 430753 | 442187 |
| Fixed asset | 2895 | 2876 | 2585 | 2429 | 2077 | 3174 | 3928 |
| Other asset | 16912 | 21809 | 24753 | 22031 | 26488 | 24027 | 25949 |
| Total asset | 482171 | 599330 | 685558 | 701998 | 708960 | 685894 | 678827 |
| Capital & Liab. | | | | | | | |
| Authorised Capital | 120000 | 120000 | 120000 | 120000 | 120000 | 120000 | 120000 |
| Issued share | 600000 | 600000 | 600000 | 600000 | 600000 | 600000 | 600000 |
| Paid up capital | 60000 | 60000 | 60000 | 60000 | 60000 | 60000 | 60000 |
| Reserve fund | 1711 | 1800 | 2032 | 3374 | 4693 | 3905 | 4772 |
| Borrowing | 337774 | 426604 | 482585 | 505771 | 500333 | 467449 | 434945 |
| Deposit | 67874 | 88454 | 104327 | 91239 | 92459 | 103701 | 111181 |
| Provision | 1352 | 5765 | 17865 | 25818 | 30254 | 40163 | 48836 |
| Other liabilities | 10337 | 13275 | 14516 | 12621 | 20856 | 13557 | 18523 |
| Profit/ loss | 3123 | 3432 | 4233 | 3175 | 365 | (2881) | 570 |
| Total | 482171 | 599330 | 685558 | 701998 | 708960 | 685894 | 678827 |

Source: Account department of PGBBL

## Pascimanchal Grammen Bikas Bank Ltd
## Butwal, Rupandehi

**Profit and loss account for 7 years**

**(2001 to 2007)**

| Particulars | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Income<br>Interest income | | | | | | | |
| loan | 37867 | 48558 | 55822 | 53892 | 50692 | 74221 | 84668 |
| Investment | 7896 | 14862 | 16833 | 23630 | 19257 | - | - |
| Other income | 1503 | 2712 | 3471 | 4816 | 4149 | 2830 | 3176 |
| Non operating income | - | - | - | - | - | 15 | 89 |
| Total income | 47266 | 66132 | 76126 | 82338 | 74098 | 77066 | 87933 |
| Expenses | | | | | | | |
| Interest expenses | 19934 | 28676 | 32459 | 32023 | 26594 | 25238 | 23996 |
| Personnel expenses | 17985 | 22239 | 20707 | 20674 | 22498 | 33765 | 30865 |
| Office operating expenses | 6948 | 9968 | 8988 | 10792 | 9211 | 9175 | 9271 |
| Risk bearing fund | 853 | 4413 | 12100 | 7953 | 4436 | 10049 | 8673 |
| Bonus provision | 155 | 81 | 182 | 1771 | 2240 | - | 1375 |
| Income tax & provision | 417 | 244 | 546 | 2844 | 2831 | 2085 | 9384 |
| Net profit | 974 | 511 | 1144 | 6281 | 6288 | (3246) | 4369 |
| Total expenses | 47266 | 66132 | 76126 | 82338 | 74098 | 77066 | 87933 |

Source: Account department of PGBBL

## Financial Statement analysis of PGBBL

**Total current asset of PGBBL for the 7 years**

**(2001 To 2007)**

| Particulars | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Total current asset | 473307 | 580258 | 665265 | 683004 | 687202 | 660366 | 641270 |

Source: Account department of PGBBL

## Total current liabilities of PGBBL for the 7 years

**(From 2001 to 2007)**

| Particulars | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Total current liabilities | 348400 | 467573 | 549502 | 586474 | 616290 | 594199 | 582515 |

Source: Account department of PGBBL

## Debt & Equity of PGBBL for the 7 years

**(2001 to 2007)** (RS. in '000)

| Particulars | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| Total Equity | 61711 | 61800 | 62032 | 63374 | 64693 | 63905 | 64772 |
| Total Debt | 415985 | 528333 | 601428 | 609631 | 613648 | 584707 | 564649 |

Source: Account department of PGBBL

# Appendix-2

**Calculation of Trend analysis**

The trend analysis of disbursement of Grameen Bikash Bank for 7 years (from 2001 to 2007) is as follows. (Rs. in '000)

| **Year(X)** | **Disbursement(y)** | **x =X-2004** | **$X^2$** | **xy** | **Trend value** |
|---|---|---|---|---|---|
| 2001 | 435392 | -3 | 9 | -1306176 | 462261.72 |
| 2002 | 495411 | -2 | 4 | -990822 | 483536.86 |
| 2003 | 599578 | -1 | 1 | -599578 | 504812 |
| 2004 | 454452 | 0 | 0 | 0 | 526087.14 |
| 2005 | 516453 | 1 | 1 | 516453 | 547362.28 |
| 2006 | 568145 | 2 | 4 | 1136290 | 568637.42 |
| 2007 | 613179 | 3 | 9 | 1839537 | 589912.56 |
| | 3682610 | | 28 | 595704 | |

The equation of the straight line trend is

Yc = a+bx

Since $y \; \mathrm{X} \; Na \; \Gamma \; b \quad x$

$xy \, \mathrm{X} a \quad a \, \Gamma b \quad x^2$

$a \, \mathrm{X} \frac{y}{N},$

$$= \frac{3682610}{7}$$

= 526087.14

$$b \ \mathrm{X} \frac{xy}{x^2}$$

$$\frac{595704}{28}$$

= 21275.14

Now calculating the trend yc

Or, x =-3

Yc = 526087.14+ 21275.14X (-3)

= 462261.72

Or, x =-2

Yc = 526087.14+21275.14X (-2)

= 483536.86

Or, x =-1

Yc = 526087.14+21275.14X-1

= 504812

Or, x =0

Yc =526087.14+21275.14X0

Yc=526087.14+0

Yc=526087.14

Or, x =1

Yc = 526087.14+21275.14X1

= 547362.28

Or, x =2

Yc = 526087.14+21275.14X2

= 5, 68,637.42

Or, x =3

Yc = 526087.14+21275.14X3

= 5, 89,912.56

# Appendix 3

Growth rate (b) = 21275.14

Percentage of growth (%) = $\frac{b}{a}$

$= \frac{21275.14}{526087.14}$

= 4.044%

Since the growth rate is positive. The given figure of disbursement shows rising trend.

# Appendix 4

**Trend analysis of the Repayment (2001 to 2007)** (Rs. in '000)

| **Year (X)** | **Repayment ( y)** | **x= X-2004** | **$x^2$** | **Xy** | **T. value** |
|---|---|---|---|---|---|
| 2001 | 364790 | -3 | 9 | -1094370 | 385370.24 |
| 2002 | 434870 | -2 | 4 | -869740 | 416449.35 |
| 2003 | 492699 | -1 | 1 | -492699 | 447528.46 |
| 2004 | 457177 | 0 | 0 | 0 | 478607.57 |
| 2005 | 476156 | 1 | 1 | 476150 | 509686.68 |
| 2006 | 522815 | 2 | 4 | 1045630 | 540765.79 |
| 2007 | 601746 | 3 | 9 | 1805238 | 571844.90 |
| Total | 33,50253 | | 28 | 870215 | |

The equation of the straight line trend is

Yc = a + bx

Here, y =33, 50,253

n=7

xy = 870215

$x^2 = 28$

Since Ex = 0

$$a = \frac{y}{N}$$

$$= \frac{3350253}{7}$$

= 478607.57

$$b = \frac{xy}{x^2}$$

$$= \frac{870215}{28}$$

= 31079.11

Now calculating the trend yc

For x = -3

Yc = 478607.57+ 31079.11X (-3)

= 385370.24

For x = -2

Yc = 478607.57+ 31079.11X (-2)

= 416449.35

For x = -1

Yc = 478607.57+ 31079.11X (-1)

= 447528.46

For x = 0

Yc = 478607.57+ 31079.11X (0)

= 478607.57

For x = 1

Yc = 478607.57+ 31079.11X (1)

= 509686.68

For x = 2

Yc = 478607.57+31079.11X2

= 540765.79

For x = 3

Yc = 478607.57+ 31079.11X3

= 571844.90

The trend analysis for 7 years (2001to 2007) show that the repayment has increased in the following years.

# Appendix 5

Growth rate (b) = 31079.11

Percentage of growth (%) = $\frac{31079.11}{478607.57}$

= .06494

=6.49%

# Appendix 6

Correlation coefficient (r) is calculated in order to test the relationship between investment and repayment as bellows.

(Rs. in '000)

| **Year** | **X** | **Y** | **(X-$\bar{x}$)** | **(Y-$\bar{y}$)** | **(X-$\bar{x}$)$^2$** | **(Y-$\bar{y}$)$^2$** | **(X-$\bar{x}$) (Y-$\bar{y}$)** |
|---|---|---|---|---|---|---|---|
| 2001 | 4354 | 3647 | -907 | -1139 | 822649 | 1297321 | 1033073 |
| 2002 | 4954 | 4349 | -307 | -437 | 94249 | 190969 | 134159 |
| 2003 | 5996 | 4927 | 735 | 141 | 540225 | 19881 | 103635 |
| 2004 | 4545 | 4572 | -716 | -214 | 512656 | 45796 | 153224 |
| 2005 | 5165 | 4762 | -96 | -24 | 9216 | 576 | 2304 |
| 2006 | 5681 | 5228 | 420 | 442 | 176400 | 195364 | 185640 |
| 2007 | 6131 | 6017 | 870 | 1231 | 756900 | 1515361 | 1070970 |
| Total | 36,826 | 33,502 | | | 29,12,295 | 32,65,268 | 26,83,005 |

$$\overset{z}{X} = \frac{x}{N}$$

$= \dfrac{36826}{7}$

$= 5261.00$

$$\bar{y} = \frac{y}{N}$$

$= \dfrac{33502}{7}$

$= 4786$

$$r = \frac{x - \bar{x} \quad y - \bar{y}}{x - \bar{x}^{\;2} \quad y - \bar{y}^{\;2}}$$

$$= \frac{2683005}{\sqrt{2912295 \times 3265268}}$$

$= 0.8701$

PE = Probable Error

$$= \frac{0.0745\,(1 - r2)}{\sqrt{N}}$$

$$= \frac{0.0745(1-0.8701)^2}{\sqrt{7}}$$

$$= \frac{0.18098}{\sqrt{7}}$$

$= 0.00684$

i.e., r >PE