

**FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN
NEPAL**

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RECOMMENDATION

This is to certify that the thesis

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*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 requirement for the degree of*

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DECLARATION

I hereby declare that the work reported in this thesis entitled " **FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN NEPAL** " submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of Rabindra Bhattarai of Shanker Dev Campus, T.U.

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Researcher

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ABBREVIATIONS

S.NO.	Serial Number
B.S	Bikram Sambat
U.K.	United Kingdom
JVB	Joint Venture Bank
C.R.	Current Ratio
EBIT	Earning Before Interest and Tax
EBT	Earning Before Tax
F/Y	Fiscal Year
P/L	Profit and Loss
ROA	Return on Assets
ROE	Return on Equity
i.e	That is
N	No. of Year
EBL	Everest Bank Limited
NRB	Nepal Rastra Bank
WTO	World Trade Organization
EPS	Earning Per Share
DPR	Dividend Pay Out Ratio
DPS	Dividend Per Share
P/E	Price Earning
NPA	Non Performing Assets
NPAT	Net Profit After Tax
S.D	Standard Deviation
C.V.	Coefficient of Variation
r	Correlation Coefficient

CHAPTER – ONE

INTRODUCTION

1.1 Background of the Study

One of the most well-liked and frequently employed financial analysis tools is financial performance analysis. Several ratios are used in ratio analysis, and they are computed using the financing information included in the financial statement. It serves as the main instrument for analyzing the performance and financial status of the company. The methodical application of ratios to the interpretation of financial statements in order to ascertain a company's strengths and weaknesses, past performance, and present financial situation is known as ratio analysis. (Wixom & Kell, 1997).

According to Dangol, “Analyzing financial statements involves examining the relationships among various financial elements. This process includes organizing and categorizing large amounts of financial data. The goal is to gain insight into the business's financial health, profitability, operational effectiveness, and growth potential (Dangol, 2005).”

A way of expressing the relationship between one Financing result and another, which is intended to provide a useful comparison. Financing ratios assist in measuring the efficiency and profitability of a company based on its financial reports. Financing ratios form the basis of fundamental analysis. It's a useful tool, especially for an outsider such as a credit analyst, lender, or stock analyst. These people need to create a picture of the financial results and position of a business just from its financial statements. Ratio analysis can be used to compare information taken from different parts of the financial statements to gain a general understanding of the results, financial position, and cash flows of a business. The term ratio refers to the numerical or quantitative relationship between two variables. With the help of ratio analysis conclusion can be drawn regarding several aspects such as financial health, profitability and operational efficiency of the undertaking. Ratio points out the operating efficiency of the firm i.e. whether the management has utilized the firm's assets correctly, to increase the investor's wealth. It ensures a fair return to its owners and secures optimum utilization of firm's assets.

Ratio analysis provides the required data to facilitate inter-firm comparison. Relative position is indicated via an inter-firm comparison. It offers the relevant information needed to compare the effectiveness of several departments. If the comparison shows a difference, the potential causes of the variation can be found, and if the results are unfavorable, prompt action to bring them into compliance can be taken. (Weston & Brigham, 1996).

The data provided in the fundamental financial accounts is useless unless it is broken down and examined in terms that are comparable. One tool available to anyone looking for a more simplified way to learn more from the financial statements is the ratio analysis.

The act of identifying and deciphering numerical relationships from financial accounts is known as ratio analysis. A ratio is a metric used in statistics that shows how two variables or numbers relate to each other.

Both a percentage and a quotient can be used to describe this connection. Ratios are straightforward to compute and comprehend. Three categories can be used to categorize those engaged in financial statement analysis: Owners or investors, Executives in finance and creditors.

Despite the fact that the financial health and operational outcomes of a business are of interest to all three of these groups, the main information that each looks for from these statements varies significantly, indicating the function that the statement is intended to fulfill. What investors really want is a foundation for determining income potential. The main concerns of creditors are liquidity and the borrower's capacity to repay the loan within the allotted time frame and pay interest. The development of analytical tools that can quantify expenses, productivity, liquidity, and profitability is something that management is interested in (Anthony, 2001).

1.2 Statement of the Problem

Some commercial banks in the modern era are consistently profitable, satisfy their shareholders, and provide them with a sufficient profit. As a result, commercial banks have a large deposit base but little opportunities for investment. By providing a very low interest rate

and minimum threshold amount, they are even discouraging people. This has a negative effect on the nation's economy.

As a result, the rate of economic growth has slowed.

Inadequate financial performance guidelines represent an additional rationale for a commercial bank's improper utilization of its financial resources.

Two commercial banks, Nepal Bank Limited and Everest Bank Limited, have been chosen as a sample from among the numerous commercial banks to examine the study problem in relation to the banks' financial performance.

Given the analysis of financial statements and the need for banks to evaluate their strengths and weaknesses, it can be inferred that banks must continuously assess and enhance their financial health, operational efficiency, and competitive positioning to maintain profitability and adapt to an evolving economic landscape.

This study aims to address the following particular research questions:

1. What are Nepal Bank's and Everest Bank's investing methods, profitability position, and asset management efficiency?
2. Does the relationship between profitability ratios and deciding factors have a major effect on commercial banks' financial performance?

1.3 Objectives of the Study

The main objective of this study is to make comparative financial performance analysis of the two commercial banks namely Nepal Bank Ltd and Everest Bank Limited. However, specific objectives are as follows. To analyze the growth and trend of financial position of EBL and NBL.:

1. To analyze the liquidity management, asset management efficiency, profitability position, risk position, investment practices of aforesaid Banks.
2. To Analyze the relationship between determining factors and profitability ratio on financial performance of commercial banks

1.4 Significance of the Study

Analyzing a company's financial parameters is crucial. In fact, we can determine whether or not the concerned company is strong based on the financial analysis. The public is given a relevant picture of the banks' financial situation through the financials that the institutions publish. Thus, in order to provide the whole and unambiguous position and

performance of the banks, a study of these statements is required. The primary goal of this study is to evaluate the financial performance of NBL and EBL by evaluating the positions of the selected banks under investigation. This will motivate the selected banks to enhance their various positions and performances. Researchers discover differences and weaknesses in a subset of banks through data presentation and analysis, and then advise the banks to make additional improvements. Banking institutions undoubtedly support and are crucial to the mobilization of domestic resources, economic growth, preservation of the confidence of different economic groups, and granting of credit to individuals.

This study, which was conducted in a specific region involving banks, has multiple dimensions and is justified by the need to gather information for researchers, shareholders, brokers, traders, financial institutions, and the general public. The study is unique in that it compares these to commercial banks, adding new ideas and findings about these banks as well as substantial knowledge from the literature. Shareholders who have invested their money in the company are primarily concerned with the firm's earnings, which instills greater confidence in those companies that have demonstrated consistent growth in earnings. The ability of the company to pay the creditors within a relatively short time frame is of significance to them. Thus, the examination will be limited to assessing the firm's liquidity.

This study supports and validates the government of Nepal's decision-making process by providing information on the financial performance of certain commercial banks. The policymakers of the relevant, hand-picked banks will undoubtedly find this study useful in developing their strategies and policies for an efficient banking system.

1.5 Limitation of the Study

Every work has its own restriction and limitation due to the lack of time resources and knowledge. This study has some limitations. The study was conducted for the partial fulfillment of M.B.S. (Master of Business Studies) degree. The following are the study's main limitations.

- a. The secondary data used in this research was gathered from banks that were involved. As a result, the information supplied by the concerned offices determines the analysis's outcome.

- b. Only two commercial banks—NEPAL Bank Ltd. and Everest Bank Ltd.—are covered in this thesis.
- c. The theory is restricted to analyzing data from FY (2072–2073–2076–77), or a five-year span.
- d. There is no standard normal performance level available, particularly in the context of Nepal. Thus, data interpretations rely on common sense. Concerned professionals are also consulted when writing a thesis.
- e. It is presumed that the data source, which is the publicly available annual report and website, is accurate.

1.6 Organizations of the Study

This study is organized into five chapters: The Introduction, Review of Literature, Research Methodology, Presentation & Analysis of Data, and Summary, Conclusion & Recommendations are the five chapters that make up this study. Each chapter is given a brief synopsis below.

Chapter I: Introduction. This chapter contains Overview The study's history, study focus, problem statement, aims, importance, limits, and organizational structure are all covered in the first chapter of the book.

Chapter II: Literature Review The review of existing literature, comprising the conceptual framework, book, article, theses, and associated research reviews, is covered in the second chapter.

Chapter III: Research Methodology. The research approach employed in the study is explicated in the third chapter. This covers the population and samples, data sources, research strategy, and data analysis instruments.

Chapter IV: Presentation and Analysis of Data The fourth chapter is the main part of the study. It includes the presentation and analysis of data using various financial and statistical tools.

Chapter V: Summary, Conclusion, and Recommendations The fifth chapter consists of the summary of the study, its conclusions, and recommendations.

CHAPTER – TWO

REVIEW OF LITERATURE

A literature review involves examining previous research reports, articles, books, and journals related to a specific field or topic to identify past study conclusions and deficiencies that may inform future research. This process helps to pinpoint gaps between prior studies and the current research topic, making it a crucial component of any study. By understanding what other researchers have discovered in the area of interest, a literature review helps avoid addressing questions that have already been answered.

Therefore, more specifically, in this chapter conceptual review of financial analysis, limitations and steps of financial analysis, review of related books, review of related journals and articles, empirical literature review have been reviewed.

2.1 Conceptual Review of Financial Analysis

The primary goal of any financial organization is to generate profit, which is essential for its long-term survival. Investors seek to place their funds in profitable ventures. A financial statement serves as an indicator of a business's performance, highlighting its strengths, weaknesses, and profitability. Consequently, financial analysis provides insights into a firm's financial health. Analyzing financial statements aids decision-makers in identifying favorable or unfavorable conditions within a business.

Bowlin (1997) asserts that Financial analysis's primary purpose is to highlight a company's strengths and flaws through the regrouping, analysis, and composition of financial statement statistics into different components and content examination. Financial managers can use this as a starting point to estimate budgeting procedures and plan future financial requirements. (Brownlin, 1997).

Myer (1961) writes that financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statement and study of trends of these factors as shown in a series of statements.

Weston, Besley & Brigham argue, 'Financial statement analysis involves a comparison of a firm's performance with that of other firms in the same line of business, which offers is

identified by the firm's industry classification. Generally, speaking the analysis is used to determine the firm's financial position in order to identify its current strength and weakness and to suggest actions that might enable the firm to take advantage of its strength and correct its weakness (1996).

Pandey (1997) states that Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by property establishing relationship between the items of the balance sheet and the profit and loss account. Management of the firm can undertake it or by parties outside the firm. Financial analysis focused on the key figure contained in the financial statement and significant relationship between them. Management of the firm is generally interested in every aspect of the financial analysis, which is responsible for the overall efficient and effective utilization of the available resources and financial position of the firm.

By analyzing the financial statement, every firm can determine their financial soundness in terms of profitability, interest payment ability, debt maturity dividend policy, capital structure and so on.

Financial analysis is used primarily to gain insight into operating financial problems confirming the firms, with respect to this problem, we must be careful to distinguish between the causes of problem and symptom of it (Hampton, 1998).

It is thus an attempt to direct the financial statements into their components on the basis of purpose in hand and establish relationship as between these components and totals of these items on the other. Among with this a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization.

Pradhan (2000) argue that Financial analysis is to analyze the achieved statement to see, if the results meet the objectives of the firm, to identify problem. If any, in the past or present and or likely to be in the future and to provide recommendation to solve the problems.

According to Vanhom & Watchowlcz, Financial analysis is process of identifying the financial strength and weakness of the firm by establishing relationship between the items

of the balance sheet, which represents analysis snapshot of the firm's financial position analysis at analysis moment in the time and text, income statement, that depots analysis summary of the firm's profitability overtime (Vanhom & Watchowicz, 1997).

According to Pandey (1997), 'the analysis of financial statement is an important aid to financial analysis. It is helpful in assessing the financial position and profitability of concerned business organization.' For the financial analysis of any firm, the vertical and horizontal analysis would be done. The vertical analysis consists of financial balance sheet. Profit and loss account of certain period of time only which is know as static analysis. And the horizontal analysis consist of a series of statement relating to the number of years are reviewed and analyzed. It is also known as dynamic analysis that measures the changes of the position trend of business over the number of years (Thapa, 2006). Here, horizontal study will be conducted for the purpose of finding out the key financial indicators of the NBL and EBL over the period of fiscal year 20069/70 to 2073/74.

Pradhan claims that to find and evaluate the financial performance of the firm, ratio analysis will be taken as an effective tool. Ratio analysis is a way of establishing the relationship between items which are expressed as percentage, fraction or proportion of numbers. Ratio analysis enables us to summarize the large number of quantities date and analysis it in a simple way. Financial ratio helps us to find out the symptoms of the operational and financial problem of a corporation which can be ascertained by examining the behavior of these ratios (Pradhan, 1986).

Websters (1975) says that A ratio facilitates the researcher's quantitative assessment of the firms' performance and financial status.

Ratio analysis is the methodical application of financial data to identify a company's strengths and weaknesses in order to assess its past performance and present financial state. (Weston & Brigham, 1987)

Ratio analysis is a crucial method of financial analysis that assists in pinpointing the strengths and weaknesses of a business. It effectively highlights the significant relationships between different elements of the financial statement. Thus, ratio analysis serves as a vital tool for interpreting and assessing financial statements.

Financial information is required for each company's financial analysis. The financial information serves as the foundation for financial analysis, planning, and decision-making. Financial data is necessary to forecast, compare, and assess the company's potential for growth. Additionally, it is required to support financial and investment decision-making.

These commercial banks invest 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 statement has to be prepared according to directions of Nepal Rastra Bank. Nepal Rastra Bank's policy and guidelines are changing according time. So, updated study over the change of time is major concern for the researcher and concerned organizations.

2.2 Review of previous Works

2.2.1 Review of Books

Further R.S .Sayers in his book Modern Banking Writers, "Ordinary banking business consist of changing cash for bank deposits and bank deposits from one person to corporation (one depositor to another) giving bank deposits in exchange for bill of exchange, government banks, recurred and unsecured promises businessmen to repay." Erich A. H. in his book has described financial analysis as "Financial analysis is both an analytic and judgmental 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." Liquidity is other financial indicator of the business enterprises.

I.M. Pandey says, "A firm should ensure that it does not suffer from lack of liquid. And also that it is not too much highly liquid. The failure of a company to meet its obligations, due to lock of sufficient liquidity will result in bad credit image. Loss of creditor's confidence, or even in low suits resulting in the closure of the company. A very high degree of liquidity is also bad; idle assets earn nothing. The firm's funds will be unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance between liquidity and lack of liquid." Liquidity is measured by the speed with which a bank's assets can be converted into cash and other current obligations. It is also important in view of survival and growth of a bank. 2.3. Review of Some acts relating to Banking in

Nepal Commercial Bank Act 2031 was formulated to facilitate the smooth run of commercial banks. All the commercial banks are functioning under this act.

According to George T. Friedlob Lydia L.F. Schleifer (2003), ‘the financial analysis of companies is usually undertaken so that investors, creditors, and other stakeholders can make decisions about those companies.’ He gives the historical data on the development of the financial analysis investors and owners have struggled with communicating and analyzing financial performance for centuries. Since the beginning of business activity—and with it, delegation of responsibility—the owner of the invested resources (perhaps a herd of goats) has sought to monitor and evaluate the stewardship of the operating manager (the shepherd). Accounting records have been found in Babylon, Assyria, and Sumeria that date back over 7,000 years. In these early records, scribes described business transactions using wedge-shaped cuneiform writing impressed on clay tablets. For privacy, a tablet was wrapped in a clay sheet, marked with a seal, and fired.

2.2.2 Review of Journals Articles

According to Jha and Xiaofeng Hui (2012), Financial sector is the backbone of economy of a country. It works as a facilitator for achieving sustained economic growth through providing efficient monetary intermediation. A strong financial system promotes investment by financing productive business opportunities, mobilizing savings, efficiently allocating resources and makes easy the trade of goods and services.

Several studies (McKinnon, 1973; Levine, 1997) have reported that the efficacy of a financial system to reduce information and transaction costs plays an important role in determining the rate of savings, investment decisions, technological innovations and hence the rate of economic growth. Banking has become an important feature, which renders service to the people in financial matters, and its magnitude of action is extending day by day. It is a major financial institutional system in Nepal, which accounted for more than 70% (Poudel, 2005) of the total assets of all the financial institutions.

Maudos, Pastor, Perez & Quesada, (2002) composed an article on "Cost and profit efficiency in European banks". This paper analysed the efficiency of financial institutions mostly centring on costs. However, the few available studies that estimate profit frontier functions report efficiency levels that are much lower than cost efficiency levels,

implying that the most important inefficiencies are on the revenue side. There are also few studies that run comparisons at an international level, and none of these deals with profit efficiency. This paper Analyses, by means of alternatives techniques, both cost and profit efficiency in a sample of ten countries of the European Union for the period 1993 to 1996, again obtaining profit efficiency levels lower than cost efficiency levels. The paper also examines several possible sources of the differences in measured efficiency, including differences in size, specialization, other bank characteristics, and market characteristics.

Fernandez, Gascon, & Gonzalez, (2002) composed an article on "Economic efficiency and value maximization in banking firms". The aim of the study was to establish the relationship between efficiency, productivity change and shareholders' wealth maximization.

Said & Tumin (2007) conducted a research on "Performance and financial ratios of commercial banks in Malaysia and China".

Sangmi, & Nazir, (2010) composed an article on the financial strength of a bank. They claimed that it is crucial not only for its depositors but also for shareholders, employees, and the overall economy. To assess the financial positions of major banks in northern India, this study applies the CAMEL model, a contemporary tool for financial analysis. The findings suggest that the banks under examination demonstrate soundness and adequacy in terms of capital, asset quality, management efficiency, and liquidity. This underscores their ability to manage their financial affairs effectively.

In their 2010 study, Kumbirai and Webb analyzed the financial performance of the South African commercial banking sector from 2005 to 2009. They used financial ratios to assess the profitability, liquidity, and credit quality of five major South African banks. The study revealed that the overall performance of these banks saw significant improvement in the initial years of the study period.

Almazari's 2011 study focused on evaluating the financial performance of selected Jordanian commercial banks from 2005 to 2009, using secondary data. The study employed financial ratios to analyze the banks' performance based on variables such as bank size, asset management, and operational efficiency. Through simple regression analysis, the study aimed to assess the impact of these independent variables on financial

performance, as indicated by return on assets and interest income size. The findings revealed showed there was a positive relationship between asset size, utilization, and operational efficacy and financial success; nevertheless, banks with higher total deposits, credit, assets, and shareholder equity were not always more profitable.

These results suggest that financial performance is significantly influenced by these factors. The study serves as a resource for bank managers seeking to enhance their financial performance and develop effective policies. Additionally, the study recommends measures that banks can adopt to ensure operational soundness.

In 2012, Jha and Hui conducted a study comparing the financial performance of commercial banks in Nepal with different ownership structures. The study aimed to assess the banks' performance based on their financial characteristics and determine the key factors affecting performance using the CAMEL model. Financial data from eighteen commercial banks spanning 2005 to 2010 were analyzed. The study employed multivariate regression analysis to examine the impact of various financial ratios, such as the impact of the capital adequacy ratio, non-performing loan ratio, interest expense to total loan, net interest margin ratio, and credit to deposit ratio on return on equity and return on assets, which gauge the banks' profitability, is examined.

The results showed that public sector banks performed noticeably worse than private sector banks. Nonetheless, the efficiency levels of foreign-owned (joint venture) banks and local private banks were comparable.

The analysis also revealed that return on assets was notably influenced by the capital adequacy ratio, interest expenses to total loan ratio, and net interest margin. Additionally, the capital adequacy ratio had a significant impact on return on equity.

In 2012, Alkhatib explored the financial performance of five Palestinian commercial banks listed on the Palestine Securities Exchange (PEX). Using three primary indicators—return on assets for internal performance measurement, Tobin's Q model (price/book value of equity) for external performance measurement, and economic value add for economic performance measurement—the study sought to empirically evaluate the financial performance.

The research employed correlation and multiple regression analyses on annual time series data from 2005 to 2010. These analyses sought to understand the impact of bank size, credit risk, operational efficiency, and asset management on financial performance, as measured by the three indicators. Additionally, the study aimed to develop a regression model that could accurately indicate the future financial performance of these banks.

Contrary to the hypothesis suggesting an insignificant impact of bank size, credit risk, operational efficiency, and asset management on the financial performance of Palestinian commercial banks, the study found significant relationships between these factors and financial performance.

In 2013, Nedunchezian and Premalatha conducted a study on the post-merger performance efficiency of banks, focusing on areas such as return on assets for performance evaluated within, Tobin's Q model (price/book value of equity) for performance assessed outwardly, and Economic value add for performance evaluated commercially.

First, they analyzed and compared ratios of local banks for the periods before (2003-2006) and after (2008-2011) mergers. Second, To ascertain the significance of variations in financial performance prior to and following mergers, they employed paired sample t-tests.

The study found that, in general, the selected banks achieved improved performance after mergers. All of the chosen banks, with the exception of Indian Overseas Bank, demonstrated less improvement following the merger when the debt-to-equity ratio's increase was examined. Likewise, with the exception of Indian Overseas Bank, all banks shown less improvement in the growth rate of the ratio of total advances to total assets following mergers. After mergers, all of the chosen banks' equity capital to total assets ratios performed worse.

On the positive side, both the growth rate of assets and total deposit rate showed better performance for all selected banks following mergers. Following mergers, all of the chosen banks' current ratios and quick ratios showed improved performance. Overall, the

analysis indicates that following mergers, the majority of the chosen banks improved more in a number of areas.

In 2013, Ongore and Kusa conducted a study on the factors influencing Kenyan commercial banks' financial performance, with a particular emphasis on the moderating role of ownership structure.

The authors noted a scarcity of research in this crucial area, prompting them to use a linear multiple regression model and generalized least squares on panel data to estimate the parameters.

The findings revealed that bank-specific factors significantly influenced the performance of commercial banks in Kenya, with the exception of liquidity variables. However, the overall impact of microeconomic variables was inconclusive at a 5% significance level. Surprisingly, the moderating role of ownership identity on the financial performance of commercial banks was deemed insignificant.

In conclusion, the study suggests that the financial performance of commercial banks in Kenya is primarily driven by board and management decisions, while macroeconomic factors have an insignificant contribution.

2.2.2 Review of Dissertations/Thesis

The doctoral dissertation Jha (2014) completed was titled "Performance appraisal of commercial banks and linkage financial indicators with economic growth in Nepal." Examining the current situation of Nepalese commercial banks, whether ownership affects efficiency in the banks, whether financial variables in commercial banking, risk management elements based on the CAMEL framework, and efficiency contribute to economic growth, etc. The study found that while non-performing loans and the credit to deposit ratio had no appreciable impact on return on assets, the capital adequacy ratio, interest expenditures to total loan, and net interest margin were significant but had a negative influence on ROA. Return on equity was positively impacted by the capital 18 adequacy ratio, but it was not significantly impacted by net interest margin. Furthermore, the analysis discovered proof that bank-specific variables influence ROA and ROE performance.

With the goal of examining the performance position of commercial banks in Nepal and analyzing and comparing the liquidity, profitability, stability, and market value positions among the top five commercial banks, Thapa (2009) completed a thesis titled "A financial performance of five banks in Nepal" (SCBL, NEPAL, HBL, EBL, & EBL). He discovered in the investigation that, with the exception of SCBNL, every other bank had been adhering to the central bank's mandate to maintain a lower capital adequacy ratio. Because SCBNL is able to produce funds at a lower cost, it has been able to function better. Furthermore, NEPAL and SCBNL have produced higher returns on assets (ROA) while having larger capital adequacy ratios.

Nakarmi (2010) conducted a thesis research on the topic "Non-performing assets and profitability of commercial banks in Nepal". He found that the Correlation coefficient between NPA and ROA mostly came out to be negative. This shows that increase in profitability is affected by the amount on Non-Performing Assets. These finding supports the theory that, higher the NPA lower will be the ROA and viceversa.

Murerwa (2015) carried out a thesis study on the subject of "Determinants of banks' financial performance in developing economies: Evidence from Kenyan commercial banks." Since Nepal is a developing nation, the conclusions drawn from research done in African developing nations can be applied to the banking sector in Nepal. His thesis' primary goal was to assess the macroeconomic variables affecting Kenya's commercial banks' financial performance. Based on his research, he came to the conclusion that elements unique to the Kenyan commercial banks' industry are important indicators of their financial performance. The external market structure does have an impact on Kenyan banks' financial performance. Furthermore, he contends that macroeconomic considerations have very little effect on financial performance.

For his 2010 thesis, "A Comparative Analysis of Financial Performance of Banks," Shrestha concentrated on NSBI, HBL, and EBI. Using metrics such as the liquidity ratio, leverage ratio, activity ratio, profitability ratio, and credit ratio, the study sought to assess the financial performance of Nepal's commercial banks.

The study found that EBL had the highest current ratio among the sample banks, indicating a better solvency position compared to HBL and Nepal SBI. Additionally,

EBL's cash and bank balance in relation to total deposits suggested greater liquidity than the other sample banks, implying EBL's ability to make immediate payments to depositors. EBL also exhibited the highest earnings per share among the selected joint venture banks.

HBL, on the other hand, had the greatest dividend payout ratio, meaning that it gave its stockholders the largest possible dividend. The analysis suggested that the EBL management group concentrate on increasing shareholder wealth. Additionally, it recommended that banks work to lower the proportion of the highest interest-bearing deposits, like savings and fixed accounts.

Zergaw (2010) conducted research on Ethiopia's commercial banks' financial performance, with a particular emphasis on Bank of Abyssinia. The study's objectives were to evaluate the bank's five-year performance and contrast it with those of other Ethiopian private commercial banks. The credit quality, liquidity, profitability, efficiency, and sustainability (financial and operational) of the private commercial banks were assessed using a variety of financial ratios.

To assess Bank of Abyssinia's financial performance, trend and comparative studies were used. The results showed a need for improvement in the bank's overall performance as all financial ratios (profitability, liquidity, risk and solvency, efficiency, and credit quality) showed consistent deterioration.

In 2018, Shrestha carried out research for a thesis that compared the financial performance of Nepal's commercial banks—SCBL, SBL, Nepal SBI Bank, and EBL. The study's objectives were to look at these banks' profitability status, evaluate the correlation between profitability metrics, financial leverage, and bank size, and find out how these factors affected profitability.

.According to the study's findings, SCBL is in a better position than SBL, SBI, and EBL, demonstrating increased effectiveness in maintaining service policies and controlling expenses. SCBL also exhibited a higher Return on Equity (ROE) than the other banks, which is beneficial for profit maximization. Additionally, SCBL's Return on Assets

(ROA) showed a fluctuating trend but remained higher than that of SBL, Nepal SBI Bank, and EBL, indicating effective management in generating profit.

Furthermore, SCBL's Earnings per Share (EPS) demonstrated a fluctuating trend but was higher than the EPS of the other commercial banks. A higher EPS is advantageous for shareholders as it focuses on profit maximization and increases the organization's profitability.

2.2.3 Research gap

This section highlights the disparities between the present study and previous research. The empirical review is centered on the performance history of commercial banks, with a particular focus on profitability and total factor productivity metrics. While there is a wealth of material regarding thorough studies on the performance of commercial banks in industrialized and some emerging nations, the paucity of research in Nepal suggests that the sub-region needs more study.

Existing literature extensively covers bank profitability and total factor productivity growth, indicating that these measures are influenced by internal, sector-specific, and microeconomic factors. However, while developed countries have conducted extensive research using robust econometric methods and regression analysis, similar studies in the Nepalese financial system are lacking.

There doesn't seem to be much information available on the banking system in Nepal, especially when it comes to the extent and kind of correlation regression that can be utilized to properly examine the country's banking system upgrades. Research on the factors influencing the financial performance of commercial banks in Nepal is lacking, despite the fact that there are several studies on the comparative study of commercial banks' financial performance.

CHAPTER – THREE

RESEARCH METHODOLOGY

Research Methodology refers to the various sequential steps adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the method and process applied in the entire process of the study. Research methodology depends on the subjected aspect of the research project.

Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigation, backed by collection, presentation and interpretation or relevant details or data (Michael, 1985).

This study's main goal is to compare, measure, and evaluate the financial performance of two particular commercial banks: Everst Bank Ltd. and Nepal Bank Ltd. The approaches in this chapter compare the performance of these two commercial banks thus far by analyzing the positives and negatives of their financial results.

A study methodology aids in determining appropriateness, validity, and correctness. The applied technique has been employed to justify the current study. A brief description of the research methods employed in this study is provided below.

3.1 Research Design

Research design is a planned structure and strategy of investigation conceived to obtain answer to research objective through analysis of data. Stated differently, research design serves as the framework for a study, facilitating the analysis of data pertaining to the study's topic. A research design specifies the parameters for data collection and analysis, with the goal of balancing procedural efficiency with relevance to the study goals. It functions as the guide, framework, and plan of action for studies intended to address research objectives and manage variability.

This study's main goal is to investigate and assess Nepal's commercial banks' financial performance, with a focus on Nepal Bank Ltd. and Everest Bank Ltd. Descriptive and casual research designs have both been used to this end. This study focuses on many

different elements and aspects that affect these banks' financial decisions. In order to provide readers with informative information, comparative data has been supplied. The financial statements of the banks are examined, examined, and interpreted using a variety of statistical and financial instruments.

3.2 Sources of Data

The majority of the data used in this study are secondary. Secondary data, primarily from the profit and loss account, balance sheet, and other bank publications, have been gathered from each annual report. A portion has also been compiled from the website of the Nepal Stock Exchange. In a similar vein, publications, journals pertaining to the financial performance analysis, earlier research reports, etc., have been considered during data collection.

3.3 Populations and Sample

Fiscal Year, 20 commercial Banks (NRB 2023) are run by Nepal Rastra Bank and are active throughout the country. For the sake of convenience, this study's sample consists of only two commercial banks: Nepal Bank Ltd. and Everest Bank Ltd. The remaining commercial banks are regarded as the population. These banks' sample size is equivalent to 6.67% of the overall population. The analysis was conducted using data spanning five years, from FY 2069/70 to FY 2073/74. The commercial banks listed below have been chosen for this investigation.

They are :

1. Everest Bank Limited
2. Nepal Bank Limited

3.4 Data Collection Method

This study is based on secondary data. Secondary data have been collected from their respective annual report especially from profit and loss account, balance sheet and other publications made by the banks. Also some data have been gathered from Nepal Stock Exchange's Website. Similarly, articles, journals related to the financial performance study, previous research report etc., have also been taken into account while collecting information

3.5 Method of Data Analysis

Financial statements of the chosen banks have been examined utilizing financial and statistical methods in order to meet the study's objectives.

3.5.1 Financial Tools

The strength and weakness of the sample banks have been evaluated in this study using the following financial instruments.

3.5.1.1 Ratio Evaluation

According to Van Horne (1979), financial analysis is the process of determining a company's financial strengths and weaknesses by establishing a relationship between the balance sheet and the profit and loss account. One of the most popular methods for assessing the state of the finances, operational performance, and growth is ratio analysis (Poudel, 2053).

3.5.1.2. Liquidity Ratio

Important financial metrics called liquidity ratios are employed to evaluate a debtor's ability to pay off existing debts without the need for outside financing. These ratios compute indicators like the current ratio and the quick ratio to assess a company's debt-repayment capacity and financial safety margin.

a) Current Ratio

The link between current assets and current liabilities is shown by the current ratio. Assets that can be turned into cash quickly—usually within a year—are referred to as current assets. Inventory, cash on hand, bank deposits, accounts receivable, bills receivable, marketable securities, prepayment of expenses, and short-term loans and advances are examples of these assets. On the other hand, current liabilities consist of bills payable, accounts payable, cash credits, accrued expenses, and bank overdrafts. This ratio indicates the firm's ability to meet its short-term obligations.

A higher current ratio indicates a favorable financial position for the firm, with a standard benchmark often set at 2:1. Conversely, a lower ratio suggests an unfavorable financial status and poor solvency. This metric reflects the bank's short-term solvency by comparing current assets to current liabilities. A higher ratio signifies robust short-term solvency, while a lower ratio indicates weakness. As commercial entities reliant on

customer deposits, these organizations adhere to the NRB's guidelines to maintain an appropriate ratio.

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

b) Cash and Bank Balance to Current Assets Ratio

This ratio plays a crucial role in assessing a firm's liquidity position by focusing on cash and bank balances, which are the most readily available current assets. A higher ratio indicates a strong liquidity position, while a lower ratio suggests the opposite. It calculates the percentage of the bank's total current assets that are the most liquid, such as cash. A greater ratio shows how well the bank can meet its cash needs. The bank must carefully monitor this ratio, staying away from extremes: too high of a ratio means idle money that don't produce interest, while too low of a ratio could make it difficult to satisfy consumer demands.

This ratio is obtained by using the following formula:

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

c) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balances represent the most readily available current assets. This ratio quantifies the portion of highly liquid funds held by the bank that can be used for immediate depositor payments.

This ratio can be computed by dividing cash and bank balance by total deposit and can be presented as:

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

Checks and other cash equivalents, cash on hand, and balances kept with local and foreign financial institutions are all included in the terms "cash and bank balances." The total deposits comprise customer deposits made into various accounts such as call, savings, fixed, current (demand), and other bank accounts.

d) Investment on Government Securities to Total Current Assets Ratio

The percentage of current assets allocated to government securities, such as treasury bills and development bonds, is calculated using this ratio. It shows how much of a commercial bank's capital is allocated to its current assets. Funds from commercial banks are invested in a variety of securities, both government and non-government. Treasury bills, development bonds, and national savings bonds are examples of government securities; shares, debentures, preference shares, mutual funds, and hybrid securities are examples of non-government securities.

The ratio is stated as under;

Investment on Govt. Securities to Total Current Assets Ratio=

$$\frac{\text{Investment on Govt. Securities}}{\text{Current Assets}}$$

ii) Assets Management Ratio

The allocation of assets and liabilities on a balance sheet is evaluated by the asset management ratio. Optimal utilization of these elements is ensured by their efficient management.

In the banking sector, liabilities are transformed into assets through lending and investment activities. The effectiveness of a bank's asset and portfolio management is assessed using a variety of ratios.

a) Loan and Advances to Total Deposit Ratio

Termed as the credit-deposit ratio (CD ratio), this metric indicates the bank's efficiency in utilizing its total deposits for profit-generating purposes through loans and advances. A higher ratio signifies more effective use of total deposits. By dividing loans and advances by total deposits, the following ratio may be calculated.

$$\text{Ratio of Loans and Advances to Total Deposit} = \frac{\text{Loan and Advances}}{\text{Total deposit}}$$

b) Total Investment to Total Deposit Ratio

Investment serves as a significant method for credit creation and income generation. It involves utilizing a firm's deposits for investments in government securities, shares, debentures of other companies, and banks. A high investment ratio reflects the bank's success in utilizing its deposits for investment activities, while a low ratio suggests otherwise. It's crucial for the bank to strike a balance between investment returns and the risk of liquidation.

By dividing the total investment by the total deposit, one can compute this ratio as follows:

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

The majority of loans and advances make up the total working fund (total assets), which shows how well the bank can use its deposits to generate high returns on loans and advances. The following formula is used to calculate the ratio: loan and advances divided by total working fund.

c) Loan and Advances to Working Fund Ratio

The majority of loans and advances make up the total working fund (total assets), which shows how well the bank can use its deposits to generate high returns on loans and advances. The following formula is used to calculate the ratio: loan and advances divided by total working fund.

$$\text{Loan and Advances to Working Fund Ratio} = \frac{\text{Loan and Advances}}{\text{Working Fund}}$$

3. 6 Profitability Ratio

Profitability ratios are a useful tool for assessing a company's overall profitability and financial performance. A firm's profitability ratios should be greater for improved performance. This will result in the computation of the profitability ratio that follows.

a) Interest Income to Total Income Ratio

This ratio calculates the amount of interest income relative to the bank's overall revenue. The high ratio shows that lending and investing have contributed significantly, and vice versa. To complete this ratio, divide interest income by the total income shown below;

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

b) Total Interest Earned to Total outside Assets Ratio

This ratio assesses the bank's ability to generate interest by using outside assets effectively. A higher percentage suggests that external assets are used effectively to generate interest. This ratio can be expressed as follows and is computed by dividing the entire interest earned by the total amount of outside assets.

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

The total interest income from investments, advances, and loans is included in the numerator, while all types of investments, bills that have been bought and discounted, and advances are included in the denominator hybrid securities, mutual funds, preference shares, and ventures.

c) Interest Expenses to Total Expenses Ratio

This ratio assesses the portion of overall costs that can be ascribed to interest costs. Whereas a low ratio denotes greater operational efficiency, a large ratio points to lower efficiency. Divide interest expenses by total expenses to get this ratio.

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

d) Return on Equity (ROE)

Return on Equity, or ROE, measures a company's profitability in relation to the capital that its owners have invested in it. The policyholder's surplus would be the denominator for ROE in the case of firms owned by policyholders. Generally speaking, development banks should aim for a ROE of between 10% and 15%.

ROE calculating by following formula:

$$\text{Return on Equity (ROE)} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

e) Return on Assets (ROA)

ROA, or Return on Assets, measures the profitability of a company relative to its investments or assets. For development banks, it is advisable to target an ROA within the range of 0.5% to 1%.

ROA is calculated by following formula.

$$\text{Return on total Assets (ROA)} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

f) Earning per Share (EPS)

Earnings per share (EPS) is computed by dividing the net profit after tax by the number of outstanding shares.

$$\text{Earning per share (EPS)} = \frac{\text{Net Profit}}{\text{No of Share}}$$

g) Price Earning ratio (P/E Ratio)

The Price-Earnings (P/E) ratio indicates the price investors are willing to pay for each unit of a company's reported earnings per share. By dividing the market value per share by the earnings per share, it is computed. It is computed as follows:

$$\text{P/E Ratio, or price-earning ratio} = \frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$$

3.6.1 Statistical Tools

Statistical tools play a crucial role in analyzing data, offering insights into variation, standard deviation, correlation, growth rates, and more. These analyses help in assessing how well an organization is managed. If statistical tools reveal areas of weakness, they enable management to implement corrective measures. The primary statistical tools used for data analysis include:

i) Arithmetic Mean

Summing up all of the data and dividing by the total number of observations yields the mean, which is the average value of a set of observations. Here is how it is expressed using the formula:

$$\text{Arithmetic Mean } (\bar{x}) = \frac{\sum x}{n}$$

Where,

$\sum x$ = Mean of the values

N= Number of pairs of observations.

ii) Standard Deviation

Standard deviation quantifies the extent of dispersion within a dataset. Dispersion refers to how spread out the values in a series are around their average. A higher dispersion results in a greater standard deviation. A small standard deviation indicates that the observations are closely clustered around the mean, suggesting homogeneity and consistency throughout the series. A high standard deviation, on the other hand, denotes less regularity. Here's how this is computed.

$$\text{Standard Deviation} = \sqrt{\frac{\sum (x - \bar{x})^2}{N}}$$

Where,

N= No. of observation,

X= individual value and

\bar{X} = Simple arithmetic mean / average.

iii) Coefficient of Variation (CV)

The calculations above yield an absolute measure of dispersion, which is the standard deviation. Consequently, comparing two sets of data just on the basis of their standard deviations is improper when the mean values of the variables differ. The coefficient of variation, or C.V., provides an independent way to compare the variability of two variables by providing a relative measure of dispersion.

The following formula provides the coefficient of variation (C.V.), which in turn provides the percentage.

$$C.V = \frac{\sigma}{\bar{X}}$$

Where,

σ = Standard deviation and \bar{X} = Mean or Average

The coefficient of variation, or coefficient of variability, represents the relative dispersion of a dataset when expressed as a percentage of the mean and standard deviation.

3.6.2. Correlation between risk and return

The correlation coefficient (r) is a statistical tool used to quantify the relationship between two variables. Variables are considered correlated when changes in one variable are associated with changes in the other. For example, an increase in advertising expenditure might be linked to an increase in sales. Karl Pearson's correlation coefficient is a commonly used method to calculate this measure of correlation. It is defined and represented by (r). R is a number that ranges from (-1) to (+1).

$$\text{Correlation coefficient (r)} = \frac{N\Sigma XY - \Sigma X.\Sigma Y}{\sqrt{N\Sigma X^2 - (\Sigma X)^2}.\sqrt{N\Sigma Y^2 - (\Sigma Y)^2}}$$

The correlation coefficient (r) ranges from -1 to +1, where -1 indicates a perfect negative correlation, +1 indicates a perfect positive correlation, and 0 indicates no correlation.

CHAPTER-IV

PRESENTATION AND ANALYSIS THE DATA

This chapter employs a systematic approach to utilize financial and statistical tools for the purpose of presenting, analyzing, and measuring the portfolio management practices of Nepal Bank Limited and Everest Bank Limited. The objective is to facilitate the presentation of findings, summary, conclusions, and recommendations derived from the study. The analysis and presentation of the banks' investment aspects are outlined as follows:

4.1 Financial Tools

Financial ratios are valuable instruments for both companies and investors, aiding in the analysis and comparison of relationships among various financial data points over time, within an industry, or across an entire sector. These ratios are derived from numerical values extracted from financial statements, offering meaningful insights into a company's performance. Financial ratios offer quantitative analysis, enabling the evaluation of a company's liquidity, leverage, growth, margins, profitability, rates of return, valuation, and more by utilizing data from balance sheets, income statements, and cash flow statements. Financial analysis involves examining the interrelationships among components of financial statements, such as the balance sheet and income statement, to gain a deeper comprehension of performance analysis and portfolio management in banks. A bank's portfolio management stance can be ascertained through financial analysis. The merits and weaknesses of portfolio management at Nepal Bank Limited and Everest Bank Limited are evaluated in this study using a variety of financial instruments.

4.1.1 Liquidity Ratio

Liquidity ratios assess a company's capacity to fulfill its short-term financial obligations. The following ratios, which gauge banks' liquidity positions, are computed:

i) Current Ratio

A reliable approach to assessing an enterprise's liquidity is through the current ratio, calculated as current assets divided by current liabilities. The generally accepted standard for the current ratio is 2:1, which is considered ideal for companies. However, the

satisfactory ratio can vary based on the company's nature, the growth of the capital market, as well as the accessibility of long-term financing for the purchase of current assets. The corporation may have an excessive investment in current assets, which could lower its return, if the current ratio is greater than 2:1.

Table 4.1
Current Ratio

(Amount in Million)

FY	NBL			EBL		
	CA	CL	Ratio	CA	CL	Ratio
2075/76	10882.48	4679.51	2.33	28714.07	23532.13	1.22
2076/77	13226.43	2770.64	4.77	30513.52	10733.33	2.84
2077/78	25484.91	4910.96	5.19	28247.00	9186.96	3.07
2078/79	29750.26	5615.58	5.30	32880.36	7620.51	4.31
2079/80	35051.24	8217.83	4.27	29825.00	6238.61	4.78
	Average (x)		4.37			3.25
	Standard Deviations (σ)		1.21			1.40
	Coefficient of Variation (CV)		0.28			0.43

(Source: Annual Report of NBL and EBL, 2075-76 to 2079-80)

Table 4.1 illustrates the current ratios for NBL over five fiscal years, from 2075/76 to 2079/80, which are 2.33, 4.77, 5.19, 5.30, and 4.27, respectively, with a mean ratio of 4.37 and a standard deviation of 0.28. In contrast, EBL's current ratios for the same period are 1.22, 2.84, 3.07, 4.31, and 4.78, with a mean of 3.25 and a standard deviation of 1.40. Throughout the study period, both NBL and EBL's current ratios experienced slight fluctuations. Both banks managed to maintain their current ratios, with some variations over the years.

Figure 4.1

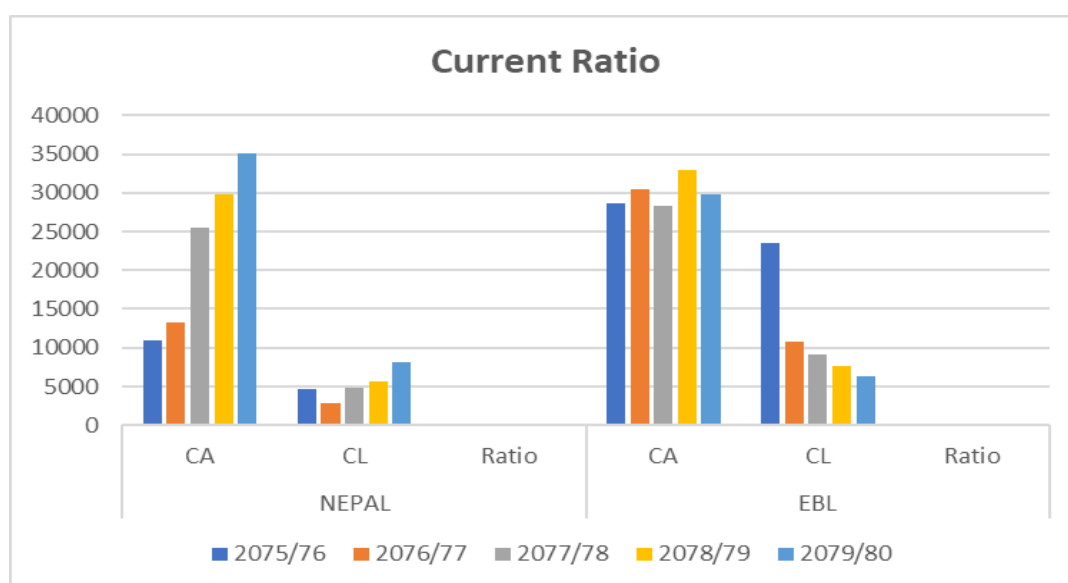


Figure 4.1 illustrates that NBL's current ratio followed an increasing trend from FY 2075/76 to 2078/79, with a slight decrease in 2079/80. Conversely, EBL's current ratio showed a significant upward trend throughout the period. NBL's highest current ratio was 5.30 in FY 2078/79, while EBL's peak ratio was 4.78 in FY 2079/80.

ii) Cash to Current Assets

A bank's ability to pay its debts using its most liquid asset, cash, is gauged by the cash to current assets ratio. This ratio indicates the bank's ability to quickly fulfill customer deposit withdrawals. A high ratio suggests the bank is well-equipped to meet daily cash demands, while a low ratio suggests the opposite. However, both excessively high and low ratios are undesirable. This ratio is calculated by dividing the cash balance by current assets.

Table 4.2
Cash to Current Assets Ratio

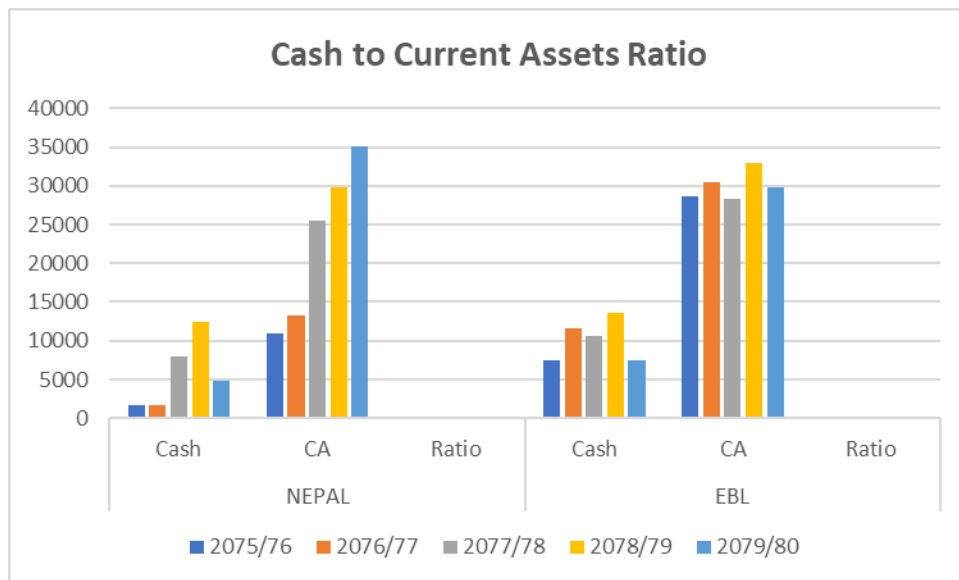
(Amount in Million)

FY	NBL			EBL		
	Cash	CA	Ratio	Cash	CA	Ratio
2075/76	1640.63	10882.48	0.15	7442.65	28714.07	0.26
2076/77	1637.48	13226.43	0.12	11539.08	30513.52	0.38
2077/78	7952.35	25484.91	0.31	10610.89	28247.00	0.38
2078/79	12479.7	29750.26	0.42	13520.57	32880.36	0.41
2079/80	4799.63	35051.24	0.14	7538.03	29825.00	0.25
	Average (x)		0.23			0.34
	Standard Deviations (σ)		0.13			0.07
	Coefficient of Variation (CV)		0.57			0.22

(Source: Annual Report of NBL and EBL, 2075-76 to 2079-80)

Table 4.2 presents the cash to current assets ratio for NBL, which are 0.15, 0.12, 0.31, 0.42, and 0.14 from FY 2075/76 to 2079/80, respectively. The mean ratio is 0.23, with a standard deviation of 0.13 and a coefficient of variation (C.V.) of 0.57. In comparison, EBL's ratios for the same period are 0.26, 0.38, 0.38, 0.41, and 0.25, with a mean ratio of 0.34, a standard deviation of 0.07, and a C.V. of 0.22. Both banks have shown fluctuations in this ratio over the years, which is concerning due to the significant variability.

Figure 4.2



The ratio of NBL's cash and bank balance to current assets, as depicted in Figure 4.2, demonstrated a variable pattern, with the largest percentage recorded in FY 2078/79 relative to the preceding fiscal years. Similarly, EBL's cash and bank balance to current assets ratio also displayed a fluctuating trend, reaching its peak in FY 2078/79.

iii) Cash and Bank Balance to Total Deposit Ratio

Current assets that are the most liquid are cash and bank balances. The percentage of these highly liquid assets that a bank can employ to immediately pay depositors is assessed by this ratio. A greater ratio shows how well the bank can meet demand for cash. You might think of this ratio as a hybrid of the liquidity reserve ratio (LRR) and the cash reserve ratio (CRR). The cash that the bank has in its vault is known as the LRR, whereas the amount deposited with the NRB is known as the CRR. Currently, the NRB sets the CRR at 5% of total deposits.

Table 4.3
Cash and Bank Balance to Total Deposit Ratio

(Amount in Million)

FY	NBL			EBL		
	Cash and Bank	Total Deposit	Ratio	Cash and Bank	Total Deposit	Ratio
2075/76	10492.46	110210.93	0.10	28714.07	99353.33	0.29
2076/77	13226.43	118684.42	0.11	30513.52	118921.05	0.26
2077/78	25484.91	134810.67	0.19	28247.00	136585.58	0.21
2078/79	29750.26	162954.00	0.18	32880.36	149392.28	0.22
2079/80	35051.24	190806.47	0.18	29825.00	166362.13	0.18
	Average		0.15			0.23
	Standard Deviations		0.05			0.04
	Coefficient of Variation		0.30			0.19

(Source: Annual Report of NBL and EBL, 2075-76 to 2079-80)

The Cash and Bank Balance to Total Deposit Ratio for NBL is shown in Table 4.3. which are 0.10, 0.11, 0.19, 0.18, and 0.18 from FY 2075/76 to 2079/80, respectively, with a mean ratio of 0.15, a standard deviation of 0.05, and a coefficient of variation (C.V.) of 0.30. For EBL, the ratios are 0.29, 0.26, 0.21, 0.22, and 0.18 over the same period, with a mean ratio of 0.23, a standard deviation of 0.04, and a C.V. of 0.19. EBL has managed to maintain a more adequate ratio compared to NBL, as set by the NRB. A higher ratio indicates a bank's ability to cover sudden deposit outflows from cash and bank balances, though an excessively high ratio is not desirable.

Figure 4.3

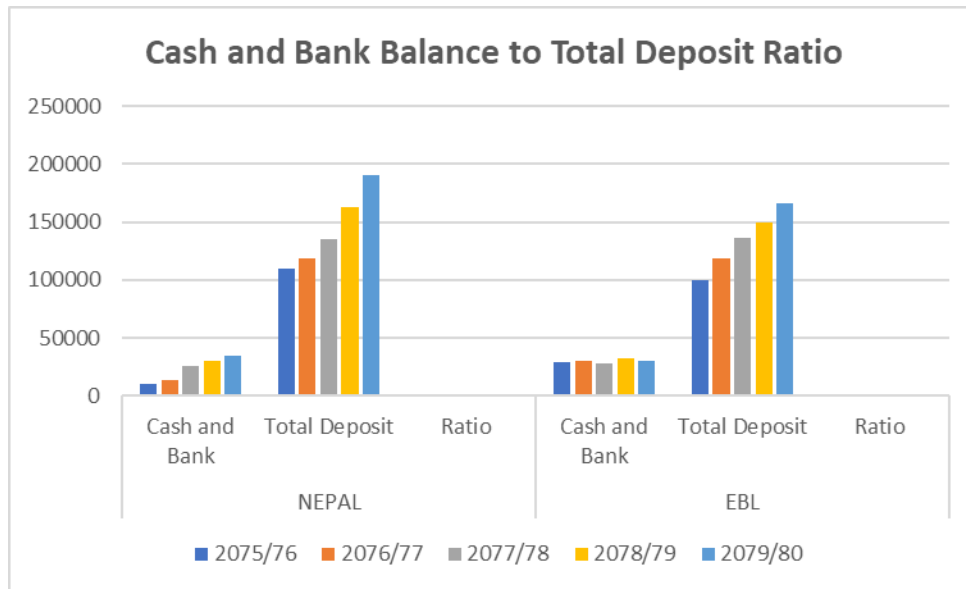


Figure 4.3 depicts the Cash and Bank Balance to Total Deposit ratios for NBL and EBL. Nepal's ratio showed an increasing trend except for FY 2078/79 and FY 2079/80. In contrast, EBL's ratio exhibited a fluctuating trend. Overall, EBL's Cash and Bank Balance to Total Deposit ratio is more favorable compared to Nepal's.

iv) Investment in securities to Current Assets Ratio

The bank allocates its funds to various non-financial instruments, such as investments in associate companies, hydro projects, loans, and other ventures. The primary goal of the Investment in Securities to Current Assets ratio is to assess the proportion of current assets allocated to investments.

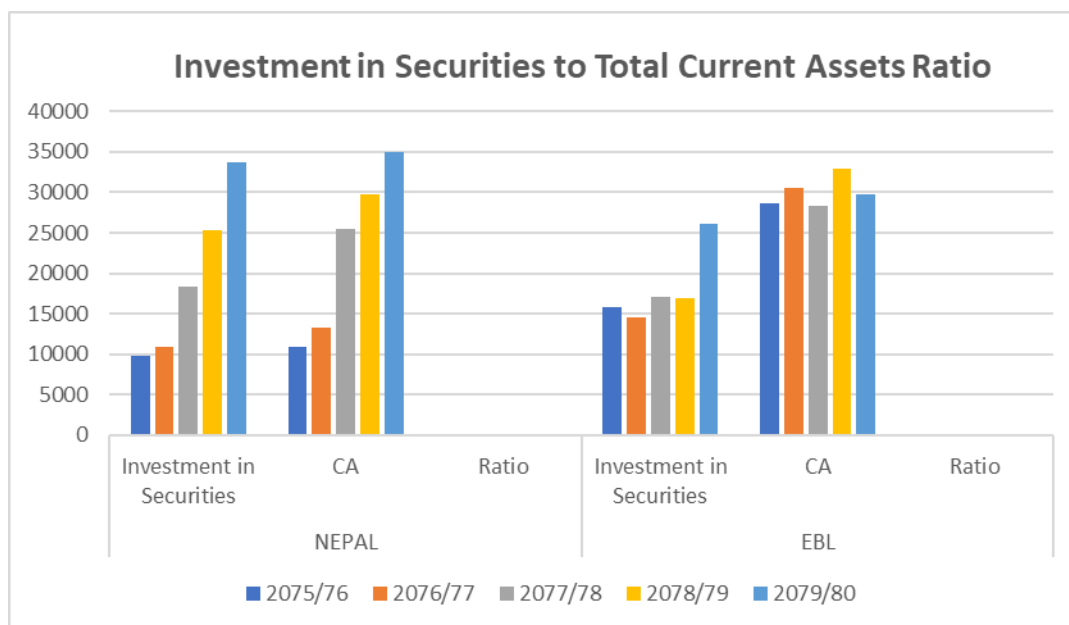
Table 4.4
Investment in Securities to Total Current Assets Ratio:
(Amount in Million)

FY	NBL			EBL		
	Investment in Securities	CA	Ratio	Investment in Securities	CA	Ratio
2075/76	9818.8	10882.48	0.90	15767.78	28714.07	0.55
2076/77	10961.78	13226.43	0.83	14477.69	30513.52	0.47
2077/78	18388.08	25484.91	0.72	17154.38	28247.00	0.61
2078/79	25303.07	29750.26	0.85	16973.47	32880.36	0.52
2079/80	33633.4	35051.24	0.96	26078.44	29825.00	0.87
	Average (x)		0.85			0.60
	Standard Deviations (σ)		0.09			0.16
	Coefficient of Variation (CV)		0.10			0.26

(Source: Annual Report of NBL and EBL, 2075-76 to 2079-80)

Table 4.4 presents the Investment in Securities to Current Assets Ratio for NBL, which are 0.90, 0.83, 0.72, 0.85, and 0.96 from FY 2075/76 to 2079/80, respectively. NBL has a mean ratio of 0.85, a standard deviation of 0.09, and a coefficient of variation (C.V.) of 0.10. For EBL, the ratios over the same period are 0.55, 0.47, 0.61, 0.52, and 0.87, with a mean ratio of 0.60, a standard deviation of 0.16, and a C.V. of 0.26. Based on the mean ratios, NBL has invested a larger portion of its current assets in securities compared to EBL.

Figure 4.4



Investment in Securities to Total Current Assets ratios for NBL and EBL are shown in Figure 4.4. NBL's ratio exhibited a fluctuating trend, with a higher proportion observed in FY 2079/80 compared to other periods. Similarly, EBL's ratio also showed a fluctuating trend in FY 2079/80. Overall, EBL appears to have a better investment in securities ratio compared to NBL.

4.1.2 Assets Management Ratio

The Asset Management Ratio assesses a bank's ability to efficiently utilize its assets. Efficient management of assets is crucial for a commercial bank to generate sustainable profits and thrive in a competitive environment. This ratio is instrumental in evaluating a bank's efficiency in fund mobilization.

i) Loan and Advance to Total Deposit Ratio

This ratio evaluates a bank's efficiency in utilizing its deposits for loans and advances to generate profits. A higher ratio suggests better bank performance, while a lower ratio indicates the opposite. However, banks must also ensure capital adequacy by balancing loans and advances with total deposits. The NRB states that the ratio cannot be higher than 90%. Either a percentage or a fraction can be used to indicate the loan-to-advance ratio.

Table 4.5
Loan and Advance to Total Deposit Ratio

(Amount in Million)

FY	NBL			EBL		
	Loan and Advance	Total Deposit	Ratio	Loan and Advance	Total Deposit	Ratio
2075/76	76106.02	110210.93	0.691	86105.75	99353.33	0.867
2076/77	89877.13	118684.42	0.757	105576.51	118921.05	0.888
2077/78	113625.15	134810.67	0.843	120825.5	136585.58	0.885
2078/79	133558.73	162954.00	0.820	127140.97	149392.28	0.851
2079/80	153890.43	190806.47	0.807	140002.16	166362.13	0.842
	Average		0.783			0.866
	Standard Deviations		0.061			0.020
	Coefficient of Variation		0.077			0.023

(Source: Annual Report of NBL and EBL, 2075-76 to 2079-80)

Table 4.5 presents the Loan and Advance to Total Deposit Ratio for EBL and NBL. For EBL, the ratios from FY 2075/76 to 2079/80 are 0.691, 0.757, 0.843, 0.820, and 0.807, with a mean ratio of 0.783, a standard deviation of 0.061, and a coefficient of variation (C.V.) of 0.077. In comparison, NBL's ratios for the same period are 0.867, 0.888, 0.885, 0.851, and 0.842, with a mean ratio of 0.866, a standard deviation of 0.020, and a C.V. of 0.023. Both banks have maintained ratios below the standard 90%, indicating their ability to manage sudden and short deposit outflows. EBL, in particular, has effectively utilized its available funds.

Figure 4.5

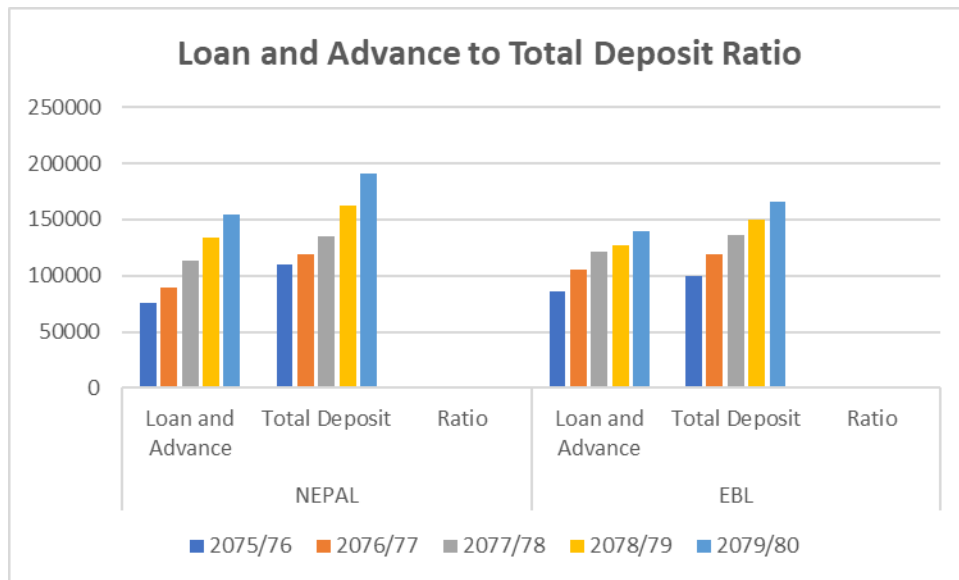


Figure 4.5 illustrates the Loan and Advance to Total Deposit ratio for NBL and EBL over five years. NBL achieved its highest ratio in FY 2077/78 and its lowest in FY 2075/76. Conversely, EBL's highest ratio was in FY 2075/76 and its lowest in FY 2079/80. Comparatively, EBL's performance is better than Nepal's based on their respective ratios.

ii) Total Investment to Total Deposit Ratio

Through deposits, a commercial bank raises capital, which it then uses to purchase securities from governments, other financial institutions, and non-financial companies. Efforts have been made to assess the bank's effectiveness in utilizing these deposits for investment purposes.

Table 4.6

Total Investment to Total Deposit Ratio

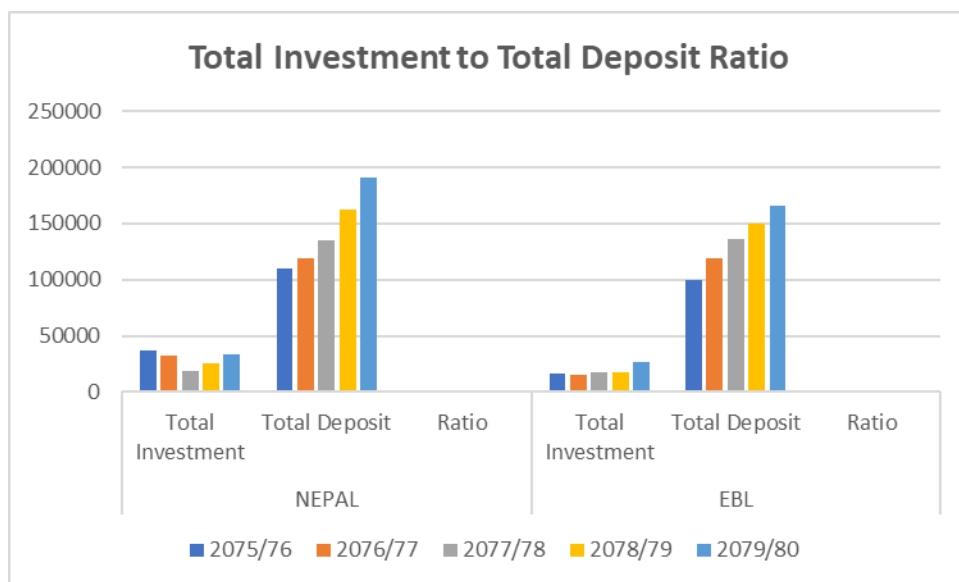
(Amount in Million)

FY	NBL			EBL		
	Total Investment	Total Deposit	Ratio	Total Investment	Total Deposit	Ratio
2075/76	36539.26	110210.93	0.33	15931.5	99353.33	0.16
2076/77	32729.36	118684.42	0.28	14766.77	118921.05	0.12
2077/78	18554.3	134810.67	0.14	17442.39	136585.58	0.13
2078/79	25469.29	162954	0.16	17441.42	149392.28	0.12
2079/80	33799.62	190806.47	0.18	26598.28	166362.13	0.16
	Average		0.22			0.14
	Standard Deviations		0.08			0.02
	Coefficient of Variation		0.39			0.15

(Source: Annual Report of NBL and EBL, 2075-76 to 2079-80)

Table 4.6 effectively illustrates the total investment, total deposit, and investment-to-deposit ratio. For NBL, the investment-to-deposit ratio over the fiscal years from 2075/76 to 2079/80 is as follows: 0.33, 0.28, 0.14, 0.16, and 0.18. The mean ratio is 0.22, with a standard deviation (S.D.) of 0.08 and a coefficient of variation (C.V.) of 0.39. In comparison, EBL's ratio during the same period is 0.16, 0.12, 0.13, 0.12, and 0.16, with a mean ratio of 0.14, an S.D. of 0.02, and a C.V. of 0.15. Based on the average values, NBL demonstrates a higher ability to invest a larger portion of its deposit collection than EBL. However, NBL's higher investment comes with increased risk and a greater C.V. compared to EBL.

Figure 4.6



The total investment to total deposit ratio for both NBL and EBL showed a pattern of oscillation, as shown in Figure 4.6. The greatest ratio for Nepal Bank was recorded in FY 2079/80, whilst the highest ratio for EBL was recorded in FY 2075/76.

4.1.3 Profitability Ratio

The purpose of any business organization is to turn a profit. For commercial banks, the primary objective is to achieve profitability by offering a variety of banking services to their customers. Profitability ratios are crucial for assessing a bank's overall efficiency. The bank's profit is influenced by several factors, including liquidity management, asset management, and leverage activities. Therefore, profit serves as a key indicator of a bank's operational efficiency. A higher profitability ratio signifies greater efficiency, while a lower ratio indicates less efficiency. The following ratios are displayed below and have been computed to evaluate profitability.

i) Interest Income to Total Income Ratio

The main source of revenue for a bank is interest income. This ratio calculates the interest income proportion of the bank's total revenue. It also reflects the bank's effectiveness in allocating its funds to interest-generating activities.

Table 4.7
Interest Income to Total Income Ratio

(Amount in Million)

FY	NBL			EBL		
	Interest Income	Total Income	Ratio	Interest Income	Total Income	Ratio
2075/76	6170.46	11987.56	0.51	6776.75	12140.57	0.56
2076/77	8116.51	15361.00	0.53	9440.73	16333.03	0.58
2077/78	11349.87	19569.72	0.58	13574.10	21504.89	0.63
2078/79	15243.78	24572.59	0.62	14975.21	23323.02	0.64
2079/80	16462.91	25791.72	0.64	15201.33	23278.16	0.65
	Average		0.58			0.61
	Standard Deviations		0.05			0.04
	Coefficient of Variation		0.09			0.07

(Source: Annual Report of NBL and EBL, 2075-76 to 2079-80)

The bank's interest income to total income ratio is shown in Table 4.7. This ratio for NBL during the fiscal years 2075/76 to 2079/80 is 0.51, 0.53, 0.58, 0.62, and 0.64, respectively, with a mean ratio of 0.58, a standard deviation (S.D.) of 0.05, and a coefficient of variation (C.V.) of 0.09. In contrast, EBL's ratios for the same period are 0.56, 0.58, 0.63, 0.64, and 0.65, with a mean ratio of 0.61, an S.D. of 0.04, and a C.V. of 0.07. The mean ratios indicate that EBL has been more successful in generating interest income compared to NEPAL. The higher S.D. and C.V. for NBL suggest greater variability in its interest income to total income ratio. This ratio can be graphically represented in the following figure:

Figure 4.7

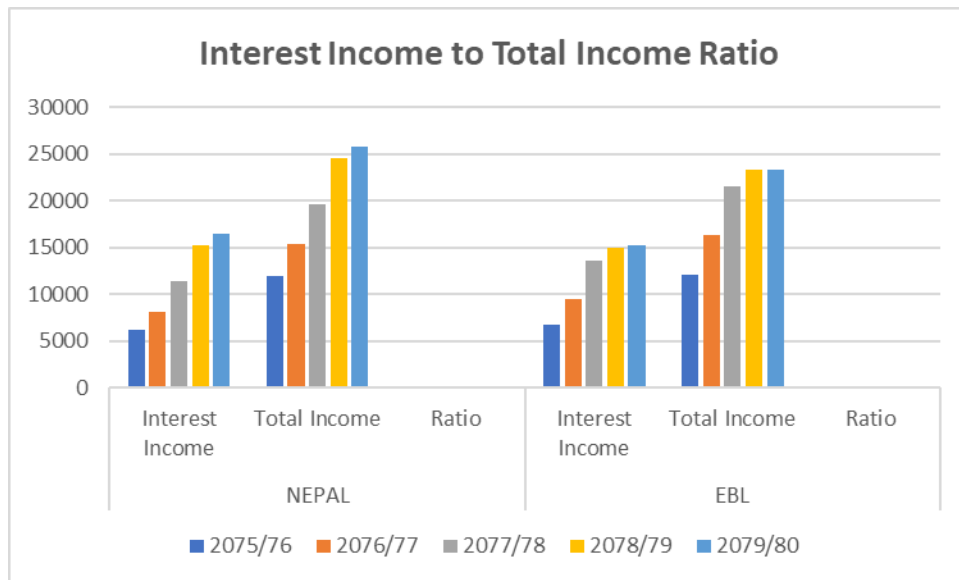


Figure 4.7 illustrates the increasing trend in the interest income to total income ratio for both banks. Both NBL and EBL reached their highest ratios in FY 2079/80. EBL bank achieved the highest interest income, demonstrating superior performance compared to NBL.

ii) Total Interest Earned to Total outside Assets Ratio

Commercial banks' advances, loans, and investments are considered outside assets. These assets are primary sources of the bank's interest income. The ratio measures how effectively the bank generates interest income from its outside assets. A high ratio signifies strong earning potential from these assets, while a low ratio indicates the opposite.

Table 4.8
Total Interest Earned to Total outside Assets Ratio

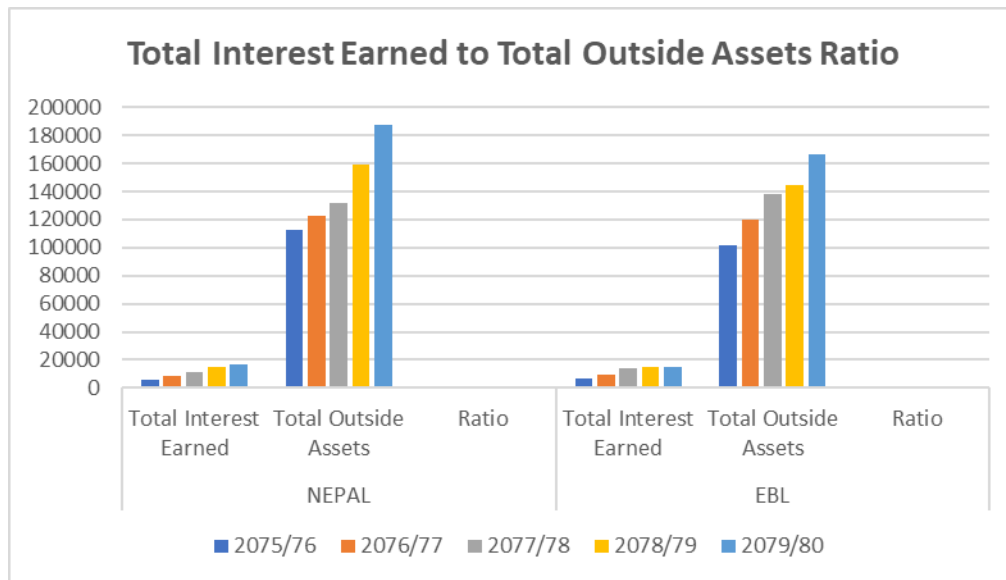
(Amount in Million)

FY	NBL			EBL		
	Total Interest Earned	Total Outside Assets	Ratio	Total Interest Earned	Total Outside Assets	Ratio
2075/76	6170.46	112645.28	0.055	6776.75	102037.25	0.066
2076/77	8116.51	122606.49	0.066	9440.73	120343.28	0.078
2077/78	11349.87	132179.45	0.086	13574.1	138267.89	0.098
2078/79	15243.78	159028.02	0.096	14975.21	144582.39	0.104
2079/80	16462.91	187690.05	0.088	15201.33	166600.44	0.091
	Average		0.078			0.088
	Standard Deviations		0.017			0.015
	Coefficient of Variation		0.217			0.173

(Source: Annual Report of NBL and EBL, 2075-76 to 2079-80)

Table 4.8 displays the interest to total outside assets ratio. For NBL, this ratio over the fiscal years 2075/76 to 2079/80 is 0.055, 0.066, 0.086, 0.096, and 0.088, respectively, with a mean ratio of 0.078, a standard deviation (S.D.) of 0.017, and a coefficient of variation (C.V.) of 0.217. NBL's ratio exceeded the average during FY 2077/78 to 2079/80. In contrast, EBL's ratios for the same period are 0.066, 0.078, 0.098, 0.104, and 0.091, with a mean ratio of 0.088, an S.D. of 0.015, and a C.V. of 0.173. EBL's ratio was above the average in FY 2077/78 to 2079/80. Both banks' ratios increased consistently until FY 2078/79 and then declined in 2079/80. In comparison to NBL, EBL's interest income from a mean perspective covers a bigger share of its total outside assets. Because interest income and total outside assets have grown more steadily, EBL has lower S.D. and C.V. values than NBL. This lower S.D. and C.V. indicate a less risky condition for EBL. The ratios for both banks can be graphically represented in the following figure:

Figure 4.8



For both banks, Figure 4.8 shows a notable rising trend in the ratio of total interest earned to total outside assets. Both banks' ratios increased consistently over the period. When comparing the total interest earned by both banks, EBL's ratio is higher than NBL's, indicating that EBL has performed better than NBL.

iii) Interest Expenses to Total Expenses Ratio

This ratio evaluates the percentage of interest paid in relation to all costs. Whereas a low ratio denotes significant operational costs, a high ratio represents low operational costs. The ratio also shows how expensive the bank's funding sources are.

Table 4.9
Interest Expenses to Total Expenses Ratio

(Amount in Million)

FY	NBL			EBL		
	Interest Expenses	Total Expenses	Ratio	Interest Expenses	Total Expenses	Ratio
2075/76	1829.49	4501.05	0.41	5192.86	5192.86	0.55
2076/77	2586.87	5781.90	0.45	7665.62	7665.62	0.58
2077/78	5087.81	9256.80	0.55	11552.07	11552.07	0.67
2078/79	8084.53	12858.48	0.63	12870.41	12870.41	0.68
2079/80	9479.25	14207.19	0.67	13081.36	13081.36	0.72
	Average		0.54			0.64
	Standard Deviations		0.11			0.07
	Coefficient of Variation		0.21			0.11

(Source: Annual Report of NBL and EBL, 2075-76 to 2079-80)

Table 4.9 presents the interest expenses to total expenses ratio. For NBL, this ratio over the fiscal years 2075/76 to 2079/80 is 0.41, 0.45, 0.55, 0.63, and 0.67, respectively, with a mean ratio of 0.54, a standard deviation (S.D.) of 0.11, and a coefficient of variation (C.V.) of 0.21. NBL's ratio exceeded the average from FY 2077/78 to 2079/80. In contrast, EBL's ratios for the same period are 0.55, 0.58, 0.67, 0.68, and 0.72, with a mean ratio of 0.64, an S.D. of 0.07, and a C.V. of 0.11. EBL's ratio also exceeded the average from FY 2077/78 to 2079/80. The average ratio of EBL is higher than that of NBL, indicating that NBL faces higher operational risk than EBL. The ratios for both banks are graphically presented in the following figure:

Figure 4.9

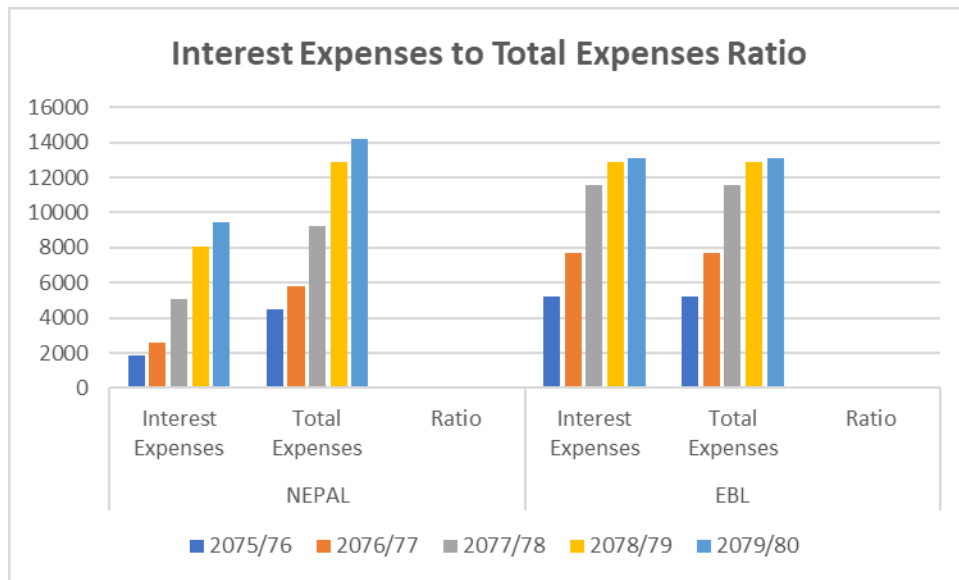


Figure 4.9 demonstrates a consistent upward trend in the interest expenses to total expenses ratio for both NBL and EBL, with both banks reaching their highest ratios in FY 2079/80. However, based on the ratio, it appears that NBL has outperformed EBL.

iv) Return on Equity (ROE)

Return on Equity (ROE) is a financial metric that evaluates a company's profitability by dividing its net income by the shareholders' equity. It provides insight into how effectively a company generates profits from its equity financing. A higher ROE indicates a more efficient conversion of equity financing into profits.

The ratio of the bank's net profit to the equity held by its shareholders is displayed as return on equity. It gauges how effectively equity contributes to the bank's net profit. By dividing the bank's net profit by the equity held by its shareholders, the ratio is computed.

Table 4.10
Return on Equity (ROE)

(Amount in Million)

FY	NBL			EBL		
	Net Income	Shareholder's Equity	Ratio	Net Income	Shareholder's Equity	Ratio
2075/76	2823.46	11639.19	0.243	2550.88	21081.51	0.121
2076/77	3645.28	14173.41	0.257	3992.34	24156.97	0.165
2077/78	3981.89	20586.36	0.193	3659.32	24871.02	0.147
2078/79	4238.85	23188.61	0.183	3324.11	25579.20	0.130
2079/80	3463.24	25855.66	0.134	2423.19	27173.16	0.089
	Average (x)		0.202			0.131
	Standard Deviations (σ)		0.049			0.029
	Coefficient of Variation (CV)		0.245			0.220

(Source: Annual Report of NBL and EBL, 2075-76 to 2079)

Table 4.10 displays the return on equity (ROE) for the study period. For NBL, this ratio over the fiscal years 2075/76 to 2079/80 is 0.243, 0.257, 0.193, 0.183, and 0.134, respectively, with a mean ratio of 0.202, a standard deviation (S.D.) of 0.049, and a coefficient of variation (C.V.) of 0.245. In contrast, EBL's ratios for the same period are 0.121, 0.165, 0.145, 0.130, and 0.089, with a mean ratio of 0.131, an S.D. of 0.029, and a C.V. of 0.220. The ROE for both banks fluctuated over the years. Based on the mean ratio, NBL provided higher returns to its shareholders compared to EBL. The ROE for both banks can be graphically represented in the following figure:

Figure 4.10

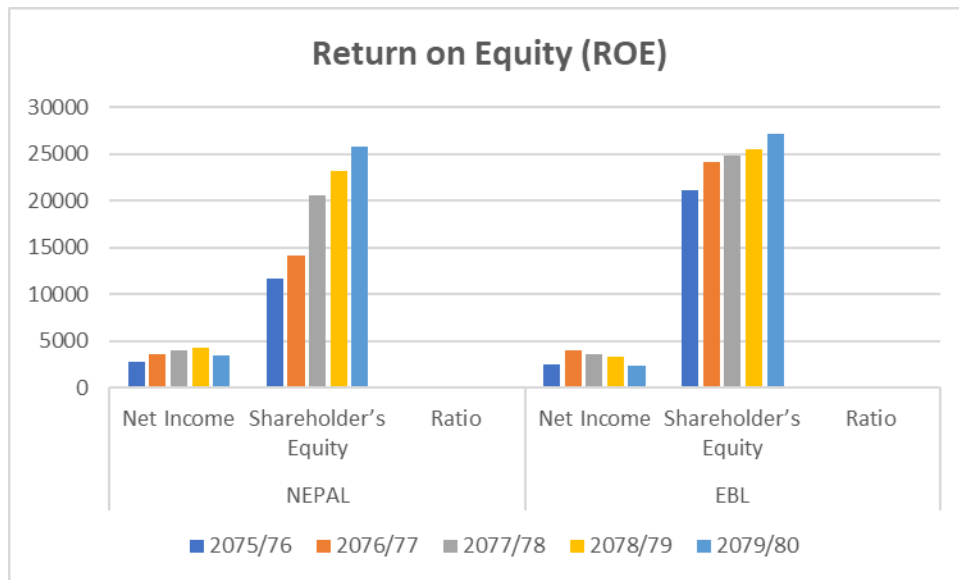


Figure 4.10 illustrates the return on equity (ROE) trends for NBL and EBL. NBL's ROE showed a decreasing trend overall, with the exception of FY 2076/77 where it increased. The highest ratio was observed in FY 2076/77, while the lowest was in FY 2079/80. On the other hand, EBL's ratio fluctuated over the period, reaching its lowest point in FY 2079/80 at 0.089 and its highest in FY 2075/76 at 0.165.

v) Return on Assets (ROA)

Return on Assets (ROA) is a financial metric that evaluates a company's efficiency in utilizing its assets to generate profits. It is calculated by dividing the company's net income by its total assets. ROA is particularly useful for comparing similar companies or analyzing a company's performance over time. Unlike Return on Equity (ROE), which only considers equity financing, ROA takes into account both debt and equity. ROA can be expressed as a percentage or a fraction. The table below displays the ROA values for NBL and EBL.

Table 4.11
Return on Assets

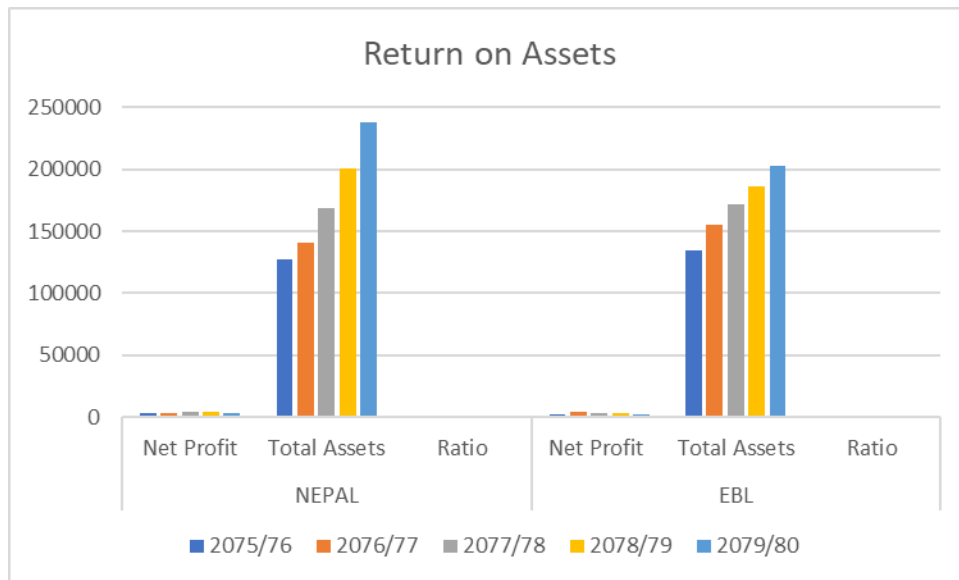
(Amount in Million)

FY	NBL			EBL		
	Net Profit	Total Assets	Ratio	Net Profit	Total Assets	Ratio
2075/76	2823.46	127619.36	0.022	2550.88	134516.97	0.019
2076/77	3645.28	140697.26	0.026	3992.34	155361.35	0.026
2077/78	3981.89	169076.1	0.024	3659.32	171893.55	0.021
2078/79	4238.85	201138.82	0.021	3324.11	185841.99	0.018
2079/80	3463.24	237680.03	0.015	2423.19	203023.9	0.012
	Average		0.021			0.019
	Standard Deviations		0.004			0.005
	Coefficient of Variation		0.198			0.262

(Source: Annual Report of NBL and EBL, 2075-76 to 2079-80)

Table 4.11 presents the Return on Assets (ROA) for NBL and EBL during the fiscal years 2075/76 to 2079/80. NBL's ROA values are 0.022, 0.026, 0.024, 0.021, and 0.015, with a mean ratio of 0.021, a standard deviation (S.D.) of 0.004, and a coefficient of variation (C.V.) of 0.198. In comparison, EBL's ROA values for the same period are 0.019, 0.026, 0.021, 0.018, and 0.012, with a mean ratio of 0.019, an S.D. of 0.005, and a C.V. of 0.262.

Figure 4.11
Return on Assets



The return on assets for both banks was erratic, as seen in Figure 4.11. The ratio for Nepal Bank was greater in FY 2076–2077 and lower in FY 2079–2080. EBL had a greater ratio in FY 2075–2076 and a lower ratio, or 0.012, in FY 2079–2080.

vi) Earning Per Share (EPS)

Earnings per share (EPS) is a key financial metric used to assess a company's profitability. It is calculated by subtracting preferred dividends from net income and then dividing by the average number of common shares outstanding. EPS provides insight into how much profit a company generates per outstanding share. Companies often adjust EPS for extraordinary items and potential share dilution to provide a more accurate picture of their financial performance.

A higher EPS is generally seen as a positive indicator of a company's profitability and efficiency. It signifies that the company is generating more profit per share, which can be attractive to investors. EPS is an important metric for estimating the value of a company's stock and is widely used in financial analysis.

EPS is calculated by dividing a company's total net earnings by the total number of shares outstanding. It is an indicator of the net profit per share and reflects the overall efficiency of the company. A higher EPS suggests greater efficiency, while a lower EPS indicates lower efficiency.

Table 4.12
Earnings Per Share (EPS)

(Amount in Million)

FY	NBL			EBL		
	Net Profit	No. of Shares	EPS	Net Profit	No. of Shares	EPS
2075/76	2823.46	47.57	59.35	2550.88	72.55	35.16
2076/77	3645.28	61.86	58.93	3992.34	84.48	47.26
2077/78	3981.89	76.81	51.84	3659.32	102.62	35.66
2078/79	4238.85	83.82	50.57	3324.11	125.77	26.43
2079/80	3463.24	95.78	36.16	2423.19	142.29	17.03
	Average (x)		51.37			32.31
	Standard Deviations (σ)		9.40			11.30
	Coefficient of Variation (CV)		0.18			0.35

(Source: Annual Report of NBL and EBL, 2075-76 to 2079-80)

Table 4.12 presents the Earnings Per Share (EPS) for NBL and EBL over the fiscal years 2075/76 to 2079/80. NBL's EPS values are 59.35, 58.93, 51.84, 50.57, and 36.16, with a mean EPS of 51.37, a standard deviation (S.D.) of 9.40, and a coefficient of variation (C.V.) of 0.18. In comparison, EBL's EPS values for the same period are 35.16, 47.26, 35.66, 26.43, and 17.03, with a mean EPS of 32.31, an S.D. of 11.30, and a C.V. of 0.35.

NBL's EPS shows a decreasing trend, while EBL's EPS appears to fluctuate. Overall, NBL's EPS is more attractive than EBL's. The higher S.D. and C.V. of EBL's EPS distribution compared to NBL's indicate greater variation in EBL's EPS over the time spent studying. As seen in the figure below, this data can also be graphically displayed visually:

Figure 4.12

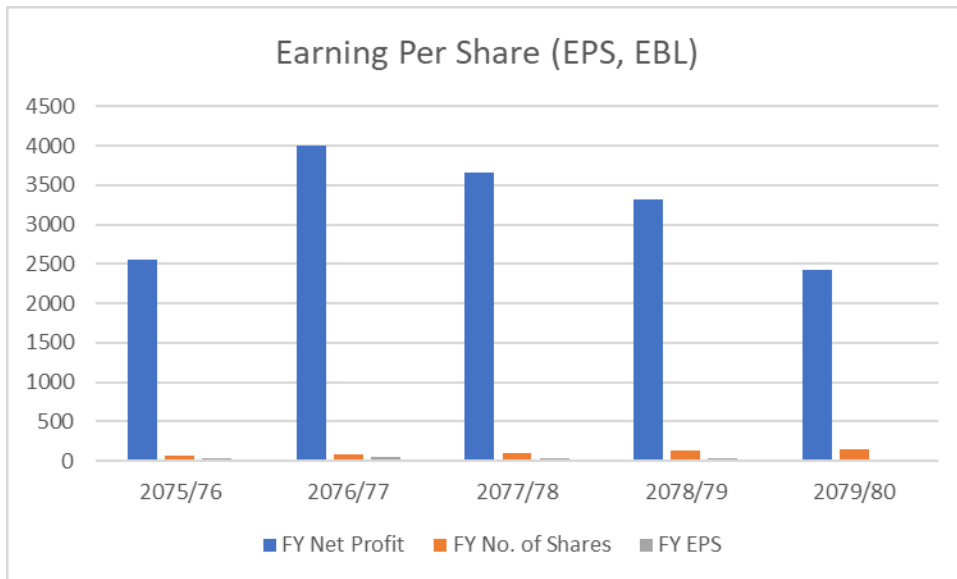
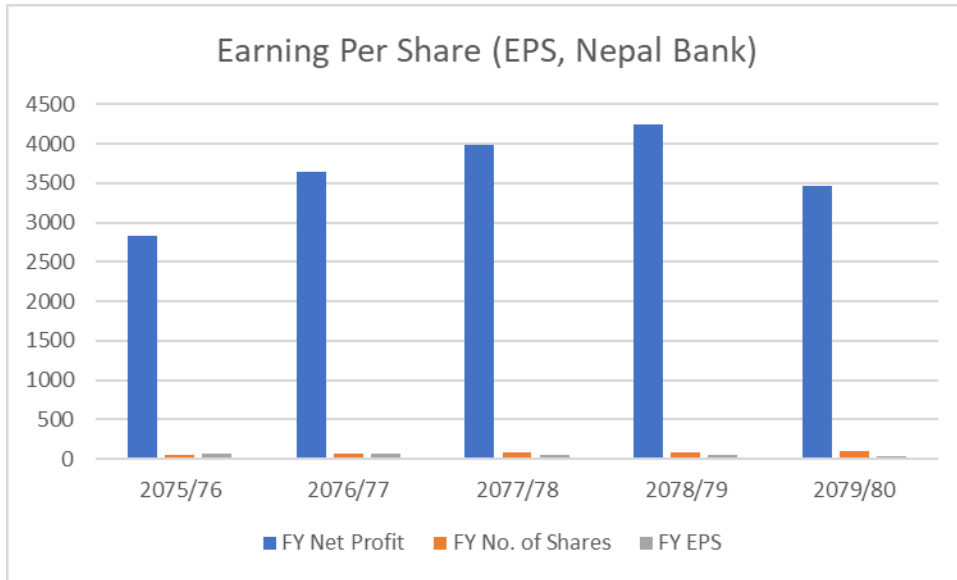


Figure 4.12 depicts the trend of earnings per share (EPS) over a five-year period. For NBL, EPS showed a decreasing trend overall, with an exception in FY 2076/77 where it increased. The highest ratio was recorded in FY 2075/76 at 59.35. In contrast, EBL's EPS demonstrated a decreasing trend, with the highest ratio observed in FY 2076/77 at 47.26 and the lowest in FY 2079/80 at 17.03. NBL's EPS was more attractive than EBL's, indicating that NBL performed better than EBL.

vii) Return on Investment Ratio

An organization's investment strategy's ability to generate profits is shown by the Return on Investment (ROI) ratio. A higher ratio suggests that the organization is more successful

in earning returns on its investments. ROI is a metric used to assess the profitability of an organization and measures how efficiently it can generate earnings from its investments.

Table 4.13
Return on Investment Ratio

(Amount in Million)

FY	NBL			EBL		
	Net Profit	Investment	Ratio	Net Profit	Investment	Ratio
2075/76	2823.46	36539.26	0.077	2550.88	15931.5	0.160
2076/77	3645.28	32729.36	0.111	3992.34	14766.77	0.270
2077/78	3981.89	18554.3	0.215	3659.32	17442.39	0.210
2078/79	4238.85	25469.29	0.166	3324.11	17441.42	0.191
2079/80	3463.24	33799.62	0.102	2423.19	26598.28	0.091
	Average		0.134			0.184
	Standard Deviations		0.055			0.066
	Coefficient of Variation		0.412			0.357

(Source: Annual Report of NBL and EBL, 2075-76 to 2079-80)

Table 4.13 presents the Return on Investment (ROI) for both NBL and EBL over the period from 2075/76 to 2079/80. NBL's ROI values are 0.077, 0.111, 0.215, 0.166, and 0.102, with a mean ratio of 0.134, a standard deviation (S.D.) of 0.055, and a coefficient of variation (C.V.) of 0.412. In comparison, EBL's ROI values for the same period are 0.160, 0.270, 0.210, 0.191, and 0.091, with a mean ratio of 0.184, an S.D. of 0.066, and a C.V. of 0.187. The data indicates that EBL is able to achieve a higher return on investment compared to NBL.

Figure 4.13

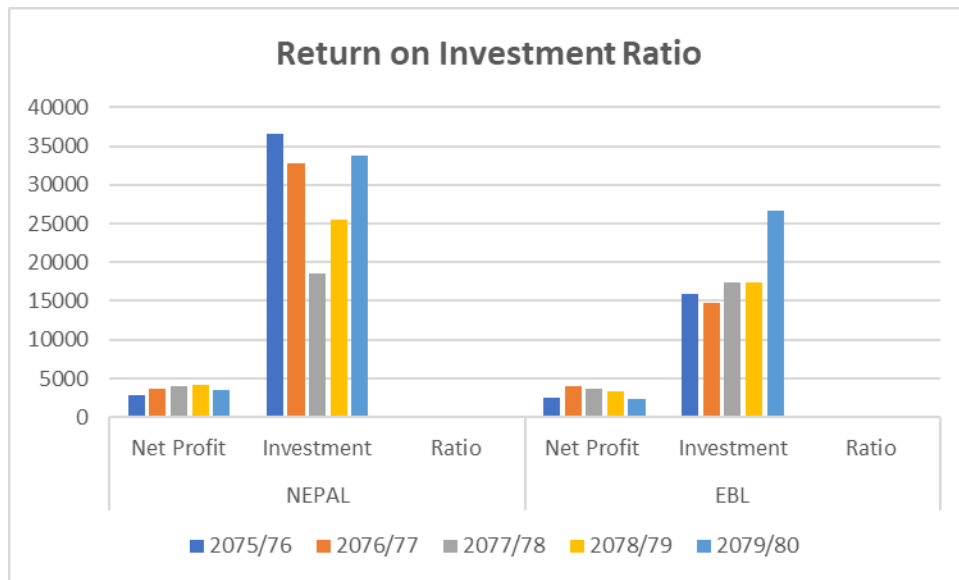


Figure 4.13 illustrates the trend of return on investment (ROI) for NBL and EBL. For NBL, the ROI ratio showed a fluctuating trend, with the lowest ratio recorded in FY 2075/76 at 0.077 and the highest in FY 2077/78 at 0.215. In contrast, EBL's ROI demonstrated a decreasing trend, except for FY 2073/74 and FY 2077/78. The highest ratio for EBL was in FY 2076/77 at 0.270, while the lowest was in FY 2079/80 at 0.091.

4.1.4 Correlation Analysis

Correlation analysis is a statistical technique commonly employed in data analytics to determine whether a relationship exists between two variables or datasets, as well as the strength of that relationship. In the finance and investment sectors, correlation is a metric used to gauge how closely two securities move in relation to each other. This is crucial for portfolio management, where correlations are computed as correlation coefficients. These coefficients range between -1.0 and +1.0, indicating the strength and direction of the relationship between the securities.

i) Correlation Analysis of Loan and Advance and Interest Income

This section looks at the relationship between the chosen banks' interest income (dependent variable) and loan and advance (independent variable).

Table 4.14
Correlation between Loan and Advance and Interest Income

Bank	Correlation Coefficient	Remarks
NBL	0.991	Highly Positive
EBL	0.971	Highly Positive

Table 4.14 presents the correlation analysis results between loan and advance and interest income for NBL and EBL. The correlation coefficients for NBL and EBL are 0.991 and 0.971, respectively, indicating a strong positive relationship between the two variables. This suggests that as the loan and advance amounts increase, the interest income also tends to increase.

ii) Correlation Analysis of Loan and Advance and Net Profit

Loans and advances are key avenues through which banks utilize deposits to generate interest income. The amount of money allocated to advances and loans has a big effect on a bank's overall profit. The purpose of this part is to investigate the connection between the chosen banks' net profits and their loans and advances.

Table 4.15

Correlation between Loan and Advance and Net Profit

Bank	Correlation Coefficient	Remarks
NBL	0.516	Positive
EBL	-0.069	Negative

The results of the correlation study between loans and advances and net profit for NBL and EBL are shown in Table 4.15. The correlation coefficients show that there is a positive link for NBL (0.516) and a negative relationship (-0.069) for EBL.

This suggests that an increase in loans and advances tends to increase the profits for NBL, but for EBL, an increase in loans and advances does not necessarily lead to higher profits. This situation highlights a significant challenge in the banking sector, where despite increasing loans and advances, profits may not increase. To address this issue, banks should focus on managing their portfolios effectively, diversifying investments to improve their overall profitability position.

Correlation Analysis of Investment in Securities and Net Profit

Investing in securities is another important way to make use of the deposit and generate income. The bank's net profit is also impacted by its securities investments. The purpose of this part is to examine the correlation between the sample bank's net profit and its investment in securities.

In terms of market research this means that, correlation analysis is used to analysis quantitative data gathered from research methods such as surveys and polls, to identify whether there is any significant connections, patterns, or trends between the two.

Table 4.16
Correlation between Investment in Securities and Net Profit

Bank	Correlation Coefficient	Remarks
NBL	0.390	Positive
EBL	-0.646	Negative

The correlation coefficient between the sample bank's net profit and its investment in securities over the study period spanning from 2075/76 to 2079/80 is displayed in Table 4.16. NBL's correlation coefficient, which shows a positive association, is 0.390. The net profit will likewise rise somewhat if the NBL bank increases the amount invested in securities. Similarly, the EBL correlation value is -0.640, indicating a negative association. The negative correlation of EBL means that profits will progressively decline even while investments in securities rise. The EBL should therefore effectively manage its portfolio.

4.2 Major Finding

The major finding of the study during the study period are as follows:

The peak current ratio for NBL is 5.30 in the fiscal year 2078/79. An average ratio is 4.37. The highest current ratio for EBL is 4.78 in the fiscal year 2079/80, with an average ratio of 3.25 over the study period.

NBL's highest current ratio is 5.30 for the fiscal year 2078/79, with an average ratio of 4.37. For EBL, the peak current ratio is 4.78 in the fiscal year 2079/80, and the mean ratio over the study period is 3.25.

For NBL, the average ratio of cash to current assets is 0.23, with a standard deviation of 0.13 and a coefficient of variation of 0.57. In comparison, EBL's average ratio is 0.34, with an S.D of 0.07 and a C.V of 0.22.

NBL has a mean cash and bank to total assets ratio of 0.15, with a standard deviation (S.D) of 0.05 and a coefficient of variation (C.V) of 0.30. EBL, in contrast, has a mean ratio of 0.23, a standard deviation of 0.04, and a coefficient of variation of 0.19. The higher percentage for EBL indicates a larger capacity to satisfy monetary demands.

The percentage of current assets devoted to securities is represented by the investment in securities compared to current assets. The ratio of NBL's average securities investment to total assets is 0.85, whilst EBL's is 0.60. A larger percentage of current assets are invested in securities, as indicated by the higher ratio for NBL.

The average loan and advance to total deposit ratio for NBL and EBL is 0.783 and 0.846, respectively, over the study period. NBL has a standard deviation of 0.061 and a coefficient of variation of 0.077, while EBL has an S.D of 0.020 and a C.V of 0.023.

NBL's average total investment to total deposit ratio is 0.22, with a standard deviation of 0.08 and a coefficient of variation of 0.39. EBL, on the other hand, has an average ratio of 0.14, with an S.D of 0.02 and a C.V of 0.15.

NBL's average ratio of interest income to total income is 0.58, with a standard deviation of 0.05 and a coefficient of variation of 0.09. Similarly, EBL's average ratio is 0.61, with an S.D of 0.04 and a C.V of 0.07.

For NBL and EBL, the ratio of total interest earned to total outside assets is 0.078 and 0.088, correspondingly. Outside assets are the loans, advances, and investments that commercial banks own and which provide the bank with interest income.

The average interest expenses to total expenses ratio for NBL and EBL is 0.54 and 0.64, respectively. A higher ratio for EBL suggests that EBL has higher operating costs compared to NBL. The standard deviation and coefficient of variation for NBL are 0.11 and 0.07, respectively, while for EBL, they are 0.21 and 0.11, respectively.

The average Return on Equity for NBL and EBL is 0.202 and 0.131, respectively. NBL has a standard deviation of 0.049 and a coefficient of variation of 0.245, while EBL has an S.D of 0.029 and a C.V of 0.220.

The average Return on Assets for NBL and EBL is 0.021 and 0.019, respectively. The higher ROA for NBL suggests the bank's proficiency in generating profits from its total assets. NBL has a standard deviation of 0.004 and a coefficient of variation of 0.198, while EBL has an S.D of 0.005 and a C.V of 0.262.

During the study period, the Earnings Per Share for NBL and EBL is 51.37 and 32.31, respectively. A higher EPS is a significant factor of attraction for both shareholders and clients. Comparing the mean EPS, NBL appears to be more efficient than EBL. The standard deviation for NBL and EBL is 9.40 and 11.30, respectively, with coefficient of variations of 0.18 and 0.35, respectively.

The average Return on Investment for NBL is 0.134, while for EBL, it is 0.184. This indicates that EBL is capable of generating a higher return from its total investment, reflecting its effective portfolio management capabilities.

Loans and advances and interest income for NBL and EBL have substantial positive correlations, as shown by their respective correlation coefficients of 0.991 and 0.971. This suggests that as loans and advances increase, and interest income also increases correspondingly.

For NBL and EBL, the correlation between net profit and loans and advances is -0.069 and 0.516, respectively. A positive connection indicates that net profit tends to rise in tandem with an increase in loans and advances.

However, a negative correlation suggests that even if loans and advances increase, the net profit of the company does not increase and may even decline.

For NBL and EBL, the correlation between net profit and loans and advances is -0.069 and 0.516, respectively. A positive connection indicates that net profit tends to rise in tandem with an increase in loans and advances. Conversely, the negative correlation for EBL suggests that increases in investment in securities do not correspond to increased profitability for the bank.

CHAPTER -FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

There are three sections in this chapter. The research is summarized in the first part, which is titled "Summary." The conclusion is covered in the second section. It enumerates the findings reached after the study's data analysis. Suggestions are included in the third section. It contains the essential recommendations made to the relevant authorities for their consideration and eventual implementation.

5.1 Summary

The "Comparative Financial Performance Analysis of NBL and EBL in the Framework of CAMEL" was the subject of this research, which was completed as part of the prerequisites for an MBS degree. The goal of the inquiry from the outset was to learn the truth about NBL and EBL's financial performance. The purpose of financial statement analysis is to have a deeper understanding of the performance and position of the company. A method for assessing the health of financial institutions is called CAMEL. A financial institution's capital sufficiency, asset quality, earning quality, management quality, and liquidity position are the factors that determine its financial soundness.

It is necessary to study about private bank's performance and government bank's performance comparatively. Why private banks are successful than government banks is to be found out. This study will be useful for how the performance can be improved of government bank as private bank.

FIs are developing sophisticated and novel products, which exposes them to several dangers. As a result, the FI supervision department's duties have become more varied and exaggerated. A rating of the FI's overall state, often known as a CAMEL rating, is a crucial output of supervision. The three federal banking supervisors—the Federal Reserve, FDIC, and Office of the Controller of the Currency (OCC)—as well as other financial supervisory organizations use the CAMEL rating system to conveniently summarize the financial conditions at the time of the exam.

The financial analysis of commercial banks in the US and other locations has been the subject of numerous studies in the past. There aren't many studies carried out under the CAMEL framework in the context of the banking environment in Nepal. Over a five-year period, from FY 2075/76 to FY 2079/80, the study examines the level, trend, and comparative analysis of capital adequacy, non-performing loans, loan loss provision, management quality ratios, earning capacity, and liquidity position components of the NBL and EBL.

The Basel Capital Accord, NRB standards, the notion of the CAMEL rating system and component evaluation system, and an explanation of a sample bank's financial performance analysis were among the issues covered by the research review. In addition to this, reviews of related reports, work papers, dissertations, and research papers were conducted. The NBL and EBL from FY 2075–2076 to FY 2079–2080, a five-year period.

The study was carried out using an analytical and descriptive research design. Out of 20 commercial banks, NBL and EBL are selected as the study unit using convenience sampling technique. The necessary information and data were gathered from secondary sources. Financial ratios, basic mathematical operations, and statistical techniques have been used in this study project to interpret the data that was gathered.

5.2 Conclusion

The following conclusions have been made in light of the study's findings: EBL outperforms NBL in terms of performance as determined by CAR, SCAR, and TCAR. Additionally, NBL's capital has a higher level of risk than EBL's. The results indicate that NBL's performance is subpar and should be raised to the NRB standard. Despite this, no single CAR measure can adequately assess the performance of commercial banks. Likewise, based on loan loss provision and non-performing loan (NPL) ratios, EBL's asset quality outperforms NBL's. In contrast to NBL, loans extended by EBL are secured. Additionally, NBL's management is less effective than other companies when evaluated by the expense to revenue ratio.

The finding suggests that earning per employee of NBL is poor due to overstaffing so there is need of decrease in no. of staff.

Compared to NBL, EBL is able to obtain greater benefits from its assets. Comparably, EBL's shares are yielding higher profits than NBL's. The earnings per share of NBL exhibit a higher degree of fluctuation in comparison to EBL. Liquid Assets to Total Deposit Ratio, NRB Balance to Total Deposit Ratio, and Cash in Vault to Total Deposits are the metrics used to evaluate the performance of sample commercial banks according to Liquidity Position. As per Liquid Assets to Total Deposits Ratio, EBL is in better position than that of NBL. While NBL has maintained the ratio, with the exception of last year, EBL has maintained the ratio of NRB balance to Total Deposit. With regard to the ratio of NRB balance to total deposit, NBL is able to maintain a more efficient liquidity position than EBL. Similarly cash in vault to total deposit of NBL is better than EBL. So, the finding suggests that there is more risk occurs in EBL than that of NBL.

5.3 Recommendations

Based on findings and conclusions, following recommendations have been provided:

The NBL is continuing to maintain a low capital basis, which is against NRB regulations. The bank's capital base plays a crucial role in creating the perception in the public mind that their savings are safe with it. This helps the bank attract more deposits for additional investments, which in turn generates higher returns.

But the deposits collection of NBL is stronger than EBL and this is happening because NBL is government bank and public are trusting easily to this bank. Therefore, the NBL's management is advised to maintain their capital base positive which will enhance public trust and will bring more deposit. The loan loss and non-performing loan ratios of this bank imply that the advances made are not that secure. As a result, it is suggested that the NBL management concentrate on managing credit extension, which includes checking and keeping an eye on borrowers. The ratio of total expenses to total income indicates that staffing and loan provisions account for a larger percentage of the bank's revenue. The bank's asset appears to be earning less than that of its competitor, based on the ROA and EPS ratios. In several periods (2079/80), the bank has maintained an effective liquidity position, with the exception of the NRB balance to total deposit.

EBL's asset quality is also found to be sound. The total expense to total revenue of EBL is better than NBL because of well utilization of assets, optimum no. of staffs and minimum amount of provision. It is recommended that the EBL's management uphold

this similar attitude. The management of the bank is recommended to keep the balance with the NRB in the same manner.

The NRB, as the commercial banks' regulator, is crucial to the operation of the banks, the preservation of shareholder value, and the safety of public deposits. Thus, it is recommended that the NRB monitor commercial banks effectively in order to safeguard the interests of the public and shareholders. During the time of this study, both banks have occasionally failed to maintain the requirements on balance with the NRB. It is recommended that the NRB monitor this requirement effectively.

Despite the fact that during the study period, The non-performing loan percentage to total loans and advances of NBL and EBL declined for both banks; the bank must confirm this trend before writing down non-performing loans from the books. It is encouraging that the loan loss provision relative to total loans and advances is declining, but it is concerning that in recent years, the provision for doubtful loans has increased. In order to recover Doubtful and Loss Loans, the banks must pay attention and reduce their provision appropriately.

Although total deposits of NBL is better than EBL but loans and advances of EBL is better than NBL which generates better profit in EBL as compared to NBL. So, NBL should increase loans and advances maintaining proper portfolio management and EBL should continue in same spirit. Similarly, EBL has demonstrated a strong track record of profit growth in the past year, and they should continue to do well in the years to come. but NBL has performed slow increasing rate which is not sufficient. We can say that NBL should improve their performance and EBL should continue their performance.

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CHAPTER – ONE INTRODUCTION 1.1 Background of the Study One of the most well-liked and frequently employed financial analysis tools is financial performance analysis. Several ratios are used in ratio analysis, and they are computed using the financing information included in the financial statement. It serves as the main instrument for analyzing the performance and financial status of the company. The methodical application of ratios to the interpretation of financial statements in order to ascertain a company's strengths and weaknesses, past performance, and present financial situation is known as ratio analysis. (Wixom & Kell, 1997). According to Dangol, "Analyzing financial statements involves examining the relationships among various financial elements. This process includes organizing and categorizing large amounts of financial data. The