Chapter -I
INTRODUCTION

1.1 Background of the Study

Financial companies occupies quite an important place in the frame work of every economy because it provides capital for the development of industry, trade and business investing the saving collected as deposits. Besides that these companies render a numerous services to their customer in view of facilitating their economic and social life. All the economic activities of each and every country are influenced by such kind of business in that country,

The increasing establishment and growth of the finance companies in the country is the result of economic liberalization policy of the government. In the eighth plan (1992-97), it has been clearly stated that "The vacuum in the present national financial system needs to be filled by institutionally developed capital market institutions like finance companies, investment companies, and leasing and housing finances in order to create a healthy, competitive financial sectors". With this statement and the government policies, many finance companies have been registered. Out of them, 78 finance companies are in operation till date according to Nepal Rastra Bank. Now with the proper utilization of small savings of the people, it will also contribute in the main agenda of tenth plan "Poverty allevation". As per government rules all the finance companies are public limited companies. That's why it is very essential to monitor and analyze the performance of these companies for the regular benefit of both public as well as nation. This study tries to analyze the investment policies of finance companies as far as possible on the basis of available data.

The increasing number of domestic commercial banks, joint venture banks and financial institutions has created a competitive environment in financial sector. The investment opportunities of trade, industry, agriculture and other sectors have not comparatively been extended and on the other hand, Nepal Rastra Bank has declared that there must be Rs. 15 crore, 5 crore, 2 crore and Rs. 1 crore as paid up capital for leasing and finance company, only finance company based in Kathmandu, only finance company for outside the valley (Eastern, Central and Western Development Region), finance company that operates on only one district (Western and Far Western Development Region) respectively. Thus, it is clear that finance companies have to face numerous difficulties to mobilize their deposit funds on the profit making investment so that they can achieve sufficient return from the investment and satisfy their shareholders giving adequate return on their equity.

Nowadays, when any new financial company floats shares through capital market, very big congregation gathers to apply for owner certificate. It indicates their expectation on higher return of investment in shares. Most of the investor have little knowledge about the investment opportunities of such companies and having traditional concept that they can earn dividend from such shares and they forget the increasing no. of financial institutions and less possibility of investment opportunities. To mobilize their funds in a good manner, it should be invested in those potential sectors, which are appropriate from security, marketability, profitability and liquidity point of view.

Financial development is one of the key indicators of economic development of any country. Financial institution provides regular energy for investment, which is needed for economic development. In the financial sector, new institutions, instruments and financial innovations emerge in response to the need of national economy.

Nepali is an under developed country and there is a need for additional capital investment to earn higher rate of economic growth. Domestic saving and foreign capital (grants and loans) are two principal sources of capital available for investment. Among them, domestic saving is the most important and stable source of capital.

Nepal has relatively low growth rate to savings. For example in 2006 gross domestic earning as percent of GDP remained only 2.7%. Foreign capital mostly as loan is the long term’s liability, which needs to be rapaid in terms of foreign currency. Moreover the country cannot depend on foreign loans forever. Therefore, financial development is essential to meet the growing demand for capital in the country.

After 1990, HMG has adopted the policy of economic liberalization. The initiative in this policy pushes to added efficiency, which in truth is assumed by operation of market forces. This policy has given more important role to the private sector. Financial liberalization policy is an important part of economic policy. Under this policy, the Government has adopted liberal policy for the establishment, growth and development of new commercial banks and finance companies on a competitive basis. Because of this, 144 finance companies have already registered at Company Register Office through out the country and 78 had already started their operations. Therefore, this study justifies the need of evaluation and analysis of the performance of those companies.

1.2 Statement of Problem

Investment is the most important factor from the shareholders and a company's management point of view. Though several commercial bank have been established in the country within short span of time, sufficient return could not been achieved and strong, stable and appropriate investment policy has not been followed by these institutions. Due to throat-cut competition of financial environment, these companies seem to be ready to grant much more loan, advances and other facilities against their client's insufficient deposit. Unsecured loan and investment may cause the liquidation of those commercial bank. If the funds are wrongly invested without thinking any financial risk, business risk and other related facts, the company cannot obtain profitable return as well as sometimes it may lose its principal. Investment policy may differ from one company to another but there is no optimum utilization of shareholders fund to have greater return in any commercial bank. Nepal Rastra Bank (NRB) has also played important role to make these companies to invest their funds in a good sector. For this purpose, NRB has imposed many rules and regulations so that they can have sufficient liquidity and security.

Though most of the commercial banks have been successful to earn profit from fund mobilization, none of them seems to be capable to invest their entire fund in a more profitable sector. Besides these, unnecessarily ore portion than the actual need on cash and bank balance. Whereas only fewer portions of them have been invested due to limit and narrow capital market and investment opportunities. Sometimes, they bear as a risk-taker and sometimes they don't take the risk to mobilize their idle fund those investments, which have lower risk and comparatively greater profit. Another problem is diversification in investment. It is found that some of the companies have diversified their investment in different fields like housing, hire purchase and institutional investment whereas some of them are not successful to invest their funds in different areas.

In this study, the analysis of Everest Bank Ltd. will be analyzed comparing with each other. The following are the major questions those are being identified for the purpose of this study in terms of each finance company in comparison to their companies:

- Is the liquidity position of the companies satisfactory?
- Are there any differences in growth aspect of each company?
- How is the profitability of each selected companies? Are they similar and
- Is the investment strategy of these companies is successful to utilize its available fund or not?
- Is there any stability in fund mobilizing policy or not?

1.3 Objectives of the Study

The main objective of this study is to measure financial performance of Everest bank Ltd. The other specific objectives of this study are given as below:

- To evaluate the liquidity, efficiency and profitability positions in related to fund mobilization of above listed companies.
- To evaluate the growth ratios of loan and advances and total investment with respective growth rated of total deposits and net profit of the companies.
- To find out the relationship between deposits and total investment, deposit and loans and advances, and net profit and outside assets of the listed companies.
- To evaluate the trends of deposit utilization and its projection for next five years in case of these companies.

1.4 Significance of the Study

This research will help commercial banks to assess their investment strategies and policies to cope with changing competition among financial institutions. This study specially focuses on investment analysis of selected finance companies on the basis of financial ratios, regression analysis and correlation analysis. The comparative analysis on the study of investment among finance companies will help the researchers, investors, creditors and other stakeholders to analyze the financial position, investment effectiveness and strategies of financial institutions. Further, without any doubt, this research study will be very helpful to other researchers for similar studies.

1.5 Limitations of the Study

This study will be limited by following points:

- The whole study is based on secondary data collected from Everest Bank Ltd.
- The study concerns only a period of 5 years i.e. from 2060 to 2064 Hence, the conclusion confines only to the above period.
- There are many factors that affect investment decision and valuation of the firm. However, only those factors, which are related with investment, are considered in this study.
- The data, which are related to fund mobilization as loan and advances and investment on government securities and other financial institutions, are considered.

1.6 Scheme of the Study

This study ahs been organized as follows;

Chapter one deals with *introduction*. It covers introduction of background of the study, statement of problems, objectives of the study, scope of study, limitations of the study and scheme of the study.

Chapter two comprises *the review of literature*. It is divided into two parts. The first part of the review deals mainly with the theoretical and historical information related to finance companies, development of finance companies in developed countries, Asian countries and in Nepal. The next part covers the review of related literature from books, journals, seminar papers and publications relating to finance companies and investment analysis.

Chapter three deals with *research methodology* that consists of research design, source of data, population and sample, statistical tools and method of analysis.

Chapter four includes *data presentation and analysis*.

Chapter five is concerned of the *summary, conclusion and recommendations* of the study.

CHAPTER - II
REVIEW OF LITERATURE

The review of literature basically highlights the existing literature and research work related to the present research being conducted with the view of finding out what had been already explained by the authors and researchers and how the current research adds further benefits to the field of research. This review of literature had been classified into three subgroups as follow.

- Conceptual Review
- Reviews of journal and articles
- Review of related studies

2.1 Conceptual Review

2.1.1 Bank

Banking, transactions carried on by any individual or firm engaged in providing financial services to consumers, businesses, or government enterprises. In the broadest sense, banking consists of safeguarding and transfer of funds, lending or facilitating loans, guaranteeing creditworthiness, and exchange of money. These services are provided by such institutions as commercial banks, savings banks, trust companies, finance companies, and merchant banks or other institutions engaged in investment banking. A narrower and more common definition of banking is the acceptance, transfer, and, most important, creation of deposits. This includes such depository institutions as commercial banks, savings and loan associations (more common in the United States), building societies, and mutual savings banks. All countries subject banking to government regulation and supervision, normally implemented by central banking authorities. For further information on central banks and investment banking, see the relevant articles.

2.1.2 Concept of Commercial Bank

Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing activities to borrowers, individual business firms and services from the producers to customers and the financial activities of the government. They provide a large portion of the medium of exchange and they are media through monetary policy is affected. These facts show that the commercial banking system of the nations is important for the functioning of the economy.

Banks are business firm; like Frisbee Manufacturer, fast food chains and textbook publishers, bankers buy inputs, message them a bit, burn a little incense, say the magic words, and out pop some output from the oven. If there lick holds, they sell the finished product for more than it costs to buy the raw materials in the first place. For bankers, the raw materials are money.

Evaluation of financial performance is a study of overall financial position of any organization. It is closely related to the decision making. In the modern context, it gives vital support for the investment decisions, financing decisions and dividend decisions. Financial performance analysis is undergone with the help of periodically made financial statements of the firm.

2.1.3 Financial Statements

"The Financial Statements are the means of presentation of a firm's financial condition and basically consist of two types of statements - The Balance Sheet & Income Statement. These are prepared to report the overall business activities as well as financial status of the firm for a specified period to its stakeholders. These contain summary of information regarding financial affairs that is organized systematically. The top management is responsible for preparing these statements.

The basic objective of financial statements is to assist in decision making. The analysis and interpretation of financial statements depend on the nature and type of information available there in" (Panday; 2004).

Hence financial statement refers to any formal and original statement that discloses the financial information related to any business concern during a period. The income statements and balance sheet usually prepared at the end of each financial year show the firm's position.

A) Balance Sheet

"Balance sheet is one of the basic financial statements of an enterprise. It is also called the fundamental accounting report. As the name suggests, the balance sheet provide information about financial standing or a position of a firm at a particular point of time usually end of the financial year. It can be visualized as a snapshot of the financial status of a company" (Khan and Jain; 1993).

Balance sheet summarizes the assets, liabilities and owner's equity of a business at a moment of time, usually at the end of the financial year. Balance sheet is a financial statement, which contains information regarding different capital expenditures made on purchase of assets on particular date and information regarding various sources of funds acquired by the business concern to finance these assets and also the different sources of capital and liabilities at that particular point of time.

B) Income Statement

"Income statement is designed to portray the performance of the business firm for specific period of time i.e. for a year or month or quarter. The business revenues and expenses resulting from the accomplishment of the firms operation are shown in the income statements. It is the "Scoreboard" of the firm's performance during particular period of time. It shows the summary of revenues, expenses and net income or loss of a firm for a particular period of time. Income statement also serves as a true measure of the firm's profitability"**.**

2.1.4 Financial Performance Analysis

"Financial Analysis is the process of determining financial strengths and weaknesses of a company by establishing strategic relationship between the components of a balance sheet and profit and loss statement and other operative data" (Pandey; 1999).

“Financial Statement Analysis involves the use of various financial statements. These statements perform several things. First, the balance sheet summarizes the assets, liabilities and owner’s equity of a business at a moment in time, usually the end of a year or a quarter. Next, the income statement summarizes the revenues and expenses of the firm over a particular period of time, again usually a year or quarter. While the balance sheet represents a snapshot of the firm’s financial position at a moment in time, the income statement depicts a summary of the firm’s profitability over time. From these two statements certain derivate statements can be produced, such as statement of retained earnings, a sources and uses of funds statements and a statement of cash flows etc (Van Horne; 1998).

“Financial Analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. (Pandey, 2004). Analyzing financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a firm's position and performance” (Metcalf; 1976).

“Financial Statement Analysis allows managers, investors and creditors as well as potential investors and creditors to teach conclusion about the recent and current status of a corporation” The checking of financial performance in a business deserves much attention in carrying out the financial position. It also requires to retrospective analysis for the purpose of evaluating the wisdom and efficiency of financial planning. Analyzing of what has happened should be of great value in improving the standards, techniques and procedures of financial control involved in carrying out finance function” (Kuchhal; 1982).

The four basic statements contained in the annual report are the balance sheet, the income statement the statement of the retained earnings and the statement of cash flows. Investors use the information contained in these statements to form expectations about the future levels of earnings and dividends and about the risks of these expected values. Financial statement analysis generally begins with the calculation of a set of a financial ratios designed to reveal the relative strength and weakness of a company as compared to other companies in the same industry, and to show whether the firm's position bas been improving or deteriorating over time. (Weston, 1996). Financial analysis is that sort of calculation which is done with the help of annual report. And the annual report would contain the essentials for such analysis. So the data retrieved from the annual report is indispensable for the financial analysis.

It is both an analytical and judgmental process that helps answer questions that have been properly posed. Therefore, it is means to end. Apart from the specific analytical answer, the solutions to financial problems and issues depend significantly on the views of the parties involved, the related importance of the issue and on the nature and reliability of the information available" (Helfert, 1992).

"Financial appraisal is a scientific evaluation of profitability and financial strength of any business concern. Financial appraisal is the process of scientifically making a proper, critical and comparative evaluation of the profitability and financial health of a given concern through the application of the techniques of financial statement analysis. A complete financial analysis and interpretation of financial statement involves the assessment of past business performance, an evaluation of the present condition of the business and the predictions about the future potential for achieving expected or desired results"(P. K. Jain;1996).

"The Analysis and interpretation of financial statement depicts the actual position of a firm regarding the objectives of that firm within a specified period of time. "Financial appraisal is a process of synthesis and summarization of financial and operative data with a view to get an insight into the operative activities of a business enterprise. It is a technique of X-raying the financial position as well as progress of a concern" as observed by Wessel.

"Financial statement analysis involves a comparison of firm's performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strengths and correct its weaknesses" (Weston 1996).

"Financial Performance Analysis is used primarily to gain insight into operating and financial problems confronting the firms with respect to these problems. We must be careful to distinguish between the cause of problem and symptom of it. It is thus an attempt to direct the financial statements into their components on the basis of purpose in the one hand and establish relationships between these components and between individual components and totals of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization" (Hampton; 1998).

Much can be learnt about business performance and financial position through appraisal of financial statements, the appraisal or analysis of financial statements spotlights the significant facts and relationship concerning managerial performance, corporate efficiency, financial strength and weakness and credit worthiness that would have otherwise been buried in a maze of details (Jain; 1996).

2.1.5 Objectives of Financial Performance Analysis

Financial Analysis enables us to explore various facts related to the past performance of business and predicts about the future potentials for achieving expected results. Major objectives of analysis of financial statement are to assess various factors in relation to the business firm as presented below.

- The present and future earning capacity or profitability of the concern
- The operational efficiency of the concern as a whole, and of its various parts or departments.
- The short-term and long-term solvency of the concern.
- The comparative study regarding to one firm with another firm.

- The possibility of developments in the future making future forecasts and preparing budgets.
- The financial stability of business concern,
- The rea1meaning and significance of financial data,
- The long term liquidity of its fund.

2.1.6 Need of Financial Performance Analysis/ Financial Statement Analysis

The need for the Analysis of financial statement arises in order to address the following questions (Pradhan 2000).

- How was the firm doing in the past? Was there any problem? If so, in what Area?
- How it is doing at present? Is it doing better compared to the past performance, competitors and industry average? Is there any problem at present? If so, in what areas?
- What about the future? Is there any likely problem on the way in the future? What will its position be in the future?
- What corrective actions can be taken now to solve the problems and improve the performance? How will the recommendation of any course of actions or changes in the policy or practice help solve problems and improve the company's position?
- What are the expected results of recommendations? Are there any improvements?

2.1.7 Significance of Financial Analysis

Significance of Analysis lies on the objectives of financial analysis of any firm. The facts discovered by the analysis are perceived differently by different groups associated with the concern. The facts and the relationships concerning managerial performance, corporate efficiency, financial strengths and weaknesses and credit worthiness are interpreted on the basis of objectives.

“Such Analysis leads management of an enterprise to take crucial decisions regarding operative policies, investment value of the firm, internal financial control system and bargaining strategy for funds from external sources”(Agrawal 1993).

“The parties that are benefited by the results or conclusion drawn from the analysis of financial performance can be numerated as” (Srivastava, 1993)

- Top Management
- Creditors
- Shareholders
- Economists
- Labor Unions

A) Top Management

The responsibility of the top management is to evaluate:

- Are the resources of the firm has been used effectively and efficiently?
- Is the financial condition of the firm sound enough?

On the basis of past facts, firms can anticipate their future. Hence, top management can measure the success or failure of a company's operations, determine the relative efficiency of various departments, process and products appraise the individual's performance and evaluate the system of internal audit.

B) Creditors

The creditors can find out the financial strength and capacity of the borrower to meet their claims. Trade creditors are interested in the firm's ability to meet their claims over a short span of time. The suppliers of long term debt focus upon the firm's long term solvency and survival. A lending bank through and analysis of these statements can decide whether the borrower retains the capacity of refunding the principal and paying interest in time or not.

C) Shareholders

The shareholders, who have invested their money in the firm' s shares are most concerned about the firm's earning. They evaluate the efficiency of the management and determine about the necessity for the change. In large company the shareholder's interest is to decide whether to buy, sell or hold the shares. They wish to buy the shares in case of sound performance of the firm where as they simply intend to hold the shares in the condition of satisfactory performance. But they are hurried to sell the shares in case of poor performance.

D) Economists

To diagnose the prevailing status of business and economy, economists analyze the financial statements (of any firm). The government agencies analyze them for the purpose of price regulation; rate setting and similar other purposes.

E) Labor Unions

Productivity is the synonym of well-motivated labors. Labor unions are interested in rights and benefits of labor to enhance the moral of labors. For further motivation they expect increase in wages, fringe benefits and so on. These benefits are affected by the company's profitability condition. Therefore the union assesses the financial condition of the firm to determine whether the firm is in the situation or not to make such facilities available.

2.1.8 Process of Financial Performances Analysis

Financial Analysis basically financial statement analysis, is a technique of answering various questions regarding the performance of a firm in the past, present and the future on the basis of past performance. The analysis recommends the steps to be taken by financial managers while undergoing the assessment of financial position.

The questions, that as elucidated above create the need to follow certain steps such as first identification and analysis of problem in order to come up with appropriate recommendations, and then to project the expected results and examine them if there are improvements before implementing such recommendations. The following chart presents the process to be followed in the analysis of financial statements.

2.1.9 Types of Financial Performance Analysis,

"The nature of financial Analysis differs according to the purpose of the analyst. " a distinction may be drawn between various types of financial analysis either on the basis of material used for the same or according to the modus operandi of the analysis"(Man Mohan;1997-356).

A) According to material used

1. External Analysis

It is made by those who do not have access to the detailed records of the company. This group, which has to depend almost entirely on published financial statements, includes investors, credit agencies and governmental agencies regulating a business in a nominal way.

2. Internal Analysis

The internal analysis is accomplished by those who have access to the books of accounts and all other information related to the business. While conducting this analysis, the analyst is a part of the enterprise he is analyzing. Analysis for managerial purpose is the internal type of analysis and is conducted by executives and employee of the enterprise as well as governmental and court agencies which may have major regulatory and other jurisdiction over the business.

B) According to Modus Operandi Analysis

1. Horizontal Analysis

When Financial Statements for a number of years are reviewed and analyzed, the analysis is called horizontal analysis. As it is based on data from year to year, rather than on one date or period of times as a whole, this is also known as dynamic analysis.

2. Vertical Analysis

It is frequently used for referring to ratios developed for one date or for one accounting period. It is also called static analysis.

Besides, the types of financial analysis on the basis of material used and modus operandi, S.P Jain and K.L. Narang have categorized on the basis of objective of the study.

C) According to Objective

1. Long Term Analysis

This is made in order to study the long term financial stability, solvency and liquidity as well as profitability and earning capacity of a business concern. For the long run success of a business concern, this analysis helps in the long term financial planning.

2. Short Term-Analysis

This is made to determine the short-term solvency, stability and liquidity as well as earning capacity of the business. This analysis is helpful for short term financial planning.

2.1.10 Techniques of Financial (Statement) Analysis

The fundament of the analytical technique is to simplify or reduce the data under review to the understandable terms. There are various tools and techniques of financial statement analysis, each of which is used according to the purpose for which the analysis is carried out. The widely used techniques are as follows:

a. Ratio Analysis

b. Du Pont System of Financial Statement Analysis

c. Common Size Analysis

d. Funds Fl0w Analysis

e. Cash Flow Analysis

a. Ratio Analysis:

Ratio Analysis has been used as a major tool in the interpretation and evaluation of financial analysis. The term ratio refers to the numerical quantitative relationship between the two items/variables. A ratio is calculated by dividing one item of the relationship with the other base. In financial analysis, a ratio is used as a yardstick for the evaluation of financial performance of the firm. "The analysis of financial ratio involves two types of comparison. First, the present ratio may be compared with the past and expected future ratios for the same company and second, the method of comparison involves comparing the ratios of one firm with those of similar firm or with industry averages at the same point, in time. Such comparison gives insight into the financial performance of the firm." Ratio analysis is widely in use. It may not give the entire picture of an enterprise. Ratios themselves are not conclusion. They are only the means. The Ratios are calculated from data available in the financial statement of an enterprise. The Ratio completed from the available data are numerical, there should not be the tendency to regard them as a precise portrayals of a firm true financial status. For some firms, accounting data may closely approximate economic reality, for others, it is necessary to go beyond the figures in order to obtain their financial condition of performance.

Types of Ratios

Different Ratios can be calculated from the available data in the financial statement. Broadly Ratios are classified in four groups. They are:

i) Liquidity ratios

ii) Capital structure/leverage ratios

iii) Activity (assets management) ratios

iv) Profitability ratios

i) Liquidity Ratio

Liquidity refers to the ability of enterprises to pay its current liabilities. Liquidity implies the utilization of such funds of the firm which are idle or in very little amount. A proper balance between the two contradictory requirements i.e. liquidity and profitability are required for the efficient financial management. The more current assets associated with high liquidity and low profitability and vice versa. The less current Ratio and quick Ratio are the most widely used ratios for the general purpose to measure the liquidity position of an enterprise.

ii) Capital Structure/Leverage Ratios

The Capital Structure/Leverage Ratio is associated with the long -term solvency of an enterprise. The long -term creditors would judge the soundness of a firm on the basis of long term financial strength measured in terms its ability to pay the interest regularly as well as repay the installment of principal due to dates or in one lump sum at the time of maturity. Leverage Ratios show how much of an enterprise's fund are financed by debt & equity. These Ratios also show the prospects for future financing.

The Capital Structure Ratio indicates the soundness of capital structure of an enterprise. It can be calculated on two ways. The first approach is to examine what proportion of borrowed capital occupies the capital structure i.e. calculated the Debt to Total Capital Ratio. The second approach is to examine the number of times the interest earned covered by earnings and to calculate the fixed charges covered by earnings.

iii) Activity Ratio

An Activity Ratio may be defined as the test of relationship between sales and various types of Activity Ratios. Activity Ratios are employed to evaluate the efficiencies with which the firm manages and utilizes its assets. These Ratios are also called Turnover Ratios because they indicate the speed with which the assets are being covered or turned over into sales. So Activity Ratios presume that there exists an appropriate relationship between sales and various assets. The more important Activity Ratios for general - purpose analysis are Inventory Turnover Ratio, Total Assets Turnover Ratio, Fixed Assets Turnover Ratio, Capital Employed Turnover Ratio etc.

iv) Profitability Ratio

Profitability is very important aspect of management of any enterprise. It shows the overall performance of an enterprise. The Profitability Ratios are calculated to measure the operative effectiveness of an enterprise. Besides management of the company, creditors and owners are interested in the Profitability Ratios of the firm. Profitability Ratios can be calculated on the basis of either sales or investment. The important Profitability Ratios, calculated in relation to sales are Net Profit Margin, Gross Profit Margin, and Operating Expenses Ratio etc. Similarly, the important Profitability Ratios, calculated in relation to investment are Return on Shareholders' Equity, Return on Capital Employed, and Return on Fixed Assets etc. Together these Ratios indicate the firm's efficiency of operation (Panday 1998).

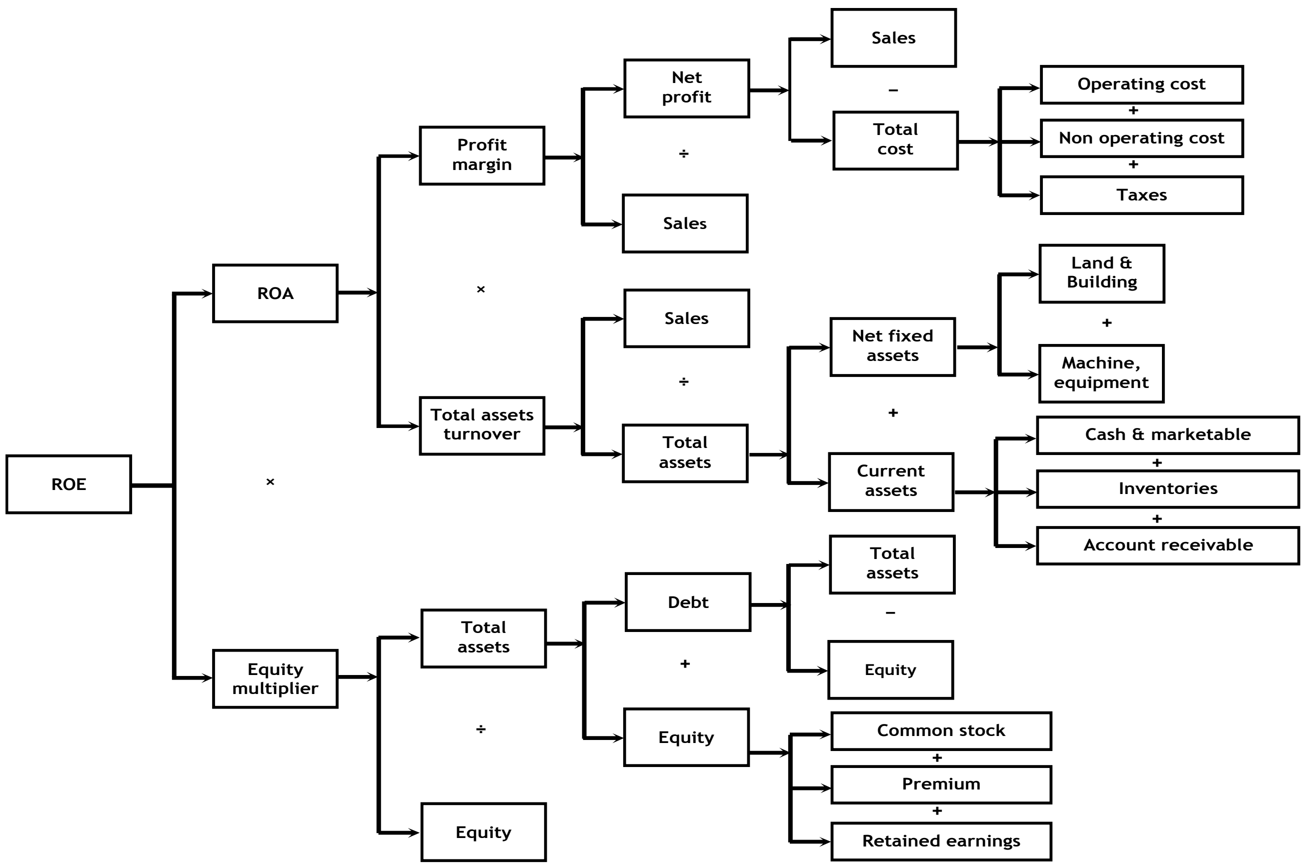
b. Du Pont System of Financial Statement Analysis

“The Du Pont system is designed to show how the profit margin on sales, the assets turnover ratio and the use of debt interact to determine the rate of return on equity” (Weston 1996)

The Du Pont system of financial statement analysis is developed by the financial experts of the Du Pont Company by putting together the effects of profitability, investment and the equity ratios. The approach is based on the relationship among the three basic areas of the firm such as (i) cost controlling area (ii) Assets management area and (iii) Financial leverage area. The directed to address the concern of the shareholders; hence its main focus is on the return on equity (ROE)The ROE is analyzed in terms of the factors that directly affect the ROE. The factors such as costs, assets utilization and leverage ratio are the grounds on which several test are made to see how the ROE is affected by such factors. The following modified Du Pont Chart presents the relationship among these factors and ROE.

Figure 2.1

Du Pont System of Financial Analysis



Source: F. Weston and E. F. Brigham. The Dryden Press. 9th Edition, P99.

For a business firm, the return on assets (ROA) is the rate of return on the total investment that includes both equity and debt capital. The ROA does not reflect the actual rate of return to equity holders. What reflects the return for stock holders is the return on their money (i.e. ROE), which is generally higher than the ROA. Thus ROA is an overall measure and reflects the overall performance of the company. The Du Pont system addresses the concerns of stockholder and focuses on ROE.

Du Pont equation defines ROE as a product of ROA and equity multiplier and ROA as a product of profit margin and total assets turnover.

The Du Pont equation is as follows:

ROE = ROA x equity multiplier

= profit margin x total assets turnover x equity multiplier

= Net profit/sales x sales/total assets x total assets/ equity

c. Common Size Analysis

The common size analysis is another technique of analyzing the items of financial statement on relative terms. Under this method, the percentage of every item in the income statements and balance sheets is carried out for past several years to determine the performance trend of each item during the period under analysis. After analyzing the rising, falling or constant trend of efficiency in the business operation one can make comparison with the industry average or competitors.

The common size analysis is carried out for a period of one or more. The income statement items are divided by sales and expressed as a percentage of sales. The balance sheets items are divided by total assets and expressed as percentage of total assets. These percentages for a company are compared with the standard measures such as percentages calculated in the same manner industry and the competitors. Thus, the comparison shows the company's performance relative to competitors as well as compared to it own past record.

d. Funds Flow Analysis

Funds flow Analysis is the statement of changes in financial position of any organization that determines only the sources and used of fund between two dates of balance sheet. It is prepared to uncover the information that financial statements fail to describe clearly. It describes the sources from which funds were derived and used to which these funds were put.

The statement is prepared to summarize the changes in assets and liabilities resulting from financial and investment transactions during the period as well as those changes occurred due to the changes in owner's equity. It also uncovers the way of using financial resources during the period by the firm.

Method of preparing funds flow statement depends essentially upon the sense in which the term 'fund" is used. There are three concept of fund: cash concept, total resources concept and working capital concept. According to cash concept, the word fund is synonymous with cash. Total resources concept refers total assets and resources as fund. The term' fund" represents only to working capital on the stated last concept However, working capital concept of fund has gained wide acceptance as compared to the other concepts. Therefore any transaction that increases the amount of working capital is taken as source of fund while conducting funds flow analysis. Any transaction that decreases working capital is treated as application. But, any transaction that affects current liabilities or current assets without resulting any changes in working capital is not taken as sources or use.

e. Cash Flow Analysis

This statement is carried out to know clearly the various items of inflow outflow of cash. It is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital.

It deals the causes of changes in cash position for the period of two balance sheets date in brief. At the time of preparing cash flow statement, only cash receipt from debtors against credit deals are considered as the source of cash. Similarly, cash purchases and cash payments to suppliers for credit purpose are regarded as the uses of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

2.1.11 Limitations of Financial Performance Analysis

Financial Performance Analysis is of great significance for investor, creditor, management, economist, and other parties having interest in business. It helps management to evaluate its efficiency in past performance and takes decision relating to the future. (Jain, 1989) However, it is not free from drawbacks. Its limitations are listed below.

(a) Historical nature of financial statements:

The basic nature of statements is historical. Past can never be a precise and can never be perfectly helpful for the future forecast and planning.

(b) No subject for judgment:

Financial analysis is a tool to be used by experts, analysts etc. to evaluate the financial performance of firm. That's why it may lead to faulty conclusion if used by unskilled analyst.

(c) Reliability of figures:

Reliability of Analysis depends on reliability of the figures of the financial statements under scrutiny. The entire working of analysis will be vitiated by manipulation in the income statement, window dressing in the balance sheet, questionable procedures adopted by the accountant for the valuation of fixed assets and such other facts.

(d) Single year analysis is not much valuable:

The analysis of these statements relating to single year only will have limited use and value. From this, one can not draw meaningful conclusion.

(e) Result may have different interpretation: Different users may differently interpret the result derived from the analysis. For example, a high current ratio may suit the banker but it may be the cause of inefficiency of the management due to under-utilization of fund.

(t) Change in accounting methods:

Analysis will be effective if the figures derived from the financial statements are comparable. Due to change in accounting methods the figures of current period may have no comparable base, and then the whole exercise of analysis will become futile.

(g) Pitfall in inter-firm comparison:

When different firms are adopting different procedures, records, objectives, policies and different items under similar heading, comparison will be more difficult. If done, it will not provide reliable basis to assess the performance, efficiency, profitability and financial condition of the firm as compared to the whole industry.

(h) Price level change reduces the validity of analysis:

The continuous and rapid changes in the value of money, in the present day, economically also reduces the validity. Acquisition of assets at different level of prices make comparison useless as no meaningful conclusion can be drawn from a comparative analysis of such items relating to several accounting periods.

(i) Selection of appropriate tool

There are different tools of analysis available to the analyst. The tools to be used in a particular situation depend on skill, training, intelligence and expertise of the analyst. If wrong tool is used, it may lead to wrong conclusion. This may be harmful to the interest of business. (Corne and Walchowicz, 1997)

2.2 Review of Journal and Articles

Under this heading, reviews of research papers of researchers are analyzed to find out the investment policies of commercial banks.

Thapa (1994), explained on “Financial System of Nepal” that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to high credit needs particularly by newly emerging industries, the bank still seems to lack adequate funds. The banks are increasing their lending to non –traditional sectors along with the traditional sectors. Out of all commercial banks (excluding two recently opened regional commercial banks), Nepal Bank Ltd. and Rastriya Banijya Bank are operating with a nominal profit, the later turning towards negative from time to time. Because of growing competition and limitation of investment sectors, the spread between interest income and interest expenses is declining. These banks have not been able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected. On the other hand, the foreign joint venture banks have been functioning in an efficient way. They are making profit year after year and have been distributing bonus to their employees and dividends to their shareholders.

The study concludes that by its very nature of the public sector, these two domestic banks couldn't compete with the private sector banks, so only remedy to the problems of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private hands (Thapa, 1994).

Pradhan (2003) in his research paper "Role of Saving, Investment and Capital formation in Economic Development, A case of Nepal," has studied about the strong role and impact of saving, investment and capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving, investment, capital formation and gross domestic product has been collected for the period of 1974/75 to 2000/01. The role and impact of saving, investment and capital formation on economic development were analyzed by using various regression models. The regression equations used in this study have been estimated at current prices as well as in real terms with the entire study period divided into different sub periods.

The results presented in this paper suggest that in all cases, GDP is significantly associated with saving, investment and capital formation both at current prices and in real terms. The results of the empirical analysis led to three important conclusions: First, saving, investment and capital formation have positive impact on economic development. Second, the current values and past values of saving, investment and capital formation have positive impact on economic development but the current values have the largest impact. Third, there is a strong role played by saving and capital formation on economic development while weak role-played by investment (Pradhan, 2003).

2.3 Review of Thesis

Shrestha (1993) has conducted a study on "*Investment Planning of Commercial Banks in Nepal*" with the objectives:

To evaluate the financial performance of commercial banks in Nepal.

To examine the investment of commercial banks of Nepal with reference to securities, loans & advances.

To establish the relationship of banks' portfolio variables with the national income and interest rates.

The research findings of the study are summarized as:

- The general trend of commercial banks asset holding is growing. Deposits have been a major source of funds. The excess reserve level of the banks allows idle money and loss of opportunity. Debt equity ratios are very high, greater than 100%.
- The return ratios are on the average higher for foreign joint venture banks than for the Nepalese bank but return of asset found to be statistically some. Risk taking attitude is higher in foreign joint venture banks. The total management achievement index is higher in case of foreign banks in comparison to the Nepalese banks.
- The hypothesis that the commercial banks have non –professional style of decision making in investment has been accepted. The investment of commercial banks in shares and securities is normal and not found to have strategic decision towards investment in shares and securities. Yield from the security has been found to be satisfactory.
- Investment in various economic sectors shows industrial and commercial sector taking higher shares of loan till 1990.
- Investment in various sectors has a positive impact on the national income from their respective sectors.
- Lending in priority sector showed cottage and small industry sector sharing higher loans.

- Priority sector lending showed positive impact on the national income.

The secured loan analysis showed commercial loan as being very important followed by social and industrial loans. The loan loss ratio has been found to be increase with low recovery of loan. Demand of bank credit has been found to be affected by the national income and lending and Treasury bill rate. The investment of commercial banks on government securities has been observed to be affected by total deposit, cash reserve requirements and Treasury bill and lending rates. Interest rates, lending rate, deposit rate were found to constitute a set of significant variables affecting the bank portfolio composition (Shrestha, 1993).

Tuladhar (2000) conducted a study on "*A study on investment policy of Nepal Grindlays Bank Limited in comparison to other Joint venture Banks of Nepal*" with the objective of:

1. To study the fund mobilization and investment policy with respect to fee-based off – balance sheet transaction and fund based on balance sheet transactions.
2. To study the liquidity, efficiency of assets management and profitability position.
3. To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit.
4. To perform an empirical study of the customer's views and ideas regarding the existing services and adopted invested policy of the Joint venture banks.

The study is mainly based on secondary data and in some aspects of the study primary data are also collected through questionnaire survey of 100 respondents.
The research findings of the study are as follows:

- From the analysis of primary data concerning in which sector should JVBs invest; 28.37% respondents emphasized on educational sector to be invested by these JVBs as the potential investment sector. Consequently poverty stricken and deprived sector was given second priority (26.24), whereas industrial sector (18.44), tourism sector (16%), agricultural sector (16%) , and construction sector (4.25) are given third, fourth, fifth and sixth priority respectively.

From the analysis of secondary data, following conclusions were drawn:

- Nepal Grindlays Bank Ltd. Has maintained consistent and successful liquidity than NABIL Bank Ltd. and Himalayan Bank Ltd.
- The mean of total investment to total deposits ratio of Nepal Grindlays Bank Ltd. Is higher than the other JVBs. The mean of the loan and advances to total deposits ratio of Nepal Grindlays Bank Ltd. is less and inconsistent than NABIL Bank Ltd. and Himalayan Bank Ltd.
- Loan and advances to working fund ratio of Nepal Grindlays Bank Ltd. was found less than the mean ratio of other banks. Investment on government securities to working fund ratio of Nepal Grindlays Bank Ltd. had the highest mean ratio than NABIL Bank Ltd. and Himalayan Ltd. during the study period.
- It was found that total Off-balance sheet operation to loan and advances ratio of Nepal Grindlays Bank Ltd. is found to be of highest mean ratio than that of NABIL Bank Ltd., and Himalayan Bank Ltd. it means Nepal Grindlays Bank Ltd. used to perform highest off-balance sheet operation than the other two JVBs i.e., used to give priority to provide letter of credit, guarantee and others (e.g. trade finance) excessively than to others. The mean of investment on shares and debentures to total working fund ratio of Nepal Grindlays Bank Ltd. was found less than NABIL Bank Ltd. but higher than Himalayan Bank Ltd.
- The profitability position of Nepal Grindlays Bank Ltd. is higher than NABIL Bank Ltd. and Himalayan Bank Ltd. as well as it use to provide interest to the customers for different activities consistently. The volume of growth ratio of loan and advances of Nepal Grindlays Bank Ltd. is found higher than that of NABIL Bank Ltd. but lower than Himalayan Bank Ltd. It indicates that all the JVBs used to provide loan and advances in increasing manner. From the analysis of growth ratio of total investment it is found that Nepal Grindlays Bank Ltd. and NABIL Bank Ltd. have negative growth ratio i.e., they Used to reduce the investment during the study period. But it is increasing in the case of Himalayan Bank Ltd.

- The growth ratio of net profit of Nepal Grindlays Bank Ltd. seemed to be more Satisfactory than NABIL Bank Ltd. but in case of Himalayan Bank it seemed to be very high.

Kapadi: (2002) has conduct research on "*A Comparative Study on Performance of NABIL Bank Ltd and Standard Chartered Bank Limited.*" The study of this thesis is the descriptive analytical method. The core objective of this thesis is to analyze the financial performance of NABIL bank and SCBNL this includes the examining of liquidity capital structure and activity and profitability ratios of the ratio joint venture sample banks.

The specific objectives of his research are:

1. To examine the trend of deposits and loan and advances of NABIL bank and SCBNL.
2. To study the liquidity profitability capital structure activity and capital adequacy position of NABIL bank and SCBNL.
3. To suggest and recommended some measures by evaluating and finding financial performance of NABIL bank SCBNL on the basis of finding.

From the detail analysis the research finds the following findings of the study.

He found that most of the capital structure ratios show that the capital structure of both the banks is highly leveraged.

- Total debt to equity ratio of both the banks reveals that the claims of the outsider exceeds mere than that of the owner’s over the bank asset. However NABIL bank seems to be more leveraged than SCBNL.
- Total debt to total assets ratio of both the banks has always been over 88, which indicates the excessively geared capital structure. Comparatively NABIL bank has used a little more debt financial than SCBNL. Long-term debt to total assets ratio of NABIL bank is seems to be greater as per mean, which shows more use of long-term debt by NABIL bank than by SCBNL.
- Long-term debt to net worth ratio of both the banks is following the fluctuating trend. The mean proportion of outsiders fund and owners fund employed in the

total capitalization of NABIL bank is higher than that of SCBNL. This implies that it is following an aggressive strategy of higher risk higher return policy.

- The fixed asset to net worth ratio of NABIL bank is higher than that of SCBNL as per mean ratio. But the investment of owners' equity in fixed assets for both the banks are minimum as is commonly seen in various financial institutions.

Loudari (2003) conducted a study on "*A study on investment policy of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.*" with the objective of:

1. To examine the liquidity, asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd.
2. To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL in comparison to Nepal SBI bank ltd.
3. To analyses relationship between deposit and investment, deposits and loan & advances, net profit and outside assets of Nepal Indosuez Bank Ltd. In comparison to Nepal SBI Bank Ltd.

The research findings of the study are as follows:

- Current ratios for both the banks are satisfactory.
- Although Cash reserve ratio is managed by both banks as per Nepal Rastrya Bank directives, both banks have not paid sufficient insight towards cash management. Their cash reserves have fluctuated in a high degree.
- Nepal SBI Bank ltd. has increased investment in government securities where as Nepal Indosuez Bank has decreased.
- Nepal Indosuez Bank Ltd. has maintained both current ratio and cash reserve ratio better than Nepal SBI Bank Ltd. But its cash and bank balance, investment in government securities and loan and advances in comparison to current assets are lower than that of Nepal SBI Bank Ltd.
- Deposit utilization of Nepal Indosuez Bank Ltd. is less effective than that of Nepal SBI Bank Ltd. Further Nepal Indosuez Bank Ltd. has

invested lesser amount on government securities and shares and debenture than that of Nepal SBI Bank.

- Nepal Indosuez Bank Ltd. did a better performance in return on total assets and loan and advances and interest earning, but it paid lower interest amount to working fund.
- The analysis of growth ratios shows that growth ratios of total deposit, loan and advances, total investment and net profit of Nepal Indosuez Bank are less than that of Nepal SBI Bank.

The trend value of loan and advances to total deposits ratio is decreasing in case of both banks. The trend value of total investment to total deposits ratio is also decreasing in case of both banks

Shrestha, (2004) on his thesis entitled "*Role of Rastriya Banijya Bank in priority sector credit & its recovery*" has tried to reveal the following objectives:

1. To identified the compliance of the target loan limit to be invested in priority sector credit as prescribed by NRB.
2. To analyze the relationship of credit (loan & advances) with total deposit & also with PSC of RBB.
3. To examine the situation of deprived sector credit (DSC) of RBB.
4. To analyze the disbursement, recovery status & NPA position under Priority Sector Credit (PSC) of RBB.(Purpose wise)

The major findings made by the researcher are as follows:

- Bank's total no of borrowers in PSC about 76 % to 78 % of borrowers lie under DSC & out of the total loan outstanding of RBB invested on PSC about 28 % to 29 % has been invested under DSC.
- RBB is very much success in complying the NRB policy.
- Bank was not able to fully utilize the collected deposits in a proper way.
- The study reveals that the disbursement & recovery under DSC is in decreasing trend; however the ratio of repayment to disbursement is in increasing trend.

- Loan repayment under DSC was more satisfactory from industry sector that the agriculture sector & services sector.
- The trend valves of recovery of RBB under PSC shows that the recovery position of the bank is in downward sloping whereas its overdue loan under PSC is in increasing trend which brings no return to the bank.

Shrestha, (2005) in his thesis *"Financial performance analysis of Nepal Bangladesh bank ltd"* In this study, various financial research and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

The specific objectives of his research are:

1. To analyze the functions, objectives procedure and activities of the NB bank
2. To analyze the lending practices and resources utilizations of NB bank.
3. To determine the impact of growth in deposit on liquidity and lending practices.
4. To examine the lending efficiency and its contribution to profit.
5. To make suitable suggestions based on the findings of this study. The financial and statistical tools are used.

The researcher found that NB bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, miniaturization has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged.

The research findings of the study are summarized as:

- NB bank has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as a credit and advances.
- The major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances. Therefore, there is highly positive correlation between total deposits and credit and advances of NB bank
- Bank is providing different schemes to attract good customers. After attracting deposits from the customers, bank has issued the deposits to the needy area to make profit for the bank.

Gautam: (2006) has conduct research on "*A Comparative study on financial performance of Standard Chartered Bank Limited and Nepal Bangledesh bank Limited"* Financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools, which is bankruptcy score.

The objectives of his research are:

1. To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability.
2. To access the debt servicing of the joint venture commercial bank.
3. To examine the correlation and the signification of their relationship between different ratios related to capital structure.
4. To provide suggestions and recommendations for the optimal capital structure of the joint venture commercial bank.
5. To obtained the objectives, some financial, statistical and accounting tools.

He has found his study were the joint venture banks are operating in Nepal as commercial merchant banks. The growth is still going on as so many new banks are coming into existence after this study. Therefore, JVB’s are operating with higher technology and new efficient methods in banking sector. However, this study has been undertaking only three JVB's viz. SCBNL and NBBL to examine and evaluation the financial data.

The research findings of the study are as follows:

- The research sample JVB's have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner's claim.
- The on an average, NBBL bank constitutes 16.27 times of P/E ratio, which should be reduce as quickly as possible.
- The financial risk of the banks NBBL average degree of finance leverage constitutes 3.73 times which indicates the higher degree of financial risks 3.73 times which indicates the higher degree of financial risks.
- The average ROE of JVB's i.e. SCBL and NBBL area 37.36% and 21.75% respectively.

Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, efficiency has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank

Ram (2008) in his dissertation "*Credit Management of NABIL Bank Limited*" highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition

The main objectives of the research study are as follow.

1. To evaluate various financial ration of the Nabil Bank.
2. To analyze the portfolio of lending of selected sector of banks

3. To determine the impact of deposit in liquidity and its effect on lending practices.
4. To offer suitable suggestions based on findings of this study.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances.

The research findings of the study are as follows:

- Assets management position of the bank shows better performance in the recent years. Non–performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank.
- In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses' higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio.
- In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances.
- Earning per share and The Price earning ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share.
- Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. In the study every aspect of banks seems to be better and steady in every year. Its all analysis indicates better future of concern bank.

2.4 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on lending practice, inventory management, financial performance and cash management of various commercial banks. In order to perform those analysis researchers have used various ratio analysis. The past researches in measuring financial performance of bank have focused on the limit ratios, which are incapable of solving the problems. Actually, credit management is determined by various factors. In this research various ratio are systematically analyzed and generalized. Past Researchers are not properly analyzed about lending and its impact on the profitability. The ratios are not categorized according to nature. Here in this research all ratios are categorized according to their area and nature. In this study financial performance of Everest bank is measuring by various ratios, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all the data are current and fact. This study tries to define financial performance by applying and analyzing various financial tools like liquidity ratio, leverage ratio, profitability ratio and lending efficiency ratio as well as different statistical tools like coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of financial performance of bank and financial institutions.

Chapter - III

RESEARCH METHODOLOGY

A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of study, the applied methodology will be used. The research methodology has primarily sought the evaluation of the financial performance of Everest Bank Ltd. The research methodology adopted in this chapter follows some limited but crucial steps aimed to achieve the objectives of the research.

3.1 Research Design

"Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and control variance. The plan mean now researcher investigator collect the data structure in term controlling the data in term of money and time." The plan mean now researcher investigators collect the data structure in term controlling the data in term of money and time.

We can say that the research design is specific action of methods and procedures for acquiring the information needed. It is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control; variances. It is the overall operational pattern of framework of the projects that stipulates what information is to be collected from which sources by what purpose. A good design will ensure that the information obtained is relevant to the research question and that it was collected by objective and economically procedure.

The main objective of research design is to make analysis of financial performance of commercial banks with reference to Everest Bank Ltd. The research analyzes the financial performance of commercial banks in Nepal and provide valuable recommendation. In other words, this research is aimed at studying profit through analyzing financial ratio of Everest bank limited. This will follow analytical and descriptive research design. It also analyzes the composition of trend of total deposit, total assets, investment and profitability condition of commercial banks. The design for this research is made by collection of information from different sources by using various financial statistical tools.

3.2 Population and Sample

Population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate. The researcher cannot normally survey everyone in the population so a small part of the total population is taken to represent the total population. Hence, a sample is a collection of items or elements from a population or universe. It comprises some observations selected from the population. Here Everest Bank Limited has been selected as sample for the present study among the 26 commercial banks.

3.3 Sources of Data

There are two sources of data. Both primary and secondary data has been used in this search.

a) Primary Source:

The primary source of data is collected from the concerned bank. The first hand data that are normally collect from concern bank. The way of data collection is by annual report and making questionnaire and distributed at credit department of the concerned bank and also to the client of the bank.

b) Secondary Source:

This refers to data that are already used and gathered by others. Secondary data are mostly used for this research purpose. So the major sources of secondary data are as follows

- Economy survey of NG, Ministry of finance.
- Annual general report of EBL from 2003 to 2007
- National newspaper, journals, magazine, and reports for Central Library of T. U., Library of Shanker Dev Campus.
- Internet and various website

- NRB directives.

3.4 Methods of Data Analysis

To make the study more specific and reliable, the researcher uses two types of tool for analysis,

a) Financial Tools

b) Statistical Tools

3.4.1 Financial Tools

For the sake of analysis, various financial tools were used. The basic tools used were ratio analysis. Besides it, income and expenditure analysis.

3.4.1.1 Ratio Analysis:

Ratio analysis is a widely used tool of financial analysis. A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are sound reasons for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major headings:

A. Liquidity Ratio:

Liquidity refers to the ability of a firm to meet its short- term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined (Van Horne, 1999:693).

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance. (Scott, 1992:140). To find -out the ability of bank to meet their short-term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are developed under the liquidity ratios to identify the liquidity position.

i) Cash and Bank Balance to Total Deposit Ratio

This ratio shows the ability of banks immediate funds to cover their deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa. It can be calculated by dividing 'cash and bank balance' by deposits. This ratio can be calculated using the following formula.

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

ii) Cash and Bank Balance to Current Deposits Ratio

This ratio is computed to disclose the soundness of the company to pay total calls made of current deposits. It can be expressed as:

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

iii) Cash and Bank Balance to Interest Sensitive Deposit Ratio

The ratio of cash and bank balance to interest sensitive deposits measures the ability to meet its sudden outflow of interest sensitive deposits due to the change in interest rate.

$$\text{Cash and bank balance to interest sensitive deposit ratio} = \frac{\text{Cash and bank balance}}{\text{sensitive deposit}}$$

B. Activity/Efficiency Ratio

It is also known as turnover or efficiency ratio or assets management ratio; measures how efficiently the firm employs the assets. Turnover means; how much number of times the assets flow through a firm's operations and into sales (Kulkarni, 1994:138).

Greater the turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are examined under this heading.

i) Credits and Advances to Total Deposits Ratio

Commercial banks utilize the outsider's fund for profit generation purpose. Credits and advances to deposit ratio shows whether the banks are successful to utilize the outsiders funds (i.e. total deposits) for the profit generating purpose on the credit and advances or not. Generally, a high ratio reflects higher efficiency to utilize outsider's fund and vice-versa. The ratio can be calculated by using following formula.

$$\text{Credits and Advances to Total Deposits Ratio: } = \frac{\text{Credit and Advances}}{\text{Total Deposits}}$$

ii) Credits and Advances to Fixed Deposit Ratio

Fixed deposits are the long-term interest bearing obligations and credits and advances is the major sources of investment to generate the income by the commercial banks. This ratio measures how many times the amount is used in credits and advances in comparison to fixed deposit for the income generating purpose. The ratio is slightly differ with the former one, because it only includes the fixed deposits, where as the former on includes all the deposits. The following formula is used to obtain this ratio.

$$\text{Credits and Advances to Fixed Deposit Ratio} = \frac{\text{Credits and Advances}}{\text{Fixed Deposits}}$$

iii) Credit and Advances to Total Assets Ratios

It measures the ability in mobilizing total assets into credits and advances for profit generating income. A higher ratio is considered as an adequate symbol for effective utilization of total assets of bank into credit and advances which creates opportunity to earn more and more. It is calculated as:

$$\text{Credit and Advances to Total Assets Ratio} = \frac{\text{Credits and Advances}}{\text{Total Assets}}$$

iv) Non-Performing Assets to Total Assets Ratio

This ratio represents the proportion between the non-performing assets and total assets of bank. It shows the how much assets is non –performing or idle in the total assets of bank. Higher NPA to total assets ratio indicates the worst performance, which reduces the profitability of bank. Lower ratio indicates the better performance and higher profitability of the bank

$$\text{Non-performing assets to total assets ratio} = \frac{\text{Non-performing assets}}{\text{Total assets}}$$

C. Leverage Ratio:

The use of finance is refers by financial leverage. When a firm borrows money, it promises to make series of fixed payments, which create financial leverage (Brealy, & Myers 1991).These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under leverage ratios.

i) Total Debt to Equity Ratio

Total debt to equity ratio measures the relative proportion of outsiders and owner's funds employed in the total capitalization. Here, total debt includes total deposits, bills payable and other liabilities of the bank and equity includes paid up capital and reserves. The formula used to determine the ratio is:

$$\text{Total Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Equity}} \times 100\%$$

ii) Total Assets to Net Worth Ratio

The ratio is calculated to find out the proportion of owner's fund to finance for the total assets. Total Assets comprises of the total value of the assets side of balance sheet where as net worth is the sum of the share capital plus reverses and retained of the bank. It is calculated to see the amount of assets financed by net worth.

$$\text{Total Assets to Net Worth Ratio} = \frac{\text{Total Assets}}{\text{Net Worth}} \times 100\%$$

iii) Total Debt to Total Assets Ratio

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. Total debt includes both current liabilities and long term debt. Creditors prefer low debt ratios because the lower the ratio, the greater the cushion against creditors losses in the event of liquidation. Stockholders on the other hand may want more leverage because it magnifies expected earnings. It is computed as:

$$\text{Total Debt to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100\%$$

D. Profitability Ratio

This ratio shows the profitability conditions of the bank. Profit is essential for the survival of bank so it is regarded as the engine that drives the banking business and indicates economic progress. Profitability ratios are calculating to measure the management ability regarding how well they have utilized their funds. Lending is one of the major functions of commercial bank so following are the various types of ratio, which should the contribution of loan and advances in profit and help to be investor whether to invest in particular firm or not.

i) Net Profit to Gross Income Ratio

The ratio measures the position of profitability of the company to total income. This shows the sound and weakness of the company to utilize its resources. Higher ratio shows the higher efficiency of management and lower ratio shows the lower efficiency of the management. The formula of net Profit to Gross income ratio is-

$$\text{Net Profit to Gross income ratio} = \frac{\text{Net profit}}{\text{Gross income}}$$

iii) Interest Income to Total Income Ratio

The ratio measures the volume of interest income to total income. The high ratio indicated the banks performance on other fee-based activities. The high ratio indicates the high contribution made by lending and investing activities.

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

iii) Operating Profit to Loan and Advances Ratio

Operating profit to loan and advances ratio measure the earning capacity of commercial bank. Operating profit to loan and advances ratio is calculated by dividing operating profit by loan and advances.

$$\text{Operating profit to loan and advances ratio} = \frac{\text{Operating profit}}{\text{Loan and advances}}$$

iv) Return on Loan and Advances Ratio

This ratio measures the earning capacity of the commercial bank through it fund mobilization as loan and advances. Higher ratio indicated greater success to mobilize fund as loan and advances and vice versa. Mostly loan and advances includes cash, credit, bank overdraft, bills purchased and discounted.

$$\text{Return on loan and advances} = \frac{\text{Net profit}}{\text{Loan and advances}}$$

v) Net Profit to Total Assets

This ratio shows the relationship of Net profit and total assets and is to determine how efficiently the total assets and is to determine how efficiently the total assets have been used by the management. This ratio indicates the ability of generating profit per rupees of total assets. It also evaluates the present return on the total assets as a guide for return expected on future purchase of assets. Higher the ratio shows the more efficient operating of management and lower the ratio shows the low efficient operating of management. This ratio is computed by –

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

vi) Earning Per Share (EPS)

Earning per share measures the profit available to the cash equity holders. It only measures the overall operational efficiency bank. It is the profit tax figure EPS tells us what profit the common share holder get for every share.

$$\text{Earning per share} = \frac{\text{Profit after tax}}{\text{No. of common share}}$$

vii) Price Earning Ratio

This ratio shows the relationship between earning per share and market value per share. This ratio measures the profitability of the firm. Higher ratio shows the higher efficiency of the management and lower ratio shows the lower efficiency of the management. The ratio is computed by-

$$\text{Earning per share} = \frac{\text{Earning per share}}{\text{Market value per share}}$$

E. Lending Efficiency Ratio

This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility of available fund. One following is the various types of lending efficiency ratio.

i) Loan Loss Provision to Total Loan and Advances ratio

Loan loss provision to total loan and advances describes the quality assets that a bank holding. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan mean the net profit of the banks will come down by such amount. Increase in loan loss provision decreases in profit result to decreases in dividends but its positive impact is that strengthens financial conditions of the bank by controlling the credit risk and reduced the risks related deposits. So, it can said that loan suffer it only for short term while the good financial conditions and safety of loans will make banks prosperity regulating increasing profits for long term. The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates more risky assets in total volume of loan advances.

$$\text{Loan loss provision to total loan and advances} = \frac{\text{Loan loss provision}}{\text{Total loan and advances}}$$

ii) Non-Performing Loan to Total Loan and Advances

This ratio shows the relationship of Non-Performing loan and total loan and advances and is to determine how efficiently the total loan and advances have been used by management. Higher ratio shows the low efficient operating of the management and lower ratio shows the more efficient operating of credit management.

$$\text{Non-performing loan to total loan and advances} = \frac{\text{Non-performing loan}}{\text{Total Loan and advances}}$$

iii) Interest Expenses to Total Deposit Ratio

This ratio measures the percentage of total interest paid against total deposit. A high ratio indicates higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has more the probability of generating loans, advances, and vice versa.

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

3.4.2 Statistical Tools:

For supporting the study, statistical tool such as Mean, Standard Deviation, Coefficient of Variation, Correlation, Trend Analysis, Hypothesis and diagrammatic cum pictorial tools have been used under it.

i) Arithmetic Mean (Average)

"Arithmetic Mean is statistical constants which enables us to comprehend in a single effort of the whole." *(*Bowley, 2000:357*)*. It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\overline{X} = \frac{X}{N}$$

Where,

$\overline{X}$ = Arithmetic mean

N = Number of observations

X = Sum of observations

ii) Correlation Coefficient (r)

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation is of three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non- linear. Here, we study simple correlation only." In simple correlation the effect of others is not included rather these are taken as constant considering them to have no serious effect on the dependent variable (Pant and Chaudhari, 2055:281-284).

It is calculated as:

$$r_{x1x2} = \frac{N\Sigma X_1X_2 - (\Sigma X_1)(\Sigma X_2)}{\sqrt{[N\Sigma X_1^2 - (\Sigma X_1)^2]}\sqrt{[N\Sigma X_2^2 - (\Sigma X_2)^2]}}$$

Whereas,

r_{x1x2} = Correlation between X_1 and X_2

$N\Sigma X_1X_2$ = No. of Product observation and Sum of product $X_1$and X_2

$\Sigma X_1\Sigma X_2$ = Sum of Product $X_1$and sum of Product X_2

iii) Probable Error

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

$$P.E. = 0.6745 \frac{1 - r^2}{\sqrt{N}}$$

Here, r = Correlation coefficient

N = Number of pairs of observations

If the value of ‘r’ is less than the probable error, there is no evidence of correlation, i.e., the value of ‘r’ is not at all significant. Then, if the value of ‘r’ is more than six times of the probable error, the coefficient of correlation is practically certain, i.e., the value of ‘r’ is significant.

iv) Trend Analysis

The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The straight line trend of a seires of data is represented by the following formula.

$Y = a + bx$

Here,

Y is the dependent variable, a is y intercept or value of y when x=0, b is the slope of the trend line or amount of change that comes in y for a unit change in x.

Chapter - IV
DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation, analysis and interpretation of relevant data of Everest Bank in order to fulfill the objectives of this study. To obtain best result, the data have been analyzed according to the research methodology as mentioned in third chapter. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation. With the help of this analysis, efforts have been made to highlight financial performance of Everest Bank as well as other cases or problems of Everest Bank can be visualized. For analysis, different types of analytical methods and tools such as financial ratio analysis as well as statistical analysis are used.

4.1 Financial Statement Analysis

Financial analysis is done by applying various financial tools in order to clear picture on the viability of the project. The financial analysis is done to ascertain the liquidity, profitability, leverage, debt servicing and interest servicing ability of the firm. The concept of financial statement analysis has been already discussed in previous chapter. Here, we study and analyze the data by using accounting tools.

4.1.1 Liquidity Ratio

Liquidity refers to the ability of a firm to meet its short- term or current obligations. To find -out the ability of the bank to meet their short-term obligations, which are likely to mature in the short period, the following ratios are developed under the liquidity ratios to identify the liquidity position.

i) Cash and Bank Balance to Current Deposit Ratio

This shows the ratio between cash & bank balance to current deposit. Cash and bank balance is the outcome of deposit of customers plus other income and reserves of the bank. Bank is liable to customer to pay out upon demand of customers so we are trying to find the comparative study between them.

Cash & bank balance to current deposit = $\frac{\text{Cash \& Bank Balance}}{\text{Current Deposit}}$

Table No. 4.1

Cash and Bank Balance to Current Deposit Ratio of Everest Bank

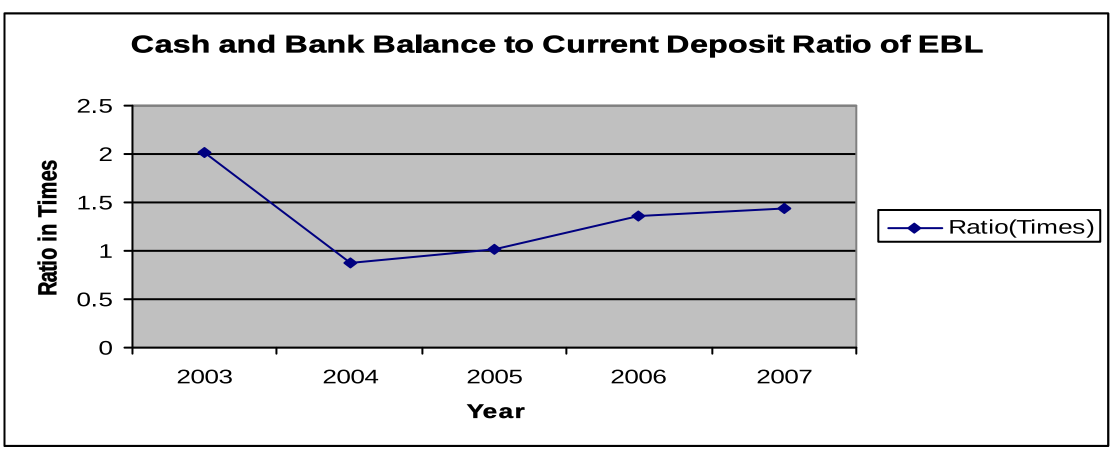
(Amount in Rs. Lakhs)

Year	Cash	Bank Balance	Current Deposit	Ratio(Times)
2003	1366	10029	5623	2.02
2004	1287	5030	7197	0.88
2005	1925	8573	10250	1.02
2006	2593	12936	11457	1.36
2007	5349	18563	16739	1.43
Mean				1.342

Source: Annual Report of EBL 2003-2007

Table no 4.1 shows that the Cash and bank balance to current deposit ratio of EBL bank is 2.02, 0.88, 1.02, 1.36, and 1.43 times respectively from the first year to last year of the research period. The average is 1.342 times, which means consistency in this ratio during the research period. Cash and bank balance should be sufficient to meet the demand of current depositors otherwise, the bank would lose its image from the viewpoints of customers. In the case of EBL bank, the cash and bank balance may be called as enough to meet the demand of customers because the average ratio is 1.342 times.

Figure No 4.1



ii) Cash and Bank Balance to Total Deposit Ratio

This cash & bank balance to total deposit ratio shows that percentage relation between them. It means the liquid balance available in respect to total deposit of the bank whereas the difference between the cash & bank balance to total deposit is said as the investment of the bank. The reserve requirement below 10% of deposit liabilities is noted as fully liberalized, 10%-15% as largely liberalized, 15%-25% as partially repressed and above 25% as completely repressed, it is ranked by 3, 2, 1 and 0 respectively

$$\text{Cash \& bank balance to total deposit} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}} \times 100\%$$

Table No 4.2

Cash and Bank Balance to Total Deposit Ratio of EBL

(Amount in Rs. Lakhs)

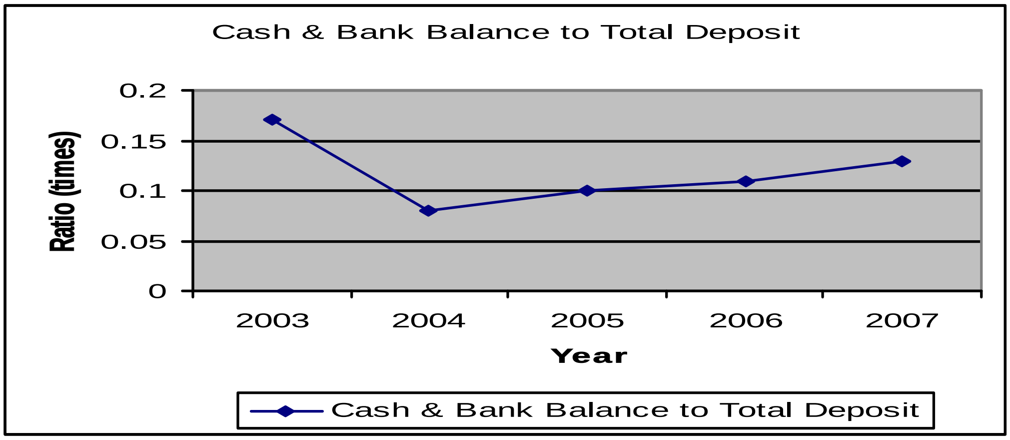
Year	Cash	Bank Balance	Total Deposit	Ratio(Times)
2003	1366	10029	66949	0.17
2004	1287	5030	80369	0.08
2005	1925	8573	100976	0.1
2006	2593	12936	138024	0.11
2007	5349	18563	181862	0.13
Mean				0.12

Source: Annual Report of EBL 2003-2007

Table no 4.2 shows that the cash and bank balance to total deposit ratio of EBL is in a fluctuating trend. The highest ratio is 0.17 times in year 2003 and the lowest ratio 0.08 times in year 2004. The mean ratio is 0.118 times in the study period. This means that the bank is able to maintain this ratio in the good liquidity position of the bank. Ratio is 0.17 times in year 2003. This shows a high liquidity position of the bank. Ratios are 0.08, 0.10, 0.11 times in year 2004, 2005, 2006, these shows low liquidity position of the bank. Therefore, it shows good utilization of resource. Cash reserve ratio, in year, 2003 in 17%. It is partially low repressed in year 2004 is 8%, and around 10% in 2005 and 11% in

2006 and 13% in 2007. Cash & bank balance to total deposit ratio is shown in the following graph. It still shows the need for further utilization of resources.

Figure No. 4.2



iii) Cash and Bank Balance to Interest Sensitive Deposit Ratio

The ratio of cash and bank balance to interest sensitive deposits measures the ability to meet its sudden outflow of interest sensitive deposits due to the change in interest rate.

Table No. 4.3

Cash and Bank Balance to Interest Sensitive Deposit Ratio

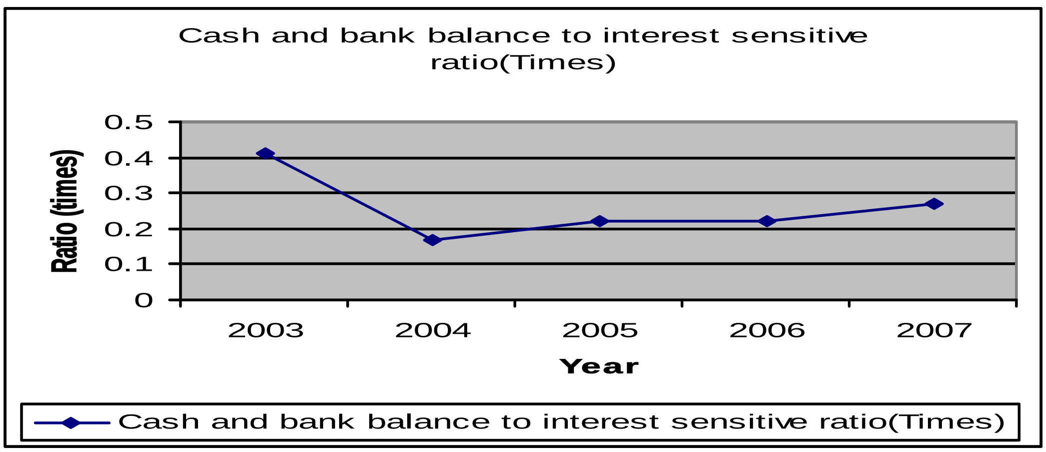
(Amount in Rs. Lakhs)

Year	Cash	Bank Balance	Sensitive Deposit	Ratio(Times)
2003	1366	10029	27579	0.41
2004	1287	5030	37306	0.17
2005	1925	8573	48068	0.22
2006	2593	12936	69292	0.22
2007	5349	18563	90292	0.27
Mean				0.26

Source: Annual Report of EBL 2003 - 2007

Table 3 shows that the cash and bank balance to interest sensitive ratio of EBL is in fluctuating trend. The mean ratio is 0.26 times. This means that the bank is able to maintain this ratio in the good financial condition. The highest ratio is 0.41 times in the year 2003 and lowest ratio of 0.17 times in the year 2004. In year, 2003 this bank mobilized deposits 0.41 times and it maintained good financial condition. In year, 2004 mobilized saving deposit 0.17 times and did not maintain good financial condition. In the year 2006, this bank is maintaining Cash balance 0.22 times. In the year 2007, this bank is maintaining Cash balance 0.26 times, which is better than 2006 year. Therefore, credit management neither good nor bad position of the EBL. Cash, bank balance and interest sensitive deposit are presented in bar diagram as follows:

Figure No 4.3



B. Assets Management Ratio:

It is also known as turnover or efficiency ratio or assets management ratio. It measures how efficiently the firm employs the assets. Turnover means; how much number of times the assets flow through a firm's operations and into sales (Kulkarni, 1994:138). Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are examined under this heading.

i) Credit and Advances to Fixed Deposit Ratio

Credit and advances clearly state that it is the assets of the bank and fixed deposit is the liability. So, this is the ratio between assets and liability. This helps to show the ratio of

Loan & advances to fixed deposit. We can also conclude that what part of the credit and advances is initiated against fixed deposit.

$$\text{Credit \& Advances to Fixed Deposit} = \frac{\text{Credit and Advances}}{\text{Fixed Deposit}}$$

Table No. 4.4

Credit and Advances to Fixed Deposit Ratio of EBL

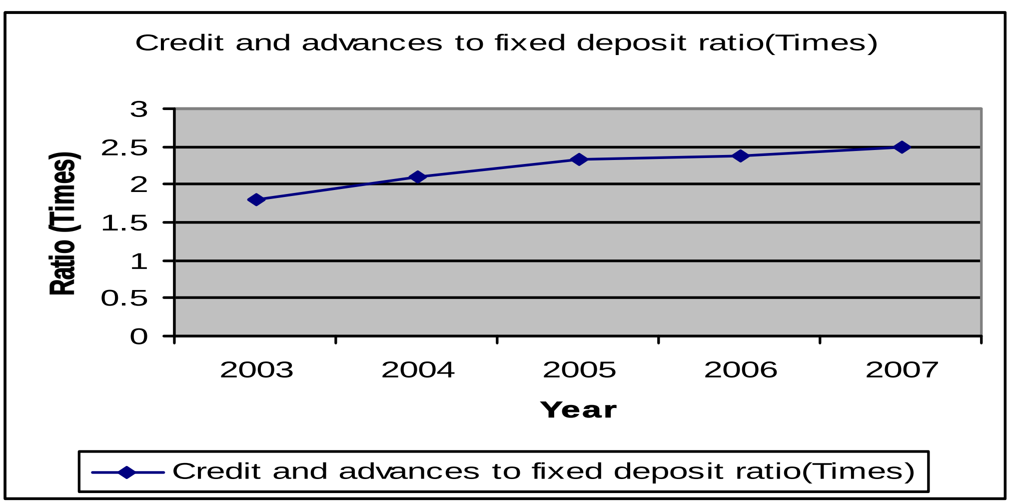
(Amount in Rs. Lakhs)

Year	Credit and Advances	Fixed deposit	Ratio(Times)
2003	50495	27947	1.8
2004	60958	28979	2.1
2005	79000	34039	2.32
2006	101362	42423	2.38
2007	140826	56266	2.5
Mean			2.22

Source: Annual Report of EBL 2003 -2007

From the above table no. 4, it is visualized that Loan and advances to fixed deposits ratio are increasing in overall. The ratio of EBL bank is increasing year by year 1.80 in the first year and then 2.10, 2.32, 2.38 and 2.50 times in the following years respectively. The average is 2.22times at research period. Credit and advance to fixed deposit shown in following graph.

Figure No 4.4



ii) Credit and Advances to Total Deposit Ratio

Credit and advances is the investing activities of the bank and total deposit is the deposit amount of the bank collected from its customers. So, we are trying to find out the ratio between credit & advances to total deposit. This ratio measures the extent to which the bank is successful to manage its total deposit on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of collected deposit and vice-versa. However, it should be noted that too high ratio might not be better from liquidity point of view.

$$\text{Credit \& Advances to Total Deposit Ratio} = \frac{\text{Credit \& advances}}{\text{Total deposit}}$$

Table No 4.5

Credit and Advances to Total Deposit Ratio

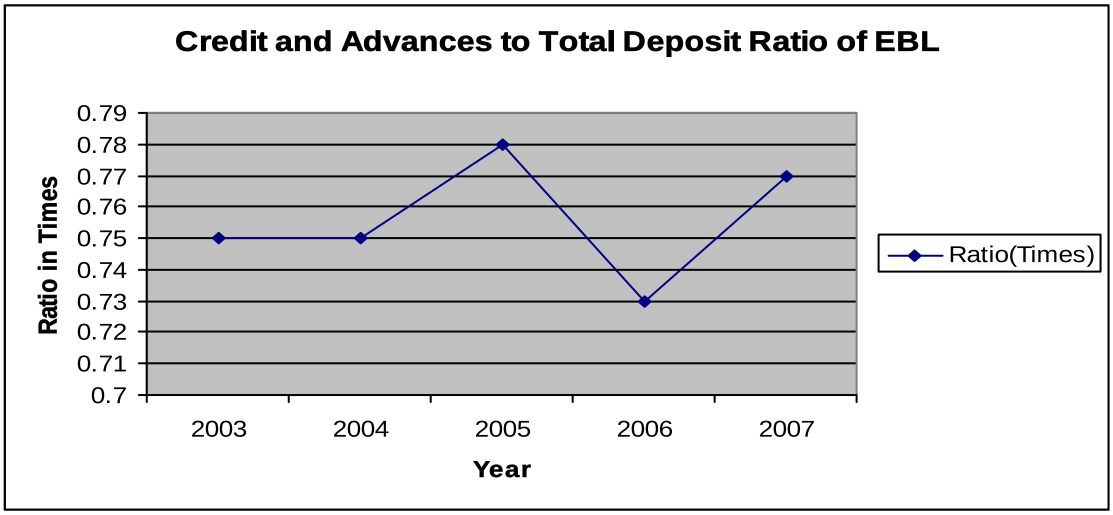
(Amount in Rs. Lakhs)

Year	Credit and Advances	Total deposit	Ratio(Times)
2003	50495	66949	0.75
2004	60958	80639	0.75
2005	79000	100976	0.78
2006	101362	138024	0.73
2007	140826	181862	0.77
Mean			0.756

Source: Annual Report of EBL 2003-2007

Table 5 shows that the total loan advances to total deposit ratio of EBL is in fluctuating trend. The highest ratio is 0.78 times in year 2005 and lowest ratio 0.73 times in year 2006. The mean ratio is 0.756 times in the study period. This means that the bank is able to mobilization of collected deposit. According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year the bank has met the NRB requirement or it has utilized its deposit to provide loan. This means that credit management is in good position of the bank. Loan advances and total deposit are presented in bar diagram as follows:

Figure No 4.5



iii. Credit and Advances to Total Assets Ratio

This ratio is determined to find out the relationship between credit & advances to total assets. Credit and advances is the part of total assets. This ratio helps to find out that how much proportion of credit & advances to total assets.

$$\text{Credit \& Advances to Total Assets} = \frac{\text{Credit \& advances}}{\text{Total assets}} \times 100\%$$

Table No 4.6

Credit and Advances to Total Assets

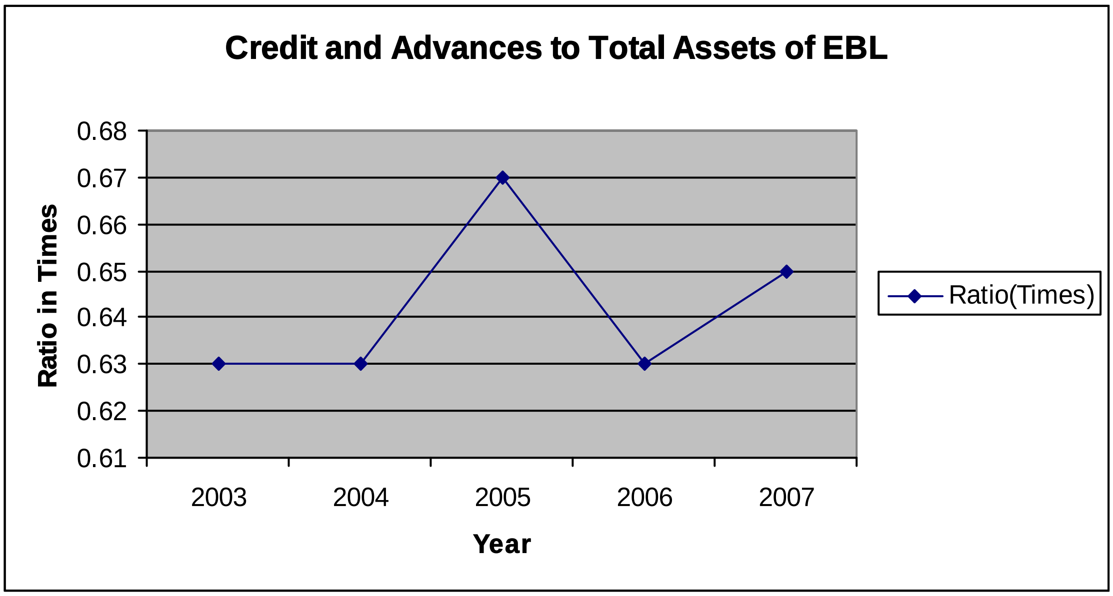
(Amount in Rs. Lakhs)

Year	Credit and Advances	Total Assets	Ratio(Times)
2003	50495	80522	0.63
2004	60958	96085	0.63
2005	79000	117325	0.67
2006	101362	159592	0.63
2007	140826	214325	0.65
Mean			0.64

Source: Annual Report of EBL 2003-2007

It is clear from the above table no. 4.6 that the EBL bank has generally mixed trends under the study period. The highest ratio is 67% in the year 2005 and the lowest ratio is 63% that is same as year 2003, 2004 and 2006. The average ratio is 64%. It shows that bank has capability in utilizing total assets in the form of credit and advances. Consistency in the utilization of assets in the form of credit and advance is satisfactory because the fluctuating in the ratio is minimum. Loan advances and total assets are presented in bar diagram as follows:

Figure No 4.6



iv) Non-Performing Assets to Total Assets Ratio

Lower the non-performing assets ratio is good and higher the ratio is bad. This ratio measures lending opportunity of the bank.

Table No 4.7

Non-performing Assets to Total Assets Ratio

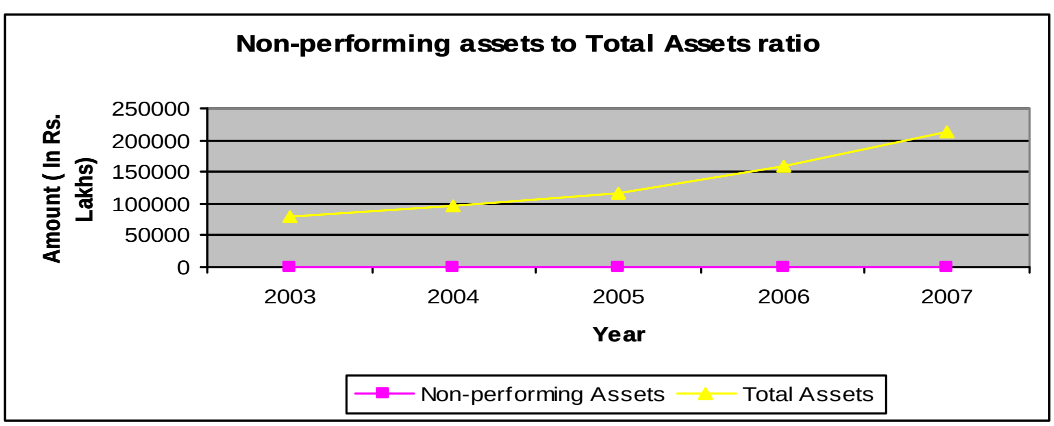
(Amount in Rs. Lakhs)

Year	Non-performing Assets	Total Assets	Ratio (%)
2003	1112	80522	1.38
2004	1047	96085	1.09
2005	1288	117325	1.09
2006	1292	159592	0.81
2007	1131	214325	0.52
Mean			0.978

Source: Annual Report of EBL 2003-2007

Table no 4.7 shows that the total non-performing assets to total assets ratio of EBL is in decreasing trend. The highest ratio is 1.36 % in year 2003 and lowest ratio 0.52% in year 2007. The mean ratio is 0.978%. The bank is able to obtain higher lending opportunity. Ratios are 1.09%, 1.09% 0.81% in year 2004, 2005 and 2006 respectively. These are able to obtain higher lending opportunity. Therefore, credit management is in good position of the bank. According to the direction of NRB to the commercial banks, the ratio of non-performing assets to total assets should be about 5%. However, referring to this table, EBL is able to keep the level of non-performing assets at a satisfactory level, which is on an average .978%. Non-performing assets to total assets ratio is represented in the bar diagram as follows:

Figure No 4.7



C. Leverage Ratio

These ratios are also called solvency ratio or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm, leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under these leverage ratios.

i) Total Debt to Equity Ratio

Total debt is the liability of the firm and it is payable toward its creditors. Debt includes the value of deposits from customers, loan & advances payable, Bills payable and other liabilities. Equity is the share capital and reserves of the firm.This ratio show the comparison in between total debt and equity.

$$\text{Total debt to equity} = \frac{\text{Total Debt}}{\text{Equity}}$$

Table No 4.8

Total Debt to Equity Ratio:

(Amount in Rs. Lakhs)

Year	Total Debt	Total Equity	Ratio (Times)
2003	74394	6128	12.14
2004	89282	6803	13.12
2005	108999	8326	13.09
2006	149964	9628	15.57
2007	202310	12015	16.83
Mean			14.15

Source: Annual Report of EBL 2003-2007

Debt to equity ratio is fluctuation trend in research period. As we see from the table no.4.8, the ratio is 12.14 times in the first year, 13.12 times in the second year, 13.09 times in the third year, 15.57 times in the fourth year, 16.83 times in the fifth year of the research period. The mean ratio is 14.15 times. Excess amount of debt capital structure results heavy burden in payment of interest. Risk of liquidation increases if the debt cannot be repaid in time. High gearing ratio may provide high return to the equity shareholders if the bank makes profit.

ii) Total Debt to Total Assets:

A metric used to measure a company's financial risk by determining how much of the company's assets have been financed by debt. In general, creditors prefer a low debt ratio & owner prefer a high debt ratio in order to magnify their earning on one hand and to maintain their concerned control over the firm on the other hand.

Table No 4.9

Total Debt to Total Assets

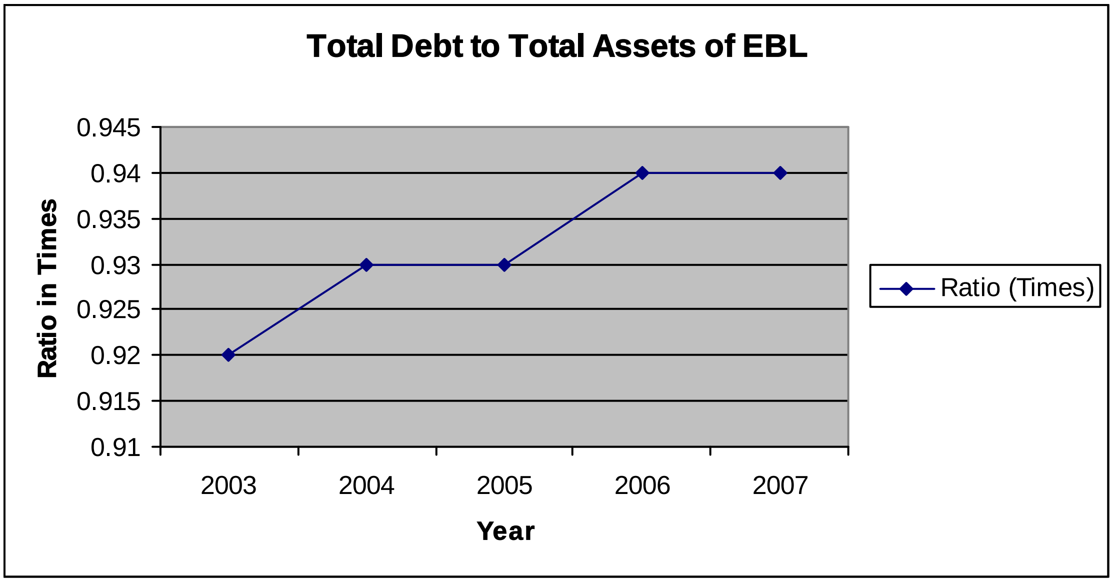
(Amount in Rs. Lakhs)

Year	Total Debt	Total Assets	Ratio (Times)
2003	74394	80522	0.92
2004	89282	96085	0.93
2005	108999	117325	0.93
2006	149964	159592	0.94
2007	202310	214325	0.94
Mean			0.93

Source: Annual Report of EBL 2003-2007

The ratio is found as 92%, 93%, 93%, 94% and 94% from 1st to 5th year of the study period respectively. The average ratio in 5 years research period is 93%. It means almost 93% of total assets is financed by the outsider's' funds. From the table no. 4.9, it is seen that there is no great deviation in the ratio for the five years. It means no change in the policy on this ratio for the five years.

Figure No. 4.8



iii. Total Assets to Net Worth Ratio:

The ratio is calculated to find out the proportion of owner's fund to finance for the total assets. Total Assets comprises of the total value of the assets side of balance sheet where as net worth is the sum of the paid-up capital plus reverses and retained of the bank. It is calculated to see the amount of assets financed by net worth

Table No 4.10

Total Assets to Net Worth

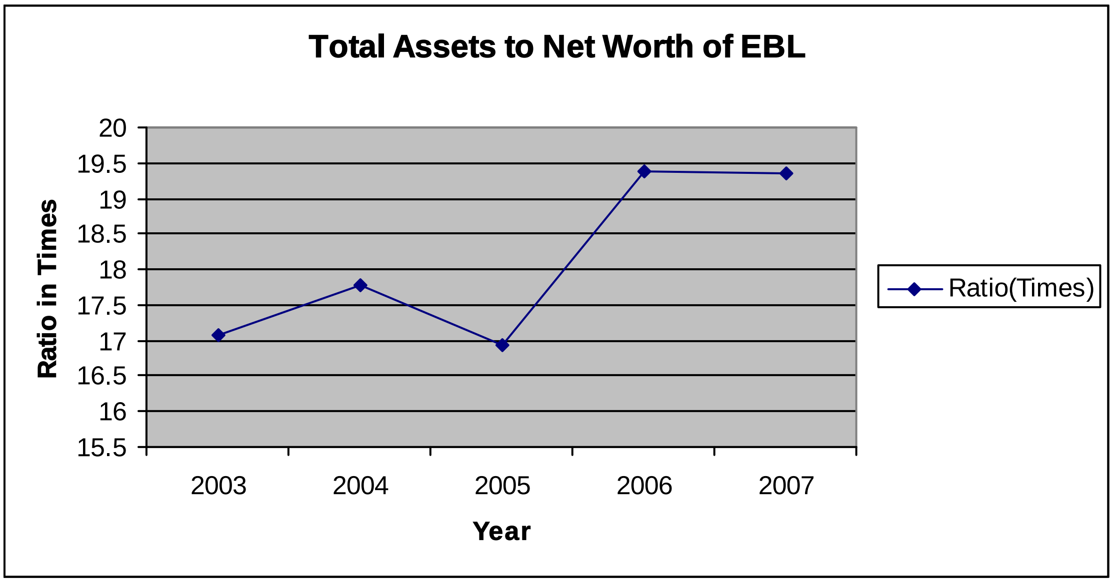
(Amount in Rs. Lakhs)

Year	Total Assets	Net Worth	Ratio(Times)
2003	80522	4728	17.07
2004	96085	5403	17.78
2005	117325	6926	16.94
2006	159592	8228	19.39
2007	214325	11066	19.36
Mean			18.1

Source: Annual Report of EBL 2003-2007

Total assets to net worth ratio of the bank are fluctuating. It is 17.07 times in the first year of study period and 19.36 times in the last year of the study period. The average ratio at that time is 18.10 times. Here above table we see that total assets and net worth are increasing year by year on the study period.

Figure No. 4.9



D) Profitability Ratio

Profitability ratios are very helpful to measure the overall efficiency in operation of a financial institution. In the context of banks, no bank can survive without profit. Profit is one the major indicates or efficient operation of a bank. The banks acquire profit by providing different services to its customers or by providing loan and advances and making various kinds of investment opportunities. Profitability ratios measure the efficiency of bank. A higher profit ratio shows the higher efficiency of a bank. The following ratios are calculated:

i) Net Profit to Gross Income Ratio

The ratio measures the volume of gross income. The high ratio measure the higher efficiency of the bank and lower ratio indicates the lower efficiency of the bank.

Table No 4.11

Net Profit to Gross Income Ratio

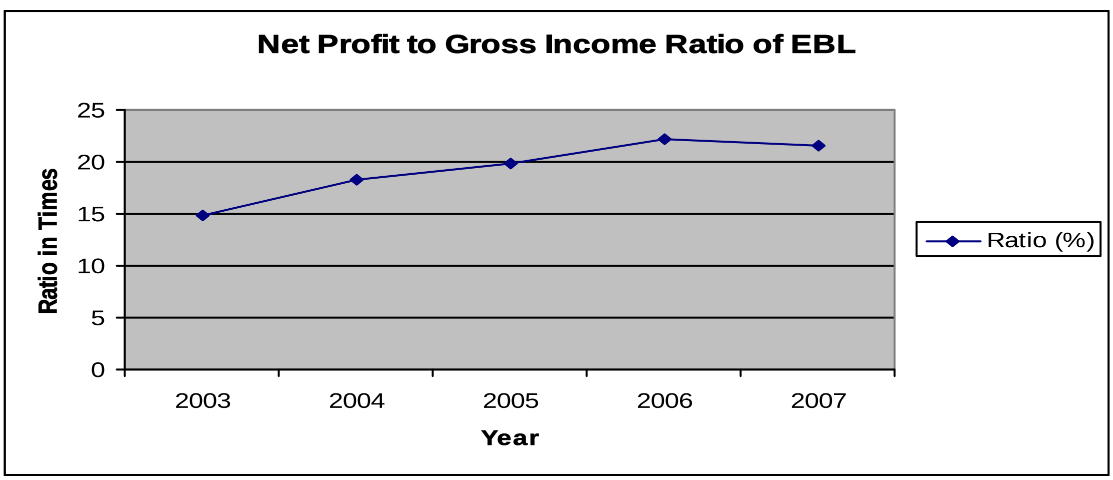
(Amount in Rs. Lakhs)

Years	Net Profit	Gross Income	Ratio (%)
2003	853	5409	14.8
2004	1436	7550	18.3
2005	1708	8589	19.9
2006	2372	10665	22.2
2007	2964	13707	21.6
Mean			17.36

Source: Annual Report of EBL 2003-2007

Table no 4.11 shows that the total net profit to gross income ratio of EBL is in fluctuating trend. The highest ratio is 22.2% in year 2006 and lowest ratio 14.8% in year 2003. The mean ratio is 19.36%. The bank is able to obtain higher efficiency. Ratios are 18.3%, 19.9% and 22.2% and 21.6% in year 2004, 2005, 2006 and 2007 respectively. These are able to obtain higher efficiency of the bank. Ratio14.8% in year 2003 respectively is not able to obtain higher efficiency of the bank. Therefore, credit management is in good position of the bank. Net profit to gross income ratio is represented in bar diagram as follow.

Figure No. 4.10



ii) Interest Income to Total Income Ratio

This ratio measures the volume of interest income to total income. The high ratio indicates the banks performance on other free base activities. The high ratio indicates the high contribution made by lending and investing activities.

Table No 4.12

Interest Income to Total Income Ratio

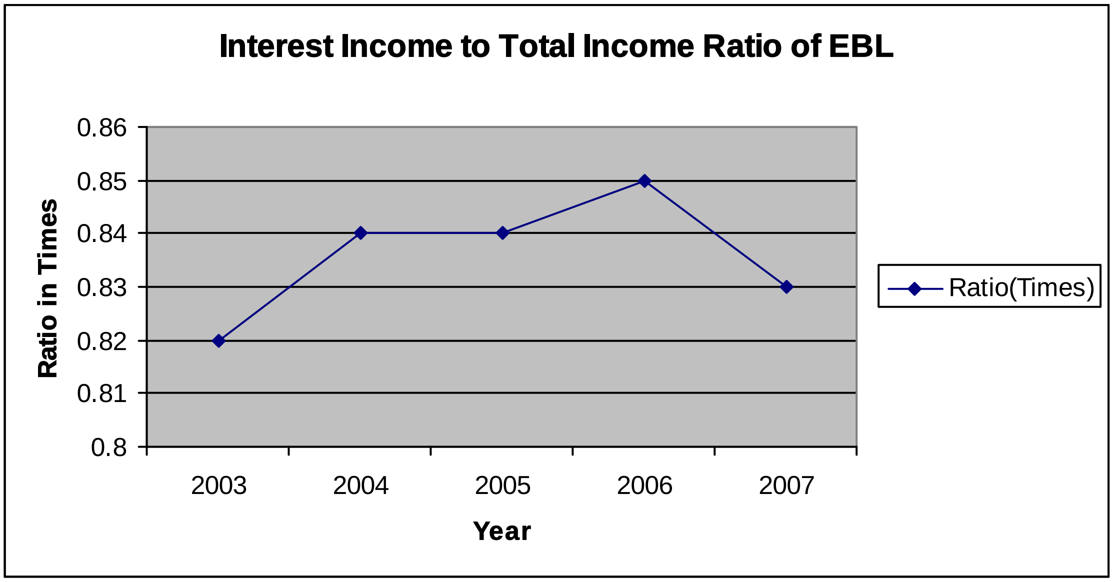
(Amount in Rs. Lakhs)

Years	Interest Income	Total Income	Ratio(Times)
2003	5202	6353	0.82
2004	6573	7851	0.84
2005	7193	8590	0.84
2006	9034	10665	0.85
2007	11444	13707	0.83
Mean			0.84

Source: Annual Report of EBL 2003-2007

Table no 4.12 shows that the total interest income to total income ratio of EBL is in fluctuating trend. The highest ratio is 0.85 times in year 2006 and lowest ratio 0.82 times in year 2003. The mean ratio is 0.84 times in the study period. The ratio indicates the high contribution made by lending and investing activities. Ratios are 0.84 times, 0.84 times and 0.85 times in year 2004, 2005 and 2006 respectively. These indicate that high contribution made by lending and investing activities. Ratio is 0.82 times and 0.83 times in the years 2003 and 2007 are respectively. This indicates that high contribution is not made by lending and investing activities. Therefore, credit management is in a good position of the bank. Interest income and total income are presented in bar diagram as follows:

Figure No. 4.11



iii) Operating Profit to Loan and Advances Ratio

Operating profit to loan advances ratio measures the earning capacity of commercial bank. Operating profit to loan and advance ratio is calculated by dividing operating profit by loan and advance.

$$\text{Operating profit to loan and advance ratio} = \frac{\text{Operating Profit}}{\text{Loan \& Advance}}$$

Table No 4.13

Operating Profit to Loan and Advances Ratio

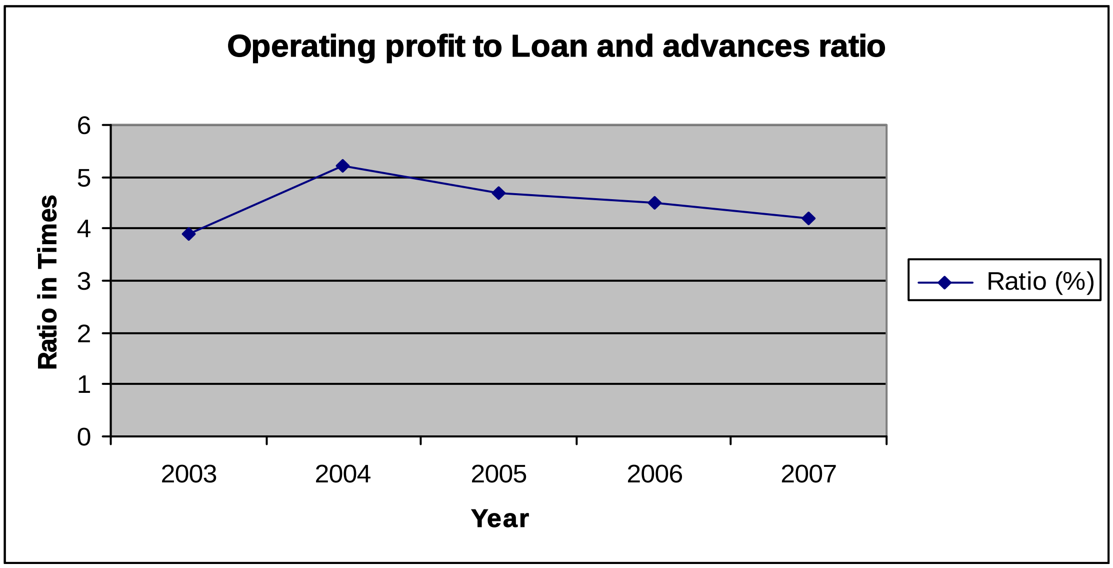
(Amount in Rs. Lakhs)

Years	Operating Profit	Loan and Advances	Ratio (%)
2003	1967	50495	3.9
2004	3164	60958	5.2
2005	3752	79000	4.7
2006	4531	101362	4.5
2007	5979	140826	4.2
Mean			4.5

Source: Annual Report of EBL 2003-2007

Table no 4.13 shows that the operating profit to loan and advances ratio of EBL is in fluctuating trend. The highest ratio is 5.2% in the year 2004 and lowest ratio 3.9% in the year 2003.The mean ratio over the period is 4.5%. This shows the better profitability position of the bank. Ratios are 5.25% and 4.7% in year 2004 and 2005 respectively. These show the better profitability position of commercial bank. Ratios are 3.9% and 4.2% in year 2003 and 2007 respectively. But there is a declining in operating profit to loan and advance ratio which is not good.. Thus, credit management is in good position of the bank. Operating profit and loan advances are presented in the bar diagram as follows

Figure No. 4.12



iv) Return on Loan and Advances Ratio

This ratio measures the earning capacity of commercial banks through its fund mobilization as loan advances and vice-versa.

Table No 4.14

Return on Loan and Advances Ratio

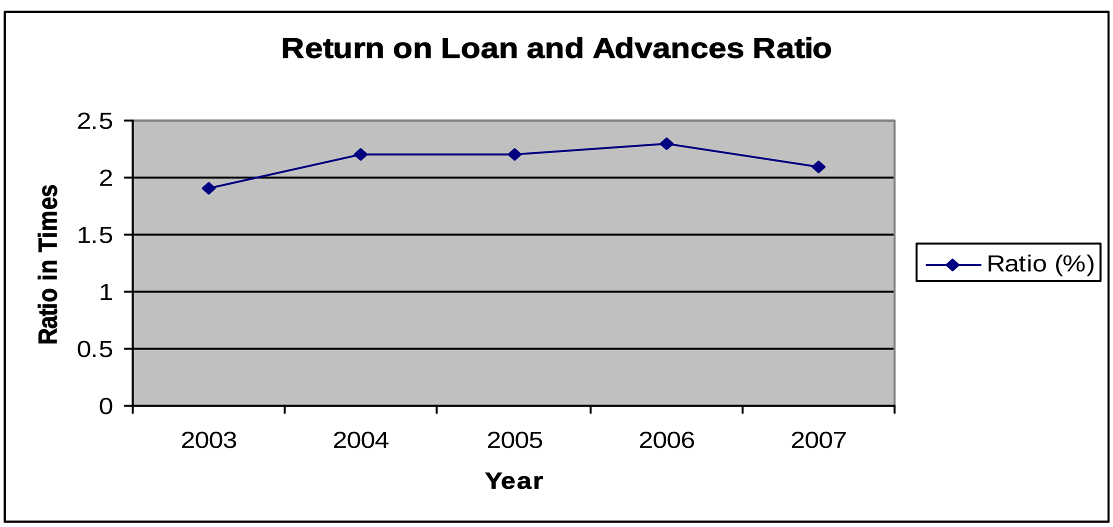
(Amount in Rs. Lakhs)

Years	Net Profit	Loan and Advances	Ratio (%)
2003	942	50495	1.9
2004	1435	60958	2.2
2005	1708	79000	2.2
2006	2372	101362	2.3
2007	2964	140826	2.1
Mean			2.2

Source: Annual Report of EBL 2003-2007

Table no 4.14 shows that return on loan and advances ratio of EBL is in fluctuating trend. The highest ratio is 2.4% in the year 2004 and lowest ratio 1.9% in the year 2003. The mean ratio is 2.2% This shows the normal earning capacity of EBL in loan and advances. Ratios are 2.4% and 2.3% in years 2004 and 2006 respectively. These show the normal earning capacity in loan and advances. Ratios are 2.1% and 1.9% times in year 2007 and 2003 respectively. These do not show the normal earning capacity in loan and advances. Net profit and loan advances are represented in the bar diagram as follows.

Figure No. 4.13



V) Net Profit to Total Assets

This ratio shows the relationship of Net Profit and total assets is to determine how efficiently the total assets and is to determine how efficiently the total assets have been used by the management. This ratio indicates the ability of generating profit per rupees of total assets.

Table No 4.15

Net Profit to Total Assets

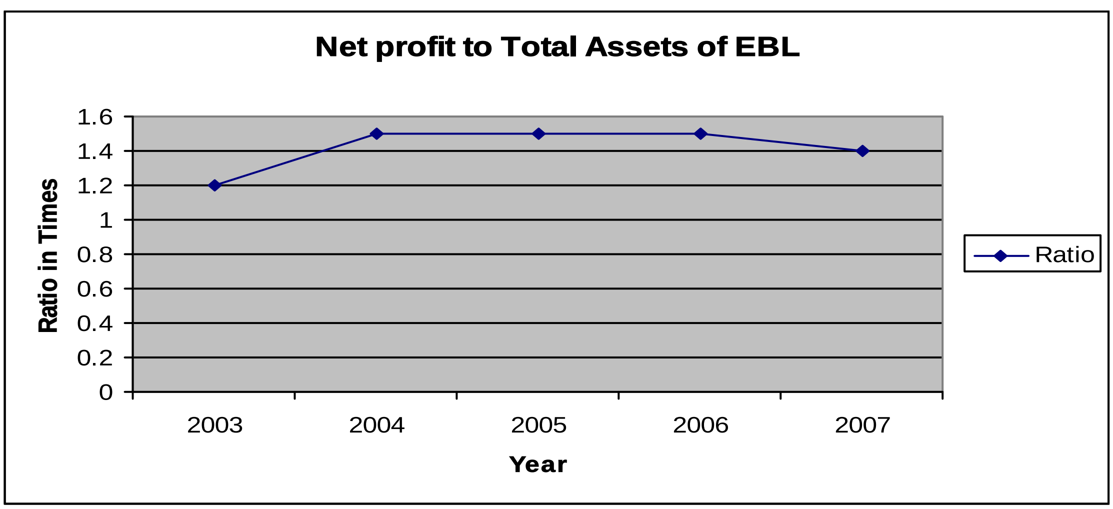
(Amount in Rs. Lakhs)

Years	Net Profit	Total Assets	Ratio
2003	942	80522	1.2
2004	1435	96085	1.5
2005	1708	117325	1.5
2006	2372	159592	1.5
2007	2964	214325	1.4
Mean			1.42

Source: Annual Report of EBL 2003-2007

Table No 4.15 shows that the Net profit to total assets ratio of EBL is in fluctuating trend. The highest ratio is 1.5% years 2004, 2005, & 2006 are same and lowest ratio 1.2% in the year 2003. The mean ratio is 1.42%. This shows the normal earning capacity of EBL. In above the five year research period net profit and total assets both are increasing trend.

Figure No. 4.14



vi) Earning Per Share

It measures the profit available to equity shareholders on per share basis i.e. the amount they can get each share held. The objective of computing this ratio is to measure the profitability of the firm on per equity share basis. This ratio is commutated by dividing the net profit after preference dividend by the number of equity.

Table No 4.16

Earning Per Share

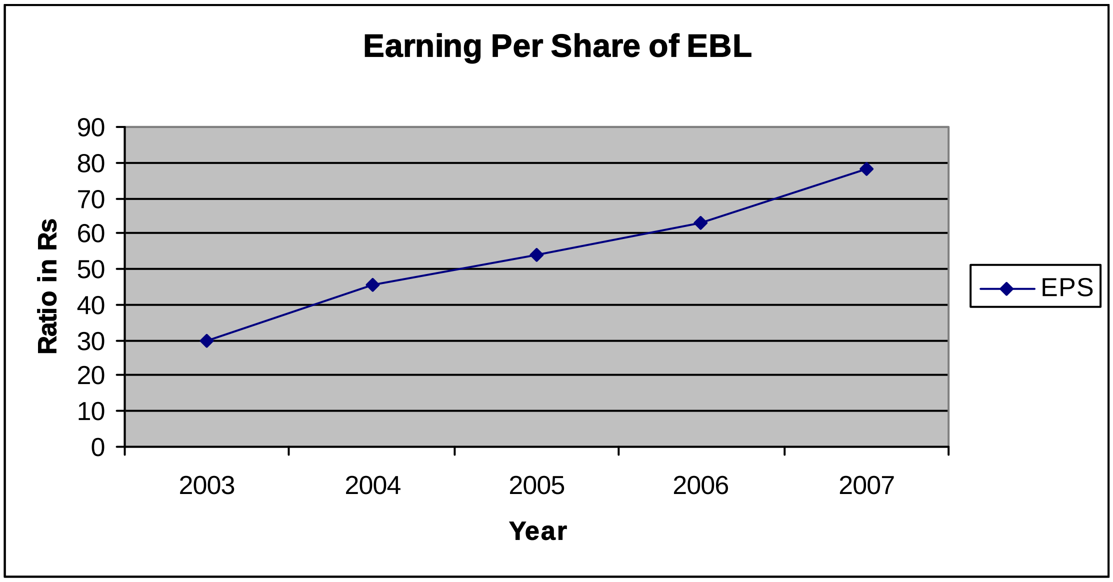
(Amount in Rs.Lakhs)

Years	Net Profit	No. of Equity Shares	Earning per Share (In Rs)
2003	942	31	29.9
2004	1435	31	45.58
2005	1708	31	54.22
2006	2372	38	62.78
2007	2964	38	78.4
Mean			54.17

Source: Annual Report of EBL 2003-2007

Table no 4.16 shows that Earning per share of EBL is in increasing trend. The highest EPS is RS 78.4 in year 2007 and lowest EPS Rs.29.90 in year 2003. The mean EPS of the EBL is Rs.54.17 in the study period. This shows the better profitability in the coming last years. Earning per shares are Rs.45.58, Rs.54.22 and Rs.62.78 in year 2004, 2005 and 2006 respectively; these mean that the better profitability in the coming last years. In the year 2003 EPS is Rs.29.90 these mean that does not profitability position of the bank. Earning per shares is represented in the bar diagram as follows:

Figure No 4.15



vii) Price Earning Ratio

Price earning ratio measures the profitability of the firm. Higher ratio measures the higher profitability of the firm lower ratio measures lower profitability of the firm. This ratio shows the relation ship between earning per share and market value per share.

Price earning ratio= Market value per share/Earning per share

Table No 4.17

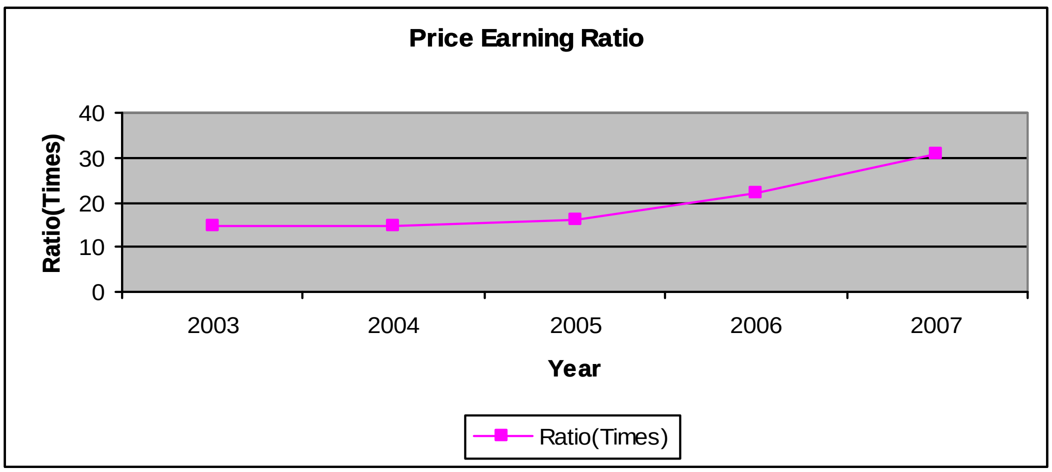
Price Earning Ratio

Years	Market Price Per Share	Earning Per Share	Ratio(Times)
2003	445	29.9	14.88
2004	680	45.58	14.93
2005	870	54.22	16.04
2006	1379	62.78	21.97
2007	2430	78.4	31
Mean			19.76

Source: Annual Report of EBL 2003-2007

Table no 4.17 shows that price earning ratio earning of EBL is in increasing trend. The highest price earning ratio is 31 times in year 2007 and lowest ratio 14.88 times in year 2003.The mean ratio of the EBL is 19.76 times in the study period. This shows the better profitability in the last years. Ratios are 21.97 times and 31 times in year 2006 and 2007 respectively. These mean that the better profitability in the coming last years. Ratios are 14.88, 14.93 and 16.04 times in year 2003, 2004 and 2005 respectively. Thus, credit management is in good position. Price earning ratios are represented in the bar diagram as follow:

Figure No. 4.16



E.) Lending Efficiency Ratio

The efficiency of firm depends largely on the efficiency with which its assets are managed and utilized. This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility to available fund. The following are the various type of lending efficiency ratio:

i) Loan Loss Provision to Total Loan and Advances Ratio

Loan loss provision to total loan and advances describes the quality of assets that a bank holding. The amount of loan loss provision in balance sheet refers to general loan loss provision. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan means the profit of the banks will come down by such amount. Increase in loan loss provisions decreases in profit result to decrease in dividends but its positive impact is that strength financial conditions of the banks by controlling the credit risk and reduced the risks related to deposits. Therefore, it can be said that banks suffer it only for short-term loan while the good financial conditions and safely of loans will make bank's prosperity resulting increasing profit for long term. Loan loss provision is not more than 1.25% of risk bearing assets.

Table No 4.18

Loan Loss Provision to Total Loan and Advances Ratio

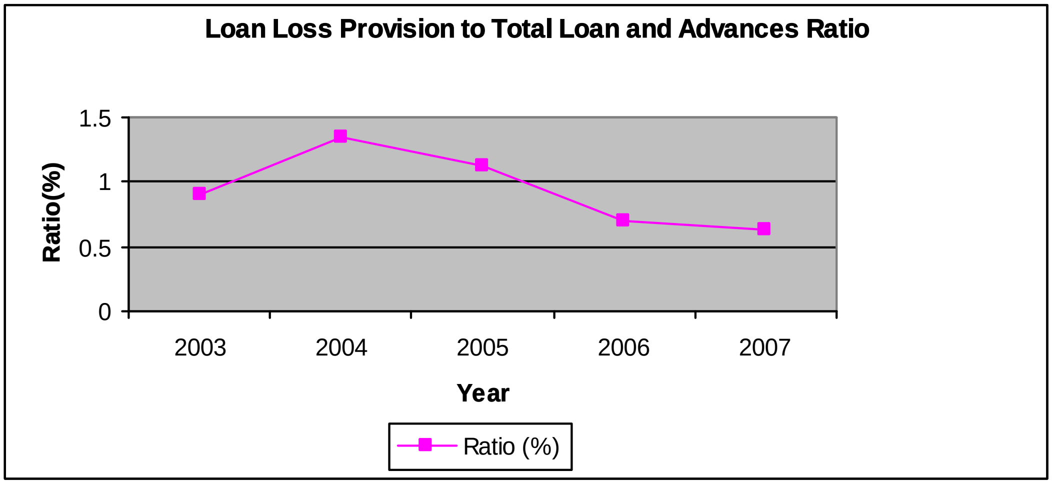
(Amount in Rs. Lakhs)

Years	Loan Loss Provision	Loan and Advances	Ratio (%)
2003	457	50495	0.905
2004	818	60958	1.342
2005	889	79000	1.125
2006	705	101362	0.695
2007	897	140827	0.636
Mean			0.941

Source: Annual Report of EBL 2003-2007

Table no 18 shows that loan loss provision to total loan and advances ratio of EBL is in fluctuating trend. The highest ratio is 1.342% in year 2004 and lowest ratio 0.695% in year 2006.The mean ratio of the study period is 0.941%. This shows that good quality of assets in total volume of loan and advances. Ratios are 0.905%, 0.695%, 0,636 in the year 2003, 2006 and 2007 respectively. These indicate the good quality of assets in total volume of loan and advances. Ratios are 1.342% and 1.125% in year 2004 and 2005 respectively. This indicates that more risky assets in total volume of loan advances. Thus, credit management is in a good position. So all of the year, the bank has met the NRB requirement. Loan loss provision and total loan and advances are represented in the bar diagram as follows:

Figure No. 4.17



ii) Non-Performing Loan to Total Loan and Advances Ratio

This ratio shows the relationship of Non-performing loan and total loan and advance is to determine how efficiently the total loan and advance have been used by the management. Higher ratio shows the low efficient operating of the management and lower ratio shows the more efficient operating of credit management.

Table No 4.19

Non-Performing Loan to Total Loan and Advances

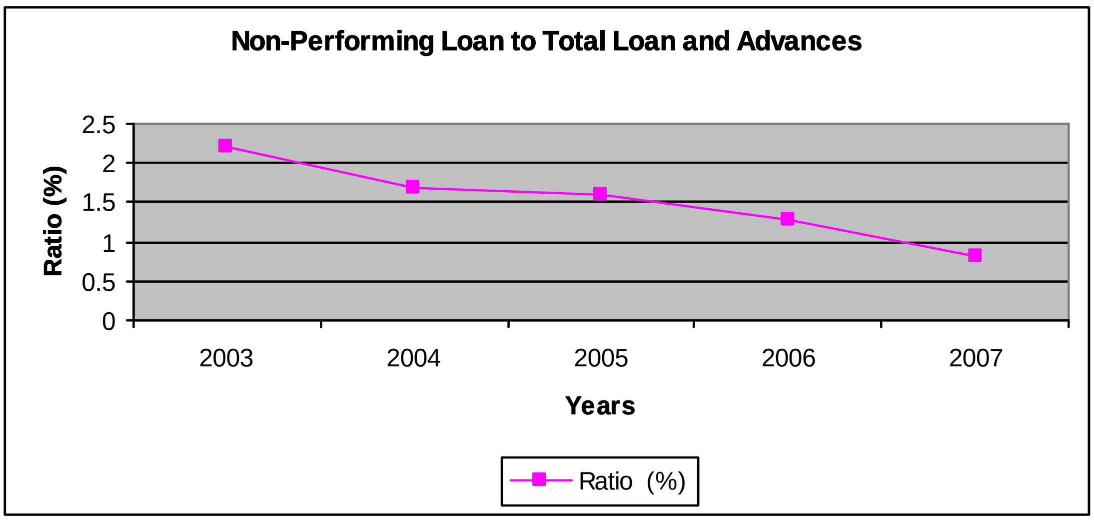
(Amounts in Rs. Lakhs)

Years	Non-performing Loan	Loan and Advances	Ratio (%)
2003	1112	50495	2.2
2004	1047	60958	1.7
2005	1288	79000	1.6
2006	1292	101362	1.27
2007	1126	140827	0.8
Mean			1.37

Source: Annual Report of EBL 2003-2007

Table no 4.19 shows that Non performing loan to total loan and advance of EBL is in fluctuating trend. The highest ratio is 2.2 % in the year 2003 and lowest ratio 0.80% in the year 2007 from mean point of view; non-performing loan to total loan and advances ratio of EBL is 1.37% during the study period. This ratio indicates the more efficient operating of credit management. Ratios are 2.2 %, 1.7 % & 1.6 % in year 2003, 2004 and 2005 respectively. These ratios indicate the lower efficient operating of credit management. Ratios are 1.27%and 0.80% in year 2006 and 2007 respectively. These ratios indicate the higher efficiency in credit management in latter years. Therefore, credit management is in a good position recently. Non- performing loan and loan advances are represented bar-diagram as follows:

Figure No. 4.18



iii) Interest Expenses to Total Deposit Ratio

The ratio measures the percentage of total interest against total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has more the probability of generating loans and advances and vice-versa.

Table No 4.20

Interest Expenses to Total Deposit Ratio

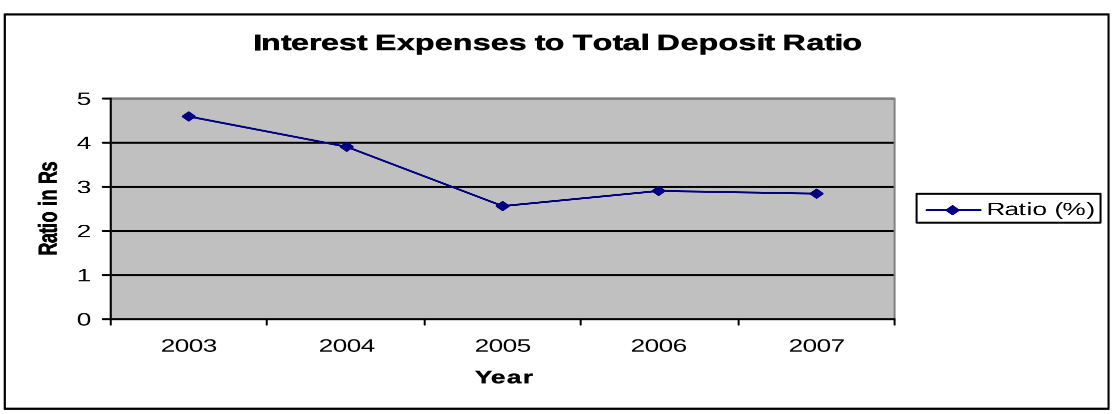
(Amounts in Rs.Lakhs)

Years	Interest Expenses	Total Deposit	Ratio (%)
2003	3076	66950	4.59
2004	3164	80639	3.92
2005	2996	100977	2.57
2006	4014	138024	2.91
2007	5172	181862	2.84
Mean			3.37

Source: Annual Report of EBL 2003-2007

Table no 4.20 shows that interest expenses to total deposit ratio of EBL is in fluctuating trend. The highest ratio is 4.59% in the year 2003 and lowest ratio 2.57% in the year 2005. From mean point of view, interest expenses to total deposit ratio of EBL is 3.37% during the study period. That this ratio does not indicate higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. Ratios are 4.59% and 3.92% in year 2003 and 2004 are respectively. These indicate that higher interest expenses on total deposit. Ratios are 2.57%, 2.91% and 2.84 in year 2005, 2006 and 2007 respectively. These do not indicate that the higher interest expenses on total deposit. Interest expenses to total deposit ratio is represented in the bar-diagram as follows:

Graph No 4.19



4.2 Statistical Analysis:

i) Coefficient of Correlation Analysis

The statistical tool, coefficient of correlation has been studied to find out whether the two available variables are inter-correlated or not. If the result falls with in the correlated point, the two variables are inter-correlated otherwise not. Now to find out the correlation coefficient between total lending and total assets, the widely used method of Karl Pearson's Coefficient of Correlation has been adopted.

$$\text{Coefficient of Correlation (r)} = \frac{N\sum xy - (\sum X)(\sum Y)}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$$

ii) Probable Error

It is an oldest method to determine the reliability of the value of Pearson’s coefficient of correlation. It helps in interpreting the value of coefficient of correlation. If r is the calculated correlation coefficient in a sample of n pairs of observation, then its standard error, usually denoted by S.E. & is given by.

$$\text{S.E. (r)} = \frac{1 - r^2}{\sqrt{n}}$$

A. Total Credit and Total Assets

Coefficient of Correlation between Total Credit and Total asset

Coefficient of correlation between total credit and total assets measures the degree of their relationship. In the, correlation analysis, investment is independent variable and net profit is dependent variable. The following Table shows the coefficient of correlation coefficient of determination, probable error and six times of P.Er. During the fiscal year 2003/04 to 2007/08.

Table No. 4.21

Correlation between Total Credit and Total Assets

Correlation Coefficient (r)	Coefficient of determination(r^2)	Probable error (P.Er.)	6 P.Er.
0.998	0.996	0.00121	0.0072

Source: Appendix - 1

Above table shows correlation coefficient between total Credit and Total Asset of EBL is 0.998, which implies there is highly positive correlation between total Credit and Total Assets. In addition, coefficient of determination is 0.996. It means 99.6 percent of Assets is contribute by Total Credit. Obviously, this correlation is significant at all due to coefficient of determination is higher than P.Error. Thus, it can be concluded that the degree of relationship between Total Credit and Total Asset of EBL has highly positive correlation.

B Total Deposit and Loan and Advance

Correlation Coefficient between Total Deposit & Loan & Advances

Deposit have played vary important role in performance of a commercial banks and similarly loan & advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loan & advances measures the degree of relationship between these two variables. The main objectives of computing 'r' between these two variables is to justify whether deposit are significantly used as loan & advances in proper way or not. Coefficient of correlation determination between Total Deposit and loan and Advances of EBL

Table No 4.22

Correlation Coefficient (r)	Coefficient of determination(r^2)	Probable error (P.Er.)	6 P.Er.
0.999	0.998	0.0006	0.0036

Appendix - 2

The above table shows that the correlation coefficient between deposit and loan and advances is 0.999. There is highly positive correlation between loan and advances and deposit collection. The coefficient of determination is 0.998, which depicts that 99.8% of loan has been explained by the deposit collection. It shows that increase in deposit highly lead to increase loan and advances. In accordance to increase in deposit EBL's loan and advances is increasing in trend.

Probable error (P.E.) is calculated to be 0.0006 and 6 P.E. is 0.0036. Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of r. Here, 'r' is greater than 6 P.E. then there is evidence of significant correlation between loan and deposit. That further reveals there is significant relationship between loan and advances and deposit.

iii. Trend Analysis:

Here, trend analysis of total deposits and loan and advances is projected for the five years. The measure of trend analysis shows the behavior of given variables in series of time. This trend analysis is carried out to see average performance of the banks for next five years.

Trend analysis is based on some assumptions;

- All the other things will remain unchanged.
- The bank will run in present condition.
- The economy will remain in present stage.
- N.R.B. will not change its guidelines to commercial banks.

a) Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next five years will be forecasted for future analysis. This is calculated by the least square method.

Y= a+ bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X= deviation from some convenient time periods.

Table No 4.23

Trend of total Deposit

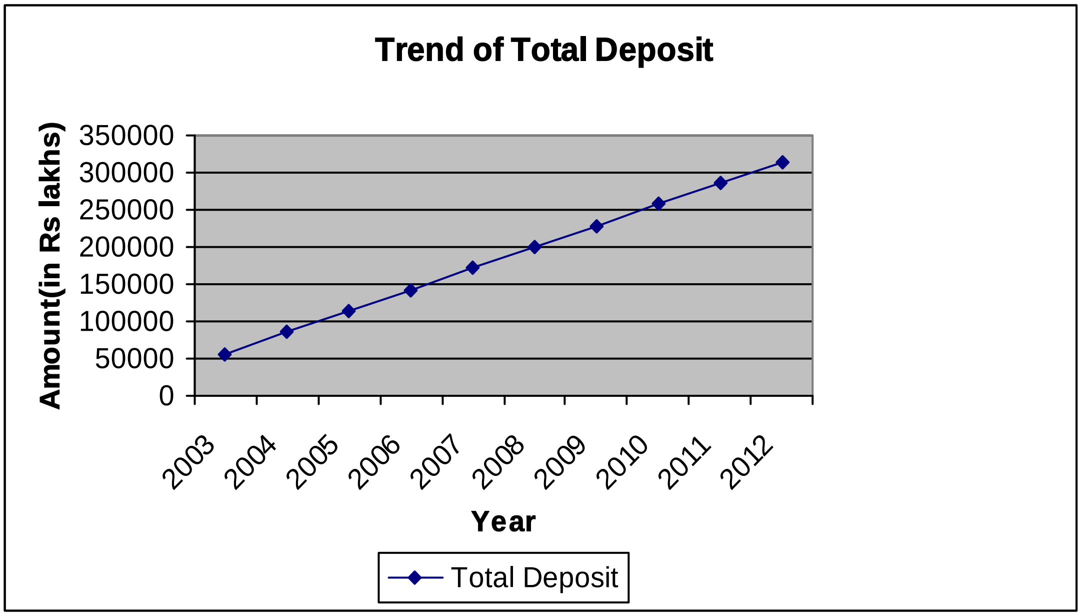
(Amount in Rs. Lakhs)

Year	Total Deposit
2003	562,48
2004	849,69
2005	113,690
2006	142,411
2007	171,132
2008	199,853
2009	228,574
2010	257,295
2011	286,016
2012	314,737

Appendix -3

The following graph helps to show the trend lines of total deposit for the projected five years.

Figure No. 4.20



Above table and figure shows that total deposit of EBL. The trend of total deposit of EBL is in increasing trend. The rate of increment of total deposit for EBL seems to be smoothly increasing trend. The trend analysis shows the projected deposit amount in fiscal year FY 2003 to FY 2012

b)Trend Analysis of total Loan and Advance:

Table No 4.24

Trend Analysis of total Loan and Advance

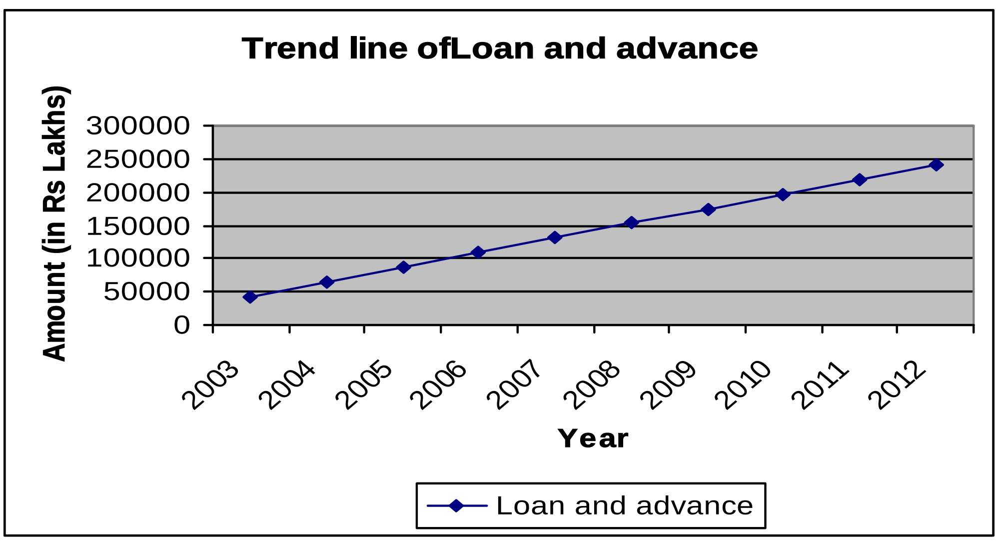
(Amount in Rs. Lakhs)

Year	Loan and Advance
2003	423,14
2004	644,21
2005	865,28
2006	108,635
2007	130,742
2008	152,849
2009	174,956
2010	197,063
2011	219,170
2012	241,277

Appendix - 4

The following graph helps to show the trend lines of Loan and advance for the projected five years.

Graph No 4.21



Above table and figure shows that total loan and advance of EBL. The trend of total loan and advance of EBL is in increasing trend. The rate of increment of total deposit for EBL seems to be smoothly increasing trend. The trend analysis shows the projected total loan and advance amount in fiscal year FY 2003 to FY 2012.

c) Trend Line of Net profit

Table No 4.25

Trend Analysis of Net profit

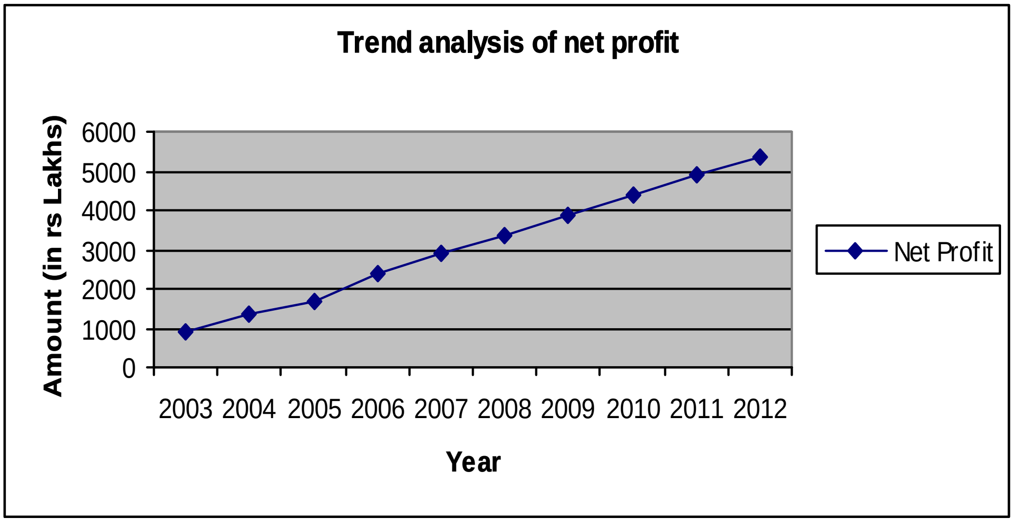
(Amount in Rs. Lakhs)

Year	Net Profit
2003	888.0
2004	138,6
2005	170,8
2006	238,2
2007	288,0
2008	337,8
2009	387,6
2010	437,4
2011	487,2
2012	537,0

Appendix - 5

The following graph helps to show the trend lines of Net profit for the projected five years.

Graph No 4.22



Above table and figure shows Net Profit of EBL. The trend of total deposit of EBL is in increasing trend. The rate of increment of total deposit for EBL seems to be smoothly increasing trend. The trend analysis shows the projected deposit amount in fiscal year FY 2003 to FY 2012.

4.3 Major Finding of the Study

A. Liquidity Ratio

- Cash and bank balance to current deposit of the bank shows the fluctuating trend during the study period. The mean ratio is 1.342 times in the study period. The cash and bank balance to total deposit of the bank shows the fluctuating trend during the study period. The mean ratio is 0.12 times in the study period. This means that the bank is able to be maintained in the good liquidity position of the bank. Therefore, that profit and credit management is in good position of the EBL.

- Cash and bank balance to interest sensitive ratio of EBL is also in fluctuating trend. The mean ratio is 0.26 times. This means that the bank is able to maintain in the good financial condition.

B. Assets Management Ratio

- Credit and advance to fixed deposit ratio of EBL is Fluctuating trend. The mean ratio is 2.26 times in the study period. Credit and advances to total deposit ratio of EBL is also in a fluctuating trend. The mean ratio is 0.75 times in the study period. The ratio indicates the high contribution made by lending and investing activities. Thus, profit and credit management is in a good position.
- Non-performing assets to total assets ratio of EBL is in a declining trend which is good. The mean ratio is 0.978%. The bank is able to obtain higher lending opportunity. Thus, profit and credit management is in a good position.

C. Leverage ratio

- The Debt to equity ratio of EBL is in stable position during the study period. The analysis indicates that the bank is highly leveraged because the claim of the outsiders exceeds than those of the owners over the bank assets.
- The Debt to assets ratio of EBL is excessively high or in other words they have excessively geared capital structure. On an average 93% of assets is financed through debt capital that is outsiders cost bearing fund, which implies that the bank has riskier debt financing position Total assets to net worth is an average is 18.10 times at the study period.

D. Profitability Ratios

- From the study is also a show that the net profit to total assets of EBL in the year 2005 and 2006 is higher that is 1.5% as compared to other fiscal year. The ratio is fluctuating over the period with an average of 1.42%. Though bank is making profit it is not sufficient. So additional efficiency is required in the.
- Profit to gross income ratio of EBL is also in fluctuating trend. The mean ratio is 17.36%. The bank is able to obtain higher efficiency
- Interest income to total income ratio of EBL is also in fluctuating trend. The mean ratio is 0.84 times in the study period. The ratio indicates the high contribution made by lending and investing activities.

- Operating profit to loan and advances ratio of EBL is also in fluctuating trend. The mean ratio over the period is 4.5%. This shows the better profitability position of the bank.
- Return on loan advances ratio of EBL is also in fluctuating trend. The mean ratio is 2.2%. This shows the normal earning capacity of EBL in loan and advances.
- Earning per share of EBL is in increasing trend. The mean EPS of the EBL is Rs.54.17 in the study period. This shows the better profitability in the coming last years.
- Price earning ratio earning of EBL has increasing trend. The mean EPS of the EBL is 19.76 times in the study period. This shows the better profitability in the coming last years. Thus, profit and credit management overall is in a good position.

E. Lending Efficiency Ratio

- Loan loss provision to total loan advances ratio of EBL is also in fluctuating trend. The mean ratio of the study period is .941%. This shows that good quality of assets in total volume of loan advances. So, all of the year the bank has met the NRB requirement.
- Interest expenses to total deposit ratio of EBL is also in fluctuating trend. From mean point of view, interest expenses to total deposit ratio of EBL is 3.37% during the study period. This ratio does not indicate higher interest expenses on total deposit.
- Non-performing loan to total loan advances ratio is decreasing trend about the study period. From mean point of view, Non-performing loan to total loan advances ratio of EBL is 1.37% during the study period. This means efficient operating of credit management.

F. Statistical tools

- In statistical analysis, correlation analysis and trend analysis has been calculated. Correlation coefficient between total credit and total assets is 0.998, which shows high degree of positive correlation. It can be concluded that total assets and total credit are increasing and can be said that increasing assets will have positive impact towards total credit. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation i.e. 0.999. It is concluded that increasing total deposit will have positive impact towards loan & advances.

- Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. Average increasing trend is 28,721 (lakh) .Trend analyses for loan & advances is done to see future loan & advances. Average increasing trend is 22,167(lakh). Average increasing trend of net profit is 498(lakh) per year.

Chapter - V

SUMMARY CONCLUSION AND RECOMMENDATION

5.1 Summary

A research methodology helps us to find out accuracy, validity and suitability of the data. For the purpose of achieving the objectives of study, the applied methodology will be used. The research methodology has primarily sought the evaluation of the financial performance of Everest Bank Ltd.

The main objective of research is to make analysis Financial Performance of commercial bank with reference to Everest Bank Ltd. The research analyzes the financial performance of commercial Bank in Nepal and provides valuable recommendation. To analyze the financial performance last five years data has been used. The objectives is also to evaluate the liquidity, efficiency and profitability positions in related to fund mobilization, growth ratios of loan and advances and total investment with respective growth rated of total deposits and net profit of the companies. The study also find out the relationship between deposits and total investment, deposit and loans and advances, and net profit and outside assets of the listed companies.

In the aspect of liquidity position, cash reserve ratio shows the more liquidity position. Cash and bank balance to interest sensitive ratio shows the bank is able to maintain good financial condition. Cash and bank balance to total deposit has more fluctuating trend in 5 years study period. The average ratio is 0.12 times and hence the bank has enough cash & bank balance to cover its deposit demand.

By analyzing the assets management ratio, credit advances to total assets ratio shows the better performance but credit and advances to total deposit position in minimum than the averages. Whereas investment in credit and advances is done safely and not taking more risk. That’s why assets management position of the bank shows better performance in the recent years. Non –performing assets to total assets ratio is decreasing during the study period.

Debt to equity ratio is in an increasing trend and the average ratio for total debt to equity ratio is 12.14 times. Total debt to total assets ratio is .93 times, which means 93% of the bank's assets are financed with debt, and only the remaining 7% of the financing comes from shareholder's equity. High total debt to total assets ratio posses' higher financial risk and vice-versa. The ratio of total assets to net worth is 18.10 times.

In the aspect of profitability position, interest income to interest expenses ratio shows the more profitable salivation. In addition, total income to total expenses ratio shows the overall predominance of the bank is satisfactory operating income. Return on loan and advances are showing position that is more profitable on of the EBL.

After analyzing the lending efficiency of the bank, the loan loss provision to loan advances indicator shows the better performance in the latest year. The interest expenses to total deposit ratios shows the improving efficiency of the bank

In statistical analysis, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets is 0.998, which shows high degree of positive correlation. It can be concluded that total assets and total credit are increasing and can be said that increasing assets will have positive impact towards total credit. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation i.e. 0.999. It is concluded that increasing total deposit will have positive impact towards loan & advances.

Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. Average increasing trend is 28,721 (lakh) .Trend analyses for loan & advances is done to see future loan & advances. Average increasing trend is 22,167(lakh). Average increasing trend of net profit is 498(lakh) per year.

5.2 Conclusion

The study measures financial performance of Everest Bank Ltd. which is one of the growing banks in Nepal. EBL has been maintaining a steady growth rate over this period. EBL earned a net profit of Rs 296.4 million for the fiscal year 2006-2007 and this comes to be24.96% more as compared to the same period in the previous fiscal year. EBL earned a operating profit of Rs 597.9 million for the fiscal year 2006-2007 and this comes to be 31.96% more as compared to the same period in the previous fiscal year. EBL total deposit of Rs 1818.6 million for the fiscal year 2006-2007 and this comes to be 31.8% more as compared to the same period in the previous fiscal year and then total loan increase by 38.9% compare as previous year.

EBL bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now in Nepal, many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investigable sectors. Therefore monetarism has been increased since liberalization policy taken by the government. Remittance has also help to increase the amount of deposit in bank. On the other hand, due to political crisis economic sectors have been damaged. Most of the projects have been withdrawn due to security problem. Therefore, banks have maximum liquidity due to lack of safety investment sectors.

Provision for credit loss has been increasing year by year of EBL bank and decreases in the year 2006. Due to political disturbance in the country credit takers are not getting good return from their investment sectors. On that situation credit customers do not return money of the bank in the stipulated time period therefore the non-performing credit of the bank increases.

Equity portion of the bank is slightly increasing in the recent years due to issue of directives by Nepal Rastra Bank (NRB) the entire bank to increases it's paid up capital. NRB has issued that direction to provide more safety to the customers. Therefore bank has issued new share in the market.

5.3 Recommendation

These findings may be useful for them who are concerned directly or indirectly with the credit policy of the bank. On the basis of above analysis and findings of the study, following suggestions and recommendation can be drawn out.

- Cash and bank balance of EBL bank is high. Banks efficiency should be increased to satisfy the demand of depositor at low level of cash and bank balance does not provide return to the bank. Therefore some percentage of the cash and bank balance should be invested in profitable sectors.

- EBL should avoid extending credits merely based on oral information presented at the credit interview. Historical financial and trade records should be obtained for proper assessment of the proposal.

- Bank is suggested to make policy to ensure rapid identification of delinquent loans. Bank should make immediate follow-up of loan until it is recovered. The recovery of loan is very challenging as well as important part of the bank. Therefore bank must be careful to strengthen credit collection policy.

- It is recommended to follow the NRB directives which will helps to reduce credit risk arising from defaulter, lack of proper credit appraisal, defaulter by blacklisted borrowers and professional defaulter. Government has established credit information bureau, which will provide suggestion to commercial bank. So EBL is suggested to collect as much information about borrowers and only lend to non-risky area and to non-defaulter.

- EBL bank should be fulfilling some social obligations by extending their resources to rural areas and promoting the development of poor and disadvantages group. In order do so; they should open their branches in the remote area with the objective to provide the banking services. The minimum deposit amounts should be reduced.

- The economic liberalization policy adopted by Nepal Government has created an environment of cutthroat competition in the banking sectors. In this context EBL bank is suggested to formulate and implement sound and effective financial and non-financial strategies to minimize their operational expenses to meet required level of profitability.

- International relations of the EBL bank are limited in comparison to others banks. Therefore, the bank should make negotiation with the international banks to increase its transactions in the international areas.

- According to NRB directives, all the commercial bank should increase the capital up to Rs 200 corer by 2070 B.S. HBL is also suggested to increase its capital. The increment in capital can be made either by capitalization of profit, declaration of stock dividend or right share issue.

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Appendix - 1

Correlation Coefficient between Total Credit and Total Assets of EBL

Amounts are in Rs. '000000000'

Year	Total Credit(x)	Total Assets(y)	x^2	y^2	xy
2003	5	8.1	25	65.61	40.5
2004	6.1	9.1	37.21	82.81	55.51
2005	7.9	11.7	62.41	136.89	92.43
2006	10.1	15.9	102.01	252.81	160.59
2007	14	21.4	196	457.96	299.6
N=5	**$\sum x$=43.1**	**$\sum y$=66.2**	**$\sum x^2$ = 422.63**	**$\sum y^2$ =996.08**	**$\sum xy$=648.63**

Here,

N = 5, x = 43.1, y = 66.2, x^2 = 422.63, y^2 = 996.08 and xy = 648.63

Now, Coefficient of correlation (r) $= \dfrac{N\sum xy - (\sum X)(\sum Y)}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$

= 0.998

Determination of Correlation (r^2) = 0.996

We have, r = 0.998 and n = 5

Then, P.E = 0.6745 × $\dfrac{1 - r^2}{\sqrt{n}}$

=0.0012

Now 6×P.E= 6×.0012 =.0072

Appendix - 2

Correlation Coefficient between Loan & Advances to Total Deposits

Amounts are in Rs. '000000000'

Year	Loan & Advances (x)	Total Deposits (y)	x^2	y^2	xy
2003	5	6.6	25	43.56	33
2004	6.1	8.1	37.21	65.61	49.41
2005	7.9	10.1	62.41	102.01	79.79
2006	10.1	13.8	102.01	190.44	139.38
2007	14	18.2	196	331.24	254.8
N=5	**∑x=43.1**	**∑y= 56.8**	**$\sum x^2$ = 422.63**	**$\sum y^2$ =732.86**	**∑xy=556.38**

Here,

N = 5, x = 43.1, y = 56.8, x^2 = 422.63, y^2 =732.86 and xy = 556.38

Now,

Coefficient of correlation (r) $X\frac{N \quad xy - (\quad X)(\quad Y)}{\sqrt{N \quad X^2 \, Z(\quad X)^2}\sqrt{N \quad Y^2 \, Z(\quad Y)^2}}$

= 0.999

Determination of Correlation (r^2) = 0.998

We have, r = 0.999 and n = 5

Then, P.E = 0.6745 × $\frac{1 Z r^2}{\sqrt{n}}$

= 0.00060

Now 6×P.E

= 6×.00060

=.0036

Appendix - 3

Trend Analysis of Total Deposit

(Rs. in lakh)

Year (X)	Total Deposit(Y)	x = X-2005	x^2	XY
2003	66950	-2	4	-133900
2004	80639	-1	1	-80639
2005	100977	0	0	0
2006	138024	1	1	138024
2007	181862	2	4	363724
Total	**568452**	**0**	**10**	287209

Y= a+ bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X= deviation from some convenient time periods.

Let trend line be

Y= a + bx…………………….(I)

Where x = X-Middle year

Here,

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

$= \frac{568452}{5}$

= 113690

$b = \frac{SXY}{SX^2}$

$= \frac{287209}{10}$

= 28721

Substituting these values of a and b in eq (I) we get the required trend line

Yc= 113690+28721x

Appendix - 4

Trend Analysis of Loan and advance

(Rs. in lakh)

Year (X)	Loan and Advance(Y)	x = X-2005	x^2	XY
2003	50495	-2	4	-133900
2004	60958	-1	1	-80639
2005	79000	0	0	0
2006	101362	1	1	138024
2007	140827	2	4	363724
N=5	**∑Y=432642**	**0**	**∑ x^2= 10**	**∑XY=**221068

Let trend line be

Y= a + bx…………………….(I)

Where x = X-Middle year

Here,

$a = \frac{SY}{N}$ $\qquad$ $b = \frac{SXY}{SX^2}$

$= \frac{432642}{5}$ $\qquad$ $= \frac{221068}{10}$

= 86528 $\qquad$ = 22107

Substituting these values of a and b in eq (I) we get the required trend line

Yc= 86528+22107x

Appendix -5

Trend Analysis Net Profit

(Rs. in lakh)

Year (X)	**Net Profit**	**x = X-2005**	x^2	**XY**
2003	942	-2	4	-1884
2004	1435	-1	1	-1435
2005	1708	0	0	0
2006	2372	1	1	2372
2007	2964	2	4	5928
N=5	**∑Y=9421**	**0**	$\sum x^2 = 10$	**∑XY=4981**

Let trend line be

Y= a + bx……………………. (I)

Where x = X-Middle year

Here,

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

$= \frac{9421}{5}$

= 1884

$b = \frac{SXY}{SX^2}$

$= \frac{4981}{10}$

= 498

Substituting these values of a and b in equation (I) we get the required trend line

Yc = 1884+498x