CHAPTER I

INTRODUCTION

1.1 Introduction

Today, industries and business enterprises are being established for the overall development of the nation. Just as educational development is the basis to be literate, so as establishment of industries and business enterprise is the basis of development of the nation. In developing country like Nepal, establishment of business enterprises is the development of infrastructure of the nation. On one hand, manufacturing Companies are being established and on the other hand, financial institutions are also being established to support the manufacturing industries in various sectors. No organizations can survive without financial support. With the speed of time and condition, risks in different sectors are also increasing day by day. Thus, to support in financial matters and to minimize the risk of business, various types of financial intuitions have been emerged.

Literally speaking, all institutions involved in some sort of financial activities are considered as financial institutions. “The financial institutions in Nepal refer to any institution established with the objective of providing loan to agriculture, co-operative, industry or any other specific economic sector or of accepting deposit from the general public. This term also refers to any other institution called financial institution by HMG by publishing a notice in Nepal Gazette. However, the term does not signify commercial bank”(HMG,2012). Financial institutions are grouped as banking financial institutions and non-banking financial institutions. Insurance companies are especially non-banking financial institutions.

Insurance, in law and economics, is a form of risk management primarily used to hedge against the risk of a contingent loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for a premium. Insurer, in economics, is the company that sells the insurance. Insurance rate is a factor used to determine the amount, called the premium, to be charged for a certain amount of insurance coverage. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.

1.2 Concept

In the beginning of civilization, the number of business, transactions were limited and they had taken a very small place. Business transaction could be recorded by the businessman himself. With the moves of times and advancement of human civilization, business activities have also been growing rapidly. No businessman can keep the record of daily transactions and interpret the component to identify the real financial picture of financial ability of the organization at present. In early days, the capital markets were relatively insufficient and unaware for the collection of funds from the individuals.

Financial performance contains summarized information of the firm's financial affairs organized and systematically. The level of chief executive requires the financial performance to see the actual financial situation of the firm to owners, creditors and the general public. To know the financial performance of the firm, balance sheet and income statement (profit and loss account) are main documents. The financial information's are meant to represent the firm's financial situation to the user. We can say the financial statement (balance sheet and income statement) communicate information to the different parties. It is a source of information relating to the firm.

Financial performance is obtained by analyzing the financial statements. So, "Financial statement is the process of identifying the financial strength and weakness of any corporation, by properly establishing relationships between the items of balance sheet and profit and loss account"(Pandey,1999:26). "This involves past, present and anticipated future financial assessment of the corporation. The focus of the financial analysis is based on key figures in the financial statements and the significant relationship that exists between them, the type of the relationship to be investigated by an analyst would largely depend upon his objective and purpose of evaluation"(Khan & Jain,1996:22).

The objectives of financial performance are to identify weaknesses of the proposed company that could lead to future problem and to determine any strength. Financial analysis enables the analyst to evaluate the condition of the company on the basis of financial analysis, the corporation financial problem is determined.

As described by Metcalf and Titard, "the analysis of the financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance"(Metcalf and Titard , as quoted from Cited in a master thesis on financial performance of NIDC,TU by Adhikari) . "The financial analysis is the process of selection, relation and evaluation"(Megs,1978:25).

Financial performance is concerned with analyzing the financial statements of the firms. In the words of Raymond P Neveu, "Financial statement analysis allows managers, investors and creditors as well as potential investors and creditors to reach in a conclusion about the recent and current status of the corporation. What is perhaps more important, financial statement analysis is used in forming expectations about the corporation's future financial performance"(ibid:25).

Above mentioned statements of different scholars make it clear that financial statement analysis helps one to form future expectation, selection, relation and evaluation about the company's financial performance using financial statement analysis as a tool of analysis in this study, the financial performance of Nepal Insurance Company and Premier Insurance Company (Nepal) Ltd. has been evaluated on the basis of last five years financial statement i.e. from 2058/059 to 2062/063.

1.3 Origin & Development of Insurance

1.3.1 Origin of Insurance

Unpredictability. each of us lives with it, not knowing what each new day will bring. It is this very uncertainty which gave way to the development of the business of insurance.

In ancient times, farmers of China sent their crops to market on boats. Inevitably, on occasion a boat sank along the way. The farmers began spreading their crops among numerous boats, so that if one boat sank, any one family would only lose a small portion of their crops, thus avoiding financial devastation. The loss was spread among many families, and was therefore manageable for each one.

Actual insurance contracts originated in the 13th century with ship owners who wanted to protect themselves against the possibility of catastrophic losses. As before, ships were inevitably lost at sea from time to time. The owners were aware of this, but they could not foresee which ships would be lost at what time. Wealthy individuals agreed to receive a certain amount of money from each ship owner in exchange for a promise to pay for the loss of a ship when it occurred. Insurance is, in actuality, a social vehicle for spreading the risk of financial loss among a large group of people, thus making a loss manageable for any one person of that group.

As opposed to the risk associated with investments, risk with regard to insurance matters refers to the possibility of loss. Note that it is not the loss itself, but the possibility of a loss. There are two types of risk, only one of which can be insured; speculative risk and pure risk. Speculative risk affords the opportunity for gain as well as the possibility of loss. Gambling and stock market investments are two common examples. This type of risk is not insurable. Pure risk has the possibility of loss only; thus, it is insurable. The purpose of insurance is to restore the insured to their original financial position, not to provide an opportunity for making a profit.

There are several ways of managing, or coping with, risk. It may be reduced or avoided altogether by examining its causes and eliminating them where possible. Risk can be retained when a person decides to assume financial responsibility for specific events. Or risk may be transferred to another party, such as through an insurance contract.

In the early days of insurance people could obtain an insurance policy on anyone, even complete strangers. If that person died, the policyholder reaped the benefit of the policy with no apparent financial or emotional loss. To close this somewhat glaring loophole, a basic governing rule of insurance was instituted which states that an individual must have a legitimate interest in the preservation of the life or property insured, before that individual cam benefit from its insurance. This requirement is known as insurable interest.

Thus, insurance has evolved from its very early days. Its complexities can, at times, be quite confusing. Its basic premise, however, remains unchanged; to spread risk, thus making loss, when it occurs, manageable.

1.3.2Development of Insurance in Nepal

Uncertain risks and losses are the hurdles of economic development of the nation. To overcome the risks and losses, insurance companies were realized to establish in 2004 B.S. in Nepal. Accordingly, Nepal Maal Chalani Ra Beema Company was established in 2004 B.S. under the ownership of Nepal Bank Limited. After the arrival of democracy in 2007 B.S. establishment of financial institutions was done in different planning period. To save the loss of property due to uncertain accidents and entrance of complex mechanical age etc. insurance company was realized to establish. According to this, Rastriya Beema Sansthan Pvt. Ltd. was established under company act in 2024 B.S. It was converted into public company under Rastriya Beema Sansthan Act 2025. After that many insurance companies were established having different business types (life insurance business and non-life or general insurance business).

Life insurance business sells life insurance, annuities and pensions products whereas non-life or general insurance business sells other types of insurance.

At present there are twenty five insurance companies in Nepal which are as follows:

Table 1.1

List of Insurance Companies in Nepal

Name of Insurance	**Type of Business**	**Registration Date**
Rastriya Beema Samsthan	Life and Non life Insurance	2025/9/1
National Life Insurance Company Limited	Life Insurance	2044/9/24
Nepal Life Insurance Company Limited	Life Insurance	2058/1/21
Life Insurance Corporation (Nepal) Limited	Life Insurance	26thDec. 2000
American Life Insurance Company Limited	Life Insurance	2058
Asian Life Insurance Company Limited	Life Insurance	2064/11/15
Gurash Life Insurance Company Limited	Life Insurance	2064/12/18
Surya Life Insurance Company Limited	Life Insurance	2064/12/9
Prime Life Insurance company Limited	Life Insurance	June 2007
Nepal Insurance Company Limited	Non life Insurance	2004/6/8
The Oriental Insurance Company Limited	Non life Insurance	2024/5/30
National Insurance Company Limited	Non life Insurance	2030/9/15
Himalayan General Insurance Company Limited	Non life Insurance	2050/4/6
United Insurance Company limited	Non life Insurance	2050/7/6
Premier Insurance Company Limited	Non life Insurance	2051/1/29
Everest Insurance Company Limited	Non life Insurance	2051/2/17
Neco Insurance Company Limited	Non life Insurance	2053/2/17

Sagarmatha Insurance Company Limited	Non life Insurance	2053/3/12
Alliance Insurance Company Limited	Non life Insurance	2053/4/1
NB Insurance company Limited	Non life Insurance	2057/10/19
Prudential Insurance Company Limited	Non life Insurance	20th June 2002
Shikhar Insurance Company Limited	Non life Insurance	2061/7/26
Lumbini General Insurance Company Ltd.	Non life Insurance	
NLG Insurance Company Limited	Non life Insurance	
Siddhartha Insurance Company Limited	Non life Insurance	

Among them Nepal Insurance Company Limited (NICL) and Premier Insurance Company(Nepal) Limited(PICNL) are taken as sample for the study in the field of financial performance. The brief introduction is given below:

1 **Nepal Insurance Company Limited:** Nepal Insurance Company Limited was established in 2004 B.S. under the ownership of Nepal Bank Limited. In establishment, it was named as "Nepal Maal Chalani Ra Beema Company" and used to provide insurance and transportation service to Nepal Bank Limited. In 2016 B.S. it was renamed as "Nepal Insurance and Transport Company Limited". This was the first insurance company to provide insurance service in Nepal. To provide only insurance service it was again renamed as "Nepal Insurance Company Limited" in 2048 B.S. 51% share of this company is hold by Nepal Bank Limited and the balance is issued to public.

The authorized & issued capital is 15,00,000 ordinary shares of Rs. 100 and paid-up capital is 10,26,824 ordinary shares of Rs. 100 each. The Company is permitted as insurer to do non-life insurance business. Its organization pattern has seven members in the board. It is directed by the board of directors. It has one management group which looks after three departments: Claim department, Underwriting and marketing department and re-insurance, finance and administration department.

2 **Premier Insurance Company(Nepal)Limited:** Premier Insurance Company (Nepal) Limited was established in 2051 B.S. in Kathmandu, Capital of Nepal, with the view to expand in different areas. Presently the company has expanded its branches in five different cities of Nepal.

The authorized capital is 20,00,000 ordinary shares of Rs. 100. The issued capital is 10,00,000 ordinary shares of Rs. 100 and the paid-up capital is 3,00,000 ordinary shares of Rs. 100 each. The Company is permitted as insurer to do non-life insurance business. Its organization pattern has nine members in the board. It is directed by the board of directors. It has one management group which looks after four departments: finance and administration department, Claim and re-insurance department, underwriting department and marketing department.

1.4 Focus of the Study

The focus of the study is on the determination of financial performance of two insurance companies namely Nepal Insurance Company Limited and Premier Insurance Company (Nepal) Limited for the period of five years from 2058/059 to 2062/063. The strengths and weaknesses of the companies are evaluated by analyzing the financial statements using various tools and techniques. The main sources of income of the companies are from the different premium collections, interest on investments and miscellaneous incomes. So, financial performance analysis depicts how well the company has utilized the collected income. Further, it explains the solvency situation, liquidity position, sources and application of the funds, relationship between assets and liabilities, working capital management, value of shares (in book value term), earning per share(EPS), portfolio of incomes from different insurance sectors etc.

In order to study the financial performance of the companies, comparative balance sheet and profit and loss account, funds flow statement analysis, important ratio analysis, trend analysis and profitability analysis of these companies have been prepared with the help of the published data and other related official records. In brief, financial performance analysis shows the strengths and weakness of the company after identifying the weaknesses of the company and after analyzing the financial statements of the company properly.

1.5 Statement of the Problem

Insurance business has played vital role in the field of individual's life, business enterprises and society. Insurance has given financial compensation against the uncertain possible events. It has reduced the risks and provided assurance. However, insurance companies have faced many problems in different business sectors.

"Insurance business isn't dependent business itself. It has kept keen relationship directly or indirectly with other different sectors. Insurance business grows with the development of other sectors such as growth of industry and trade, increment in per capita income and provision of compulsory insurance i.e. life, personal accident, vehicle, aviation, engineering, employee, medical etc."(Khadka&Singh,2056:125)

Especially in Nepal, the history of Insurance is very short. It is 37 years since the insurance companies have been established in Nepal. Analyzing the past trends of insurance companies' satisfactory result couldn't be obtained in comparison of the world's insurance business. Nepalese insurance business has reached only in the stage of medium level nowadays. In this Nepal Insurance Company Limited and Premier Insurance Company (Nepal) Limited has confronted some of its problems, which has directly or indirectly affected the profitability of the company. Some general problems faced by these companies are listed below.

a. Lack of training related with insurance from government and non-government sector.
b. Slow development of industries and trade due to political instability.
c. Lack of trained, experienced and capable manpower and underwriter in the market.
d. Decrease in premium collection due to economic depression.
e. Lack of provisions regarding the segregation of controllable and non-controllable costs.
f. Unhealthy competition.
g. Providing unnecessary facilities to the party to promote in policy.
h. Huge number of claims rising due to the operation of more risky business.
i. Vague or unobvious insurance market in Nepal.

However, the company has faced many problems; this study has analyzed the problem regarding the financial performance of the company. The financial statement (i.e. profit and loss a/c and balance sheet) only cannot give the overall financial situation of the company. The components included in financial statement have been analyzed and prescribed the corrective measures for the improvement of financial aspects of the company. Here, "The research problem doesn't mean that something is seriously wrong under study"(Wolff&Pant,2000:15) So, there are some research problems/questions raised in order to study the targeted research work which are as follows:-

1. How has these companies been raising funds?
2. Are the claims favorable for the companies?
3. What is the trend of financial growth of the firm?
4. Are the liquidity and solvency situation of the companies according to the standard?
5. What are the profitability positions of the companies?
6. How is the situation of Earning and Market Value per share?
7. How is the portfolio of incomes from different insurance sectors?

1.6 Objectives of the Study

The basic objective of the study is to evaluate the exact financial performance of Nepal Insurance Company and Premier Insurance Company (Nepal) Limited. Mainly, insurance companies are established to earn profit by giving compensations against casual incidents in the business and individual's life. The main sources of earnings of these companies are form collection of premiums, interest on long term investment and other miscellaneous incomes. So, the objective of the study is to evaluate the actual earning position of the company. The financial situation and earning conditions can't be evaluated only with the help of balance sheet and profit and loss account of the company. So, it is necessary to evaluate all the aspects of finance to know the real financial performance of the company. By comparing the various components from balance sheet and their contents, the overall strengths and weaknesses of the company can be secured.

Insurance Companies are being operated under cut throat competition in Nepal. Although, most of the educated as well as sensitive businessmen haven't known the significance of insurance in Nepal, thirteen insurance companies are operating their business in Nepal. The number of industries and business enterprises are less. So, Insurance companies are facing great problems to expand its business, although, they are playing vital role in the business sectors by providing financial compensation against the misfortune. Therefore, the main objectives of this study are as listed below.

a. To identify the comparative picture of profit and loss account, balance sheet and book value per share.
b. To evaluate and analyze the source and application of funds.
c. To examine the trend of various components such as profitability, premium collection, expenses etc.
d. To identify and interpret some possible ratios from the data obtained.
e. To examine the portfolio of income from different insurance sectors.
f. To excess the financial stability of the company.
g. To provide constructive suggestion for improving financial performance of the company in future.
h. To examine the relationship between current assets and current liabilities, book value and market value per share etc.

1.7 Need and Importance of Study

Insurance companies are playing vital role in the economic protection of the business firm. They have provided essential knowledge to get protection from risk. They have given facilities to business firms for the foreign trade. In lump sum, Insurance companies have played active role in business firm, individual's life and society too.

The need of the study is to analyze the trend and suggest promotional measures in the area of financial management. It is well known that no company can expect growth with a weak financial position. So, the studies of financial aspect of these companies are necessary to analyze the financial performance and to give the suggestion improving the efficiency to earn maximum return. The need of this study is felt in the view of the management of the company that this study makes the management conscious to find out the major problem area of finance. This study may be useful to Beema Samiti, the controlling body of insurance sector, to formulate the plans and policies.

Lastly, this study is also significant for the students of doing Post-Graduate levels at the institute of management of any universities as real material of learning in the area of insurance.

1.8 Assumptions of the Study

Some of the assumptions are made in this study as under.

a. The data available in published accounts and other references have been assumed as correct and true.

b. Some of the pertinent information taken from the officers of the firm orally are assumed to be correct and true.

c. Data obtained from secondary source have been organized according to the need of the research work.

d. Trend of the variables is assumed to be as 100% for the base year and percentage trends are calculated.

e. Total revenue is assumed to be 100% for the respective and common size percentage is calculated.

f. Some of the amounts of appendixes have been kept in per thousands rupees.

1.9 Terminologies Used

The terms which are frequently used in this research study have been defined as follows:-

a. **Total Funds:** Total funds means the summation of total liabilities and net worth.

b. **Current Assets:** "Current assets, sometimes called liquid assets, are those resources of the firm which are either held in term of cash or are expected to be converted in cash within the accounting period or the operating cycle of the business"(Pandey,1999:22).From the point of view of analysis of this study, the following terms are generally included in current assets.

   i. Debtors
   ii. Advance or prepaid expenses
   iii. Security deposits
   iv. Bank and cash balance
   v. Short-term investment
   vi. Accrued interest

c. **Current Liabilities:** The obligation of payment generally in short term or within one year is described as current assets. The analyst includes as current liabilities in this study are outstanding income tax, outstanding sales tax, creditors, employees bonus provision, gratuity provision, proposed dividend, outstanding agent's commission, outstanding to reinsure, liabilities to claim etc.

d. **Fixed Assets:** The assets of a durable nature which are used in business and are acquired and intended to be retained permanently for the purpose of carrying on business are called fixed assets. They are also called as capital assets such as furniture, electrical equipment, computer, land and building, vehicles, long term investment etc.

e. **Debtor:** A person who owes money to the business mainly on account of rendering of services.

f. **Creditor:** A person whom money is due to be paid by the business mainly on account of receiving services.

g. **Equity**: Equity is the owner's monetary claim to the assets of an economic entity after the liabilities have been subtracted. It is also called owner's capital or common stock or ordinary share capital. It can be expressed as follows:- Equity = Assets-Liabilities

h. **Investment:** Investment may be defined on the basis of nature and objectives. According to the nature, investment may be in government securities or in marketable securities. According to the objectives, investment may be for investing surplus funds or may be to obtain the interest from another concern or may for some other purpose.

i. **Fiscal Year:** Fiscal year is the period of twelve months from 1st Srawan to 31st Ashad.

j. **Underwriter (Insurance Agent):** In insurance transaction an underwriter or agent is a person who acts as an intermediary between the insurer and the proposer or insured; he may act in the negotiations leading up to the contract, in the renewal or alteration of the contract, or in the negotiations of claim. Agents are intermediaries through whom insurers and the insured come into agreement. They maybe appointed by the insured or the insurer. They are remunerated by commission.

k. Insured: The person or business enterprise who has done insurance and has right to take the amount of insurance if any possible event occurs in the future or after expiry of time is called insured.

l. Insurer: The term insurer refers to the party granting the protection to be afforded by the policy.

m. Insurance Policy: The list of paper in which the terms and conditions of insurance between the insured and insurer is called insurance policy.

n. Insurance Premium: The amount which is taken by the insurer from insured against the economic security is called insurance premium. In other word, insurance premium is the value of insurance.

o. Re-Insurance: Re-insurance means the insuring again (by the insurer) of a risk already insured. In other words, re-insurance is the device for the protection of the original insurer.

1.10 Scheme of the Study

This research "Financial Performance Analysis of Insurance Companies of Nepal" has been divided into five chapters. They are introduction, conceptual understanding of related literature, research methodology, presentation and interpretation of data and summary, conclusions and recommendations. The short glimpses of the chapters are as follows:

Introduction: This first chapter highlights the introduction of whole study. The brief introduction of the company has been given and the structure of study has been highlighted. Thus, introduction chapter includes the focus of the study, objectives of the study, need of the study, the variables of the study, statement of general company's problems and research problems and some terminologies used in this study are defined in brief.

Conceptual understanding of related literature: In this chapter, conceptual understanding of financial statement has been reviewed. The literature related to the financial tools and techniques are reviewed. The past research studies have been reviewed in brief. Some of the journals and reports have been reviewed too.

Research Methodology: In this chapter, research methodology used is explained clearly. This chapter deals research design; sources of data and data collection of the study and data processing procedures are explained.

Presentation, analysis and interpretation of data: The presentation, analysis and interpretation of data can find the financial performance of the company in this fourth chapter. The obtained data are presented, analyzed and interpreted with the help of tools and techniques of finance and statistics such as ratio analysis, cash flow statement analysis, common size statement analysis and trend analysis. In this chapter, meaningful conclusion can be obtained.

Summary, conclusion and recommendations: This last chapter includes the summary of the whole research study, conclusion of the study and concrete, remedial measures for the improvement of the weaknesses of the company as recommendations.

Besides these chapters, necessary appendixes and bibliography have been prepared in this study.

1.11 Limitations of the Study

This study suffers from the following limitations:

a. The study is based on the census study, which is on the five year's published accounts from the year 2058/059 to 2062/063.

b. The study is only for giving suggestion to the company rather than directing the company.

c. The overall financial position has been measured with the help of limited financial tools and techniques.

d. In this study, only the possible ratios have been calculated.

e. All the amounts are in Rs. figures and measured in thousands rupees.

f. This study has been limited for analysis and giving suggestions regarding financial performance of the company only.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Introduction

Review of literature is an essential part of all studies. It is a way to discoverer what other research in the area of our problem has un covered. It is also a way to avoid investigating problem that has already been definitely answered.

Review of literature is the process of reviewing the available material relating to the particular research work. The purpose of literature is to receive sources ideas for conducting research and to find out what research stud have been conducting. The review of literature accomplishes the following functions:-

1) It establishes a point of departure for future research.

2) It avoids needles duplication of costly research efforts.

3) It reveals areas of needed research.

The purpose of literature review is, thus, to find out what research studies have been conducted in one's chosen field of study and what remains to be done. It provides the foundation for developing a comprehensive theoretical framework from which hypothesis can be developed for testing. The literature survey also minimize the risk of pursuing the dead-end in research.

In this chapter, the summary of major findings from reviewing the Books, Journals, Magazines etc. related to the field of the study have been presenting. Research is a continuous process and hence the procedures and the findings may change due to continuous research for getting the power and ability of analysis and interpretation of data, a researcher must review the literature about his field to this field study might provide the present study with the past research. The previous studies cannot be ignored because they provide the foundation to the present study. The literature survey thus provides with the knowledge of the status of their field of research. Some Nepalese and foreign Books, Journals and Magazines and other related handout have reviewed and findings have been presented in this chapter.

A careful review of the literature enables the researcher in discovering important variables relevant to the area of the present research, when significant variables are discovered; the relationship among them can be identified. Subsequently, the identified relationship is incorporated between the different variables must be built up reviewing the literature so that a good centre may be built up for subsequent investigation. The effective research is based upon the past knowledge a survey of past literature help to eliminate the duplication of what has done and some times provide useful hypothesis. In this connection, a review of previous related research project (Literature) will help the researcher to formulate a satisfactory stricture for his project.

Thus, to review the related literature, a researcher in advised as to identify the past research work and studies by reviewing books, articles, report etc. Review should be made in form of objectives, methodologies, finding gaps deficiencies etc.

2.2 Conceptual Review

This chapter includes the conceptual understanding of related literature. This study can be made worthwhile in the brief concepts of all the related headings clearly mentioned. This chapter includes the finance concept and its importance, objectives and needs of finance, concept of financial performance, financial statement analysis, tools and techniques of financial statement analysis, and review of past research works.

2.2.1 Importance of Financial Management

Every business organization has its short-term as well as long-tem pre-determined objectives. To achieve such objectives, finance is the backbone of business. Finance is the study of those principles and methods concerned with acquisition and utilization of fund (money) to carry out certain pre-determined goals. Business organization acuities the required funds raising from financial market by issuing varieties of securities in form of ownership and creditor ship capital. The collected capital is invested in real assets to maximize the owner's wealth.

Financial management is one of the management sub-systems in the total organization set-up. To achieve the desirable goals of the firm, financial management or finance should interface with other management such as production, marketing and personnel management. "Financial management is concerned with the acquisition, financing and management of assets with some overall goal mind"(Van Horne&Wachowicz,1997:2)

Financial management involves the solutions of three major inter related decisions of a firm namely investment decisions, financing decisions and dividend decisions. The objective being to maximize the value of the company to its stockholders, financial management can be further highlighted by its basic and incidental finance functions.

"Emphasis of what functions a financial manager is expected to do can be grouped under two headings i.e. (1) basic finance functions and (2) incidental finance functions, included within the scope of basic finance functions are keeping the corporation supplied with enough funds to accomplish its financial planning, objective and utilizing these funds in various categories of assets by means of a signed and effective control techniques. The incidental functions involve ability of finance manager to meet hard time through intelligent decisions as well as other subsidiary work like clerical or routine work to push up the basic finance functions"(Shrestha,1990:31-32).

What financial manager performs in his work is finance functions. To manage efficiently and effectively investment decisions, financing decisions and dividend decisions, in financial management, financial management is the function, duties and responsibilities of financial manager.

The role and importance of financial management in the business firm (both manufacturing and service rendering) is important. Both types of business firms cannot survive without effective management of finance. The importance and functions of finance depends upon the size of the firm (large scale and small scale). In small scale business, financial management is performed by the accounting department but separate units or departments performs the financial functions in large scale business organization. So, finance is the life blood of the industry. All the success and failures are generally measured in terms of financial condition of the enterprise. The collected capital of the firm has been allocated in many departments and functions. The financial performance is measured unit wise or department wise which has been expressed in financial terms. Financial management isn't only important for the business. It is equally the key point of government and human activities as well.

2.2.2 Financial Statement

As studied above the word financial statement has been frequently used. Question may arise here what financial statement is. "Financial statements contain summarized information of the firm's financial affairs, organized systematically. They are the means to present the firm's financial situation to the users"(Pandey,1999:29-30). Financial statements are especially prepared at the end of the accounting year or financial year. The financial statements are the annual reports of the organization or firm. Financial statements are used by investors and financial analyst to examine the company's performance in order to make investment decisions. These statements are prepared very carefully and contain as much information as possible. Financial statements are the summary of the accounts of assets and liabilities, capital and profit and loss.

"Two basic financial statements prepared for the purpose of external reporting to owners, investors and creditors are: (1) Balance Sheet or statement of financial position and (2) Profit and loss account or income statement"(ibid:23).These statements are contained in a company's annual report. These two basic financial statements are described below.

1. Balance Sheet

Balance Sheet is the most significant financial statement. "Balance sheet, a summary of a firm's financial position on a given date that shows total assets = total liabilities – owner's equity"(Van Horne&Wachowicz,1997:20). Balance sheet is the statement of the summary of debt and credit balances of assets and liabilities prepared at the end of financial year. Balance sheet reflects the long-term and short-term solvency of the organization. Balance sheet is prepared after preparing of trading and profit and loss account with the help of trial balance.

"Balance sheet is a statement of a particular date showing on one side the trader's property and possession and on the other hand the liabilities"(Pandey,1999:85). Likewise balance sheet indicates the financial condition or the state of affairs of a business at a particular moment of time. More specifically, balance sheet contains information about resources and obligations of a business entity and about its owners' interest in the business at a particular point of time. "In the language of accounting, balance sheet communicates information about assets, liabilities and owner's equity for a business firm as on a specific date. It provides a snapshot of the financial position of the firm at the close of the firm's accounting period"(ibid:30).

From the above scholars' point of view balance sheet is a statement prepared at the end of each accounting year to show the financial direction of the organization at a glance which is useful for the owners investors, debtors and creditors.

2. Profit and Loss Account

Profit and loss account is also involved in financial statement. "Profit and loss account or income statement is a summary of a firm's revenues and expenses over a specified period, ending with net income or loss for the period"(ibid:120). Profit and loss account depicts a summary of the firm's profitability over time. Profit and loss account includes the indirect expenses, indirect incomes with net profit (loss) of the certain period of time.

"The earning capacity and potential of a firm are reflected by its profit and loss account. The profit and loss account is a "Score-board" of the firm's performance during the period of time. The generally accepted convention is to show one year's event in the profit and loss account. Since the profit and loss account reflects the result of operations for a period of time, it is a flow statement"(ibid:42).

In conclusion, profit and loss account presents the summary of revenues, expenses and net income (or net loss) of a company. It serves as a measure of the firm's profitability. Revenues are amounts, which the customers pay to the firm for providing them goods and services. The firm use economic resources in providing goods and services to the customers. The costs of economic resources used to earn revenues during a period of time are called expenses. Thus, profit and loss account shows the true picture of revenues, expenses and net income (or net loss) over a period of time.

2.2.3 Objectives of Financial Statement Analysis

Financial statements are prepared from the accounting records maintained by the firm. The generally accepted accounting principles and procedures are followed to prepare these statements. The basic objective of financial statement analysis is to assist in managerial decision making. Other objectives are(Pandey,1999:30):-

- Resource and obligation: To provide reliable financial information's, statistics about economic resources and obligations of a business enterprise.

- Changes in net resources: To provide reliable information about change in net resources (resource minus obligations) of an enterprise that results from the profit directed and other activities.
- Earning Potential: To provide financial information that assists in estimating the earnings potential of the enterprise.
- Full disclosure: To disclose, to the extent possible other information related to the financial statement that is relevant to statement users.

2.2.4 Need of Financial Statement Analysis

Financial statements are prepared from the account records. The financial statements are the interim records of an enterprise. The actual situation can't be ascertained of the business only when making of financial statements. They are analyzed, interpreted and reached in a final conclusion. The need of financial statement analysis is to observe the financial soundness of the firm. The need of analyzing can be listed below by studying the various authors' views.

- To process the financial statistics and information.
- To pin point the strength and weakness of a business undertaking by regrouping, comparing and examining the content of statements.
- To determine the significance and meaning of the financial data.
- To make forecasting for the future earning ability and in other aspects.
- To establish significant relationship and pointing up changes and trends of financial condition of the firm.
- To have a clear understanding of the profitability and financial ability of the enterprises.

In addition to these, analysis of financial statements is useful for the different parties of the business who are involved in business transaction such as owners or investors, debtors and creditors and financial executives. Interpretation of financial statements is necessary for the business management who wishes to determine their own performance. It is also essential for creditors and credit granting institutions, which have to determine the credit worthiness of borrowing concerns. Besides the investors who plans to buy stocks and shares in a business concern and also the underwriters are interested in financial statement analysis.

Financial statement analysis is undertaken by outsiders, supplier of capital, creditors, investors and also by the firm itself. The purpose isn’t only for internal control but also for better understanding what capital suppliers seek in the way of financial condition and performance from it. A creditor or a bond holder may evaluate firm’s stability by analyzing its capital structure major sources and uses of funds, its profitability overtime and projections of future profitability etc. are concerned by them. According to Weston Fred J. and Brigham F. Eugene, “From an investor’s standpoint, predicting the future is what financial statement is all about. While form management’s standpoint, financial statement analysis is useful both as a way to anticipate future conditions and more important, as a starting point for planning actions that will influence the future course of events”(Weston&Brigham,1996: 56).

In conclusion, the analysis of financial statements is equally necessary for all the parties such as decision makers, debtors, creditors, suppliers, investors of capital, bankers, customers etc. for ascertaining of financial statistics and information.

2.2.5 Tools and Techniques of Financial Statement Analysis

The financial statements are analyzed to gain the real knowledge of financial performance of the company. The statements are analyzed with the help of some financial tools and techniques. The no of financial tools and techniques are:

2.2.5.1 Ratio Analysis: Financial ratio is an index that relates two accounting numbers and is obtained by dividing one number by the other. The irony of financial ratio analysis indicates quotient of two mathematical expressions. It can be expressed mathematically in terms of percentage, times, is to (:) etc. as the quantitative relationships between two accounting figures and direct for qualitative decision. Ratio analysis is a powerful tool of financial analysis and has been used in this study to find out its prolonged objectives. The consecution and meaning of these ratios, which are taken as tools in this study, are described below.

A. Liquidity Ratio

Liquidity ratios are devices to judge the company’s ability to meet its short-term current obligations and provide measure of liquidity position. There shouldn’t be the condition of lower and higher liquidity. Lower liquidity indicates the failure of meeting the company’s current obligations and adverse result. On the other hand, higher liquidity indicates idle assets which is also not good as it earns nothing. So, it is essential for the corporation to maintain the balance of liquidity position. In the context of examining liquidity position of the corporation, only one liquidity ratio has been computed, that is current ratio. Current ratio is the measurement of a short-term solvency to show the availability of current assets expressed in rupees for every one rupee of the current liability. It is computed by dividing total current assets by total current liabilities. It can be expressed as:

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

The standard of this ratio is generally accepted as 2:1. A relatively high current ratio means the company is able to meet its short-term obligations and vice-versa.

B. Leverage Ratios:

The leverage ratios are also termed as capital structure ratio. They are computed in order to get insight in the long-term financial status of the company. These ratios show the company's current debt-paying ability. The risk of the company can be diversified by issuing bond and debentures or by using creditor ship capital. The owners, creditors and outsiders are interested in firm's debt-paying ability. If the company is high levered, then the firm will face difficulties to raise funds, not only from the creditors but also from the owners too. The owners of the company may take advantages if the firm raises funds through the debt. In such case, they loose control over funds.

The nature of issuance of the debt of the firm to make equity holder more beneficial is called "trading of equity". The main disadvantage of the issuance of debt funds in the company is that the owners of the company can get the residual portion of assets when the firm is in liquidation or nothing if there are no residual funds. Debt is considered more risky than the equity due to their obligation to pay certain interest. Consequently there should be optimum combination of the debt and equity in capital structure.

The leverage ratios are as follows:

a. Debt equity ratio: It measures the claim of the creditors and owners against the firm's assets.

Debt equity ratio = Debt / Net Worth

Net Worth = Share Capital + Retained Earnings + Share Premium + Reserve and Surpluses – Accumulated loss if any.

b. Total Debt to total assets ratio: It measures the percentage of funds provided by the creditors. Mathematically,

Total debt to total assets ratio = Total debt / Total assets

c. Total debt to total capital ratio: This ratio measures the portion of long term debt in the total capital structure of the firm. Mathematically,

$$\text{Debt to total capital ratio} = \frac{\text{Long Term debt}}{\text{Long Term debt} + \text{Net worth}}$$

d. Interest coverage ratio: It is calculated to know the debt servicing capacity. It shows the number of times the interest charge is covered by EBIT. Mathematically,

Interest coverage ratio = EBIT / Interest charges

C. Other Financial Ratios:

Insurance business is the service rendering business with its profit motive. Being a financial institution only, some important ratios have been calculated in this research study. These ratios are described below.

i. Net profit to total income: As suggested by the expert of the insurance business, net profit to total income ratio is the most essential ratio. This is calculated by dividing net profit by total income. Mathematically,

$$\text{Net profit to total income} = \frac{\text{Net profit}}{\text{Total Income}} \times 100$$

Net profit margin ratio establishes the relationship between net profit and total income which indicates management's efficiency in operating business, administering and managing the business. If net profit margin is inadequate, the company will fail to achieve satisfactory return on share holder's fund.

ii. Net Profit ratio = NPAT / Operating income

iii. Operating profit ratio = EBIT / Operating income

iv. Net profit to total assets ratio =Net Profit / Total assets

v. Return on equity = Net profit / Equity

vi. Net profit to net immovable assets $= \dfrac{\text{Net profit}}{\text{Net immovable assets}}$

vii. Expenses to total income $= \dfrac{\text{Total expenses}}{\text{Total incomes}}$

viii. EPS $= \dfrac{\text{Net profit available to equity shareholders}}{\text{No. of ordinary shares outstanding}}$

ix. Dividend per share $= \dfrac{\text{Dividend available}}{\text{No. of share outstanding}}$

High net profit ratio is a good sign of efficient management. It is also an indication of the company's good position to take advantage of favorable economic condition. Operating profit ratio is an important ratio that explains the changes in the net profit ratio. Higher operating profit ratio is favorable because it indicates large margin that will leave to cover interest and tax. On the other hand, the lower ratio is unfavorable because lower margin is left to cover the interest. Net profit to total assets ratio is the way of useful measurement of profitability of all financial resources invested in the company's assets. The higher return on assets, the more efficient use of capital invested. The lower ratio will indicate worse utilization of capital. Return on equity measures the profitability on shareholder's investment. The higher the return on equity, the higher the price of share and a strong attraction to new investors.

Net profit to immovable assets ratio (ROA) measures the profitability of the total funds used in immovable assets. An expense to total income ratio is very important for analyzing the profitability of the company. A low expensed ratio is favorable while a high one is unfavorable for the company. So, expenses ratio is used as a yardstick of profitability.

EPS is the measurement of income per share. High EPS attracts the new investors. It maximizes the value of the firm. High earning per share indicates the firm's good efficiency in the performance. Dividend is the earnings distributed to ordinary shareholders from net cash flows or net income. Higher DPS attracts the large number of present and potential investors. Investors are more interested in DPS rather than EPS. So, high DPS is favorable for the company, which measures the firm's strength.

2.2.5.2 Financial Analysis Techniques

To evaluate the financial condition and performance of a company, the financial analyst needs some yardsticks. The yardstick frequently used is a ratio or index relating two pieces of financial data of each other. Analysis and interpretation of various financial data, would give experienced and skilled analyst a better understanding of the financial condition and performance of the firm, then they will obtain from analysis of the financial data alone. The techniques of analysis are employees to ascertain or measure the relationship among the financial statement items of a single set of statement and changes that have taken place in there items as reflected in successive financial statement. The fundamental of the analytical techniques is to simplify or reduce the data under review to the understandable terms.

Out of the various techniques, selection of a techniques or a combination of the techniques can be used for the analysis depending on the purpose and availability or the materials demands by the technique.

Cash Flow Analysis

This statement is prepared to know clearly various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the sense the analysis related to the movement of cash, rather than inflow and outflow of working capital. It summarizes the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement only cash receipts from debtors against credit dates are recognized as the sources of cash. Similarly, cash purchases and cash payments to suppliers for credit purpose is regarded as the use of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

This type of analysis is useful for short running planning of the firm. The firm needs sufficient cash to debt maturing in near future to pay interest and other expenses and to pay dividend to shareholders. The projection of cash flow for near future can be made to determine the availability of cash. This balance can be matched with the firm's need for cash during the period and according arrangement can be made to meet the deficit or invest the surplus cash temporarily.

2.2.5.3 Common Size Statement Analysis

The common size statement analysis is the significant tool to evaluate the financial performance of the company. Common size analysis is an analysis of percentage financial statements where all balance sheet items are divided by total assets and all income statement items are divided by net sales or revenues.

The two common size statements have been prepared in this statement. They are described below.

1. **Common size income statement:** It is a financial tool of studying key changes and trends in financial position of the company. It exhibits the proportions of net revenue that has been absorbed by various costs and expenses incurred in the company.

2. **Common size balance sheet statement:** This statement is prepared by stating the total asset as hundred and reducing the individual asset into percentage of the total. Likewise, individual liabilities of the company items are expressed as percentage of total liabilities. This statement focuses on two important aspects. They are:

   a. Distribution pattern of assets as between current assets and fixed assets.

   b. Distribution pattern of liabilities as between total current liabilities and long-term liabilities, insider liabilities and outsider liabilities.

2.2.5.4 Trend analysis

Trend analysis is the most important statistical tool to interpret the trend of various components stated in financial statement. Trend is a graphical approach in which time period is measured on x-axis and the percentage change is measured on y-axis.

In financial analysis the direction of changes over a period of years is of crucial importance. Time series or trend analysis of ratios indicates the direction of change. This kind of analysis is particularly applicable on the items of profit and loss account. The analyst can know the direction of movement of the components i.e. whether the movement is favorable or unfavorable.

This method involves the calculation of percentage relationship that each statement items bears to the same item in a "base year". Trend percentages reveals changes in the financial and operating data between specific period and makes possible for the analyst to form an opinion as to whether favorable or unfavorable tendencies are reflected by the data. Trend analysis is an important tool for analyzing financial performance. So, it helps to identify controllable items of the given period and future forecast can be made for ongoing company.

2.2.6 Review of Previous Studies

Under this section, an effort has been made to scrutinize some of the research works performed under the heading of financial performance of financial and non-financial institutions.

2.2.6.1 As studied by 'Sarad Kumar Adhikari' on Financial Performance of Nepal Industrial Development Corporation; some major outcomes and essential recommendations are mentioned here(As quoted from unpublished master thesis on Financial performance of NIDC,TU by Sharad K. Adhikari).

a. NIDC has higher liquidity, higher leverage position, lower profitability, inefficient management of assets and very low market price of shares in trading list of NEPSE.
b. The corporation has acquired its financial requirement heavily as long-term which cannot be considered as profitable because of its lower return on assets.
c. It has hardly used capital market in the country, which showed that the corporation is unable to take advantage from the neo liberal economic environment of the world.
d. Most of the funds raised by the corporation has been utilized in development banks as long term loan through its coefficient of return is lower than short term investment in the market. It has followed loose credit policy. As a result, the collection of loans and interest has reported with slow transactions and unwanted bad debts.
e. The existence of more current assets in each year has reflected its conservative liquidity policy.

Some of the recommendations of this research study of NIDC have been summarized as below:

i. Selection of the project ought to be funded on cost and benefit analysis, having considered the priority basis of the government at the same time. Long term plan and diversification of areas should be identified as the drives for investment.
ii. The corporation should follow the consistent and stable decision making process while providing financial assistance and managing internal resources of the corporation.
iii. In every head office and regional office, management information system should be applied and should be followed strictly.

iv. Provision for reward and punishment to the employees should strictly be followed.

v. Spare more power to the monitoring and evaluation division to take action upon the parties who are unable to pay their obligations in time.

vi. Attract local people to take part in economic development of the country by promoting them to buy the shares of corporation in the market and raise sustainable funds through issuance of share multinational markets and internal resource mobilization.

vii. The process of budget formation should gradually be furthered towards the programming, planning of budgeting system. Do not include the amount of funds without commitment from the loaning agency. Appropriation of funds should be allocated to time. It should not be curtailed after the budget sanction.

viii. Follow performance auditing system. Appraise the corporation and regional office about their economy, efficiency and effectiveness in handling the limited resources of the country.

2.2.6.2 In case of manufacturing organization, “Ananta Jiban Luitel” had studied on Financial Performance of Dairy Development Corporation. Some major conclusions and recommendations of this study are as follows(As quoted from unpublished master thesis on Financial performance of Dairy Development Corporation,TU byAnanta Jiban Luitel).

1. DDC has relatively high liquidity position. High liquidity position has shows that DDC hasn’t utilized its valuable resources properly. Therefore, it is suggested that the corporation should collect required capital from short term loan in spite of long term loan.

2. It also shows that DDC do not have a very high portion of debt financing but has been paying in large scale of amount as interest. It is simply because of the conversion of foreign currency at current market price each year. Therefore, it is suggested to reduce long term loan and if necessary short term loan and ownership capital should be increased. This policy may further improve profitability situation. It is suggested that the practice of generating fund by foreign loan is not profitable.
3. DDC has unnecessary fixed assets and has not utilized them properly. So, it is suggested that the study of plant layout and evaluate performance and condition of present equipment for replacement. It is also suggested to improve quality controls procedure and reduce spillage.
4. The profitability position of DDC is not satisfactory. It has weak financial position. It is due to lower amount of sales and higher amount of expenditures. Therefore, it is most necessary to reduce unnecessary large scale of expenditures.
5. No systematic accounting has been adopted by DDC. So, it is suggested apply best possible accounting method and procedures.
6. Maintenance and milk collection cost is so much high. It is suggested to use efficient manpower, new technology, qualitative raw material and to cut down unnecessary processing cost. It is also suggested to check labor situation for possible excessive overtime, idle time and absenteeism, ensure proper balance of work loads.
7. DDC has been established in social welfare. Regarding the nature of work, it can be said that privatization is the best solution. So, it is suggested to the government to analyze briefly for solving the problem.

8. HMG announces the lower price of milk produced by the farmer with the recommendation of NDDB. DDC fixes price on the basis of procurement price and the cost of production. Therefore, it is suggested to give a high autonomy in fixing selling price from the side of the government. This situation helps DDC to run successfully.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Every study requires a systematic step of methodology to achieve the objective of the study. The main purpose of this chapter is to stress on the different research methods and collection which are used while conducting this study. Research means the search for knowledge and methodology refers to various sequential steps that are adopted in the study. "Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain object/objects in view"(Kothari,1978:19)In this study, the financial performance of Nepal Insurance Company and Premier Insurance Company (Nepal) Limited also needs an appropriate research method. The data from the company are secondary in nature. This chapter mainly constitutes research design, nature and sources of data, data collection procedure, population and sample of the study, data processing procedure and tools and techniques used in this research study.

3.2 Research Design

The research design refers to the conceptual structure within the research is conducted. In other words, 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 economy in procedure.

The purpose of this study on financial performance of Nepal Insurance Company and Premier Insurance Company (Nepal)

Limited is to analyze the financial statements of the company and to give necessary results for the further improvement of the company. This study is census study and the relevant data have been taken form head office of the company which are secondary in nature. This study has been made on exploratory and descriptive research design. Various financial tools and techniques have been utilized. Such tools and techniques are funds flow analysis, ratio analysis, trend analysis and common size statement analysis.

This study is concerned with past phenomena so the past five years' information has been collected. This study has followed the historical research design of other related field.

3.3 Nature and Sources of Data

Data are generally classified as primary and secondary data. Primary data are the information which is directly originated and secondary data are the information which have already existed and may be used for investigation. The data which are used in this research study are based upon secondary data which are published by Nepal Insurance Company and Premier Insurance Company (Nepal) Limited. For this study, some necessary data has been collected form Nepal Beema Samiti, the control body of insurance sectors of Nepal and from periodic bulletins published by the insurance companies. The data of this study are of past five years (2058/059 to 2062/063) which are available in the company. The five years' audited balance sheets, income statements and other necessary accounts have been collected for the purpose of the study. Other related information has been taken from Branch Manager & Officers of Biratnagar Branch.

3.4 Data Collection Procedures

The required financial statements i.e. balance sheet and profit and loss account for the last five years of these companies have been collected through its branch office, Biratnagar under the kind permission of head office, Kathmandu. This total study is fundamentally based on secondary sources of data. Other necessary information relating to the market value per share, closing price per share, high price per share and low price per share etc. are taken from stock exchange market through the help of branch office, Biratnagar. In addition to these information, some other necessary data have been directly taken from academic books published by different publishers, and from Beema Samiti, the control body of insurance sectors in Nepal. An opinion survey has also been done to gather the required information.

To process the data, some data accumulation methods or scheme have been taken from the data given in internet of different financial institutions. A theoretical study of financial analysis was from the literature available in the library of MMAMC, Biratnagar and Post Graduate Campus, Biratnagar which are used in this study.

3.5 Universe, Population and Samples of the study

The whole of Nepal Insurance Company and Premier Insurance Company (Nepal) Limited is the universe of this study. After their establishment up to present state of this study is population. The term population is used in statistics denotes the aggregate from which the sample is to be taken and the term sample is that part of the population which we select for the purpose of investigation. This study is directly concerned in population and treated in the population and sampling data. In Nepal there are twenty five insurance companies having different business types (life insurance business and non-life or general insurance business). Out of these twenty five companies two companies have been selected as samples for study. The researcher has taken total finance statements of the F/Y 2058/059 to 2062/063 for the study.

3.6 Data Processing Procedures

The collected raw data have been processed and analyzed according to the need of this study in tabular form with the help of simple arithmetic rule. The financial statements of the company have been accumulated in one form and wherever they need, they have been taken. The secondary types of data have been presented for the analytical purpose after the tabulation of data. These types of data processing procedures represent the clear situation.

3.7 Use of Analytical Tools and Techniques

The objective of this study is to evaluate the financial soundness of the company by using some relevant and important financial tools and techniques. Some of the few analytical tools and techniques have been used in solving the problem of this study. The descriptions of the tools and techniques that are surely relevant for this study have been done in chapter 2. The tools and techniques are ratio analysis and statement of changes in financial position and common size statement analysis.

The financial soundness/performance of the company is to be assessed by using different necessary financial tools and techniques. This can be very useful for evaluating financial performance of the company. The ratio analysis shows the relationship between the two items. It is a powerful tool of financial analysis. The trend analysis represents the changes of various items in increasing or decreasing state. The state of changes in financial position depicts the situation of changes in working capital and the sources and application of funds. The common size statement analysis represents the percentage of each item of profit and loss account and balance sheet.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

The basic objectives of research study are to examine the financial strength and weakness of Nepal Insurance Company Limited and Premier Insurance Company (Nepal) Limited. The presentation, analysis and interpretation of calculated numerical figures have been done with the help of financial tools and techniques. The tools and techniques have been used to know the stability, profitability and liquidity position of the companies. Financial institutions are different from manufacturing organizations. So, the interpretation of data and the result achieved is also different. However, ratio analysis, trend analysis, common size statement analysis and funds flow statement analysis has been widely used in this chapter to analyze the proceed data of past five years. These techniques are described respectively as under.

4.2 Financial Ratio Analysis and Interpretation

Financial ratio analysis is an important tool with the help of which researcher can find the past, present and estimated future financial position of the company. In this research study, only relevant ratios have been analyzed which are commonly used in non-banking financial institutions like non-life insurance companies. The different ratios and interpretation are described below.

4.2.1 Liquidity Ratio

Regarding the liquidity position of the company in terms of current ratio, it has been calculated by dividing current assets by the current liabilities of the relevant year. Current ratios show the ability of the company to meet its current and short term obligations. Current assets included in this study like sundry debtors, prepaid tax and expenses, accrued interest, accrued income from reinsurer security deposits, citizen investment fund, short term investment and cash and bank balances. Included current liabilities are liability for claims, o/s agent commission, other liabilities and provisions and due to reinsurers. Current ratio measures the short term solvency of the company. The current ratios of these companies are exhibited in Table 4.1.

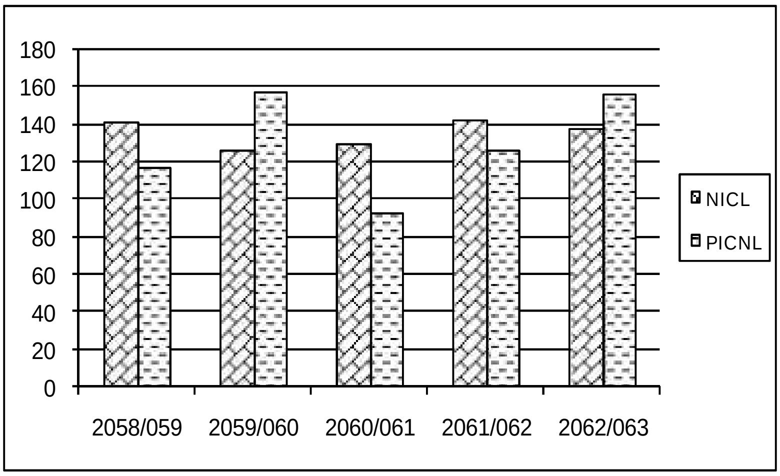
Table 4.1
Current Ratio of NICL & PICNL
For the year 2058/059 to 2062/063

(Rs. in thousands)

FY	NICL			PICNL		
	Current Assets	Current Liabilities	Ratios	Current Assets	Current Liabilities	Ratios
2058/059	201353	142543	141.26	51720	44196	117.02
2059/060	320332	254632	125.80	80206	50800	157.89
2060/061	381569	294057	129.76	66087	70794	93.35
2061/062	341651	239592	142.60	76266	60478	126.11
2062/063	375648	272558	137.82	122601	78620	155.94
Total			677.24			650.31
Mean			135.45			130.06
S.D.			6.57			24.40
C.V.			4.85			18.76

Source: Annual Report of NICL and PICNL from 2058/059 to 2062/063.

Figure 4.1
Current Ratio



The mean of ratios of NICL is greater than that of PICNL i.e. 135.45>130.06 which shows the high solvency position of NICL.

The CV of ratios of NICL is less than that of PICNL i.e. 4.85<18.76, which means that PICNL is more homogeneous in respect of variability of ratios.

4.2.2 Stability Ratio

Stability means the power or internal strengths to remain in the competitive market. Insurance business is the service rendering organization. The future of this company depends upon the risk. If the loss increases due to heavy misfortune, the company cannot get underwriting profit. So, the sustainability of the company is the stability for the long run. The creditability and confidence depends on its net worth position, investment position etc. So, some of the stability ratios have been analyzed and interpreted of the study period 2058/059 to 2062/063.

4.2.2.1 Shareholders' Reserve to Share Capital Ratio

The ratio of the shareholders' reserves to share capital is calculated by dividing shareholders' reserves by share capital. The large amount of reserve appropriated from net profit after tax is the better situation for the financial institution like insurance companies. In this competitive stage, business parties evaluate the funds position of the company before insuring their business or others. Reserve and funds are the backbone of the insurance business. Shareholder's reserves include in this research study are general reserve, insurance reserve and un-appropriated profit. The stability position of NICL and PICNL in term of shareholders reserve to share capital ratio has been presented in Table and Figure 4.2

Table 4.2

Shareholders' Reserve to Share Capital Ratio of NICL & PICNL

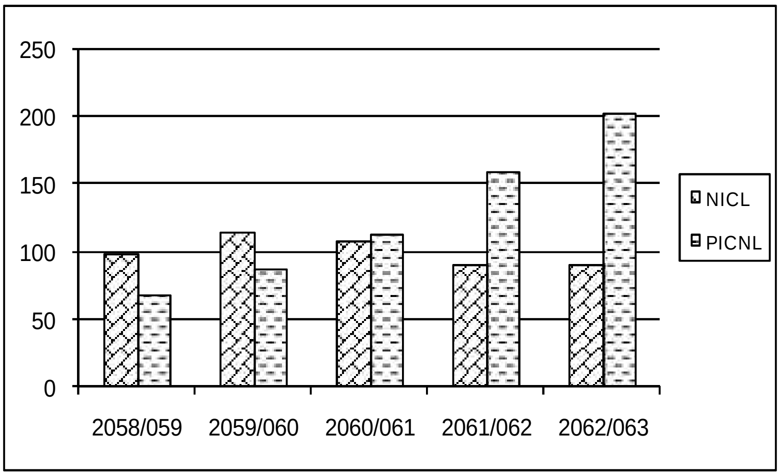
For the year 2058/059 to 2062/063

(Rs. in thousands)

FY	NICL			PICNL		
	Shareholders' Reserve	Share Capital	Ratios	Shareholders' Reserve	Share Capital	Ratios
2058/059	77567	78999	98.19	20470	30000	68.23
2059/060	90342	78999	114.36	26435	30000	88.12
2060/061	85565	78999	108.31	33971	30000	113.24
2061/062	92661	102676	90.25	47977	30000	159.92
2062/063	92686	102682	90.27	61038	30000	203.46
Total			501.37			632.97
Mean			100.27			126.59
S.D			9.68			49.16
C.V			9.65			38.83

Source: Annual Report of NICL and PICNL from 2058/059 to 2062/063

Figure 4.2
Shareholders' Reserve to Share Capital Ratio



The mean of ratios of NICL is less than that of PICNL i.e. 100.27<126.59 which shows the higher shareholders' reserve position of PICNL.

The CV of ratios of NICL is less than that of PICNL i.e. 9.65<38.83, which means that PICNL is more homogeneous in respect of variability of ratios.

4.2.2.2 Net Worth to Total Assets Ratio

Net worth includes the amount of share capital and shareholders' reserves and surplus. This ratio is calculated by dividing the amount of net worth by the total assets of each year of study period. This ratio is calculated to know how the firm has stable power to exist in the market. Net worth to total assets shows the proportion of shareholders' claim on total assets, which should be higher for the sustainability of the company. The stability NICL and PICNL in term of net worth to total assets ratio has been presented in Table and Figure 4.3

Table 4.3

Net Worth to Total Assets Ratio of NICL & PICNL

For the year 2058/059 to 2062/063

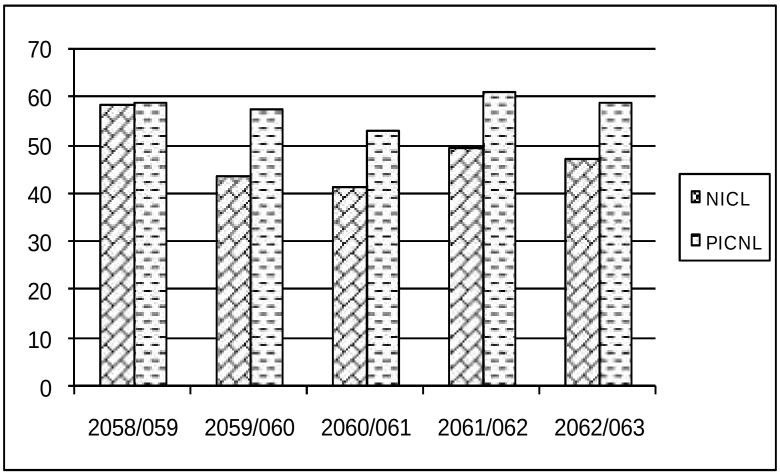
(Rs. in thousands)

FY	NICL			PICNL		
	Net Worth	Total Assets	Ratio	Net Worth	Total Assets	Ratio
2058/059	202014	344557	58.63	64129	108325	59.20
2059/060	199598	454230	43.94	69375	120175	57.73
2060/061	209596	503653	41.62	80368	151342	53.10
2061/062	235904	475497	49.61	96278	156756	61.42
2062/063	243238	515797	47.16	113060	191680	58.98
Total			240.96			290.44
Mean			48.19			58.09
S.D			5.89			2.76
C.V			12.22			4.75

Source: Annual Report of NICL and PICNL from 2058/059 to 2062/063.

Figure 4.3

Net Worth to Total Assets Ratio



The mean of ratios of NICL is less than that of PICNL i.e. 48.19<58.09 which shows the higher stability position of PICNL.

The CV of ratios of NICL is greater than that of PICNL i.e. 12.22>4.75, which means that NICL is more homogeneous in respect of variability of ratios.

4.2.2.3 Investment to Net worth ratio

Investment to net worth ratio reveals the composition of investment and net worth. Net worth includes capital and equity, profit and loss for the year after appropriation, general reserve, insurance reserve and incomplete risk reserve in this study. Investment means long term investment. The amount of net worth should be invested into different sectors, which shows the company being stable. Outsiders of insurance company always analyze the ownership position of the company. They analyze that whether the company has strong in its fund if any misfortune happens or not. So, the amount of net worth should be invested and the company can recover the underwriting loss by the excess amount of return on investment. Return on investment stabilizes the company in the long-run. The ratio is calculated by dividing long-term investment by net worth of the respective year. This ratio has been shown in Table and figure 4.4.

Table 4.4

Investment to Net worth Ratio of NICL & PICNL

For the year 2058/059 to 2062/063

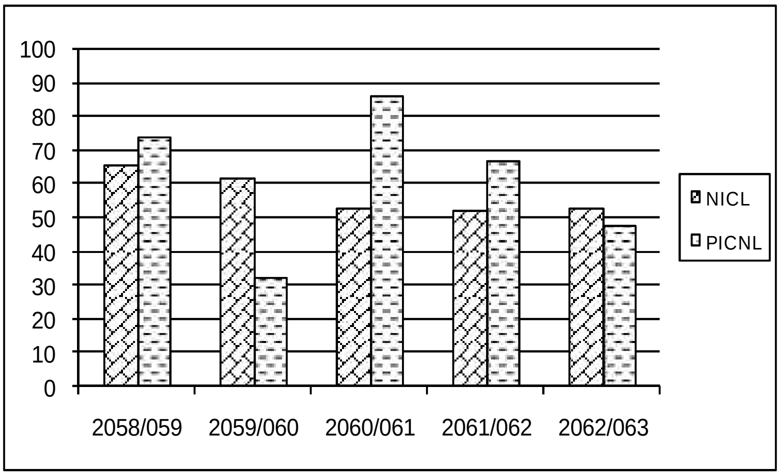
(Rs. in thousands)

FY	NICL			PICNL		
	Investment	Net Worth	Ratio	Investment	Net Worth	Ratio
2058/059	132350	202014	65.52	47317	64129	73.78
2059/060	123200	199598	61.72	22437	69375	32.34
2060/061	111071	209596	52.99	69236	80368	86.15
2061/062	122821	235904	52.06	64892	96278	67.40
2062/063	128300	243238	52.75	53805	113060	47.59
Total			285.04			307.26
Mean			57.01			61.45
S.D			5.54			19.17
C.V			9.71			31.19

Source: Annual Report of NICL and PICNL from 2058/059 to 2062/063.

Figure 4.4

Investment to Net worth Ratio



The mean of ratios of NICL is less than that of PICNL i.e. 57.01<61.45 which shows the higher stability position of PICNL.

The CV of ratios of NICL is less than that of PICNL i.e. 9.71<31.19, which means that PICNL is more homogeneous in respect of variability of ratios.

4.2.2.4 Total Liabilities to Net worth Ratio

The stability position of the company is measured by the total liabilities to net worth ratio. This ratio shows the proportion of outsiders' liabilities and insiders' liabilities. Outsiders' liabilities consist of long term debt plus current liabilities and insiders' liabilities consists of net worth (i.e. share capital, reserves and un-appropriated profit or loss). Outsiders' liabilities in this research study include current liabilities only. The companies haven't used long term debt in its total financing. This ratio is calculated by dividing total liabilities by total of net worth of each study period. Higher ratio shows the higher position of liabilities i.e. the portion of outsiders' liabilities is higher to the company. This is not the favorable condition to the company. This ratio has been shown in Table and figure 4.5.

Table 4.5

Total Liabilities to Net worth Ratio of NICL & PICNL

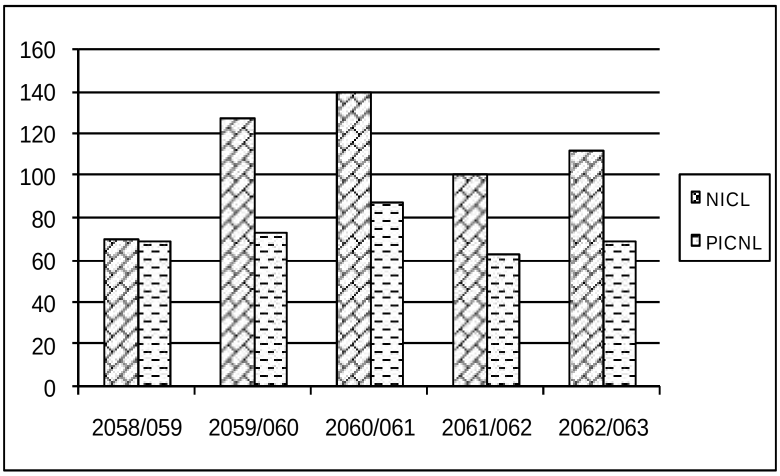
For the year 2058/059 to 2062/063

(Rs. in thousands)

FY	NICL			PICNL		
	Total Liabilities	**Net Worth**	**Ratio**	**Total Liabilities**	**Net Worth**	**Ratio**
2058/059	142543	202014	70.56	44196	64129	68.92
2059/060	254632	199598	127.57	50800	69375	73.23
2060/061	294057	209596	140.30	70794	80368	88.09
2061/062	239592	235904	101.56	60478	96278	62.82
2062/063	272558	243238	112.05	78620	113060	69.59
Total			552.05			362.58
Mean			110.41			72.52
S.D			23.90			8.47
C.V			21.65			11.68

Source: Annual Report of NICL and PICNL from 2058/059 to 2062/063.

Figure 4.5
Total Liabilities to Net worth Ratio



The mean of ratios of NICL is greater than that of PICNL i.e. 110.41>72.52 which shows the higher stability position of PICNL.

The CV of ratios of NICL is greater than that of PICNL i.e. 21.65>11.68, which means that NICL is more homogeneous in respect of variability of ratios.

4.2.3 Profitability Ratios

A Company should earn profit to survive and grow over a long period of time. The profitability ratios are calculated to measure the operating efficiency of the company. All the business parties, owners, debtors and creditors are fully interested to know the profitability situation of the company. Profitability ratios measure the efficiency of the company, which can be determined on the basis of operating income or investment.

The profitability of insurance company depends on the claims admitted. If the casual incidents occur more than that of anticipated, the company can’t achieve its underwriting profit. The number of claims paid determines the volume of profit. So the profitability of NICL & PICNL has been measured to as claims paid to earned premium for individual insurance business, net profit to operating income, operating income to total assets, operating income to net worth, net profit to net worth, net profit to total assets, return on equity and earning per share (EPS).

4.2.3.1 Claim paid to Earned Premium Ratio (Overall)

The underwriting efficiency of company can be disclosed by the claim paid to earned premium ratio (overall). The overall claim paid to earned premium ratio refers the overall business like fire, marine and miscellaneous insurance. The larger ratio is unfavorable for the business and the lesser ratio is favorable for the business. Claim paid to earned premium is calculated by dividing claims paid by earned premium of five years study period respectively. The claim paid to earned premium ratio is calculated and shown in Table and Figure 4.6.

Table 4.6

Claim Paid to Earned Premium Ratio (Overall) of NICL & PICNL

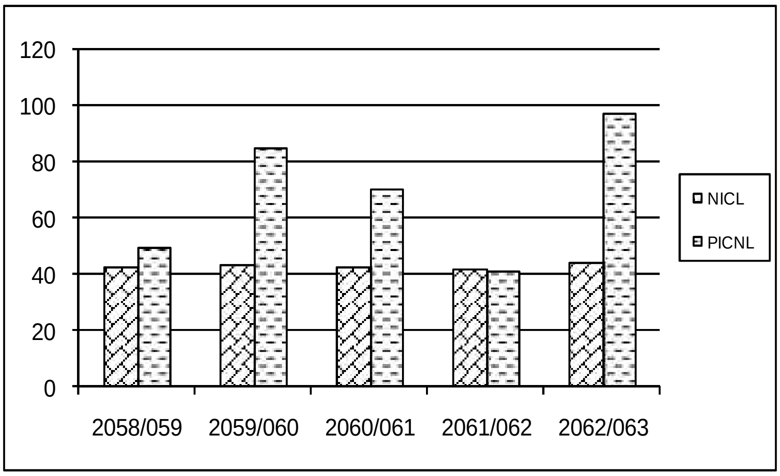
For the year 2058/059 to 2062/063

(Rs. in thousands)

FY	NICL			PICNL		
	Claim Paid	Earned Premium	Ratio	Claim Paid	Earned Premium	Ratio
2058/059	61009	143870	42.41	51133	102483	49.89
2059/060	72122	166822	43.23	84922	99849	85.05
2060/061	79827	187539	42.57	82593	117450	70.32
2061/062	86296	206212	41.85	78768	191439	41.15
2062/063	95039	216076	43.98	93547	96062	97.38
Total			214.04			343.79
Mean			42.81			68.76
S.D			0.74			21
C.V			1.72			30.55

Source: Annual Report of NICL and PICNL from 2058/059 to 2062/063.

Figure 4.6
Claim Paid to Earned Premium Ratio (Overall)



The mean of ratios of NICL is less than that of PICNL i.e. 42.81<68.76 which shows the favorable business position of NICL.

The CV of ratios of NICL is less than that of PICNL i.e. 1.72<30.55, which means that PICNL is more homogeneous in respect of variability of ratios.

4.2.3.2 Net Profit to Operating Income Ratio

It is an indicator of efficient operation and shows the percentage of actual income after deducting of all expenses from the operating income. It is calculated by dividing net profit after tax by operating income. The net profit to operating income ratio of NICL & PICNL is shown in Table and Figure 4.7.

Table 4.7

Net Profit to Operating Income Ratio of NICL & PICNL

For the year 2058/059 to 2062/063

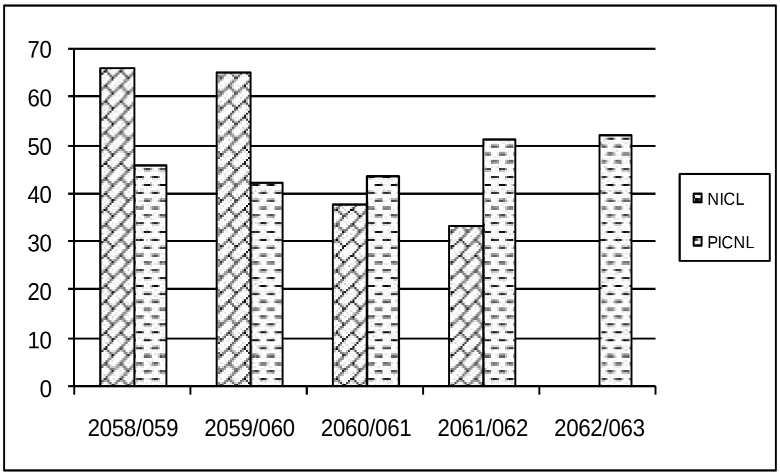
(Rs. in thousands)

FY	NICL			PICNL		
	Net Profit	Operating Income	Ratio	Net Profit	Operating Income	Ratio
2058/059	34345	51811	66.29	8620	18709	46.07
2059/060	28781	44021	65.38	5966	14025	42.54
2060/061	26804	70897	37.81	7536	17189	43.84
2061/062	17364	52069	33.35	14005	27305	51.29
2062/063	25	41500	0.06	13061	24890	52.47
Total			202.88			236.22
Mean			40.58			47.24
S.D			24.40			3.97
C.V			60.14			8.40

Source: Annual Report of NICL and PICNL from 2058/059 to 2062/063.

Figure 4.7

Net Profit to Operating Income Ratio



The mean of ratios of NICL is less than that of PICNL i.e. 40.58<47.24 which shows the higher profitability of PICNL.

The CV of ratios of NICL is greater than that of PICNL i.e. 60.14>8.40, which means that NICL is more homogeneous in respect of variability of ratios.

4.2.3.3 Operating Income to Total Assets Ratio

Operating income to total assets ratio measures the relationship between operating income and total assets. Operating income consist of Income from insurance business, interest on investment and other miscellaneous incomes such as profit on sale of fixed assets, dividend received etc. where as total assets consist of fixed assets and current assets. This ratio is calculated by dividing total operating income by total assets of each study period. Higher operating income to total assets ratio indicates higher efficiency of the company where as lower operating income to total assets ratio indicates lower efficiency of the company. The operating income to total assets ratio of NICL & PICNL is shown in Table and Figure 4.8.

Table 4.8

Operating Income to Total Assets Ratio of NICL & PICNL

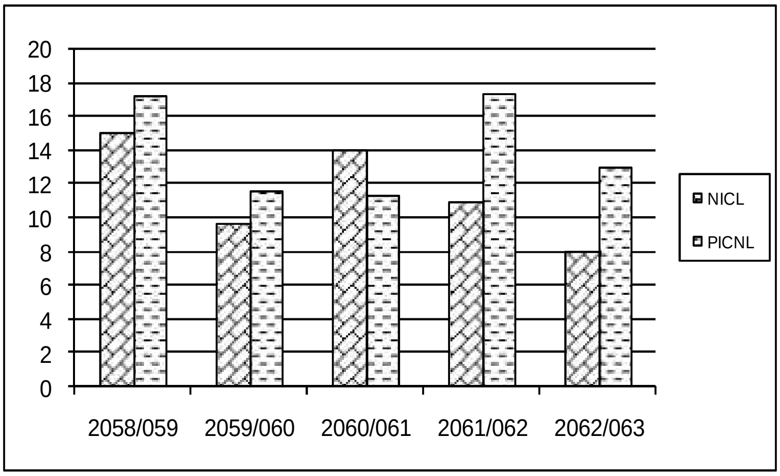
For the year 2058/059 to 2062/063

(Rs. in thousands)

FY	NICL			PICNL		
	Operating Income	**Total Assets**	**Ratio**	**Operating Income**	**Total Assets**	**Ratio**
2058/059	51811	344557	15.04	18709	108325	17.27
2059/060	44021	454230	9.69	14025	120175	11.67
2060/061	70897	503653	14.08	17189	151342	11.36
2061/062	52069	475498	10.95	27305	156756	17.42
2062/063	41500	515797	8.05	24890	191680	12.99
Total			57.80			70.70
Mean			11.56			14.14
S.D			2.63			2.67
C.V			22.77			18.90

Source: Annual Report of NICL and PICNL from 2058/059 to 2062/063.

Figure 4.8
Operating Income to Total Assets Ratio



The mean of ratios of NICL is less than that of PICNL i.e. 11.6<14.14 which shows the higher efficiency of PICNL.

The CV of ratios of NICL is greater than that of PICNL i.e. 22.77>18.90, which means that NICL is more homogeneous in respect of variability of ratios.

4.2.3.4 Net Profit to Total Assets Ratio

Net profit to total assets ratio measures the earning capacity of the company by the proper utilization of fixed assets. This ratio provides the true profitability position of the company. Net profit is the amount which is calculated by subtracting all types of expenses from total operating income where as total assets includes current assets and fixed assets. This ratio is calculated by dividing the net profit after tax by total assets of each of the study period. Higher ratio indicates good earning capacity and efficient utilization of fixed assets where as lower ratio indicates lower earning capacity and utilization of fixed assets. The net profit to total assets ratio of NICL & PICNL is shown in Table and Figure 4.9.

Table 4.9

Net Profit to Total Assets Ratio of NICL & PICNL

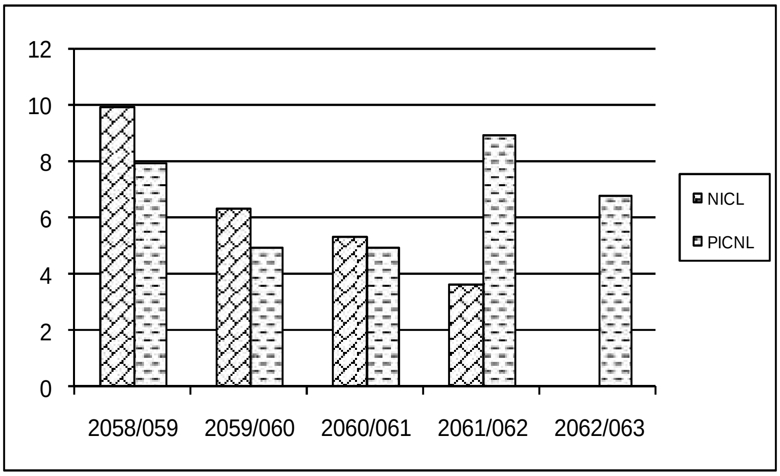
For the year 2058/059 to 2062/063

(Rs. in thousands)

FY	NICL			PICNL		
	Net Profit	Total Assets	Ratio	Net Profit	Total Assets	Ratio
2058/059	34345	344557	9.97	8620	108325	7.96
2059/060	28781	454230	6.34	5966	120175	4.96
2060/061	26804	503653	5.32	7536	151342	4.98
2061/062	17364	475498	3.65	14005	156756	8.93
2062/063	25	515797	0.00	13061	191680	6.81
Total			25.28			33.65
Mean			5.06			6.73
S.D			3.27			1.58
C.V			64.58			23.55

Source: Annual Report of NICL and PICNL from 2058/059 to 2062/063.

Figure 4.9
Net Profit to Total Assets Ratio



The mean of ratios of NICL is less than that of PICNL i.e. 5.06<6.73 which shows the higher earning capacity with proper utilization of fixed assets of PICNL.

The CV of ratios of NICL is greater than that of PICNL i.e. 64.58>22.55, which means that NICL is more homogeneous in respect of variability of ratios.

4.2.3.5 Return on Equity and Net worth Ratio

Profitability of the company can be measured in terms of return on equity and return on net worth. Return on equity can be derived by dividing the net profit after tax by the shareholders' equity and Return on net worth can be determined by dividing the net profit after tax by net worth of the relevant year.

Return on shareholders' equity indicates the efficient utilization of owner's funds. Return on net worth ratio is another profitability ratio which is calculated by assuming the insiders' claim as total inner risk of the company. The net worth of the company includes shareholders' equity, reserves and retained earnings. Return on equity and net worth ratio of NICL & PICNL is shown in Table and Figure 4.10 and 4.11 respectively.

Table 4.10

Return on Equity Ratio of NICL & PICNL

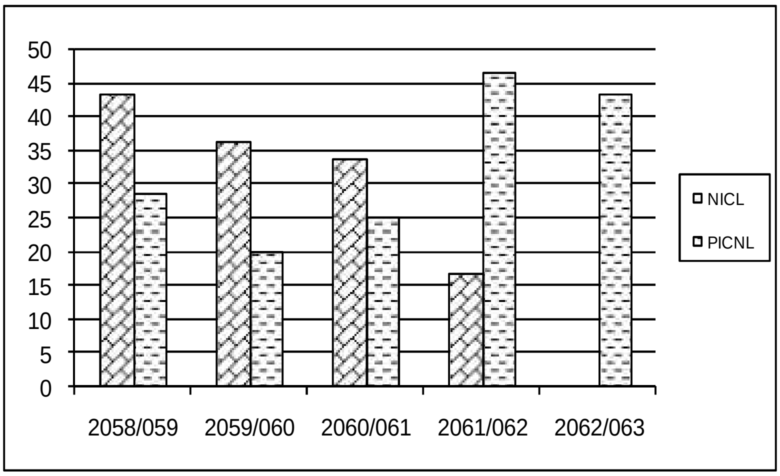
For the year 2058/059 to 2062/063

(Rs. in thousands)

FY	NICL			PICNL		
	NPAT	Equity	Ratio	NPAT	Equity	Ratio
2058/059	34345	78999	43.48	8620	30000	28.73
2059/060	28781	78999	36.43	5966	30000	19.89
2060/061	26804	78999	33.93	7536	30000	25.12
2061/062	17364	102676	16.91	14005	30000	46.68
2062/063	25	102682	0.02	13061	30000	43.54
Total			130.77			163.96
Mean			26.15			32.79
S.D			15.71			10.49
C.V			60.07			31.99

Source: Annual Report of NICL and PICNL from 2058/059 to 2062/063.

Figure 4.10
Return on Equity Ratio



The mean of ratios of NICL is less than that of PICNL i.e. 26.15<32.79 which shows the efficient utilization of owner's funds of PICNL.

The CV of ratios of NICL is greater than that of PICNL i.e. 31.99>26.15, which means that NICL is more homogeneous in respect of variability of ratios.

Table 4.11

Return on Net worth Ratio of NICL & PICNL

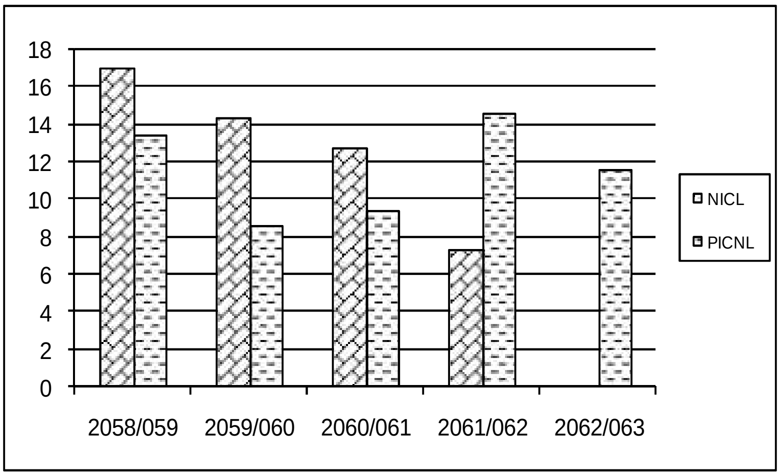
For the year 2058/059 to 2062/063

(Rs. in thousands)

FY	**NICL**			**PICNL**		
	NPAT	**Net Worth**	**Ratio**	**NPAT**	**Net Worth**	**Ratio**
2058/059	34345	202014	17.00	8620	64129	13.44
2059/060	28781	199598	14.42	5966	69375	8.60
2060/061	26804	209596	12.79	7536	80368	9.38
2061/062	17364	235904	7.36	14005	96278	14.55
2062/063	25	243238	0.01	13061	113060	11.55
Total			51.58			57.52
Mean			10.32			11.50
S.D			6.04			2.28
C.V			58.58			19.81

Source: Annual Report of NICL and PICNL from 2058/059 to 2062/063.

Figure 4.11
Return on Net worth Ratio



The mean of ratios of NICL is less than that of PICNL i.e. 10.32<11.50 which shows the higher profitability of PICNL.

The CV of ratios of NICL is greater than that of PICNL i.e. 58.58>19.81, which means that NICL is more homogeneous in respect of variability of ratios.

4.3 Cash Flow Analysis

Cash Flow Analysis helps to understand actual changes in financial position between two periods. It measures the changes that have taken place between two balance sheet dates. It includes cash from operating activities, cash from investing activities and cash from financial activities.

4.3.1 Cash from Operating Activities

This analysis shows the amount of cash derived from operating activities by both insurance companies during the study period. It is seen that PICNL has more operating income than NICL.

(Rs. in thousands)

Year	NICL	PICNL
2058/059	22145	14049
2059/060	(8002)	(6030)
2060/061	6534	1285
2061/062	(27077)	9874
2062/063	17166	(577)
Total	10766	18601
Average	2153.20	3720.20

Source: Annual Report of NICL and PICNL from 2058/059 to 2062/063.

4.3.2 Cash from Investing Activities

The table shows the amount of cash invested by the insurance companies. The average of the investment of NICL is Rs. 12195.40 and that of PICNL is Rs. (5800.40).

(Rs. in thousands)

Year	NICL	PICNL
2058/059	(9736)	(9745)
2059/060	18048	846
2060/061	29320	(9067)
2061/062	17711	(5906)
2062/063	5634	(5130)
Total	60977	(29002)
Average	12195.40	(5800.40)

Source: Annual Report of NICL and PICNL from 2058/059 to 2062/063

4.3.3 Cash from Financing Activities

The table shows the amount of cash derived from the financing activities. The table reveals that it is negative in both insurance companies during the study period.

(Rs. in thousands)

Year	NICL	PICNL
2058/059	(12608)	(3158)
2059/060	(7900)	0.00
2060/061	(7900)	0.00
2061/062	(7900)	0.00
2062/063	(10268)	0.00
Total	(46576)	(3158)
Average	(9315.20)	(631.60)

Source: Annual Report of NICL and PICNL from 2058/059 to 2062/063.

4.4 Common size Statement Analysis

Common size statement analysis is a financial tool of studying key changes and trends in financial position of the company. Common size statement analysis reveals the financial distribution and profitability position of the company. Various trends of different items can be disclosed by common size statement analysis. Common size balance sheet and common size income statement has been analyzed in this topic. Common size balance sheet statement focuses on distribution pattern of assets between CA and FA, and distribution pattern of liabilities as between total current liabilities, insiders and outsiders' liabilities. Common size income statement exhibits the proportions of net income that has been absorbed by various costs and expenses incurred in the company.

In this chapter, financial statements of NICL and PICNL have been analyzed during the year 2058/059 to 2062/063 with the help of respective common size statements.

4.4.1 Common size Balance Sheet Statement

The comparative common size balance sheet statement of NICL and PICNL has been prepared by assuming the total assets and total liabilities as hundred. All the figures in the assets and liabilities sides have been divided by total assets and total liabilities and multiplied by hundred to find out relative percentage of the items respectively.

Common size balance sheet statement of NICL and PICNL is shown in Table 4.12 and 4.13

Table 4.12

Nepal Insurance Company Limited

Comparative Common Size Balance Sheet Statement

For the year 2058/059 to 2062/063

Particulars	Years				
	2058/059	2059/060	2060/061	2061/062	2062/063
Fixed Assets (net)	3.15	2.36	2.19	2.32	2.30
Long Term Investment	38.41	27.12	22.05	25.83	24.87
Total Fixed Assets (A)	41.56	29.48	24.24	28.15	27.17
Total Current Assets (B)	58.44	70.52	75.76	71.85	72.83
Total Assets (A+B)	100.00	100.00	100.00	100.00	100.00
Paid up Capital	22.93	17.39	15.69	21.59	19.91
Reserves	35.70	26.55	25.93	28.02	27.25
Total Capital and Reserves (C)	58.63	43.94	41.62	49.61	47.16
Total Current Liabilities (D)	41.37	56.06	58.38	50.39	52.84
Total Equity and Liabilities (C+D)	100.00	100.00	100.00	100.00	100.00

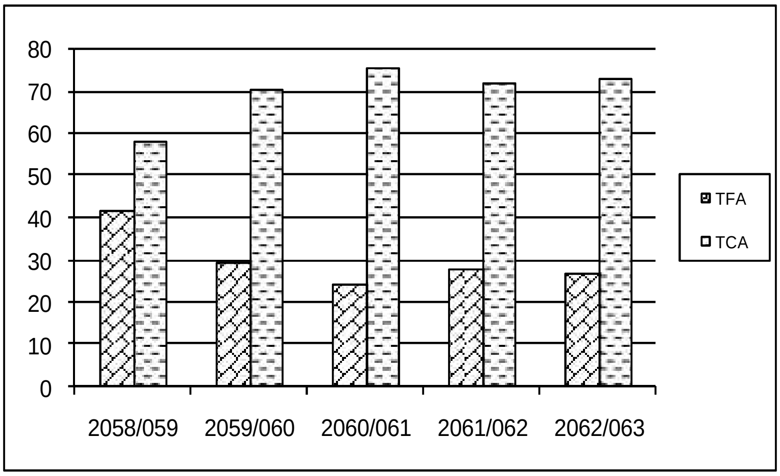
Source: Appendix I

The product of these common size statements values portrays the relative changes within the year of five years period.

The total current assets of the company were in fluctuating trend. It was highest in the year 2060/061 i.e. 75.76% and lowest in the year 2058/059 i.e. 58.44%. The trend of LTI and STI are just opposite. When LTI increases STI decreases and vice versa. The FA and LTI of NICL during study period is also in fluctuating trend. They are higher in the year 2058/059 i.e. 3.15% and 38.41% and lower in the year 2060/061 i.e. 2.19% and 22.05%.

The assets distribution pattern of NICL is shown on Figure 4.12.

Figure 4.12
Assets Distribution Pattern



Like the assets side of the balance sheet, liability side has been converted into common size statement for five years. Total Capital and Reserves and Total Current Liabilities were also in the fluctuating trend during study period. Total Capital and Reserves was higher in the year 2058/059 i.e. 58.63% and lower in the year 2060/061 i.e. 41.62%. Similarly, Current Liabilities was higher in the year 2060/061 i.e. 58.38% and lower in the year 2058/059 i.e. 41.37%. The Capital plus Reserves and Current Liabilities distribution pattern of NICL is shown on Figure 4.13.

Figure 4.13
Capital and Reserves and Current Liabilities Distribution Pattern

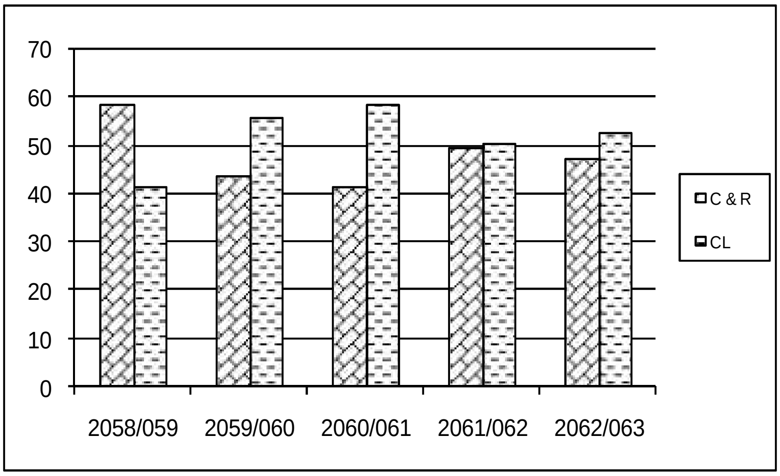


Table 4.13

Premier Insurance Company (Nepal) Limited

Comparative Common Size Balance Sheet Statement

For the year 2058/059 to 2062/063

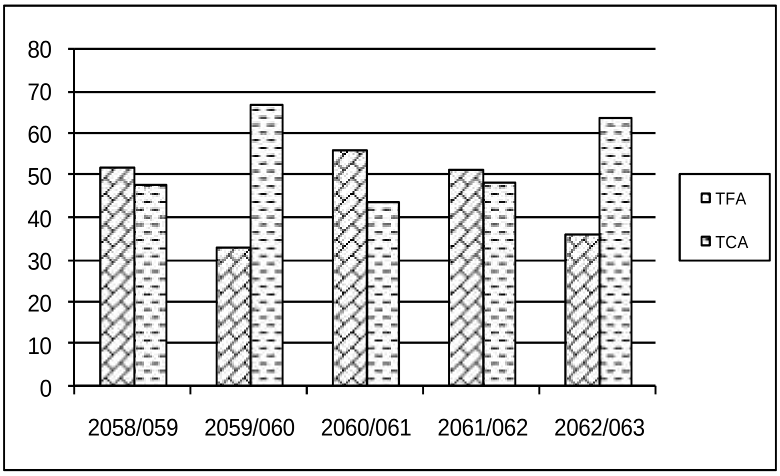
Particulars	Years				
	2058/059	2059/060	2060/061	2061/062	2062/063
Fixed Assets (net)	8.57	14.59	10.58	9.95	7.97
Long Term Investment	43.68	18.67	45.75	41.40	28.07
Total Fixed Assets (A)	52.25	33.26	56.33	51.35	36.04
Total Current Assets (B)	47.75	66.74	43.67	48.65	63.96
Total Assets (A+B)	100.00	100.00	100.00	100.00	100.00
Paid up Capital	27.69	24.96	19.82	19.14	15.65
Reserves	31.51	32.76	33.28	42.28	43.33
Total Capital and Reserves (C)	59.20	57.72	53.10	61.42	58.98
Total Current Liabilities (D)	40.80	42.28	46.90	38.58	41.02
Total Equity and Liabilities (C+D)	100.00	100.00	100.00	100.00	100.00

Source: Appendix I

The total current assets of PICNL were in fluctuating trend. It was highest in the year 2059/060 i.e. 66.74% and lowest in the year 2060/061 i.e. 43.67%. The trend of LTI and STI are just opposite. When LTI increases STI decreases and vice versa. The FA and LTI of PICNL during study period is also in fluctuating trend. FA is higher in the year 2059/060 i.e. 14.59% and lower in the year 2062/063 i.e. 7.97% where as LTI is higher in the year 2060/061 i.e. 45.75% and lower in the year 2059/060 i.e. 18.67%.

The assets distribution pattern of PICNL is shown on Figure 4.14.

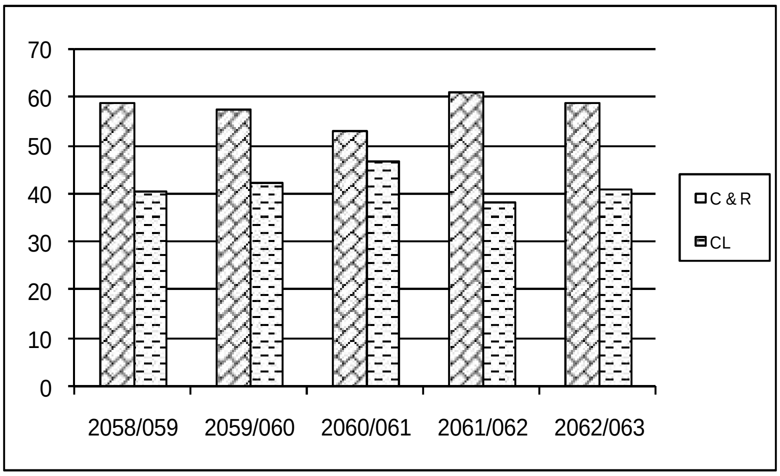
Figure 4.14
Assets Distribution Pattern



Like the assets side of the balance sheet of PICNL, liability side has been converted into common size statement for five years. Total Capital and Reserves and Total Current Liabilities were also in the fluctuating trend during study period. Total Capital and Reserves was higher in the year 2061/062 i.e. 61.42% and lower in the year 2060/061 i.e. 53.10%. Similarly, Current Liabilities was higher in the year 2060/061 i.e. 46.90% and lower in the year

2061/062 i.e. 38.58%. The Capital plus Reserves and Current Liabilities distribution pattern of PICNL is shown on Figure 4.15.

Figure 4.15
Capital and Reserves and Current Liabilities Distribution Pattern



4.4.2 Common size Income Statement Analysis

Common size income statement of the company has been prepared by assuming the total operating income as hundred. All the items of the income statement have been changed according to the percentage wise of the operating income for the total five years period. Table 4.14 and 4.15 and Figure 4.16 and 4.17 reveals the common size income statement and distribution pattern in different items.

Table 4.14

Nepal Insurance Company Limited

Common Size Income Statement

For the year 2058/059 to 2062/063

Particulars	Years				
	2058/059	2059/060	2060/061	2061/062	2062/063
Income from overall business	73.54	68.73	52.34	74.69	72.67
Interest on Investment	25.87	30.59	16.79	20.05	22.19
Other Income	0.59	0.68	30.87	5.26	5.14
Total Operating Income (A)	100.00	100.00	100.00	100.00	100.00
Loss on contractor risk etc.	13.00	18.85	32.26	41.45	72.56
Depreciation	2.48	2.81	1.64	2.35	3.16
Employee Gratuity Fund	0.00	0.00	0.00	1.92	2.41
Loss on sale of Fixed Assets	0.00	0.00	0.00	0.00	0.00
Employee Bonus	7.37	7.26	8.38	5.00	0.73
Provision for Doubtful debts	8.86	3.86	4.57	6.22	14.58
Total Operating Expenditure(B)	31.71	32.78	46.85	56.94	93.44
Profit before Tax (A-B)	68.29	67.22	53.15	43.06	6.56
Less: Income Tax	2.00	1.84	15.34	9.71	6.50
Net Profit after Tax	66.29	65.38	37.81	33.35	0.06

Source: Appendix II

Table 4.15

Premier Insurance Company (Nepal) Limited

Common Size Income Statement

For the year 2058/059 to 2062/063

Particulars	Years				
	2058/059	2059/060	2060/061	2061/062	2062/063
Income from overall business	65.65	45.75	44.14	73.04	69.32
Interest on Investment	32.68	43.08	35.92	23.26	28.79
Other Income	1.67	11.17	19.94	3.70	1.89
Total Operating Income (A)	100.00	100.00	100.00	100.00	100.00
Loss on contractor risk etc.	13.37	13.13	15.89	6.29	1.90
Depreciation	13.27	15.71	11.13	6.60	6.54
Employee Gratuity Fund	2.37	7.42	6.64	5.89	7.88
Loss on sale of Fixed Assets	0.00	0.00	0.00	0.00	0.57
Employee Bonus	7.10	6.38	6.64	8.12	8.32
Provision for Doubtful debts	0.00	0.00	0.00	0.00	0.00
Total Operating Expenditure(B)	36.11	42.64	40.30	26.90	25.21
Profit before Tax (A-B)	63.89	57.36	59.70	73.10	74.79
Less: Income Tax	17.82	14.82	15.86	21.81	22.32
Net Profit after Tax	46.07	42.54	43.84	51.29	52.47

Source: Appendix II

The operating expenditure of NICL has been increased gradually during study period which has decreased the profit every year. During the study period the profit has been decreased from 66.29% to 0.06%. It is due to heavy loss on contractor risk, engineering insurance and excess provision provided for doubtful debts. The net profit of NICL during study period is in decreasing trend because of decreasing income and heavy expenditure.

The net profit of PICNL has been decreased for the first two years and then increased gradually. The company has not provided any provision for bad and doubtful debts in the study period. The income and expenditures are in fluctuating trend. Higher income from insurance was earned in the year 2061/062 i.e. 73.04% where as net profit after tax was highest in the year 2062/063 i.e. 52.47% during study period.

The overall analysis of common size income statement shows that the trend of net profit of the companies depends solely upon depreciation, bonus, gratuity and doubtful debts provisions and heavy loss or profit to be borne from different insurance sectors.

The distribution of Net income after tax and operating income plus tax of NICL and PICNL has been shown in Figure 4.16 and 4.17.

Figure 4.16
Common size Income Statement of NICL

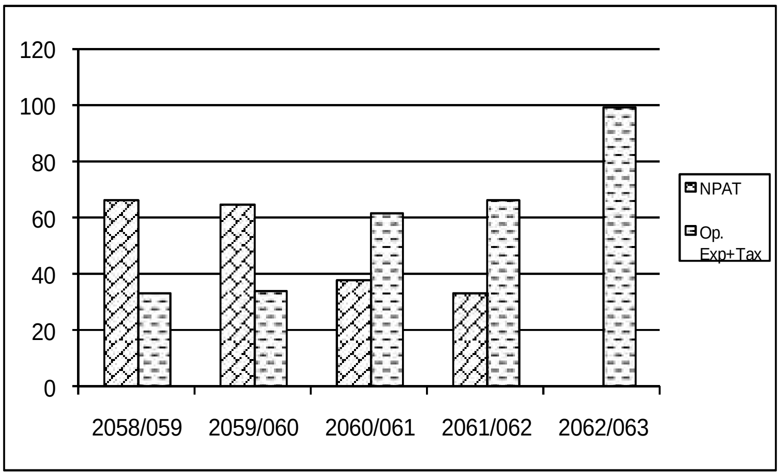
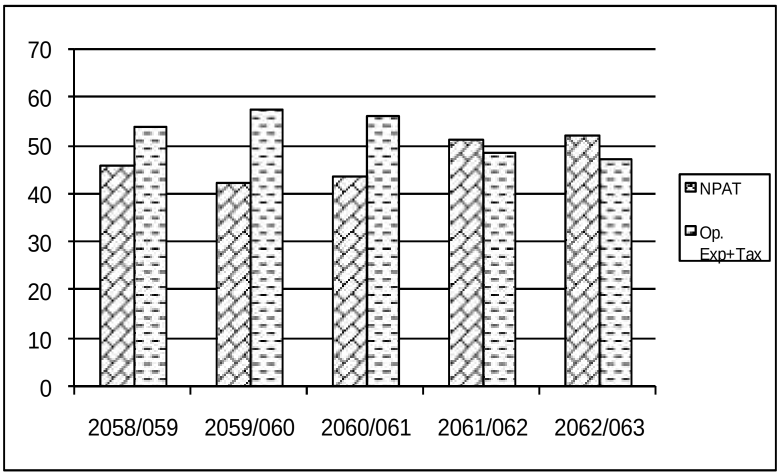


Figure 4.17
Common size Income Statement of PICNL



4.5 Trend Analysis

Trend analysis is the most important statistical tool to interpret the trend of various component stated in financial statement. Trend ratio (analysis) makes easy to understand the changes in an item on a group of items over a period of time and to draw the conclusion regarding the changes in data. For trend analysis, a base year is taken equal to 100 and index numbers are calculated for other years. In this research study, the year 2058/059 has been taken as base year and the amount of the year 2058/059 is 100. Table 4.16 and 4.17 shows the trend ratio of different items of NICL and PICNL.

Table 4.16

Nepal Insurance Company Limited

Trend Analysis from 2058/059 to 2062/063

Particulars	Years				
	2058/059	2059/060	2060/061	2061/062	2062/063
Current Assets	100	159	190	170	187
Current Liabilities	100	179	206	168	191
Investment	100	93	84	92	97
Interest on Investment	100	100	89	78	69
Cash and bank balance	100	111	261	169	235
Earning per share (EPS)	100	84	78	39	0
Book value per share	100	99	104	90	93
Reinsurance comm. Received	100	67	59	85	87
Underwriting P/L (overall)	100	79	97	102	79
Operating income (overall)	100	85	137	100	80
Operating expenses(overall)	100	88	202	180	236
Claim paid (overall)	100	118	131	141	156
Earned Premium (overall)	100	116	130	143	150

Source: Appendix III

The trend of current assets and current liabilities was increasing from the year 2058/059 to 060/061 then decreased in the year 2061/062 and increased again in the year 2062/063. The trend movement of CL was higher than CA. Indication of this trend is that the current position of the company is in fluctuating position during the study period. It is favorable to some extent and unfavorable too.

Investment and Interest on Investment decreased from the base year in all the years. The trend of investment was 100%, 93%, 84%, 92% and 97% whereas the trend of interest on investment was 100%, 100%, 89%, 78% and 69% from the year 2058/059 to 2062/063. Interest on investment was lower because of reduced investment and lower interest rate.

The trend of cash and bank balance was increasing till 2060/061 and then decrease in the year 2061/062 and again increased in the year 2062/063. The trend ratio indicates that the company has kept excess cash balance in the year 2060/061.

The trend of EPS is decreasing continuously during the study period. The trend of earning per share indicates the trend of overall net profit. The trend of EPS declined to 0% in the year 2062/063 which is unfavorable to the company. The trend of book value per share indicates the trend of net worth position too. The book value per share is also in decreasing trend except in the year2060/061. The decreased book value per share indicates that the company hasn’t kept the reserves and surplus as earlier.

Re-insurance commission received is also in decreasing trend. During the study period the trend of re-insurance commission received was 100%, 67%, 59%, 85% and 87% respectively which indicates that the company has lost its market share due to increasing competitive position in insurance market.

The underwriting profit shows the ability of the company in the market. The company is able in the market when it earns underwriting profit. The underwriting profit of NICL was positive in the year 2061/062 and negative in the remaining years of study period which indicates the unfavorable condition.

The trend of operating income is lower than the trend of operating expenditure. It is unfavorable to the company. The trend of operating income was decreasing but the trend of operating expenditure was increasing. It means that the company was unable to generate more surpluses, which shows the unfavorable condition. The trend of operating income and expenditure in the succeeding years of study period was not satisfactory.

The claim paid (overall) of the company is in increasing trend. The increasing trend of claim paid is the bad-luck of the company. The trend was increasing from the base year 2058/059 to 2062/063 as 100%, 118%, 131%, 141% and 156%. The trend shows that the company has to pay heavy claims in the year 2062/063 as compared to other years. This is unfavorable to the company.

The earned premium (overall) of the company is in increasing trend. The earned premium has increased from the base year 2058/059 to 2062/063 as 100%, 116%, 130%, 143% and 150%. The increasing trend of premium earned in higher rate is favorable for the company.

Table 4.17

Premier Insurance Company (Nepal) Limited

Trend Analysis from 2058/059 to 2062/063

Particulars	Years				
	2058/059	2059/060	2060/061	2061/062	2062/063
Current Assets	100	155	128	147	237
Current Liabilities	100	115	160	137	178
Investment	100	47	146	137	114
Interest on Investment	100	99	101	104	117
Cash and bank balance	100	11	76	144	46
Earning per share (EPS)	100	69	87	162	152
Book value per share	100	108	125	150	176
Reinsurance comm. Received	100	72	82	126	86
Underwriting P/L (overall)	100	52	62	162	140
Operating income (overall)	100	75	92	146	133
Operating expenses(overall)	100	89	103	109	93
Claim paid (overall)	100	166	162	154	183
Earned Premium (overall)	100	97	115	187	94

Source: Appendix III

The current assets and current liabilities of PICNL was in increasing trend. The trend movement of CA was higher than CL. Indication of this trend is that the current position of the company is in fluctuating position during the study period. It is favorable to some extent and unfavorable too. The trend of CA and CL was highest in the year 2062/063 during study period.

Investment and Interest on Investment were in fluctuating trend. The trend of investment was 100%, 47%, 146%, 137% and 114%

whereas the trend of interest on investment was 100%, 99%, 101%, 104% and 117% from the year 2058/059 to 2062/063.

Cash and bank balance was in decreasing trend till 2060/061 and then increased in the year 2061/062 and again decreased in the year 2062/063. The trend ratio indicates that the company has kept excess cash balance in the year 2061/062.

The trend of EPS is fluctuating during the study period. The trend of earning per share indicates the trend of overall net profit. The trend of EPS was higher in the year 2061/062 and 2062/063 during the study period which is favorable to the company. The trend of book value per share indicates the trend of net worth position too. The book value per share is in increasing trend. The increased book value per share indicates that the company has kept sufficient reserves and surplus as earlier.

Re-insurance commission received is also in fluctuating trend. During the study period the trend of re-insurance commission received was 100%, 72%, 82%, 126% and 86% respectively which indicates that the company has lost its market share due to increasing competitive position in insurance market.

The underwriting profit shows the ability of the company in the market. The company is able in the market when it earns underwriting profit. The underwriting profit of PICNL was positive in the year 2061/062 and 2062/063 and negative in the remaining years of study period which indicates the unfavorable condition.

The trend of operating income is higher than the trend of operating expenditure. It is favorable to the company. The trend of operating income and expenditure was fluctuating but the trend of operating income was higher than the expenditure. It means that the company was able to generate more surpluses, which shows the favorable condition. The trend of operating income and expenditure in the succeeding years of study period was satisfactory than NICL.

The claim paid (overall) of the company is in increasing trend. The increasing trend of claim paid is the bad-luck of the company. The trend was increasing from the base year 2058/059 to 2062/063 as 100%, 166%, 162%, 154% and 183%. The trend shows that the company has to pay heavy claims in the year 2062/063 as compared to other years. This is unfavorable to the company.

The earned premium (overall) of the company is in fluctuating trend. The earned premium has fluctuated from the base year 2058/059 to 2062/063 as 100%, 97%, 115%, 187% and 94%. The fluctuating trend of premium earned and lower rate of premium earned in the year 2062/063 is unfavorable for the company.

CHAPTER-V

SUMMARY,CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This last chapter includes the summary of the whole research study, conclusion of the study and concrete, remedial measures for the improvement of the weaknesses of the company as recommendations.

5.2 Summary

Risks in different sectors are the hurdles of economic development of the country. Insurance companies share the risk of business and individual's life, which are unpredictable. Insurance business can exist in the market only when the companies can maintain the truth in the eyes of parties. The success of insurance companies depends upon the healthy relationship between the companies and parties. To be successful, the company should evaluate its financial performance in one side. So, in this research study, the financial performance of NICL and PICNL has been evaluated which detects the drawbacks of the company.

Nepal Insurance Company and Premier Insurance Company (Nepal) Limited are the established insurance companies are Nepal. The financial strength and weakness of the company has been evaluated in this research study for the five years period from 2058/059 to 2062/063. This research study has been organized in five different chapters i.e. introduction, Review of Literature, Research Methodology, Presentation and Analysis of Data and summary, conclusion and recommendations.

In the first chapter, a brief introduction of financial institution and insurance business has been discussed. This chapter has included the general background, focus of study, general problems and research problems of the study, objectives of the research etc. Assumption and variable under study are laid down.

In the second chapter the review of literature has been explained. The concept of proposed study, judgmental financial tools and techniques such as ratio analysis, cash flow statement analysis, comparative common size statement analysis and trend analysis have been explained as much as possible. These tools and techniques are used to show the relationship among various figures which shows the favorable and unfavorable position of the company.

For the purpose of the study methodology has been described in the third chapter where research design, nature and sources of data, data collection procedures, population and samples of the study , data processing procedures and use of analytical tools and techniques have been discussed. This methodology has been used in this research study.

In the fourth chapter, financial performance of Nepal Insurance Company Limited and Premier Insurance Company (Nepal) Limited has been measured applying four analytical tools i.e. ratio analysis, cash flow statement analysis, comparative common size statement analysis and trend ratio analysis.

Some of the possible ratios have been calculated and interpreted to measure the financial strength and weakness of the companies. The current ratios of both the companies are in fluctuating position. The stability position of the companies has been measured with the help of stability ratios. Regarding the stability position of the companies, shareholders' reserve to share capital ratio shows the higher stability position of PICNL during the study period. This ratio is satisfactory to some extent for PICNL. Net worth to total assets ratio of NICL is decreasing but the ratio for PICNL is fluctuating during the study period. Decrease in the net worth to total assets ratio is the increase in outsiders' liabilities. This ratio is unfavorable for NICL but satisfactory to some extent for PICNL. Investment to net worth ratio shows the higher stability position of PICNL during the study period but its fluctuating ratio doesn't signify the constant stability position. High investment to net worth is favorable to the company. Total liabilities to net worth ratio of both the companies are in increasing trend which is not the satisfactory position for its stability. Increase in outsiders' liability is the decrease in the ownership capital which is risky for the company.

The profitability ratios have been calculated to measure the operating efficiency of the company. The claim paid to earned premium ratio of NICL is stable to some extent which is satisfactory but is fluctuating for PICNL which is not satisfactory for the company. The net profit to operating income ratio of NICL is decreasing during the study period which is not satisfactory but the ratio shows favorable condition for PICNL as it is in increasing trend. This ratio shows the portion of net profit and operating expenses. Operating income to total assets ratio of both the companies are in fluctuating trend and is not satisfactory for the growth of total profitability. The net profit to total assets ratio is the actual return on total assets which should be higher for the higher profitability of the company. This ratio is fluctuating for both the companies during the study period which has not shown the constant return on assets. Return on equity shows the actual earning in capital. This ratio is decreasing for NICL and fluctuating for PICNL during the study period. The ratio is satisfactory to some extent for PICNL. Return on equity indicates efficient utilization of owners' funds. Return on net worth is favorable to some extent for PICNL as compared to NICL during the study period.

Cash flow statement analysis is prepared to understand the actual changes in financial position of the company. It measures the changes that have taken place between two balance sheet dates. In average cash flows of NICL is higher than PICNL during the study period.

Common size statement analysis reveals the items distribution pattern and profitability position of the company. Common size balance sheet statement analysis has shown that distribution in fixed assets is decreasing where as distribution in current assets is increasing for both the companies. It is seen that assets distribution is maximum in current assets during study period. Most of the resources the companies have acquired to is from ownership capital. No fund is collected from debt financing. The distribution patterns on current liabilities of the companies are increasing but the distribution in total net worth is decreasing during the study period.

Common size income statement analysis showed that the profit of NICL has decreased continuously during the study period. It is due to heavy loss on contractor risk, engineering insurance and excess provision for bad and doubtful debts. The profit of PICNL is fluctuating for the first three years but was able to earn higher profit in the last two years of study period.

Trend ratio analysis is an important tool of financial statement analysis. Trend ratio depicts the changes in a item over a period of time. Trend of CA and CL of both the companies are found favorable. Trend of investment and interest on investment was decreasing in the succeeding years for NICL but was in fluctuating trend for PICNL. The trend of cash and bank balance was fluctuating and increasing for NICL and decreasing for PICNL from the base year i.e. 2058/059. EPS and book value per share of NICL is in increasing trend. EPS of PICNL is fluctuating and increasing while book value per share is in increasing trend. Reinsurance commission received by both the companies has been decreased from the base year which is unfavorable. The trend of underwriting profit of PICNL is satisfactory than that of NICL. The trend of operating expenditure is higher than its operating income for NICL which is unfavorable but the trend of PICNL shows favorable condition as increase in the rate of operating income is higher than the increase in the rate of operating expenditure. The trend of overall claim paid has increased for both the companies which is unfavorable. The trend of earned premium is satisfactory and increasing for NICL but fluctuating for PICNL.

5.3 Findings and Conclusions

Having completed this research up to the analytical framework and summary of the results, the researcher would like to make some highlights about the findings of this study which covers the period of five years from 2058/059 to 2062/063 of NICL and PICNL in following points.

a. Liquidity

The liquidity positions of the companies are in fluctuating trend. The liquidity position of NICL is higher than PICNL during the study period but the liquidity situation is not fully satisfactory for both the companies.

b. Leverage

NICL and PICNL are completely unlevered company. It has not used creditor ship capital and has fully ownership capital.

c. Stability Position

Stability of both the companies are satisfactory during the study period in respect of shareholders' reserve. Net worth's position on total assets of NICL was decreasing and is not on satisfactory position where as this position is satisfactory for PICNL as it is on fluctuating trend. Investment positions on net worth for both the companies are in fluctuating and decreasing trend which doesn't signify constant stability position. Total liabilities are in increasing trend with respect to net worth for both the companies. It should be high.

d. Profitability Position

The profitability position of NICL is in decreasing trend which is not satisfactory. It is satisfactory to some extent for PICNL which is in fluctuating and increasing trend. Claims paid on earned premium of PICNL are higher than that of NICL which is unfavorable. Net profit on operating income on NICL is not satisfactory as it has decreased continuously from 66.29% to 0.06% during the study period but it is satisfactory for PICNL. Operating income on total assets has not revealed the growth position for both the companies as it is in fluctuating trend. Like wise net profit on total assets is not satisfactory to increase its overall profitability for both of the companies. Return on equity for NICL is very low for the year 2062/063 and has decreased continuously during the study period. It is satisfactory for PICNL. Return on net worth showed the same situation of profitability for both the companies as ROE.

e. Cash Flow Analysis

Cash flow analysis shows that both the insurance companies are in fluctuating trend in respect to inflow and outflow of cash during the study period. The cash from operating activities during the study period of PICNL is higher than that of NICL which indicates the operational efficiency of PICNL. Again cash from investment activities indicates the outflow of cash as investment more opportunity got by NICL in investment activities. Similarly cash from financing activities is higher for PICNL which is the indication of public acceptance of service of the company during the study period.

f. Common Size Statement

Assets distribution pattern showed that both of the companies have invested its assets in current assets in the succeeding years of study period. Most of the resources of the companies have been acquired from permanent sources but it is completely from ownership capital. Total current claim for both the companies are increasing. Profit position of NICL is very low in the year 2062/063 and is in decreasing trend during the study period. It is satisfactory for PICNL.

g. **Trends**

Trend of underwriting profit was lower during the study period for NICL but was fluctuating and increasing for PICNL. EPS and book value per shares are in decreasing trend for NICL and in increasing trend for PICNL which is detrimental for the company. The trend of earned premium of NICL is increasing but fluctuating for PICNL. Due to the low interest rate, the trend of interest on investment is decreasing for NICL but is in increasing trend for PICNL.

5.4 Recommendations

In Nepal twenty five insurance companies are operating their insurance business. Among these, NICL and PICNL are non-life insurance companies. The companies' financial strength and weakness has been evaluated as far as possible in this research study. At the end of this study, the following measures are recommended to secure the best financial performance of NICL and PICNL.

a. **Strategic Plans and Polices:** The companies have not earned sufficient underwriting profit. For this the companies should search lots of business and parties where possibility of risk in future is less. The companies should make solid marketing strategy; it has not made efficient marketing policies and strategies during the study period which is reflected by its underwriting profit.

b. **Increase in Unhealthy Competition:** The competition in insurance business in Nepal is increasing by leaves and bounds. The companies should maintain good faith in public without doing unhealthy competition. The companies should think inherently that "good performance, good demand."

c. **Training and Career Development:** Insurance business is semi technical business. So proper training and development programs should be conducted by the company to its personnel and agents to increase industrial relationship.
d. **Consciousness of People:** The people (both educated and uneducated) are not fully familiar with insurance and security. So, the companies should conduct knowledgeable programs about insurance to the people in some extent.
e. **Good Relationship with Stakeholders:** The companies should maintain keen relationship among themselves, business and industries, customers, government, agents and reinsurance companies.
f. **Search of New Market:** The companies should search other more area to invest its fund because of the decrement in interest rate in banking sector.
g. **Creation of Risky Environment:** Nowadays, fire, robbery, accidents, revolution, economic inflation, depression in industry and business etc. are increasing. So, the company should search such area from where possible risks can be minimized.
h. The companies should adopt selective approach continuously with effective result.
i. Beema Samiti (the controlling body of insurance business) should be made more effective to provide security in insurance business.
j. The companies should work more efficiently on customer relationship building and provide qualitative service to promote their business.

5.5 Recommendations for further Researchers

This research study has been done on “Financial Performance Analysis of Insurance Companies of Nepal” with special reference to Nepal Insurance Company Limited and Premier Insurance Company (Nepal) Limited from the fiscal year 2058/059 to 2062/063. The researcher suggests to the further researchers to perform the research study on the topic under noted.

- Comparative study of life insurance companies.
- Market share coverage of Nepal Insurance Company Limited.
- Market share coverage of Premier Insurance (Nepal) Private Limited.
- Comparative profitability of fire, marine and miscellaneous insurance business.

APPENDIX I

COMMON SIZE BALANCE SHEET STATEMENT OF NEPAL INSURANCE COMPANY LIMITED

Particulars	Years					
	2058/059		2059/060		2060/061	
	Amount	%	Amount	%	Amount	
Net Assets	10,854.00	3.15	10,698.00	2.36	11,013.00	2.
Long Term Investment	132,350.00	38.41	123,200.00	27.12	111,071.00	22
Sub Total	**143,204.00**		**133,898.00**		**122,084.00**	
Current Assets	201,353.00	58.44	320,332.00	70.52	381,569.00	75
GRAND TOTAL-ASSETS	**344,557.00**	**100.00**	**454,230.00**	**100.00**	**503,653.00**	**10**
Paid up Capital	78,999.00	22.93	78,999.00	17.39	78,999.00	15
Reserves	123,015.00	35.70	120,599.00	26.55	130,597.00	25
Sub Total	**202,014.00**		**199,598.00**		**209,596.00**	
Current Liabilities	142,543.00	41.37	254,632.00	56.06	294,057.00	58
GRAND TOTAL-LIABILITIES	**344,557.00**	**100.00**	**454,230.00**	**100.00**	**503,653.00**	**10**

COMMON SIZE BALANCE SHEET STATEMENT OF PREMIER INSURANCE COMPANY (NEPAL) LIMITED

Particulars	Years					
	2058/059		2059/060		2060/061	
	Amount	%	Amount	%	Amount	
Net Assets	9,288.00	8.57	17,532.00	14.59	16,019.00	10
Long Term Investment	47,317.00	43.68	22,437.00	18.67	69,236.00	45
Sub Total	**56,605.00**		**39,969.00**		**85,255.00**	
Current Assets	51,720.00	47.75	80,206.00	66.74	66,087.00	43
GRAND TOTAL-ASSETS	**108,325.00**	**100.00**	**120,175.00**	**100.00**	**151,342.00**	**10**
Paid up Capital	30,000.00	27.69	30,000.00	24.96	30,000.00	19
Reserves	34,129.00	31.51	39,375.00	32.76	50,368.00	33
Sub Total	**64,129.00**		**69,375.00**		**80,368.00**	
Current Liabilities	44,196.00	40.80	50,800.00	42.28	70,974.00	46

GRAND TOTAL-LIABILITIES	108,325.00	100.00	120,175.00	100.01	151,342.00	10

APPENDIX II

COMMON SIZE INCOME STATEMENT OF NEPAL INSURANCE COMPANY LIMITED

Particulars	**Years**					
	2058/059		**2059/060**		**2060/061**	
	Amount	%	Amount	%	Amount	
Income from overall Business	38104	73.54	30255	68.73	37107	52
Interest on Investment	13402	25.87	13468	30.59	11906	16
Other Income	305	0.59	298	0.68	21884	30
Total Operating Income	**51811**	**100.00**	**44021**	**100.00**	**70897**	**10**
Loss on Cont. Risk & Engg	6733	13.00	8296	18.85	22870	32
Depreciation	1283	2.48	1236	2.81	1165	1.
Employee Gratuity Fund	0	-	0	-	0	
Loss on Sale of FA	0	-	0	-	3	0.0
Employee Bonus	3816	7.37	3198	7.26	5943	8.
Prov. For doubtful debts	4600	8.86	1700	3.86	3237	4.
Total Operating Exp	**16432**	**31.71**	**14430**	**32.78**	**33218**	**46**
Profit before Tax	**35379**		**29591**		**37679**	
Less: IT	1034	2.00	810	1.84	10875	15
Net Profit after Tax	**34345**	66.29	**28781**	65.38	**26804**	37

COMMON SIZE INCOME STATEMENT OF PREMIER INSURANCE COMPANY (NEPAL) LIMITED

Particulars	**Years**					
	2058/059		**2059/060**		**2060/061**	
	Amount	%	Amount	%	Amount	
Income from overall Business	12282	65.65	6416	45.75	7588	44
Interest on Investment	6115	32.68	6042	43.08	6174	35
Other Income	312	1.67	1567	11.17	3427	19
Total Operating Income	**18709**	**100.00**	**14025**	**100.00**	**17189**	**10**
Loss on Cont. Risk & Engg	2502	13.37	1842	13.13	2732	15
Depreciation	2482		2203		1913	

		13.27		15.71		11
Employee Gratuity Fund	443	2.37	1041	7.42	1142	6.
Loss on Sale of FA	0	-	0	-	0	
Employee Bonus	1328	7.10	894	6.38	1140	6.
Prov. For doubtful debts	0	-	0	-	0	
Total Operating Exp	**6755**	**36.11**	**5980**	**42.64**	**6927**	**40**
Profit before Tax	**11954**		**8045**		**10262**	
Less: IT	3334	17.82	2079	14.82	2726	15
Net Profit after Tax	**8620**	46.07	**5966**	42.54	**7536**	43

APPENDIX III

TREND ANALYSIS OF NEPAL INSURANCE COMPANY LIMITED

Particulars					**Years**	
	2058/059		**2059/060**		**2060/061**	
	Amount	%	Amount	%	Amount	
Current Assets	201353	100	320332	159	381569	19
Current Liabilities	142543	100	254632	179	294057	20
Investment	132350	100	123200	93	111071	84
Interest on Investment	13402	100	13468	100	11906	89
Cash & Bank Balance	18725	100	20870	111	48824	26
EPS	43.48	100	36.43	84	33.93	78
Book Value per share	255.72	100	252.66	99	265.31	10
Reinsurance comm. Received	29337	100	19548	67	17184	59
Underwriting P/L	38104	100	30255	79	37107	97
Operating Income	51811	100	44021	85	70897	13
Operating Expenses	16432	100	14430	88	33218	20
Claim Paid	61009	100	72122	118	79827	13
Earned Premium	143870	100	166822	116	187539	13

TREND ANALYSIS OF PREMIER INSURANCE COMPANY (NEPAL) LIMITED

Particulars					**Years**	
	2058/059		**2059/060**		**2060/061**	
	Amount	%	Amount	%	Amount	%
Current Assets	51720	100	80206	155	66087	128

Current Liabilities	44196	100	50800	115	70794	160
Investment	47317	100	22437	47	69236	146
Interest on Investment	6115	100	6042	99	6174	101
Cash & Bank Balance	5802	100	618	11	4399	76
EPS	28.73	100	19.89	69	25.12	87
Book Value per share	213.76	100	231.25	108	267.89	125
Reinsurance comm. Received	20611	100	14875	72	16900	82
Underwriting P/L	12282	100	6416	52	7588	62
Operating Income	18709	100	14025	75	17189	92
Operating Expenses	6755	100	5980	89	6927	103
Claim Paid	51133	100	84922	166	82593	162
Earned Premium	102483	100	99849	97	117450	115

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