

**A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF  
EVEREST BANK LTD AND PRIME COMMERCIAL BANK LTD.**

**A THESIS**

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# VIVA- VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by

**Bimala Giri**

Entitled

**A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF EVEREST BANK LTD  
AND PRIME COMMERCIAL BANK LTD**

*And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the Degree of Master of Business Studies (MBS)*

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# RECOMMENDATION

This is to certify that the thesis

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**A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF EVEREST BANK LTD  
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*has been prepared as approved by this Department in the prescribed format of the Faculty of Management.  
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## DECLARATION

I hereby declare that the work reported in the thesis entitled “**A Comparative Study On Financial Performance of Everest Bank Ltd and Prime Commercial Bank Ltd**” submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University is my original work as partial fulfillment of the requirement of the Degree of Master of Business Studies (M.B.S.) under the guidance and supervision of **Rajeshwor Neupane** and **Pitambar Ghimire** of Nepal Commerce Campus, Tribhuvan University.

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I hope the possible errors would be covered by the subsequent studies in this field in the future.

Bimala Giri

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## ABBREVEATIONS

ABBS	:	Anywhere Branch Banking systems
ADBN	:	Agricultural Development Bank Nepal
BOK	:	Bank of Kathmandu Ltd.
C.V	:	Coefficient of Variations
CA	:	Current Assets
CL	:	Current Liabilities
CR	:	Current Ratio
DPS	:	Dividend Per Share
EBL	:	Everest Bank Ltd
EPS	:	Earning Per Share
F.P.	:	Financial Performance
FY	:	Fiscal Year
HBL	:	Himalayan Bank Limited
HBL	:	Himlayan Bank Ltd.
KBL	:	Kumari Bank Limited
MBL	:	Machhapuchhre Bank Limited
MPS	:	Market Value Per Share
NBBL	:	Nepal Bangladesh Bank Ltd
NBL	:	Nepal Bank Limited
NGOS	:	Non-Government Organization
NIBL	:	Nepal Investment Bank Limited
NMT	:	New Management Team
NRB	:	Nepal Rastra Bank
PCBL	:	Prime Commercial Bank Ltd.

PNB	:	Punjab National Bank
RBB	:	Rasriya Banijya Bank
ROA	:	Return on Assets
ROE	:	Return on Equity
S.D	:	Standard Deviation
SBI	:	State Bank of India (Nepal)
SCBNL	:	Standard Chartered Bank Nepal Limited
TU	:	Tribhuvan University

# CHAPTER-I

## INTRODUCTION

### **1.1 Background of the Study:**

A bank is an institution, which deals in money, receiving it on deposit from customers, honoring customer's drawings against such deposits on demand, collecting cheques for customers and lending or investing surplus deposits until they are required for repayment. In present days, various types of banks are established, for instance, industrial bank, commercial banks, agriculture bank, joint stock bank, co-operative banks and development banks. Present banking system is the result of the development of many centuries. When we talk of the wonderful scientific inventions, banking also law, which deals with money and credit is called bank.

Commercial banks are those financial institutions mainly dealing with activities of trade, commerce, industry and agriculture that seek regular financial and other help from banks for growing and flourishing. The main objective of commercial bank is to mobilize idle resources in particular productive users after collecting them from scattered sources. Commercial bank as financial institution transfer monetary sources from saver to users. They furnish necessary capital required for savings of the individual and institution. Normally banks play at public money therefore, they should pay more attention whether their money is properly utilized or not and running at profit or loss. For the existence of business firm, profit is the basic factor. A business firm becomes unable to provide its facilities in the long run if there is no profit. This profit can be distributed among the owners as dividend.

Every firm after making profit either retains the money for further investment of distribute it among the shareholders. The profit made by the firm which is distributed to the shareholders as dividend. The people who invest money in the business expect return form investment basically, the firm which is running in profit is capable to pay dividend so the most important thing to attract the people to invest in business is dividend. It should be adequate to meet the normal expectations of shareholders.

Banks play the very important role in the economic development of the country. Banks are the financial institution which mobilizes idle savings of people into productive sectors. Banks help to connect the savers and users through the monetary resources. The money is carried from savers to users by banks. The idle savings of the people is transferred to the industries, trades and commerce. The savers are benefited in the form of interest. At the same time, trade commerce and industries are also benefited by money for business. In present days, various types of bank, joint stock bank, co-operative banks and development banks. Present banking system in the result of the development of many centuries. When we talk of the wonderful scientific inventions, banking also comes to be as a wonder of the modern world. Generally intuitions establish by law, which deals with money and credit is called bank.

The concept of the banking has developed in England with the effort of ancient goldsmiths who possessed strongest safe values where valuable good such as gold, silver and diamonds could be kept safely. Depositors obtained receipts from goldsmith for their deposit. At that time it was found that all deposited money was not withdrawn at once. Hence they started bending on interest to people. In this way bank was originated.

Banking in Nepal in a true sense started with the inception of Nepal bank Limited on 30<sup>th</sup> Kartik 1994 BS (1937 AD) with 51% government's equity. Right from the inception, it is carried out function of the commercial bank. Having felt the need for the development of the banking sector, government formulated monetary policies and Nepal Rastra Bank was established on 14<sup>th</sup> Baishakh BS (1956 AD) under NRB act 2012. Since then it has been functioning as the government bank and has contributed to the growth of financial sector. Integrated and speedy development of the country is possible only when competitive banking services reaches every corner of the country. With increased banking needs of the economy; the second commercial bank, Rastriya Banijya Bank, came into existence on 8<sup>th</sup> Sharwan 2023 (23 rd July 1966) with 100% government ownership.

Government permitted the establishment of joint venture banks in 1980's. When three banks namely Nepal Grindlays Bank Ltd., Nepal Arab Bank Ltd. And Nepal Indosuez bank Ltd (Now Nepal Investment Bank Ltd.) was established. But now Nepal has experienced the dramatic increase in Joint venture banks. Banks have attracted people to invest their money by providing various facilities. Many people and organizations are

benefited through the commercial banks through loans provided for housing, vehicles; education etc. commercial banks have also attracted customers through their various saving schemes. Last but not the least; people invest in the banks for the dividend.

To fulfill the growing credit requirement and also to collect more deposit for the development projects, Nepal Rastra Bank adopted liberal policy and provided many facilities to probable bankers of Nepal and abroad through new commercial bank act 1974 AD. Consequent to the permission given by Nepal Government to open new commercial bank with foreign joint venture in 2041 BS. Nepal Arab Bank Limited was established in the same year as the first joint venture bank of Nepal. At present 31 commercial banks are helping not only in the sector of deposit mobilization and lending but also to the areas like different product and services development and employment generation etc. Now Nepal can take pride in the remarkable growth and progress in the banking sector.

The survival, development and prosperity of any organization depend on number of factors; every organization should give prime concern to those factors. However one of the major determinants for effective running of a business entity is its financial operation system. Optimum utilization of the organization financial resources, leads the organization to the ultimate target fulfillment so it is very important to analyze the accounting and financial statements to know whether the financial position is sound and what kind of measures should be applied.

Effective planning and control are central to enhancing enterprises value. Financial plans may take many forms, but any good plan must be related to the firm's existing strength and weaknesses. The strength must be understood if they are to be used to proper advantage, and the weakness must be recognized if corrective action is to be taken. Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. It can be taken undertaken by management of the firm, or the parties outside the firm, viz owners, creditors, investors and other stakeholders. Ratio analysis is a powerful tool of financial analysis.

In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The absolute accounting figures reported in the financial

statements do not provide a meaningful understanding of their performance and financial position of a firm. An accounting figure conveys meaning when it is related to some other relevant information. The relation between two accounting figures conveys meaning when it is related to some other relevant information. The relation between two accounting figures, expressed mathematically, is known as a financial ratio. It helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance of the firm. There for, this study is conducted to analysis the financial performance of the Everest Bank and Prime Commercial Bank Ltd.

The foreign joint venture banks are enjoying competitive advantageous factors like highly skilled personnel. Modern and advanced banking technology, customer oriented modern banking services, management expertise and global banking network. So, banking sector is becoming more dynamic and subject to rapid changes. It is not enough to analyze operating performance. Financial analysis must also include consideration of the strategic and economic development to which bank must relate for the long run success. Whether the banks are well moving or not is reflected through their performance. Especially profitability position, liquidity position, turnover, dividend payment over shares, earning per share, position of reserve, capital structure policy etc are major concern.

To meet the objectives, the overall performance of the banks should be soundly adjusted with each other. Only the well-combined factors assist in well performance. When performance will be well, the output will generally be sound. It helps bank to proceeds in its track.

As there has been number of commercial banks established the present aims to analyze the financial performance of Everest Bank Ltd. Just to be assured whether they can put equal contribution in the economic in the economic growth for the country or not.

### **1.1.1 Function of Commercial Banks**

Commercial banks perform different functions, however some functions are briefly explained below:

### **Extension of Credit**

The primary function of commercial bank is the extension of credit of worthy borrowers. Bank lending contributes a lot to the economy in terms of financial, agricultural, commercial, social services, and industrial.

### **Creating Money**

One of the major functions of commercial banks that differentiate them from other institutions is their ability to create money through lending and investing activities. The power of commercial banking system to create credit system that is necessary for economic progress.

### **Payment Mechanism**

Payment mechanism is a part and parcel of commercial banks, which makes use of cheques and credit cards facilitating safe and efficient transaction.

### **Pooling and Saving**

The commercial banks render very important services to all sectors of the economy, by providing facilities for the pooling of saving to be used for socially desirable purpose and the server is paid with interest on his deposits. The pooled fund is made available to others in the form of loans for some productive purpose.

### **Facilitating Foreign Trade**

The commercial bank efficiently arranges the amount of foreign exchange required by business organizations. Moreover, the issue of letter of credit has facilitated foreign trade transactions.

### **Safe Keeping of Valuables**

Safe keeping of valuables is one of the oldest services rendered by commercial banks. They provide locker facilities to keep valuable and they are accepted by commercial banks. In the present context the role and importance of the commercial bank has loomed large. In this connection Nepalese economy has witnessed several changes in the financial system in the few years or so, for example, financial liberalization.

### **1.1.2 Profile of Selected Companies**

As there has been number of commercial banks established, the research has taken into consideration of Prime Commercial Bank Ltd. (PCBL) and Everest Bank Ltd.(EBL) for the study. Therefore brief glimpse of these commercial banks are given below.

#### **Everest Bank Ltd.**

EBL is a joint venture with Punjab National Bank (PNB), one of the largest commercial banks in India.PNB is providing the top management services to EBL under a technical services agreement signed between two institutions. EBL, thus, has advantage of banking expertise and financial strength of its partner. The major branches are connected through Anywhere Branch Banking Systems (ABBS) through which the clients can withdraw and deposit money from any branch connected by ABBS. Everest Bank Limited is the pioneer and front- runner in retail lending introducing Direct Housing Finance, Vehicle Loan Scheme, Education Loan Scheme, Loan against future lease Rentals and Scheme for professional as also the loan against Lease Rentals of the properties. Some new banking procedures have also been introduced like cumulative deposit scheme, Unfix Fixed Deposit, Requiring Deposit Plan.

#### **Prime Commercial Bank Ltd.**

Prime Commercial Bank Ltd. was incorporated in September 2007 as the 21st commercial bank in Nepal. It is categorized as ‘A’ Financial Institution registered under the “Banks and Financial Institutions Act” of Nepal. It has been established by prominent business personnel and professionals from diversified areas with a prime objective of providing 'Banking Services to Everyone' in the country where still large number of population are deprived of Banking Services. The Bank has in total 389 promoters holding 70% shares of the Bank.

The bank has established itself as an emerging player in financial sector with focus in customer service excellence maintaining excellent relationship with valued customers. It is counted among the top 10 commercial banks in Nepal by independent raters and publications in the country. The` Bank’s shares are listed and actively traded in the Nepal Stock Exchange (NEPSE).

## **1.2 Statement of Problem:**

Nepal is an underdeveloped country. It is an economically back pushed country, Nepal is said to be rich in natural resources and also said bio-diversity. But most of the resources are remain unused due to lack of finance. This inadequacy of financing can be removed by participation of foreign investors in commercial banks to some extent. With this view welcomed the joint venture banks in Nepal. Although various joint venture foreign commercial banks are operating in Nepal after the NG adopted the open liberal and market oriented economic policy the financial sectors in Nepal has not been enough to meet the growing need of the economy. Now some of the important question that arises are why is so and what are the problems? How well the commercial banks of Nepal are functioning and what will be their situation in future?

To find the answers to these questions an analysis of their financial performance is necessary. A well performance resembles the well combination of all factors. So the effectiveness of policy, managerial skill, mobilization of funds and assets will be reflected by the achievement.

Thus, efficient financial performance is mirror showing the strength and weakness of the bank. What should be taken into consideration is not only the establishment of the commercial bank but how effectively they are doing their performance thus the study for this purpose only takes into consideration the comparative financial performance of the “Everest Bank Limited and Prime Commercial Bank Ltd”. Thus this study attempts to answer the following research questions with the sample banks.

- What is the position of its profit, loan and deposit over different periods?
- How is the relationship between loan and deposit?
- How is the liquidity position of the bank?
- How is the firm’s efficiency in utilizing assets?
- How is the relation between debt and equity of the bank?

## **1.3 Objectives of the Study:**

The main objectives of the study are as follows:

- To study the financial performance of the sampled banks.

- To examine the return over equity and relation between debt and equity
- To analyze the liquidity position of the banks.
- To evaluate the bank's efficiency in utilizing assets
- To provide recommendations for the improvement of the future performance of sample banks based on findings the study.

#### **1.4 Significance of the Study**

The study is conducted to access financial performance analysis of EBL and PCBL. It will provide important guideline to the management while setting suitable polices. The present study will be more helpful to aware the shareholder regarding financial performance of this bank. It will also provide relevant and pertinent literature for future researcher on the area of financial performance analysis of any corporation finance. Beside that other beneficiaries of the study can be categorizes as follows

- Management of this banks
- Policy maker of this banks'
- Lenders and borrowers of this banks
- Academicians/ Researchers
- All other interested individual and parties
- And also to NG for making plans and policies of the country.

#### **1.5 Limitations of the Study**

For the completion of this study, the following facts are the basic limitation.

- The study is based on secondary data such as annual report of the concerned bank, other related journals, magazines and books etc. So the accuracy depends upon the data collected and provided by the organization.
- Non – availability of the adequate reference or sources acts as constraint for the study.
- This study covers certain period data (5 years) for the analysis; result is base on this data.
- Among the various commercial banks this study is only concentrated to evaluate and analyze financial performance of EBL and PCBL.
- Constrains for the study and time and money.
- Company's secrecy is also one of the factors that limit the study.

## **1.6 Organization of the Study**

This research has been organized in three chapters as below:

### **Chapter I: introduction**

The first chapter deals with introduction. This includes background, statement of problem, objectives of the study, significance of the study, limitation of the study, research methodology and organization of the study.

### **Chapter-II Review of Literature**

This chapter consists of conceptual review and review of related studies.

### **Chapter-III Research Methodology**

This chapter includes research design, population and sample, sources and types of data, data gathering procedure and analytical tools such as financial and statistical.

### **Chapter-IV: Presentation and Analysis of Data**

This chapter deals with data collected from different sources. Based on the data analysis of analysis of investors preferences will be made using statistical and non-statistical tools. This chapter also includes major findings.

### **Chapter-V: Summary, Conclusion and Recommendations**

The third chapter includes summary, conclusion and offers suggestions for further improvement.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

The present research aims to analyze the Financial Performance of Everest Bank Limited and Prime Commercial Bank Ltd. For this purpose it needs to review related literatures in this concerned area which will help to get clear idea and opinion and other concepts. This chapter emphasizes about the literatures which were concerned in this connection. Therefore, in this chapter conceptual frameworks given by different authors and intellectuals of this area, books, journals, research works, and previous thesis related to financial performance are reviewed. Moreover, rules regarding to financial performance are reviews and an attempt has been made to present them properly.

#### **2.1 Conceptual Framework**

As this research are related to financial performance analysis of Everest Bank and Prime Commercial Bank Ltd. Following aspects of analysis are reviewed in sequential manner.

- Concept of financial analysis
- Importance of financial performance analysis
- Objectives of financial analysis
- Limitation of financial analysis
- Source for judging financial performance
- Methods of analyzing and evaluation financial performance

##### **2.1.1 Concept of Financial Analysis**

Financial Analysis is one of the process of identifying the financial strengths and weakness for the firm by properly establishing relationship between the components of balance sheet and profit and loss account and other operating data (Pandey, 1992:109.)

Moreover, financial analysis is both analytical and judgment process that helps answer the questions that have been proposed posed. Therefore it is a means to an end. One can stress enough that financial analysis is an aid that follows those who are responsible for result to sound decision (Erich, 1997:2).

On the review of Metcalf and Tire, analyzing financial statement is a process of evaluating relationship among component parts of financial statements to obtain a better

understanding of a firm's position and performance, (Metcalf and Tire, 1976:175) It is a largely study of a single set of statement and study of these factors as shown in a series of statement, (William and Donaldson, 1980:131). It means analysis of financial statements may be useful for different purpose such as: Knowing the positions and performance of the firm. In course of analysis different tools and techniques are used.

This analysis evaluated involves the use of various financial statements the first is the balance sheet, which represents a snapshot of the firm's financial position at the moment and next is the income statement, that depicts a summary of the firm's profitability over the time, (Vanharne and Wachhowicz, 1997:120)

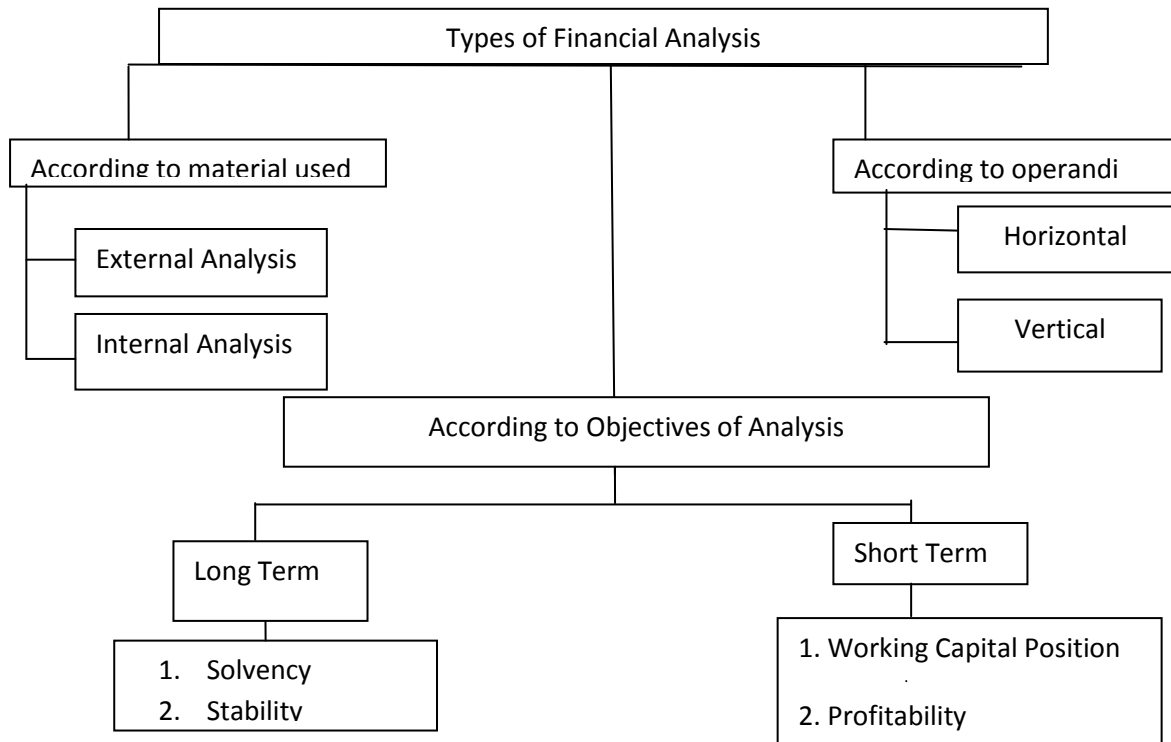
In other hand, profit is one of the indicators of sound financial performance. It is usually the result of sound business management, cost control, credit –risk management and general efficiency of operation (American Institute of Banking, 1972:149).

In this way, overall financial information can be obtained by analyzing balance sheet and income statement; however, there are three major steps for analyzing the financial statements. (Shreevastav, 1993:56).

- The first step involves the re-organization of rearrangement of entire financial data as constrained in the financial statements.
- The next step is the establishment of significant relationship between the individual components of balance sheet and profit and loss A/C.
- Finally, Significant of results obtained by means financial tools is evaluated.

This requires establishment of standard against which actual are evaluated with respect to the type of financial analysis distinction can be made either on the basis of material used or by using modus operandi of analysis. The following chart gives a snapshot view of it. (Kumar, 1994:48)

**Figure 2.1**  
**Types of Financial Analysis**



### 2.1.2 Importance of Financial Performance Analysis

The analysis and interpretation of financial statement is an important accounting activity. There are different parties interested in it. There aims and objectives of analysis of are also differing significantly. The following are the uses of financial statement analysis to different parties.

- Financial executives
- Top management
- Creditors
- Investors and other

#### a) Financial Executives

The first party interested in the financial statement analysis is the finance department. Such analysis provides a deep insight into the financial condition of the enterprises, and a view of the past performance, which helps in future decision making to the financial manager. The means, analysis is not only gives vital information concerning the position of the enterprises but also reflects the result of the operations.

## **b) Top Management**

The top management is also interested in the analysis of statement because it helps them in reaching conclusions regarding.

- Performance appraisal of overall business activities
- Inquiry about the current financial position
- Questions concerning the relationship of earning to trend in sales etc and
- Questions concerning the relationship of earnings to investment

## **C) Creditors**

The financial analysis is also very useful to creditors. They are interested to know over all financial positions of the firm before giving loan. The financial performance indicates the financial positions and it helps to judge the soundness and credit worthiness of the firms. Moreover, they get all information from the analysis of balance sheet and income statement of the company.

## **D) Investors and others**

Investors are also interested in the measurement of earning capacity of the securities. They have been concerned with cash generations capacity of an enterprise. For this purpose, cash flow analysis and funds flow analysis have provided to be very useful.

Besides, the above mentions parties, the information provided by the analysis and interpretation of various financial statements are important and useful to these groups who are interested in the working of the business due to one and the other motive. They are employees of the business and their unions, government, consumers and general public.

### **2.1.3 Objectives of Financial Analysis**

Basically there are three major objectives of financial analysis:

- a. To select the pieces of financial information that is relevant to a particular problem.
- b. To fit these into a coherent picture of the problem in relation to the firms aims and final resources.
- c. To suggest alternative solution to the problem.

Besides, these, there are other objectives of financial analysis, which can be started as under:

- To estimate the earning capacity of the firm.
- To examine the financial position and financial performance of the firm.

- To determine the long term liquidity of funds as well as solvency.
- To determine the debt capacity of the firm.
- To decide about the future prospects of the firm.

As a matter of facts the objectives of analysis are depends the analyst as quality of the data available.

#### **2.1.4 Limitations of Financial Analysis**

Although financial performance analysis is highly significant for financial executives, top management, creditors, investors and others there are certain limitation.

- a. The analysis of financial statement is only a means to reach up to conclusions and is not conclusions and is not conclusion itself. So it cannot work as a substitute for sound judgment. The judgment will depend upon the intelligence and skills of the analyst.
- b. In case the figure of a year is taken for analysis, it will not provide true financial picture of the firm/ organization.
- c. The result of financial analysis cannot be as an indication of a good or bad management because the ratios and other figure explain only probable state of events.
- d. The basic nature of financial statement is historic. Past can never reflect hundred percent impacts in the future.
- e. Financial statements fail to provide current information or exact value of assets because it records actual cost figures and do not records prices level changes.
- f. The figure of current period may have fully comparable with that of other because there is difference in nature, according procedure and financing pattern, etc. But analyst generally ignores these facts and makes an objective comparison of two business firms and result may occur misleading.
- g. The figures of one firm may not have fully comparable with that of other because there is difference in the nature, accounting procedure and financing patterns, etc. But, analyst generally ignores these facts and makes an objective comparison of two business firms and result may occur misleading.
- h. There result may be meaningless if suitable tools will not be used for the analysis. These results may push the future of business toward the hell.

### **2.1.5 Sources of Judging Financial Performance**

The firm communicates financial indication to users through financial statements and reports. They are the means to presents financial situation or position to owners, creditors. They are the means to present financial situation or position to owners, creditors and the general public (pandey, 1992:17). As these statements are used by investors and financial analysis to examine the firm's performance resources allocation decision. Moreover, the analysis and interpretation of financial statements depend on the nature and type of information available therein.

Basically, there are two financial statements prepared for the purpose of external reporting to owners, investors and creditors, which are main source for judging financial position.

They are:

- a. Balance Sheet
- b. Income Sheet

#### **a) Balance Sheet**

The balance sheet is a document that reports the financial position of a company as of specific point of time. It is one of the most significant financial statements for analysis of financial performance.

More specifically, the balance sheet contains information about the resources and obligation of a business entity and about its owner's interest in the business at the particular point of time (Wilcox and Migul, 1994:18).

Thus, it is used to prepare in the end of financial year and reveals the firm's financial positions on specific data.

In the language of accounting, the balance sheet communications information about assets, liabilities and owner's equity for a business firm as on a specific date. It provides a snapshot of financial position of the firm at the close of the firm's accounting period (Rana, 2056:11)

According to Mr. Khan and Jain, "The balance sheet provides information about the financial position of a firm at a particular point of time, say, as on Dec 31<sup>st</sup> .It can be visualized as a snapshot of the financial status of company. (Khan and Jain, 1993).

Likewise, balance sheet is a screen picture of financial position of a going business at certain moment. It is also known a statement of financial condition, position statement or statement of resources and liabilities or statement of worth etc.

In this way, it can be said that balance sheet is a summary statement and comparative record of the progress as downfall of the business. It shows the clear picture of the financial position of business as well as the assets liabilities of business, the relative proportion of borrowed and ownership capital, etc which are necessary to analyzed and evaluated their financial position of particular period. Hence, this is one of the importance resources to examine financial weakness or strengths using different tools of any business firm especially the banks.

#### **b) Income Statement**

The second major statement for sources of financial information is income statement. It is also known as profit and loss account. It may be defined as any systematic array of revenues, expenses and other deductions, and net income of a business for a stated period. Furthermore, income statement is an abstract portrayal of the life of the business presenting a longitudinal picture of the gains and losses of the business, its fortunes and misfortunes. (Kumar, 1994:15)

In the words of Khan and Jain “income statement is of great importance and interest to end-users of financial statements because it enables them to ascertain whether the business operations have been profitable or not during the specific accounting period.

In addition, it shows whether enterprises have earned profit or losses within the particular period, so it is a statement of the profit earned or loss incurred. This statement is extremely useful to analyzer to evaluate financial position as well as profitability of the business operation.

Hence, an income statement is classified record of the grain and loss to business for a period of time. It is prepare from the various balance subsidiary nominal account given in the shape of trial balance. (Sharma, 1998:34)

In conclusion, these two financial statements, i.e. balance sheet and income statement or profit and loss account of business firm contain useful information, So they are very helpful to know the financial strengths and weakness by analyzing those statements comparatively. They, both have vital role in the field of financial performance analysis.

### **2.1.6 Methods of Analyzing and Evaluating Financial Performance**

The analysis of financial statements is a process of evaluating relationship between component parts of financial statements to obtain better understanding of the firm's position and performance (Megis 1978: 1049). In brief, financial analysis is the process of selection, relation and evaluation.

In the process of analysis, various methods are used by the financial analyst. Most of the tools depend on the nature and characteristics of related statements and available data and information. Generally, there are financial and statistical methods to evaluate and to analyze, which are starts together.

- Funds-flow analysis
- Cash- flow analysis
- Trend analysis
- Ratio analysis

#### **a) Funds-Flow Analysis**

Traditionally, a statement of source and application of funds in a technical device design to analyze the change in the financial condition of a business enterprise between two dates balance sheet is known as funds flow statement. In addition, a statement of changes in financial position is often presented with the balance sheet and profit and loss account as an integral part of financial statement which is defined as funds- flow statement so, it describes the sources from which additional funds were derived and used. (Kumar, 1994:86)

Thus, a funds flow statement is a valuable aid to financial manager or a creditor or other interested person in evaluating uses of funds. In the nutshell, funds flow statement is very useful in long term financing and it is also important tool of working capital analysis.

This statement is prepared to summarize the changes in assets and liabilities resulting from financial and investment transaction during the period as well as those changes occurred

due to change in owner's equity. It is also aimed to depict the way in which the firm used its financial sources during the period.

Funds play a vital role in the funds flow statement. The term fund has several meanings. So, there are three approaches: cash approach, working capital approach.

Traditionally, funds mean cash only so; the statement under cash approach is called cash flow statement. Such statement only shows the cash transaction. According to working capital approach, changes in the amount of net working capital (i.e. current assets and current liabilities) are useful for decision-making by shareholders, creditors, lenders and management. It is superior to the cash approach. Finally, financial resources approach is the best approach to disclose the change in the financial position of a firm. This approach presents the total assets and resources as fund. (Pandey, 1992; 21).

In other side, funds flow statement is one of the flow valuable techniques to evaluate financial pattern. Mostly, this statement is prepared to achieve following objectives:

- To provide information on all financing and investing activities of a business.
- To show the use or application of financial resources.
- To show the uses financial resources provided from operation and other sources and
- To disclose the amount and cause of all other changes in financial position.

## **B) Cash Flow Analysis**

The cash plays an important role in the business firm's economy. In any business there may be constant inflow and outflow of cash. What blood is to human body, cash is to business enterprises especially to the Banks. So a major responsibility of financial management of firm is to mention an adequate balance of cash.

Hence, cash flow statement is an important tool of cash planning and control. At the same time it serves as valuable tool of financial analysis too.

Statement showing the resources and uses of cash prepared from historical data, i.e. income statement and position statement is called cash flow statement. (Korn and Boyd,1992: 299). It implies reveals the inflow and outflow o cash during the previous period. Such a statement can be prepared for a year, half year, a month and a week or for

any other duration its main function is to explain the cause of changes in cash balance of the firm for two different dates.

Besides, cash flow statement is prepared to know clearly the various item of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the sense, the analysis relates to the moment of cash rather than the inflow and outflow of working capital. More clearly, according to Korn and Boyd cash flow deals with the cash transaction only while funds flow is considered will all items constituting funds for the financing of assets of assets acquisitions program, (Kumar,1994:80).

Therefore, the main objectives of cash flow analysis is to shows the cause of change in cash balances. It provides information about cash and availability of cash to management when it is interested to know. Cash flow analysis is not only concerned with the good or bad management of cash, it is deeply concerned with the liquidity position of the firm. Since cash flow statement is made to show the impact of financial policies and financial procedures on the cash position of the firm. In short, cash flow analysis is importance in short ranges planning and it always helps the management in short term financial decision relating to liquidity.

### **C) Trend Analysis**

It is an important and useful technique to analyze and interpret the financial statement. Under this technique of financial analysis, the ratios of different items for various periods are calculated and then a comparison is made. This method is basically helpful in making comparative study of financial management. Generally a period of five years is considered satisfactory. This method of analysis involves the computation of percentage relationship that each statements item bears same to the same items in the base of year.

Trend analysis shows the direction progress upward or downward. It is an important form of horizontal analysis of financial statements often called as 'Pyramid Method' of ratio analysis. Moreover, In this method, a statement used to analyze with the base of another reference statement. Other method of analyze is the calculations of trend analysis is not out of limitations, it may effect by price level changes and the selection of bases year man an obstacle. It can show only the trend in operating result financial position of a concern cannot be discussed.

Besides these, it is great important for financial performance because of their utilities in business as well as in the banks. They are:

- It is a simple technique. It does not involve tedious calculations and requires trained experts.
- It is a brief method to indicate the future trends.
- It reduces the changes of errors as it provides the opportunity to compare the percentage with absolute figure.
- A financial analysis is able to judge the present position of the company and to compare it with the overall trend in industry.

#### **D) Ratio Analysis**

Ratio analysis is a widely used tool for financial analysis it is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial conditions can be determined. The term ratio refers to the numerical or quantitative relationship between two items or variables (Khan and jain, 1993:60).

Similarly, it is a powerful tool of financial analysis. A ratio is defined as “the relationship between two more things” (Kothari,1978:487) So, in financial analysis, ratio is used as yardstick for evaluating the financial position and performance of company.

Therefore, ratio analysis is used for judgment financial performance of business concern over the period of time. It helps to find out the financial positions of the firm and also supports to provide necessary suggestion package for the betterment. Thus, economic financial position/ performance of firm can be fully x-rayed through ratio analysis.

On the other hand, the uses of ratio analysis is not useful only to internal parties but to the creditors, suppliers, banks, lending institution also. It is very helpful financing, forecasting, measuring the performance and cost control. Financial ratios are also useful to diagnosis of financial health of a firm.

In this way, the ratio analysis is widely used techniques to evaluate the financial position and performance of a business. But there are certain problems in using ratios. The analyst should be aware from those problems.

The limitations of ratio analysis basically are:

- Ratios do not indicate immediately the point where the mistakes or errors lie.
- The price level changes make the interpretation of ratios invalid.
- The ratios are means not needs of financial analysis. They can be affected with the personal ability of analysis.
- Conclusions drawn with the help of ratios should be verified with other techniques otherwise result may not perfect.
- It generally calculated from past financial statements and thus is no indicators of future.
- The number of various ratios is so large that it is very difficult task to select some appropriate ratios for the various business units.

## **2.2 Review of Journal:**

Mr. N.P. Poudel in the journal entitled, "Financial Statement Analysis: An approach to evaluate Bank's Performance" which was published NRB Samachar (AS annual publication 2067) is reviews as follows:

## **2.3 Review of Related Studies**

### **2.3.1 Review of Journal:**

Finance is a broad field and there are various books written in this subject. The book of M.Y Khan and Khan is considered to be a useful book in the financial management. The modern approach of Khan and Jain views the term financial management in broad sense and provides a conceptual and analytical framework for financial decision making. According to them, "the finance function covers both acquisitions of funds as well as their allocation; hence apart from the issues of acquiring external funds, the main concern of financial management is the efficient and wise allocation of funds to various uses." The three major financial decisions according to Khan and Jain are the investment decision, the financial decision and the dividend policy. – (Khan and jain; 1999).

The book on 'Managerial Finance' written by Weston and Brigham stress on Risk- Return trade off as one of the major financial functions. They believe that the maximization of the value of the firm can be achieved through maximization of returns in one hand and maximization of risk in the order. The relationship between the expected future state of the economy and the performance of individual firms enables a relationship to be set froths

between the state of the economy and the returns from investment in firms, (Weston and Brigham; 1980;93).

Describing about the new areas of finance, James C. Van Horne in this book “Financial Management and Policy” stresses on two broad functions, Viz:

- Investment in assets and new products;
- Determining the best of financing and dividends in relation to a company’s overall valuation.

According to him “Investment of funds in assets determines the size of the firm, its profits from the operations, its business risk and its liquidity. Obtaining the best mix of financing and dividends determine the firm’s financial charges and its financial risk: it also impacts its valuation,” (Van Horne; 1997;758-776).

He further incorporated other core financial areas such as; creation of value, investment decision, financing decision, dividend decision and financial management.

The objectives of the company must be to create values for its shareholders. Market price of company’s stock represents its value and this can be maximized by firm’s optimum investment, financing and dividend decisions.

The capital investment decision is the allocation of the capital to investment proposals whose benefits are to be realized in the future. As the future benefits are not known with certainty, investment proposals necessarily involve risk. Consequently they should be evaluated in relation to their expected return and risk.

In the financing decision, the financial manager is concerned with determining the best financing mix or an optimum ‘capital structure’. If a company can change its total valuation by varying its capital structure, an optimal financing would exist, in which market price per share could be maximized.

Another important decision of the firm, according to Van Horne is its Dividend Policy. The dividend decision includes the percentage of earnings paid to stockholders in cash dividends. The dividend payout ratio determines the amount of earnings retained in the

firm and must be evaluated in the light of the objective of maximizing shareholder's wealth.

The financial management involves the solution of the three major decisions. Together, they determine the value of a company to its shareholders. Van Horne believes that the objectives of any firm are to maximize its value, and therefore, the firm should strive for an optimal combination of the three inter-related decisions, solved jointly. The main thing is that the financial managers relate each decision to its effect on the valuation of the valuation of the firm.

The book on financial management written by I.M Pandey defines financial management as "The managerial activity which is concerned with the planning and controlling of the firm's financial resources- (Pandey; 1992;10).

I.M Pandey believes that among the most crucial decision of the firm are those, which relate to finance, and an understanding of the theory of financial management provides the conceptual and analytical insights to make the decisions skillfully.

I.M. Pandey further identifies two kinds of finance; Routine and Managerial Finance functions.

The routine finance function do not require a great managerial ability to carry them out and they are chiefly clerical in nature. Managerial finance functions on the other hand are so called because they require skillful planning, control and execution of financial activities. There are according to I.M Pandey four important managerial finance functions:

- Investment or long term asset mix decision.
- Financing or capital-mix decision.
- Dividend or profit allocation decision
- Liquidity or short-term asset- mix decision.

Erich A.H in his book has described financial analysis, as "Financial analysis is both an analytic and judgment process that helps to answer the questions that have been properly posed to and therefore, it is a mean to an end. We can stress enough that financial analysis is an aid that allows those responsible for results to make sound decisions."

Mr.N.P. Poudel. In the journal entitled.” Financial Statement Analysis: An Approach to Evaluate Bank’s Performance” which was published NRB Samachar (An annual publication 2067) is reviews as follows:

According to Mr. Poudel, Balance Sheet, Profit and Loss A/c and the accompanying notes are the most useful aspects of the banks. It needs to understand the major characteristics of bank’s banks balance sheet and profit and loss a/c. The bank’s balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account forms a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet item.

Interest received on loans and advance and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and services charges. The users of the financial statement of a bank need relevant, reliable and comparable information, which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of bank’s financial statement has been expressly laid down in the concerned act. Commercial banking act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

According to Mr. Poudel, the principle objectives of analyzing financial statement are to identify: Liquidity, Profitability, and Solvency. Most of users of the financial statements are interest in assessing the bank’s overall performance which is affected by the following factors:

- The stricter of balance sheet and profit and loss account.
- Operating efficiency and internal management system.
- Managerial decision taken by top management regarding interest rate, exchange rate, lending policies etc.
- Environmental changes ( Technology, Government, Competition and Economy).

The other factors to be considered in analyzing the financial statement of bank are to assess the capital adequacy of bank is assessed on the basis of risk-weighted assets. It indicates a bank’s strengths and solvency. Bank facing with capital adequacy problem may increase

capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base.

Liquidity is measured by the speed with which a bank's assets can be converted into cash to meet deposit withdrawals and other current obligations. It is also an important view of survival and growth of a bank.

Dr. M.K. Shrestha, in the journal entitled, "Commercial Bank's Comparative performance evaluation", which was published in Karmachari Sanchay Kosh Publication 2047 is reviewed as follows:

The journal stresses on a proper risk management with appropriate classification of loans under performing and non-performing category. Researcher further clarifies adequate underperforming and non-performing category. Researcher further clarifies adequate provision is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear cut criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six months need to be treated as unearned income." Regarding the risk management of the bank Dr. Shrestha's other suggestion is as follows:

- Any customer having overdue loan of two years or more in his account should not be given other loan facilities.
- Strong provisioning or reservation is required in restructuring portfolio relating to overdue loans.
- All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorized as good, sub standard or doubtful loans.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans:

The above journals focus in the various aspects of the bank's economic environment. Mr. N. Poudel's work stresses in an effective way of evaluating the financial performance and Dr. Shrestha's suggestions are focused towards proper risk management. Whatsoever, aspect of the bank the above journals target, they all have to be combined and kept in strict consideration for effective and efficient financial performance of the banks in the Nepalese economy.

### **2.3.2 Review of Article:**

**Mr. Upendra Kumar Poudel**, in the article “ Present Condition of Financial companies” has presented with compared to the commercial bank, the interest rate is relatively high that is provided and accepted by finance companies. The financial companies should not be confined only in the valley. They should extend their services to the rural sectors of hill and tarai to reduce regional imbalance. The collection of deposit and loan investment done by the commercial banks also to sustain themselves in the environment of competitions, they should introduce novel technology and equipment’s to collect deposits and investments. They should learn from the draw banks. Failure and success of commercial banks to effectively maintain as alternative status.

**Mr. Krishan Pradhan** in the article,” Transaction Analysis of Financial Companies in Nepal. “Has concluded that the finance companies are centered in the city as like commercial banks. If this trends remains, the central banks is to consider novel strategy. However, financial and banking transaction don’t take place in zero, it favors of financial intermediaries. The emergence of closure of financial companies in market economy in common sense. But keeping in mind, the social and economic structure of our country, we should not turn a deaf ear to regional balance.

**Mr. R.L. Shrestha** in the article “Capital Adequacy of bank in the Nepalese context” has suggested that the banks deal in highly risky transaction to maintain strong capital base. He concluded that the capital base should neither be too much leading to inefficient allocation of scare resources nor so weak degree of risk associated with them are subjected to changes country wish, bank wish and time period wise.

**Mr. D. P. Poudel** gives more emphasis of financial performance of financial companies in the article “An overview Financial Companies of Nepal”. He had written that at the time 2010, the ratio of capital funds to deposits have been increasing over the time but two of this, it is substantially below than the authorized level of deposit mobilization, which is ten times of the capital vase. Never the less, some of the finance companies have even mobilize the deposits by more than ten times of their capital base by violating the regulator norms for doubt the quality of loan especially in the absence of repayment schedule. The loan diversification has been improved however, during a short span of time. As such, the hire purchase housing and term loans are the major sectors, which all together received

more than 95% of the total loan and advances in mid July 1996. Because of the mushrooming growth of the number of finance companies, the average sources of funds for each company are natural to decline. Since the varying factor, it is too early to evaluate the performance of financial companies in Nepali but equally important factor is that the regulatory and supervisory authority should keep close eyes to monitor their activities.

A Summary of what I have reviewed in various books finance has been highlighted below. “Finance is defined as the acquisition and investment of fund for the purpose of enhancing the value and wealth of an organization. The various finance areas include investments, Public finance, corporate finance and financial institutions. The basic function of finance is to manage the firm’s balance sheet in most efficient way. The balance sheet reflects how a firm acquired financing through debt and equity resources, and it reflects the disposition of acquired financing among the various asset accounts.”

The major financial functions required for managing the bank’s balance sheet are summarized below.

- a. Analysis and planning
- b. Financial structure management and
- c. Asset management.

The first function financial analysis and planning, is to understand the bank’s current financial condition and plan for its future financial requirement in different economic scenarios.

After analyzing the financial needs, the second function is to manage the financial structure of the bank, which can be done by optimizing the use of debt and equity in the capital structure. While deciding about this optimum structure, a financial manager must concentrate in minimization of cost of funds in one hand, and maximization of value of the firm in the other. Moreover financial structure management for a banking sector includes, a typical treasury function, which is also called ‘funds management’. This function contributes a significant portion in profits earned by banks.

The final function is the management of asset structure of the bank. Advances of credit and investment in certain portfolios constitute the major portion of the bank’s asset. The major financial function related to assets management is to decide for the least risky and most

profitable alternatives of investments. This can be conducted by determining returns and risks associated with the loans and advances made by bank.

All the above financial decision or functions as mentioned by different writers are instrumental toward effective handling of financial management, which includes activities beginning from raising of funds to efficient and effective use of funds; no matter either it is a banking or non banking institution.

After receiving the books, certain useful journals on domestic market, banking, financial statement analysis and monetary credit situation of Nepal are studied.

Mr. LD Mahat (2010) has written an article about “Should NRB encourage establishment of more banks: which was published in the Kathmandu Post on 22 July 2010. This article gives short glimpse of the banking performance in Nepal.

Nepal Rastra Bank (NRB), as a central bank of Nepal, has the ultimate authority of granting approval for the establishment of a bank or financial institution. NRB has therefore the power of increasing or limiting the number of players in the banking and financial service industry through licensing. NRB also has a role in creating a conducive atmosphere for efficient functioning of the banking and financial institutions. Allowing the entry of sufficient number of players in the banking and financial services industry creates the environment of healthy competition and promotes efficiency in the banking system.

Mr. Mahat thinks that, establishment of new banks not only introduces advanced technology in banking industry but also offered a host of innovative products and superior services to the customers at affordable cost. Therefore, NRB should encourage more new private sector banks which will make modern banking available to a larger section of the economy. But on the other hand, he is afraid that Nepal could be over banked on the basis of the number of players in the industry but it is still under-serviced in reality.

Establishment of new banks will increase the intensity of competition in the banking industry. This will force the poorly managed and poorly capitalized banks to upgrade their efficiency. Otherwise, customers will shift their business with the better capitalized and more professionally managed banks. The principle of “survival of the fittest” will hold under such scenario. Therefore there is still a room for more banks so far as it paves the

way towards sound and strong banking system. (MR LD Mahat, the Kathmandu Post, 22 July 2010).

An article written by Radhakrishna Poudel (2068) on 'Banking Challenges ahead focuses in the potential areas where banks should invest to fight the prevailing economic recession. Currently growth in the profitability of JVBs has been mainly due to external factors such as the foreign exchange rate but not to the growth in the real sector of the economy. Therefore, to sustain the current financial position in the long run, banks should enter new areas by marketing run, banks should enter new areas by marketing their credit in important sub sectors such as hydro electricity, tourism, irrigation etc, (Podyal; 2068 BS) Mr. Poudel further writes that "saving collection is another factor which is necessary for banks to balance their operations and generate sufficient surplus in their cash flows. In recent years growth rate of bank deposits has declined to about 16 percent compared against 23 percent of the past. Mobilization of internal resources in the country demands that banks attract more financial resources from the public." Another useful contribution made by Narayan Prasad in his article called "Financial statement analysis" published in Nepal Rastra Bank Samachar on 2068 is reviewed- (Poudel; Samachar NRB; 2068 BS) According to Mr. Poudel, Balance Sheet, profit and Loss a/c and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss a/c. Banks balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the forms of loans. Fixed assets account forms a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans and advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and services charges.

The users of the financial statement of a bank need relevant, reliable and comparable information which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of bank's financial statement has been expressly laid down in the concerned act. Commercial banking act requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

According to Poudel, the principle objectives of analyzing financial statements are to identify:

- Financial adaptability (Liquidity)
- Financial Performance (Profitability) and
- Financial Position of Bank (Solvency)

Most of the users of the financial statements are interested in assessing the bank's overall performance i.e. profitability which is affected by the following factors:

- The structure of Balance Sheet and profit and loss account.
  - Operating efficiency and internal management system.
- a) Managerial decision taken by top management regarding interest rate, exchange rate, lending policies etc.
  - b) Environment changes (technology, government, competition, economy.)

According to Mr. Poudel, the other factors, to be considered in analyzing the financial statements of bank is to assess the capital adequacy ratio and liquidity position. In the line of the norms set by banks for international settlement (BIS), capital adequacy of a bank is assessed on the basis of risk-weighted assets. It indicates a bank's financial strength and solvency. Presently the capital fund of a bank should not be less than 8% (at least 4% should be in the form of tier-1 capital or core capital) of its risk-weighted assets as capital fund. Banks facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base. Liquidity is measures by the speed with which a bank's assets can be converted into cash to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of a bank.

Dr. Manohar Krishna Shrestha, (2047) in his work 'commercial bank's Comparative Performance Evaluation" stress on a proper risk management. He believes in the appropriate classification of loans under performing and non-performing category. In this context he writes, "Adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six month need to treated as unearned income."- (Shrestha; Karmachari Sanchya Kosh Publication; BS; 44-54).

Regarding the risk management of the bank Dr. Shrestha's other suggestions include:

- Any customer having overdue loan of two years or more in his account should not be given other loan facilities.
- Strong provisioning or reservations are required in restructuring portfolio relating to overdue loans.
- All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorized as good, substandard or doubtful loans.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

In another empirical study Edward I. Altman (1968) employed financial ratio to predict corporate bankruptcy through multiple discriminate analysis. Out of the twenty- two financial ratios examined, Altman selected the five that did the best combine job in predicting bankruptcy. These ratios were working capital to assets, retained earnings to total assets, earnings before interest and taxes to total assets, market value of equity to total assets, market value of equity to book value of total debt and sale to total assets. Using these ratios, Altman found the discriminate model to be an accurate predictor of bankruptcy,- (Altman; 589).

K Pradhan (1991) in his article "Nepalma Banijaya Bank Ko Uplabdhi Tahta Chunnauti", the writer has pointed out some major issues in our local commercial banks against foreign joint venture banks. The study has grouped NBL RBB under local banks and Nepal Arab Bank Limited, Nepal Grindlays Bank Limited and Nepal Indoseuz Bank Limited under foreign joint venture banks.- (Pradhan; 1991).

The study focused the complete commercial banking system in Nepal in respect of their performance and profitability. His major findings are the deposit collection rate of local banks is very poor as compared to foreign joint venture banks. The pattern of deposit is also different between these two types of commercial banks. The foreign joint banks are in better position than local banks in profit making. In average, no foreign bank has suffered till now, but local banks have earned negative profits.

The above journals focus in the various aspects of the bank's economic environment. NRB press communiqué shows the current domestic market scenario, article by Radha Krishna Poudel concentrates in the challenges of the banking sector; Narayan Prasad Poudel concentrates in the challenges of the banking sector; Narayan Prasad Poudel's work stresses in effective way of evaluating the financial performance and Dr. Shrestha's suggestions are focused towards proper risk management. Whatsoever, aspects of the bank the above journals target, they all have to be combinable assessed and kept in strict consideration for effective and efficient financial performance of the banks in the Nepalese economy.

### **2.3.3 Review of Thesis**

Mr. Lekh Nath Ghimire in the thesis "A comparative study if financial performance of HBL and NSBIBL," was prepared with the objectives of analyzing and interpreting he financial performance. The major uncovered facts of this research was that the overall liquidity, earning and growth position of HBL was stronger than that of NSBIB's capital adequacy, quality of asses as well as turnover position was found to be superior to that of HBL. HBL was more efficient in creating in comparison to NSBIBL. Corrective analysis revealed the facts that NSBIBL was able to utilize its resources more efficiently and profitability. Income and operating expenses were in increasing trend and were dominated by interest in case of both banks.

Mr. Dev Raj Adhikari in his study entitled "Evaluating the financial performance of Nepal Bank Limited" has calculated and analyzed the different ratios by observing figures of balance sheet of Nepal Bank Limited for the period FY 2038/39 to 2046/47. He remarked that the bank is not found to have been able to utilize its fund effectively and efficiently for the development of the economy. He also stated in his report that "The bank has been unable to utilize its resources on high yielding investment portfolio to maximize returns.

Operational efficiency of the bank is indicate by the operational loss has been found unsatisfactory. Hence the bank is indicated by the operational loss has been found unsatisfactory. Hence the bank has been suggested to manage its investment portfolio efficiency. He recommended that the bank should try to mobilize its resources efficiently. He recommended that the bank should try to mobilize its resources efficiently by creating new business and services ideas which will certainly help for the better utilization of ideal

resources and for the economic development of the country. He has focused on utilization and mobilization of funds and resources of Nepal Bank Limited. His study especially concentrated on the deposit collection of the bank and disbursement of the fund as loan advances. Therefore, his main study areas are uses and sources of funds and income and expenses trends of the banks.

Sangeeta Shakya in the thesis “Comparative analysis of Financial Performance of selected JVBs, A case study of NGBL and HBL,” has familiar with comparative strength and weakness and their ability through the analysis of liquidity ratios. The major findings drawn from the study are HBL is more efficient in case of liquidity as well as it is more levered than NGBL, where as HBL is in better condition from the aspect of capital adequacy, activity and profitability ratios. The study showed positive correlation between loans and advances to total debts of both banks. According to the trend analysis, profit before tax of NGBL has been increasing at the higher rate than that of HBL.

A thesis entitled “Financial performance analysis of commercial banks in Nepal in the framework of camel (A comparative study of Kumari Bank LTD and Machhapuchhre Bank) by Manisha Bhyshal (2008):

**Objectives:**

1. To analyze capital adequacy of KBL and MBL.
2. To assess the quality of assets of KBL and MBL.
3. To evaluate whether KBL and MBL is managing its expenses with respect to incomes
4. To study the trend of earning performance made by KBL and MBL.
5. To measure the liquidity position of KBL and MBL.

**Major Findings:**

1. Higher average return on equity ratio.
2. Higher average earning per share ratio.
3. Capital adequacy ratios meet the standard.
4. ROE below the benchmark (15%)
5. Net interest margin have met the benchmark ( 3to 4%)
6. Earning per employee ratio is in increasing trend.

**Recommendations:**

1. Total capital adequacy ratio is adequate. It should maintain.
2. Assets quality ratio at satisfactory level.
3. Liquidity position is low so it should increase.
4. Total expenses to total income ratio is fluctuating. It should try to constant.

A thesis entitled “Financial Performance of joint venture banks (with special reference to SCBNL and NABIL bank) by Pratikshya Ghimire (2009):

**Objectives:**

1. To find out operational efficiency of SCBNL and NABIL bank.
2. To analyze the different types of risk associated with the banks.
3. To find out the compliance of NRB directives.
4. To provide suggestions and recommendations on the basis of study.

**Major Findings/ Recommendations:**

1. Unable to earn a satisfactory level of profit.
2. Leverage ratio to increase so increasing debt financing will generate profit through the utilization of deposits.
3. Unsatisfactory liquidity level.
4. EPS and DPS should increase by increasing MPS.
5. Operating income level is not satisfactory so increasing operating efficiency.
6. CRR are below the standard of NRB directives.

A thesis entitled “Financial Performance Analysis CAMEL TEST of NABIL, NIBL, SCBNL) by, Kamal Bahadur Chand (2009):

**Objectives:**

1. To analyze capital structure and capital adequacy position.
2. To assess assets management system, profitability and liquidity.
3. To assess organizational investments, social responsibilities and services
4. To provide the suggestion on the basis of the findings.

**Major Findings/ Recommendations:**

1. Study indicates that people value high quality of services of private sector commercial banks.
2. Majority of population is found still unaware of all products and services that are affected by commercial banks.
3. Minimum balance requirement to open saving a/c should decrease to attract many customers.
4. Each commercial bank should increase interest on deposit.

A thesis entitled “comparative analysis of financial status and performance evaluation of HBL and NABIL bank” by Rakesh Sangel (2010):

**Objectives:**

1. To analyze capital adequacy and liquidity position of the banks.
2. To analyze quality of assets and evaluate risk weighted assets.
3. To evaluate the level, trend and stability of HBL and NABIL.

**Major Findings/ Recommendations:**

1. The total capital adequacy ratio is fluctuating.
2. Assets composition remained largely in the loan and investment.
3. The both banks managerial and operating efficiency since the total expenses to total revenue ratio are in decreasing trend.

A thesis entitled “Financial performance analysis of commercial banks of NBL and NABIL.) by Anita Shrestha (2011):

**Objectives:**

1. To conduct cash flow analysis and measure the operating efficiency, stability and profitability.
2. To measure the ability to meet the short term and long term obligations.
3. To point out the weak and strength areas of the business performance.
4. To analyze financial strength and weakness.

**Major findings:**

1. Liquidity ratio shows that the liquidity position of NIBL is better than NABIL.
2. NABIL has utilized the debt more than NIBL.
3. Total deposit and total assets are higher in NIBL than that of NABIL.

**Recommendation:**

1. Banks are suffered from liquidity position.
2. Bank can earn more by adding debt in its capital structure.
3. Managerial efficiency and assets utilization position of the sampled banks seems unsatisfactory.
4. Profitability position on NIBL is much weaker than NABIL.
5. Banks are suggested to review their overall capital structure and investments portfolio to make better combination of capital structure.
6. The banks are suggested to not limit their activities within the urban areas only.

In this way review of literature is important before selecting topics so that after selecting topic we can justify the topic by suggesting new findings.

Various thesis works have been done in different aspects of commercial banks such as lending policy, interest rate structure investment policy, resource mobilization, and capital structure etc. The conclusion drawn on the different aspects of commercial banks will be relevant to justify to my study. Thus some previews thesis, which are relevant in this section.

Gupta (2010) has conducted a study of “Financial performance Analysis of Everest Bank Limited” as a Master’s thesis in January 2010. Mr. Gupta concluded this study with the basic objective of examining the financial statement of the bank and analyzed them to see the financial soundness of the bank. Other objectives are

- To observe the return over the equity.
- To highlight the relationship between different variables.
- To provide suggestions from findings.

Based on this analysis his major findings are as below:

Liquidity Ratio: It is found that the bank is able to maintain liquidity position to meet the daily cash requirement. It has made enough investment on government securities but less

in the risky assets, i.e., L & A overall. It has indicated the liquidity position as the data shown lower consistency.

**Activity Ratio:** the study shows the strong position of the bank regarding the mobilization of the total deposit as investment. The bank has average position towards the utilization of working fund on loans and advances.

**Profitability Ratio:** Here Mr. Gupta has concluded that

- The ratio of total interest paid to working fund is satisfactory as it is decreasing of interest earned every year.
- The return on equity is not satisfactory because it has not been able to utilize the equity capital effectively.
- The ratio of total interest paid to working fund is satisfactory. It shows that it is successful to collect its working fund from less expensive source.
- The bank is successful to mobilize its interest bearing assets such as loans, advances and investment.
- The return on loan and advances ratio shows that the bank is not able to earn satisfactory income on loans and advances.
- The return on total working fund ratio shows that the profitability with respect to financial resources, the investment of the bank assets is unsatisfactory as well as unstable.
- EPS shows that the bank has very good increasing trend regarding EPS, even though the first two years shows the static figure.

Mr. Bista (2010) has conducted on study of “A study on financial performance of Nabil Bank Ltd” as a Master’s thesis in April 2010. He has conducted the study on financial performance of Nabil Bank Ltd. His study is focused on financial analysis and other portfolio of the NABIL. The study has also focused on income and expenditure analysis and Bankruptcy Score analysis.

This study is conducted with the use of secondary data. The source of secondary data are the bank’s annual reports, financial statement of the bank and related publication of commercial banks and central bank as well as other useful publications from the financial institution and consultants. Likewise newspaper, journals, periodicals magazine, reports

and unpublished thesis have been used as other source of data during the study. The tabulated data were analyzed with the help of various fundamental financial and statistical tools. The basic objective of the study is to analyze the liquidity, Leverage, activity, profitability, and ownership ratios of the bank, to a study the income and expenditure statement of the bank, to analyze the bankruptcy score of the bank for the five years.

Mr. Bista has drawn various conclusion of his study, which are discussed briefly. He has given conclusion from the analysis of financial Ratios. It states the liquidity position of the NABIL is in normal standard, the cash and bank balance proportion with respect to the current assets is high. In general, the liquidity position of the bank is good enough to meet the short-term obligations. The activity ratios of NABIL indicate that the bank has utilized its resources in the best possible way to maximize its wealth. The bank has the high debt equity ratio and debt to total assets ratio, which indicates the creditors have invested more in the bank than the owners. The interest earned by the bank is inadequate in comparison to the assets, the net profit earned in comparison to the total deposit is relatively low, the net profit earned in comparison to the total assets is fluctuating, the profit earning in relation with the shareholders' equity of NBL is better. In general the profitability ratios of the bank indicate that the overall performance of the bank is effective in maximizing its wealth. The EPS of NABIL is quite good, the dividend per share of NABIL is low and the shareholders are being compensated very slowly, the dividend payout ratio of the bank is irregular and low. Overall, the ownership ratio of the bank is not encouraging, but is in increasing trend.

The draws conclusion from the income and expenditure statement analysis. It states as income aspects shows, the interest earning is the main sources of income of the bank, the second main sources of income is foreign exchange earnings and thirdly commission earnings is other source of income. Overall, the bank is generating maximum profit from interest earning and the sale of foreign exchange as well as from commission. The expenditure aspects shows, interest expense, personnel expenses and other operating and non-operating expenses are the major expenditure heads. Overall, the result of the expenditure of NABIL indicates that bank is making increasing the profit by reducing its operating expenses and managing better human resources in order to maximize the shareholder's equity.

He again draws conclusion from the bankruptcy score analysis, which stated the bankruptcy score of the bank was found to be inconsistency over the past five years. The result of the score has put the researcher in different position to predict the existence of the bank. From the point of statistical analysis, the solvency position of the bank is better. So, it can be predicted that the chance of failure of NABIL is very remote.

On the basis of the study made by Mr. Bista, he had made some valuable recommendations. He have suggested the bank to focus more in credit cards, wealth management, global market, etc in order to get high returns, to venture new grounds in the financial sector such as investment banking and e-banking, to invest more in loan and advances as well as less in government securities, to formulate new strategies if serving clients in a satisfactory way and strengthen and activate its marketing function, as it is an effective tool of reaching at end retaining customers, to take care of inconsistency and irregularity in dividend payment, to adopt suitable margin rates which are influenced by interest rate, nature of goods, trade cycle etc., to publish and distribute booklets with all banking information as well as with general information of an economy and to invest in the deprived sectors of the nation.

Regmi (2009) has conducted a study of “A comparative study of the financial performance of Himalayan Bank Limited and Nepal Bangladesh Bank Limited.” His study shows that NBBL is not maintaining adequate liquidity position in comparison to HBL. Therefore he suggests NBBL to increase its current assets. As capital structures of both the bank are highly levered both the banks are recommended to maintain and improve mix at debt and owner’s equality by increasing equity share. He further suggests HBL to improve the efficiency in utilizing the deposits in loans and advances for generating profit. NBBL should try to maintain present position on this regards. Profitability position of HBL is comparatively better than the same of NBBL. So NBBL is recommended to utilize its resources more efficiently for generating more profit margins. If resources held idle bank faces high cost and causes a low profit margin. An ideal dividend payout ratio is based upon shareholders expectations and his growth requirements of the banks. NBBL is suggested to increase its dividend payout ratio.

The two banks should extend their resources to rural areas and promote the developments of poor and disadvantage group. In order to do so banks should open their branches in the

remote area with objectives of providing cheaper banking services especially. HBL should initiate this regard because it has few branches in comparison to NBBL. Because of the competition between banking sectors both the banks are suggested to formulate and implement some sound and effective financial and non financial strategies to minimize adopting modern banking technologies to enhance their better and wide market.

Adhikari (1993) has conducted a study of “A evaluating the financial performance of Nepal Bank Limited.” The main focus of his study was evaluating the financial performance of Nepal Bank Limited.” The main focus of his study was evaluating the financial performance of Nepal Bank Limited.

The other objective of his study is to examine the trend of deposit mobilization along with the cost of deposits and also to access the investment portfolio of the banks.

Further his objectives is to measure liquidity, profitability and operating efficiency of the bank as well as to evaluate the earning power and dividend paying ability of the banks.

He had concluded that investment portfolio of the bank had not been managed so efficiently to maximize the returns therefore the bank was suffered from series of operational losses over.

Joshi (2012) has conducted a study of “Financial Performance of joint venture banks in Nepal with special reference to Nepal Bangladesh Bank Ltd.” as a Master’s thesis in September 2012. The main focus of her study is financial analysis and other portfolio of NBBL. The main sources of data for this study are secondary data. According to the requirement, published balance sheets, profit and loss a/c and other related statements of accounts as well as annual report of the respective bank have also been the major source of data. Various related books, booklets, magazines, journals, newspapers and thesis are referred for the study of the topic. For the purpose of the data collected and arranged in proper form have been analyzed and interpreted through financial and statistical tools. Basically, four types of ratio are used to analyze data, which are liquidity ratio, capital structure ratio, activity ratio, profitability ratio and ownership ratio. The specific objectives of the study are to evaluate various financial ratios (liquidity, profitability, capital

structure, turnover, ownership position of NBBL, to analyze bank's deposits, mobilization and investment, to forecast future trends of deposit mobilization and loan and advances of NBBL, to make necessary suggestions and recommendation for effective financial performance in future on the basis of performance evaluation.

The major findings of her study are discussed briefly. She had concluded that the liquidity ratio of bank is considered satisfactory as the bank is trying to meet its short-term obligations. The result of analysis of activity ratio shows that the banks are efficient utilizing its outsider's fund (i.e. total collection deposits) by extending loans and advances to generate profit. Overall, the activity ratio of NBBL indicates that the banks has utilized its resources in a best way to maximize the wealth and thus making an increment of profit for the organization, analyzing the capital structure ratio of the bank, it is concluded that incase of NBBL the shareholders stake in the banks is very low as the creditors have dominated in the bank financial mix. She also concludes that profitability ratio indicates the degree of success in achieving desired profit level. The result indicates that the bank has been able to generate profit by utilizing deposits but the generated profit is low. So additional efficiency is required to increase earnings. The analysis indicates that profit earning in relation to shareholders equality of NBBL in better position, which exhibits better utilization of shareholders equality. Overall, it is concluded that NBBL is able to earn a positive profit but not a satisfactory level. Again, after analyzing the ownership ratio, it is concluded that in case of NBBL, the shareholders are being compensated with good returns either in the form of cash dividend or bonus shares.

Ms Joshi has given some valuable suggestions, which are discussed briefly. She recommends the banks should try to come forward to increase the number of clients, develop the entrepreneurship, diversity their business with large number of clients, develop investors and come forward to meet the national objective of privatization by mobilization of more entrepreneurs. Most of the JVBS are found to be centralized in urban areas. So, it is suggested that the banks should extend their banking facilities even in rural and sub rural areas as well as mid western region of the country. At present due to increase in transaction of security and capital market, higher taxes laid on heavy deposits and increase in number of joint venture banks as well as finance companies and insurance companies, these all have been creating pressures on deposit collection of NBBL. So, bank is recommended to quicken the reliable depositing process by provide attractive schemes for the depositors.

Since NBBL is not maintaining adequate liquidity position, the bank is suggested to increase its current assets. As the capital structure liquidity position, the bank is suggested to increase its current assets. As the capital structure ratio of bank is highly leveraged, NBBL required maintaining and improving an optimum mix of debts and equity by increasing equity base in order to avoid financial risk. Lending continuous to be a very important part of business but, is not a sole driver behind a corporate relationship. So, the bank should increase emphasis on cross selling and lending with higher value products in order to increase the overall value of relationship. NBBL should attract more low interest bearing saving and current deposits to minimize its cost of fund and increase profit margin by investing the same as loan and advances.

## **2.4 Research Gap**

Commercial Bank invests its deposit in different profitable sector according to the directives and circulars of the Nepal Rastra Bank and guidelines and policy of their own bank. Financial analysis statement has to prepare according to the direction of NRB. Nepal Rastra Bank's policy and guidelines are changing according time to time so, the up to dated study over the changes of time frame is major concern for the researcher and concerned organization as well as industry as a whole. This study covers the more recent financial data and analysis is done within the latest guidelines and curriculum of Nepal Rastra Bank.

This study is conducted to analysis the financial performance of EBL and PCBL in every possible sector. Various researchers have tries to present the financial performance of the JVB with the help of comparative study with different banks. This research has tries to present the financial performance of single bank measuring in the financial standard rather than comparing with the other banks. This study includes the asset utilization and overall financial performance including capital structure ratios.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

Research is common parlance refers to a search for knowledge. “Research Methodology refers to various sequential steps to adopt by a researcher in studying a problem with certain objectives in view.” In other words Research Methodology describes the methods and process applied in the entire aspect of the study. Evaluating the financial performance of the selected banks in a micro level and to highlight the effort of the financial decision of these banks in the economy at the macro level forms the basic objectives of this research. Thus it highlights the research methodology used in the study for analysis of financial performance of EBL and PCBL to draw some potential conclusion from this. For this purpose of achieving the objectives the following methodology has been proposed to follows:

#### **3.1 Research Design**

Analysis of data is based on the basic research tools has both financial and statistical tools are used for simplicity financial tools are used to measure the relationship between in terms of percentage and times but to have more complex analysis. Statistical tools have been employed to have better empirical analysis of relationship to see their trends. It follows descriptive cum exploratory research design.

#### **3.2 Nature and Source of Data**

This study is based on secondary data provided by EBL and PCBL. It constitutes mostly the prospects of the company and audited annual reports that contain balance sheet and profit and loss a/c. Other supplementary data and information have been obtained from various sources such as Nepal Rastra Bank, Nepal Stock Exchange Limited, Library of SDU, TU central Library, previous dissertations, other publications and websites.

#### **3.3 Sample of the Study**

Thirty four commercial banks are operating in Nepal. All the commercial banks that are operating in Nepal are considered as the population. It is not possible to study all the data related with all JVBs because of the limited period and showed also taken into consideration of the partial fulfillment of the Master’s Degree. EBL and PCBL have been

emerging as one of the reputed banks in Nepal. It has been expanding its branches in the various part of the country. It has been successfully launching various facilities and services to the people. Thus, two of the joint venture banks i.e. EBL and PCBL have been selected as sample for the present study.

### **3.4 Methods of Data Analysis**

Data collected from different sources are in raw form and in the initial stage as judging independently does not help much. This data are converted by the help of various financial and statistical tools to achieve the objectives.

### **3.5 Financial Tools**

The considerable assistance of Financial Ratios and Income and Expenditure analysis has been taken to measure the strength and weakness of the EBL and PCBL.

### **3.6 Ratio Analysis**

Ratio analysis is one of the most commonly used techniques in the analysis of the financial statement and evaluation of the managerial performance. “Ratio is relationship expresses in of mathematical terms between figures which have a cause effect relationship or which are connected with each other in some other manners”. Ratio analysis points out the problem in any operational areas and provides a basis to recommend corrective actions. The purpose of ratio analysis is also to satisfy the interest of shareholders to make them clear about the picture of the bank. Ratio analysis satisfies the interests, creditors, government institutions and other to form their opinion or enable them to have guideline towards effective decision making.

“Financial statements are examined using various ratios to make sure that the business operation is carried out properly and results are within the expected range”. There is verity in ratio calculation. Data contained in financial statement as the requirement of the types of ratio are as follows:

### **3.7 Liquidity Ratios**

Liquidity ratios reflect the short –term obligation of the firm. This ratio shows that if firm need cash amount in short period without any notice, can firm fulfill its need or how it

manage the need. Without liquidity, no firm can operate. Liquidity is compulsory for survival of the firm.” Liquidity ratio measures the ability of firm to meet its current obligation. In fact, Liquidity needs the preparation of cash budgets and Funds Flow Statement, but Liquidity ratios, by establishing a relationship between cash and other current assets to current obligation provide a quick measure of liquidity”.

Commercial banks need liquidity to meet loan demand and deposit withdrawals. Liquidity is also needed for the purpose of meeting Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) requirements prescribed by the central bank. The following ratios are calculated under the liquidity ratios.

- Current Ratios
- Cash and Bank Balance to current Assets ratio
- Investment on government securities to current assets
- Cash and Bank Balance to total deposit ratio

### **3.8 Activity Ratio**

Activity ratio is function of the efficiency with which the various assets components are measured. It measures the degree of effectiveness in use of resources in use of resources of funds by enterprises. These ratios are also called turnover ratio as they indicate the speed with which assets are being converted or turned over into income large amount of income is the result of better management of the assets/ Low volume of assets decreases income opportunity while high volume of assets increases the interest expenses depressing their profits. This ratio also measures the bank’s ability to utilize their available resources so is also called utilization ratios. The ratio calculated here as follows:

- Loan and advances to total deposit ratio
- Total investment to total deposit ratio
- Loan and advances to working ratio

### **3.9 Profitability Ratio**

This ratio measures the capacity of generating revenue and research for the incomes of the firm. The operating efficiency of the bank and its ability to ensure adequate return to its shareholders depends ultimately on the profit earned by the bank. It measures the success of the firm in terms of profit margin, return on equity, and return on total investment and

reflects the overall efficiency and effectiveness of the management. To measure the efficiency of the banks the following major profitability ratios are calculated:

- Return on Equity
- Interest Earned to Working Fund Ratio
- Interest Paid to Working Fund Ratio
- Interest Earned to opening income Ratio
- Return on Loan and advances ratio
- Earnings Per Share

### **3.10 Leverage/ Capital Structure Ratio**

Leverage ratio shows the proportion of debt capital and equity capital. It shows the long-term solvency of the firm. It judges the long-term financial position of the firm. In financial terms, a large amount of debt capital related to equity is called high capital gearing, whereas a large amount of equity related to debt is called low capital gearing. Shareholder stands to gain with capital gearing during times of good profit as the debt capital is paid fixed interest and all balance of profit is available to equity holders. But in times of low profits, the payments of fixed interest on high debt capital may absorb all the profits leaving nothing for the shareholders. That's why at the time of high profit leverage is favorable and unfavorable when profits are too low.

Hence, the leverage ratios are calculated to measure the financial risk and the firm's ability if using debt for the financial risk and the firm's ability if using debt for the benefit of shareholders.

- Total debt to net worth ratio
- Total debt to equity ratio
- Net worth to total liabilities ratio

### **3.11 Statistical Tools**

Various Statistical tools may be used for the evaluation of financial performance of the banks such as Correlation Analysis, Measure of Central Tendency, Theory of Dispersion, the data and makes possible to talk about the relations and the difference of the variables. Without the adequate understanding of statistics, the investigator in social science may frequently be liked a blind man groping in a dark closet for a black cat that is not there. The method of statistics is useful in an ever-widening range of human activities in any

field of thought in which numerical data may be had. Under this heading, statistical tools such as coefficient of correlation between variables and trend analysis of important variables have been used.

### **Correlation Analysis**

The term correlation analysis is the analysis, which reflects that the variables of the two different data are related or we can say that correlation is the analysis of relation between more than one variable. In this analysis we examine that the data are mutually dependent or not.” When the relation is of quantitative nature, the appropriate statistical tools for discovering and measuring the relationship and expressing it in a belief formula is known as Correlation.” The relation between the data may be either positive or negative. It can be determined by different ways such as graphical representation, Formula Method etc. When both variables are moving upward or downwards in the same proportion, it is said to be the condition of positive correlation and if the condition is vice versa that the condition is said to be negative correlation. The main purpose of this study is to find out the correlation between selected ratios with each other over study period.

### **Methods of Presentation**

The techniques of presentation used herein are most of descriptive and analytical nature and the data have been presented basically in tabular form thereafter some of important tabulated information of the data has been graphically represented.

## CHAPTER-IV

### DATA PRESENTATION AND ANALYSIS

The main objectives of this chapter is presenting and analyzing data according to research, methodology to attain the objective of this study. The focus of this chapter will be the ratio analysis, which is powerful financial tool to measure the financial performance of the banks. In this chapter analysis and interpretations are categorized in two heading, which are as follows:

- Analysis of financial ratios
- Statistical tools

#### 4.1 Analysis of Financial Ratios

Financial ratios is a process of evaluating relationship between component parts of financial statements, i.e. balance sheet and profit and loss account to obtain better understanding of the bank's positions and financial performance. The techniques of ratio analysis in of considerable significance in studying the financial stability, liquidity, profitability and quantity of management of the business and industrial concerns, the important ratios are studied for this purpose are given below:

##### **Ratio Analysis:**

Ratio analysis is very powerful tool of financial analysis. Financial ratios are most frequently and widely used in practice to assess company's financial performance and condition. The term ratio refers to the numerical or quantitative relationships can be determined. The ratio analysis is the most powerful tool of the financial analysis and it is used in analyzing the financial information to indicate the operating and financial efficiency and growth of the bank.

##### **Liquidity Ratios**

A liquidity ratio measures the ability of the firm to meet the current obligations. Liquidity ratios are used to judge a firm's ability to meet short- term obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community liquidity provided honor strength health and prosperity to an organization.

The following ratios are evaluated and interpreted under liquidity.

#### 4.1.1 Current Ratio

Current ratio is one of the most widely used measures of liquidity. It measures the degree to which current assets cover current liabilities. The ratio is the yardstick to judge the soundness of the short-term financial position of the business unit or industry. A higher ratio greater indicates greater assurance of ability to pay current liabilities. A current ratio of 2:1 is generally considered to be an acceptable standard.

Symbolically,

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

Where,

Current Assets = cash and bank balances, money at call short Notice, loans, cash credit, overdrafts, bill discounted and purchases, investment on government securities and foreign banks, interest receivables, sundry debtors, staff loan and advance, advance tax.

Current Liabilities= Deposits loan and advances bills payable, Income tax payable, staff bonus payable, dividend payable, Interest Payable and sundry creditors. In the following table we can see the data relating to current ratio EBL and PCBL.

**Table No. 4.1**

#### Current Assets and Current Liabilities

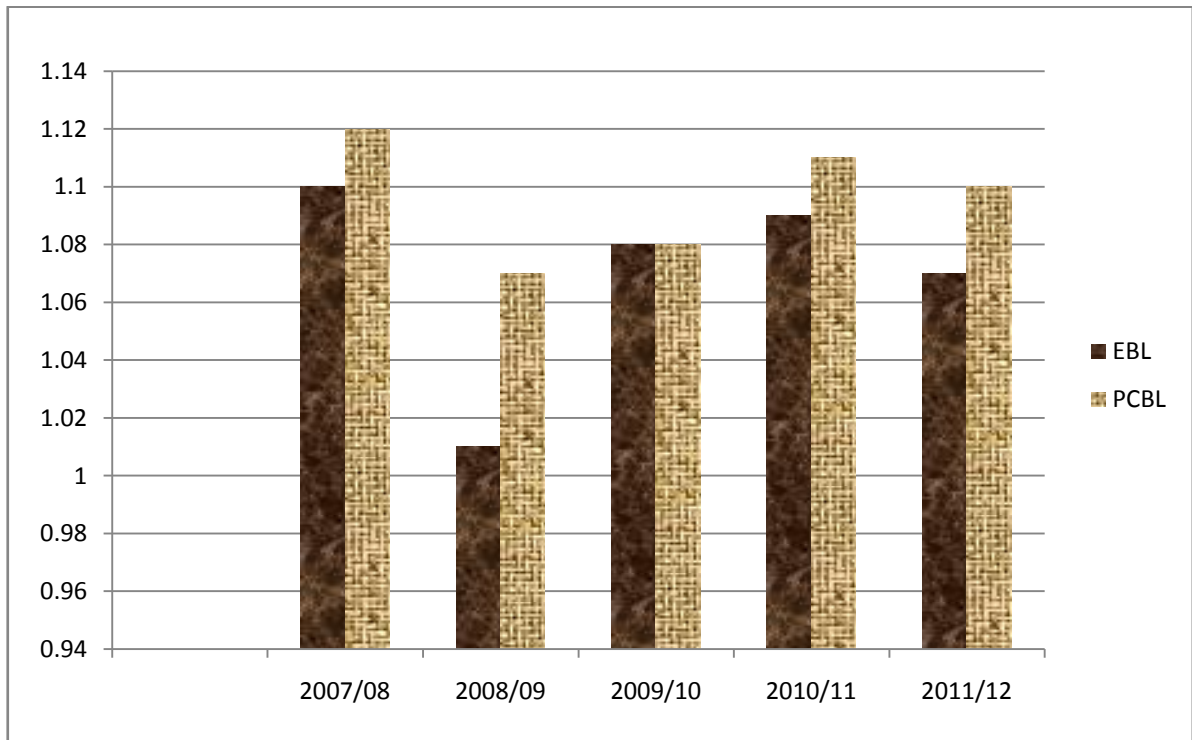
Year	Everest Bank			Prime Commercial Bank		
	Current Assets	Current Liabilities	Ratio	Current Assets	Current Liabilities	Ratio
2007/08	26788.00	24216.04	1.10	6348.16	5624.67	1.12
2008/09	34489.69	33987.81	1.01	13348.82	12363.42	1.07
2009/10	40919.66	37751.62	1.08	20056.25	18651.05	1.08
2010/11	45775.95	42009.83	1.09	21905.31	19565.87	1.11
2011/12	55265.20	51186.79	1.07	26968.32	24374.17	1.10

(Source: Financial statements of the banks)

Above table shows the current ratio of EBL and PCBL which looks satisfactory level. Both the Current Assets and Current Liabilities are in increasing trend during the study period.

Ratio of EBL and PCBL has fluctuating. The analysis shows the current assets are increasing year after year which means bank's ability to meet its short term obligation is increasing over the period of five years. The bank Current Ratio is between almost 0 and 2 which is very liable from international standard.

**Figure 4.1**  
**Current Ratio Chart**



#### 4.1.2 Cash and Bank Balance to Current Assets Ratio.

Cash and bank balance to current assets ratio reveals the position of cash and bank into cash and bank balance in total of current assets.

We have, 
$$\frac{\text{Total cash and bank balance}}{\text{Total current assets}}$$

In the present study cash and bank balances includes cash on hand including foreign cheques other cash item and balance with domestic banks and aboard. Cash and bank balances are highly liquid assets than other current assets. So these ratios can higher liquidity position than current ratio.

Following table shows the data relating to cash and bank balance to current assets.

**Table No 4.2****Calculation of cash and Bank Balance to Current assets Ratio**

Year	Everest Bank			Prime Commercial Bank		
	Cash & Bank Balance	Current Assets	Ratio	Cash & Bank Balance	Current Assets	Ratio
2007/08	2667.89	24216.04	0.09	298.26	6348.16	0.04
2008/09	6164.37	33987.81	0.10	1379.32	13348.82	0.10
2009/10	6716.61	37751.62	0.16	3508.47	20056.25	0.17
2010/11	6122.86	42009.83	0.13	2925.82	21905.31	0.13
2011/12	10363.30	51186.79	0.18	5592.94	2698.32	0.20

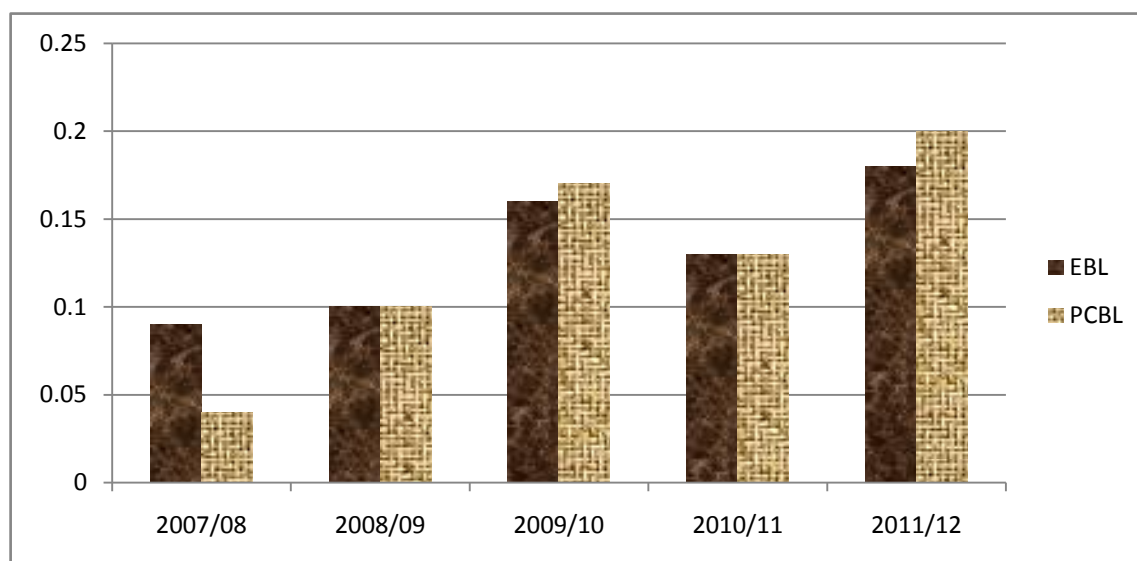
(Source: Financial statement of the banks)

Above table shows the ratio between cash and bank balance to Current Assets. It shows the increasing trend of the ratio of EBL during the study period of FY 2007/08 to FY 2011/12. FY 2009/10 and FY 2011/12 have shown higher proportion of cash and bank balance in comparison with other FY. The proportion is lowest in the year 2007/08.

PCBL has Increasing trend of cash and bank balance to current ratio during the study period. It ranges from 0.04 to 0.20 over the five year period. In the fiscal year 2009/10, it has 0.17 and decline in the year 2010/11 0.13 and after that it has been reached 0.20 in the fiscal year 2011/12 the consistent trend shows the ability to manage deposit withdraws from the customers.

**Figure 4.2**

**Cash and Bank Balance to Current Assets Ratio**



**4.1.3 Investment in Government Securities to Current Assets Ratio**

Government security is slightly liquid assets as well as confidential investment until the state is living. So it is also very important and very near cash item of current asset. Investment on government security to current asset ratio visualizes the proportion of investment on government security to current assets.

We have, 
$$\frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

The following table shows the figure of this ratio

**Table No 4.3**

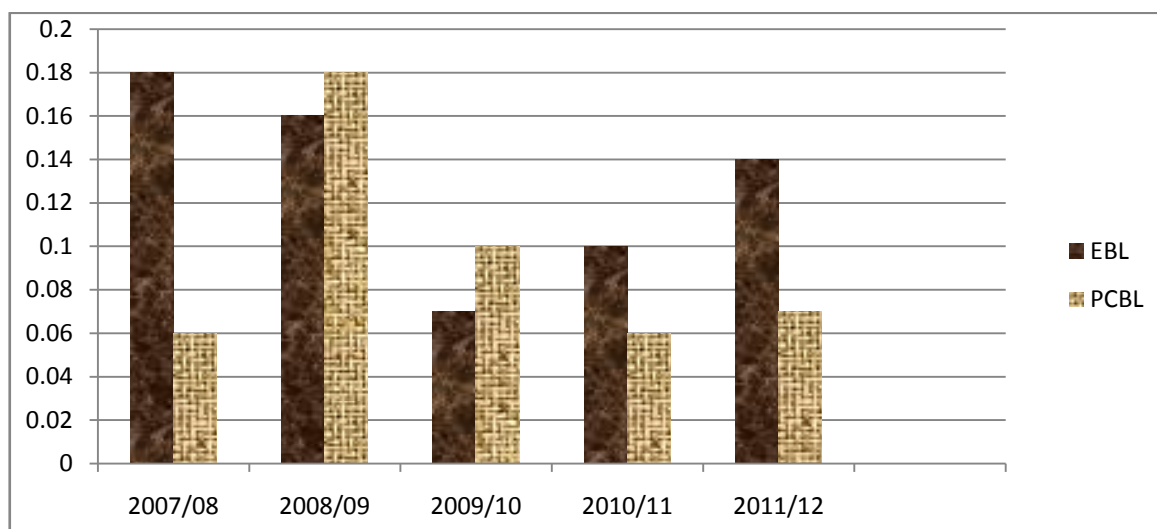
**Calculation of Investment of Government Securities to Current Assets Ratio**

Year	Everest Bank			Prime Commercial Bank		
	Inv. Govt	Current Assets	Ratio	Inv. Govt	Current Assets	Ratio
2007/08	5059.55	26788.00	0.18	378.56	6348.16	0.06
2008/09	5948.48	34489.69	0.16	2097.04	13348.82	0.18
2009/10	5008.30	40919.66	0.07	2038	20056.25	0.10
2010/11	7743.92	45775.95	0.10	1366.04	21905.31	0.06
2011/12	7863.62	55265.20	0.14	2020.92	26968.32	0.07

(Source : Financial statements of the banks)

Above table shows increasing trend of investment of EBL to the government securities almost in every year. The percentage have decline marginally from 0.18 to 0.07 PCBL has also fluctuating trend. PCBL has 0.06 times investment of government securities to current assets in the fiscal year 2007/08 and reached 0.18 in the fiscal year 2008/09. It has lowest ratio in the fiscal year 2010/11 is 0.06 % Investment on government securities is the more safe investment than current assets. In addition it can earn additional interest income by investing instead of keeping idle cash. In conclusion, EBL and has invested its remarkable portion of current asset to government securities.

**Figure 4.3**  
**Investment on Government Securities to Current Assets Ratio**



#### 4.1.4 Loan and Advance To Current Assets Ratio

Loans and advances to current assets ratio reflects the capability of bank discounting and purchasing the bills, loans and overdraft facilities to the customer to make a high profit mobilizing its fund in the best way a commercial bank should not keep its all collected funds as cash and bank balances but they should be invested as loan and advances to the customers.

We have, 
$$\frac{\text{Loan and Advances}}{\text{Current Assets}}$$

The table below shows the ratio of loan and advance to current asset ratio.

**Table No. 4.4**

**Calculation of Loan and Advances to Current Assets Ratio**

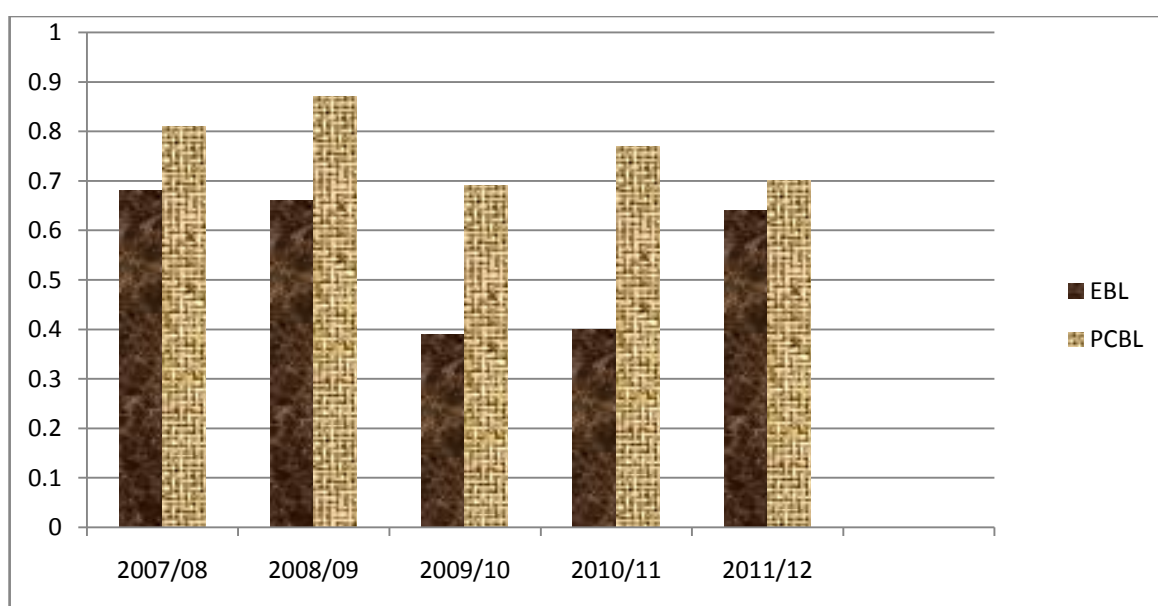
Year	Everest Bank			Prime Commercial Bank		
	Loan & Advance	Current Assets	Ratio	Loan & Advance	Current Assets	Ratio
2007/08	18339.10	26788.00	0.68	5104.41	6348.16	0.81
2008/09	23884.67	34489.69	0.66	9732.58	13348.82	0.87
2009/10	27556.35	40919.66	0.39	13946.60	20056.25	0.69
2010/11	31057.69	45775.95	0.40	16894.71	21905.31	0.77
2011/12	35910.97	55265.20	0.64	18902.47	26968.32	0.70

(Source: Financial statement of the banks)

The above table shows the ratio between loan and advances to current assets. EBL has ranges loan and advances to current ratio from 0.39 to 0.68 during the study period. The highest ratio of EBL is 0.68 in the fiscal year 2007/08 and lowest ratio in the fiscal year 2009/10. PCBL has fluctuating trend during the study period. It ranges from 0.69 to 0.81 over the five year study period. This ratio is somewhat fluctuating over the study period. The above discussion helps to conclude that the bank is successful to mobilize its current assets on loan and advances.

**Figure 4.4**

**Loan and Advance to Current Assets**



#### 4.1.5 Cash and Bank balance to total deposit Ratio

Cash and Bank balance is said to be the first defense of every banks. The ratio between the cash and bank balance and total deposit measures the ability of bank to meet the unanticipated cash and all types of deposit.

We have, 
$$\frac{\text{Cash and bank balance}}{\text{Total Deposit}}$$

The following table shows the ratio measurement years.

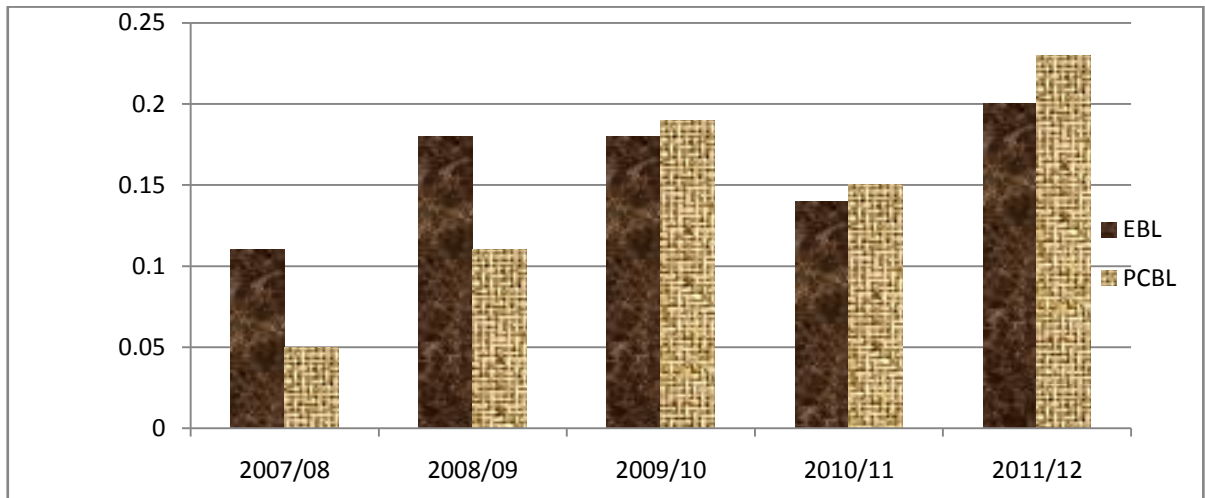
**Table No. 4.5**  
**Calculation of Cash and Bank Balance Total Deposit Ratio**

Year	Everest Bank			Prime Commercial Bank		
	Cash & Bank Balance	Total Deposit	Ratio	Cash & Bank Balance	Total Deposit	Ratio
2007/08	2667.89	23976.29	0.11	298.26	5275.64	0.05
2008/09	6164.37	33322.94	0.18	1379.32	11779.98	0.11
2009/10	6716.61	36932.31	0.18	3508.47	17883.51	0.19
2010/11	6122.86	41127.91	0.14	2925.82	18938.90	0.15
2011/12	10363.30	50061.10	0.20	5592.94	23990.95	0.23

(Source: Financial statement of the banks)

The above analysis shows fluctuating trend on cash and bank balance to total deposit ratio during the study period of EBL. There is remarkable growth in deposit during the FY 2007/08 to 2009/10 0.11 to 0.18 respectively. Cash and bank balance to total deposit ratio trend shows decrement 0.14 during 2010/11 and its reached maximum point 0.20 in the year FY 2011/12. PCBL has also fluctuating trend on cash and bank balance to total deposit ratio during the study period. It's ratio has been ranges from 0.05 percent to 0.19 percent during the study period. The highest ratio of PCBL is 0.19 percent in the year 2009/10 and lowest ratio is 0.05 percent in the fiscal year 2007/08. Thus, the trend shows zigzag trend during the study period of both banks.

**Figure 4.5**  
**Cash and Bank Balance to Total Deposit**



### **Activity Ratio**

Funds of creditors and owners are invested in various assets to generate sales and profits. The better the management of assets, the larger the amount of sales. Activity ratios are employed to evaluate the efficiency with which the firm manage and utilizes its assets. Activity ratios, thus, involve a relationship between sales and assets. A proper balance between sales and assets are generally reflects that assets are manages well. Following ratios are used under activity ratio.

#### **4.1.6 Loan and advances to Total Deposit Ratio**

Loans and advances to total deposit ratio is calculated by dividing total loan and advances by total deposit. The core banking function is to mobilize the funds from the depositors to the borrowers. Banks make profit by lending or utilizing the deposits funds by charging a higher rate of interest to the borrowers than they pay to the depositors. Hence they are known to be efficient in utilizing the funds if they can advance a greater proportion of the deposited fund into risk assets. Loans and advances to total deposit ratio measures the extent to which the banks are successful to mobilize the outsider's fund, i.e., total deposit in loans and advances for the purpose of profit generation.

We have, 
$$\frac{\text{Loan and advances}}{\text{Total Deposit}}$$

**Table No. 4.6**

**Calculation of Loan and Advances to Total Deposit Ratio**

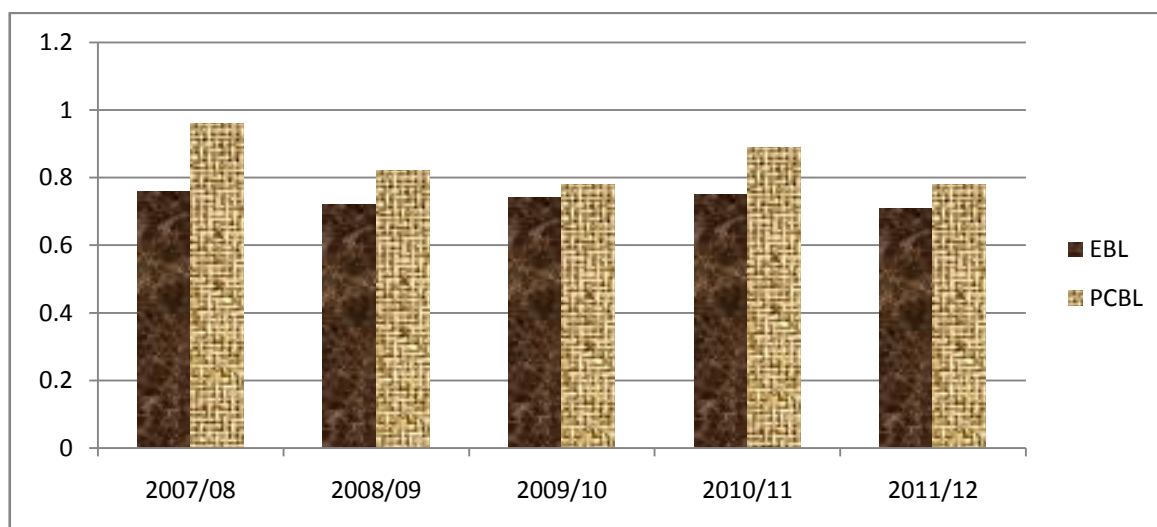
Year	Everest Bank			Prime Commercial Bank		
	Loan Advance	Total Deposit	Ratio	Loan Advance	Total Deposit	Ratio
2007/08	18339.08	23976.29	0.76	5104.41	5275.64	0.96
2008/09	23884.67	33322.94	0.72	9732.58	11779.98	0.82
2009/10	27556.35	36932.31	0.74	13946.60	17883.51	0.78
2010/11	31057.69	41127.91	0.75	16894.71	18938.90	0.89
2011/12	35910.97	50006.10	0.71	18902.47	23990.95	0.78

(Source: Financial statement of the bank)

Above table shows the ratio between loan and advances to total deposit. The trend shows slightly fluctuating trend in EBL and PCBL. EBL has higher ratio during the FY 2007/08 i.e 0.76 and lowest ratio during the year 2011/12 i.e 0.71. PCBL ratio ranges from 0.82 to 0.96 during the five year period. The highest ratio of PCBL is 0.96 in the year 2007/08 and lowest ratio is 0.78 in the year 2009/10 and 2011/12 In conclusion banks have strong position regarding the mobilization of total deposit on loan and advances and acquiring higher profit. But higher ratio is not better from the point of view of liquidity as the loan and advances is not as liquid as cash and bank balance.

**Figure 4.6**

**Loans and Advance to Total Deposit Ratio**



#### 4.1.7 Total Investment to Total Deposit Ratio

This ratio calculated by dividing total investment by total deposit. Investment function or funds management is gaining widespread importance in the banking sector. Treasury of the bank is involved in investing the surplus fund with the bank in the income generating investments. In order to fill this gap between borrowing, lending, bank rather go for investments such as treasury bills, government securities, development bonds, overseas placement and inter banking lending.

$$\text{We have, } = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

The following table exhibits the ratio of total investments to total deposit.

**Table No. 4.7**  
**Calculation of Total Investment to Total Deposit Ratio**

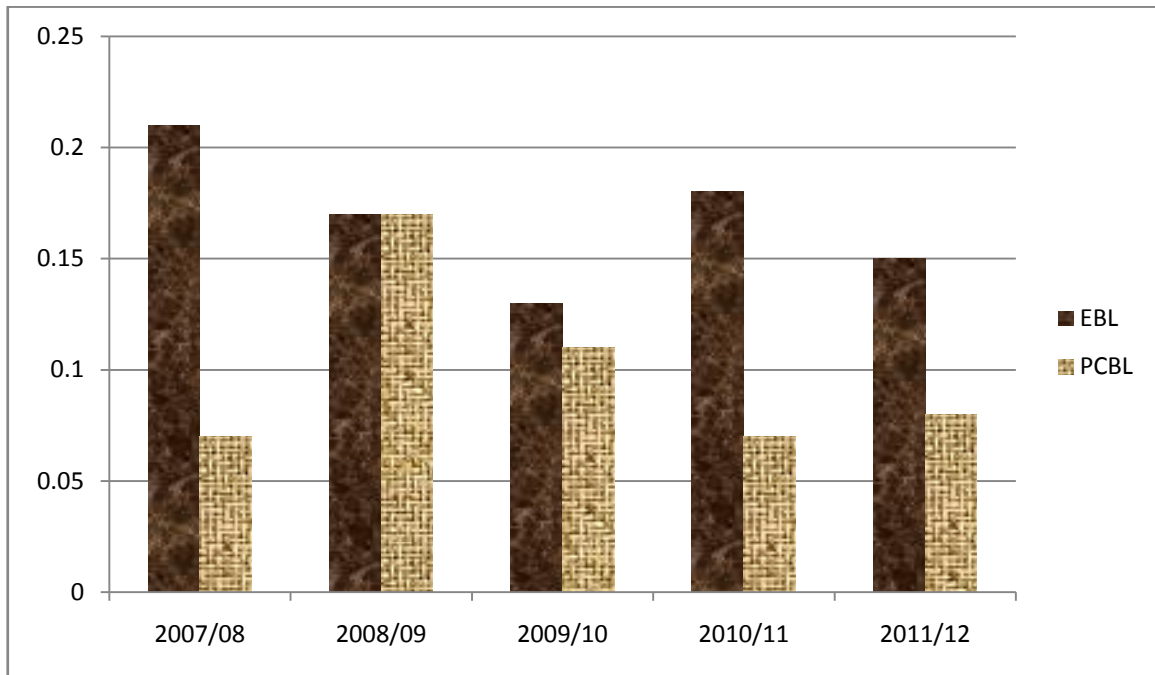
Year	Everest Bank			Prime Commercial Bank		
	Total Investment	Total Deposit	Ratio	Total Investment	Total Deposit	Ratio
2007/08	5059.55	23976.29	0.21	378.56	5275.64	0.07
2008/09	5948.48	33322.94	0.17	2097.04	11779.98	0.17
2009/10	5008.30	36932.31	0.13	2038.64	17883.51	0.11
2010/11	7743.92	41127.91	0.18	1366.04	18938.90	0.07
2011/12	7863.62	50006.10	0.15	2020.92	23990.95	0.08

(Source: Financial statement of the bank)

The above table shows fluctuating trend of EBL and PCBL of total investment to total deposit ratio during the study period. Both banks have increment their investment out of deposit which is very good mobilization of deposit. EBL has highest ratio 0.21 in the year 2007/08 and lowest ratio 0.15 in the year 2011/12 and 2007/08 respectively. PCBL has 0.17 ratio in the year 2008/09 and 2007/08 and 2010/11 0.07 in the fiscal year 2007/08 and 2010/ 11 respectively.

**Figure 4.7**

**Total Investments to Total Deposit Ratio**



#### **4.1.8 Loans and advances to Total Assets Ratio**

This ratio reflects the extent to which the commercial banks are success in mobilizing their assets as loan and advances for the purpose of income generation. A high ratio indicates better in mobilization of funds as loan and advances and vice-versa

$$\text{We have, } = \frac{\text{Loan and advances}}{\text{Total Assets}}$$

Total assets are the total assets. It is composed up of current assets, fixed assets, miscellaneous assets, investment, loans for development banks etc. the following table exhibits the ratio of loan and advance to total working fund.

**Table No 4.8**

**Calculation of Loan and Advances to Total Assets Ratio**

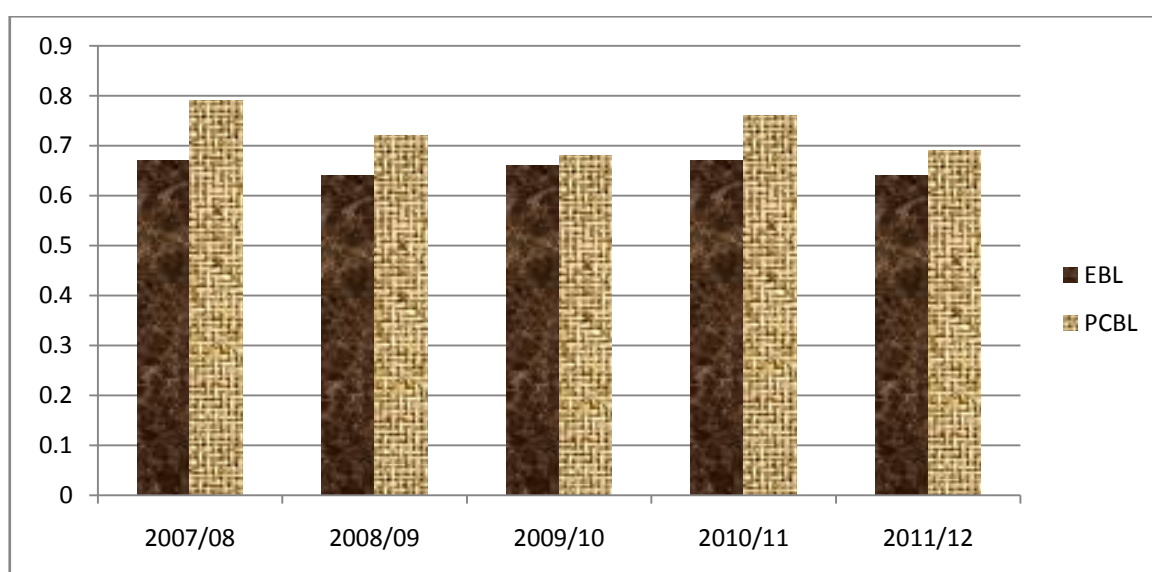
Year	Everest Bank			Prime Commercial Bank		
	Loan & Advance	Total Assets	Ratio	Loan & Advance	Total Assets	Ratio
2007/08	18339.08	27149.34	0.67	5104.41	6388.49	0.79
2008/09	23884.67	36916.84	0.64	9732.58	13456.88	0.72
2009/10	27556.35	41382.76	0.66	13946.60	20218.83	0.68
2010/11	31057.69	46236.21	0.67	16894.71	22086.10	0.76
2011/12	35910.97	55813.12	0.64	18902.47	27157.97	0.69

(Source : Financial statement of the bank )

The above table shows the loan and advance to total assets ratio of EBL and PCBL over the five year period. EBL has 0.67 in the year 2008/09 and 0.64 in the year 2011/12. This ratio is lowest on the FY 2008/09 and 2011/12 which is 0.64. PCBL has fluctuating trend during the five year period. PCBL has lowest ratio of 0.68 in the fiscal year 2009/10 and highest ratio of 0.79 in the fiscal year 2007/08. The ratio shows the increasing mobilization of assets in the loan and advances and covers respective proportion to total assets.

**Figure 4.8**

**Loans and Advance to Total Assets Ratio**



#### 4.1.9 Profitability Ratio

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

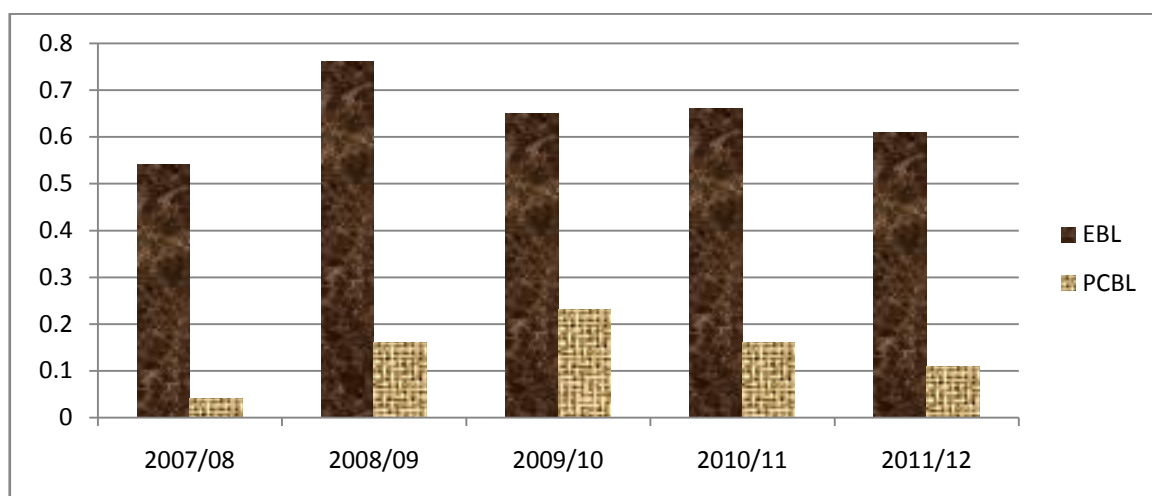
**Table No. 4.9**  
**Calculation of Net Profit to Total Equity Ratio**

Year	Everest Bank			Prime Commercial Bank		
	Net Profit	Total Equity	Ratio	Net Profit	Total Equity	Ratio
2007/08	451.21	831.40	0.54	28.00	700.00	0.04
2008/09	638.73	838.82	0.76	142.71	863.75	0.16
2009/10	831.76	1279.60	0.65	324.98	1373.75	0.23
2010/11	931.30	1391.57	0.66	360.14	2245.74	0.16
2011/12	1090.56	1761.12	0.61	269.44	2335.57	0.11

(Source: Financial statement of the banks)

The above table shows the net profit to total equity ratio of EBL and PCBL. Both banks have fluctuating trend of ratio during the study period. EBL ratio has been ranges from 0.54 To 0.76 and PCBL ratio ranges from 0.04 to 0.16. The ratio has slightly decreased at the end of the study period. The trend shows the bank have not been utilizing its equity capital. It shows the diminishing performance in utilizing the equity capital, though it have shown remarkable pick up in the final year of study period.

**Figure 4.9**  
**Net Profit to Total Equity Ratio**



#### 4.1.10 Interest Earned to Total Assets Ratio

This ratio reflects the extent to which the banks are successful in mobilizing their total assets to generate high income as interest. A high ratio is indicator of high earning power of the bank on its total working fund and vice versa.

$$\text{We have, } = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

**Table No 4.10**  
**Calculation of Interest Earned to Total Assets Ratio**

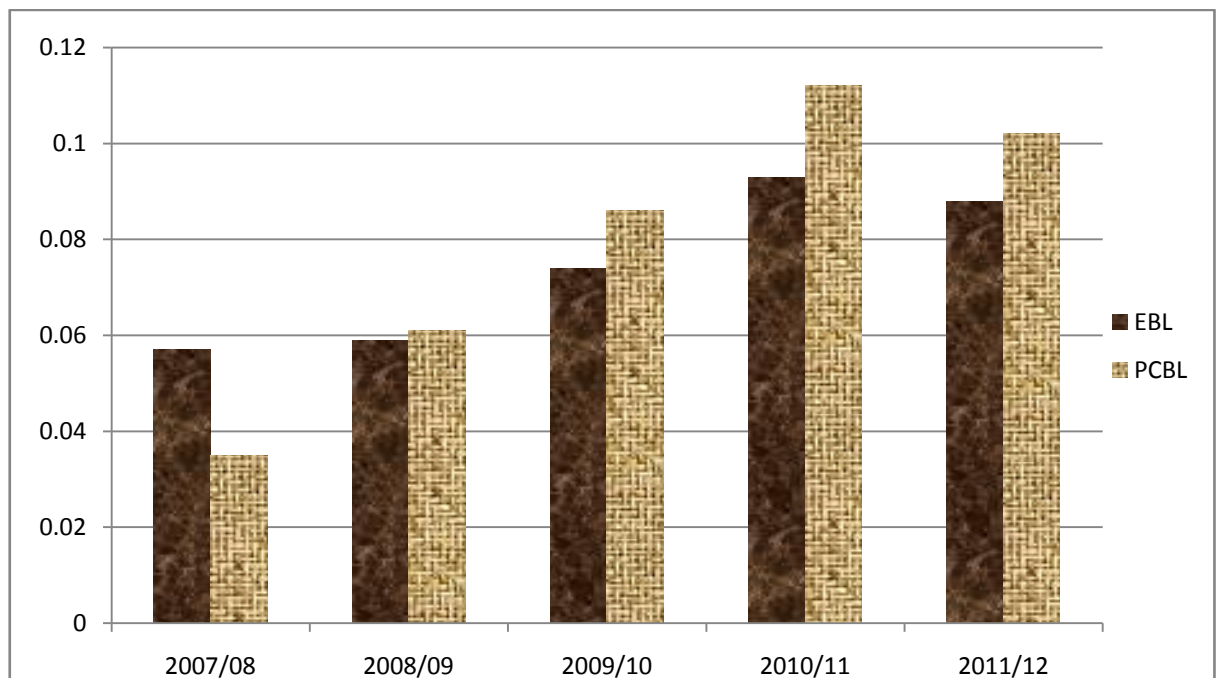
Year	Everest Bank			Prime Commercial Bank		
	Interest Earned	Total Assets	Ratio	Interest Earned	Total Assets	Ratio
2007/08	1548.65	27149.34	0.057	224.52	6388.49	0.035
2008/09	2186.81	36916.84	0.059	822.68	13456.88	0.061
2009/10	3102.45	41382.76	0.074	1749.85	20218.83	0.086
2010/11	4331.20	46236.21	0.093	2477.09	22086.10	0.112
2011/12	4959.99	55813.12	0.088	2773.63	27157.97	0.102

(Source: Financial statement of the bank)

Above table shows the analysis of the ratio between interest earned to total assets of EBL and PCBL during the five year period. The trend of interest earned of EBL shows fluctuating during the study period. It has highest ratio of 9.3 percent in FY 2010/11 and the lowest of 5.7 percent in FY 2007/08. PCBL has 11 percent in the year 2010/11 and 3.5 percent in the year 2007/08. From the above table it can be conclude that the ratio of total interest earned to total assets is not much satisfactory. This shows the bank is not successful in earning interest income.

**Figure 4.10**

**Interest Earned to Total Assets Ratio**



#### 4.1.11 Interest paid to Total Assets Ratio

This ratio measures the percentage of total interest paid against the total working fund. A high ratio indicated the higher interest expenses on total working fund and vice versa.

$$\text{We have, } = \frac{\text{Interest Paid}}{\text{Total Assets}}$$

The following table shows the figure of this ratio.

**Table No. 4.11**

**Calculation of Interest Paid to Total A**

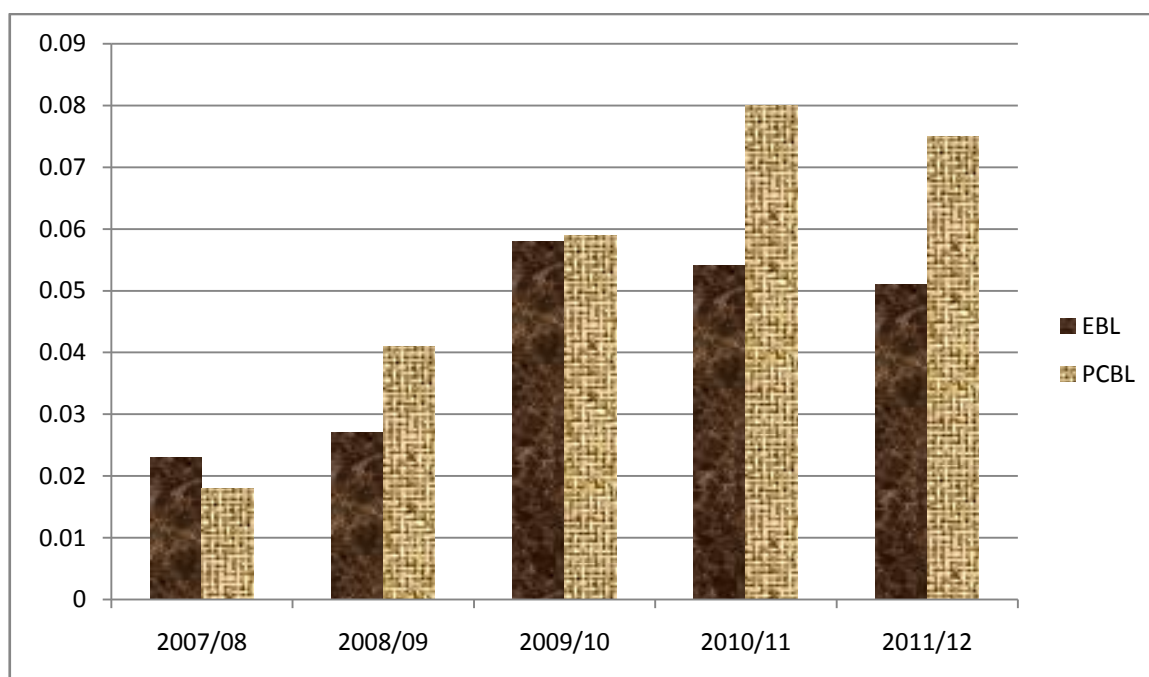
Year	Everest Bank			Prime Commercial Bank		
	Interest Paid	Total Assets	Ratio	Interest Paid	Total Assets	Ratio
2007/08	632.60	27149.34	0.023	121.36	6388.49	0.018
2008/09	1012.87	36916.84	0.027	564.65	13456.88	0.041
2009/10	1572.79	41382.76	0.038	1193.07	20218.83	0.059
2010/11	2535.87	46236.21	0.054	1780.46	22086.10	0.080
2011/12	2873.33	55813.12	0.051	2057.20	27157.97	0.075

(Source: Financial statement of the bank)

The above table shows the ratio between interest expenses to total assets. The table shows the fluctuating trend of ratio of EBL during the study period. It has the maximum of 5.4 percent of ratio in the FY 2010/11 and minimum of 2.3 percent in the FY 2007/08. The analysis shows EBL has lower interest expenses and it has been non constant during the study period. PCBL also has fluctuating trend during the study period. PCBL has 8 percent in the year 2010/11 and decline 1.8 percent in the year 2007/08.

**Figure 4.11**

**Interest paid to Total Assets Ratio**



#### 4.1.12 Interest Earned to Operating Income Ratio

This ratio reflects the extent to which the bank has successfully mobilized its fund in interest bearing assets. It measures the magnitude of interest income in total income.

$$\text{We have, } = \frac{\text{Total Interest Earned}}{\text{Total operating income}}$$

Total operating income includes the interest income, commission and discount, income from dividend, foreign exchange income and others. The following table shows the figure of this ratio.

**Table No. 4.12**  
**Calculation of Interest Earned to Operating Income Ratio**

Year	Everest Bank			Prime Commercial Bank		
	Interest Earned	Operating Income	Ratio	Interest Earned	Operating Income	Ratio
2007/08	1548.65	1209.89	1.27	224.52	147.68	1.52
2008/09	2186.81	1544.96	1.41	822.68	372.29	2.20
2009/10	3102.45	1927.97	1.60	1749.85	734.16	2.38
2010/11	4331.02	2192.94	1.97	2477.09	863.81	2.86
2011/12	4959.99	2609.73	1.90	2773.63	907.31	3.05

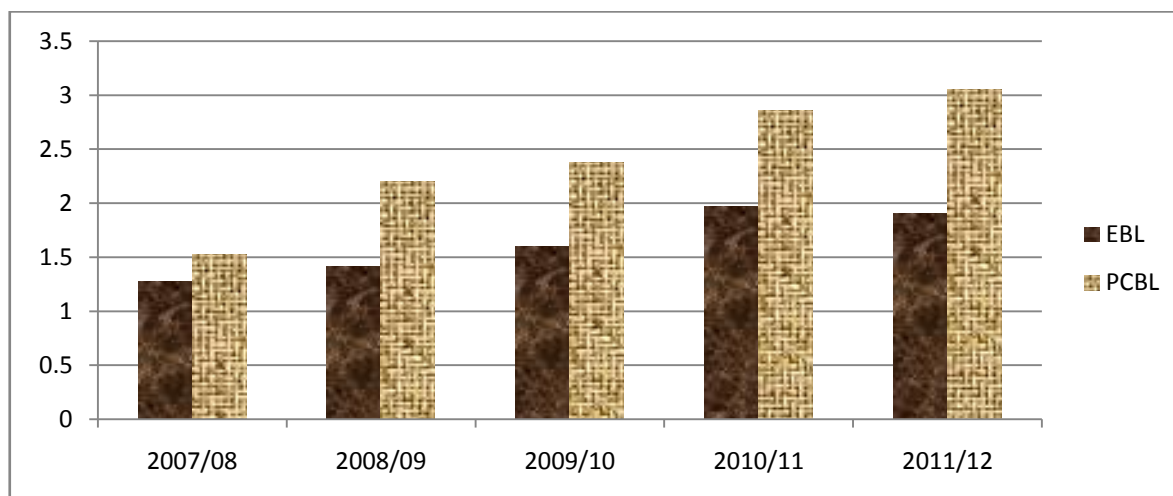
(Source: Financial statement of the banks)

The above table shows the ratio between total interests earned to total operating income. Both banks trend of this ratio has been increased during the study period. EBL has maximum ratio of 1.97 in the year 2010/11 and gradually increased till 2010/11 and decreased 1.90 in the year of 2011/12.

PCBL has increasing trend of ratio during the study period. PCBL has highest ratio 3.05 in the year 2011/12 and lowest in the year 2007/08 which is 1.52. The trend show interest earning of the bank covers portion in total operating income. It can be conclude that the bank has the satisfactory position regarding the mobilization of interest bearing assets such as loan and advances and investment.

**Figure 4.12**

**Interest Earned to Operating income Ratio**



**4.1.13 Return on Total Assets Ratio**

It measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the banks total assets are well managed and efficiency utilized.

We have, 
$$\frac{\text{Net profit}}{\text{Total Assets}}$$

Net profit includes the profit that is left to the internal equities after all costs, charge and expense. Following tables shows the figure of this ratio.

**Table No. 4.13**

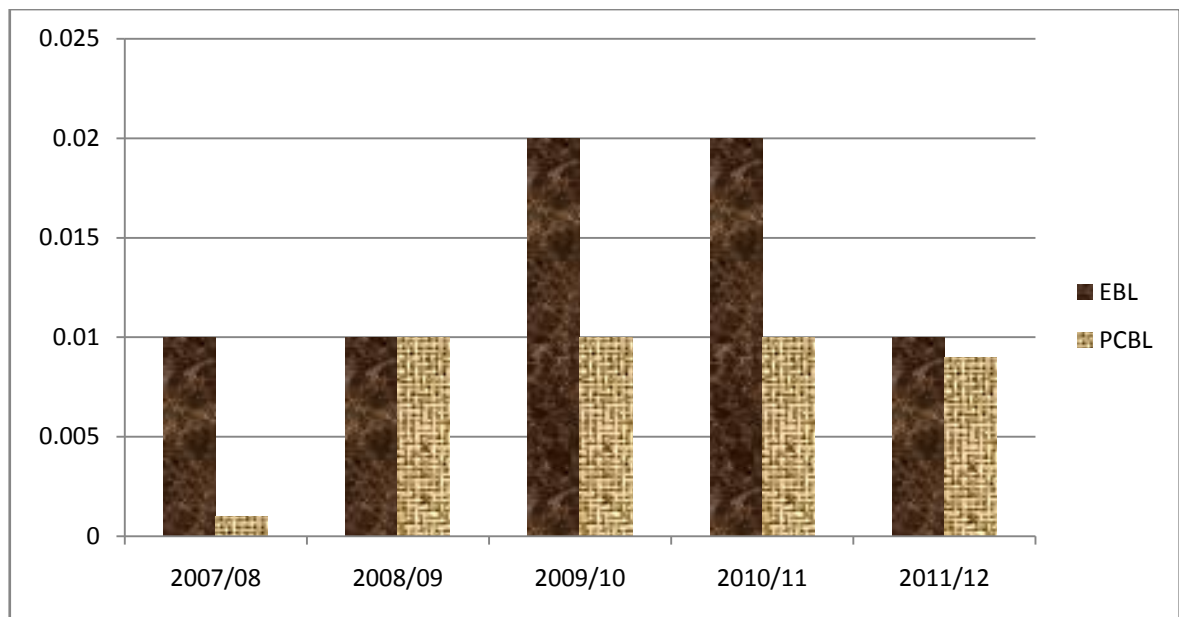
**Calculation of Net Profit to Total Assets Ratio**

Year	Everest Bank			Prime Commercial Bank		
	Net Profit	Total Assets	Ratio	Net Profit	Total Assets	Ratio
2007/08	451.21	27149.34	0.01	28.00	6388.49	0.00
2008/09	638.73	36916.84	0.01	142.71	13456.88	0.01
2009/10	831.76	41382.76	0.02	324.98	20218.83	0.01
2010/11	931.30	46236.21	0.02	360.14	22086.10	0.01
2011/12	1090.56	55813.12	0.01	269.44	27157.97	0.009

(Source: Financial statement of the banks)

The above table shows the ratio between net profit and total assets. It shows the profitability ratio of bank is very consistent. Both banks have constantly increasing and decreasing trend .EBL has 0.01 ratios in the year 2007/08 and reached 0.02 in the year 2010/11. PCBL has 0.00 in the year 2007/08 and reached 0.01 in the year 2008/09 and decline 0.009 in the year 2011/12. From the above analysis, it can be concluded that the profitability with respect to financial resources investment of the bank asset is satisfactory.

**Figure 4.13**  
**Net Profit to Total Assets Ratio**



#### 4.1.14 Return on Loans and Advances Ratio

It measures the earnings capacity of commercial banks on its deposits mobilized on loan advances.

$$\text{We have, } = \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

The following tables show the figure of this ratio.

**Table No.4.14**

**Calculation of Net Profit to Loan and Advances Ratio**

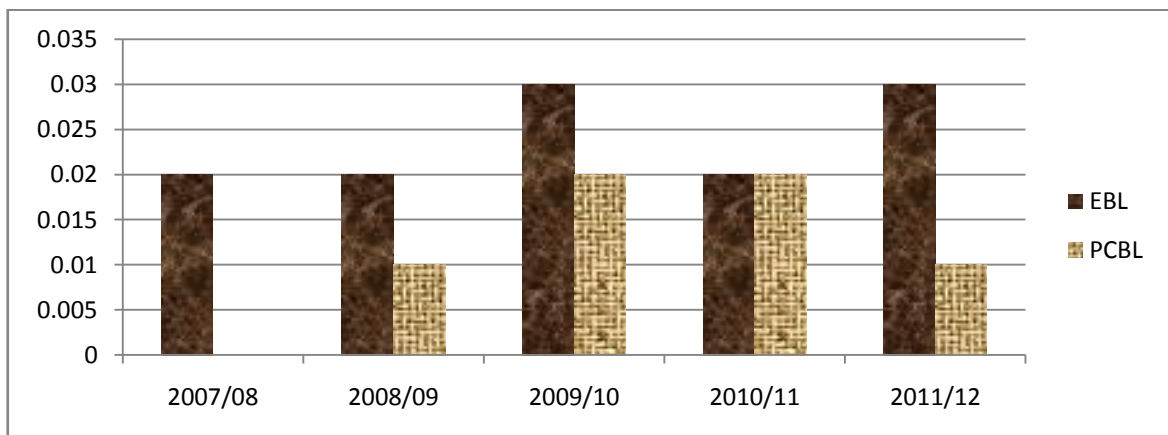
Year	Everest Bank			Prime Commercial Bank		
	Net Profit	Loan & Advance	Ratio	Net Profit	Loan & Advance	Ratio
2007/08	451.21	18339.08	0.02	28.00	5104.41	0.00
2008/09	638.73	23884.67	0.02	142.71	9732.58	0.01
2009/10	831.76	27556.35	0.03	324.98	13946.60	0.02
2010/11	931.30	31057.69	0.02	360.14	16894.71	0.02
2011/12	1090.56	35910.97	0.03	269.44	18902.47	0.01

(Source: Financial statement of the banks)

Above table shows the ratio between net profits to loan and advances. The above table shows the ratio between Net Profit to Loan and Advances are increasing continuously during the study period. The trend seems to be zigzag during the study period. EBL has highest ratio of 0.03 in the year FY, 2009/10 and 2011/12 and lowest ratio of 0.02 in the FY 2007/08, 2008/09 and 2010/11 respectively. PCBL has 0.00 ratio in the year 2007/08 and 2008/09 and 0.01, in the year 2009/10 and 2010/11 has 0.02 respectively. The banks have lower ratio of net profit to loan and advances generated by them. The bank has not been to maintain respective and stable net profit to loan and advances during the study period.

**Figure 2.14**

**Profits to Loan and advance Ratio**



#### 4.1.15 Earning Per Share (EPS)

EPS measures the profitability of common shareholder. The earning may be on a per share basis.

$$\text{We have, } = \frac{\text{Net income available to common stock holders}}{\text{Total No.of common stock outstanding}}$$

The following shows the EPS of respective banks taken for the study.

**Table No. 4.15**

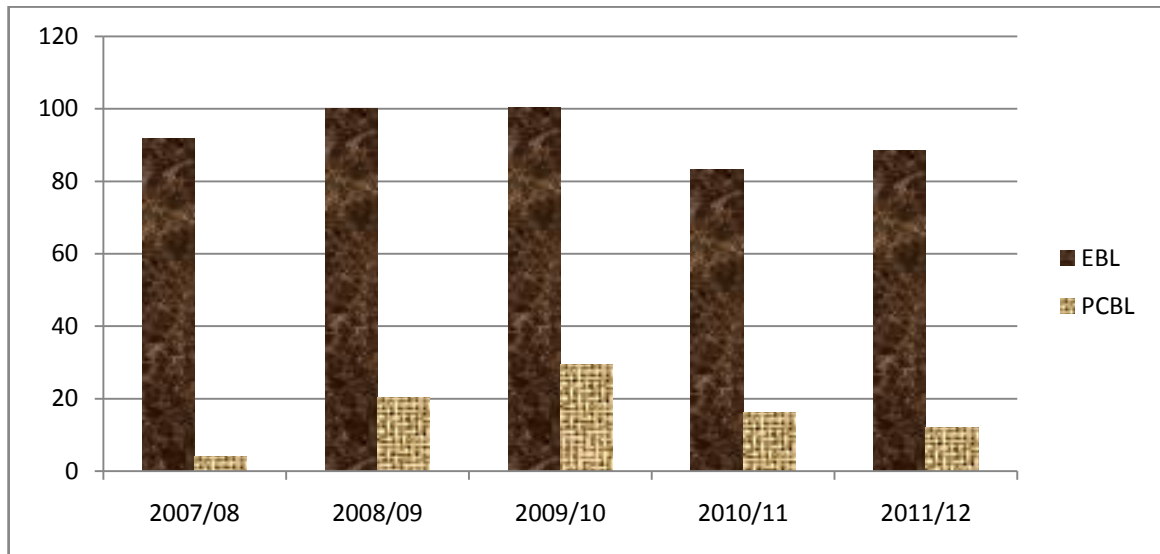
#### Calculation of EPS

Year	Everest Bank			Prime Commercial Bank		
	Net Profit	No.of Share	Ratio	Net Profit	No.of Share	Ratio
2007/08	451.21	4.91	91.89	28.00	7.00	4.00
2008/09	638.73	6.38	100.11	142.71	7.00	20.38
2009/10	831.76	8.30	100.21	324.98	11.00	29.54
2010/11	931.30	11.19	83.22	360.14	22.45	16.04
2011/12	1090.56	12.31	88.59	269.44	22.45	12.00

(Source: Financial Statement of the banks)

The above table shows the trend of EPS of EBL and PCBL. EBL has been continuously increasing EPS during the FY 2009/10 and decreased in the year FY2010/11. The EPS have increased to RS. 100.21 during the FY 2009/10 from Rs.91.89 during the FY 2007/08. PCBL has fluctuating trend of EPS during the study period. It ranges from Rs.4.00 to Rs. 29.54 over the five year period. Thus the trend seems to be increasing so it can be concluded that the EPS of the EBL and PCBL is satisfactory. It is good trace of operation performance of bank.

**Figure 4.15**  
**Earnings Per Share**



### **Leverage/ Capital Structure Ratio**

Leverage ratio shows the proportion of debt capital and equity capital. It shows the long-term solvency of the firm. It judges the long-term financial position of the firm. Shareholder stands to gain with capital gearing during times of good profits as the debt capital is paid fixed interest and all balance of profit is available to equity holders. But in times of low profits, the payments of fixed interest on high debt capital may absorb all the profits leaving nothing for the shareholders. That's why at the time of high profit leverage is favorable and unfavorable when profits are too low.

Hence, the leverage ratios are calculated to measure the financial risk and the firm's ability if using debt for the benefit of shareholders.

- Total debt to net worth ratio
- Total debt to equity ratio
- Net worth to total liabilities ratio

#### **4.1.16 Total Debt to Net Worth Ratio**

Total debt to net worth ratio measures the relative claim of outsiders and owner over the bank's assets. Indicating the extent of debt financing in the bank compared to net worth financing. A very low debt or net worth ratio is disadvantageous from the owner's point of view, especially in the situation where the bank is earning a higher return on capital employed. Since with the increase in debt, bank can enhance its return on total fund, trading on equity policy is very much favored in this kind of situation.

However, a very high debt to net worth is also favorable, because debts are considered to be more risky than equity funds in the sense that the bank has a compulsory legal obligation to pay interest to the debt holders, irrespective of the profit made or losses incurred. Therefore an appropriate mix to debt and owner's fund is desired by the banks.

$$\text{We have, } = \frac{\text{Total Debt}}{\text{Net Worth}}$$

**Table No.4.16**

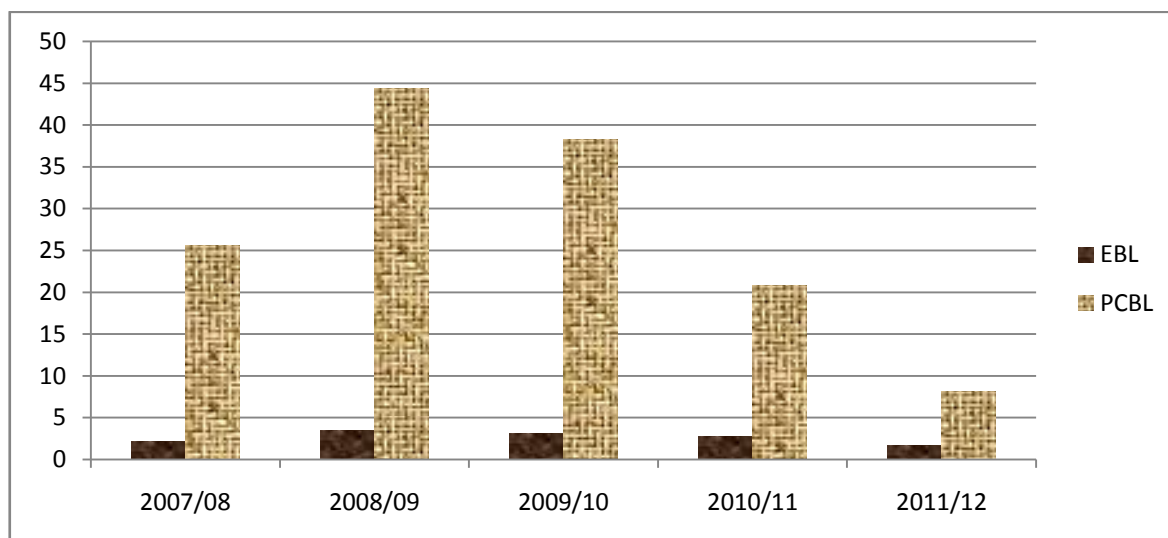
**Calculation of Total Debt to Net worth Ratio**

Year	Everest Bank			Prime Commercial Bank		
	Total Debt	Net Worth	Ratio	Total Debt	Net Worth	Ratio
2007/08	3494.29	1581.20	2.20	2662.55	104.00	25.60
2008/09	7606.55	2205.40	3.44	5491.72	123.64	44.41
2009/10	8501.10	2757.10	3.08	4782.20	124.97	38.26
2010/11	8317.10	2953.50	2.81	2302.70	110.74	20.79
2011/12	6923.90	4017.30	1.72	944.11	115.16	8.19

(Source: Financial statement of the bank)

Above table shows the analysis of total debt to net worth ratio of EBL and PCBL. EBL total debt to net worth is in decreasing trend during the study period, except it starts to increase during the FY2007/08 i.e.2.20 of FY 2008/09to 3.44. The highest ratio is 3.44 which is at the FY 2009/10 and lowest is in the FY 2011/12i.e. 1.72. PCBL has also decreasing trend of ratio during the study period. It has 44.41 in the year 2008/09and reached 8.19 in the fiscal year 2011/12after declining every year.

**Figure No. 4.16**  
**Total Debt to Total Net worth Ratio**



#### 4.1.17 Debt to Equity Ratio

Debt equity ratio is used to measure the creditors claim against the owner's claims. The total debt obligation is measured as ratio of the total shareholder's equity. It is computed by dividing total debt by shareholder's equity. It also indicates the composition of debt to equity in the capital structure.

$$\text{We have, } = \frac{\text{Total Debt}}{\text{Total Equity}}$$

**Table No. 4.17**  
**Calculation of total debt to equity ratio**

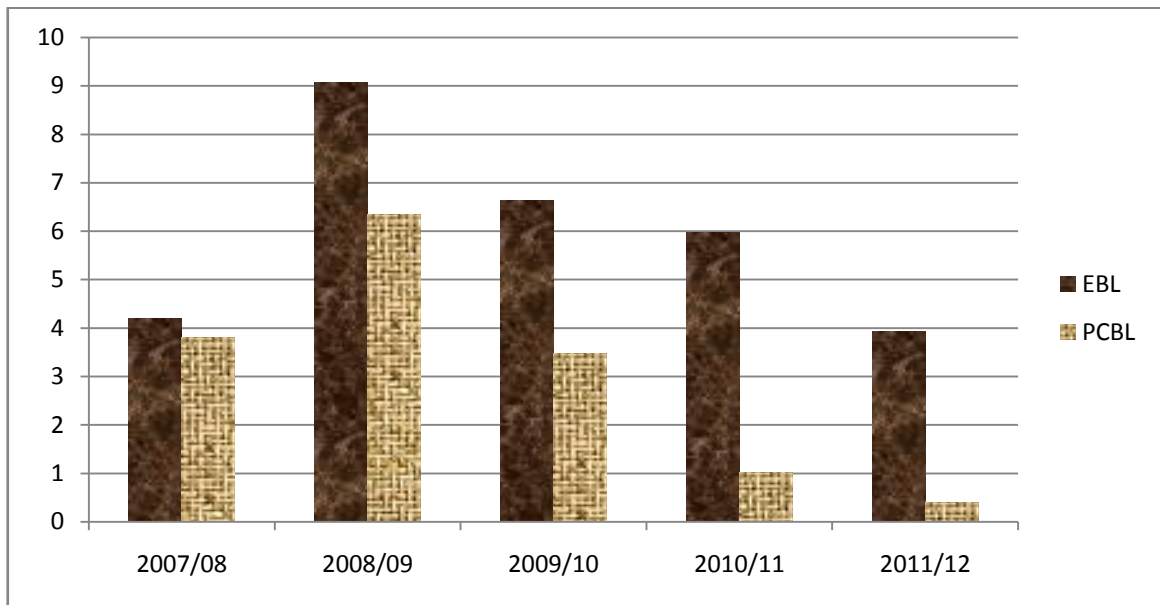
Year	Everest Bank			Prime Commercial Bank		
	Total Debt	Total Equity	Ratio	Total Debt	Total Equity	Ratio
2007/08	3494.29	831.40	4.20	2662.55	700.00	3.80
2008/09	7606.55	838.82	9.06	5491.72	863.75	6.35
2009/10	8501.10	1279.60	6.64	4782.20	1373.75	3.48
2010/11	8317.10	1391.57	5.97	2302.70	2245.74	1.02
2011/12	6923.90	1761.12	3.93	944.11	2335.57	0.40

(Source: Financial statement of the banks)

The above table shows the debt to equity ratio of EBL and PCBL. It shows the composition of debt and equity in the capital structure. Both banks ratio are increasing during certain period and its decreasing at the end. EBL has highest ratio of 9.06 in the FY 2008/09 and lowest is in the 3.93 in FY 2011/12. PCBL has highest ratio of 6.35 in the year 2008/09 and lowest ratio of 0.40 in the year 2011/12. There is substantial difference in highest and lowest point of the ratio during the five year study period.

**Figure 4.17**

**Total Debt to Total Equity Ratio**



**4.1.18 Net Worth to Total Liabilities Ratio**

This ratio is sometime preferred in addition to debt equity ratio to judge the overall risk of the company. The real strength of the net worth of a company should be judged in relation to its total liabilities. This ratio outweighs the deficiency of debt equity and help to assess the relative position of net worth as compared to all liabilities of the business.

We have, 
$$= \frac{\text{Net worth}}{\text{Total liabilities}}$$

**Table No. 4.18**

**Calculation of Net Worth to Total Liabilities Ratio**

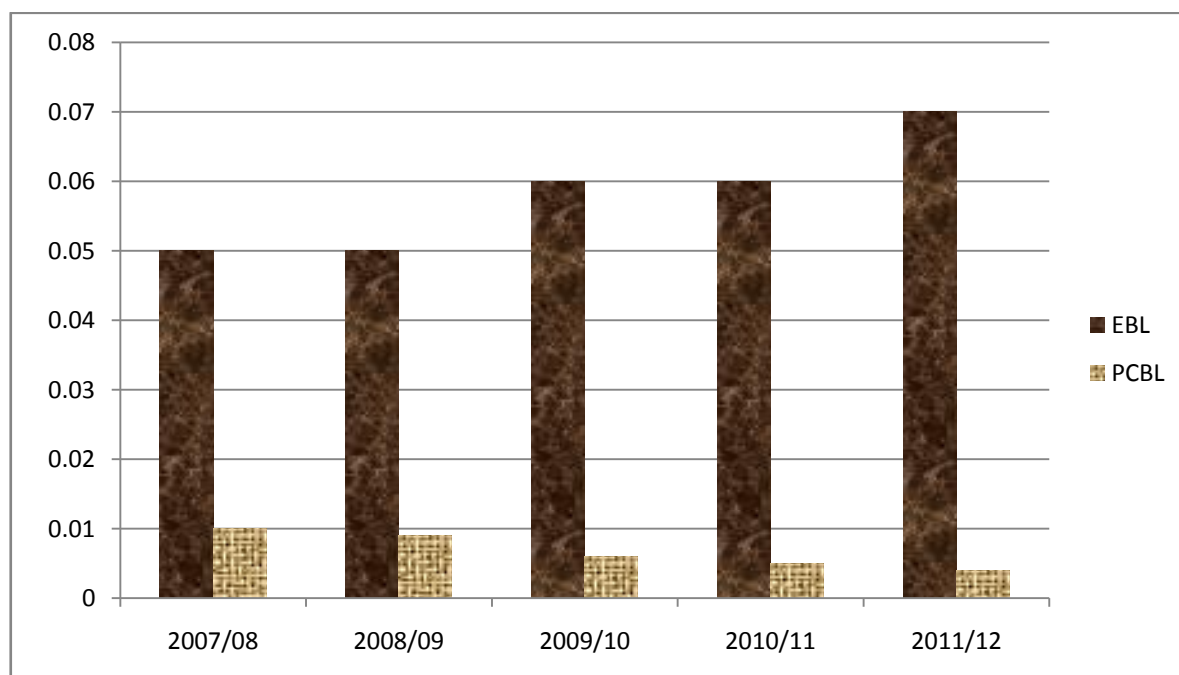
Year	Everest Bank			Prime Commercial Bank		
	Net Worth	Total Liabilities	Ratio	Net Worth	Total Liabilities	Ratio
2007/08	1581.20	27149.34	0.05	104.00	6388.49	0.010
2008/09	2205.40	36916.84	0.05	123.64	13456.88	0.009
2009/10	2757.10	41382.76	0.06	124.97	20218.83	0.006
2010/11	2953.50	46236.21	0.06	110.74	22086.10	0.005
2011/12	4017.30	55813.12	0.07	115.16	27157.97	0.004

(Source: Financial statement of the banks)

The above table shows the ratio between net worth to total liabilities ratio of EBL and PCBL. EBL has consistent to some extent compared with PCBL. EBL has ratio of 0.05 in the fiscal year 2007/08 and 2008/09 and 0.06 in the year 2009/10, 2010/11 and increased to 0.07 in the year 2011/12. PCBL has fluctuating trend during the study period. It has highest ratio of 0.01 in the year 2007/08 and lowest ratio 0.004 in the year 2011/12.

**Figure 4.18**

**Net worth to Total Liabilities Ratio**



## 4.2 Statistical Tools

Under this heading some statistical tools are used to achieve the objective of the study. The statistical tools used in this analysis are coefficient of correlation analysis between different variables, trend analysis of deposit, loan and advances, net profits and EPS.

### 4.2.1 Coefficient of Correlation Analysis

Under this chapter Karl Pearson's coefficient is used to find out the relationship between deposit and loan and advances, deposit and total investment and outside and net profit.

### 4.2.2 Coefficient of Correlation Between deposit and Loan and Advances

Deposits have played a very important role in performance of a commercial bank and similarly loan and advances are important to mobilize the collected deposits. Coefficient of correlation between deposit and loan and advances measures the degree of relationship between two variables. In this analysis, deposit is independent variable (X) and loan and advances is dependent variables (Y). The main objectives of computing 'r' between these two variables are to justify whether deposits are significantly used on loan and advances in a proper way or not. The following table shows the value of "r", "r"<sup>2</sup>, probable error (P.Er) and 6 P.Er between deposit and loan and advances for the study period 2007/08 to 2011/12.

**Table No. 4.19**  
**Correlation between Deposit and Loan and Advances**

<b>Name of Bank</b>	<b>r.</b>	<b>r<sup>2</sup></b>	<b>P.Er</b>	<b>6p.Er</b>
<b>EBL</b>	<b>0.999</b>	<b>0.998</b>	<b>0.001</b>	<b>0.006</b>
<b>PCBL</b>	<b>0.989</b>	<b>0.988</b>	<b>0.003</b>	<b>0.009</b>

The above table shows that coefficient of correlation between deposit and loan and advances of EBL is 0.999, which shows higher positive correlation between these two variables. Similarly the value of coefficient of determination (r)<sup>2</sup> is to be found 0.998, which shows that 99.8% in the dependent variable has been explained by independent variable. More of P.Er i.e 0.001, which means the relation deposit and loans and advances, is significant. In other words EBL is successful to mobilize its fund in proper way in loan and advances. Similarly considering the value of (r) i.e. 0.999 and comparing it with 6P.Er.

i.e. 0.006, we can say that the value of r is more than 6 P.Er, which reveals that there is significant relationship between deposit and loan and advances.

The above table shows that coefficient of correlation between deposit and loan and advances of PCBL is 0.989, which shows higher positive correlation between these two variables. Similarly the value of coefficient of determination ( $r^2$ ) is to be found 0.988, which shows that 98.8% in the dependent variable has been explained by independent variable. More of P.Er i.e. 0.003, which means the relation deposit and loan and advances is significant. In other words PCBL is successful to mobilize its fund in proper way in loan and advances. Similarly considering the value of (r) i.e. 0.989 and comparing it with 6P.Er i.e. 0.009, we can say that the value of r is more than 6 P.Er, which reveals that there is significant relationship between deposit and loan and advances.

#### **4.2.3 Coefficient of Correlation between Deposit and Total Investment.**

Coefficient of correlation between deposit and total investment measure the degree of relation between these two variables. Here deposit is dependent variable (X) and total investment is dependent variable (X) and total investment is dependent variable (y). The purpose of computing co-efficient of correlations between deposits and total investments to find whether deposit is significantly used as investment or No. t. The following table shows the variable of r, ( $r^2$ ), P.Er and 6 P Ef between deposit and total investment for the study period 2007/08 to 2011/12.

**Table No. 4.20**

**Correlation between Deposit and Total Investment**

<b>Name of Bank</b>	<b>r.</b>	<b><math>r^2</math></b>	<b>P.Er</b>	<b>6p.Er</b>
<b>EBL</b>	<b>0.970</b>	<b>0.941</b>	<b>0.02</b>	<b>0.12</b>
<b>PCBL</b>	<b>0.975</b>	<b>0.954</b>	<b>0.03</b>	<b>0.15</b>

From the above table, we find that coefficient of correlation between deposit (Independent) and total value of EBL r is 0.970. It shows positive relationship between two variable however by application of coefficient of determination the value of ( $r^2$ ) is 0.941, which indicates that he 94.1% of the valuation of the dependent variable (total investment) has been explained by the independent variable (deposits) moreover by considering the probable error since the value of r is i.e. 0.970 is more than six times of P.Er i.E 0.12. So we can say that there is significant relationship between total deposit and total investments.

Lastly, it can be said that the bank has followed the policy of maximizing the investment of their deposits.

From the above table, we find that coefficient of correlation between deposit (independent) and total value of PCBL r is 0.975. It shows positive relationship between two variables however by application of coefficient of determination the value of  $(r)^2$  is 0.954, which indicates that the 95.4% of the valuation of the dependent variable (Total investment) has been explained by the independent variable (deposits) moreover by considering the probable error since the value of r is i.e. 0.975 is more than six times of P.Er i.e 0.15. So we can say that there is significant relationship between total deposit and total investments. Lastly, it can be said that the bank has followed the policy of maximizing the investment of their deposits.

#### **4.2.4 Coefficient of Correlation Between deposit and Net Profit**

Coefficient of correlation “r” between deposit and net profit measures the degree of relationship between these two variables. Here deposit is independent variables (x) and net profit is dependent variable (y). The purpose of computing coefficient of correlation between deposit and net profit is to find out whether the net profit is significantly correlated with respective deposit or not.

**Table No.4.21**

**Coefficient of Correlation between Deposit and Net Profit**

<b>Name of Bank</b>	<b>r.</b>	<b>r<sup>2</sup></b>	<b>P.Er</b>	<b>6p.Er</b>
<b>EBL</b>	<b>0.974</b>	<b>0.949</b>	<b>0.015</b>	<b>0.0924</b>
<b>PCBL</b>	<b>0.972</b>	<b>0.951</b>	<b>0.012</b>	<b>0.0896</b>

From the above table it has been found that the coefficient of correlation between total outside assets (independent) and net profit (dependent) of EBL is 0.974, which indicates positive correlation between these two variables. Considering the value of coefficient of determination is  $r^2$  i.e. 0.949 indicates 94.9% of the variation in the dependent variables (net profit) has been explained by the independent variable (Total outside assets) moreover by considering the probable error we can further say that there is significant relationship between total assets and net profit because the value of r i.e. 0.974 is greater than six times P.Er. i.e. 0.0924. it indicates that EBL is capable of earning net profit by mobilizing its total outside assets.

From the above table it has been found that the coefficient of correlation between total outside assets (independent) and net profit (dependent) of PCBL is 0.972, which indicates positive correlation between these two variables. Considering the value of coefficient of determination is  $r^2$  i.e 0.951 indicates 95.1% of the variation in the dependent variables (net profit) has been explained by the independent variable (total outside assets) moreover by considering the probable error we can further say that there is significant relationship between total assets and net profit because the value of  $r$  i.e 0.972 is greater than six times P.Er i.e 0.0896. It indicates that PCBL is capable of earning net profit by mobilizing its total outside assets.

### **4.3 Major Finding of the Study**

Major finding of this study are:

- Current Ratio of EBL and PCBL looks satisfactory level. Both the Current Assets and Current Liabilities are in increasing trend during the study period. The Banks Current Ratio is between almost 0 and 3 which is very liable from international standard. EBL Investment in government securities to current assets is increase almost in every year. The percentage have decline marginally from 1.10 to 1.01 PCBL has also increasing trend. PCBL have decline marginally from 1.22 to 1.07. Investment on government securities is the more safe investment than current assets.
- Cash and bank balance to Current Assets ratio of both banks shows the increasing trend of the ratio during the study period of FY 2007/08 to FY 2009/10 and its declining in the year FY 2010/11. 2011/12 has shown higher proportion of cash and bank balance in comparison with other FY which is 0.8. PCBL has increasing trend of cash and bank balance to current ratio during the study period. It ranges from 0.4 to 0.20 over the five year period.
- Total investment to total deposit ratio during the study period of both banks have increment their investment out of deposit which is very good mobilization of deposit. EBL has highest ratio 0.18 in the year 2010/11 and lowest ratio 0.13 in the year 2009/10. PCBL has highest ratio 0.17 ratios in the year 2008/09 and lowest ratio 0.07 in 2007/08.
- The bank could invest the liquid to various sectors maintaining minimum balance according to NRB directives. The analysis of investment of government securities assets ratio shows the bank has maintained satisfactory level of investment to government securities. The bank has not diversified the investment to other than risk free investment.

The analysis of loan and advance to current assets ratio shows the high and consistency level of ratio, which says there is good mobilization of liquid assets.

- The analysis of cash and bank balance to total deposit ratio shows the ratio is fairly good and have liquid assets enough to pay paid up capital. Loan and advances ratio shows bank have been able to mobilize the funds collected from the depositors to the borrowers. The ratio is satisfactory and encouraging. The total investment ratio to total deposit ratio shows that ratio have increased remarkably during the study period which indicates that bank is performing quite well in mobilizing deposits into income generating investment. The loan and advances to total assets ratio indicates satisfactory position of the bank. The ratio should be higher than current position.
- In the context of return on equity, the bank has been able to maintain satisfactory level of ROE. However, the mobilization of equity capital has increased in last year of study period which shows the efficiency increased by the bank. In context of interest earned to total assets ratio, the bank shows consistency level in earning interest through the proper utilization of deposits. In context of interest paid to total asset ratio, the bank have shown decrement in payment of interest, which says that the deposit of the fund have decreased. The bank should be encouraging the deposit through proper promotion tools.
- In context of interest earned to operating income ratio, it shows the consistency level of earning interest, which reflects the bank has successfully mobilized its fund in interest bearing asset. The interest is major portion of operating income, which could be encouraged more to earn interest income. In context of return on total assets ratio, it reflects consistence level of earning during the study period. The percentage could be higher with the proper utilization of total assets.
- The debt position of bank is moving to satisfactory position, which is again is to improve. The bank should not depend and utilize more of lending fund rather banks should focus more on equity funds. The bank should minimize its risk be improving its capital structure. The bank has higher financial risk which also shows that banks have to pay high level of interest even in the los profitable year.
- Coefficient of correlation between deposit and loan and advances indicates satisfactory position in mobilization of deposit as loan and advances. Coefficient of correlation between deposit and total investment indicates satisfactory position in mobilizing deposit as an investment. Coefficient of correlation between outside assets and net profit indicates that the bank is moderately successful in mobilization of fund and earns i.e. Net profit from such mobilized fund.

- The profitability ratio of bank is very consistent. Both banks have an increasing trend. EBL has 0.54 ratio in the year 2007/08 and reached 0.61 in the year 2011/12. PCBL has 0.04 in the year 2007/08 and reached 0.11 in the year 2011/12. Both banks have increasing trend of ratio during the study period. EBL ratio has been ranges from 0.61 to 0.76 and PCBL ratio ranges from 0.04 to 0.23. the ratio has slightly decreased at the end of the study period.
- Total interests earned to total operating income ratio of both banks has been decreased during the study period. EBL has maximum ratio of 1.27 in the year 2007/08 and gradually increased every year and reached 1.97 in the year 2010/11 and finally decline to 1.90 in the year 2011/12. PCBL has fluctuating trend of ratio during the study period. PCBL has ratio 1.52 in the year 2007/08 and constantly increasing 3.05 in the year 2011/12. Net Profit to loan and advances ratio of both banks has been fluctuating during the study period. EBL has highest ratio of 0.03 in the FY, 2009/10 and 2011/12 respectively. PCBL has 0.01 to 0.02 ratios in the year 2008/09 to 2011/12 respectively.
- The above table shows the trend of EPS of EBL and PCBL. EBL has been continuously increasing EPS during the study period. The EPS have increased to Rs.100.21 during the FY 2009/10 and it declining 83.22 in the year 2010/11. PCBL has fluctuating trend of EPS during the study period. It ranges from Rs.4 to Rs.29.54 over the five year period. Thus the trend seems to be increasing so it can be concluded that the EPS of the EBL is satisfactory. It is good trace of operation performance of bank.
- Total debt to net worth of both banks have fluctuating trend. It increasing 2007/08 to 2008/09 and than after its decreasing 2010/11 in 2011/12. Highest ratio EBL is 3.44 in the year 2008/09 lowest ratio is 1.72 in the year 2011/12. Same as PCBL has highest ratio 44.41 in 2008/09 and lowest ratio 8.19 in the year 2011/12.
- Debt to equity ratio of EBL and PCBL ratio are increasing in certain year than after its declining. EBL has highest ratio of total debt to equity capital is 9.06 in the year in the FY 2008/09 and lowest ratio is in 3.93 in the year FY 2011/12. PCBL has highest ratio of 6.35 in the year 2008/09 and lowest ratio of 0.40 in the year 2011/12. There is substantial difference in highest and lowest point of the ratio during the five year study period.
- The coefficient of correlation between deposit (independent) and total value of EBL r is 0.970 and PCBL is 0.975. It shows positive relationship between two variables however by application of coefficient of determination the value of  $(r)^2$  of EBL is 0.941 and PCBL is 0.954, which indicates that he 94.1% and 95.40% of the valuation of the dependent

variable (total Investment) has been explained by the independent variable (Deposits) moreover by considering the probable error.

- The coefficient of correlation between total outside assets (Independent) and net profit (dependent) of EBL is 0.974 and PCBL is 0.972, which indicates positive correlation between these two variables. Considering the value of coefficient of determination of EBL is  $r^2$  i.e. 0.9949 and PCBL is 0.951 indicates 94.9% and 95.10% of the variation in the dependent variables (NET profit) has been explained by the independent variable (Total outside assets) moreover by considering the probable error.

# **CHAPTER-V**

## **SUMMARY COMCLUSION AND RECOMMENDATION**

### **5.1 Summary and Conclusion**

Since, a few previous years, Nepal has been facing unstable economy due to various unfavorable situations in the country, which have created negative impact and threat to the banking sector. As a result, among various other Banks, EBL and PCBL are facing same threat and impact. Despite the situation, EBL and PCBL have been able to grow and develop in the complex economic environment. Thus, this study is conducted to know the financial performance of the leading bank in the nation.

A bank is an institution, which primarily deals with monetary transaction accepting public deposits, honoring customer's drawings against such deposits on demand, collecting cheques for customers and lending or issuing credit or investing surplus deposits until they are required for repayment. Present banking system is the result of the development of many centuries. When we talk of the wonderful scientific inventions, banking also comes to be as a wonder of the modern world. The study explores the importance and functions of banks.

Commercial banks play vital role in the economic development of the country. In recent years due to liberal economic policy of the government, many private banks are coming into operation. The foreign joint venture banks are enjoying competitive advantageous factors like highly skilled personnel, modern and advances banking technology, customer oriented modern banking services, management expertise and global banking network. So, banking sector is becoming more dynamic and subject to rapid changes. It is not enough to analysis operating performance. There should be proper financial analysis. Financial analysis is the key for financial decision –making and for making plans and program before using sophisticated forecasting and budgeting procedures. Optimum utilization of the organization to the ultimate target fulfillment, so it is very important to analyze the accounting and financial statements to know whether the financial position is sound and what kind of measures should be applied. The value of financial analysis is to form the quantitative relation, who can be used to diagnose strength and weakness in a firm's performance; such analysis is considerable for the company's common stockholder,

investors, bondholders and others. This study presents the financial analysis of EBL and PCBL.

The basic objectives of this study are to examine and evaluate the overall financial performance and effectiveness of EBL and PCBL. The objectives of the study are to examine financial statement of the bank and analyze them to see the financial soundness of the bank, to observe the return over equity and relation between debt and equity, to highlight the relationship between different variable of financial statement, to evaluate the financial ratios to calculate efficiencies, valuation, profitability, capital structure ratios and to evaluate the bank's efficiency in utilizing assets.

Financial analysis of EBL and PCBL is done on the basis of financial statement from 2007/08 to 2011/12. The study is based on the secondary data. To approach the study, various financial and statistical tools have been used. As, financial tool, ratio analysis has been used massively. In the same way, some statistical tools such as co-efficient of correlation analysis between different variables and trend analysis have been used to accomplish the objective.

Ratio analysis is the main tool used for Financial Analysis. Liquidity ratio is firstly calculated which includes current ratio, cash and bank balance to current asset ratio, investment of government securities to current assets ratio, loan and advances to current ratio and cash and bank balance to total deposits ratios. These ratio measures the ability of the bank to meet the current obligations. From them, much insight can be obtained into the present cash solvency of the form and its ability to remain solvent in the event of advertise. Activity ratio is secondly calculated which presents the evaluation of the efficiency with which the firm manages and utilizes its assets. The activity ratio includes loan and advances to total deposit ratio, total investment to total deposit ratio and loan and advances to total assets ratio. Profitability ratio is calculated thirdly, which indicates the degree of success in achieving desired profit level. This ratio includes return on equity, interest earned to total assets ratio, interest paid to total assets ratio, interest earned to operating income ratio, return on total assets ratio, return on loans and advances ratio and earnings per share. Lastly, leverage/ capital structure ratio is calculated which shows the long –term solvency of the firm. This ratio includes total debt to net worth ratio and total debt to equity ratio and net worth to total liabilities ratio. Thus, these are the tools used in ratio analysis.

Statistical tools are also used during the study the topic. These tools include coefficient of correlation analysis and trend analysis. The coefficient of correlation finds out the relationship between deposit and loan and advances, deposit and total investment, outside and net profit.

## **5.2 Recommendation**

A clear financial picture of EBL and PCBL can be viewed from all above presentation. Now some valuable and timely suggestion and recommendation can be advances to overcome weakness, inefficiency and to improve present financial position of the bank. On the basis of findings mentioned above some of recommendation have been drawn which are as follows:

- The study of financial performance of bank indicates that there is lack in proper mobilization of deposit. This is also lack of proper management planning in deposit mobilization. Thus, proper mobilization of the deposit fund is various investment sectors are necessary with proper management planning.
- The study also indicates the uneven and inconsistent investment of the fund. Thus, proper study and research of the investment sector is necessary for stable investment and return.
- The bank is suggested to maintain to its liquidity position in normal standard i.e as their liquidity is below normal standard and also recommended to follow consistency liquidity policy.
- In regard, investment and government securities, it has been revealed that EBL has given more priority to invest its fund in government securities than other investment sector. Though securities issued by government are considered to be free risk of default, but such securities yield the lower interest rate of a particular maturity due to low risk feature. So; EBL is recommended not to give much of important to the government securities and diversity the investment policy on more yield base funds.
- Proper capital structure planning and risk management debt-equity ratio is recommended.
- EBL has existing branches that are not sufficient to cover the banking business. Coverage of limited areas by the banks will not boost up its campaign of deposit mobilization and credit disbursement as desired. NRB and HMG/N have also encouraged the joint venture banks to expand the banking services in rural areas and communities

without making unfavorable impact in their profits. Therefore, the bank is recommended to open new branches at certain places every year after studying the feasibility. Before making choice of particular place for opening a branch, saving and business potentiality of that area should be studied well, which will be very helpful to the bank in tapping the resources of different places.

- Looking at the current trend of banking business, a bank must be very careful while formulation marketing strategies to serve customers. The marketing strategies should be innovative so that it would attract and retain the customers. It is recommended that the bank should develop innovative approach to banks marketing for its well- being and sustainability in the market upgrade the banking facilities business.
- It is recommended to boost up foreign investment, as EBL does not seem to be successful in these aspects. To be successful in the investment sector, it should initiate strong step for the recovery part.
- Both the banks have been facing competition from other established joint venture, commercial bank, finance companies. So the banks are suggested to improve their capacity by:
  1. Improving effective organization structure.
  2. Maintaining and motivating the employed.
  3. Introducing latest and modern technology.
  4. Providing qualitative services to their customers.
  5. Maintaining good public relation.
  6. Involving and performing the social responsibilities.
  7. Controlling capital structure.
- Staff and general expenses hold major proportion of income. So it is suggested to the bank to minimize its expenses taking action of remedial measures.
- Variance with respect to different ratio has been found fluctuating and it does not express the favorable situation. It may harm various aspects of the bank. Therefore, both of the banks are advised to keep more uniformity in ratios.
- Majority of private commercial banks have been found to be profit oriented, ignoring their social responsibility, which is not a proper strategy to sustain in long run. So, other the banks are suggested to render their services even in the rural areas providing special loans to deprived and priority sectors, which might further intensify the goodwill of the banks in future.

- The overall investment of the bank should be concentrated on productive sector such as business and industrial loan rather than consumer product such as hire purchase and housing loan. Because industrial and business sector will create the employment opportunity which is necessary for capital formation and economic growth.
- The economic liberalization has made the entire bank to determine the own interest rate. But nowadays due to unhealthy competition the spread between the deposit and lending interest has being higher than NRB directives. If the depositor interest rate is very low then depositor may not interest to deposit the saving. Therefore the spread should be appropriate.
- Banks should evaluate its investment portfolio every year. Investment portfolio must be balanced in each sector according to the NRB rules and company's self policy. It should be calculated co-efficient of correlation and regression among deposit, investment and return of the company.
- Nepal Rastra Bank should clearly define its role and strict monitoring for the efficient operations of banks so that they can use the facilities as much as possible. Besides that, NRB should open to all, flexible and strong supervision rather than imposing rules and regulation only. The success rate of banking mainly depends upon the banking awareness by the general public. Unless they find a convincing reason about their savings as well as new approach of investment, it is almost impossible to make live for a bank. Therefore there should be the awareness program, regularly conducted in terms of seminars or workshops from well experienced personnel such as top executives from banks and concerned regulating authorities. This will exchange the ideas and share the grass root problems. On the basis of this feedback information, regular changes or implementation of new rules and regulations can be easily carried out. Nepal Rastra Bank should also encourage frequent trainings to new entrants to provide orientations on the conceptual dimensions and practical aspects of operation of the banks.

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**Annex-I**  
**Comparative Balance Sheet of Everest Bank Ltd.**

<b>Assets</b>	2007/08	2008/09	2009/10	2010/11	2011/12
Cash in hand	822,989,425	944,695,793	1,091,500,407	1,048,998,721	1,700,991,770
Bank balance	5,219,675,370	1,844,982,405	67,277,314,596	5,073,864,231	8,662,314,537
Money at call and short notice	346,000,000	-	-	-	-
Investments	5,059,557,544	5,948,480,273	5,008,307,589	7,743,928,321	78,633,627,165
Loan and advances and Bill Purchased	18,339,085,562	23,884,673,616	27,556,356,032	31,057,691,462	35,910,974,673
Fixed assets	360,512,480	427,157,451	463,094,391	460,258,735	457,925,679
Non-Banking Assets	-	-	-	-	-
Other assets	376,215,468	492,166,151	536,187,696	851,470,792	1,127,295,233
<b>Total Assets</b>	<b>27,149,342,884</b>	<b>36,916,848,654</b>	<b>41,382,760,711</b>	<b>46,236,212,262</b>	<b>55,813,129,057</b>
<b>Liabilities</b>					
Share Capital	831,400,000	838,821,000	1,279,607,490	1,391,570,439	1,761,126,410
Reserve and Surplus	1,089,837,580	1,364,804,055	1,479,530,365	1,721,975,617	2,416,176,477
Debenture and Bonds	300,000,000	300,000,000	300,000,000	300,000,000	-
Loan and Borrowings	0	312,000,000	404,600,000	482,000,000,	-
Deposit Liabilities	23,976,298,535	33,322,946,246	36,932,310,008	41,127,914,339	50,006,100,272
Bills Payable	49,429,700	148,655,592	145,514,679	49,716,572	692,398,816
Proposed and Unpaid Dividend	140,790,370	230,524,766	276,252,832	576,897,427	30,646,879
Income Tax Liabilities	41,143,107	20,522,280	(1,136,458)	26,900,414	9,297,074
Other Liabilities	720,443,592	378,574,715	566,081,795	559,237,454	897,383,129
<b>Total Liabilities</b>	<b>27,149,342,884</b>	<b>36,916,848,654</b>	<b>41,382,760,711</b>	<b>46,236,212,262</b>	<b>55,813,129,057</b>
<b>Profit and Loss Account</b>					
1. Interest Income	1,548,657,132	2,186,814,992	3,102,451,484	4,331,026,087	4,959,998,415
2. Interest Expenses	632,609,264	1,012,874,353	1,572,790,306	2,535,875,552	2,873,334,682
<b>Net Interest Income</b>	<b>916,047,868</b>	<b>1,173,940,639</b>	<b>1,529,661,178</b>	<b>1,795,150,535</b>	<b>2,086,663,733</b>
3 Commission and Discounts	150,264,074	202,094,446	208,123,481	203,468,424	233,569,801
4 Other Operating Income	79,133,767	106,403,694	142,311,427	148,061,979	179,822,385
5 Exchange Income	64,452,378	62,526,819	47,897,967	46,259,065	109,679,321
<b>Total Operating Income</b>	<b>1,209,898,087</b>	<b>1,544,965,598</b>	<b>1,927,976,053</b>	<b>2,192,940,003</b>	<b>2,609,735,240</b>
6 Staff Expenses	157,957,084	186,919,870	226,364,009	293,130,567	352,050,004
7 Other Operating Expenses	233,766,645	292,010,522	352,511,231	383,112,054	467,292,948
8 Exchange Loss	-	-	-	-	-
<b>Operating Profit Before Provision for Possible Loss</b>	<b>818,174,358</b>	<b>1,066,035,206</b>	<b>1,349,100,813</b>	<b>1,516,697,382</b>	<b>1,790,392,288</b>
9 Provision for Possible Losses	(99,340,505)	(93,084,880)	77,010,625	(98,299,482)	(252,054,098)
<b>Operating Profit</b>	<b>718,833,853</b>	<b>972,950,326</b>	<b>1,272,090,188</b>	<b>1,418,397,900</b>	<b>1,538,338,190</b>
10 Non- operating Income/ Loss	4,519,287	5,005,256	12,338,972	1,433,385	25,155,849
11 Write- back from Loan	20,201,067	8,044,170	83,553,461	56,337,478	150,348,539

Loss Provision					
<b>Profit from Regular Activates</b>	<b>743,554,208</b>	<b>985,999,752</b>	<b>1,367,982,621</b>	<b>1,476,168,763</b>	<b>1,713,842,578</b>
12 Profit/ Loss from transaction of extraordinary nature	(18,998,727)	(5,549,170)	(61,192,476)	(12,051,522)	-
<b>Profit after inclusion of all types of transaction</b>	<b>724,555,481</b>	<b>980,450,582</b>	<b>1,306,790,145</b>	<b>1,464,117,241</b>	<b>1,713,842,578</b>
13 Provision for Staff Bonus	65,868,681	89,131,871	118,799,104	133,101,567	155803871
14 Provision for Income Tax					
• Current Tax for the year	216,913,302	276,864,301	357,020,130	427,531,909	478,355,956
Deferred Tax	(9,445,115)	(24,278,347)	(794,721)	(28,380,110)	(10,881,471)
• For previous year	-	-	-	560,247	-
<b>Net Profit</b>	<b>451,218,613</b>	<b>638,732,757</b>	<b>831,765,632</b>	<b>931,303,628</b>	<b>1,090,564,222</b>

**Annex-II**  
**Comparative Balance Sheet of Prime Commercial Bank Ltd.**

<b>Assets</b>	2007/08	2008/09	2009/10	2010/11	2011/12
Cash in hand	92,185,497	279,675,870	761,017,091	905,065,440	1,277,678,971
Bank balance	206,081,567	1,099,650,249	2,747,462,366	2,020,759,288	4,315,270,695
Money at call and short notice	450,000,000	-	453,826,500	604,869,365	144,144,236
Investments	378,563,101	2,097,042,051	2,038,602,535	1,366,045,939	2,020,292,541
Loan and advances and Bill Purchased	5,104,411,246	9,732,585,067	13,946,600,914	16,894,719,023	18,902,471,502
Fixed assets	40,333,285	108,064,297	162,574,220	180,785,618	189,464,939
Non-Banking Assets	-	-	-	-	-
Other assets	116,922,284	139,869,932	108,747,191	113,857,354	307,834,324
<b>Total Assets</b>	<b>6,388,496,980</b>	<b>13,456,887,467</b>	<b>20,218,830,817</b>	<b>22,086,102,027</b>	<b>27,157,976,208</b>
<b>Liabilities</b>					
Share Capital	700,000,000	863,755,000	1,373,755,000	2,245,746,000	2,335,575,840
Reserve and Surplus	28,007,110	165,449,399	164,645,167	241,112,021	250,527,384
Debenture and Bonds	-	-	-	-	-
Loan and Borrowings	265,520,500	539,363,524	448,800,000	213,120,000	22,050,000
Deposit Liabilities	5,275,648,820	11,779,989,176	17,883,518,545	18,938,902,912	23,990,952,632
Bills Payable	752,871	9,808,657	29,425,059	17,159,110	72,361,127
Proposed and Unpaid Dividend	-	5,263,158	115,789,474	283,673,179	170,203,907
Income Tax Liabilities	-	-	4,889,360	14,603,262	-
Other Liabilities	118,585,679	93,258,554	198,008,212	131,785,543	316,305,318
<b>Total Liabilities</b>	<b>6,388,496,980</b>	<b>13,456,887,467</b>	<b>20,218,830,817</b>	<b>22,086,102,027</b>	<b>27,157,976,208</b>
<b>Profit and Loss Account</b>					
3. Interest Income	224,529,957	822,684,437	1,749,858,890	2,477,092,835	2,773,634,890
4. Interest Expenses	121,364,553	564,654,547	1,193,075,004	1,780,463,317	2,057,204,858
<b>Net Interest Income</b>	<b>103,165,404</b>	<b>258,029,890</b>	<b>556,783,886</b>	<b>696,629,518</b>	<b>716,430,032</b>
3 Commission and Discounts	5,209,120	21,515,908	25,662,272	46,341,237	54,490,267
4 Other Operating Income	35,908,523	81,789,918	129,949,576	105,374,760	121,275,446

5 Exchange Income	3,402,571	10,961,165	21,772,254	15,471,028	15,116,120
<b>Total Operating Income</b>	<b>147,685,618</b>	<b>372,296,882</b>	<b>734,167,988</b>	<b>863,816,543</b>	<b>907,311,865</b>
6 Staff Expenses	21,953,970	34,319,833	57,518,547	81,013,219	91,422,974
7 Other Overhead Expenses	29,197,017	68,314,619	109,996,469	152,027,194	188,286,040
8 Exchange Loss	-	-	-	-	-
<b>Operating Profit Before Provision for Possible Loss</b>	<b>96,534,631</b>	<b>269,662,429</b>	<b>566,652,973</b>	<b>630,776,130</b>	<b>627,602,851</b>
9 Provision for Possible Losses	51,559,710	46,749,231	57,541,541,	61,413,558	218,382,093
<b>Operating Profit</b>	<b>44,974,921</b>	<b>222,913,199</b>	<b>509,111,432</b>	<b>569,362,572</b>	<b>409,220,758</b>
10 Non- operating Income/ Loss	-	-	57,541,541	-	-
11 Write- back from Loan Loss provision	-	-	21,241	-	15,830,231
<b>Profit from Regular Operation</b>	<b>44,974,921</b>	<b>222,913,199</b>	<b>514,119,201</b>	<b>569,362,572</b>	<b>425,050,898</b>
12 Profit/ Loss from transaction of extraordinary nature	-	-	-	-	-
<b>Profit after inclusion of all types of transaction</b>	<b>44,974,921</b>	<b>222,913,199</b>	<b>514,119,201</b>	<b>569,362,572</b>	<b>425,050,989</b>
13 Provision for Staff Bonus	4,088,629	20,264,836	46,738,109	51,760,233	38,640,999
14 Provision for Income Tax	12,879,182	59,936,384	142,395,850	157,462,306	116,960,880
a) Provision for Current year tax	10,892,916	60,720,856	143,345,461	162,109,121	130,988,502
b) Upto Previous Year	-	-	-	(87,319)	(1,052,394)
c) Deffered Tax Expenses	1986266	(784,472)	(949,611)	(4,559,496)	(12,975,228)
<b>Net Profit</b>	<b>28,007,110</b>	<b>142,711,978</b>	<b>324,985,242</b>	<b>360,140,033</b>	<b>269,449,110</b>