CHAPTER - I

INTRODUCTION

1.1 Background of the Study

According to the concise oxford Dictionary Bank is "A Financial establishment which uses money deposited by customers for investment, pays it out when required, and makes loans at interest, exchanges currency".

A Bank can be defined as financial intermediary between the depositors and the entrepreneur. Bank collects money from general public by attracting them with attractive interest rate in their deposits and provided loan to business house, industry, agriculture and needy people. The main objective of commercial bank is to mobilize ideal resources to productive area after collecting it from various sources. The bank is an institution whose prime functions are directed towards the acceptance of public deposits and granting loan to the people.

In an under developed country, under planned economic development, there is invariably a growing gap between the savings and investment because a poor country cannot generate the required amount of savings for ever growing investment. Hence, Institutional investors like banks are essential to fill up the chronic gap between savings and investment and ensure higher rate of capital formation.

Capital accumulation and formulation play vital role in accelerating the economic growth of a nation, which in turn is basically determined, among others, by saving and investment propensities. But the capacity to save in the developing countries is quite low with a relatively higher marginal propensity of consumption. As a result, such countries are badly entrapped into the vicious circle of poverty. So the basic problem for the developing countries is raising the level of saving and thus investments.

Banking plays a significant role to development of economy; it provides an effective payment and credit system, which facilitates the channeling of funds from the surplus spending unit to the deficit spending units in the economy. The basic task of the financial institution is to mobilize the saving to high yielding investment project to offer attractive and secured returns to the different sectors of the economy according

to the plan priorities of the country. This process of financial institutions give rise to money and other financial assets which therefore have a central place in the development process of the economy. The crated assets provide vital links between saving, investment and income.

Commercial Bank is profit oriented financial service institution. Certain rate of interest is given to the depositors for saving. Therefore certain rate of interest is charted by bank in a loan facility. The commercial bank Act 2031 BS defines "A commercial bank is that bank which exchange money, accepts deposits and grant loans and perform banking functions." Principally, Commercial bank accepts deposits and provides loans, primarily to business firms there by facilitating the transfer of funds in the economy A commercial bank is one which exchanges money, deposits money, accepts deposit, grants loans and performs, commercial banking functions and which is not a bank meant for co-operations, agriculture, industries or for such specific purpose.

"Banking system is necessary to offer institutional services of promotion, underwriting finance and investment. The various utility functions performed by banks are of great economic significance for the economy, which can influence the course and direction economic activity within the economy. They pool together the savings of the community and arrange for their productive use by providing short as well as long term loans in different forms necessary for the trade and commerce. They discharge various functions on behalf of their customers and in turn they are paid for their services. "Commercial Bank Act, 2031 BS.

Commercial Bank occupies quite an important place in the framework of every economy because it provides capital for the development of trade, industry and business, investing the collected saving as deposits. Besides these, commercial bank renders numerous services to their customers and shareholders in view of facilitating their economic and social life. All the economic activities of each and every country are greatly influenced by the commercial banking business of that country. Commercial banks are playing active role and have changed the economic structure of the world.

Being a developing country, Nepal is directing its efforts to uplift the economy rapidly. But still it has been an agricultural dominated economy, considering

economic and social development as the primary objective. Nepal has adopted the "Mixed Economic Model" with the implicit assumption that the state and private sectors can compliment each other in the development process over time. Bank provides opportunity to people for the participation in the development process of the county via issuing shares and accepting deposits from them. Then Bank can mobilize and invest such accumulated resources into field of agriculture, trade commerce, industry, tourism and hydro electricity project etc.

A Join venture, an association of two or more persons or parties having exceptional advantages in specific operation is undertaken to make the operation highly remunerative with their collective efforts. In 1980's government introduced "Financial Sector Reforms" which facilitated the establishment of joint venture Banks, which gave a new horizon to the Nepalese Banking sector. Joint venture Bank, especially with foreign banks, was expected to bring technology; modern management as well as foreign capital in banking industry besides export and import trade. They provide both pre-shipment and post-shipment finance to exporters. Since these banks being new, urban based and run by foreign management, they started their operations with the accumulated system which could attract the elite group of business community and expatriates due to their prompt service. Modern Management with the advent of economic Liberalization in the early 1980's Joint ventures banks appeared in Nepal. Commercial banks are the largest and most diversified intermediaries in range of assets held and liabilities issued. The salient feature of commercial banks lies in fact not in their assets but in their liabilities.

1.2 Origin and Historical Growth of Banking

Banking has come to the present advanced form through various stages. Some sort of banking activities has been carried out since the time immemorial. Traditional forms of banking were traced during the civilization of Greek, Rome and Mesopotamia. Geoffrey couther says that the Merchant goldsmiths and money Lenders are the ancestors of modern Banking

In ancient Greece, The Famous temple of Delphi and Olympia served as the great depositories for people's surplus funds and there were the center of money lending transaction. There was also reference to the activities of money changers in the temple

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of Jerusalem in the New Testament. However as a public enterprise banking made its first beginning around the middle of the 12th century in Italy.

In 1157 AD the first bank called "The Bank of Venice" was established in Venice, Italy. It was supposed to be the most ancient bank. Following it were established the "Bank of Barcelona" and the "Bank of Geneva" in 1401 and 1407 respectively. Subsequently "Bank of Amsterdam" set up in 1609, which was very popular then "The Bank of Venice" and the "Bank of Geneva" continued to operate until the end of 18th century with the expansion of commercial Banking activities in Northern Europe. There sprang up a number of private banking houses in Europe and slowly it spread throughout the world. The banker of Lombardy (Italy) was famous in England and other parts of Europe and was regarded for the development and expansion of modern banking. Lot of banks in different parts of the world came into existence after the establishment of "the Bank of Venice". There came a remarkable change in the process of establishing the banking institution after the evolution of "Bank of England" in 1694 AD. The growth of banks accelerated only after the introduction of Banking Act 1833 in United Kingdom as it allowed opening joint stock company banks. These modern banks gradually replaced goldsmith and money lenders.

Like other countries, landlord's money lenders, merchant, goldsmith are the ancient bankers in Nepal. Through establishment of banking industry was recent some crude banking operations were in practice even in ancient time. In the Nepalese Chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shankerdhar Sakhwa, a sudra merchant of Kantipur in 880AD, after having paid all the outstanding debts in the country. This shows the basic of money lending practice in ancient Nepal. The establishment of "Tejarath Adda" during the year 1877AD was the first step in institutional development banking sector in Nepal. Tejarath Adda did not collect deposit from public but granted loans to public against the collateral of bullions. Consequently the major parts of the country remain untouched from these limited banking activities. The development of trade with India and other countries increase the necessity of the institutional bankers which can act more widely to enhance the trade and commerce and touch the remote non banking sector in the economy. Reviewing this situation the "Udhyog Parishad" was constituted in 1936 AD. One year after its formulation, it was formulated the 'Company Act' and Nepal Bank Act' in 1937 AD. Nepal Bank limited was established under Nepal Bank act in

1937AD as a first commercial bank of Nepal with 10 million authorized capital. Being a commercial bank, it was natural that Nepal Bank Limited paid more attention to profit generating business. But it is the onus of government to look into neglected sectors too.

Having felt need of development of banking sector and to help the government formulate monetary policies, Nepal Rastra Bank was set up in 1956 AD (2013-01-14 BS) as a central under Nepal Rastra Bank Act 1956AD (2012 BS). Since then, it has been functioning as the government's bank and has contributed to the growth of financial sector.

Being the Central bank, NRB has its own limitation and reluctance of NBL to go to the non profitable sectors was not illogical. To cope with there difficulties, government set up Rastriya Banijya Bank in 1966AD (2022-10-10 BS) as a fully government owned commercial Bank. With the emergence of RBB, banking service spread to both urban and rural areas but customers failed to have taste of quality, competitive service because of excessive political and bureaucratic interference. For industrial development. Industrial Development Centre was set up in 1956 AD (2013 BS) which was converted to Nepal Industrial development Corporation (NIDC) in 1959AD (2016 BS). Similarly, Agricultural Development Bank was established in 1976AD (2024-10-07 BS) with an objective to provide agricultural products so that agricultural productivity could be enhanced through introduction of modern agricultural techniques.

After the restoration of democracy in Nepal, the government took the liberal policy in banking sector. As an Open Policy of the Government of Nepal's to get permission to invest in banking sector from private and foreign investor under commercial bank act 1974AD (2031 BS). Different private banks are getting permission to establish with the joint venture of other countries. Now a day, there are 26 Commercial Banks that are operating in Nepalese financial market among which two are government controlled, ten are private sector banks and rest are joint venture banks with foreign banks.

Table: 1.1

List of Licensed Commercial Banks

S. No.	Name of Banks	Operation Date in AD	Head Office
1	Nepal Bank Ltd.	1937-11-15	Kathmandu
2	Rastriya Banijya Bank	1966-01-23	Kathmandu
3	Agricultural Development Bank Ltd.	1968-01-02	Kathmandu
4	Nabil Bank Ltd.	1984-07-16	Kathmandu
5	Nepal Investment Bank Ltd.	1986-02-27	Kathmandu
6	Standard Chartered Bank Limited	1987-01-30	Kathmandu
7	Himalayan Bank Limited	1993-01-18	Kathmandu
8	Nepal Bangladesh Bank Limited	1993-06-05	Kathmandu
9	Nepal SBI Bank Limited	1993-07-07	Kathmandu
10	Everest Bank Limited	1994-10-18	Kathmandu
11	Bank of Kathmandu Limited	1995-03-12	Kathmandu
12	Nepal Credit and Commerce Bank Limited	1996-10-14	Siddhartha Nagar
13	Lumbini Bank Limited	1998-07-17	Narayangadh
14	NIC Bank Limited	1998-07-21	Biratnagar
15	Machhapuchre Bank Limited	2000-10-03	Pokhara
16	Kumari Bank Limited	2001-04-03	Kathmandu
17	Laxmi Bank Limited	2002-04-03	Birgunj Parsa
18	Siddhartha Bank Limited	2002-12-24	Kathmandu
19	Global Bank Limited	2007-01-02	Birgunj Parsa
20	Citizen Bank Limited	2007-06-21	Kathmandu
21	Prime Bank Limited	2007-09-24	Kathmandu
22	Sunrise Bank Limited	2007-10-12	Kathmandu
23	Bank of Asia Nepal Limited	2007-10-12	Kathmandu
24	Development Credit Bank Limited	2001-01-23	Kamaladi ,Kathmandu
25	NMB Bank Limited	1996-11-26	Babarmahal,Kathmandu
26	KIST Bank Limited	2009-05-07	Anamnagar, Kathmandu

(Source: www.nrb.org.np/usefullinks/comm_lnk.php)

The above table clearly indicates that the increasing number of Banks and their branches in Nepal can play an effective role in mobilizing the meager saving scattered in different parts of the country and putting them into productive channels. At the same time it is also an indication of increasing competition among the banks in Nepal

1.3 Organizations under Study

As there has been number of commercial banks established, the research has taken into consideration of two selected Banks Everest Bank Ltd and Lumbini Bank Limited. There fore short profiles of this commercial Banks are presented as;

1.3.1 Lumbini Bank Limited (LBL)

Lumbini Bank Limited is a national level commercial bank offering a wide range of banking solutions and services meticulously customized to the needs of the customers. Established in 1998, this is the first regional commercial bank in Nepal, which started its operation from Narayangarh spreading its wings to further four more places at Hetauda, Butwal, Durbarmarg and Biratnagar. Lumbini Bank Limited is highly committed to assure of the standard and excellence in the services it offers. The bank is guided towards obtaining new challenges and opportunities. Backed by state-of-the-art technology and experienced professionals adept in modern banking management, we strive to make banking simple, fast and customer friendly. Just the way the people like it. The banks performance under all parameters has been outstanding during the fiscal year 2065-66 after providing for income tax and statutory provisions there was a disposal net profit of Rs. 33.22 crore compared to Rs. 32.76 crore last year- an increase of 1.40 %. The bank was able to increase its operating profit by 77.50%, deposit by more than 11.50% and loans and advances by 9.91% during the year compared to the corresponding period last year. Assets quality has improved by reduction of Non Performing Asset (NPA) to 9.06% from 14.92% in the previous year. Earnings per Share have decreased to Rs 30.31 from Rs 32.91. The capital adequacy ratio of LBL is 17.78% which is above the requirement of 10% set by the central bank.

Lumbini Bank Limited has restructured various products, as a part of an ongoing process, to cater to the retail segment. The newly structured products cover Personal Loan, Home Loan, Vehicle Loan, Mortgage Loan, Educational Loan, Time Loan etc.

Nepalese promoter holds 70% shares and general public holds 30% shares. The Bank's authorized capital is NPR 1.60 billion and paid up capital is NPR 1096.08 million.

1.3.2 Everest Bank Limited (EBL)

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through a network of 35 branches with its Head Office in Lazimpat. Punjab National Bank (PNB), our joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India having 115 years of banking history. PNB is a technology driven bank serving over 35 billion customers through a network of over 4500 branches spread all over the country with a total business of around INR 2178.74 billion.

The bank has been conferred with *"Bank of the Year 2006, Nepal"* by the banker, a publication of financial times, London. The bank was bestowed with the "NICCI Excellence award" by Nepal India chamber of commerce for its spectacular performance under finance sector.

It has one of the Largest Network among private sector banks spread across Nepal and all connected with ABBS. It has representative office in India to facilitate remittance from India. It facilitates direct drawing arrangement with PNB and HDFC bank India whereby instant payment is done on presentation of the instrument. It has more than 126 remittance payout location in Nepal.

Recognizing the value of offerings a complete range of services, the bank has pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals. EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal. EBL has introduced Mobile Vehicle Banking

system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind.

The banks performance under all parameters has been outstanding during the fiscal year 2065-66 after providing for income tax and statutory provisions there was a disposal net profit of Rs. 63.87 crore compared to Rs. 45.12 crore last year- an increase of 29.36 %. The bank was able to increase its operating profit by 26.13%, deposit by more than 28% and loans and advances by 23.20% during the year compared to the corresponding period last year. During the last financial year, the Bank opened six branches namely Golphutar and Kritipur in Kathmandu, Lagankhel in Lalitpur, Beshishahar in Lamgung,Kushma in Parbat and Surkhet in Surkhet. At Present, EBL has Thirty-Five Branches that spread out the nation. Everest Bank is first private commercial bank having largest network. Assets quality has improved by reduction of Non Performing Asset (NPA) to 0.48% from 0.68% in the previous year. This is one of the lowest NPA among the commercial banks in Nepal. Against the Paid-Up Capital by shareholders of Rs. 49.14 crore, the shareholders' funds now amount to Rs. 130.81 crore – with Core Capital base of Rs. 81.67 crore. Earnings per Share have surged to Rs 99.99 from Rs 91.82. The local Nepalese Promoters hold 50% stake in the Banks equity, while 20% of equity is contributed by joint venture partner PNB whereas remaining 30% is held by the public. The capital adequacy ratio of EBL is 10.55% which is above the requirement of 10% set by the central bank.

EBL in association with Smart Choice Technology (SCT) is providing ATM service to its customers through more than 340 ATMs and over 1000 Point of Sales across the country. ATM sharing arrangement with Punjab National Bank has facilitated usage of EBL Debit Card at more than 2000 PNB ATM outlets across the India at a nominal rate. Similarly, Indian tourists and businessmen having PNB cards will be able to use EBL ATM, while in Nepal. EBL is playing a pivotal role in facilitating remittance to and from across globe. Being the first Nepalese bank to open a representative office in Delhi, India, the Nepalese in India can open account in Nepal from the designated branches of Punjab National Bank and remit their saving economically through banking channel of Nepal. The Bank is also offering Cash Management System through HDFC Bank., India for managing the funds of corporate exporting to India by

collecting their fund from about 183 locations in India.

The Bank's own Web based online remittance product "Everest Remit" facilitates remittance from Malaysia, Doha, UK, Bahrain, UAE and Qatar to more than 126 payout location in Nepal. With India Remit, the Bank has same day remittance facility with India with association of PNB's 4000 networked branches at 550 locations, besides draft drawing arrangement with 280 PNB branches across India. All the branches of the bank are connected with Anywhere Branch Banking System (ABBS), which enables customers to do all their transactions from any branches other than where they have their account.

1.4 Focus of the Study

The area of this study is "Comparative Analysis of Financial Performance of Lumbini Bank Ltd and Everest Bank Ltd." Financial performance covers the financial analysis and other portfolios of concern banks. Financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statements. Beside the financial analysis, the study was focused on

- ➢ Relationship between loan and deposit
- ➢ Trend Analysis
- ➢ Bankruptcy Score

Financial ratio has helped the researcher to make a quantitative analysis about the financial performance of the Bank. The trend analysis will forecast the future position of the bank. Bankruptcy score is the statistical tools to predict the financial status of the firm with the help of the financial ratios.

1.5 Statement of the Problem

Various financial institutions have been established to assist the process of economic development of Nepal. Emphasizing the role of commercial banks, India Dani says, "The major problem in almost all underdeveloped countries and Nepal is no exception, is that of capital formulation and proper utilization, in such countries the commercial banks, due to the lack of other specialized institutions." To avoid problems and thereby contribute to the national economy, various commercial banks

have played vital role by accepting deposits and providing various types of loans. Loan affects overall development of the country. The development of the country is directly related to the volume of loan, which is also obtained from commercial banks. The problem of lending has become very serious for developing country like Nepal. This is due to lack of sound policy of commercial banks.

Establishment of private joint venture banks have been continued in response to the economic liberalization policies of the government. The tendency to concentrate these banks only in urban areas like Kathmandu, Biratnagar etc. has raised certain questions. This state of affairs cannot contribute much to the socio-economic development of the country where 90% of the population lives in the rural areas and 81% of that population depends upon agriculture. These join venture banks are reluctant to extend their operation in rural areas. Despite the circular of Nepal Rastra Bank, the central Bank of the country, regarding compulsory investment of 10% of their total investment in the rural areas. This problem remains to be solved, so that even the small investor in the rural areas will benefit from the services of such banks. Moreover, even the existing branches of the commercial banks in the rural areas do not seem to have been able to mobilize the local resources effectively.

Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly rely on the instructions and guidelines of Nepal Rastra Bank. They do not have clear view towards investment policy. Furthermore, the implementation of policy is not in an effective way.

Commercial banks are found to be making loan only on short term basis against movable merchandise. There is hesitation to investment on long term projects as they are much more safety, they do not consider the profit potential of the project. There is raised criticism that commercial banks have served only richer communities and not the poor. This has directly had negative impact economic growth. Nowadays commercial banks do not seem to be capable to invest their funds in more profitable sector i.e. treasury bills, development bonds and other securities. They keep high liquid position and flow lower funds to the productive sectors; this results in lower profitability to commercial banks and ignorance to the national economies growth process. This is the main reason of crisis in the commercial banks and in the whole national economy as well.

Delivering efficient services to the common people by enhancing efficiency of the commercial banks and improving their management style pose a challenge to the banks and financial institutions. The existing condition of the liquidity of the banking and financial institutions also needs to be reduced through an appropriate investment policies. Equally important is the challenge to minimize the margin of interest rates these institutions charge by minimizing their intermediation cost.

In order to help realize the goal of poverty alleviation, access to increased flow of credit and investment in the economic activities of direct benefit to the maximum number of low income people through micro and medium size loan needs serious attention in the days to come. It is also necessary to identify the activities that ensure quick return of the investment.

The mushroom of banking and finance companies and about a dozen of rural banks and co-operatives societies' n short span f time has brewed new comparative scenario, and has posed a challenge to the previously monopolistic bank like NABIL which are making attractive profits. In the changed scenario these banks need to explore their strengths and weakness, and improve their performance because their success depends upon their ability to boost their productivity and financial performance.

Thus, the present study seeks to explore the efficiency and weakness of Lumbini Bank Limited & Everest Bank Limited. Attempts are also being made to explore the following questions:

1. How far have Lumbini Bank Limited & Everest Bank Limited been able to convert the mobilize resources into investment collected from public?

2. To what extent these banks have been able to raise their profitability?

3. How efficiently these banks are managing their liquidity, activity, leverage and profitability, capital structure ratio etc?

4. What steps should be taken to improve the financial performance of the banks?

1.6 Objectives of the Study

The basic objective of the study is to make comparative analysis of the financial performance of Lumbini Bank Limited & Everest Bank Limited Bank and to recommend suggestion for the improvements of state of affairs. More specially to

1. To analyze the liquidity, activity, profitability and leverage ratios of the banks.

2. To analyze the bankruptcy score of the banks.

3. To analyze trend of total deposits, loans and advances, net profit after tax and earning per share of the Banks.

4. To compare the financial performance of two banks.

1.7 Significances of the Study

Commercial Banks in developing countries like Nepal have the greatest responsibility towards the economic development of the country. The main objective of the bank as a commercial organization is to maximize the surplus by the efficient use of its fund and resources. Being commercial bank, it also has a responsibility towards the socio-economic up-liftment of the country by providing specially considered loans and advances towards less privileged sectors.

The study has multidimensional significance:

a. The study enlightens the shareholders about the financial performance of their respective banks. This allows them to have a comparative retrospect whether their fund was better utilized or not.

b. The study also compels the management of respective banks for self assessment of what they have done in the past and guides them in their future plans and programs.

c. The financial agencies, stock exchange and stock traders are also interested in the performance of the banks as well as the customers, depositors and debtors, who can objectively identify the better bank to deal with in terms of profitability, safety and liquidity.

d. Policy makers at the macro level that is government and Nepal Rastra Bank will also benefit regarding the formulation of further policies in regard to economic development through banking institutions.

1.8 Limitations of the Study

A research is a vast study investigating the subject matter for solving perceived research problems. Each and every study has its own limitations. No study can be free from constraints, such as economic resources, time etc. And this study too is not an exception.

Therefore, the following are the main limitations of the study:

1. All the relevant data and information are collected and consolidated from the published financial documents like Balance Sheet, Profit and Loss Account and other related journals, the authenticity of which has not been questioned. Other information has been taken from the Company's executive officers; Nepal Rastra Bank, TU Central Library, Shanker Dev College Library and TU MBS students Thesis.

2. Limited resources and time at the disposal of the researcher did not allow a much more extensively analysis of the subjective in question.

3. This study concentrates only on those factors related with financial performance.

4. The whole study will be limited and covers only eight years periods.

5. Only Limited financial tools and techniques are used for analysis.

In addition, there are couples of limitations, which weaken the generalization e.g. time taken, reliability of statistical tools. Thus, while using the findings of the study one should be careful and use the same judiciously is considering the various limitations.

1.9 Organization of the Study

The study has been organized into five chapter viz. Introduction. Literature Review, Research Methodology, Presentation, Analysis and Interpretation of Data, Conclusion, Research findings and Recommendation.

Chapter 1: Introduction

Chapter 2: Review of Literature

Chapter 3: Research Methodology

Chapter 4: Presentation and Analysis of Data

Chapter 5: Summary, Conclusion and Recommendation

Chapter 1: This is the introduction chapter of the study. This chapter includes General background, Statement of Problems, Objectives of Study, Importance of the study and Limitations of the study and Organization of the Study.

Chapter 2: This chapter is the review of Literature deals with conceptual framework of the financial performance. In this part research history of financial performance will present in brief. Review of the Major Studies will also be presented.

Chapter 3: This chapter contains the research methodology. This chapter deals with research design, source of data, data collection techniques, data processing and data analysis tools.

Chapter 4: This chapter deals with the presentation and analysis and major findings of the study on financial performance.

Chapter 5: This chapter includes summary, conclusion and recommendations.

CHAPTER - II

REVIEW OF LITERATURE

Completely new and original problems are rare, however a previous study should not exactly be replicated unless the techniques used facilitate to trace out the doubtful conclusions or some new sources of information had been discovered to shed light on the problem. It is necessary to show how the problem under investigation relates to previous research studies. In some subject areas, it is important to locate the problem with in theoretical framework and in such cases the underlying theory needs to be reviewed as well.

For the purpose of the study this chapter is categorized under two major headings, which are discussed as below

- ➢ Conceptual framework
- ➢ Review of related studies

2.1 Conceptual Framework

This heading is categorized under different headings which are discussed as follows:

2.1.1 Concept of Financial Performance

Financial performance means financial activities of the company directed towards achieving its value maximizing objectives. For the better financial activities effective and efficient decisions are necessary and those better financial activities contribute to excellent financial performance which in turn results to growth of the organization. In other words we can say that financial analysis is performed to obtain a better understanding of a firm's position and performance i.e. its strength and weakness. In other words financial performance/analysis focused of financial statements and the significant relationship that exists among the variable contained.

"The profit earned by the firm is the main financial performance indicator of business enterprises. Profit results mainly from successful business management, cost control, credit extension, risk management and general efficiency of operation. It is also affected by inflection and government's economic policy with regarding interest rates

ceiling, direct lending and investment, taxes and labor lacks etc. profit is essential for an enterprises to service and grow as well as to maintain capital adequacy through retained earnings. It is also essential to access market for both debit and equity to provide funds for increased assistance to the productive sector." *(Robinson; 1951:21-22)*

A quantitative judgment about the firm's financial position performance should be made from the point of view of a firm's investment. Thus, financial analysis is the main quantitative judgment process of identifying the financial strengths and weakness of the firm by properly establishing the relation ship between the items of the balance sheet and profit and loss account.

"Analyzing financial performance is a process of evaluation financial statements to obtain a better understanding of a firm's position and performance." *(Metcalf and Tittard; 1976:220)*

There are three steps in financial analysis *(Saravanauel; 1983: 29)*

> ➢ Selection of the information relevant to the decision under consideration from the total information.

> ➢ Arrangement of the selected information in way to highlighted significant relationships and

> ➢ Interpretation and drawing of inferences and conclusion. In brief, financial analysis is the process of selection, relation and evaluation.

Financial performance analysis can be considered as spirit of the financial decisions. The growth and development of any business firm is directly influenced by the Financial Policies. Rational evaluation of the financial performance of the financial management in public enterprises is too much in record keeping, raising necessary funds and maintaining relationship with the bank or other financial institutions. But their analysis is limited within the bank themselves.

Joint Ventures Banks in Nepal are profit making business institutions. So the profit earned by a Joint Venture Commercial Bank in Nepal is the main financial performance indicator of the bank. However, it cannot exclusively forecast the performance of the bank by analyzing the profitability status only. Every aspect of the financial analysis is to be considered for financial performance of the bank. An

analysis of income and bankruptcy score of the bank is also the important indicator of the bank's performance.

Debt market may be short-term, intermediate-term and long-term. Short-term and intermediate-term financing sources include trade credit, bank loan, finance company loan, commercial paper, inventory financing. Long-term financing includes the issuance of mortgages and bonds.

"In addition to the categories of stakeholder must be bordered formally ratio analysis was performed from the point of view of the firms owners and creditors. In the present political social environment, the shareholders must be expanded to include employees, customer, social environmental consideration and other government regulatory interest."*(Westen and Copland; 1992:191)*

"The focus of the financial analysis is on key figures contained in the financial statements and the significant relationships that exist between them." *(Khan and Jain: 1992:79).*

It is undertaken by various interest groups of a firm and the nature of analysis differs depending of the purpose of the analyst. Management of the firm is generally interested in every aspect of financial analysis because they have overall responsibility of maintaining efficient and effective utilization of resources and sound financial position of the firm.

Analysis of financial statement is performed to take managerial and financial decision. So we can say that financial analysis means a general term referring to the process of extracting and studying information in financial statement for use in management decision making. Financial performance can be defined as the heart of financial decision. The growth and development of any enterprise is fully affected by financial policies and financial performance of an enterprise is correct when true facts and figure is sort out.

"Financial Analysis is a process of identifying the financial strength weakness of the firm by properly establishing relationship between the item of balance sheet and the profit and loss account." *(Pandey; 1995:20)*

"Capital adequacy ratio reveals that Nepalese Banks are below the standard set by NRB. Foreign banks have higher capital adequacy ratio but has been declining every year. Debt equity ratios of commercial bank are more than standard. It leads to

conclusion that the commercial banks are highly leverage and highly risky. Return on assets of all the banks show that most of the time Foreign Banks have higher return then Nepalese Banks. The performances evaluations of different commercial banks show that the local banks have very poor performances and both banks (NBL and NRB) have low capital base and heavy amount of non-performing assets. But on the other hand, newly opened foreign based commercial banks have better financial performances than the domestic banks operating under same environment. The reasons behind it lay not only in their financial decision making system but many other internal factors namely the organization, staffing, work technology, work culture and the attitude of staffs. It has been found that human resources management (HRM) has been the main problem of Nepalese banks and these deficiencies are obviously reflected in their financial performance." *(Shrestha; 1995:78)*

"Financial Statements provide information about a firm's position as well as its operation over same period. However, the real value of financial statement uses in the fact that they can be used to predict the firm's financial position in the future and determine expected earning and dividends from an investor's stand point predicting the future is what financial statement analysis is all about, while managements stand points financial statement is useful to anticipate future conditions and for planning actions that will influence the future course of events." *(Western and Brighams; 1996:515)*

The finance is interrelated to such field as accounting, social science, economic and allied subject. The accountant prepares the statement and gathers the data which are useful for financial manager to make financial decision. Good financial decision always play vital role about the profit of enterprises. Similarly it is equally important to achieve the wealth maximization of owners.

"Financial analysis involves the use of various financial statement the first is the balance statements the first is balance sheet which represents a snapshot of the firm's financial position on at a moment in a time and next is the income statement that depicts a summary of the firm's profitability over time.*"(Van Horn and Wachowich; 1997:120)*

Traditional financial ratio analysis has focus on the number. The value of this approach is that quantitative relation can be used to diagnose strength and weakness

in a firm's performance. But the world is becoming more dynamic and subject to rapid changes. It is not enough to analyze operating performance. Financial analysis must also include consideration of strategic and economic development to which the firm must relate for its long term success.

It is undertaken by various interest groups of a firm and the nature of analysis differs depending of the purpose of the analyst. Management of the firm is generally interested in every aspect of financial analysis because they have overall responsibility of maintaining efficient and effective utilization of resources and sound financial position of the firm.

"Liquidity ratio, debt ratio, profitability ratio and average ratio are the main financial ratio analysis tools. These ratios are helpful for managerial control and for a better understanding of what out side suppliers of capital expect in financial condition and performance. He defines until and unless there is comparison, financial analysis is meaning less so it can be compares with over time and inter firm. Additional insight after it is obtained when balance sheet and income statement items are expressed as percentage. The percentage can be in relation, to total asset or total sales for some base year. Ratio may be judged in comparison with those of similar firms in the same line of business and when appropriate with an industry average. In this way James Van Horne had written his view regarding financial performance analysis that to have better analysis there should be comparative study about various relate ratios with the several years of the inter bank and with the intra bank so that the strength weakness and the position of the firm in the market can be find out and improvement in the future can be done." *(Van Horn; 2001:156)*

Capital invested by owner is basis for the bank to grant loan. Capital provides a cushion to absorb operating and asset losses that might otherwise impair debt repayment. This, in fact is the insurance against the loans granted to the borrower, loan demanded by borrower should be matched with his investment in the business. If the investment of borrower in the business is less or inferior to the amount demanded then the proposal should be rejected. This means the financial condition or the capital invested by borrower should be stronger than the amount demanded.

Deposit collections are the primary function of the bank. As the primary function bank collect funds from general public in the form of deposits paying certain

stipulated interest. Banks collects mainly three type of deposit viz. fixed deposit, saving deposit and current deposit. Even deposit collection is the main function of banks to operate its other regular function there is certain limitations in deposit collection. In Nepal, Nepal Rastra Bank as the central bank has issued directives and regarding those directives bank had to collect deposits. According to directives issued by NRB, Nepalese Commercial Banks can collect 20 times of their core capital as deposit.

"Debt is anything that one person owes to another, typically a sum of money. A legal definition is that a debt is all that is due to a man under any forms of obligation or promise. A person who owes a debt is called debtor and a person to whom he owes it is the creditor. In some countries if the debtor is unwilling to pay the debt the creditor may bring a law suit against him to recover the money. If the court finds that debt is owed, the creditor obtains a judgment against the debtor then, if the debtor fails to pay the creditor may appear to a court official for an execution of judgment. This court order gives the creditor the right to seize. Enough of debtor's property to pay the debt and costs of the trial. But not all property or money may be seized. The law varies widely form one country, state or provenance to another."(*Encyclopedia; 2003:354*)

2.2 Review of Related Studies

2.2.1 Review of Journal and Articles

I.G Dambolena and S.J. Khoury (1980), in his article "Ratio Stability and Corporation Failure" has tried to know the stability of all financial ratios over time as well as the level of these ratios as explanation variables in the derivation of a discriminate function. The data were collected from 68 firms half of them failed and half of them did not fail the following ratios were used in the analysis of the study i.e. profitability, activity and the turnover, liquidity and indebt ness ratio. The major findings of this study were as follows. Standard deviation of ratios over times appeared to be the strongest measure of ratio stability. The ratios of net profit to sales, net profit total assets, fixed assets to net worth, funded debt to net working capital ,total debt to net working capital and fixed assets to net worth have shown to be relevant in predicting corporate failure.

R.R Bajracharya (2047BS), in his article "Rastriya Banijaya Bank- A Comparative Performances Study" has argued that the deposit growth of commercial banks is not

consistent. There is slow growth of deposit in local banks as compares to JVBs whereas local banks are better in terms of mobilization of rural saving. In term of credit expansion, Joint venture bank is more efficient than the local banks. Credit deposit ratio is better in JVBs. The ratio of non-performing loan is greater in local banks and profitability ratio is greater in JVBs. The competition between the local and joint venture banks is not healthier.

Dr. Manohar Krishna Shrestha (2047BS), in his article "Commercial Banks Comparative Performance Evaluation" has argued that JVBs are new, operationally more efficient having superior performance comprisals with local banks. Better performance of JVBs is due to their sophisticated technology, modern banking method and skill. Their better performance is also due to the government's branching policy in rural areas and financing public enterprises having no reimbursement capacity. Local banks are efficient in rural sector. Despite having number of deficiencies, local banks have to face growing constraints of socio- economic political system on one hand spectrum and that of issues and challenges of JVBs commanding significant banking business on other spectrum.

R.L. Shrestha (1990), in his article "Capital Adequacy of Bank" has suggested to the banks that deal in high risky transactions to maintain strong capital base. He concludes that the capital base should neither be too much leading to inefficient allocation of scare resources nor so week so as to expose to extreme risk. The study accepts that the operations of banks and the degree of risk associated with them are subject to changes country wise, bank wise and time period wise. Hence the study suggested preparing standard capital adequacy ratios for each individual bank keeping in mind the various reason factors.

Bodhi Bajracharya(1991), in his article "Monetary Policy and Deposit Mobilization in Nepal" has argued that the mobilization of domestic saving is one of the monetary policy in Nepal and for the purpose commercial banks are the vital active financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different sector of the economy.

K. Pradhan (1991), in his article "Nepal ma Banijya Banking Upalabdhi" has pointed out some major issues in our local commercial banks against foreign joint venture banks. The study has deal so on the whole commercial banking system of

Nepal in respect of their performance and profitability. His major finding may be relevant to our study. Some of the major findings are presented below. The deposit collection rate of locals is very poor in comparison to foreign banks. The pattern of deposits is also different between these banks. The ratio of current deposits in local banks is lower than foreign banks whereas the fixed deposit ratio is very high in local banks. The joint venture banks are in better position than the local banks in profit making.

W.H. Beaver (1996), in his article "Financial Ratio and Predictors Failure with Accounting Research" tested the ability of financial ratios to predict failure. This study revealed five ratios which could discriminate between failed and non failed firms. The ratios are cash flow to total debt, net income total assets and current ratios. It was obvious that failed firms had more debt and low return on assets. They had less cash but more receive as well as low current ratios.

Mr.Narayan Prasad Poudel (2053), in his article "Financial Statement Analysis: An Approach to Evaluation Bank's Performance" published in NRB News said that the balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of banks balance sheet and profit and loss account. The banks balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans fixed assets accounts from a small portion of the total assets financial innovations, which are generally contingent in nature, are considered as off balance sheet items interest received on loans advances and investments and paid on deposits are the major components of the profit and lose account. The other source of income is fee, commission, discount and service charges. The users of the financial statements of a bank need relevant, reliable and comparable information, which is useful to them in making economics decisions. The disclosure requirement of the banks financial statement has been expressly laid down in the concerned Act. Commercial bank Act 2031B.S. requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

J.O. Horrigan (1996), in his article "An Empirical Research in Accounting" tested the power of financial ratios to predict corporate bond ratings. His multiple regression

analysis revealed that working capital to sales, net worth to total debt, sales to net worth and net operating profit to sales were best for predicting bond rating.

Willie E. Hopkins and Shirley A. Hopkins (1998), in their article "Strategic Planning –Financial Performance Relations in Banks: A Causal Examination" have argued that An integrative model of relationships among managerial, environmental, and organizational factors, strategic planning intensity, and financial performance was developed and tested using data from 112 banks. The results suggested that the intensity with which banks engage in the strategic planning process has a direct, positive effect on banks' financial performance, and mediates the effects of managerial and organizational factors on banks' performance. Results also indicated a reciprocal relationship between strategic planning intensity and performance. That is, strategic planning intensity causes better performance and, in turn, better performance causes greater strategic planning intensity. Finally, the results hold implications for other financial services institutions subject to similar conditions that banks must operate under.

Abagail McWilliam and Donald Siegel (2000), in his article "Corporate Social Responsibility and Financial Performance: Correlation and Misspecification?" Has argued that Researchers have reported a positive, negative, and neutral impact of corporate social responsibility (CSR) on financial performance. This inconsistency may be due to flawed empirical analysis. In this paper, we demonstrate a particular flaw in existing econometric studies of the relationship between social and financial performance. These studies estimate the effect of CSR by regressing firm performance on corporate social performance, and several control variables. This model is misspecified because it does not control for investment in R&D, which has been shown to be an important determinant of firm performance. This misspecification results in upwardly biased estimates of the financial impact of CSR. When the model is properly specified, we find that CSR has a neutral impact on financial performance.

Peter W. Roberts and Grahame R. Dowling (2002), in their article "Corporate Reputation and Sustained Superior Financial Performance" have argued that Good corporate reputations are critical because of their potential for value creation, but also because their intangible character makes replication by competing firms considerably

more difficult. Existing empirical research confirms that there is a positive relationship between reputation and financial performance. This paper complements these findings by showing that firms with relatively good reputations are better able to sustain superior profit outcomes over time. In particular, we undertake an analysis of the relationship between corporate reputation and the dynamics of financial performance using two complementary dynamic models. We also decompose overall reputation into a component that is predicted by previous financial performance, and that which is ʻleft overʻ, and find that each (orthogonal) element supports the persistence of above-average profits over time.

 Robert McNabb & Keith Whitfield (2003), in their article "The Impact of Financial Participation and Employee Involvement on Financial Performance" have argued that in recent years, considerable attention has been given to the impact of various forms of financial participation on financial performance. However, financial participation is only one of a number of different schemes attempting to elicit better performance and is itself heterogeneous. Moreover, financial participation schemes are typically introduced in conjunction with employee involvement schemes and their combined effect can be very different from their individual contributions. Indeed, concentrating on only one type of participation can seriously distort its relationship with financial performance. In this paper, a range of different employee participation schemes is examined, including two types of financial participation. The results indicate that financial participation has important interaction effects with particular types of employee involvement scheme and that the two main types of financial participation scheme have negative interactions. Furthermore, some employee involvement schemes are found to have a lower or even negative relationship with financial performance when introduced in isolation.

Colleen Collins-Dodd, Irene M. Gordon, and Carolyne Smart (2004), in their article "Further Evidence on the Role of Gender in Financial Performance" have argued that Using a sample of 160 sole proprietors and controlling for other determinants of performance, we hypothesize and find support for the view that gender is not a significant direct explanation of financial performance differences among small accounting practices. The control variables we employ are practice characteristics, motivations, and individual owner characteristics. Our results indicate that although

financial performance appears to be significantly different for females' and males' sole proprietorships, these performance differences are explained by several variables other than gender directly. At the same time we find that gender moderates the effects of other practice and personal characteristics on financial performance. One of the more interesting results is that women with a stronger motivation to establish a public practice to balance work and family experienced more positive financial outcomes, while for men the same motivation reduced financial performance.

Rameshwor Yadav (2004), in his article "The Growing Trend of Consumer Banking" has summarized some newly adopted policy by the commercial banks in favors of consumer while long term investment opportunities remain uncertain in the country. The Nepalese banks are starting to diversity the loans in order to reduce excess liquidity and other financial risks. Nepalese banks are moving towards a new era of banking so that the relatively recent concept of consumer banking is swiftly becoming popular and flourishing among the middle to high level jobholders private companies to corporate houses and national to multinational companies. The banks are offering all kind of personal as well as commercial facilities. These days Nepalese banks are coming up with new products and consumer package on a regular basis .they are increasing collaborating with the international banks too, embracing their banking models, learning lesson from their traditional and latest concept and keeping up to data with the new technologies coming in hence giving added facilities to the consumers too, Nepalese bank rapidly expanding their service hours keeping the customer's convenience in mind.

Jed Devaro (2006), in his article "Teams, Autonomy and the Financial Performance of Firms." has argued that I estimate a structural model of teams, autonomy, and financial performance, using a cross section of British establishments. My findings suggest that team production improves financial performance for the typical establishment but that autonomous team's do no better than closely supervised or no autonomous teams. I find that unobserved factors increasing the propensity to adopt teams are positively correlated with unobserved determinants of financial performance, and that unobserved factors increasing the propensity to grant teams autonomy are negatively correlated with unobserved determinants of financial performance when teams are adopted.

Marc van Veldhoven (2006), in his article " Financial Performance and the long-term Link with HR Practices, Work Climate and Job Stress" has argued that Using data front a large financial services organization in the Netherlands, this article Reports a longitudinal study at the business unit level. The study addresses the question of which longitudinal relations exist between survey data on perceived HR practices, work climate and job stress on the one hand, and prospective and retrospective financial performance on the other. Data from 223 business units were available for this study. Eight scales were selected from an employee survey answered by 18,142 respondents. These were aggregated to mean scores at the business unit level. Financial performance is operationalised by a yearly profits-to-costs ratio. Correcting for employee and business unit characteristics, the eight survey scales predict 22 per cent of the variance in business unit financial performance in the year after the survey. Co-operation between departments' appears to be the most important predictor. Equally strong evidence was found for a reverse causation sequence: business unit financial performance in the year before the survey was a significant predictor for four out of eight survey scales, especially for 'co-operation between departments' and 'job security'. The results underline the importance of studying variance in HR and performance variables within large organizations, and the possibilities of using employee surveys in this research context. Limitations and implications of the findings are discussed.

Scott W. Barnhart, M. Wayne Marr and Stuart Rosenstein (2006), in their article "Firm Performance and Board Composition: Some New Evidence" have argued that

We investigate the effect of board composition on overall corporate performance while controlling for managerial ownership and other key variables. We recognize that both managerial ownership and board composition may be endogenous to performance, but our work differs from previous in two important respects. First, we measure performance using the market value to book value ratio of common stock equity rather than the more commonly used Tobin's *q.* Second, recognizing that overall estimates from the IV approach depend greatly on the choice of instruments, we perform sensitivity analysis by using a variety of instruments to proxy for board composition and managerial ownership. Both our OLS and IV estimates indicate a significant curvilinear relation between board composition and performance. However, we find that moderate differences in first-stage regressions, resulting in

small changes to first-stage R^2s, lead to widely differing overall results. Our results suggest that findings of studies using IV and similar techniques (e.g. two- and three-stage least squares) must be interpreted.

Rhonda K. Reger, Irene M. Duhaime and J. L. Stimpert (2006), in their article "Deregulation, Strategic Choice, Risk and Financial Performance" have argued that this study explores the effects of regulation and deregulation on strategic choice and performance in the U.S. banking industry. Drawing on literature from strategic management, industrial organization economics, and organization theory, we develop a framework which suggests that regulatory scope and regulatory instrumentalism influence strategic choice and performance. A path analytic model is used to empirically examine these influences. The results suggest that deregulation has direct effects on firms' strategic choices and both direct and indirect effects on risk and return.

Jeffrey S. Bracker, Barbara W. Keats and John N. Pearson (2006), in their article "Planning and Financial Performance among Small Firms in a Growth Industry" have argued that this paper examines the relationship between planning process sophistication and the financial performance of a select group of small firms in a growth industry. Multivariate analysis of variance is used to identify statistically significant differences between firms that employ sophisticated plans and those that do not. The results support previous research on strategic planning and financial performance.

Jill Hooks and Chris Van Staden (2007), in their article "The Corporatization and Commercialization of Local Body Entities: A Study of Reported Financial Performance" have argued that this research examines the financial performance of three entities over a fifteen-year period. The aim is to determine the influence of corporatization, commercialization and ownership form on the Reported financial performance of the three entities. Underpinning this is the premise, derived from the literature, that financial performance and funding can be expected to change following corporatization and commercialization and will reflect the effects of the form of corporate ownership.

A comparison of four performance measures shows that the Reported financial performance of the entities improved following corporatization and that their gearing changed. Although the entities were initially similar and faced the same regulatory changes, there were definite differences in the resulting financial performance and gearing between the three entities. In general, by the end of the study period the privatized company was the largest and the one with the highest gearing, the highest ROA and the highest profit margin, whereas the public (council-owned) company was the smallest and had the lowest profitability. The trust-owned company performed in between these two, but on average its performance was closer to that of the public company. The study concludes that corporatization, commercialization and ownership form influenced financial performance and the level of debt.

Juha Uotila¹ Markku Maula Thomas Keil and Shaker A. Zahra (2008), in their article "Exploration, Exploitation and Financial Performance: Analysis of S&P 500 Corporations" have argued that established firms need to balance their exploration and exploitation activities in order to achieve superior performance. Yet, previous empirical research has modeled this balance as the interaction of orthogonal activities. In this study, we show that there is a trade-off between exploration and exploitation and that the optimal balance between exploration and exploitation depends upon environmental conditions. Using a novel methodology to measure the relative exploration versus exploitation orientation, we find an inverted U-shaped relationship between the relative share of explorative orientation and financial performance. This relationship is positively moderated by the R&D intensity of the industry in which the firm operates.

Bert Scholtens and Yangqin Zhou (2008), in their article "Stakeholder Relations and Financial Performance" have explained that we analyze how shareholder performance can be associated with stakeholder relations. As such, we try to find out whether there is an association between financial performance and stakeholder relations with respect to different theoretical notions about the firm. Financial performance is operationalized as the financial return of a firm's shares. For stakeholder relations, we look into community involvement, corporate governance, employee relations, environmental conduct, diversity of the workforce, human rights policies and product attributes. We find that the different components of stakeholder

relations appear to be associated in a complex manner with shareholder performance. Therefore, it adds value to look closely into the details of stakeholder relations in connection with financial performance.

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Renita Dubey (2008),in her article "Financial Analysis- the Accountants Tool" had explained about financial Analysis like as Financial Analysis is referred to as evaluation, computation and interpretation of analytical ratio's from financial statements to determine the financial trend of the organization in taking effective management decisions". There are various financial tools that are used by the finance managers which include Fund flow analysis, Cash flow analysis, Ratio analysis, Break-even analysis, operating and financial leverages. The Balance sheet reflects the true and fair view of the state of affairs of the company and only the study of Balance sheet is not sufficient in ascertaining the financial position of the company, there is a need to know the Cash flows and Fund flows underlying the Balance sheet. Therefore the sources and applications of funds serves the purpose .Further ,the 'Leverages' both Operating and Financial helps in Capital gearing, Leverage means meeting the fixed cost or paying fixed return for employment of resources and fund. It is also defined as the companies own ability to use fixed cost assets or funds to enable more return of funds to its owner. Operating leverage takes place when the company has fixed cost that must be met regardless of volumes or value of sales but when there is widespread fluctuation in sales which in turn leads to more high fluctuations in the operating profit –it is referred to as Operating leverage. On the other hand financial leverage is referred to as the company's ability to use fixed financial charges and indicates an effect on earnings created by the use of these fixed charges while making capitalization plans. Therefore financial leverage can be considered as tool in effective utilization of funds at a fixed cost with the hope of providing more increased return to shareholders. Where Q denotes number of units sold; P denotes selling price per unit denotes variable cost per unit; F denotes fixed cost; L denotes degree of operating leverage. In planning the financial structure and strength of the company, Cost-Volume-Profit analysis or in better known as "Break Even Analysis" is very important. It helps in ascertaining the relationship of cost and revenues to output. The analysis is generally presented in a Break even chart .Total sales is calculated =Total cost Total variable cost which is also known as the Break even Point and the chart

which shows this point is known as the Break even chart. Ratio analysis was the first financial tool developed that proved to be helpful in analyzing and interpreting financial statements. Ratio analysis is therefore the process of determining and interpreting the numerical relationships based on financial statements. Frequent measurement in terms of ratio's helps to identify a problem which needs to be solved, thus enabling correction. So in order to attain sustainability, ratio analysis's very important. Some important ratio's are: Structural ratios, profitability ratios, working capital ratios, miscellaneous ratios.

2.2.2 Review of Previous Thesis

Before this, a number thesis works from students regarding the various aspects of commercial banks including financial performance are available for review. Some of the relevant thesis ere review below:

Basanta Nath Pant (1992), in his thesis" Evaluate Financial Performance of Standard Chartered Bank" had the objectives as: Measuring liquidity, leverage, actively profitability and ownership ratio of the Banks, Studying the income and expenditure statements of the bank, Analyzing the bankruptcy score of the bank, providing a package of suggestions and possible guideline to improve the performance of SCBL based on the finding of analysis.

On the basis of various analyses, researcher comes out with the following recommendations: The bank should try to gain major share of public deposits. The bank should hold stars such as foreign exchange to preserve market share. Broaden the range of products and services offered to the customers at the same identifying those, which can make a real contribution to profits. Focus more on non-risky lending such as mortgages, housing loans and personal loans. Focus more on INGO and new project accounts to generate non interest bearing deposit.

Bhoj Raj Bohara (1992), in his thesis "A Comparative Study of the Financial Performance of NABIL and NIBL" had the objectives as measure liquidity leverage, activities profitability and ownership ratio of bank. He conducted and concluded both banks are adequate to discharge current liabilities and utilization of deposits is satisfactory. NIBL is utilizing deposit more efficiently on loans and advance than NABIL. Both the banks have highly geared capital structure. However NIBL capital structure is more risky than NABIL. Both banks have maintained higher capital

adequacy ratio than the required ratio. Comparatively both banks performance is satisfactory. The research suggests increasing equity has operational profit and liquidity position as per the new regulation of Nepal Rastra Bank.

 Dev Raj Adhikari (1993), in his thesis "Evaluating the Financial Performance of NBL" concludes that the NBL could not fully utilize the resources on high yielding investment portfolio to maximize returns. Therefore the banks have suffered from serious of operational efficiency, which was not satisfactory. Operational efficiency of the bank indicated by the operational loss has been unsatisfactory. Likewise allocation of loan and advanced by the bank was not to meaningful as the productive sector had little share in the loan portfolio. Similarly lower return on investment and lower market value of the bank share as against the book value was reflection of the weaker financial performance of the banks. Nothing was satisfactory except liquidity position of Nepal bank limited. So that bank should manage its investment by using portfolio method.

Vikram Chandra Gurung (1995), in his thesis " A Financial Study of Joint Venture Banks in Nepal: A Comparative Study of NGBL and NIBL" had carried out by his analysis assets, liabilities, debt and equity, profit and loss etc for the period of 1986/87 to 1992/93. In his study he found that profitability records of both the banks have registered and increasing trend during first half of the study period and have decreased there after. He found the liquidity, profitability and dividend payout ratio of the both banks seen to be favorable and both the banks have been able to manage satisfactory level of capital adequacy ratio in the subsequent years, which is well above the required adequacy norm.

 Dinesh Kumar Pyakurel (2000), in his thesis "A Comparative Study on Financial Performance of Nepal Bangladesh Bank Ltd and Everest Bank Ltd" had taken six years period for the study from F/Y 2051/52 to 2056/57. He found that average net profit margin, average return on assets, return on net worth, return on total capital of NBBL are higher than of EBL. In the researcher's view, return on risk assets remained remarkably higher in NBBL than in EBL. Average interest earned to total assets ratio was found to be greater in NBBL that in EBL. He further added that loans and advances to total deposit ratio appeared considerably higher in NBBL. He emphasized that NBBL has been utilizing the depositors fund to earn profit successfully. The researcher has found that performing assets to total assets ratio of

NBBL seemed comparatively greater than of EBL. But the ratio of EBL is also satisfactory likewise performing assets to total debt ratio of NBBL exceeded the same of EBL on an average. The Researcher has drawn the conclusion by this ratio that NBBL has allocated the cost bearing fund more successfully than EBL.

Jebish Pandey (2002), in his thesis "A Study on Financial Performance of Nepal SBI Bank Ltd (NSBIBL)" with the objectives to examine the overall performance of NSBIBL in terms of liquidity, profitability, leverage and capital adequacy ratios study the achievement of NSBIBL, evaluate the effectiveness of collection of and their utilization, examine the causes of gap existing between deposit, loan and investment etc and lastly provide suggestion and maximum utilization of deposit.

On the basis of various analysis he came out with the following findings: interest expenses on deposit to interest income on loan and advance ratio of NSBIBL is not satisfactory the increase percentage of interest expenses is high than increase percentage of income so, the bank should try to increase its interest income by increasing their lending and try to minimize the interest expenses by collecting non-interest bearing or low interest bearing deposit. net worth per share of NSBIBL is not increasing up to expectation, being joint venture bank of state bank India its net worth per share has not been up to standard to measure policy regarding credit and guarantee letter of credit etc should be introduce to up lift the net worth per share of the bank. Dividend payout ratio of NSBIBL seems satisfactory but it is not following the constant dividends payout ratio throughout the period of study. The current ratio is not up to standard of 2:1 therefore the depositor margin of safety is low. NSBIBL should increase its current assets so that its current liabilities obligation can be paid easily through the values of current asset decrease by half. Bank has to maintain certain balance on NRB for the safeguard of depositor money as rules laid by NRB .NRB balance to total deposit ratio is highly fluctuating with average of 12.97% which is high. Therefore to decrease this ratio it should lend the fund in secured sector such as treasury bills.

Ganesh Prasad Awasti (2003), in this thesis "A Comparative Study of Financial Performance between HBL and BOKL" had the objective to analysis and examine the financial performance, identify the financial position and recommend the suggestion to conduct research. He used the descriptive cum analytical research design using the financial as well as statistical tools dated from FY 1997/98 to 2001/02. He concluded

that liquidity position of both banks were not satisfactory where as liquidity position and efficiency of utilization resources in HBL was relatively better and HBL was more successful to generate more return on its share holders firm than that of BOKL. Comparatively interest constitutes high portion in income and payment to BOKL than HBL and commission and staff expenses constitute higher portion in income and expenses of HBL. Thus HBL has comparatively superior financial performances. He recommended improving current ratio and increasing the investment by total deposit ratios for both bank. To enhance the profitability, idle money should be invested and to reduce finally. For banking development they have to obey to directive NRB by establishing its branches in rural region and invest in priority sector.

Nirmal Dhakal (2007), in his thesis "Financial Performance of Everest Bank Ltd" had the objectives as: To measure liquidity leverage, activity and ownership ratio of the bank, Study the income and expenditure statement of the bank , Analyze the bankruptcy score of the bank, Highlight the relationship between total deposit and net profit, total deposit and investment EPS and MVPS, Provide a package of suggestions and possible guideline to improve the performance of Everest Bank Limited based on the finding of analysis.

While analysis the financial performance of EBL, he concludes the liquidity position of Everest Bank Limited is in normal standard. EBL may not be also to meet its immediate obligation as the bank balance is significantly lower then the current and saving deposit. According to debt assets ratio analysis, the bank has the high debt equity ratio which means the creditors have invested more in the bank than the owners. Analysis of loans and advances to total deposit indicates that the bank is mobilizing its total deposits in loans and advances satisfactory. The result of the analysis (ROA) indicates that not profit earned in comparison to the total deposit is relatively low interest expenses to interest income ratio is in on the higher side. On average it is more than 50% that shows that EBL gap between interest earned and interest paid is quite low but in later years EBL is successful in allocating interest bearing debt in profitable sector. Interest earned to assets ratio was very low through out the study which shows that EBL has not utilized its assets effectively for generating incomes.

Meenu Shakya (2007), in her thesis "Comparative Financial Performance of Nepal SBI Bank and Merchant Banking and Financing Ltd" had concludes the objectives:

Assets the financial performance of Nepal SBI Bank and Nepal Merchant Bank Ltd ,Measure liquidity position and investment portfolio, Study the relationship between deposits, credit on financial strength and net profit Provide appropriate recommendations and suggestions for the future development of the Nepal SBI bank and Nepal Merchant Bank Ltd.

From the analysis it is clear that all the banks are not strong in all fields. Some of them are stronger in profit making but failed to maintain the consistency, some are weaker in mobilizing their deposits. Few of them have concentrated into very limited diversified investments etc. Profitability of SBI and NMB banks are not satisfactory. NMB is in increasing trend from 2001/02 to 2003/04. Also SBI has the increasing trend. In the year 2000/01 to 2001/02 it has increased to 0.73 which shows the bank is mobilizing its resources to generate the profit on the average banks. NMB has the higher ratio 2.98% than SBI's ratio 0.64%. However the rate of profitability is not satisfactory. The reason might be non-optimum utilization of deposit. EPS of two companies have fluctuated over the years of study periods.

Benu Madhav Bhattrai (2008), in his thesis "A Comparative Analysis of Financial Performance of Nabil, Investment and Standard Chartered Bank Ltd" had the objectives: Evaluating the liquidity position to measure the strength of financial performance of selected bank, evaluating the activity and operation with reference to mobilization of the collected funds, analyzing price earning market value to book value per share and dividend payout evaluating the earning and profitability position of selected banks, identifying the relationship between total deposit and total investment, identifying the relationship between interest earned and operating profit. His major research findings are as bellow:

This study reveals that the current ratio of all samples banks is greater than 1 but NABIL Bank has the highest current ratio. It means NABIL Banks solvency position is better than NIBL and SCBNL. The cash and bank Balance of NIBL with respect to total deposit is more liquidity than other sample Banks. It indicates that NIBL is able to make immediate payments to its depositor.

Among all the sample banks NIBL has the lowest ratio of net profit to total assets, It means NIBL has not mobilized its assets into profit generating projects. NABIL Bank has been successful in earning more net profit by the proper use of its available assets. NIBL has not mobilizes its deposit into profit generating project and NABIL banks with the highest ratio has been successful in the earning more net profit by the proper use of its

available deposit than others. But in case of mobilized the funds of shareholders efficiently into profit generating projects, NIBL has not mobilized and SCBNL has been successful in providing more rate of return to its shareholders by the proper use of their available funds and others. Among the all sample banks, NIBL has not mobilized its assets into interest generating projects (i.e. income from Loans, advances, cash, credit and overdrafts, government securities, inter commercial banks other investment). NABIL Bank with the highest ratio has been successful in the earning more net profit by the proper use of its available deposit than others.

NIBL has used more percentage of its total deposits into loan and advances than other sample banks. From trend analysis, loan and advances of each bank have increased trend but average growth of NABIL Bank is higher than other selected joint venture bank.

Pramod Kumar Pyakurel (2008), in his thesis " A Comparative Study of Financial Performance of Standard Chartered Bank and Nepal SBI Bank Ltd" had the objectives of the study are listed below: To examine the trend of deposits and loan and advance of NSCBL and Nepal SBI bank Ltd , evaluating the liquidity, profitability turnover, capital structure, Market value and invisibility positions of NSCBL and SBI Bank Ltd, analysis the relationship between MVPS, DPS and EPS of NSCBL and SBI Bank Ltd, suggest and recommend some measure on the basis of comparative financial performance evaluation and findings for the improvement of the financial performance of NSCBL and SBI Bank Ltd.

In the future after analyze the data following findings are presented:

The study reveals that the current ratio of both banks is below the normal standard 2:1 which indicates unsatisfactory liquidity position. Cash and Bank balance to current deposits ratios, cash and bank balance to current assets ratio and loan advance ratio of SBI bank are higher than that of NSCBL as per mean ratio. Thus, the comparative study indicates better liquidity position of SBI bank than NSCBL. NSCBL is more successful in utilizing amount of deposits in investment opportunities than SBI bank. According to the study both the banks under study have been able to earn positive profit but not to the satisfactory level. This analysis shows that NSCBL is more successful in generating profit SBI Bank

Pradeep Kumar B.K (2008), in his thesis "A Comparative Analysis of Financial Performance of SCBNL and Himalayan Bank Ltd" had the objectives which is listed below: Analyzing the financial strengths and weakness of the sample financial

institutions, Evaluating its financial positions, Analyzing the banks deposit mobilization and investment procedures to make relevant suggestions and recommendation for their effective and efficient future performance.

After analysis of data, current ratio of the bank is found below the standard. The liquidity position of HBL is better than SCBNL. The cash and bank balance of HBL with respect to deposits is greater than SCBNL. This puts, HBL in a better position with respect to meeting customer requirement then SCBNL. In contrast, a high ratio of non-earning cash and bank balance is an indication of banks unavailability to invest its fund in income generation areas. The higher degree of variability in investment in government securities of SCBNL during the study period shows lack of concrete policy of the bank in this regard.

There is a significant relationship between deposit and total investment, total deposit and loans and advances and total outside assets and net profit.

Bharat Khatri (2008), in his thesis "An Analysis of Financial Performance of Bank of Kathmandu Ltd and Kumari Bank Limited" had the following objectives: present the existing financial position of BOKL and KBL, Examine the liquidity, profitability, leverage, efficiency of capital adequacy position of two banks, Calculate the trend of financial performance of two banks, find out the relationship of financial performance of two commercial banks, Recommend the corrective measure for betterment of financial performance of there two banks.

Major findings of this study during the period of five years in BOKL and KBL from the analysis are summarizes as:

Both banks liquidity position is good and in comparison BOKL has better liquidity position. Profitability position- The analysis of profitability of two banks BOKL and KBL, with the help of profitability ratios have drawn different conclusion. Some ratios show the earning position of BOKL is better while the other concluded the KBL profit position is effective. In term of ROA, ROSE and return of total deposits ratio within these last five years is better profitable in BOKL than KBL and total interest income to interest expenses, interest earned to total assets ratios of KBL is better than that of in BOKL. In summary expenses of BOKL is higher, its profit making capacity also efficient as compared to KBL

Greater EPS in BOKL show that earning on per share basis is higher in BOKL. EPS greatly varied from mean in BOKL than KBL. Higher P/E ratios in KBL than in BOKL,

indicates greater expectation of market towards the achievement of firm. Nut BOKL has greater variability from mean. Two banks do not differ significantly in P/E ratios. Higher mean ratio of MVPS to BVPS ratio in BOKL signifies strong management and organization in BOKL than in KBL. But the ratio are scattered from the mean in BOKL than KBL.

Research gap is the different between previous work done and the present work. Earlier works conducted by the superiors in the matching topic "comparative analysis of financial performance of commercial banks" are very useful and appreciated by personnel in various related fields, including academicians, bankers, shareholders, and the general public. Those dissertations, in a great extent have been successful in analyzing the financial performance of the concerned organization. The suggestions and recommendations given by the preceding researchers to improve the strengthen and the financial decisions have been really benefiting to the relevant banks.

The review of above literature has contributed to enhance the fundamental understanding the knowledge, which is required to make study meaningful and purposive. There has been lots of article published related to financial performance of commercial banks. There are various researches conducted on financial performance and policy of commercial banks, impact and implementation of NRB guidelines in commercial banks. Most of the thesis studies are analytical type. Comparing of the firms from same industry can make sense. Analytical study may not complete the research. So this is the exclusive study of EBL &LBL. The researcher will use comparative analysis of financial performance of related bank. The NRB directives are taken into consideration, while analyzing the data. Most of the studies missed to see the growth trend of some major element. In this study, the growth percentage of net profit, total deposit, total loan and advance and investment have been computed and analyzed. The researcher will focus on same accounting period of those banks and it will be the fundamental basis of research. The researcher hopes that this research will helpful for further research. While reviewing other studies on the same topic the researcher found that the ratios are not properly analyzed, what actually the ratio indicates is not clear. Similarly trend analysis and bankruptcy score are not clearly analyzed. So, this study has tried to analyze and compare the financial performance of EBL &LBL.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology is the way to solve systematically the research problem, which includes many techniques and is a must for every research study. Research methodology may define as a systematic process that is adapted by the researcher in studying a problem with certain objective in view. In other words, research methodology describes the methods and process applied in the entire aspects of the study. The basic objective of this study is to analyze the various financial ratio of selected organization, analyze the bankruptcy score and comparing the financial performance of the two banks. To achieve the mentioned objective an appropriate research methodology has to be allowed. Thus, in this chapter focus have been made on research design, nature and sources of data, data collection and processing procedures and tools used for analysis. Data of the fiscal year have been presented and analyzed through appropriate financial ratios. With the help of this analysis we can evaluate the performance and financial position of related banks.

3.1 Research Design

The research design is the conceptual structure within which the research is conducted. The design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data.

Research design is very helpful while conducting research. It facilitates smooth operation of research work, there by making research as efficient as possible yielding maximum information with minimum expenditure of effort, time and resources. A research design is helpful because it specifies the sources and types of information relevant to the research problem. Further it is a strategy specifying which approach will be used for gathering and analyzing the data.

"A good design is often characterized by adjectives like flexible, appropriate, efficient, and economical and so on. Generally, the design which minimizes bias and maximizes the reliability of the data collected and analyzed is considered a good

design. The design which gives the smallest experimental error is supposed to be the best design in many investigations.*"(Kothari; 1995:41)*

Research is a theory building activities. Theory is a relationship between two or more facts. The research design refers to the conceptual structure within the research which is conducted. A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with the economy in procedure. Thus research design is a plan to obtain the answer of research question during analysis of data. The first step of the study is to collect necessary information and data concerning the study of relevant banks. In this study descriptive research design is used to meet the objective of study. Descriptive research design has been used to make the analysis more conclusive and used for clearing the situation on the basis of presented data and facts. The data is carefully studied and analyzed systematically under specific major heading so as to meet the objective. Beside this, the accumulated data is described and tabulated systematically. In this study ratio analysis has been designated to analyze the overall performance.

3.1.1 Source of Data

The various data required for the study, but mainly the study is conducted on the basis of secondary data. The sources if secondary data are the bank's annual Reports, financial statement of the bank and central bank. Previous thesis has been taken as other sources of data during the study. The published financial data are mostly used in this study to analyze the overall performance of banks.

This study is mainly based on secondary data, which are the annual Reports especially from balance sheet and profit &loss account published by related banks. Thus, the sources of data are the published annual Reports and data are secondary nature. Likewise various data and information are collected from the economic, journals and research works from various sources, academic books, various articles published in the newspaper, worldwide websites, the internet and other published and unpublished Reports documented by the concerned authorities.

3.1.2 Population and Sample Size

The population refers to the industries of the same nature and its services and product in general. Thus, the total commercial banks shall constitute the population of the

data. Among the various commercial banks under the banking industry Everest Bank Limited and Lumbini Bank Limited are selected for the study.

3.1.3 Data Collection and Processing Procedure

The basic secondary data in forms of published Reports by related banks of different years are collected from the bank. The required financial data and information have been collected from the balance sheet and profit & loss account of the bank. The collected secondary sources of data were compiled and processed in order to achieve the objectives of the study. The data extracted from annual Reports have been processed and interpreted considering the requirement of the study. This study basically used the secondary data which are collected firstly and tabulated into a separated systematically. Simple statistical analysis like percentages are calculated presented and analyzes in descriptive way. Similarly, the financial ratios and statistical tools are widely used for the analysis and interpretation of the overall performance of the banks.

3.2 Method of Data Analysis

Presentation and analysis of the collected data is one of the important part of the research work. The collected raw data are first presented in systematic manner in tabular forms and are them analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these, some graph charts and tables have been presented to analyze and interpret the finding of the study. The tools applied are

3.2.1 Financial Tools

Financial tools are used to get the precise knowledge of a business which in turn is fruitful in exploring the strengths and weakness of the financial policies and strategies. These tools are used for the analysis and interpretation of financial data.

3.2.1.1 Ratio Analysis

A ratio simply one number expressed in term of another and as such it express the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportion and as a coefficient. 'Logarithmic graph' and 'break even chart' are the graphic forms of expressing a ratio. Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performance of an

organization by creating the ratio from the figures of different accounts consisting in balance sheet and income statement is known as ratio analysis. Even though there are many ratios to analyze and interpret the financial statement, only those ratios that are related to the financial operation of the bank have been covered in this study. The different ratios which are calculate and analyzed are given below:

3.2.1.1.1 Liquidity Ratio

Liquidity ratios are used to measure a firm's ability to meet short-term obligations. They compare short-term obligations to short-term or current resources available to meet these obligations. From these ratios, much insight can be obtained into the present cash solvent in the event of adversity. Profitability of a bank is closely related with the liquidity because it has to gain confidence from depositors and customers, which is the largest source of fund as well as earning. The main function of commercial banks is to create credit from their deposit.

Current, saving, short term loans are some of the short term obligations where as cash and bank balance, money at call and short notice, investment in government securities and bills discounted and purchase are sources of meeting the obligations. The commercial banks have to maintain the proportion of cash and bank balance as directed by Nepal Rastra Bank (NRB) from time to time

The following ratios are evaluated under liquidity ratio:

a) Current Ratio

b) Cash and Bank Balance to Current Deposits Ratio

c) Cash and Bank Balance to Total Deposits Ratio

d) Cash and Bank Balance to Current Assets Ratio

e) Loan and Advances to Current Assets Ratio

a) Current Ratio:

It measures the short term solvency position of the firm and is derived by dividing current assets by current liabilities as follows:

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

Current assets normally include such assets that can be converted into cash within a year. Such as cash &bank balance, investment, debtors, inventories, prepaid expenses, money at call and short notice, overdrafts etc. so, as liabilities refer to the obligations having maturity within a year. These include creditors, bills payable, accrued expenses, short term bank loans, deposits, inter bank reconciliation account, outstanding provision, dividend payable, staff bonus, etc.

The ratio represents margin of safety for creditors. So higher current ratio indicates better liquidity position and 2:1 or more is considered satisfactory. But all time, this standard should not be followed blindly when test of liquidity is measured in terms of quality of assets.

b) Cash & Bank Balance to Current Deposits Ratio

This ratio measures the ability of banks current assets to fulfill the current deposit. Banks will loose its credit worthiness, creditors, etc if fails to meet its obligation due to lack of sufficient liquidity. High level of liquidity is not good, as idle assets earn nothing. The ratio is calculated as:

$$Cash\ and\ Bank\ Balance\ to\ Current\ Deposits\ Ratio = \frac{Cash\ and\ Bank\ Balance}{Current\ Deposits}$$

c) Cash & Bank Balance to Total Deposits Ratio

This ratio shows the percentage of liquid assets held as compared to the total deposit. High ratio shows the strong liquidity position of the bank. But very high ratio is not favorable for the bank; it does not produce appropriate profit to bear the high interest. Total deposit consists of current deposit, saving deposit, fix deposit, money at call and short notice and other deposits. The ratio is calculated as:

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

d) Cash & Bank Balance to Current Assets Ratio

Cash and bank balance is the most liquid form of currents assets. This ratio measures the proportion of cash and bank balance held by the banks under study. Current assets include cash and bank balance, money at call and short notice, loans and advances including bills discounted and purchased investment in government securities and

other securities, interest receivables and miscellaneous current assets shown under head "other assets". The ratio is calculated as follows:

$$Cash\,and\,Bank\,Balance\,to\,Current\,Assests\,Ratio = \frac{Cash\,and\,Bank\,Balance}{Current\,Assests}$$

e) Loans and Advances to Current Assets Ratio

The ratio indicates the relationship between loan and advance to current assets. It shows the capacity of the bank to purchase, discount bills and loan, credit and overdraft facility to its customer. It is calculated as:

$$Loans\,Advances\,to\,Current\,Assets\,Ratio = \frac{Loans\,and\,Advances}{Current\,Assets}$$

3.2.1.1.2 Leverage Ratio

Leverage ratio measures the relationship between the amount of debt finance (money borrowed externally) and the amount of equity finance (money provided by the ordinary shareholders) in the company's capital structure. The relationship between debt and equity finance is also frequently referred to as the level of financial gearing. The objective of the capital structure assessment is to obtain an indication of a firm's longer term solvency and it degree of financial risk, thus the main focus here is on the firm's long term funding arrangements. The following are the ratios that are used to assess the amount of debt finance of banks.

a) Debt- Equity (Net Worth) Ratio

b) Debt- Assets Ratio

c) Interest Coverage Ratio

a) Debt – Equity Ratio:

This ratio measures the proportion of debt in relation to equity finance in firm's capital structure. The lower the ratio, the higher the level of the firm's financing that is being provided by shareholders and larger the creditor cushion (margin of protection) in the event of shrinking asset values or outright losses.

The ratio calculated as:

$$Debt - Equity\,Ratio = \frac{Total\,Debt}{Shareholder's\,Equity\,(Net\,worth)}$$

b) Debt – Assets Ratio

This ratio highlights the relative importance of debt financing to the firm by showing the percentage of the firm's assets that are supported by debt financing. The higher the ratio, the greater the financial risk; the lower the ratio, the lower the financial risk. The ratio is calculated as:

$$Debt - Assets\,Ratio = \frac{Total\,Debt}{Total\,Assets}$$

c) Interest Coverage Ratio

This ratio indicates a firm's ability to cover interest charges. This ratio serves as one measure of the firm's ability to meet its interest payments and thus avoid bankruptcy. The ratio is calculated as:

$$Interest\ Coverage\ Ratio = \frac{Net\ \Pr ofit\ before\ Interest\ and\ Tax}{Interest\ Ch\arg e}$$

3.2.1.1.3 Activity Ratio

Activity ratio measures the efficiency of an organization from various angles of its operations. These ratios indicate the efficiency of activity of as enterprise to utilize available funds, particularly short term funds. The following activity ratios measure the performance efficiency of an organization to utilize its short term funds. These ratios are used to determine the efficiency, quality and the contribution of loans and advances in the total profitability.

a) Total Investments to Total Deposits Ratio

b) Loans & Advances to Total Deposits Ratio

c) Non Performing Loans to Loans and Advances Ratio

d) Loan Loss Provision to Loans & Advances Ratio

e) Interest Expenses to Total Deposits Ratio

f) Interest Expenses to Total Expenses Ratio

a) Total Investments to Total Deposits Ratio

This ratio reveals how efficiently the resources of the banks have been mobilized. High ratio shows the managerial efficiency regarding the utilization of deposits and vice- versa. The ratio is calculated as:

$$Total\ Investments\ to\ Total\ Deposits\ Ratio = \frac{Total\ Investments}{Total\ Deposits}$$

b) Loans & Advances to Total Deposits Ratio

This ratio indicates the proportion of total deposit invested in loans & advances. Higher ratio indicates the proper use of total deposit where as lower ratio indicates less use of deposit or idle cash. The ratio is calculated as:

$$Loans\ and\ Advances\ to\ Total\ Deposits\ Ratio = \frac{Loans\ and\ Advances}{Total\ Deposits}$$

c) Non Performing Loans to Loans and Advances Ratio

This ratio indicates the percentage of non performing loans out of total loans and advances. Higher the ratio shows the inefficiency of the banks in lending and vice-versa. The ratio is calculated as:

$$Non\ Perfor\min g\ Loans\ to\ Loans\ and\ Advances\ Ratio = \frac{Non\ Perfor\min g\ Loans}{Loans\ and\ Advances}$$

d) Loan Loss provision to Loans & Advances Ratio

This ratio indicates the percentage of provision for loan loss out of total loans and advances. Banks do provisioning as per the guidance of Nepal Rastra Bank. Loan loss provision is interlinked with non performing loans, higher the non performing loans, higher will be the loan loss provision. The ratio is calculated as:

$$Loan\ Loss\ \Pr ovision\ to\ Loans\ and\ Advances\ Ratio = \frac{Loan\ Loss\ \Pr ovision}{Loans\ and\ Advances}$$

e) Interest Expenses to Total Deposits Ratio:

This ratio indicates the proportion of expenses incurred for interest out of total deposit of the bank. The ratio is calculated as:

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

f) Interest Expenses to Total Expenses Ratio:

This ratio shows the percentage of interest expenses out of total expenses. High ratio indicates that the major portion of expenses has been spent for interest. The ratio is calculated as:

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

3.2.1.1.4 Profitability Ratio

Profit is the different between the revenues and the expenditures over a period. Banks are the profit motive organization. Profit is the main element that makes an organization to survive in long run. Profitability ratios are those ratios that relate profits to sales and investment. The profit also measures the management ability regarding how well they have utilized their funds to generate surplus.

These ratios also have been used to determine the efficiency of the lending, its quality and contribution in total profitability.

a) Return on Shareholders Equity

b) Interest paid to Interest Earned Ratio

c) Interest Earned to Loans and Advances Ratio

d) Return on Total Assets

e) Return on Total Deposits

f) Staff Expense to Total Income Ratio

a) Return on Shareholders Equity:

The ratio measures the overall performance of the firm. Return on equity compares net profit after taxes (minus preferred stock dividends, if any) to the equity that shareholders have invested in the firm. A high return on equity often reflects the firm's acceptance of strong investment opportunities and effective expense management. Equity refer paid up share capital and reserves and surplus funds and return refer net profit after tax of particular year. The ratio is calculated as:

$$\text{Re}\,turn\,on\,Shareholders\,Equity = \frac{Net\,\text{Pr}\,ofit\,after\,Tax}{Equity\,(net\,worth)}$$

b) Interest Paid to Interest Earned Ratio:

This ratio indicates how much interest expenses have been made in relation to interest income received. The higher ratio shows unfavorable profitability position of the banks. The ratio is calculated as:

$$Interest\,Paid\,to\,Interest\,Earned\,Ratio = \frac{Total\,Interest\,Expenses}{Total\,Interest\,Income}$$

c) Interest Earned to Loan and Advance Ratio

The ratio reveals how much money the company is earning for loan and advance invested. It measures the profitability of the bank, higher the ratio indicates high chance for high profit and vice versa .The ratio is calculated as follows.

$$Interest\,Earned\,to\,Loans\,and\,Advances\,Ratio = \frac{Interest\,Earned}{Loans\,and\,Advances}$$

d) Return on Total Assets (ROA)

This is known as the 'primary ratio'. This ratio attempts to measure the overall return the firm is generating on the amount of money invested in its assets. The ratio is calculated as:

$$ROA\,Ratio = \frac{Net\,\text{Pr}\,ofit\,after\,tax}{Total\,Assets}$$

e) Return on Total Deposits Ratio

This ratio shows the efficiency towards its deposit mobilization. Higher ratio indicates proper utilization of total deposit and vice versa. The ratio is computed as net profit divided by total deposit.

$$\text{Re}\,turn\,on\,Total\,Deposits = \frac{Net\,\text{Pr}\,ofit\,after\,Tax}{Total\,Deposits}$$

g) Staff Expenses to Total Income Ratio

Staff expenses include the salary and allowances, contribution to the provident fund and gratuity fund, staff training expenses and other allowances and expenses made to staff. It measures the proportion of income spent for the staff whose contribution is of

great significance on the success of the bank. This ratio is calculated by dividing staff expenses by total income as follows.

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

3.2.2 Statistical Tools

3.2.2.1 Least Square Linear Trend Analysis

The straight line trend implies that irrespective of the seasonal and cyclical swings and irregular functions, the trend values increases or decreases by absolute amount per unit of time.

It is computed as follows;

y = a +bx

Where,

Y = the value of dependent variable

a = intercept of trend line

b = slop of trend line

x = value of the independent variable, i.e. time

Following two equations can be developed putting the above values in normal equation.

$y = Na + b\ x$

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

Since $x = 0$

$$a = \frac{\sum y}{n} \quad and \quad b = \frac{\sum xy}{\sum x^2}$$

Where,

x = Sum of the observations in series x

y = Sum of the observations in series y

xy = Sum of the observations in series x and y

x^2 = Sum of square of the observation in series x

The constant 'a' is simply equal to the mean y value and constant 'b' gives the rate of change.

This is a mathematical method which is widely used in practice. It is applied for finding out a trend line for those series which changes periodically in absolute amount.

3.2.2.2 Bankruptcy Score

A study by Altman developed a statistical model that found the financial ratios predicting Bankruptcy. In order to analyze the probability of Bankruptcy score, the calculation is based on the following equation where five financial ratios have been used to predict the bankruptcy score

$$Bankruptcy\ Score = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 0.999x_5$$

x_1 = Net Working Capital / Total Assets

x_2 = Retained Earning / Total Assets

x_3 = Earning Before Interest & Tax /Total Assets

x_4 = Total Market Value of Stock / Book Value of Total Debts

x_5 = Total Investment / Total Assets

CHAPTER - IV

DATA ANALYSIS AND PRESENTATION

In this chapter, an attempt has been made to analyze the financial performance of Everest Bank Limited and Lumbini Bank Limited For its operational period of eight years i.e. starting from fiscal year 2001/02 to 2008/09. The gathered data for this study are presented in tabular form and analyzed with the help of financial tools i.e. Ratio Analysis and Statistical Tools such as Bankruptcy Score, and Least Square Linear Trend Analysis.

4.1 Analysis of Financial Ratios

In finance, a financial ratio or accounting ratio is a ratio of two selected numerical values taken from an enterprise's financial statements. There are many standard ratios used to try to evaluate the overall financial condition of a corporation or other organization. Financial ratios may be used by managers within a firm, by current and potential shareholder (owners) of a firm, and by a firm's creditors. Security analysts use financial ratios to compare the strengths and weaknesses in various companies. If shares in a company are traded in a financial market, the market price of the shares is used in certain financial ratios.

Ratios may be expressed as a decimal value, such as 0.10, or given as an equivalent percent value, such as 10%. Some ratios are usually quoted as percentages, especially ratios that are usually or always less than 1, such as earnings yield while others are usually quoted as decimal numbers, especially ratios that are usually more than 1, such as P/E ratio; these latter are also called multiples. Given any ratio, one can take its reciprocal; if the ratio was above 1, the reciprocal will be below 1, and conversely. The reciprocal expresses the same information, but may be more understandable: for instance, the earnings yield can be compared with bond yields, while the P/E ratio cannot be: for example, a P/E ratio of 20 corresponds to an earnings yield of 5%.

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "the indicated quotient of two mathematical expressions" and as "the relationship between two or more things." Ratio analysis is defined as the systematic use of ratio to interpret the financial statements, so that the strengths and weakness of a firm as well as its historical performance and current performance can be determined. In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. Ratios help to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance. In this study, financial ratios have been grouped into following type viz. Liquidity, Leverage, Activity, Profitability and Miscellaneous ratios.

4.1.1 Liquidity Ratio

Financial ratio is the mathematical relationship between two according figures. Through there are many ratios, only those ratio have been covered in this study, which are relevant to the financial performance of the banks. Ratio analysis involves the methods of calculating and interpreting financial ratios in order to assess the firm's performance and status. The basic input to ratio analysis is the periods to be examined. The study consists of the following ratios to analyze the financial performance of EBL &LBL. Difference between current assets and current liabilities is known as working capital which provides the liquidity in business organization. Liquidity provides health, strength, honor, generosity and beauty as conspicuously and undeniably as the want of it creates illness, disgrace, meanness and ugliness. It is extremely essential for a business organization to be able to meet its obligations as they become due, so it should maintain sufficient liquidity neither excess nor less. As it measures the ability of the firm to meet its short-term obligations, it reflects the short-term financial strength and weakness of the firm. The liquidity of a business firm is measured by its ability to satisfy its short term obligations as the come due. Liquidity refers to the solvency of the firm's overall financial position. The following ratios are used to measure the liquidity position of concern bank with the help of financial data of past eight years.

a) Current Ratio

Current ratio is computed from the balance sheet. It measures the ability of a firm to meet short-term (less than a year) obligations by using cash or assets that can be converted to cash in less than a year (current assets). Dividing current assets by current liabilities gives an indication of the firm's ability to pay its bills this year. The ratio for one firm should be compared to the average for the industry or competing firm. The higher the ratio is, the stronger the liquidity position of the firm.

Current ratio is calculated by using the following formula,

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

Current assets represent the amount of liquid i.e. cash and cash, assets available to the business, which can be converted into cash requirements, these are payable within a year from current assets. In this study, current assets refer to the cash and bank balance, investment, money at call & short notice, loans and advances of commercial banks, interest receivable and miscellaneous current assets. Similarly, current liabilities refer to current deposits, saving deposits, margin deposits, short term loan, bills payable, tax provision, staff bonus, dividend payable and misc. current liabilities.

Table: 4.1

Current Ratio of Lumbini Bank Ltd

Rs in million

Year	Current Assets	Current Liabilities	Ratio (in terms of Time)
2001/02	2717.72	1198.99	2.27
2002/03	3001.13	1354.17	2.29
2003/04	3974.58	2238.19	1.78
2004/05	4001.37	2110.16	1.90
2005/06	3963.02	3165.04	1.25
2006/07	5432.75	4481.18	1.21
2007/08	5931.34	4981.57	1.19
2008/09	7139.04	5484.05	1.30
		Average	1.65

(Source: Annual Reports of LBL)

The above calculated table shows that the current assets of Lumbini Bank Ltd have always exceeded the current liabilities for the period of nine years. The bank has highest current ratio of 2.29 in 2002/03 and the lowest current ratio of 1.19 in 2007/08. From the analysis of the above table the average current ratio is 1.65. The ratio was decreasing regularly in the FY2001/02 to 2006/07 but it was increasing trend in the FY 2007/ 08 and 2008/09. The above analysis indicates that the bank is in sound liquidity position.

Table: 4.2

Current Ratio of Everest Bank Ltd

Rs in million

Year	Current Assets	Current Liabilities	Ratio (in terms of Time)
2001/02	6175.99	3374.40	1.83
2002/03	7647.38	4644.64	1.65
2003/04	9169.80	6030.29	1.52
2004/05	11338.95	7618.55	1.49
2005/06	14969.85	10454.12	1.43
2006/07	20760.13	14304.40	1.45
2007/08	26174.66	18481.92	1.42
2008/09	35195.09	26984.67	1.30
		Average	1.51

(Source: Annual Reports of EBL)

The above calculated table shows that the current assets of Everest Bank Ltd have always exceeded the current liabilities for the period of eight years. The bank has highest current ratio of 1.83 in 2001/02 and the lowest current ratio of 1.30 in 2008/09. From the analysis of the above table the average current ratio is 1.51. The ratio was decreasing regularly in the FY2001/02 to 2005/06 but it was increasing and decreasing trend in the FY 2006/ 07 and 2008/09. In general terms, the bank has been able to meet its short term obligations. The above analysis indicates that the bank is in sound liquidity position.

Figure: 4.1

Chart showing position of Current Ratio of LBL & EBL
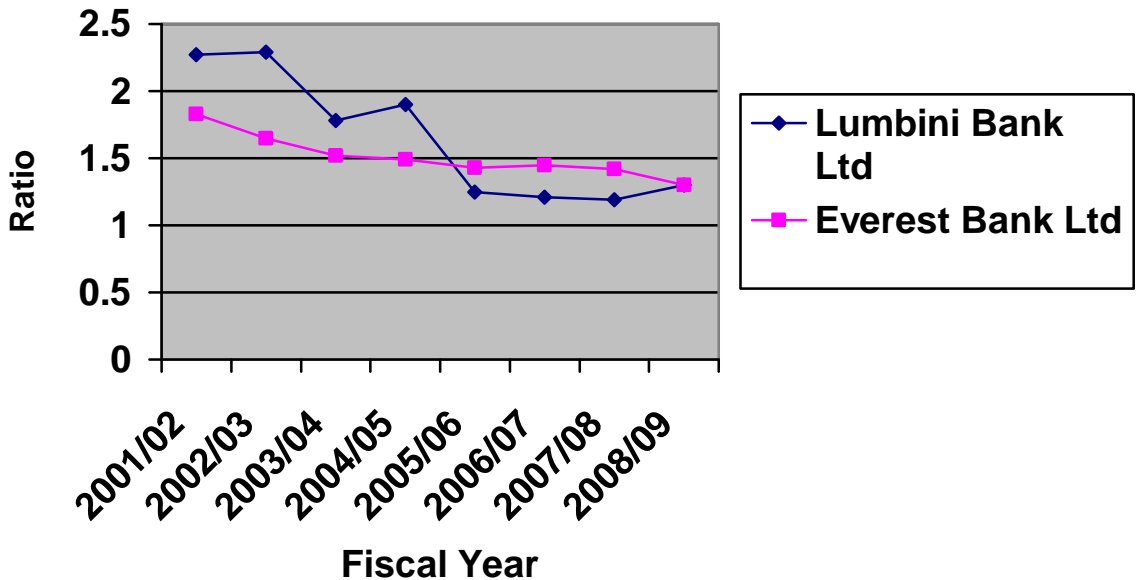
The above tables and chart shows that the current ratio of LBL and EBL are decreasing trend over the study period. The average current ratio of LBL is greater than EBL. As a conventional rule, a current ratio of 2 to 1 or more is considered satisfactory. The above analysis indicates that LBL has maintained higher margin of safety than EBL. Firms with less than 2 to 1 current ratios may be doing well, whiles firms with 2 to 1 or even higher current ratios may be struggling to meet their obligation. The average current ratio of LBL and EBL is around 2 to 1 so it can be considered as satisfactory.

b) Cash and Bank Balance to Total Deposits Ratio

Cash and bank balance are the most liquid assets of the bank. The ratio measures the bank's ability to meet its unanticipated calls and all types of deposits. It is computed by dividing cash and bank balance by total deposits. Higher the ratio greater the ability of the bank will be to meet the sudden demand of deposit. But the higher ratio also holds the higher cost of interest for the bank and it will ultimately reduce the profit of the bank. Therefore, the balance between the liquidity and the profit must be maintained by the bank.

We have,

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

Cash and bank balance is composed of cash on hand including local currencies with coins, foreign currencies, cash balance with NRB, cash balance with licensed received domestic bank and foreign bank.

Like wise ,total deposit includes current deposits, margin deposits, saving deposits, fixed deposits and money should paid at call or short notice account and other type of deposit.

Table: 4.3

Cash and Bank Balance to Total Deposits Ratio of Lumbini bank Ltd

Rs in million

Year	Cash and Bank Balance	Total Deposits	Ratio in percentage
2001/02	532.39	2646.11	20.12%
2002/03	333.56	2959.74	11.27%
2003/04	531.13	3777.61	14.06%
2004/05	419.01	4031.22	10.39%
2005/06	402.13	4786.44	8.40%
2006/07	500.81	6024.60	8.31%
2007/08	642.60	5703.73	11.27%
2008/09	994.86	6444.90	15.44%
		Average	12.41%

(Sources: Annual Reports of LBL)

The above table shows that the cash and bank balance to total deposit ratio of LBL has fluctuating trend. The highest ratio is 20.12% in 2001/02 and lowest is 8.31% in 2006/07. The average ratio is12.41%which shows the failure of proper liquid management because the ratio is in fluctuating trend. Higher the ratio better in the liquidity position but initialization of the fund, which sacrifice the opportunity of return on loan and advances.

Table: 4.4

Cash and Bank Balance to Total Deposits Ratio of Everest Bank Ltd

Rs in million

Year	Cash and Bank Balance	Total Deposits	Ratio in Percentage
2001/02	602.49	5466.61	11.02%
2002/03	1139.57	6694.96	17.02%
2003/04	631.81	8063.90	7.84%
2004/05	1049.99	10097.69	10.40%
2005/06	1552.97	13802.44	11.25%
2006/07	2391.42	18186.25	13.15%
2007/08	2667.97	23976.30	11.13%
2008/09	6164.37	33322.95	18.50%
		Average	12.54%

(Source: Annual Reports of EBL)

The above table shows that the cash and bank balance to total deposit ratio of EBL has fluctuating trend. The highest ratio is 18.50% in 2008/09 and lowest is 7.84% in 2003/04. The average ratio is12.54%which shows the failure of proper liquidity management because the ratio is in fluctuating trends. Higher the ratio better in the liquidity position but initialization of the fund, which sacrifice the opportunity of return on loan and advances.

Figure: 4.2

Chart showing Cash and Bank Balance to Total Deposits Ratio of LBL and EBL
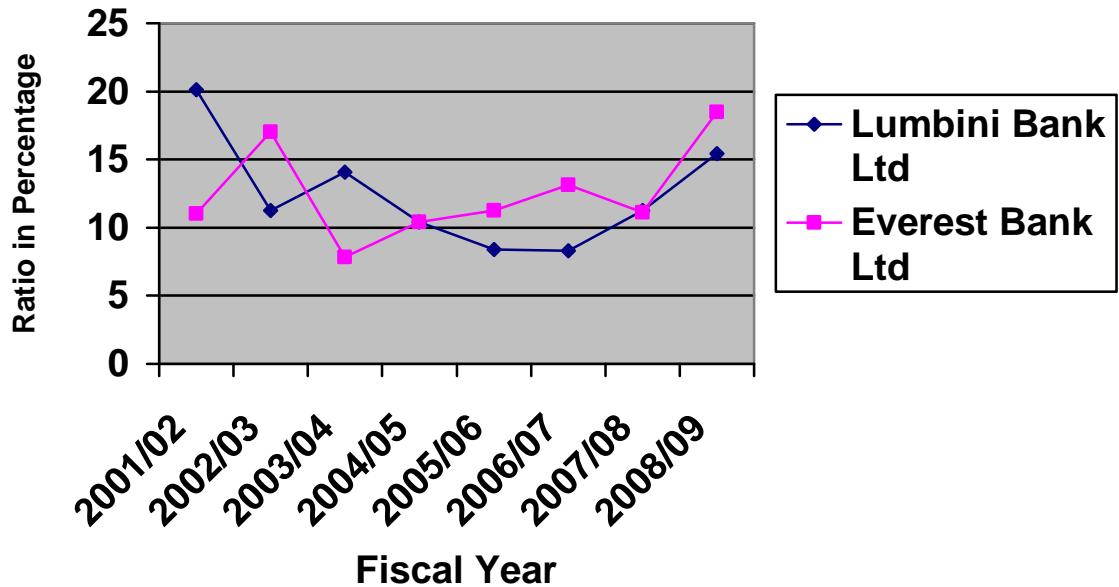
The above tables and chart shows that the cash and bank balance to total deposit ratio of LBL and EBL are decreasing and increasing trend over the study period. The average ratio of EBL is greater than LBL. The above analysis indicates that EBL has maintained higher margin of safety than LBL. However chart shows that the LBL's ratio is increasing trend and EBL's also increasing trend. From the view of bankers low ratio is preferable but to maintain the status of the bank, bank should keep higher the cash and bank balance to total deposit ratio for the purpose of liquidity because liquidity is the blood for the bank.. The average ratio of LBL and EBL are 12.41% and 12.54% respectively so it can be considered as satisfactory.

c) Cash and Bank Balance to Current Deposits Ratio

The ratio is computed by dividing by cash and bank balance by current deposit. Higher ratio show the bank's ability to meet its demand for cash. It can be computed as:

$$Cash\ and\ Bank\ Balance\ to\ Current\ Deposits\ Ratio = \frac{Cash\ and\ Bank\ Balance}{Current\ Deposits}$$

Table: 4.5

Cash and Bank Balance to Current Deposits Ratio of Lumbini Bank Ltd

Rs in million

Year	Cash and Bank Balance	Current Deposits	Ratio (in terms of time)
2001/02	532.39	122.78	4.34
2002/03	333.56	158.67	2.10
2003/04	531.13	200.01	2.66
2004/05	419.01	166.63	2.51
2005/06	402.13	159.84	2.52
2006/07	500.81	347.96	1.44
2007/08	642.60	336.80	1.91
2008/09	994.86	546.62	1.82
		Average	2.41

(Source: Annual Reports of LBL)

The above table shows that cash and bank balance to current deposit ratio of the Lumbini Bank differ from maximum of 4.34 in the year 2001/02 to the minimum of 1.44 in the year 2006/07 with an average of 2.41 during whole study period of eight years. The analysis shows the fluctuating trend of ratio which means decreasing and increasing trend of ratios in study period for 2001-2009.

Table: 4.6

Cash and Bank Balance to Current Deposits Ratio of Everest Bank Ltd

Rs in million

Year	Cash and Bank Balance	Current Deposits	Ratio (in terms of time)
2001/02	602.49	481.92	1.25
2002/03	1139.57	562.39	2.03
2003/04	631.81	719.76	0.88
2004/05	1049.99	1025.03	1.03
2005/06	1552.97	1145.79	1.36
2006/07	2391.42	1673.98	1.43
2007/08	2667.97	2492.35	1.07
2008/09	6164.37	4859.95	1.27
		Average	1.29

(Source: Annual Reports of EBL)

The above table shows that cash and bank balance to current deposit ratio of the Everest Bank differ from maximum of 2.03 in the year 2002/03 to the minimum of 0.88 in the year 2003/04 with an average of 1.29 during whole study period of eight years. The analysis shows the fluctuating trend of ratio which means decreasing and increasing trend of ratios in study period for 2001-2009.

Figure: 4.3

Chart showing Cash and Bank Balance to Current Deposits Ratio of LBL and EBL
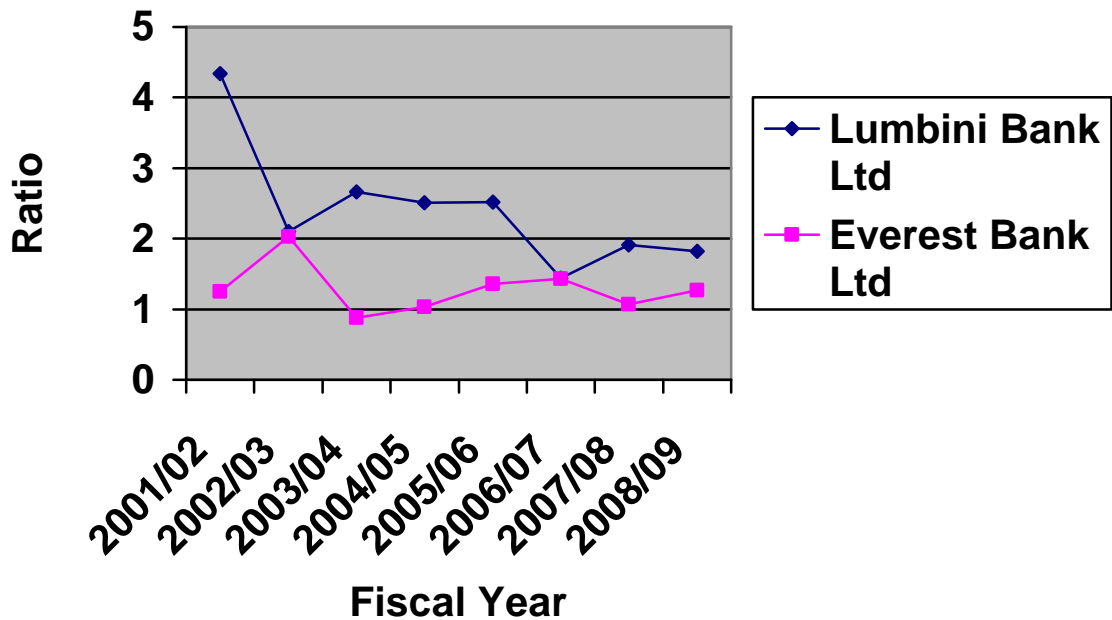
The above tables and chart shows that the cash and bank balance to current deposit ratio of LBL is decreasing trend and ratio of EBL is decreasing and increasing trend. The average liquidity position of EBL is lower than LBL. Thus, it can be concluded that that LBL is efficient in paying the immediate obligation than the EBL as this ratio shows the capacity of banks to meet unanticipated calls on current account.

d) Cash and Bank Balance to Current Assets Ratio

Cash and bank balance are the most liquid form of the current assets. The cash and bank balance to current assets ratio indicates the percentage of readily available funds

within the bank. The cash and bank balance to current asset ratio is calculated by using the following formula:

$$Cash\,and\,Bank\,Balance\,to\,Current\,Assests\,Ratio = \frac{Cash\,and\,Bank\,Balance}{Current\,Assests}$$

Table: 4.7

Cash and Bank Balance to Current Assets Ratio of Lumbini Bank Ltd

Rs in million

Year	Cash and Bank Balance	Current Assets	Ratio in percentage
2001/02	532.39	2717.72	19.59%
2002/03	333.56	3100.13	10.76%
2003/04	531.13	3974.58	13.36%
2004/05	419.01	4001.37	10.47%
2005/06	402.13	3963.02	10.15%
2006/07	500.81	5432.74	9.22%
2007/08	642.60	5931.34	10.43%
2008/09	664.86	7139.04	13.94%
		Average	12.24%

(Source: Annual Reports of LBL)

The above table shows that cash and bank balance to current assets ratio of the bank differ from maximum of 19.59% in the year 2001/02 to the minimum of 9.22% in the year 2006/07 with an average of 12.24%the study period. Analysis shows the fluctuating trend of ratios. However high ratio is not preferable but it should maintain liquidity position; it means idle money can't earn profit.

Table: 4.8

Cash and Bank Balance to Current Assets Ratio of Everest Bank Ltd

Rs in million

Year	Cash and Bank Balance	Current Assets	Ratio in percentage
2001/02	602.49	6175.99	9.76%
2002/03	1139.57	7647.38	14.90%
2003/04	631.81	9169.80	6.89%
2004/05	1049.99	11338.95	9.26%
2005/06	1552.97	14969.85	10.37%
2006/07	2391.42	20760.13	11.52%
2007/08	2667.97	26174..66	10.19%
2008/09	6164.37	35195.09	17.51%
		Average	11.30%

(Source: Annual Reports of EBL)

The above table shows that cash and bank balance to current assets ratio of the bank differ from maximum of 17.51% in the year 2008/09 to the minimum of 6.89% in the year 2003/04 with an average of 11.30%the study period. Analysis shows the fluctuating trend of ratios. However high ratio is not preferable but it should maintain liquidity position; it means idle money can't earn profit.

Figure: 4.4

Chart showing Cash and Bank Balance to Current Assets Ratio of LBL and EBL
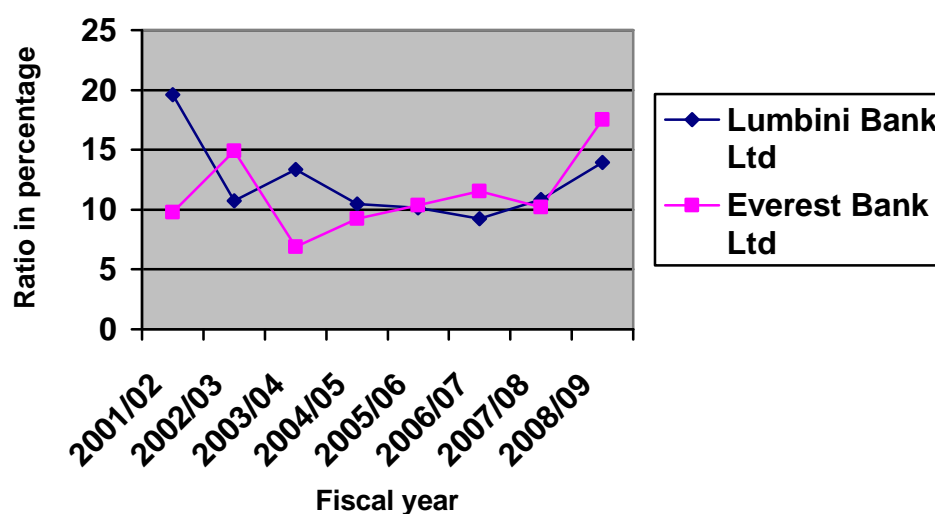
The above tables and chart shows that the cash and bank balance to current assets ratio of LBL and EBL are fluctuating trend. The average ratio of LBL is greater than EBL. However high ratio is not preferable but it should maintain liquidity position; it means idle money can't earn profit.

e) Loans and Advances to Current Assets Ratio

Bank loans and advances are the main assets used as a source of income in the commercial banks. The ratio shows the proportion of current assets, which are invested as loans and advances to generate the income.

It shows the relationship between loan and advance to current assets or it shows the banks liquid capacity of discounting and purchasing the bills and loan, loan and advance to current assets ratio is calculated as:

$$Loans\ and\ Advances\ to\ Current\ Assets\ Ratio = \frac{Loans\ and\ Advances}{Current\ Assets}$$

Table: 4.9

Loans and Advances to Current Assets Ratio of Lumbini Bank Ltd

Rs in million

Year	Loans and Advances	Current Assets	Ratio in percentage
2001/02	2285.49	2717.72	84.10%
2002/03	2622.36	3100.13	84.59%
2003/04	3222.74	3974.58	81.08%
2004/05	3685.13	4001.37	92.10%
2005/06	4321.59	3963.02	109.05%
2006/07	4944.50	5432.75	91.01%
2007/08	5367.31	5931.34	90.49%
2008/09	5681.39	7139.04	79.58%
		Average	89%

(Source: Annual Reports of LBL)

The above calculated table shows that the loan and advances to current asset ratio of the bank varies from maximum of 109.05% in the year 2005/06 to the minimum of 79.58% in the year 2008/09 with an average value of 89% during the study period of eight years. The analysis indicates the disbursement of loans and advances with

respect to the current asset is in fluctuating trend which refer decreasing and increasing trend year to year.

Table: 4.10

Loans and Advances to Current Assets Ratio of Everest Bank Ltd

Rs in million

Year	Loans and Advances	Current Assets	Ratio in percentage
2001/02	4044.23	6175.99	65.48%
2002/03	5049.51	7647.38	66.03%
2003/04	6095.84	9169.80	66.48%
2004/05	7900.09	11338.95	69.67%
2005/06	10136.25	14969.85	67.71%
2006/07	14082.69	20760.13	67.84%
2007/08	18836.43	26174.66	71.96%
2008/09	24469.56	35195.09	69.53%
		Average	68.09%

(Source: Annual Reports of EBL)

The above calculated table shows that the loan and advances to current assets ratio of the bank varies from maximum of 71.96% in the year 2007/08 to the minimum of 65.48% in the year 2001/02 with an average value of 68.09% during the study period of eight years. The analysis indicates that the disbursement of loans and advances with respect to the current is in low fluctuating trend.

Figure: 4.5

Chart showing Loans and Advances to Current Assets Ratio of LBL & EBL

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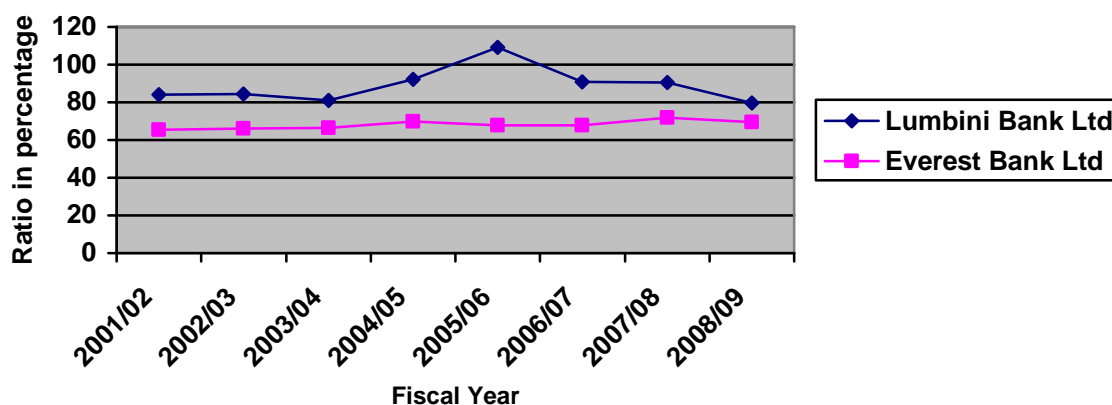
The above tables and chart shows that the loans and advances to current assets ratio of LBL and EBL are fluctuating and low fluctuating respectively. The average ratio of LBL is greater than EBL. The analysis indicates that the disbursement of loans and advances with respect to the current assets is above 65% to below110% over the study period.

4.1.2 Leverage Ratio

Financial leverage or capital structure ratios are calculated to judge the long-term financial position of the firm. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. Administration of capital can smoothly be carried on with the help of such ratios.

An institution should have short-term liquidity as well as long term solvency. Since liquidity relates to the short- term solvency and capital structure ratio is concerned with long term solvency. As the short term, creditors are interested to know about the liquidity or short term financial position of the firm, long term creditors are interested to know the long term financial position of the firm and this is reflected through capital structure ratio. This ratio highlights the long term financial health, debt servicing capacity and strength and the weakness of the firm. Higher leverage ratio indicates larger amount of borrowed funds used by the firm to finance its assets and it also indicates increasing obligations and known as risky firm. A firm must have sufficient margin of equity to pay the fixed charges and refund the borrowed fund in the maturity date. The following ratios are used to measure the long term solvency position of Lumbini and Everest bank ltd.

a) Debt – Equity Ratio

An accounting ratio obtained by total debt to total equity (net worth) or fund balances is called debt to equity ratio. This ratio relates all external liabilities to owners recorded claims. It is also known as 'external- internal equity ratio'. It is determined to measure the firm's obligations to creditors in relation to the funds invested by the owners. So it is the great test of the financial strength of the company. The debt equity ratio indicates the relationship between the long term funds provided by creditors and

the firm's owners. The total debt refers bond and debenture issuing by bank, outstanding loan and advance, bills payable, proposed and outstanding dividend, income tax liabilities and other liabilities. Likewise equity or net worth refers paid up share capital and reserves and surplus funds. The ratio is calculated by dividing the amount of total debt by the amount of equity which is given below.

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

Table: 4.11

Debt – Equity Ratio of Lumbini Bank Ltd

Rs in million

Year	Total Debt	Equity (Net worth)	Ratio in percentage
2001/02	226.83	188.71	120.20%
2002/03	202.58	277.85	72.91%
2003/04	290.11	296.49	97.85%
2004/05	218.67	245.01	89.25%
2005/06	194.97	(722.07)	(27.00)%
2006/07	110.09	(429.67)	(25.62)%
2007/08	154.05	293.69	52.45%
2008/09	149.91	953.05	15.73%
		Average	49.47%

(Source: Annual Reports of LBL)

The above calculated tables that debt to equity ratio of the Lumbini Bank Ltd differ maximum of 120.20% in the year 2001/02 to the minimum (27.00)% in the year 2005/06 with an average of 49.47% during the study period of eight years. The analysis indicates that the bank has the low debt ratio, which means the owners have invested more in the bank than the creditors.

Debt - Equity Ratio of Everest Bank Ltd

Rs in million

Year	Total Debt	Equity(Net worth)	Ratio in percentage
2001/02	619.38	530.91	116.66%
2002/03	744.42	612.82	121.47%
2003/04	864.35	680.32	127.05%
2004/05	924.82	769.62	120.17%
2005/06	1194.03	962.81	124.02%
2006/07	2044.81	1201.52	170.18%
2007/08	1251.81	1921.24	65.16%
2008/09	1390.28	2203.63	63.09%
		Average	113.48%

(Source: Annual Reports of EBL)

The above calculated table shows that debt to equity ratio of the Everest Bank Ltd differ from maximum of 170.18% in the year 2006/07 to the minimum 63.09% in the year 2008/09 with an average of 113.48% during the study period of eight years which shows the fluctuating trends of debt to equity ratio. Debt equity ratio shows the mix of debt and equity in capital. Higher ratio shows that the creditor's claims are greater than those of owners. Overall EBL has more debt portion than equity in the total capital.

Figure: 4.6

Chart showing Debt - Equity Ratio of LBL and EBL
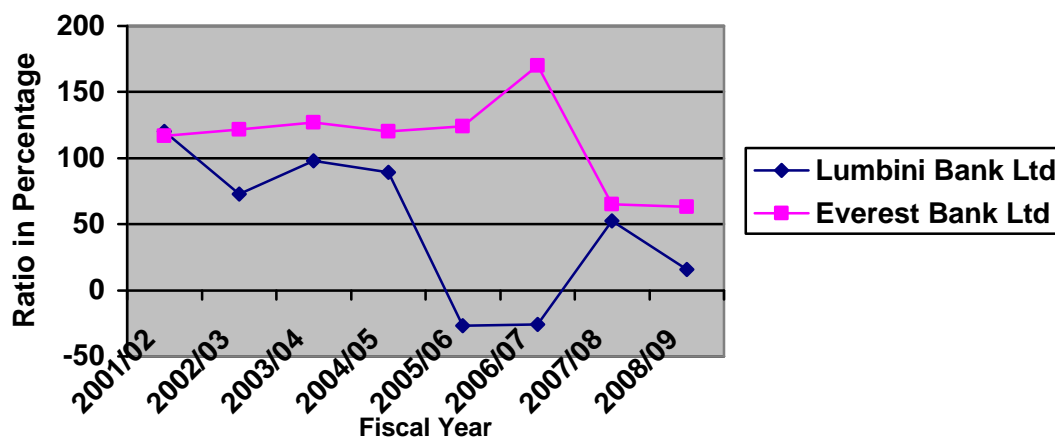
The above tables and chart shows that the debt- equity ratio of LBL and EBL are very fluctuating trend. The average ratio of EBL is greater than LBL. The EBL use more debt than equity but LBL use less debt than equity. The analysis indicates that the position of capital of LBL isn't satisfactory because its net worth was negative for the period of 2005/06 to 2006/07. However the bank latest performance is improving trend. On the other hand there is sound position of debt – equity position of EBL. The bank is performing well.

b) Debt – Assets Ratio

Debt to total assets ratio or simply debt ratio reflects the financial contribution of outsiders on total assets of the firm. It also measures the financial security of the outsiders. Generally, creditors prefer a low debt ratio and owners prefer high debt ratio in order to magnify their earnings on the other. As this ratio is like the debt equity ratio, it gives result similar to the debt equity ratio in respect of the capital structure of the firm. Higher the debt ratio indicates higher financial risk as well as increasing claims of outsiders in total assets. This ratio shows the proportion of outsiders fund used in financing total assets. The ratio is calculated by dividing the total debt of the bank by its total asset which is presented below:

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

Table: 4.13

Debt – Assets Ratio of Lumbini Bank Ltd

Rs in million

Year	Total Debt	Total Assets	Ratio in Percentage
2001/02	226.83	3061.65	7.41%
2002/03	202.58	3440.17	5.89%
2003/04	290.11	4364.20	6.65%
2004/05	218.67	4494.90	4.86%
2005/06	194.97	4259.34	4.58%
2006/07	110.09	5705.03	1.93%
2007/08	154.05	6151.48	2.50%
2008/09	149.91	7647.90	1.96%
		Average	4.47%

(Source: Annual Reports of LBL)

The above calculated table shows that the debt to total assets ratio of the Lumbini Bank Ltd differ from maximum of 7.41% in the year 2001/02 to the minimum of 1.93% in the year 2006/07 with in average of 4.47% during the study period of eight years. This analysis indicates that the bank is decreasing its debt every year, which means owners have invested more in the bank than the creditors. So this shows role of owners in the bank is high than the creditors in investing sector of bank.

Table: 4.14

Debt – Assets Ratio of Everest Bank Ltd

Rs in million

Year	Total Debt	Total Assets	Ratio in percentage
2001/02	619.38	6616.90	9.36%
2002/03	744.42	8052.21	9.25%
2003/04	864.35	9608.57	9.01%
2004/05	924.82	11792.13	7.84%
2005/06	1194.03	15959.28	7.48%
2006/07	2044.81	21432.57	9.54%
2007/08	1251.81	27149.34	4.61%
2008/09	1390.28	36916.85	3.77%
		Average	7.61%

(Source: Annual Reports of EBL)

The above calculated table shows that debt to total assets ratio of the Everest Bank Ltd differ from maximum of 9.54% in the year 2006/07 to the minimum of 3.77% in the year 2008/09 with an average of 7.61% during the study period of eight years. This analysis indicates that the bank has the low debt to total assets ratio, which means owners have invested more in the bank than the creditors. So this shows role of creditors in the bank is low than the owners in investing sector of bank.

Figure: 4.7

Chart showing Debt - Assets Ratio of LBL and EBL
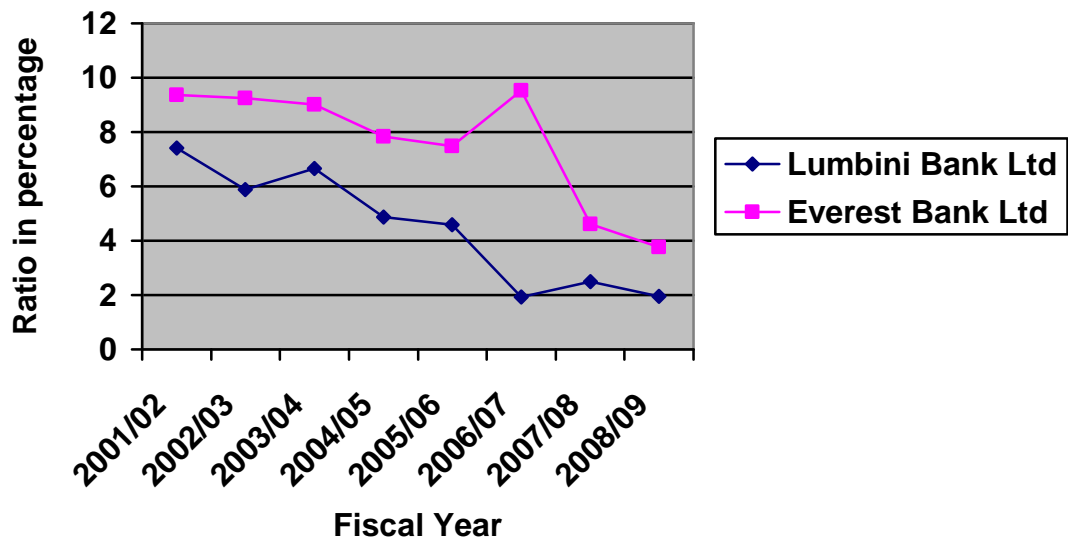
The above tables and chart shows the debt- assets ratio of LBL and EBL are decreasing trend. The average ratio of EBL is greater than LBL. The ratio shows the portion of outsider's fund used in financing total assets. This analysis indicates that the banks have the low debt- assets ratio, which means owners have invested more in the bank than the creditors. Since the banks have been using low portion of debt in the capital structure, it can be concluded that these banks aren't highly leveraged.

c) Interest Coverage Ratio

It is a test of the firm's debt servicing capacity, the ratio of earning before interest and taxes (EBIT) to interest charges. It measures the ability of the firm to meet its annual interest payments. The interest coverage ratio is computed by dividing earning before interest and taxes by interest charges. Earning before interest and taxes is being calculated by adding interest expenses, provision for income tax and net profit/loss from the profit and loss account for the respective years of study period. Interest consists of interest paid on various deposits and loans taken from NRB and other banks. It can be calculated as following:

$$Interest\ Coverage\ Ratio = \frac{Net\ \Pr ofit\ before\ Interest\ and\ Tax}{Interest\ Ch\arg e}$$

Table: 4.15

Interest Coverage Ratio of Lumbini Bank Ltd

Rs in million

Year	EBIT	Interest Expenses	Ratio (in terms of time)
2001/02	72.53	170.50	0.43
2002/03	275.62	186.48	1.48
2003/04	237.73	197.32	1.21
2004/05	31.90	193.47	0.16
2005/06	(578.36)	215.55	(2.68)
2006/07	489.48	264.77	1.85
2007/08	638.70	260.39	2.45
2008/09	669.62	264.43	2.53
		Average	0.93

(Source: Annual Reports of LBL)

The above calculated table shows that the interest coverage ratio of the bank varies from maximum of 2.53 in the year 2008/09 to the minimum of (2.68) in the year of 2005/06 with an average value of 0.93 during the study period of eight years. The analysis indicates that the ratio is fluctuating through out the year. Lower ratio indicates more use of debt for which interest is to be paid or insufficient operation.

Table: 4.16

Interest Coverage Ratio of Everest Bank Ltd

Rs in million

Year	EBIT	Interest Expenses	Ratio (in terms of time)
2001/02	384.44	257.05	1.50
2002/03	443.53	307.64	1.44
2003/04	527.48	316.37	1.67
2004/05	549.69	299.57	1.83
2005/06	745.44	401.40	1.86
2006/07	957.94	517.17	1.85
2007/08	1300.74	632.61	2.06
2008/09	1928.47	1012.87	1.90
		Average	1.76

(Source: Annual Reports of EBL)

The above calculated table shows that the interest coverage ratio of the bank varies from the maximum of 2.06 in the year 2007/08 to the minimum of 1.44 in the year 2002/03 with an average of 1.76 during the study period of eight year. The analysis indicates that the ratio is increasing trend which is good for the bank. Higher ratio indicates that the sound financial position of the bank.

Figure: 4.8

Chart showing Interest Coverage Ratio of LBL & EBL
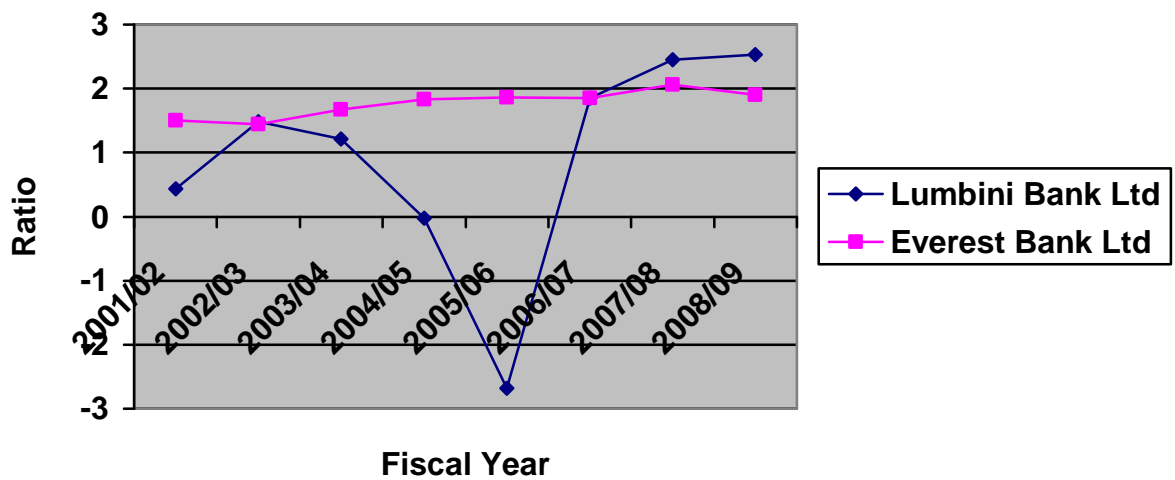
The above tables and chart shows that the amount and ratio of earning before interest and taxes and interest paid of LBL and EBL. The average ratio of EBL is greater than LBL. According to the conventional rule, higher ratio is desirable. In this case, EBL seems capable to meet its interest commitments from its profits than LBL. In the year 2005/06 LBL fail to bare the interest which is not good practice in banking. Thus it can be said that the EBL has more margin of safety than LBL.

4.1.3 Activity Ratio

The activity ratio is used to measure the efficiency of assets utilization of the bank. A commercial bank should be able to manage its assets to gain a sustainable profit so that it can survive in the competitive environment. It is used to measure the bank's efficiency towards its fund mobilization. Assets management ratios (Activity Ratios)

are concerned with measuring the efficiency in asset management means if the available assets are not utilized efficiently, the investment upon them will be idle and profitability decreases, on the other hand, if the investment is not sufficient then adequate production and sales cannot be made and profitability decreases, so a proper balance between sales and assets generally reflects that assets managed well. In this section, some of the efficiency ratios are computed to assets the bank's efficiency in utilizing available resources.

Activity ratios are used to measure the speed with which various accounts are converted cash or sales. The following activity ratios are calculated and analyzed to determine the degree of utilization of available resource of the Lumbini and Everest Bank Ltd.

a) Total Investments to Total Deposits Ratio

A commercial bank may mobilize its deposit by investing its fund in different securities issued government and other financial and non-financial companies. Now the efforts have been made to measure the efficiency of the bank in mobilizing its deposit to its investments activities. Total investment refer invest in government Treasury bill, invest in other debenture of government, deposit in foreign bank, invest in share of corporate institutions. Likewise total deposit refer current, margin, saving, fixed deposit and money should paid in call.

A high total investment to total deposit ratio indicates the high efficiency of the bank in mobilizing its deposits in investment activities and vice versa. The bank should maintain the balance between the return from the investment and the risk of liquidation from this investment. It can be computed as:

$$Total\ Investments\ to\ Total\ Deposits\ Ratio = \frac{Total\ Investments}{Total\ Deposits}$$

Table: 4.17

Total Investments to Total Deposits Ratio of Lumbini Bank Ltd

Rs in million

Year	Total Investments	Total Deposits	Ratio in percentage
2001/02	269.87	2646.11	10.20%
2002/03	382.75	2959.74	12.93%
2003/04	558.19	3777.61	14.78%
2004/05	535.18	4031.22	13.28%
2005/06	673.99	4786.44	14.08%
2006/07	864.33	6024.60	14.35%
2007/08	817.47	5703.73	14.33%
2008/09	803.62	6444.90	12.47%
		Average	13.30%

(Source: Annual Reports of LBL)

The above calculated table shows that the investments to total deposit ratio of the bank differ from the maximum of 14.78% in the year 2003/04 to the minimum of 10.20% in the year 2001/02 with an average of 13.30% during the study period of eight years. The analysis shows the low fluctuating trend.

Table: 4.18

Total Investments to Total Deposits Ratio of Everest Bank Ltd

Rs in million

Year	Total Investments	Total Deposits	Ratio in percentage
2001/02	1693.04	5466.61	30.97%
2002/03	1653.98	6694.96	24.71%
2003/04	2535.66	8063.90	31.45%
2004/05	2128.93	10097.69	21.08%
2005/06	4200.52	13802.44	30.43%
2006/07	4984.31	18186.25	27.41%
2007/08	5059.56	23976.30	21.10%
2008/09	5948.48	33322.95	17.85%
		Average	25.63%

(Source: Annual Reports of EBL)

The above calculated table shows that the investments to the deposits ratio of the bank differ from the maximum of 31.45% in the year 2003/04 to the minimum of 17.85%

with an average of 25.63% during the study period of eight years. The analysis shows the fluctuating trend of ratios.

Figure: 4.9

Chart showing Total Investments to Total Deposits Ratio of LBL and EBL
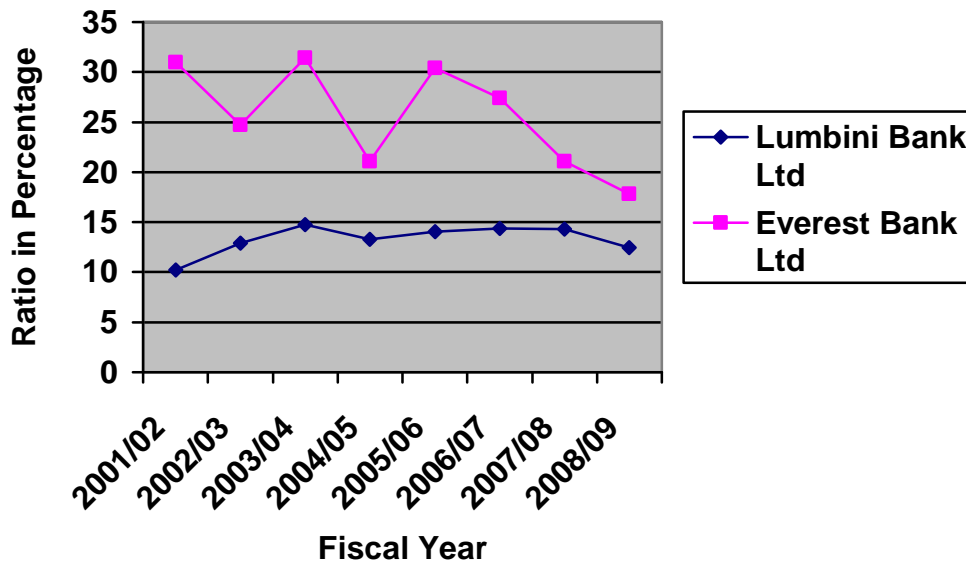
The above tables and chart shows that the total investments to total deposits ratio of LBL and EBL are increasing and fluctuating trend respectively. The average ratio of EBL is greater than LBL. This analysis indicates that the EBL has utilized its total deposits for investments purpose more efficiently than LBL.

b) Loans and Advances to Total Deposits Ratio

The ratio measures the efficiency of the bank in mobilization its deposits on loan and advances to generate the profit of the bank. A high ratio indicates the better the performance of the bank in this regard and vice versa. But this high ratio is also not better from liquidity point of view. So the bank should maintain the balance between the return and the risk in this regard. Commercial banks utilized the outsider's fund for profit generation purpose. Loans and advances to total deposits ratio shows whether the banks are successful to utilize the outsider fund for the profit generating purpose on the loan advances or not.

In the present study, loan and advance refer to total loan and advance not net loan and advance show in balance sheet and total deposit refer all type of deposit show in liabilities side of balance sheet of respective bank. The loan and advances to total deposit ratio is calculated as follows:

$$Loans\ and\ Advances\ to\ Total\ Deposit\ Ratio = \frac{Loans\ and\ Advances}{Total\ Deposits}$$

Table: 4.19

Loans and Advances to Total Deposits Ratio of Lumbini Bank Ltd

Rs in million

Year	Loans and Advances	Total Deposits	Ratio in percentage
2001/02	2285.49	2646.11	86.37%
2002/03	2622.36	2959.74	88.60%
2003/04	3222.74	3777.61	85.31%
2004/05	3685.13	4031.22	91.41%
2005/06	4321.59	4786.44	90.29%
2006/07	4944.50	6024.60	82.07%
2007/08	5367.31	5703.73	94.10%
2008/09	5681.39	6444.90	88.15%
		Average	88.29%

(Source: Annual Reports of LBL)

The above calculated table shows that the loan and advances to total deposit ratio (C/D ratio) of the bank varies from maximum of 94.10% in the year 2007/08 to the minimum of 82.07% in the year 2006/07 with an average of 88.29% during the study period of eight years. As per banking practice, banks maintain the ratio around 70-90%. This bank try to maintain the ratio but some year it exceed the bottom line which is not good banking practice.

Table: 4.20

Loans and Advances to Total Deposits Ratio of Everest Bank Ltd

Rs in million

Year	Loans and Advances	Total Deposits	Ratio in percentage
2001/02	4044.23	5466.61	73.98%
2002/03	5049.51	6694.96	75.42%
2003/04	6095.84	8063.90	75.59%
2004/05	7900.09	10097.69	78.24%
2005/06	10136.25	13802.44	73.44%
2006/07	14082.69	18186.25	77.44%
2007/08	18836.43	23976.30	76.49%
2008/09	24469.56	33322.95	71.66%
		Average	75.28%

(Source: Annual Reports of EBL)

The above calculated table shows that the loan and advances to total deposits ratio of the bank varies from the maximum of 78.24% in the year 2004/05 to the minimum of 71.66% in the year 2008/09 with an average of 75.28% during the study period of eight year. The ratio indicated the proportion of total deposits invested in loan and advances. Too low ratios give a picture of the idle cash in the bank. As per banking practice, banks maintain the ratio around 70-90%.this bank maintain good credit to deposit ratio.

Figure: 4.10

Chart showing Loans and Advances to Total Deposits Ratio of LBL and EBL
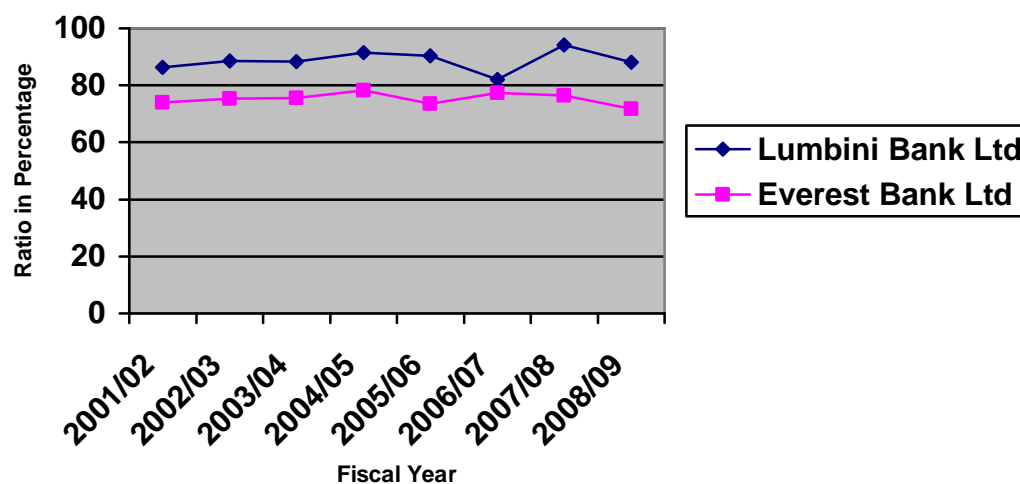
The above tables and chart shows the loans and advances to total deposit ratio of LBL and EBL. The average ratio of LBL is greater than EBL. In the banking practice this is the major measuring tools of credit management. According to the conventional rule in Nepal 70%-90% credit to deposit ratio (C/D ratio) is acceptable. This analysis indicates that the EBL is maintained the rule and LBL has been crossed the standard in the 2004/05, 2005/06 and 2007/08 which is not good banking practice.

c) Non Performing Loans to Loans and Advances Ratio

According to the NRB Act 2058 and directives, the commercial banks have to categorize their loans in the following class.

Classification Basis

Pass   Principal amount not due & principal amount due up to 3
months

Sub-standard   Principal amount due up to 1 year

Doubtful   Principal amount due up to 3 years

Loss   Principal amount due for more than 3 years

The loans that fall under the class 'pass' are called performing loans. The loans that fall under the class 'sub-standard', 'doubtful' and 'loss' are considered as non performing loans. Non performing loans handicap banks because they tie up assets that bring no return and in many cases, no prospect of a return. The ratio is calculated as follows:

$$Non\ Perfor\min g\ Loans\ to\ Loans\ and\ Advances\ Ratio = \frac{Non\ Perfor\min g\ Loans}{Loans\ and\ Advances}$$

Table: 4.21

Non performing Loans to Loans and Advances Ratio of Lumbini Bank Ltd

Rs in million

Year	Non performing Loans	Loans and Advances	Ratio in percentage
2001/02	441.64	2285.49	19.32%
2002/03	306.78	2622.36	11.70%
2003/04	237.30	3222.74	7.36%
2004/05	561.13	3685.13	15.23%
2005/06	1339.24	4321.59	30.99%
2006/07	1007.04	4944.50	20.37%
2007/08	800.66	5367.31	14.92%
2008/09	514.58	5681.39	9.06%
		Average	16.12%

(Source: Annual Reports of LBL)

The above calculated table shows that the non performing loans to total loans and advances of the bank varies from the maximum of 30.99% in the year 2005/06 to the minimum of 7.36% in the year 2003/04 with in average of 16.12% during the study period of eight years. The analysis indicates that the ratio is fluctuating trend. In this study lower the ratio is preferable.

Table: 4.22

Non performing Loans to Loans and Advances Ratio of Everest Bank Ltd

Rs in million

Year	Non performing Loans	Loans and Advances	Ratio in percentage
2001/02	42.39	4044.23	1.07%
2002/03	111.19	5049.51	2.20%
2003/04	104.76	6095.84	1.72%
2004/05	128.81	7900.09	1.63%
2005/06	129.24	10136.25	1.28%
2006/07	113.18	14082.69	0.80%
2007/08	127.31	18836.43	0.68%
2008/09	117.99	24469.56	0.48%
		Average	1.23%

(Source: Annual Reports of EBL)

The above calculated table shows that the non performing loans to total loans and advances of the bank varies from the maximum of 2.20% in the year 2002/03 to the

minimum of 0.48% in the year 2008/09 with in average of 1.23% during the study period of eight years. The analysis indicates that the ratio is decreasing trend which is good for the bank. In this study lower the ratio is preferable.

Figure: 4.11

Chart showing Non Performing Loans to Loans and Advances Ratio of LBL and EBL
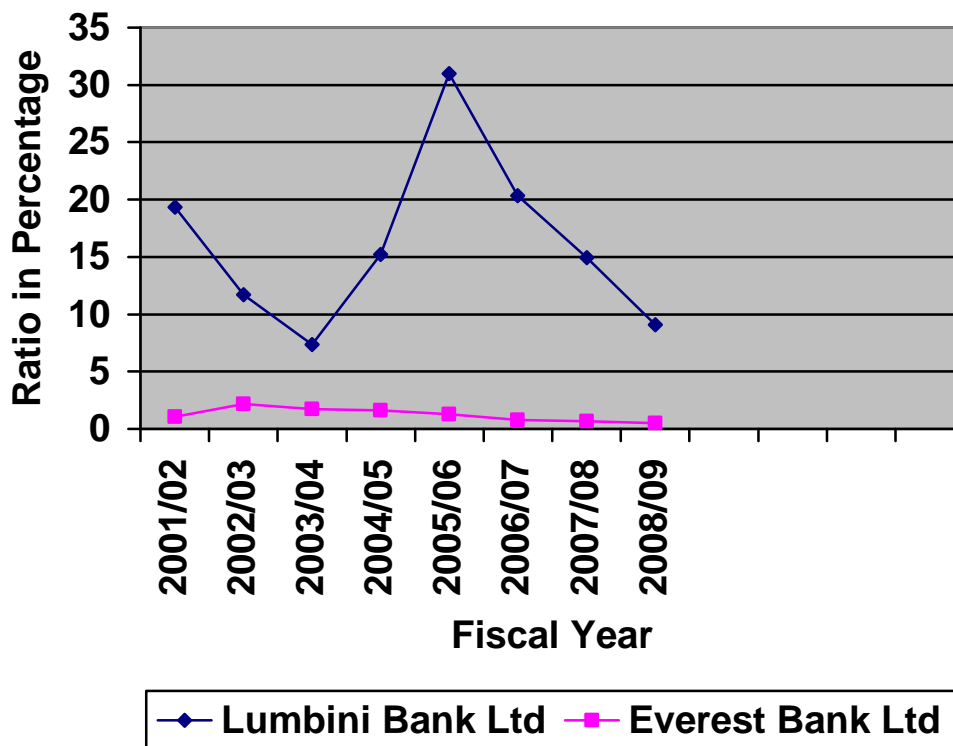
The above tables and chart shows that the non performing loans to total loans and advances ratio of LBL and EBL. The ratio of LBL is more fluctuating and greater than EBL. In this study low ratio is desirable. The above scenario indicates that the loan recovery process of EBL seemed efficient than LBL. The higher ratio of LBL represents that the asset portfolio management and loan recovery of the bank seemed poor comparing with EBL. Thus, it can be concluded that the high level of NPL of LBL has compelled the banks to bear high amount of risk.

d) Loan Loss Provision to Total Loan and Advances Ratio

NRB has directed commercial banks to maintain provision for loan loss on the basis of category of loans and risk grade. High ratio indicates that the major portion of loan is risky. Risk assets consists loans and advances, bill purchased and disconnected. This ratio can say loan loss coverage ratio too. The ratio is calculated as:

$$Loan\ Loss\ \Pr ovision\ to\ Loans\ and\ Advances\ Ratio = \frac{Loan\ Loss\ \Pr ovision}{Loans\ and\ Advances}$$

Table: 4.23

Loan Loss Provision to Loans and Advances Ratio of Lumbini Bank Ltd

Rs in million

| Year	Loan Loss Provision	Loans and Advances	Ratio in percentage
2001/02	200.16	2285.49	8.76%
2002/03	180.72	2622.36	4.15%
2003/04	242.35	3222.74	7.52%
2004/05	517.41	3685.13	14.04%
2005/06	1337.69	4321.59	30.95%
2006/07	1103.81	4944.50	22.32%
2007/08	877.82	5367.31	16.35%
2008/09	698.01	5681.39	12.29%
		Average	14.55%

(Source: Annual Reports of LBL)

 The above calculated table shows that the loan loss provision to total loans and advances ratio of the bank differ from the maximum of 30.95% in the year 2005/08 to the minimum of 4.15% in the year 2002/03 with an average of 14.55% during the study period of eight years. The analysis indicates that the ratio is fluctuating trend. There is positive relationship between loans and advances and loan loss provision. When loans and advances of the banks increase, the loan loss provision will also increase. The higher ratio reveals that the bank has the high proportion of non performing loans.

Table: 4.24

Loan Loss Provision to Loans and Advances Ratio of Everest Bank Ltd

Rs in million

Year	Loan Loss Provision	Loans and Advances	Ratio in percentage
2001/02	95.75	4044.23	2.37%
2002/03	141.12	5049.51	2.79%
2003/04	211.72	6095.84	3.47%
2004/05	281.42	7900.09	3.56%
2005/06	334.95	10136.25	3.30%
2006/07	418.60	14082.69	2.97%
2007/08	497.35	18836.43	2.64%
2008/09	584.88	24469.56	2.39%
		Average	2.94%

(Source: Annual Reports of EBL)

The above calculated table shows that the loan loss provision to total loans and advances ratio of the bank differ from the maximum of 3.56% in the year 2004/05 to the minimum of 2.37% in the year 2001/02 with an average of 2.94% during the study period of eight years. There is positive relationship between loans and advances and loan loss provision. When loans and advances of the banks increase, the loan loss provision will also increase. The higher ratio reveals that the bank has the high proportion of non performing loans.

Figure: 4.12

Chart showing Loan Loss Provision to Loans and Advances Ratio of LBL and EBL
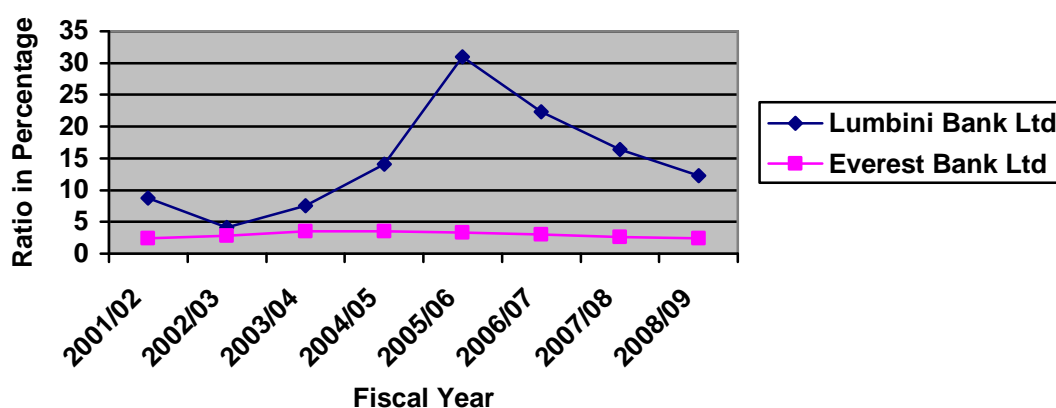
The above tables and chart shows that the loan loss coverage ratio of LBL and EBL are fluctuating and constant trend respectively. The average ratio of LBL is greater than EBL. In this study higher the ratio isn't desirable. There is positive relationship between loans and advances and loan loss provision. When loans and advances of the banks increase, the loan loss provision will also increase. The higher ratio of LBL reveals that the bank has high proportion of non performing loans.

e) Interest Expenses to Total Deposits Ratio

Generally, the banks paid interest on saving and fixed deposits. The banks do not pay interest on current and other type's deposits that are to be paid when account holder demands. The rate of interest on saving and fixed deposit is set by the banks individually. The ratio is calculated as:

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

Table: 4.25

Interest Expenses to Total Deposits Ratio of Lumbini Bank Ltd

Rs in million

Year	Interest Expenses	Total Deposits	Ratio in percentage
2001/02	170.50	2646.11	6.44%
2002/03	186.48	2959.74	6.30%
2003/04	197.32	3777.61	5.22%
2004/05	193.47	4031.22	4.80%
2005/06	215.55	4786.44	4.50%
2006/07	264.77	6024.60	4.39%
2007/08	260.39	5703.73	4.57%
2008/09	264.43	6444.90	4.10%
		Average	5.04%

(Source: Annual Reports of LBL)

The above calculated table shows that the interest expenses to total deposits ratio of the bank differ from the maximum of 6.44% in the year 2001/02 to the minimum of 4.10% with an average 5.04% during the study period of eight year. The analysis indicates that the ratio is decreasing trend which is good for the bank because in this

study low ratio is preferable. This is a main measuring tool to analyzed outsider fund whether use or use shareholder's fund.

Table: 4.26

Interest Expenses to Total Deposits Ratio of Everest Bank Ltd

Rs in million

Year	Interest Expenses	Total Deposits	Ratio in percentage
2001/02	257.05	5466.61	4.70%
2002/03	307.64	6694.96	4.60%
2003/04	316.37	8063.90	3.92%
2004/05	299.57	10097.69	2.97%
2005/06	401.40	13802.44	2.91%
2006/07	517.17	18186.25	2.84%
2007/08	632.61	23976.30	2.64%
2008/09	1012.87	33322.95	3.04%
		Average	3.45%

(Source: Annual Reports of EBL)

The above calculated table shows that the interest expenses to total deposits ratio of the bank differ from the maximum of 4.70% in the year 2001/02 to the minimum of 2.64% with an average 3.45% during the study period of eight year. The analysis indicates that the ratio is decreasing trend which is good for the bank because in this study low ratio is preferable. This is a main measuring tool to analyzed outsider fund whether use or use shareholder's fund.

Figure: 4.13

Chart showing Interest Expenses to Total Deposits Ratio of LBL and EBL
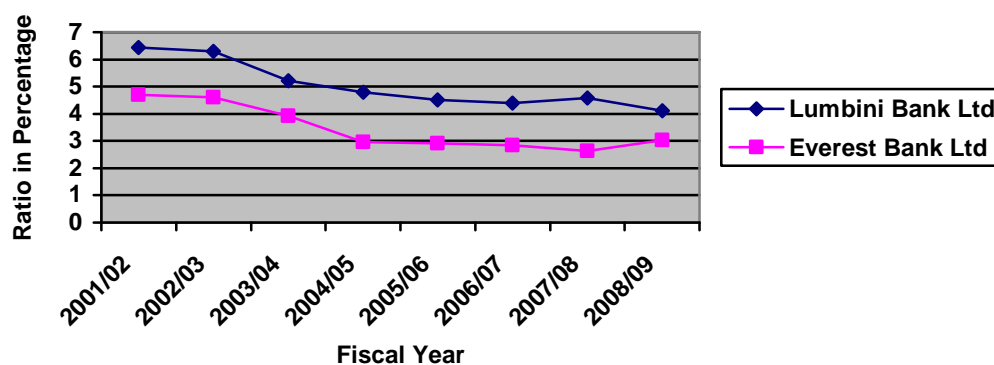
The above tables and chart shows that the interest expenses to total deposits ratio of LBL and EBL is decreasing trend. The average ratio of LBL is greater than EBL. The higher ratio of LBL shows that the bank holds a large portion of interest bearing deposits out of total deposit or the rate of interest on deposit of the bank is more than EBL. In other words this ratio can say cost of total deposit.

f) Interest Expenses to Total Expenses Ratio

This ratio measures the proportion of interest expenses out of total expenses of the banks. One of the main functions of the commercial banks is to accept deposit. There are two types of deposit, one is interest bearing deposit and other is non interest bearing deposit. The major portion of the expenses of the banks is interest expenses. The ratio is calculated as:

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

Table: 4.27

Interest Expenses to Total Expenses Ratio of Lumbini Bank Ltd

Rs in million

Year	Interest Expenses	Total Expenses	Ratio in percentage
2001/02	170.50	232.53	73.32%
2002/03	186.48	257.16	72.52%
2003/04	197.32	282.92	69.74%
2004/05	193.47	283.34	68.28%
2005/06	215.55	344.99	62.48%
2006/07	264.77	502.63	52.68%
2007/08	260.39	392.11	66.41%
2008/09	264.43	440.41	60.04%
		Average	65.68%

(Source: Annual Reports of LBL)

The above calculated table shows that the interest expenses to total expenses ratio of the bank differ from the maximum of 73.32% in the year 2001/02 to the minimum of 52.68%in the year 2006/07 with an average 65.68% during the study period of eight years. The analysis indicates that the bank spent maximum of expenses in interest

expenses because the portion expenses in interest expenses is an average 65.68% during the study period.

Table: 4.28

Interest Expenses to Total Expenses Ratio of Everest Bank Ltd

Rs in million

Year	Interest Expenses	Total Expenses	Ratio in percentage
2001/02	257.05	368.27	69.80%
2002/03	307.64	438.59	70.14%
2003/04	316.37	468.70	67.50%
2004/05	299.57	489.23	61.23%
2005/06	401.40	615.88	65.18%
2006/07	517.17	780.83	66.23%
2007/08	632.61	1024.33	61.76%
2008/09	1012.87	1491.80	67.90%
		Average	66.22%

(Source: Annual Reports of EBL)

The above calculated table shows that the interest expenses to total expenses ratio of the bank differ from the maximum of 70.14% in the year 2002/03 to the minimum of 61.23% in the year 2004/05 with an average 66.22% during the study period of eight years. The analysis indicates that the bank spent maximum of expenses in interest expenses because the portion expenses in interest expenses is an average 66.22% during the study period.

Figure: 4.14

Chart showing Interest Expenses to Total Expenses Ratio of LBL and EBL
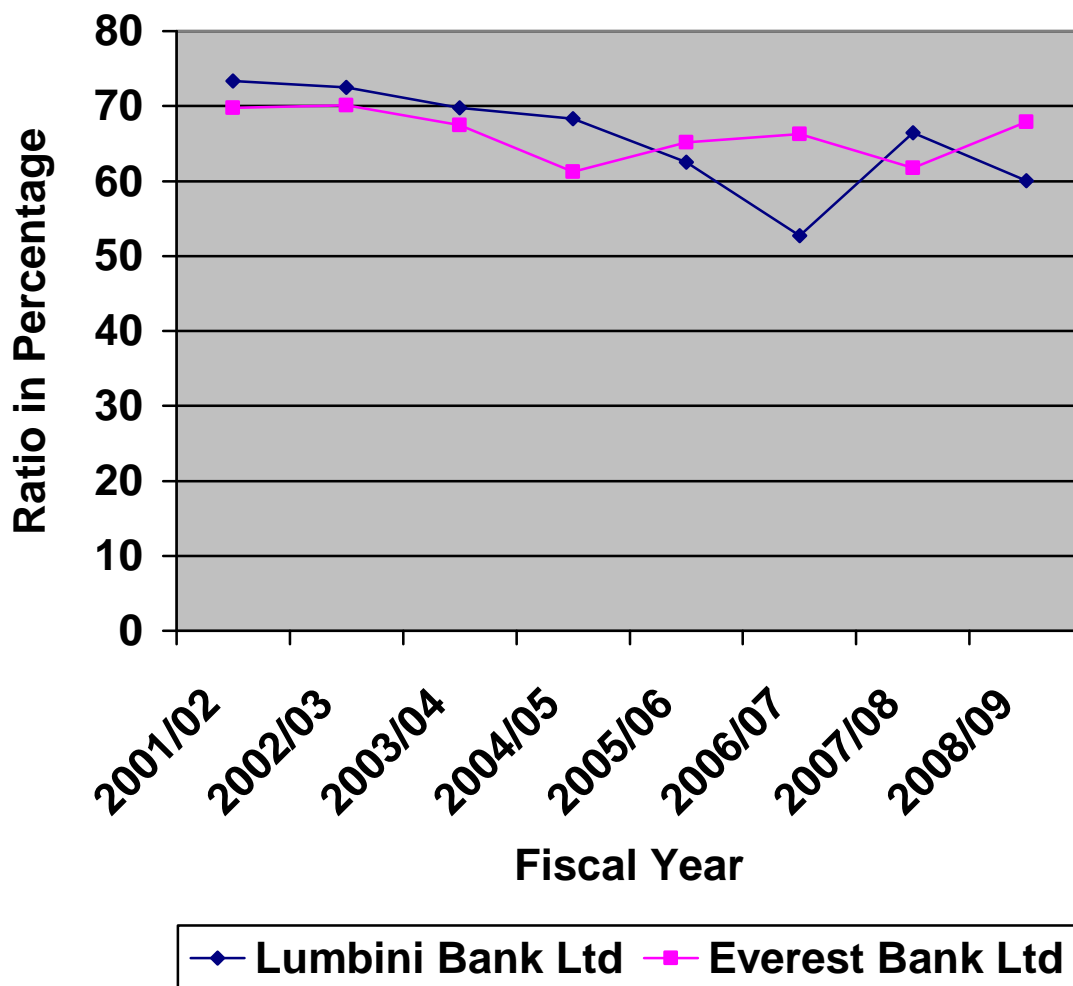
The above tables and chart shows that the interest expenses to total expenses ratio of LBL and EBL. The average ratio of EBL is greater than LBL. The high ratio of EBL reveals that the bank has small amount of other expenses out of total expenses. There is no big different of ratio between LBL and EBL.

4.1.4 Profitability Ratio

Profit is the different between revenues and expenses over a period of time. Profit is the ultimate output of a business enterprise and it will have no future if it fails to make sufficient profits. Bank is a business institution the primary objective of which is to earn profit. Moreover, the private commercial banks, JVB's in particular, are specially concentrating in profit and they serve in profit generating sector. They must earn

sufficient income in order to meet the cost of running the bank, to maintain sound liquidity position, to make payment of interest obligation and other expenses and to yield reasonable return for the owners. A bank should earn profit to survive and grow over a long period of time and to contribute toward s the social overheads for the welfare of the society. Profit is the major aspect which influences entire decision-making process.

Profitability ratio indicates the degree of success in achieving desired profit. The profitability ratio gives answer to how effectively the bank is being managed. The measurement of profit of bank's operating in Nepal can be given greatest weight since it is probably best indicator of overall efficiency. The ratio mainly studies the earning power of firm. It depicts almost entire performance of the bank. Here, the researcher aims to analyze and compare earning pattern as well as profitability pattern of LBL and EBL. So the analysis is made with a view to know how LBL and EBL are generating income, what percentage of income is paid out as interest and operating expenses etc. the following ratios are calculated to measure the profitability of banks, which are presented below:

a) Return on Shareholder's Equity

The objective of every bank is to earn high profit. If the banks utilize its equity properly, then only the bank can earn maximum profit. Equity capital is a banks own capital. The return on equity shows the extent to which a bank is successful to mobilize its equity. It is the measuring rod of the profitability of a bank. A high ratio indicates the success of bank in mobilizing its equity capital and vice versa.Net worth or shareholders equity refers to the owner's claim on the assets of the bank. The ROE measures the earned on the owner's investment. This ratio indicates how well the banks have used the sources of the owners. It is calculated by dividing net profit after tax by net worth, which is as below:

$$\text{Re}\,turn\,on\,Shareholder's\,Equity = \frac{Net\,\Pr ofit\,after\,Tax}{Equity\,(net\,worth)}$$

Table: 4.29

Net Profit after Tax to Net worth Ratio of Lumbini Bank Ltd

Rs in million

Year	Net Profit after Tax	Net Worth	Ratio in Percentage
2001/02	(97.97)	188.71	(51.92)%
2002/03	89.14	277.85	32.08%
2003/04	18.63	296.49	6.28%
2004/05	(196.77)	245.01	(80.31)%
2005/06	(806.06)	(722.07)	111.63%
2006/07	192.40	(429.67)	(44.78)%
2007/08	327.65	293.69	111.56%
2008/09	332.21	953.05	34.86%
		Average	14.93%

(Source: Annual Reports of LBL)

The above calculated table shows that the net profit after tax to net worth ratio of the bank varies from the maximum of 111.63% in the year 2005/06 to the minimum of (80.31) % in the year 2004/05 with an average of 14.93% during the study period of eight years. The analysis indicates that the profit earning relation with the shareholder's equity or net worth is not good, the ratio is vary fluctuating over the study period.

Table: 4.30

Net Profit after Tax to Net worth Ratio of Everest Bank Ltd

Rs in million

Year	Net Profit after Tax	Net Worth	Ratio in Percentage
2001/02	85.35	530.91	16.08%
2002/03	94.18	612.82	15.37%
2003/04	143.57	680.32	21.10%
2004/05	170.81	769.62	22.19%
2005/06	237.29	962.81	24.65%
2006/07	296.41	1201.52	24.67%
2007/08	451.22	1921.24	23.49%
2008/09	638.73	2203.63	28.99%
		Average	22.07%

(Source: Annual Reports of EBL)

The above calculated table shows that the net profit after tax to net worth ratio of the bank varies from the maximum of 28.99% in the year 2008/09 to the minimum of 15.37% in the year 2002/03 with an average of 22.07% during the study period of eight years. The analysis indicates that the profit earning relation with the shareholder's equity or net worth is good, which exhibits the better utilization of shareholder's resources or fund and the profit earning in relation with the shareholder's equity of the bank is better.

Figure: 4.15

Chart showing Net Profit after Tax to Net worth Ratio of LBL and EBL
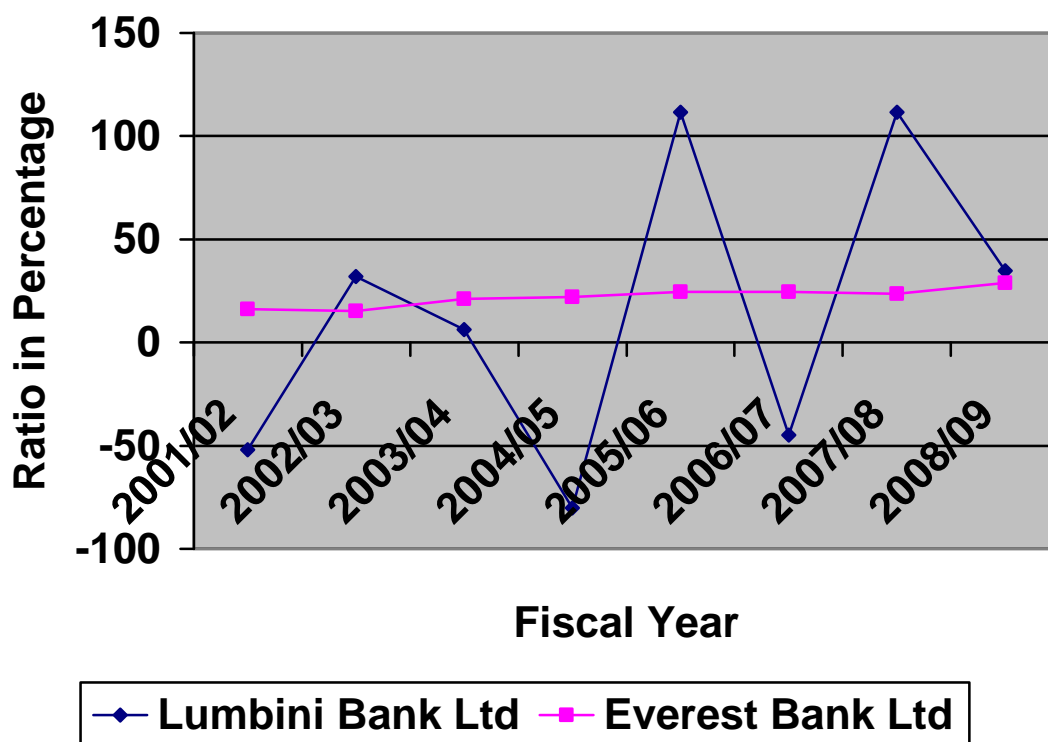
The above tables and chart shows that the net profit after tax to net worth ratio of LBL and EBL are fluctuating and constant respectively over the study period. This ratio indicates how well the banks have used the resources of the owners and measures the income on the owner's investment. The average ratio of EBL is greater than LBL; in this study higher ratio is desirable. The analysis indicates that the net worth of LBL for the year 2005/06 and 2006/07 are negative position and NPAT for the year 2001/02, 2005/06 and 2006/07 are negative position. The EBL has sound ratio of

NPAT to net worth. In conclusion, it can be said that EBL have fulfilled its responsibility of maximizing the owner's welfare than of LBL.

b) Interest Earned to Loans and Advances Ratio

The ratio reflects the proportion of total interest earned to total loan and advances. It is calculated by dividing the total interest earned by total loan and advances. Higher the ratio indicates the bank has higher portion of interest income with respect to total loan and advances and vice versa. The higher ratio shows the better efficiency of the bank. It is computed as:

$$Interest\ Earned\ to\ Loans\ and\ Advances\ Ratio = \frac{Interest\ Earned}{Loans\ and\ Advances}$$

Table: 4.31

Interest Earned to Loans and Advances Ratio of Lumbini Bank Ltd

Rs in million

Year	Interest Earned	Loans and Advances	Ratio in Percentage
2001/02	266.38	2285.49	11.66%
2002/03	308.68	2622.36	11.77%
2003/04	361.24	3222.74	11.21%s
2004/05	384.60	3685.13	10.44%
2005/06	343.82	4321.59	7.96%
2006/07	458.65	4944.50	9.28%
2007/08	535.80	5367.31	9.98%
2008/09	580.44	5681.39	10.22%
		Average	10.32%

(Source: Annual Reports of LBL)

The above calculated table shows that the interest earned to total loan and advances ratio of the bank varies from maximum of 11.77% in the year 2002/03 to the minimum of 7.96% in the year 2005/06 with an average of 10.32% during the study period of eight years. This analysis indicates that the interest earned in the comparison to the total loan and advances is fluctuating trend during the study period. Higher the ratio is preferable for this study.

Table: 4.32

Interest Earned to Loans and Advances Ratio of Everest Bank Ltd

Rs in million

Year	Interest Earned	Loans and Advances	Ratio in Percentage
2001/02	443.82	4044.23	10.97%
2002/03	520.17	5049.51	10.30%
2003/04	657.25	6095.84	10.78%
2004/05	719.30	7900.09	9.10%
2005/06	903.41	10136.25	8.91%
2006/07	1144.41	14082.69	8.13%
2007/08	1548.66	18836.43	8.22%
2008/09	2186.81	24469.56	8.94%
		Average	9.42%

(Source: Annual Reports of EBL)

The above calculated table shows that the interest earned to total loan and advances ratio of the bank varies from maximum of 10.97% in the year 2001/02 to the minimum of 8.13% in the year 2006/07 with an average of 9.42% during the study period of eight years. This analysis indicates that the interest earned in the comparison to the total loan and advances is low fluctuating trend during the study period. Higher the ratio is preferable for this study.

Figure: 4.16

Chart showing Interest Earned to Loans and Advances Ratio of LBL and EBL
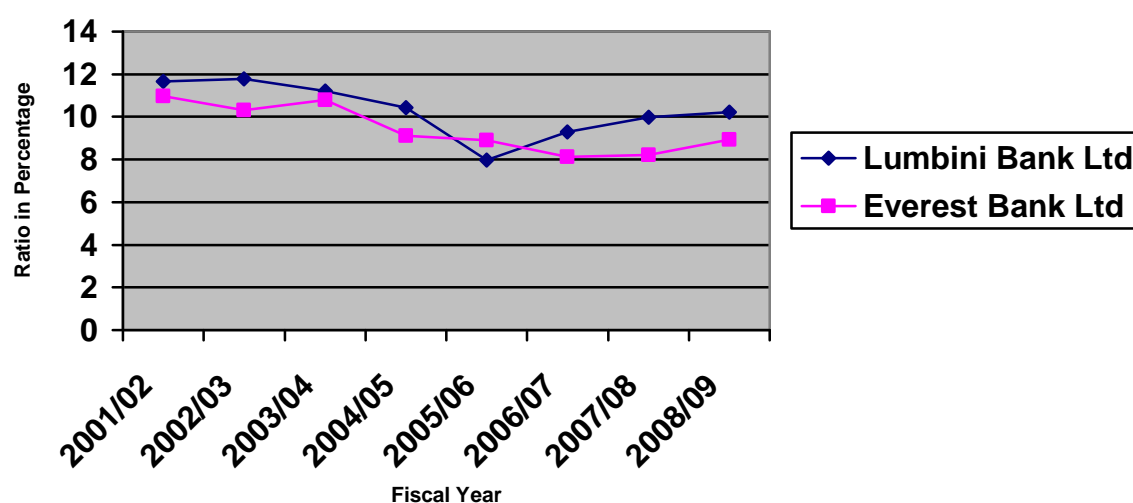
The above tables and chart shows that the interest earned to loan and advance ratio of LBL and EBL. The average ratio of LBL is greater than EBL. This analysis indicates that higher the ratio is good performance of loan and advance and lower the ratio decrease the profit of the bank. However the performance of the banks from the view of this ratio analysis is satisfactory.

c) Interest Paid to Interest Earned Ratio

Interest is the major source of earning of commercial banks. Banks receive interest from loans and advances, money at call and short notice, investment in government securities etc. banks pay interest to their depositors. They should mobilize deposits in such a way that they are able to pay interest to their depositors and also to earn profit. The interest paid to interest earned ratio is calculated as:

$$Interest\ Paid\ to\ Interest\ Earned\ Ratio = \frac{Total\ Interest\ Expenses}{Total\ Interest\ Income}$$

Table: 4.33

Interest Paid to Interest Earned Ratio of Lumbini Bank Ltd

Rs in million

Year	Total Interest Expenses	Total Interest Income	Ratio in Percentage
2001/02	170.50	266.38	64.01%
2002/03	186.48	308.68	60.41%
2003/04	197.32	361.24	54.62%
2004/05	193.47	384.60	50.30%
2005/06	215.55	343.82	62.69%
2006/07	264.77	458.65	57.73%
2007/08	260.39	535.80	48.59%
2008/09	264.43	580.44	45.56%
		Average	55.49%

(Source: Annual Reports of LBL)

The above calculated table shows that the amount of interest paid and interest earned and ratio of LBL for the study period. The ratio of the bank varies from the maximum of 64.01% in the year 2001/02 to the minimum of the 45.56% in the year 2008/09 with an average of 55.49% during the study period of eight years. The analysis

indicates that the ratio is decreasing trend which is good signal for the bank because the low ratio is preferable for this study.

Table: 4.34

Interest Paid to Interest Earned Ratio of Everest Bank Ltd

Rs in million

Year	Total Interest Expenses	Total Interest Income	Ratio in Percentage
2001/02	257.05	443.82	57.92%
2002/03	307.64	520.17	59.14%
2003/04	316.37	657.25	48.14%
2004/05	299.57	719.30	41.65%
2005/06	401.40	903.41	44.43%
2006/07	517.17	1144.41	45.19%
2007/08	632.61	1548.66	40.85%
2008/09	1012.87	2186.81	46.32%
		Average	47.96%

(Source: Annual Reports of EBL)

The above calculated table shows that the amount of interest paid and interest earned and ratio of EBL for the study period. The ratio of the bank varies from the maximum of 59.14% in the year 2002/03 to the minimum of the 40.85% in the year 2007/08 with an average of 47.96% during the study period of eight years. The analysis indicates that the ratio is decreasing trend which is good signal for the bank because the low ratio is preferable for this study.

Figure: 4.17

Chart showing Interest Paid to Interest Earned Ratio of LBL and EBL
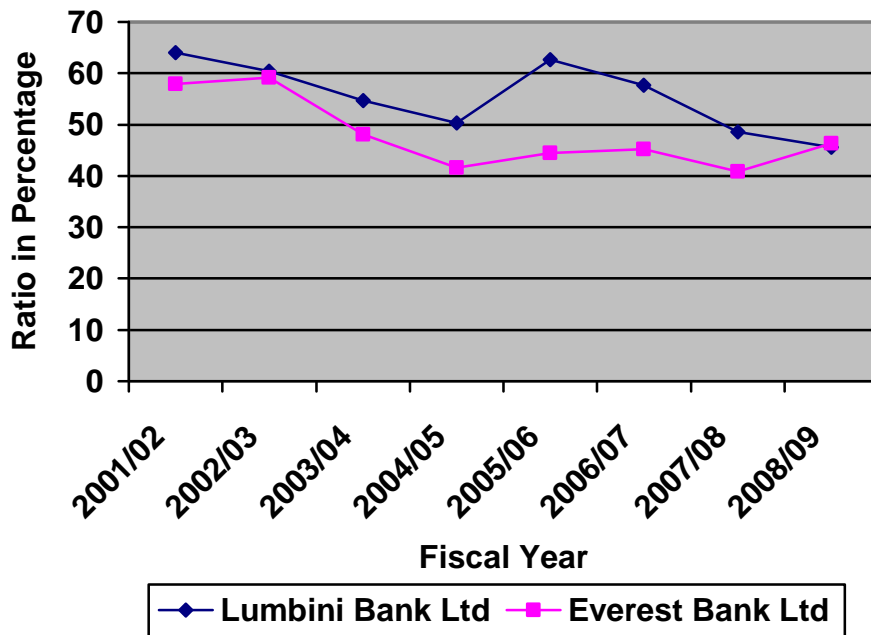
The above tables and chart shows that the interest paid to interest earned ratio of LBL and EBL are decreasing trend. The average ratio of LBL is greater than EBL, in this study lower the ratio is desirable. As per the above analysis it can be seen that LBL pays more interest to its depositors than EBL.

d) Return on Total Assets

This ratio measures the overall profitability of all working fund or total assets. It is also known as working fund. A firm has to earn satisfactory return on assets or working fund for its survival. The numerator indicates the portion of income left to the internal equities after all cost charges, expenses have been deducted. This can be maintained as:

$$ROA\ Ratio = \frac{Net\ \Pr ofit\ after\ tax}{Total\ Assets}$$

Table: 4.35

Net Profit after Tax to Total Assets Ratio of Lumbini Bank Ltd

Rs in million

Year	Net Profit after Tax	Total Assets	Ratio in Percentage
2001/02	(97.97)	3061.65	(3.20)%
2002/03	89.14	3440.17	2.59%
2003/04	18.63	4364.20	0.43%
2004/05	(196.77)	4494.90	(4.38)%
2005/06	(806.06)	4259.34	(18.92)%
2006/07	192.40	5705.03	3.37%
2007/08	327.65	6151.48	5.33%
2008/09	332.21	7547.87	4.40%
		Average	(1.30)%

(Source: Annual Reports of LBL)

The above calculated table shows that the net profit after tax to total assets ratio or return on assets (ROA) of the bank differ from the maximum of 5.33% in the year 2007/08 to the minimum of (18.92)% in the year 2005/06 with an average (1.30)% during the study period of eight years. This analysis indicates that the net profit earned in comparison to the total assets is high fluctuating trend over the study period.

Table: 4.36

Net Profit after Tax to Total Assets Ratio of Everest Bank Ltd

Rs in million

Year	Net Profit after Tax	Total Assets	Ratio in Percentage
2001/02	85.35	6616.90	1.29%
2002/03	94.18	8052.21	1.17%
2003/04	143.57	9608.57	1.49%
2004/05	170.81	11792.13	1.45%
2005/06	237.29	15959.28	1.49%
2006/07	296.41	21432.57	1.38%
2007/08	451.22	27149.34	1.66%
2008/09	638.73	36916.85	1.73%
		Average	1.46%

(Source: Annual Reports of EBL)

The above calculated table shows that the net profit after tax to total assets ratio or return on assets (ROA) of the bank differ from the maximum of 1.73% in the year

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2008/09 to the minimum of 1.17% in the year 2002/03 with an average 1.46% during the study period of eight years. This analysis indicates that the net profit earned in comparison to the total assets is more constant trend over the study period.

Figure: 4.18

Chart showing Net Profit after Tax to Total Assets Ratio of LBL and EBL

The above tables and chart shows that the net profit after tax to total assets ratio of LBL and EBL are fluctuating and constant trend respectively. The average ratio of EBL is greater than LBL. The performance of LBL is not satisfactory over the study period; however it is improving from last two years. The EBL is performing well because its return is increasing slowly with positive value.

e) Return on Total Deposits Ratio

This ratio described the percentage of profit earned by using total deposit. This ratio shows the efficiency towards its deposit mobilization. Higher ratio indicates proper utilization of total deposit and lower ratio indicates the improper utilization of total deposit. This ratio is a mirror of banks overall financial performance as well as its success in profit generation, the reason is that deposits and earning by utilizing this are the main aspects of the commercial banks.

The collected deposits are mobilized in investment and loan and advance to get profit. It is calculated by dividing the amount of net profit by the amount of total deposit which is presented as below:

$$Re\,turn\ on\,Total\ Deposits = \frac{Net\,\Pr ofit\ after\ Tax}{Total\ Deposits}$$

Table: 4.37

Net Profit after Tax to Total Deposits Ratio of Lumbini Bank Ltd

Rs in million

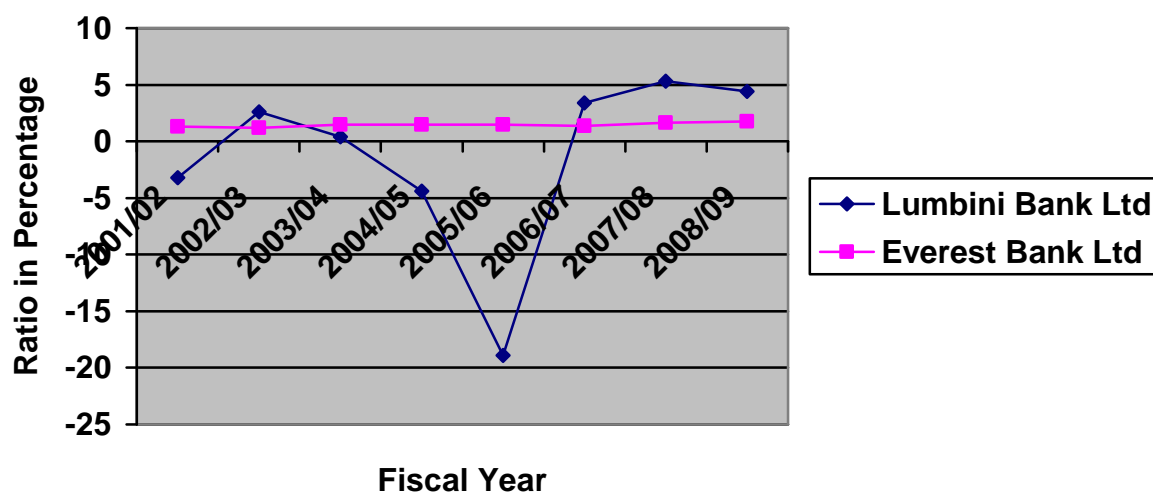| Year	Net Profit after Tax	Total Deposits	Ratio in Percentage
2001/02	(97.97)	2646.11	(3.70)%
2002/03	89.14	2959.74	3.01%
2003/04	18.63	3777.61	0.49%
2004/05	(196.77)	4031.22	(4.88)%
2005/06	(806.06)	4786.44	(16.84)%
2006/07	192.40	6024.60	3.19%
2007/08	327.65	5703.73	5.74%
2008/09	332.21	6444.90	5.15%
		Average	(0.98)%

(Source: Annual Reports of LBL)

The above calculated table shows that the net profit after tax to total deposits ratio of the bank is differ from the maximum of 5.74% in the year 2007/08 to the minimum of (16.84)% in the year 2005/06 with an average of (0.98)% during the study period of eight years. The analysis indicates that the net profit to total deposits ratio is fluctuating trend which means the ratio is decreasing and increasing trend during the study period. In this study higher the ratio is preferable.

Table: 4.38

Net Profit after Tax to Total Deposits Ratio of Everest Bank Ltd

Rs in million

Year	Net Profit after Tax	Total Deposits	Ratio in Percentage
2001/02	85.35	5466.61	1.56%
2002/03	94.18	6694.96	1.41%
2003/04	143.57	8063.90	1.77%
2004/05	170.81	10097.69	1.69%
2005/06	237.29	13802.44	1.80%
2006/07	296.41	18186.25	1.63%
2007/08	451.22	23976.30	1.88%
2008/09	638.73	33322.95	1.92%
		Average	1.71%

(Source: Annual Reports of EBL)

The above calculated table shows that the net profit after tax to total deposits ratio of the bank is differ from the maximum of 1.92% in the year 2008/09 to the minimum of 1.41% in the year 2002/03 with an average of 1.71% during the study period of eight years. The analysis indicates that the net profit to total deposits ratio is low fluctuating trend. In this study higher the ratio is preferable.

Figure: 4.19

Chart showing Net Profit after Tax to Total Deposits Ratio of LBL and EBL
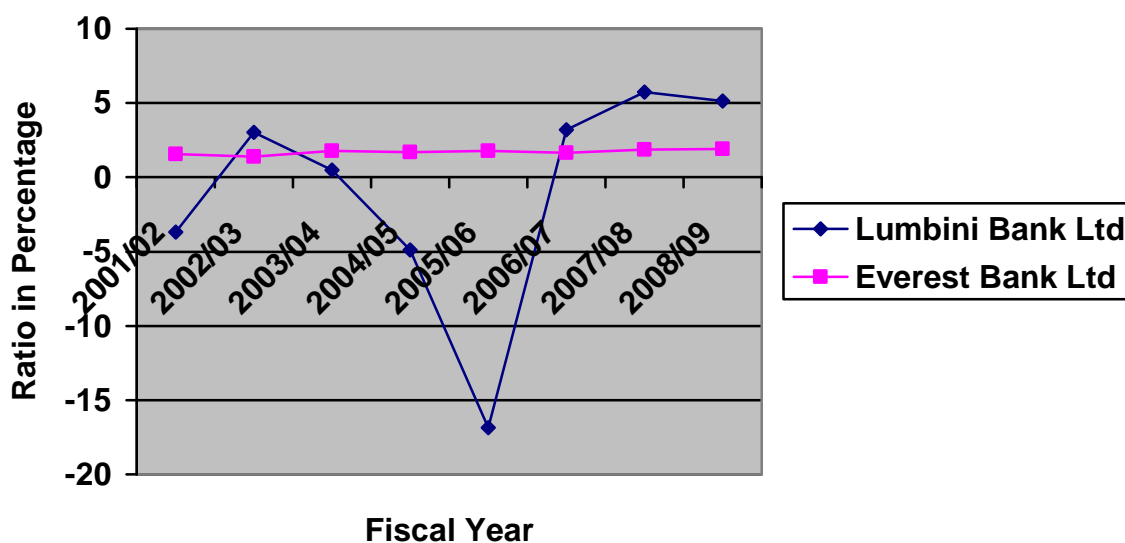
The above tables and chart shows that the net profit after tax to total deposit ratio of LBL and EBL. The average ratio of EBL is greater than LBL; in this study higher the ratio desirable. The ratio of LBL is fluctuating over the study period. This analysis indicates that the net profits after tax are negative position for the 2001/02, 2004/05 and 2005/06. The ratio of EBL is slowly increasing trend, which shows that EBL is efficient in paying the any obligation than LBL.

f) Staff Expanses to Total Income Ratio

Staff expenses include the salary and allowances, contribution to the provident fund and gratuity fund, staff training expenses and other allowances and expenses made to staff. Like wise total income include interest income minus interest expenses or net interest income, commission and discount, other operational income and exchange up down income. It measure the proportion of income spent for staff whose contribution is of great significances in the success of the bank.

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

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

Table: 4.39

Staff Expenses to Total Income Ratio of Lumbini Bank Ltd

Rs in million

Year	Staff Expenses	Total Income	Ratio in Percentage
2001/02	24.17	109.14	22.15%
2002/03	29.47	141.79	20.78%
2003/04	36.40	196.80	18.50%
2004/05	37.08	217.35	17.06%
2005/06	48.58	180.33	26.95%
2006/07	59.44	281.33	21.31%
2007/08	59.17	351.09	16.85%
2008/09	77.40	469.43	16.49%
		Average	20.01%

(Source: Annual Reports of LBL)

The above calculated table shows that staff expenses to total income ratio of bank differ from the maximum of 26.95% in the year 2005/06 to the minimum of 16.49% in the year 2007/08 with an average of 20.01% during the study period of eight years. In this study low ratio is preferable.

Table: 4.40

Staff Expenses to Total Income Ratio of Everest Bank Ltd

Rs in million

Year	Staff Expenses	Total Income	Ratio in Percentage
2001/02	32.19	268.96	11.97%
2002/03	37.37	306.25	12.20%
2003/04	48.53	443.01	10.95%
2004/05	60.60	524.94	11.54%
2005/06	70.92	662.15	10.71%
2006/07	86.12	841.33	10.24%
2007/08	157.96	1209.90	13.06%
2008/09	186.92	1544.97	12.10%
		Average	11.60%

(Source: Annual Reports of EBL)

The above calculated table shows that staff expenses to total income ratio of bank differ from the maximum of 13.06% in the year 2007/08 to the minimum of 10.24% in the year 2006/07 with an average of 11.60% during the study period of eight years. In this study low ratio is preferable.

Figure: 4.20

Chart showing Staff Expenses to Total Income Ratio of LBL and EBL
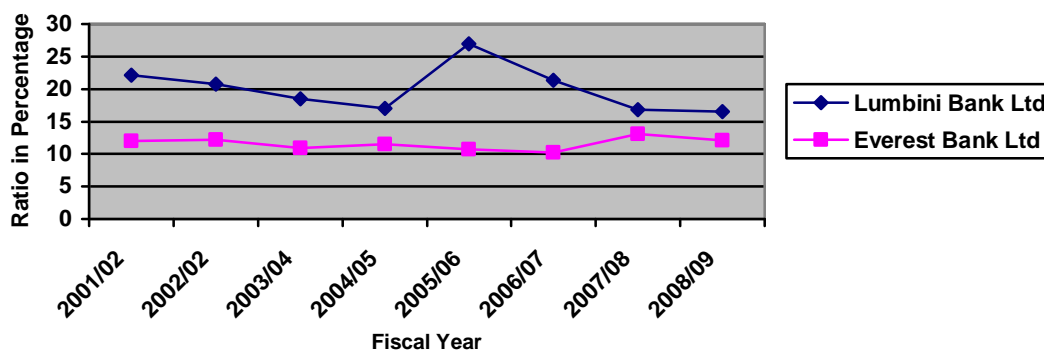
The above tables and chart shows that the staff expenses to total income ratio of LBL and EBL are decreasing trend. The average ratio of LBL is greater than EBL; in this study low ratio is desirable. This analysis indicates that the LBL should reduce its staff expenses or increase total income for better performance of the bank.

4.2 Trend Analysis

Under this topic, we analyze the trend of total deposits, trend of loans and advances, trend of net profit after tax and trend of earning per share of LBL and EBL from 2002/03 to 2008/09 is analyzed that helps to make forecasting for next five years.

The trend of related variables can calculated as, $Y = a + bX$

Where,

Y = Dependent Variable

X = Independent Variable

a = Intercept of Line

b = Slop of the line (shows the average change in the value of Y as a result of one unit change in the value of X).

a) Trend Analysis of Total Deposits

Under this section, an effort has been made to calculate the trend value of total deposit for the seven year 2002/03 to 2008/09 and forecasted for next five years. The following table shows the both values.

Table: 4.41

Trend and Actual Value of Total Deposits of LBL & EBL

Rs in million

Fiscal Year	Lumbini	Bank	Everest	Bank
	Actual Value	Trend Value	Actual Value	Trend Value
2002/03	2959.74	3071.78	6694.96	3470.95
2003/04	3777.61	3653.96	8063.90	7749.42
2004/05	4031.22	4236.14	10097.69	12027.89
2005/06	4786.44	4818.32	13802.44	16306.36
2006/07	6024.60	5400.50	18186.25	20584.83
2007/08	5703.73	5982.68	23976.30	24863.30
2008/09	6444.90	6564.86	33322.95	29141.77
2009/10		7147.04		33420.24
2010/11		7729.22		37698.71
2011/12		8311.40		41977.18
2012/13		8893.58		46255.65
2013/14		9475.76		50534.12

(Source: Annex 1, 2)

Figure: 4.21

Chart showing Actual and Trend Value of Total Deposits of Lumbini Bank Ltd
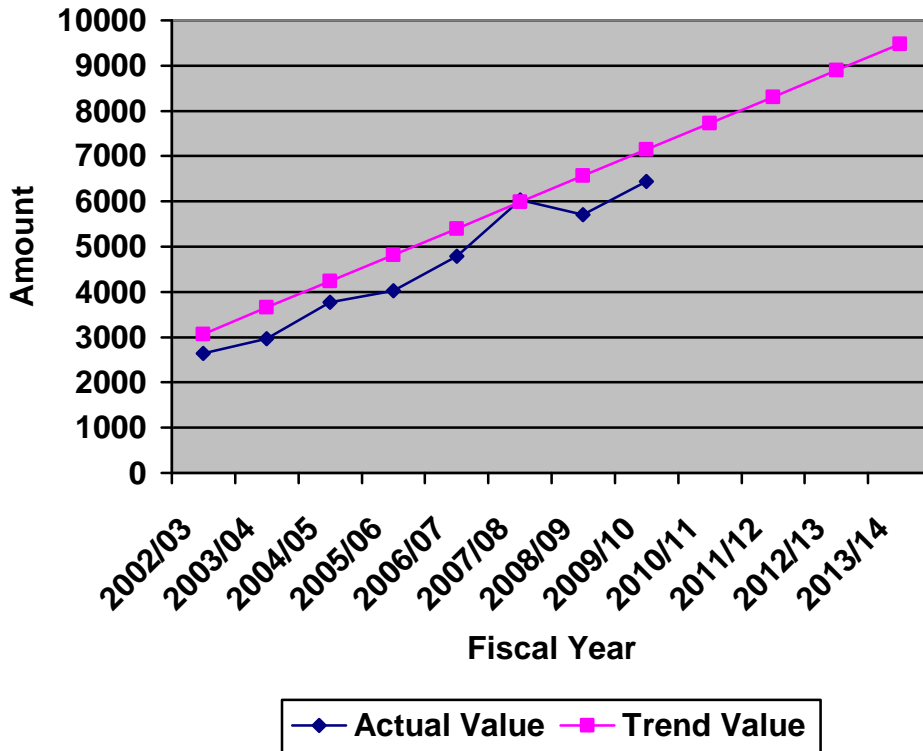
Rs in million

In the figure , the vertical line shows the actual and trend value of the variables whereas the horizontal shows the time in the same year, the changing rate of total deposit of bank is in increasing trend. Therefore LBL most follow some new schemes to increase their deposit and mobilize them in some income generating activities.

Figure: 4.22

Chart showing Actual and Trend Value of Total Deposits of Everest Bank Ltd
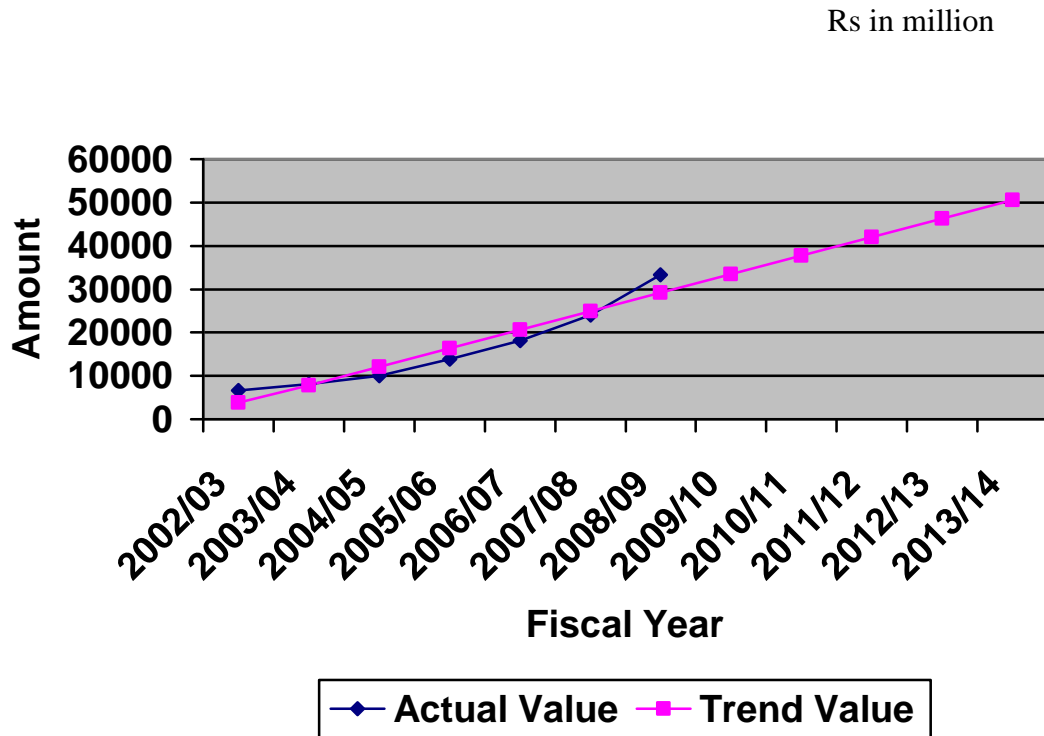
Rs in million

In the figure , the vertical line shows the actual and trend value of the variables whereas the horizontal shows the time in the same year, the changing rate of total deposit of bank is in increasing trend. Therefore EBL most follow some new schemes to increase their deposit and mobilize them in some income generating activities

b) Trend Analysis of Loans and Advances

Under this section, an effort has been made to calculate the trend value of total loans and advances for the seven year 2002/03 to 2008/09 and forecasted for next five years. The following table shows the both values.

Table: 4.42

Trend and Actual Value of Loans and Advances of LBL & EBL

Rs in million

Fiscal Year	Lumbini	Bank	Everest	Bank
	Actual Value	Trend Value	Actual Value	Trend Value
2002/03	2622.36	2685.84	5049.54	3875.34
2003/04	3222.74	3211.75	6045.84	7086.91
2004/05	3685.13	3737.66	7900.09	10298.48
2005/06	4321.59	4263.57	18136.25	13570.05
2006/07	4944.50	4789.48	14082.69	16721.62
2007/08	5367.31	5315.39	18836.43	19933.19
2008/09	5681.39	5841.30	24469.56	23144.76
2009/10		6367.21		26356.33
2010/11		6893.12		29567.90
2011/12		7419.03		32779.47
2012/13		7944.94		35991.04
2013/14		8470.85		39202.61

(Source: Annex3, 4)

Figure: 4.23

Chart showing Actual and Trend Value of Loans and Advances of Lumbini Bank Ltd

Rs in million

The above chart shows that the increasing trend of actual and trend value of loans and advances in every fiscal year.

Figure: 4.24

Chart showing Actual and Trend Value of Loans and Advances of Everest Bank Ltd

Rs in million
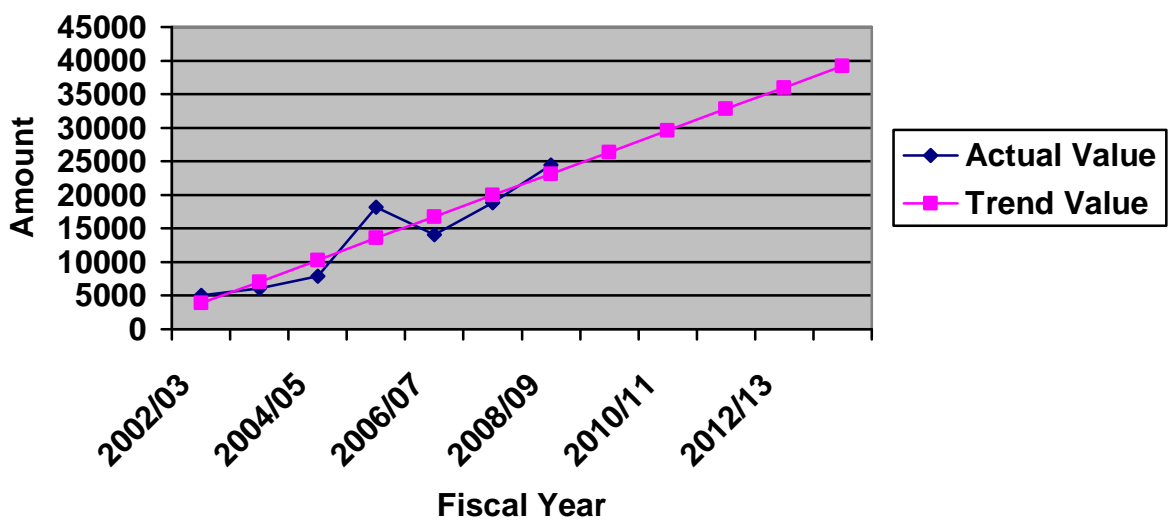
The above chart shows that the increasing and decreasing trend of actual value and increasing trend of trend value of loans and advances in every fiscal year.

c) Trend Analysis of Net Profit after Tax

Under this section, an effort has been made to calculate the trend value of net profit after tax for the seven year 2002/03 to 2008/09 and forecasted for next five years. The following table shows the both values.

Table: 4.43

Trend and Actual Value of Net Profit after Tax of LBL & EBL
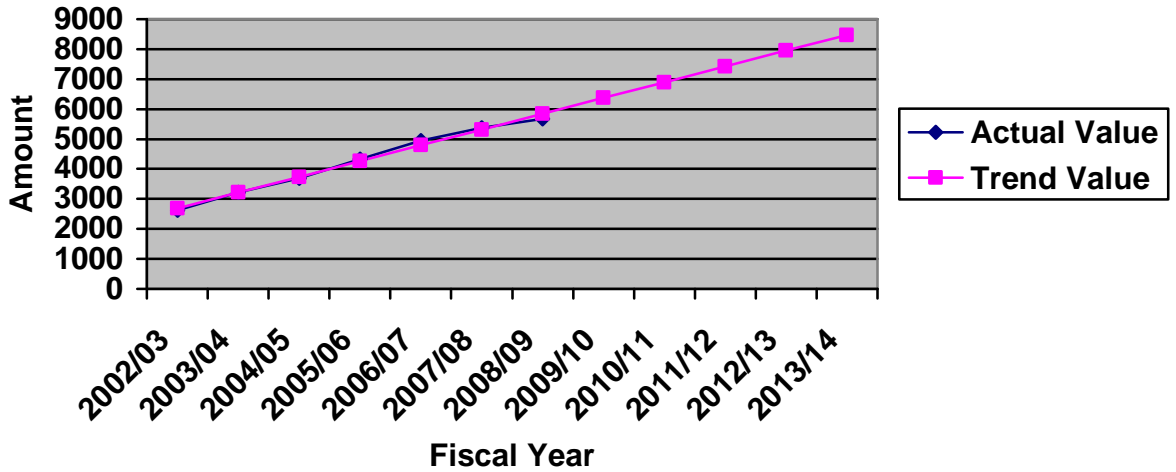
Rs in million

Fiscal Year	Lumbini	Bank	Everest	Bank
2002/03	Actual Value	Trend Value	Actual Value	Trend Value
2003/04	89.14	(192.17)	94.18	35.89
2004/05	18.63	(130.15)	143.57	120.70
2005/06	(196.77)	(68.13)	170.81	205.51
2006/07	(806.06)	(6.11)	237.29	290.32
2007/08	192.40	55.91	296.41	375.13
2008/09	327.65	117.93	451.22	459.94
2009/10	332.21	179.95	638.73	544.75
2010/11		241.97		629.56
2011/12		303.99		714.37
2012/13		366.01		799.18
2013/14		428.03		883.99
		490.05		968.80

(Source: Annex5, 6)

Figure: 4.25

Chart showing Actual and Trend Value of Net Profit of Lumbini Bank Ltd

Rs in million

The above table and chart shows that the net profit of Lumbini Bank is fluctuating trend. It was started to decrease from 2001/02 to 2005/06, the portion of decreasing rate was high. The amount of net profit gone to negative position. After 2005/06 the net profit has been improving trend, which is good news for shareholders.

Figure: 4.26

Chart showing Actual and Trend Value of Net Profit of Everest Bank Ltd

Rs in million
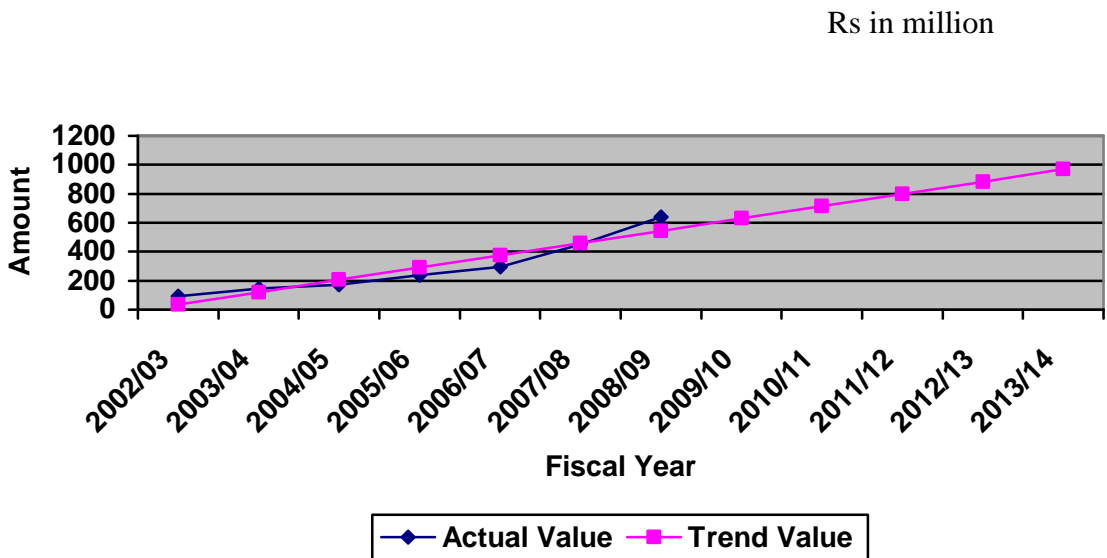
After analyzing the data, it can be concluded that the net profit of EBL has been increasing every year. The above chart shows that the actual and trend value of EBL is also increasing trend. The rate of change of net profit of EBL is positive.

d) Trend Analysis of Earning per Share

Under this section, an effort has been made to calculate the trend value of earning per share for the seven year 2002/03 to 2008/09 and forecasted for next five years. The following table shows the both values.

Table: 4.44

Trend and Actual Value of Earning per Share of LBL & EBL

Rs in million

Fiscal Year	Lumbini	Bank	Everest	Bank
	Actual Value	Trend Value	Actual Value	Trend Value
2002/03	25.47	(25.76)	29.90	31.06
2003/04	5.33	(20.72)	45.60	42.74
2004/05	(39.35)	(15.68)	54.22	54.42
2005/06	(161.21)	(10.64)	62.78	66.10
2006/07	32.07	(5.60)	78.42	77.78
2007/08	32.91	(0.56)	91.82	89.46
2008/09	30.31	4.48	99.99	101.14
2009/10		9.52		112.82
2010/11		14.56		124.50
2011/12		19.60		136.18
2012/13		24.64		147.86
2013/14		29.68		159.54

(Source: Annex7, 8)

Figure: 4.27

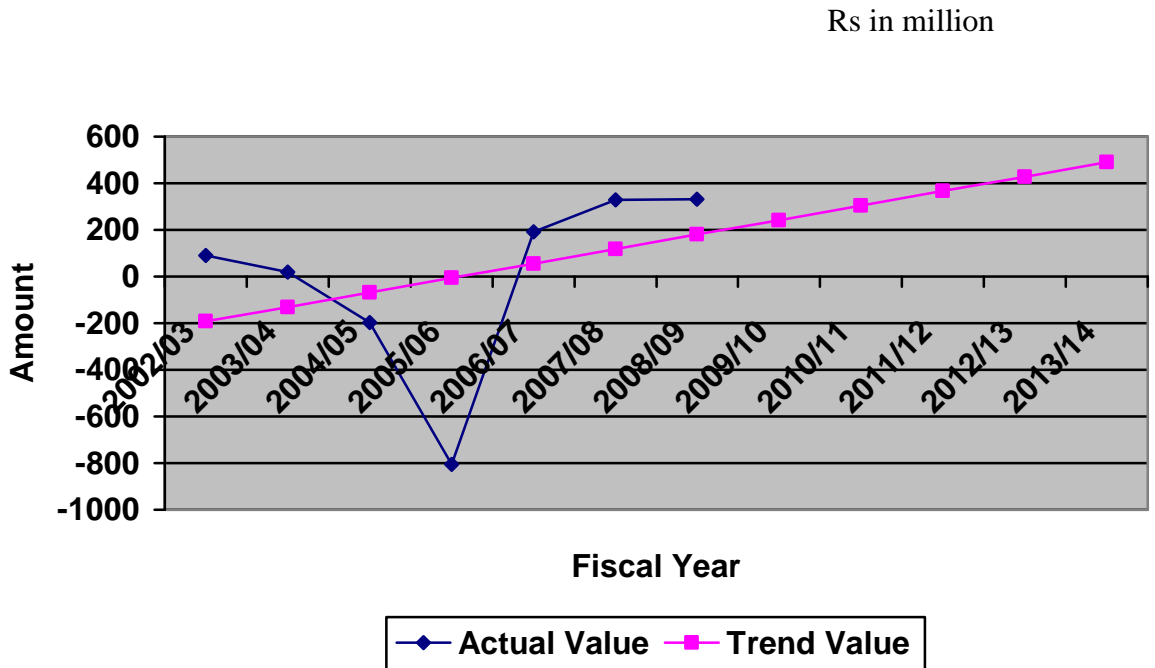**Chart showing Actual and Trend Value of Earning per Share of Lumbini Bank Ltd**

Rs in Rupees
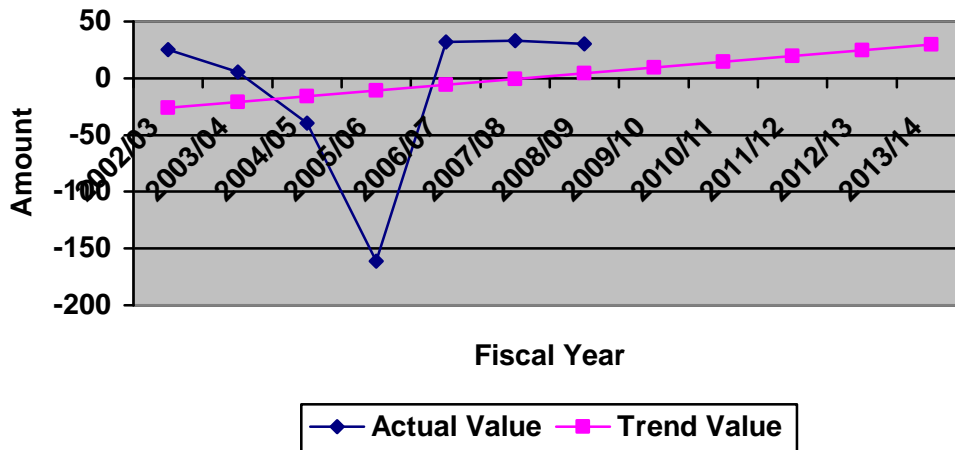
The above table and chart shows that the earning per share of LBL is fluctuating trend. The rate of change net profit is negative, so its value is decreasing up to 2005/06. After 2005/06 earning per share of LBL is increasing trend, actual value effect trend value which shows trend of earning per share of LBL.

Figure 4.28

Chart showing Actual and Trend Value of Earning per Share of Everest Bank Ltd

Rs in Rupees

111
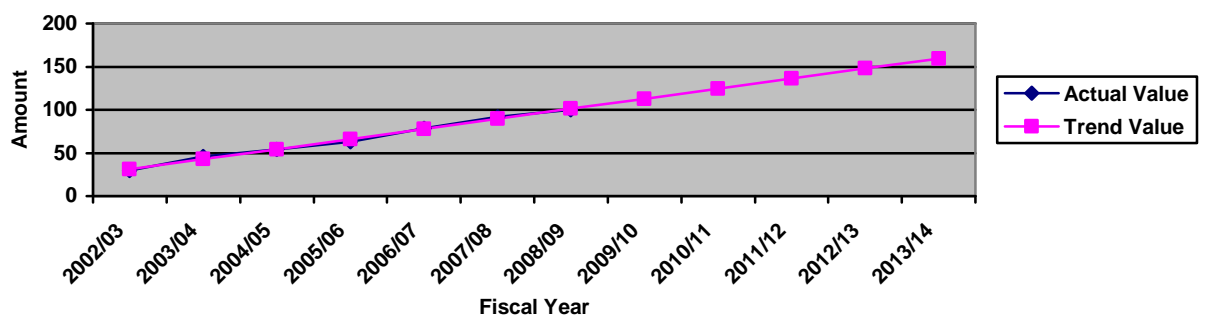
According to the above table and chart, the increasing trend of earning per share of EBL is observed. Both actual and trend value are increasing every year, which is good news for shareholders.

4.3 Bankruptcy Score

A study by Altman developed a statistical model that found the financial ratios predicting bankruptcy. The bankruptcy score has been calculated and analyzed on the basis of relevant information of Lumbini and Everest Bank Ltd for the period of eight fiscal years from 2001/02 to 2008/09. In order to analyze the probability of bankruptcy score, the calculation has been made by using Altman's model. The calculation is based on the following equation where five financial ratios have been used to predict the bankruptcy of relative banks.

We have,

$$Bankruptcy\ Score = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 0.999X_5$$

Where,

X_1 = Net Working Capital/Total Asset

X_2 = Retained Earning/Total Asset

X_3 = Earning Before Interest and Tax/Total Asset

X_4 = Total market value of stock/Book value of total debt

X_5 = Total investment/Total Asset

Altman's Bankruptcy Score criteria have been presented in table as below:

Table: 4.45

Criteria to Analysis the Bankruptcy Score

Less than 1.81	Between 1.81 to 2.99	Greater than 2.99
Probability of failure high	Probability of failure difficult to determine	Probability of failure remote
Predict failure	Predict failure if score is less than 2.675 predict success if score is greater than 2.675	Predict success

The above bankruptcy criteria signifies that a bank with a score less than 1.81 is likely to fail and will definitely go into bankruptcy. Similarly, the bank with a score greater than 2.99 will never go into bankruptcy that is of very rare chances of bankruptcy. However, the score in between 1.81 to 2.99 puts the analyst in a difficult situation to predict whether the bank will exist or not. With the available data and for latest prediction the probability of bankruptcy of Lumbini and Everest Bank has been calculated and analyzed for eight fiscal years.

We have,

$$Bankruptcy\ Score = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 0.999X_5$$

Table: 4.46

Calculation of Bankruptcy Score of Lumbini Bank Ltd

Year	X_1	X_2	X_3	X_4	X_5	Bankruptcy Score
2001/02	0.4960	(0.0531)	0.0236	0	0.0881	0.5987
2002/03	0.5075	(0.0267)	0.0801	0	0.1113	0.8360
2003/04	0.3978	(0.0182)	0.0545	0	0.1279	0.6310
2004/05	0.4207	(0.0615)	0.0071	4.12	0.1191	2.9459
2005/06	0.1873	(0.2923)	(0.1357)	4.41	0.1581	2.9137
2006/07	0.1667	(0.1913)	0.0857	27.52	0.1515	16.7285
2007/08	0.1543	(0.1348)	0.1038	40.78	0.1329	25.1137
2008/09	0.2192	(0.0446)	0.0887	31.80	0.1065	19.6824
					average	8.6812

(Source: Annexes 9, 11, 13, 15, 17)

The above calculated table shows that the bank was struggling in the market during 2001/02 to 2003/04 period where the position of the bank was doubtful and

probability of failure high or can predict failure based on Altman's model of bankruptcy because the bankruptcy score are very low at that period. However the bank managed to be in better position during 2004/05. In the FY2004/05 the bank has crossed the limit of bankruptcy score and it can be predicted that there is a remote chance of failure of bank. From the fiscal year 2006/07 onward the scores are above 2.99 and it can be predicted that there is no chance of failure of Lumbini Bank Ltd in overall.

Table: 4.47

Calculation of Bankruptcy Score of Everest Bank Ltd

Year	X_1	X_2	X_3	X_4	X_5	Bankruptcy Score
2001/02	0.4233	0.0110	0.0580	2.2858	0.2558	2.3418
2002/03	0.3729	0.0050	0.0550	2.0711	0.2054	2.0838
2003/04	0.3267	0.0048	0.0548	2.6401	0.2215	2.3842
2004/05	0.3154	0.0059	0.0466	3.1147	0.2150	2.6241
2005/06	0.2829	0.0068	0.0467	4.4828	0.2632	3.4032
2006/07	0.3012	0.0060	0.0447	4.5605	0.2325	3.4951
2007/08	0.2833	0.0031	0.0479	12.5664	0.1864	8.2284
2008/09	0.2224	0.0022	0.0522	11.5250	0.1611	7.5182
					Average	4.0099

(Source: Annexes 10, 12, 14, 16, 18)

The above calculated table shows that the bank was struggling in the market during 2001/02 to 2004/05 period where the position of the bank was doubtful and probability of failure high or can predict failure based on Altman's model of bankruptcy because the bankruptcy score are low at that period. However the bank managed to be in better position during 2005/06. In the FY2005/06 the bank has crossed the limit of bankruptcy score and it can be predicted that there is a remote chance of failure of bank. From the fiscal year 2006/07 onward the scores are above 2.99 and it can be predicted that there is no chance of failure of Everest Bank Ltd in overall.

Figure: 4.29

Chart showing Bankruptcy Score of LBL and EBL of FY 2001/02 to 2008/09
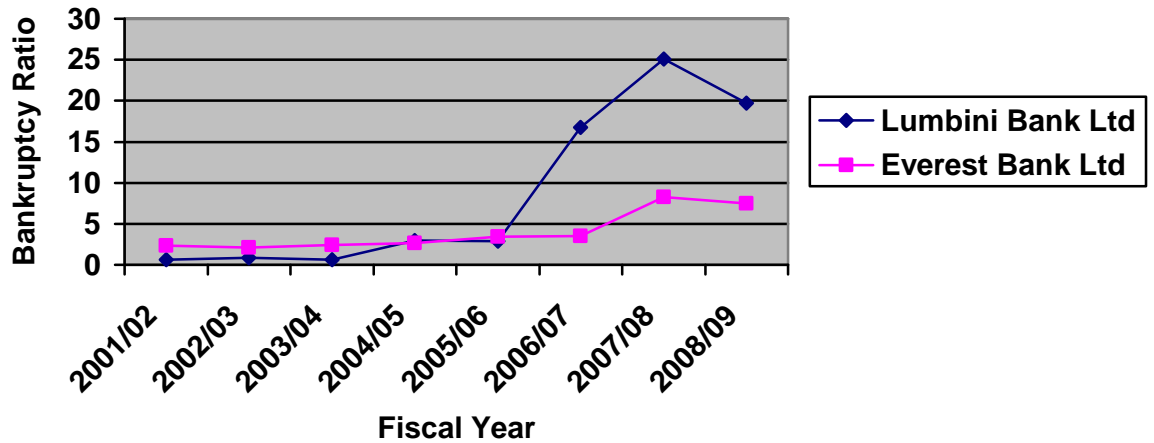
The above tables and chart shows that the bankruptcies score of LBL and EBL. The average bankruptcy score of LBL is greater than EBL. However higher the ratio is desirable for this study but constant and slow increasing value is preferable. So this analysis indicates that EBL is performing well than LBL. There is less chance of bankruptcy of Everest Bank Ltd than Lumbini Bank Ltd. Overall financial performance of EBL is better than LBL.

4.4 Major Finding of the Study

On the basis of the data analysis and presented in sections 4.1, 4.2 and 4.3 of this chapter the major finding of the study are as following:

4.4.1 Finding from the Ratio Analysis

Ratio analysis involves the method of calculating and interpreting financial ratios in order to asses the firm's financial performance and status. The following are the finding from the ratio analysis:

a) Liquidity Ratio

Current ratio of two banks showed slightly fluctuating trend. The average ratios showed that the banks could not maintain the conventional standard of 2 to 1. The average ratios appeared higher in LBL, which signifies that LBL is more capable of meeting immediate liabilities in contrast to EBL. Average cash and bank balance to total deposit ratio remained little higher of EBL which reveals that the greater portion of the deposit was held for immediate payment in EBL. This ratio of two banks is satisfactory. The average cash and bank balance to current deposit ratio of LBL appeared greater than EBL. The ratios of LBL showed more fluctuating trend than EBL.

Like wise the average cash and bank balance to current assets ratio remained higher in LBL than EBL. The higher average ratio of LBL showed that the bank has held the greater portion of most liquid assets than EBL. The loans and advances to current assets ratio of LBL are greater than EBL. The analysis indicates that the disbursement of loans and advances with respect to the current assets is above 65% to below110% over the study period.

b) Leverage Ratio

Debt – equity ratio of the banks depicted the employment of debt in their capital. Comparatively, capital structure of EBL seemed more leverage than LBL. The ratios of two banks are highly fluctuating. The analysis indicates that the position of capital of LBL isn't satisfactory because its net worth was negative for the period of 2005/06 to 2006/07. However the bank latest performance is improving trend. On the other hand there is sound position of debt – equity position of EBL. The bank is performing well. Similarly, the average debt- assets ratio of EBL is greater than LBL. The ratio shows the portion of outsider's fund used in financing total assets. This analysis indicates that the banks have the low debt- assets ratio, which means owners have invested more in the bank than the creditors. Since the banks have been using low portion of debt in the capital structure, it can be concluded that these banks aren't highly leveraged.

Like wise the average interest coverage of EBL is greater than LBL. LBL's earning is more fluctuating than EBL. According to the conventional rule, higher ratio is desirable. In this case, EBL seems capable to meet its interest commitments from its profits than LBL. In the year 2005/06 LBL fail to bare the interest which is not good practice in banking. Thus it can be said that the EBL has more margin of safety than LBL.

c) Activity Ratio

The average total investments to total deposits ratio of EBL seemed higher than LBL. The higher ratio indicates efficiency in utilizing total deposits for investments purposes. The average loans and advances to total deposits of LBL is greater than EBL. In the banking practice this is the major measuring tools of credit management. According to the conventional rule in Nepal 70%-90% credit to deposit ratio (C/D ratio) is acceptable. This analysis indicates that the EBL is maintained the standard and LBL has been crossed the standard in the 2004/05, 2005/06 and 2007/08 which is not good banking practice. The average non performing loan to total loans and advances ratio of LBL is greater than EBL. The ratio of LBL is more fluctuating and greater than EBL. In this study low ratio is desirable. The above scenario indicates that the loan recovery process of EBL seemed efficient than LBL. The higher ratio of LBL represents that the asset portfolio management and loan recovery of the bank seemed poor comparing with EBL. Thus, it can be concluded that the high level of NPL of LBL has compelled the banks to bear high amount of risk.

Similarly, the average loan loss provision to total loans and advances ratio of LBL is greater than EBL. There is positive relationship between loans and advances and loan loss provision. When loans and advances of the banks increase, the loan loss provision will also increase. The higher ratio of LBL reveals that the bank has high proportion of non performing loans than EBL. The average interest expenses to total deposit ratio of LBL is greater than EBL. The higher ratio of LBL shows that the bank holds a large portion of interest bearing deposits out of total deposit or the rate of interest on deposit of the bank is more than EBL. In other words this ratio can say cost of total deposit. Like wise, the average interest expenses to total expenses ratio of EBL is greater than LBL, its indicate that the EBL use more outsider fund than LBL.

d) Profitability Ratio

The average return on shareholders equity ratio of EBL remained greater than LBL. The ratios of LBL were found in very fluctuating trend. The higher average ratio of EBL reveals that the bank has utilized the shareholders equity more efficiently than LBL. The average interest income to loans and advances ratio of LBL is greater than EBL. This analysis indicates that higher the ratio is good performance of loan and advance and lower the ratio decrease the profit of the bank. However the performance of the banks from the view of this ratio analysis is satisfactory. The average interest paid to interest earned ratio of LBL is greater than EBL, in this study lower the ratio is desirable. As per the above analysis it can be seen that LBL pays more interest to its depositors than EBL.

Like wise the average return on total assets ratio of EBL is greater than LBL. The ratio of LBL is very fluctuating trend. The performance of LBL is not satisfactory over the study period; however it is improving from last two years. The EBL is performing well because its return is increasing slowly with positive value. The average return on total deposit ratio of EBL is greater than LBL; in this study higher the ratio desirable. The ratio of LBL is fluctuating over the study period. This analysis indicates that the net profits after tax are negative position for the 2001/02, 2004/05 and 2005/06. The ratio of EBL is slowly increasing trend, which shows that EBL is more efficient in paying the any obligation than LBL. Similarly the average staff expenses to total income ratio of LBL is greater than EBL; in this study low ratio is desirable. This analysis indicates that the LBL should reduce its staff expenses or increase total income for better performance of the bank.

4.4.2 Findings from the Trend Analysis

The trend analysis conducted in terms of total deposits, total loans and advances, net profit after tax and earning per share (the amount are showing Rs in million). The trend analysis indicates that the trend value of total deposits of LBL is higher than actual value, which shows the more fluctuation in deposits collection. The actual and trend value of total deposits in 2002/03 and 2008/09 are 2959.74- 3071.78 and 6444.90- 6564.86 respectively. Similarly the trend value of total deposits of EBL is lower than actual value, which shows the fluctuation in deposits collection. The actual

and trend value of total deposits in 2002/03 and 2008/09 are 6694.96- 3470.95 and 33322.95- 29141.77 respectively.

The trend value of total loans and advances of LBL is higher than actual value, which shows the increasing trend of loans and advances. The actual and trend value of total loans and advances in 2002/03 and 2008/09 are 2622.36- 2685.84 respectively. Similarly, the trend value of total loans and advances of EBL is lower than actual value, which shows the fluctuating trend of loans and advances. The actual and trend value of total loans and advances in 2002/03 and 2008/09 are 5049.51- 3875.34 and 24469.56- 23144.76 respectively.

The trend values of net profit after tax of LBL is lower than actual value because of net profit of 2004/05 and 2005/06 are (196.77) and (806.06). The actual value of net profit is very fluctuating. The actual and trend value of net profit in 2002/03 and 2008/09 are 89.14- (192.17) and 332.21- 179.95 respectively. Similarly, the trend values of net profit after tax of EBL are lower than actual value because its net profit is increasing in irregular trend. The actual and trend value of net profit in 2002/03 and 2008/09 are 94.18- 35.89 and 638.73- 544.75 respectively.

The trend value of EPS of LBL is lower than actual value because of EPS of 2004/05 and 2005/06 are (Rs 39.35) and (Rs 161.21). The actual and trend value of EPS in 2002/03 and 2008/09 are Rs 25.47- (Rs 25.76) and Rs 30.31- Rs 4.48 respectively. However the trend analysis shows but its actual value will be better than trend value in the future. The trend value of EPS of EBL is similar to actual value because their values are around same. The actual and trend value of EPS in 2002/03 and 2008/09 are Rs 29.90- Rs31.06 and Rs 99.99- Rs 101.14 respectively. All trend analysis shows that financial performance of EBL is better than LBL.

4.4.3 Finding from Bankruptcy Score

The calculation of bankruptcy score we find out various facts of the banks. The average bankruptcy score of LBL is greater than EBL.The average bankruptcy score of LBL and EBL are 8.6812 and 4.0099 respectively. So this analysis indicates that EBL is performing well than LBL. There is less chance of bankruptcy of Everest Bank Ltd than Lumbini Bank Ltd.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMEDATIONS

5.1 Summary

Commercial banks are established to improve people's economic welfare and facility and to provide loan to agriculture, industry and commerce and to offer banking services to the people and the country. The modern banking system that we have today passed the several stages before reaching the present stage. Because of the liberal economic policy adopted by the Nepalese Government a number of commercial bank, development bank, financial institution and cooperative are operating today in Nepal. There are all together 26 licensed holder commercial banks and their branches including agricultural bank doing the commercial functions are 752 banks operating in Nepal up to 31st ashad 2066 and 3 commercial banks and various branches in pipe line. Among various commercial banks established in Nepal, Lumbini Bank and Everest Bank are the sample banks of this research study. Inter bank interest rate is increasing trend but interest on loans is not increasing in same trend. So interest spread is low , which make negative impact in profit of bank on the other hand political instability ,labor problem, frequent strikes and regular increasing load shedding are main reason for negative impact in whole financial or economic position of nation.

 The primary objective of the study is to analyze the overall financial performance of LBL and EBL. As per the requirement of the study secondary data has been used to meet the objective of the study. Secondary data were collected from annual Reports of LBL and EBL, library search, daily newspapers, magazine, bulletin and web sites of concern areas. For the procedure of analysis ratio analysis, trend analysis and bankruptcy score for the eight year period is used in which tables and charts were used to obtain a clear performance of the bank, the ratios are expressed in term of time and in term of percentage and trend analysis is used to find out the trend of some very important elements like total deposit, loan and advance, net profit and earning per share on the past data of the bank. This can be used in predicting the future value

of these elements which shows the future condition of the banks. The financial analysis is done to determine the banks financial position in order to identify its current strength and weaknesses and to suggestion that might enable the firm to take advantage of its strengths and correct its weaknesses.

5.2 Conclusion

From the analysis of financial ratio, trend analysis and bankruptcy score, following conclusion have been drawn.

 Current ratio of two banks showed slightly fluctuating trend. The average ratios showed that the banks could not maintain the conventional standard of 2 to 1. The average ratios appeared higher in LBL, which signifies that LBL is more capable of meeting immediate liabilities in contrast to EBL. The average current ratio of LBL and EBL are 1.65 and 1.51 respectively and current ratio of both banks are decreasing trend. The average cash and bank balance to total deposit ratio remained little higher of EBL which reveals that the greater portion of the deposit was held for immediate payment in EBL than IBL. This cash and bank balance to total deposits ratio of LBL and EBL are 12.41% and 12.54% respectively, which ratio are satisfactory. The average cash and bank balance to current deposit ratio of LBL appeared greater than EBL. The ratios of LBL showed more fluctuating trend than EBL. The average cash and bank balance to current deposits ratio of LBL and EBL are 2.41 and 1.29 respectively. So liquidity position of LBL is better than EBL.

Like wise the average cash and bank balance to current assets ratio remained higher in LBL than EBL. The higher average ratio of LBL showed that the bank has held the greater portion of most liquid assets than EBL. The average cash and bank balance to current assets ratio of LBL and EBL are 12.24% and 11.30% respectively; in this study low ratio is desirable so EBL is performing better than LBL. The average loans and advances to current assets ratio of LBL are greater than EBL. The average loans and advances to current assets ratio of LBL and EBL are 89% and 68.09% respectively. The analysis indicates that the disbursement of loans and advances with respect to the current assets is above 65% to below110% over the study period. However loans and advances trend of EBL is preferable than LBL.

Debt – equity ratio of the banks depicted the employment of debt in their capital. Comparatively, capital structure of EBL seemed more leverage than LBL. The ratios of two banks are highly fluctuating. The average debt- equity ratio of LBL and EBL are 113.48% and 49.47% respectively. The analysis indicates that the position of capital of LBL isn't satisfactory because its net worth was negative for the period of 2005/06 to 2006/07. However the bank latest performance is improving trend. On the other hand there is sound position of debt – equity position of EBL. The bank is performing well. Similarly, the average debt- assets ratio of EBL is greater than LBL. The average debt- assets ratio of LBL and EBL are 4.47% and 7.61% respectively. The ratio shows the portion of outsider's fund used in financing total assets. This analysis indicates that the banks have the low debt- assets ratio, which means owners have invested more in the bank than the creditors. Since the banks have been using low portion of debt in the capital structure, it can be concluded that these banks aren't highly leveraged.

Like wise the average interest coverage of EBL is greater than LBL. The earning of LBL is more fluctuating than EBL. The average interest coverage ratio of LBL and EBL are 0.93 and 1.76 respectively. According to the conventional rule, higher ratio is desirable. In this case, EBL seems capable to meet its interest commitments from its profits than LBL. In the year 2005/06 LBL fail to bare the interest which is not good practice in banking. Thus it can be said that the EBL has more margin of safety than LBL.

The average total investments to total deposits ratio of EBL seemed higher than LBL. The average total investments to total deposits ratio of LBL and EBL are 13.30% and 25.63% respectively. The higher ratio indicates efficiency in utilizing total deposits for investments purposes. Likewise, the average loans and advances to total deposits ratio of LBL is greater than EBL. In the banking practice this is the major measuring tools of credit management. The average total loans and advances to total deposits ratio of LBL and EBL are 88.29% and 75.28% respectively. According to the conventional rule in Nepal 70%-90% credit to deposit ratio (C/D ratio) is acceptable. This analysis indicates that the EBL is maintained the standard and LBL has been crossed the standard in the 2004/05, 2005/06 and 2007/08 which is not good banking practice. The average non performing loan to total loans and advances ratio of LBL is

greater than EBL. The ratio of LBL is more fluctuating and greater than EBL. The average non performing loans to total loans and advances ratio of LBL and EBL are 16.12% and 1.23% respectively. In this study low ratio is desirable. The above scenario indicates that the loan recovery process of EBL seemed efficient than LBL. The higher ratio of LBL represents that the asset portfolio management and loan recovery of the bank seemed poor comparing with EBL. Thus, it can be concluded that the high level of NPL of LBL has compelled the banks to bear high amount of risk.

Similarly, the average loan loss provision to total loans and advances ratio of LBL is greater than EBL. There is positive relationship between loans and advances and loan loss provision. When loans and advances of the banks increase, the loan loss provision will also increase. The average loan loss provision to total loans and advances ratio of LBL and EBL are 14.55% and 2.94% respectively. The higher ratio of LBL reveals that the bank has high proportion of non performing loans than EBL. The average interest expenses to total deposit ratio of LBL is greater than EBL. The average interest expenses to total deposits ratio of LBL and EBL are 5.04% and 3.45% respectively. The higher ratio of LBL shows that the bank holds a large portion of interest bearing deposits out of total deposit or the rate of interest on deposit of the bank is more than EBL. In other words this ratio can say cost of total deposit. Like wise, the average interest expenses to total expenses ratio of EBL is greater than LBL, it indicate that the EBL use more outsider fund than LBL. The average interest expenses to total expenses ratio of LBL and EBL are 65.68% and 66.22% respectively.

The average return on shareholders equity ratio of EBL remained greater than LBL. The ratios of LBL were found in very fluctuating trend. The average net profit after tax to net worth or shareholder's equity ratio of LBL and EBL are 14.93% and 22.07% respectively. The higher average ratio of EBL reveals that the bank has utilized the shareholders equity more efficiently than LBL. The average interest income to loans and advances ratio of LBL is greater than EBL. This analysis indicates that higher the ratio is good performance of loan and advance and lower the ratio decrease the profit of the bank. The average interest incomes to total loans and advances ratio of LBL and EBL are 10.32% and 9.42% respectively. However the

performance of the banks from the view of this ratio analysis is satisfactory. The average interest paid to interest earned ratio of LBL is greater than EBL, in this study lower the ratio is desirable. The average interest paid to interest earned ratio of LBL and EBL are 55.49% and 47.96% respectively. As per the above analysis it can be seen that LBL pays more interest to its depositors than EBL.

Like wise the average return on total assets ratio of EBL is greater than LBL. The ratio of LBL is very fluctuating trend. The average net profit after tax to total assets ratio of LBL and EBL are (1.30) % and 1.46% respectively. The performance of LBL is not satisfactory over the study period; however it is improving from last two years. The EBL is performing well because its return is increasing slowly with positive value. The average return on total deposit ratio of EBL is greater than LBL; in this study higher the ratio desirable. The average net profit after tax to total deposits ratio of LBL and EBL are (0.98) % and 1.71% respectively. The ratio of LBL is fluctuating over the study period. This analysis indicates that the net profits after tax are negative position for the 2001/02, 2004/05 and 2005/06. The ratio of EBL is slowly increasing trend, which shows that EBL is more efficient in paying the any obligation than LBL. Similarly the average staff expenses to total income ratio of LBL is greater than EBL; in this study low ratio is desirable. The average staff expenses to total incomes ratio of LBL and EBL are 20.01% and 11.60% respectively. This analysis indicates that the LBL should reduce its staff expenses or increase total income for better performance of the bank.

The trend analysis of total deposits, total loans and advances, net profit after tax and earning per share will help to predict the future position of banks. Trend analysis valuable when one wants to use historical data to predict future or to calculate expected value for comparison to actual current values. Trend analysis is also useful for identifying unexpected variances that may indicate strategic or operational changes or entity weaknesses worthy of additional exploration and analysis. The trend analysis of LBL and EBL of particulars items we know the financial position of these banks.

The bankruptcy score of the banks was found to be inconsistence over the past eight years. The result of the score has put the researcher in difficult position to predict the existence of the bank. However the banks have crossed the limit of bankruptcy score

of 2.675 in the year 2004/05 by LBL and in the year 2005/06 by EBL. Hence, from the point of statistical analysis the solvency of the banks is now better. So now it can be predicted that the chance of failure of banks is very remote.

The analysis of the past performance of the banks indicates that EBL have better financial position than LBL. Last two years before LBL also improving its financial position, this shows the better future of the bank.

5.3 Recommendations

The findings of the study reflect both positive and negative results with respect to the financial performance of sampled banks, the following suggestions and recommendations are made to the banks to improve their financial performance in future:

1) LBL should increase debt financing portion which will help to increase net profit of bank. The analysis indicates that the bank didn't use debt like debenture and bond etc; it debt refers only outstanding loans and bills payable.

2) The banks should try to increase non interest bearing deposits.

3) The banks are recommended to diversify the portfolio of loans and advances rather than concentrating only on few sectors of the business.

4) This is the age of competition banks should be able to survive in the competitive market. Therefore for attraction of the deposits, they should bring different attractive programmed, facilities, technology etc. like ATM, VISA card, attractive schemes, 365 days banking services, prompt services, advertisements etc.

5) LBL should decrease its non performing loans position. On one hand, it should strictly study the viability of the projects before disbursing the loans. On the other hand, it should strengthen the loan recovery process. Likewise, EBL should keep non performing loans in the constant position. It will create problem if the non performing loans position of the EBL increase.

6) The banks should encourage each and every level of customers for deposits, borrowing and other services. However banks are suggested to invite higher foreign investment for its sustainable financial status as well as commercial development. Bank should avoid weaknesses by applying appropriate financial

policy, which will help to maintain its status in terms of financial performance in future.

7) Shareholders are the owners of the banks. They should be satisfied. So, a responsibility of the banks is to maximize the owners' welfare. During the study period, it can be seen that LBL has been yielding lower and negative return on shareholders' equity or net worth than EBL. Thus, LBL should utilize the shareholders' equity more efficiently.

8) The banks should go on to strengthen their human resource by giving practical training from time to time. The banks should give special attention to improve the efficiency of their human resource since human source is taken as the heart of the organization.

9) The banks should focus on quality service and productivity growth. The banks should continue its regular function and increase bank's net profit through identify new sources of income.

10) The banks should reduce its service time and cost through effective information technology for providing the modern service increase and service provide.

11) In the wake of growing competition in the field of banking business, the bank should formulate new strategies of serving of client oriented. The banks should strengthen and activate its marketing function, as it is an effective tool of reaching at and retaining customers. The procedures of the delivery of service should be simplified and to be convenient.

12) The banks not only focus on profit maximization but also focus on stability of transaction and profit position. This policy will help to increase return on shareholders equity.

13) The banks should decrease average interest rate through increasing base of customers.

14) The banks should special focus on customer loans to reduce loans related risk, through improving average return rate of investments.

15) The banks should make effective internal control system and strong internal working system. The banks should develop friendly and business relation will its all related parties. Like this relation will help to promote the business of the bank.

16) Profit is a key of success of any business. The any company cannot survive without the profit. Therefore they should keep in the mind for profit

maximization. But for long term business bank also should consider about shareholder's wealth maximization and customers satisfaction. LBL is not successful as EBL to earn net profit. LBL should invest its deposits in different portfolio management basically means of allocation of funds into different components of banking assets having different degrees of risk and varying rate of return in such a way that the conflicting goal of maximum yield and minimum risk. So, portfolio condition of each bank should be made to maintain equilibrium in the portfolio condition as ear as possible keeping the statement in mind all eggs should not be kept in the same basket.

17) The earning per share is the indicator for the share prices of the economy. Higher earning per share attracts the investors and makes the investor more confident on the investment of the company. Earning per share of LBL is not so good. Therefore, the bank is recommended to use its new strategies to make earning per share increase.

Bank plays a vital role in development of economy of the country. However all the banks have satisfactory performance, there is situation of inflation which is a cause of narrow scope operation. Therefore NRB has to come with strong supervision and monitoring with one window service in lending and investment activities. Banks have to prove that they are the potential contributors to the national economy ensuring adequate rate of return on investment, efficient and viable agencies for mobilization of saving and its channels into productive sectors and strategically well planned to be competitive with banks and other agencies are trust worthy.

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ANNEXES

Trend Analysis

Trend Analysis of Total Deposits, Loans and Advances, Net Profit after Tax and Earning per Share of LBL and EBL

Annex: 1

Trend Analysis of Total Deposits of Lumbini Bank Ltd

Rs in million

Fiscal Year(x)	Total Deposits (Y) (Actual Value)	Year(X) = x-2005/06	X^2	XY	Yc = a + bX (Trend Value)
2002/03	2959.74	-3	9	(8879.22)	3071.78
2003/04	3777.61	-2	4	(7555.22)	3653.96
2004/05	4031.22	-1	1	(4031.22)	4236.14
2005/06	4786.44	0	0	0	4818.32
2006/07	6024.60	1	1	6024.60	5400.50
2007/08	5703.73	2	4	11407.46	5982.68
2008/09	6444.90	3	9	19334.70	6564.86
Total	**Y = 33728.24**	**X = 0**	**X^2 = 28**	**XY = 16301.10**	
2009/10		4			7147.04
2010/11		5			7729.22
2011/12		6			8311.40
2012/13		7			8893.58
2013/14		8			9475.76

Calculation of a and b value

Since, X = 0

Let the straight line trend equation between Y and X be given by;

Y = a + bX …………… (1)

Where,

Y = Values of Total Deposits

a = Total Deposits

b = Rate of Change of Total Deposits

X = Year

$$a = \frac{\sum Y}{N} = \frac{33728.24}{7} = 4818.32$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{16301.10}{28} = 582.18$$

Put the value of a and b in equation (1)

If the X = 2009/10

Then Y = 4818.32 +582.18*4

        = 7147.04

Likewise remaining year's value calculated.

Annex: 2

Trend Analysis of Total Deposits of Everest Bank Ltd

Rs in million

Fiscal Year(x)	Total Deposits(Y) (Actual Value)	Year(X) = x-2005/06	X^2	XY	Yc = a + bX (Trend value)
2002/03	6694.96	-3	9	(20084.88)	3470.95
2003/04	8063.90	-2	4	(16127.80)	7749.42
2004/05	10097.69	-1	1	(10097.69)	12027.89
2005/06	13802.44	0	0	0	16306.36
2006/07	18186.25	1	1	18186.25	20584.83
2007/08	23976.30	2	4	47952.60	24863.30
2008/09	33322.95	3	9	99968.85	29141.77
Total	**Y=114144.49**	**X= 0**	**X^2 = 28**	**XY= 119797.33**	
2009/10		4			33420.24
2010/11		5			37698.71
2011/12		6			41977.18
2012/13		7			46255.65
2013/14		8			50534.12

Calculation of a and b value

Since,   X=0

Let the straight line trend equation between Y and X be given by;

Y = a + bX…………… (1)

Where,

Y = Values of Total Deposits

a = Total Deposits

b = Rate of Change of Total Deposits

X = Year

$$a = \frac{\sum Y}{N} = \frac{114144.49}{7} = 16306.36$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{119797.33}{28} = 4278.47$$

Put the value of a and b in equation (1)

If the X = 2009/10

Then Y = 16306.36 +4278.47*4

$\qquad$ = 33420.24

Likewise remaining year's value calculated.

Annex: 3

Trend Analysis of Loans and Advances of Lumbini Bank Ltd

$\qquad$ Rs in million

Fiscal Year(x)	Loans and Advances (Y) (Actual Value)	Year X = x-2005/06	X^2	XY	Yc = a + bX (Trend Value)
2002/03	2622.36	-3	9	(7867.08)	2685.84
2003/04	3222.74	-2	4	(6445.48)	3211.75
2004/05	3685.13	-1	1	(3685.13)	3737.66
2005/06	4321.59	0	0	0	4263.57
2006/07	4944.50	1	1	4944.50	4789.48
2007/08	5367.31	2	4	10734.62	5315.39
2008/09	5681.39	3	9	17044.17	5841.30
Total	**Y = 29845.02**	**X = 0**	**X^2 = 28**	**XY = 14725.60**	
2009/10		4			6367.21
2010/11		5			6893.12
2011/12		6			7419.03
2012/13		7			7944.94
2013/14		8			8470.85

Calculation of a and b value

Since, X=0

Let the straight line trend equation between Y and X be given by;

Y = a + bX…………… (1)

Where,

Y = Values of Total Loans and Advances

a = Total Loans and Advances

b = Rate of Change of Total Loans and Advances

X = Year

$$a = \frac{\sum X}{N} = \frac{29845.02}{7} = 4263.57$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{14725.60}{28} = 525.91$$

Put the value of a and b in equation (1)

If the X = 2009/10

Then Y = 4263.57 +525.91*4

= 6367.21

Likewise remaining year's value calculated.

Annex: 4

Trend Analysis of Loans and Advances of Everest Bank Ltd

Rs in million

Fiscal Year (x)	Loans and Advances (Y) (Actual Value)	Year (X) = x-2005/06	X^2	XY	Yc = a + bX (Trend Value)
2002/03	5049.54	-3	9	(15148.53)	3875.34
2003/04	6045.84	-2	4	(12191.68)	7086.91
2004/05	7900.09	-1	1	(7900.09)	10298.48
2005/06	18136.25	0	0	0	13570.05
2006/07	14082.69	1	1	14082.69	16721.62
2007/08	18836.43	2	4	37672.86	19933.19
2008/09	24469.56	3	9	73408.68	23144.76
Total	**Y = 94750.37**	**X = 0**	**X^2 = 28**	**XY = 89923.93**	
2009/10		4			26356.33
2010/11		5			29567.90
2011/12		6			32779.47
2012/13		7			35991.04
2013/14		8			39202.61

Calculation of a and b value

Since, X=0

Let the straight line trend equation between Y and X be given by;

Y = a + bX…………… (1)

Where,

Y = Values of Total Loans and Advances

a = Total Loans and Advances

b = Rate of Change of Total Loans and Advances

X = Year

$$a = \frac{\sum Y}{N} = \frac{94570.37}{7} = 13510.05$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{89923.93}{28} = 3211.57$$

Put the value of a and b in equation (1)

If the X = 2009/10

Then Y = 13510.05 +3211.57*4

    = 26356.33

Likewise remaining year's value calculated.

Annex: 5

Trend Analysis of Net Profit after Tax of Lumbini Bank Ltd

Rs in million

Fiscal Year (x)	Net Profit after Tax(Y) (Actual Value)	Year (X) = x-2005/06	X^2	XY	$Yc = a + bX$ (Trend Value)
2002/03	89.14	-3	9	(267.42)	(192.17)
2003/04	18.63	-2	4	(37.26)	(130.15)
2004/05	(196.77)	-1	1	196.77	(68.13)
2005/06	(806.06)	0	0	0	(6.11)
2006/07	192.40	1	1	192.40	55.91
2007/08	327.65	2	4	655.30	117.93
2008/09	332.21	3	9	996.63	179.95
Total	**Y = (42.80)**	**X = 0**	**X^2 = 28**	**XY = 1736.42**	
2009/10		4			241.97
2010/11		5			303.99
2011/12		6			366.01
2012/13		7			428.03
2013/14		8			490.05

 Calculation of a and b value

Since,   X=0

Let the straight line trend equation between Y and X be given by;

Y = a + bX…………… (1)

Where,

Y = Values of Net Profit after Tax

a = Net Profit after Tax

b = Rate of Change of Net Profit after Tax

X = Year

$$a = \frac{\sum Y}{N} = \frac{(42.40)}{7} = (6.11)$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{1736.42}{28} = 62.02$$

Put the value of a and b in equation (1)

If the X = 2009/10

Then Y = (6.11) +62.02*4

= 241.97

Likewise remaining year's value calculated.

Annex: 6

Trend Analysis of Net Profit after Tax of Everest Bank Ltd

Rs in million

Fiscal Year (x)	Net Profit after Tax(Y) (Actual Value)	Year (X) = x-2005/06	X^2	XY	Yc = a +bX (Trend Value)
2002/03	94.18	-3	9	(282.54)	35.89
2003/04	143.57	-2	4	(287.14)	120.70
2004/05	170.81	-1	1	(170.81)	205.51
2005/06	237.29	0	0	0	290.32
2006/07	296.41	1	1	296.41	375.13
2007/08	451.22	2	4	902.44	459.94
2008/09	638.73	3	9	1916.19	544.75
Total	**Y = 2032.21**	**X = 0**	**X^2 = 28**	**XY = 2374.55**	
2009/10		4			629.56
2010/11		5			714.37
2011/12		6			799.18
2012/13		7			883.99
2013/14		8			968.80

Calculation of a and b value

Since, X=0

Let the straight line trend equation between Y and X be given by;

Y = a + bX…………… (1)

Where,

Y = Values of Net Profit after Tax

a = Net Profit after Tax

b = Rate of Change of Net Profit after Tax

X = Year

$$a = \frac{\sum Y}{N} = \frac{2032.21}{7} = 290.32$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{2374.55}{28} = 84.81$$

Put the value of a and b in equation (1)

If the X = 2009/10

Then Y = 290.32 +84.81*4

= 629.56

Likewise remaining year's value calculated.

Annex: 7

Trend Analysis of Earning per Share of Lumbini Bank Ltd

Rs in rupees

Fiscal Year (x)	Earning per Share (Y) (Actual Value)	Year (X) = x-2005/06	X^2	XY	Yc = a + bX (Trend Value)
2002/03	25.47	-3	9	(76.41)	(25.76)
2003/04	5.33	-2	4	(10.66)	(20.72)
2004/05	(39.35)	-1	1	39.35	(15.68)
2005/06	(161.21)	0	0	0	(10.64)
2006/07	32.07	1	1	32.07	(5.60)
2007/08	32.91	2	4	65.82	(0.56)
2008/09	30.31	3	9	90.93	4.48
Total	**Y = (74.47)**	**X = 0**	**X^2 = 28**	**XY= 141.10**	
2009/10		4			9.52
2010/11		5			14.56
2011/12		6			19.60
2012/13		7			24.64
2013/14		8			29.68

Calculation of a and b value

Since,   X=0

Let the straight line trend equation between Y and X be given by;

Y = a + bX…………… (1)

Where,

Y = Values of Earning Per Share

a = Earning Per Share

b = Rate of Change of Earning Per Share

X = Year

$$a = \frac{\sum Y}{N} = \frac{(74.47)}{7} = (10.64)$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{141.10}{28} = 5.04$$

Put the value of a and b in equation (1)

If the X = 2009/10

Then Y = (10.64) +5.04*4

= 9.52

Likewise remaining year's value calculated.

Trend Analysis of Earning per Share of Everest Bank Ltd

Rs in rupees

Fiscal Year (x)	Earning Per Share (Y) (Actual Value)	Year (X) = x-2005/06	X^2	XY	Yc = a + bX (Trend Value)
2002/03	29.90	-3	9	(89.70)	31.06
2003/04	45.60	-2	4	(91.20)	42.74
2004/05	54.22	-1	1	(54.22)	54.42
2005/06	62.78	0	0	0	66.10
2006/07	78.42	1	1	78.42	77.78
2007/08	91.82	2	4	183.64	89.46
2008/09	99.99	3	9	299.97	101.14
Total	**Y = 462.73**	**X = 0**	**X^2 = 28**	**XY=326.91**	
2009/10		4			112.82
2010/11		5			124.50
2011/12		6			136.18
2012/13		7			147.86
2013/14		8			159.54

Calculation of a and b value

Since,   X=0

Let the straight line trend equation between Y and X be given by;

Y = a + bX…………… (1)

Where,

Y = Values of Earning Per Share

a = Earning Per Share

b = Rate of Change of Earning Per Share

X = Year

$$a = \frac{\sum Y}{N} = \frac{462.73}{7} = 66.10$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{326.91}{28} = 11.68$$

Put the value of a and b in equation (1)

If the X = 2009/10

Then Y = 66.10 +11.68*4

    = 9.52

Likewise remaining year's value calculated.

Bankruptcy Score

a) Calculation of X_1 (Net Working Capital/Total Assets)

Where,
Net Working Capital = Total Current Assets – Total Current Liabilities

Annex: 9
Calculation of Net Working Capital and X_1 of Lumbini Bank Ltd

Rs in million

Year	Total Current Assets	Total Current Liabilities	Net Working Capital	Total Assets	Ratio (X_1)
2001/02	2717.72	1198.99	1518.73	3061.65	0.4960
2002/03	3001.13	1354.17	1745.96	3440.17	0.5075
2003/04	3974.58	2238.19	1736.39	4364.20	0.3978
2004/05	4001.37	2110.16	1891.21	4494.90	0.4207
2005/06	3963.02	3165.04	797.98	4259.34	0.1873
2006/07	5432.75	4481.18	951.57	5705.03	0.1667
2007/08	5931.34	4981.57	949.77	6151.48	0.1543
2008/09	7139.04	5484.05	1654.99	7647.90	0.2192

Annex: 10

Calculation of Net Working Capital and X_1 of Everest Bank Ltd

Rs in million

Year	Total Current Assets	Total Current Liabilities	Net Working Capital	Total Assets	Ratio (X_1)
2001/02	6175.99	3374.40	2801.59	6616.90	0.4233
2002/03	7647.38	4644.64	3002.74	8052.21	0.3729
2003/04	9169.80	6030.29	3139.51	9608.57	0.3267
2004/05	11338.95	7618.55	3720.40	11792.13	0.3154
2005/06	14969.85	10454.12	4557.73	15959.28	0.2829
2006/07	20760.13	14304.40	6455.73	21432.57	0.3012
2007/08	26174.66	18481.92	7692.74	27149.34	0.2833
2008/09	35195.09	26984.67	8210.42	36916.85	0.2224

b) Calculation of Retained Earnings to Total Assets Ratio or X_2

Annex: 11

Retained Earnings to Total Assets Ratio or X_2 of Lumbini Bank Ltd

Rs in million

Year	Retained Earning	Total Assets	Ratio(X_2)
2001/02	(162.70)	3061.65	(0.0531)
2002/03	(91.90)	3440.17	(0.0267)
2003/04	(79.85)	4364.20	(0.0182)
2004/05	(276.62)	4494.90	(0.0615)
2005/06	(1245.37)	4259.34	(0.2923)
2006/07	(1091.45)	5705.03	(0.1913)
2007/08	(829.33)	6151.48	(0.1348)
2008/09	(336.78)	7647.90	(0.0446)

Annex: 12

Retained Earnings to Total Assets Ratio or X_2 of Everest Bank Ltd

Rs in million

Year	Retained Earning	Total Assets	Ratio (X_2)
2001/02	72.93	6616.90	0.0110
2002/03	40.85	8052.21	0.0050
2003/04	46.90	9608.57	0.0048
2004/05	70.53	11792.13	0.0059
2005/06	108.64	15959.28	0.0068
2006/07	130.55	21432.57	0.0060
2007/08	83.75	27149.34	0.0031
2008/09	82.44	36916.85	0.0022

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c) Calculation of Earning Before Interest and Tax to Total Assets Ratio or X_3

Annex: 13

Earning Before Interest and Tax to Total Assets Ratio or X_3 of Lumbini Bank Ltd

Rs in million

Year	EBIT	Total Assets	Ratio (X_3)
2001/02	72.53	3061.65	0.0236
2002/03	275.62	3440.17	0.0801
2003/04	237.73	4364.20	0.0545
2004/05	31.90	4494.90	0.0071
2005/06	(578.36)	4259.34	(0.1357)
2006/07	489.48	5705.03	0.0857
2007/08	638.70	6151.48	0.1038
2008/09	669.62	7647.90	0.0887

Annex: 14

Earning Before Interest and Tax to Total Assets Ratio or X_3 of Everest Bank Ltd

Rs in million

Year	EBIT	Total Assets	Ratio (X_3)
2001/02	384.44	6616.90	0.0580
2002/03	443.53	8052.21	0.0550
2003/04	527.48	9608.57	0.0548
2004/05	549.69	11792.13	0.0466
2005/06	745.44	15959.28	0.0467
2006/07	957.94	21432.57	0.0447
2007/08	1300.74	27149.34	0.0479
2008/09	1928.47	36916.85	0.0522

d) Calculation of Total Market Value of Stock to Book Value of Debt Ratio or X_4

Annex: 15

Total Market Value of Stock to Total Book Value of Debt Ratio or X_4 of Lumbini Bank Ltd

Rs in million

Year	Total Market Value of Stock	Total Book Value of Debt	Ratio (X_4)
2001/02	0	226.83	0
2002/03	0	202.57	0
2003/04	0	290.11	0
2004/05	900	218.67	4.12
2005/06	860	194.97	4.41
2006/07	3030	110.09	27.52
2007/08	6282.93	154.05	40.78
2008/09	4767.94	149.91	31.80

Annex: 16

Total Market Value of Stock to Total Book Value of Debt Ratio or X_4 of Everest Bank Ltd

Rs in million

Year	Total Market Value of Stock	Total Book Value of Debt	Ratio (X_4)
2001/02	1825.57	619.38	2.2858
2002/03	1415.75	744.42	2.0711
2003/04	2282	864.35	2.6401
2004/05	2880.50	924.82	3.1147
2005/06	5352.62	1194.03	4.4828
2006/07	9325.40	2044.81	4.5605
2007/08	15730.65	1251.81	12.5664
2008/09	16023.06	1390.28	11.5250

e) Calculation of Total Investment to Total Assets Ratio or X_5

Annex: 17

Total Investment to Total Asset Ratio or X_5 of Lumbini Bank Ltd

Rs in million

Year	Total Investments	Total Assets	Ratio (X_5)
2001/02	269.87	3061.65	0.0881
2002/03	382.75	3440.17	0.1113
2003/04	558.19	4364.20	0.1279
2004/05	535.18	4494.90	0.1191
2005/06	673.99	4259.34	0.1581
2006/07	864.33	5705.03	0.1515
2007/08	817.47	6151.48	0.1329
2008/09	803.62	7547.87	0.1065

Annex: 18

Total Investment to Total Asset Ratio or X_5 of Everest Bank Ltd

Rs in million

Year	Total Investments	Total Assets	Ratio (X_5)
2001/02	1693.04	6616.90	0.2558
2002/03	1653.98	8052.21	0.2054
2003/04	2535.66	9608.57	0.2215
2004/05	2128.93	11792.13	0.2150
2005/06	4200.52	15959.28	0.2632
2006/07	4984.31	21432.57	0.2325
2007/08	5059.56	27149.34	0.1864
2008/09	5948.48	36916.85	0.1611

Annex: 19

Balance Sheet of Lumbini Bank Limited

Liabilities	2001/02	2002/03	2003/04	2004/05
Share Capital	350,000,000	350,000,000	350,000,000	500,000,000
Reserve Fund	(161,290,511)	(72,151,383)	(53,511,709)	(254,991,004)
Borrowings	121,471,506	90,000,000	164,719,000	-
Deposit Liabilities	2,646,106,974	2,959,744,445	3,777,605,223	4,031,220,989
Bills Payable	7,675,029	10,683,881	4,574,393	60,517,365
Other Liabilities	97,687,035	101,891,048	120,817,804	158,154,009
Total Liabilities	**3,061,650,033**	**3,440,167,991**	**4,364,204,711**	**4,494,901,359**
Assets				
Cash Balance	98,615,534	83,852,591	114,708,814	103,230,924
Balance with Banks	433,770,847	249,712,315	416,422,326	267,601,351
Balance with Financial Institutions	-	-	-	48,181,184
Money at Call	-	50,000,000	30,000,000	-
Investments	269,871,000	382,750,243	558,187,601	535,184,566
Loans, Advances and Bills Purchases	2,085,332,320	2,441,639,355	2,980,397,657	3,167,723,667
Fixed Assets	36,526,177	37,240,473	40,079,428	48,344,770
Other Assets	137,534,155	194,973,013	224,208,885	324,634,897
Total Assets	**3,061,650,033**	**3,440,167,991**	**4,364,204,711**	**4,494,901,359**

Balance Sheet of Lumbini Bank Limited

Liabilities	2005/06	2006/07	2007/08	2008/09
Share Capital	500,000,000	600,000,000	995,710,100	10,960,700,500
Reserve Fund	(1,222,069,661)	(1,029,665,169)	(702,016,312)	(143,026,696)
Borrowings	-	23,513,901	-	19,537,500
Deposit Liabilities	4,786,440,191	6,024,598,406	5,703,733,802	6,444,903,720
Bills Payable	104,584,869	14,260,317	29,075,428	17,915,802
Income Tax Liabilities	7,495,737	-	-	-
Other Liabilities	90,387,645	72,318,125	124,974,662	112,460,838
Total Liabilities	**4,259,343,044**	**5,705,025,580**	**6,151,477,680**	**7,547,869,660**
Assets				
Cash Balance	133,384,231	138,478,207	146,315,752	168,146,078
Balance with Banks	178,328,639	280,521,258	411,340,652	749,886,120
Balance with Financial Institutions	90,421,057	81,808,186	84,944,838	76,828,186
Money at Call	50,000,000	295,605,000	67,714,156	441,800,692
Investments	637,719,945	864,337,323	817,471,380	803,624,880
Loans, Advances and Bills Purchases	2,983,895,391	3,840,686,743	4,489,493,956	4,983,388,082
Fixed Assets	41,996,097	42,700,811	41,287,553	46,167,052
Non-Banking Assets	49,401,811	73,752,024	57,147,393	16,046,000
Other Assets	58,195,873	87,136,028	35,762,000	261,982,570
Total Assets	**4,259,343,044**	**5,705,025,580**	**6,151,477,680**	**7,547,869,660**

Statement of Income of Lumbini Bank Ltd

Income	2001/02	2002/03	2003/04	2004/05
Interest Income	266,378,160	308,680,133	361,239,927	384,598,218
Commission and Discount	8,259,538	13,034,415	14,382,553	13,935,412
Foreign Exchange Gain	4,996,725	6,560,159	18,502,778	12,293,654
Other Operating Income	5,704,217	7,664,786	7,085,320	14,348,678
Total Income	**285,338,641**	**335,939,493**	**401,183,578**	**425,175,962**
Expenses				
Interest Expenses	170,498,920	186,483,709	197,321,966	193,474,897
Employees Expenses	24,168,529	29,470,305	36,396,348	37,083,822
Office Overhead	37,861,192	41,181,029	48,021,909	50,384,600
Provision Expenses	150,780,541	(20,239,027)	73,375,070	303,411,648
Bonus Expenses	-	9,904,348	4,489,284	-
Non Operating Expenses	2,020	-	1,175,450	2,288,894
Bad Debt Written Off	-	-	-	109,093
Provision for Tax	-	-	21,763,878	35,195,737
Total Expenses	**383,311,202**	**246,800,364**	**382,543,905**	**621,948,691**
Net Profit/Loss	**(97,972,561)**	**89,139,129**	**18,639,673**	**(196,772,729)**

Annex: 22

Statement of Income of Lumbini Bank Ltd

Particulars	2005/06	2006/07	2007/08	2008/09
1.Interest Income	343,821,148	458,649,067	535,800,783	580,437,992
2. Interest Expenses	215,553,238	264,765,149	260,390,417	264,426,375
Net Interest Income	128,267,910	193,883,918	275,410,366	316,011,617
3. Commission & Discount	16,581,845	24,025,997	22,253,201	23,490,076
4. Other Operating Income	14,577,627	49,681,428	39,184,637	104,227,709
5. Foreign Exchange Gain	20,866,187	13,737,412	14,245,451	25,704,560
Total Operating Income	180,293,569	281,328,755	351,093,655	469,433,962
6. Employee Expenses	48,581,387	59,937,746	59,171,954	77,349,340
7. Other Operating Expenses	70,392,053	68,683,291	71,612,638	78,452,878
Operating Profit Before Provision for Possible Loss	61,320,129	152,707,718	220,309,063	313,631,744
8. Provision for Possible Loss	855,593,357	217,858,882	164,627,982	66,182,259
Operating Profit	(794,273,227)	(65,151,164)	55,681,081	247,449,485
9. Non Operating Income/(Expenses)	(1,057,956)	1,199,859	(931,568)	(2,565,811)
10. Loan Loss Provision Written-back	9,412,584	414,559,469	359,926,626	284,929,565
Profit from Regular Activities	(785,918,599)	350,608,154	414,676,139	529,813,239
11. Profit/(Loss) from Extra-ordinary Activities	(9,412,584)	(109,243,029)	5,359,407	(17,614,577)
Profit before Bonus & Taxes	(795,331,183)	241,365,125	420,035,546	512,198,662
12. Provision for Staff Bonus	-	21,942,284	38,185,050	46,563,515
13. Provision for Income Tax	10,731,440	27,018,349	54,201,639	133,428,772
Net Profit/(Loss)	**(806,062,623)**	**192,404,492**	**327,648,857**	**332,206,375**

Balance Sheet of Everest Bank Ltd

Liabilities	2001/02	2002/03	2003/04	2004/05
Share Capital	399,318,600	455,000,000	455,000,000	455,000,000
Reserve Fund	131,591,265	157,824,701	225,318,543	314,617,365
Debenture and Bond	-	-	-	-
Borrowings	81,767,000	-		300,000,000
Deposits Liabilities	5,466,609,805	6,694,963,060	8,063,902,086	10,097,690,989
Bills Payable	2,128,745	22,101,054	22,027,038	17,777,860
Proposed and Outstanding Dividend	-	-	-	-
Income Tax Liabilities	-	-	-	-
Other Liabilities	535,482,885	722,320,310	842,323,194	607,039,795
Total Liabilities	**6,616,898,300**	**8,052,209,125**	**9,608,570,861**	**11,792,126,009**
Assets				
Cash Balance	177,211,202	136,658,509	128,757,118	192,590,297
Balance With NRB	367,427,796	730,330,780	442,243,223	779,669,004
Balance with Bank /Financial Institutions	57,846,034	272,579,487	60,804,590	77,729,907
Money at Call	86,130,000	-	187,445,000	570,000,000
Investments	1,693,036,796	1,653,977,060	2,535,657,694	2,128,931,852
Loans , Advances and Bills Purchase	3,948,478,042	4,908,460,647	5,884,122,609	7,618,671,476
Fixed Assets	93,383,102	109,590,594	118,374,628	134,068,090
Other Assets	193,385,328	240,612,048	251,165,999	290,465,383
Total Assets	**6,616,898,300**	**8,052,209,125**	**9,608,570,861**	**11,792,126,009**

Balance Sheet of Everest Bank Ltd

Liabilities	2005/06	2006/07	2007/08	2008/09
Share Capital	518,000,000	518,000,000	831,400,000	838,821,000
Reserve Fund	444,808,301	683,515,266	1,089,837,580	1,364,804,055
Debenture and Bond	300,000,000	300,000,000	300,000,000	300,000,000
Borrowings	-	-	-	312,000,000
Deposits Liabilities	13,802,444,988	18,186,253,541	23,976,298,535	33,322,946,246
Bills Payable	15,805,995	26,776,480	49,429,700	148,655,592
Proposed and Outstanding Dividend	114,666,758	68,146,323	140,790,370	230,524,766
Income Tax Liabilities	15,278,110	-	41,143,107	20,522,280
Other Liabilities	763,558,645	1,634,604,580	720,443,592	378,574,715
Total Liabilities	**15,959,284,687**	**21,432,574,300**	**27,149,342,884**	**36,916,848,654**
Assets				
Cash Balance	259,347,645	534,996,791	822,989,425	944,695,793
Balance With NRB	1,139,514,873	1,178,198,197	1,080,914,554	4,787,163,541
Balance with Bank /Financial Institutions	154,104,976	678,225,606	764,067,851	432,511,829
Money at Call	66,960,000	-	346,000,000	-
Investments	4,200,515,220	4,984,314,586	5,059,557,544	5,948,480,273
Loans , Advances and Bills Purchase	9,801,307,676	13,664,081,664	18,339,085,562	23,884,673,616
Fixed Assets	152,089,805	170,097,452	360,512,480	427,157,451
Other Assets	178,007,850	222,660,004	376,215,468	492,166,151
Total Assets	**15,959,284,687**	**21,432,574,300**	**27,149,342,884**	**36,916,848,654**

Annex: 25

Statement of Income of Everest Bank Ltd

	Particulars	2001/02	2002/03	2003/04	2004/05
1.	Interest Income	443,820,894	520,173,468	657,249,073	719,297,855
2.	Interest Expenses	257,051,215	307,638,902	316,366,263	299,565,269
	Net Interest Income	186,769,679	212,534,566	340,882,810	419,732,586
3.	Commission and Discount	36,772,876	61,503,871	74,331,079	78,130,046
4.	Other Operating Income	13,782,812	20,198,007	23,817,848	31,479,208
5.	Exchange Income	45,413,926	32,207,956	27,793,563	27,077,784
	Total Operating Income	282,739,293	326,444,400	466,825,300	556,419,624
6.	Staff Expenses	32,186,817	37,367,961	48,530,293	60,597,367
7.	Other Operating Expenses	79,029,825	93,585,169	103,807,528	129,067,225
8.	Exchange Loss	-	-	-	-
	Operating Profit Before Provision for Possible Losses	171,522,651	195,491,270	314,487,479	366,755,032
9.	Provision for Possible Losses	34,728,854	45,746,389	81,779,696	88,926,593
	Operating Profit	136,793,797	149,744,881	232,707,783	277,828,439
10.	Non-Operating Income/Loss	1,140,618	1,249,046	1,867,192	2,974,088
11.	Write-back from Loan Loss Provision	-	-	-	-
	Profit from regular activities	137,934,415	150,993,927	234,574,975	280,802,527
12.	Profit/Loss from transaction of extraordinary nature	-	-	-	-
	Profit after inclusion of all transaction	137,934,415	150,993,927	234,574,975	280,802,527
13.	Provision for Staff Bonus	14,153,805	15,099,393	23,457,497	28,080,253
14.	Provision for Income Tax	38,433,164	41,714,106	67,550,795	81,914,477
	Current Tax for the Year	-	-	-	-
	Deferred Tax	-	-	-	-
	For Previous Year	-	-	-	-
	Net Profit/Loss	**85,347,446**	**94,180,428**	**143,566,683**	**170,807,797**

Annex: 26

Statement of Income of Everest Bank Ltd

	Particulars	2005/06	2006/07	2007/08	2008/09
1.	Interest Income	903,411,137	1,144,408,308	1,548,657,132	2,186,814,992
2.	Interest Expenses	517,166,241	401,397,351	632,609,264	1,012,874,353
	Net Interest Income	502,013,786	627,242,067	916,047,868	1,173,940,639
3.	Commission and Discount	88,163,454	117,718,162	150,264,074	202,094,446
4.	Other Operating Income	48,902,381	67,967,525	79,133,767	106,403,694
5.	Exchange Income	23,073,780	28,404,544	64,452,378	62,526,819
	Total Operating Income	662,153,401	841,332,298	1,209,898,087	1,544,965,598
6.	Staff Expenses	662,153,401	86,118,226	157,957,084	186,919,870
7.	Other Operating Expenses	143,562,167	177,545,649	233,766,645	292,010,522
8.	Exchange Loss	-	-	-	-
	Operating Profit Before Provision for Possible Losses	447,666,559	577,668,423	818,174,358	1,066,035,206
9.	Provision for Possible Losses	70,465,665	89,695,764	99,340,505	93,084,880
	Operating Profit	377,200,894	487,972,659	718,833,853	972,950,326
10.	Non-Operating Income/Loss	2,959,467	1,315,211	4,519,287	5,005,256
11.	Write-back from Loan Loss Provision	-	11,686,657	20,201,067	8,044,170
	Profit from regular activities	380,160,361	500,974,527	743,554,208	985,999,752
12.	Profit/Loss from transaction of extraordinary nature	-	(795,224)	(18,998,727)	(5,549,170)
	Profit after inclusion of all transaction	380,160,361	500,179,303	724,555,481	980,450,582
13.	Provision for Staff Bonus	34,560,033	45,470,846	65,868,681	89,131,871
14.	Provision for Income Tax	-	-	-	-
	Current Tax for the Year	106,753,311	144,368,164	216,913,302	276,864,301
	Deferred Tax	-	-	(9,445,115)	(24,278,347)
	For Previous Year	1,556,081	13,931,012	-	-
	Net Profit/Loss	**237,290,936**	**296,409,281**	**451,218,613**	**638,732,757**