

# CHAPTER I

## INTRODUCTION

### General Background

Nepal is the least developed country of the world. "Its average annual per capita income is \$260 and GDP growth rate at producer's price is 3.7 percent. Average population growth rate of Nepal is 2.2 percent"<sup>1</sup> Nepalese economy is characterized by slow growth mass poverty, large scale derivations of appropriate economic policy and lack of concerted and sustained efforts. Development efforts were noticed in 30's (AD) during the time of Rama Prime Minister Juddha Shamsher and initiation of planned development efforts in 1956 AD brought a new era in development. Nepal, despite being a primary sector dominated semi feudal society in fastly changing towards betterment.

The development of country is always measured by it's economic indices. Therefore, every country has given emphasis on upliftment of its economy. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country. The financial institutions act as the intermediaries by transferring the resources from the point of surplus to the point of deficit.

Well organized financial institutions including finance companies commercial banks and other financial intermediaries play an important role for the development of the country.

They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial and economic activities of the country. The economic activities of a country can hardly be carried forward without the assistance of the financial institutions. They are the fact that an unorganized financial system leads the country nowhere.

Nowadays there is very much competition in banking market but less opportunity to make investment. In this situation joint venture banks can take initiation in search of new opportunities, so that they can survive in the competitive market and each profit. But investment is a very risky job. For a purposeful, safe, profitable investment bank must follow sound investment policy. Good investment policy ensures maximum amount of investment to all sectors with proper utilization. There is high liquidity in the market but there is no profitable place to invest. The prosperous economic condition of country is represented by the development of the industry, trade and business, which is the main ground to the banks to conduct their activities and to fulfill its objective of profit making. The proper investment policy followed by the proper financial information help the joint venture banks to make profitable investment that helps to maintain the financial system of the country organized and help in the development of the country.

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<sup>1</sup> *Nepal Rastra Bank, Annual Report 2007/08*

Business transactions without the investment of cash are ethical in the monetary world. Today the importance of cash management is recognized by all segments of organization activities. In Nepalese firms context, the theory of cash management has not been much effectively applied in practices. Terms such as cash as cash flow analysis, cash budget, forecasting of cash requirement, credit discount policy, cash discount policy etc. has never been seriously considered. Traditional approaches are still dominant in Nepal and are reluctant to adopt modern techniques. However use of sophisticated forecasting techniques is not the basic requirement of cash budgeting. The inherent quality of cash budget prepared at the beginning quality of fiscal year, if left untouched there after can be of no use, even if it was prepared with very sophisticated forecasting tools. If the departments are handled independently without consideration of their implications for cash management the conflicting interest of those departments are bound to create serious problems. The study of cash management is therefore considered as an integrated approach to management science.

The idea behind cash management is therefore maintaining adequate liquid assets wherever and wherever required by the firm. Maintain of the corporate liquidity therefore consists of determining the volume and timing of cash required by the firm.

Liquidity and technical solvency are two different terms always confused and misused in cash management. A company should be solvent and at may not have enough cash to meet these current obligations. This is because the solvency of the company is known only after the sale of its total assets. The technical solvency therefore doesn't means that its current bills can be paid in cash on due date hence "liquidity" denotes the capability to meet its current obligation, where as solvency is the strength of the enterprises to meet all it's obligation including long term loan.

In conclusion every rupee reduced in the cash balance may contribute to the generation of additional profit of the organization as it has a indirect impact on their financial interests.

### **1.1. History of Bank**

Banking is the business of collecting and safeguarding money as deposits and tending of the same. The history of such business transaction is as old as our civilization. There was existence of the money changers and money lenders of keepers in ancient times that used to by the currency of other countries & give local coins in return and also lend money to the people in need. People used to save & keep security & for use in their old age. Later on, these money-keepers & changers started paying some extra money to induce the deposits & started lending such deposits at higher rate to needy people. Practice of receiving & safeguarding deposits and lending the same led to the emergence of modern banking system. With the passage of time, BANCO DE RIALTO was established as the first bank of the world in Venice, Italy in 1587.

"Banking concept existed even in the ancient period when the goldsmith & rich people used to issue receipt against the promise of safe keeping of their valuable items and on the presentation of the

receipt, the depositors would get back their gold & valuables after paying a small amount for safekeeping and saving."<sup>2</sup>

"Before 1842 B.S. the local 'goldsmith' and 'money lenders' participated in general type of economic activities by collecting valuable metals from the public. Gradually it evolved as 'Tejaratha Adda' under the Prime Ministership of Ranodeep Singh."<sup>3</sup>

During the prime ministership of Ranodeep Singh (1877-1885AD) 'Tejaratha Adda' was established as the first financial institution of the country. At the beginning, only government staffs were allowed to take loan at 5% interest rate. Later on, the general publics were also allowed to take the loan at the same rate of interest with gold & silver ornaments as security of collateral. The credit facilities of 'Tejaratha Adda' were also extended outside the valley during the Prime Ministership of Chandra Shamsher Rana. Although this institution did not accept any deposits, it had played an important role in the development process of banking system in Nepal.

Though the establishment of banking industry is relatively recent in Nepal, some crude bank operations were in practice even in the ancient times. According to historical record, the king of Kathmandu, Guna Kam Dev, and borrowed money to reconstructed his kingdom in 723 A.D. A merchant named 'Shankhadhar' paid all the debts of people and Nepal 'Sambat' was established for remembrance of that occasion in 880 A.D. Likewise Jayasthiti Malla classified the people in 4 classes & 64 castes by their occupations. One of those castes that were engaged in money lending business at that time was called "Tankadhari". All these descriptions serve as the evidence of prevalence of money lending & borrowing practices in Nepal.

Banking in true sense of term started with the inception of Nepal Bank Limited on 30th Kartik 1994 B.S. Right from inception, it carried out functions of a commercial bank. The authorized capital was contributed by the government (51%), and the remaining by the public (49%). There was a political change in 2007 B.S. and solid and important event took place in 14th of Baisakh 2013 B.S. that a central bank, Nepal Rastra Bank, was established with Rs. 1 crore authorized capital under the Nepal Rastra Bank Act, 2012 B.S. Besides the central banking functions, it has a heavy burden to develop the whole economy, such as giving timely direction to all the financial institutions, to help the industry by mobilizing its capital, to issue shares & debentures, to promise the banking habit and transactions and to fix the exchange rate with foreign currency.

The gradual development of commercial banks moved in parallel with the economic liberalization policy of the government that caused the operation of commercial banks in increasing number. The financial policy of the government welcomed the establishment of J.V.B.S. Such soft of commercial banks are established under the commercial Bank Act 2031 B.S. They are registered with recommendation of the NRB and the same bank is capable legally to issue the patent for the financial transactions of the banks. The NRB, Nepal Bank Ltd. and Rastriya Banijya Bank are the only commercial banks established before 2041 B.S.

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<sup>2</sup> Paul A. Samuelson, *Arconomics*, New York, McGraw Hill Book, Co., 1989, P211

<sup>3</sup> Lekhnath Bhusal, *Nepal Rastra Bank Annual Report, Kathmandu, 14 Baisakh 2055 B.S.* -41

Nepal Arab Bank was the first bank in Nepal to be established as a JVB. The number has significantly increased after the restoration of democracy in 2046 B.S. & due to the liberal economic policy of the government. Foreign banks have the dominant role in managing the JVBS in Nepal. The banks have been found interested to invest their capital in manufacturing hotel, textile and medicine. The banks have their objectives to serve in financial sector with the margin of profit in spite of its main objectives of making profit. It bears some positive aspects and if the positive dimensions of such banks are implied in Nepalese banking system, the related sides will be benefited.

Although JVBS are also commercial banks, they differ in the fact that these banks are operated in collaboration with foreign established banks. Banks primarily play a role in accumulation and mobilization of funds in a national level.

Banking institutions are invertible for the resource mobilization and all round development of the country. It is the resource for economic development; it maintains economic confidence of various segments of extends credit to people."<sup>4</sup>

In order to highlights the differences between commercial banks and JVBS, the have been explained separately as follows.

### **1.1.1. Commercial Banks**

The history of commercial banking in nepal starts from the establishment of Nepal Bank Ltd. In 1994 B.S. NBL was the first bank to be established in Nepal and prior to this, there was no such organized banking system in the country. The bank was started with a paid up capital of Rs. 845,000. It started its operation by accepting deposits from thepublic. Later on, Nepal Bank was established in 2013, which helped to make banking system more systematic and dynamic during that time.

As the time passed , a need for more commercial banks arose. At that time NBL was just doing simple banking by collecting deposits from local public. To cater to these needs, Rastriya Banijaya Bank was established in 2022 B.S. in order to play a major role not only in domestic banking services but also in the foreign trade. It was established under its own act, Rastriya Banijaya Bank act 2022. With the establishment of Rastriya Banijaya Bank, a noticeable progress could be seen in the banking industry of Nepal. It brought a revolution in the banking industry. People could easily make business transactions with other counties. Both the banks have majority of shares owned by the Government of Nepal. Rastriya Banijaya Bank is fully owned by the government.

Today Nepal can take legitimate pride in the remarkable growth and progress in the banking industry. Nepal opened its door to foreign commercial banks to operate in Nepal. Consequently, NABIL Bank was established in 2041 under the commercial bank act of 2031. Slowly and slowly new banks started to come in Nepal for doing business. At present the number of commercial banks in the country has

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<sup>4</sup> Ronald, Grywinshki, *The new fashioned Banking, Harvard Business Review, May-June, 1993, P-87*

reached to 30 including NBL & RBB, 13 development banks , 5 village development banks, 49 finance companies, 34 co-operative and 16 other non governmental organizations performing limited banking activities.

Today the banking industry can be compared with the International standards in terms of their functioning and operations. The legitimate entry of foreign commercial banks with full fledged banking functions led to rapid growth of the banking system, accompanied by greater sophistication due to diversity of instruments and institutions handling different modes of raising funds and deployment of funds.

Some of the important changes in the recent past which have profoundly reshaped the financial landscape includes:

- ) Liberalization of exchange controls.
- ) Gradual privatization of state owned enterprise.
- ) Opening up of commercial and investment banking to the private sector.
- ) Establishment of large number of companies, multinational, finance companies, insurance companies.
- ) Development of capital market and stock exchange.
- ) Auctioning of government securities.
- ) Market based rate of return.
- ) Other liberal banking regulations.

These development present strong challenges and opportunities to commercial banks, especially as these are taking place faster than what the commercial banks have been used to in terms of responding to changes.

Currently the economy of Nepal is almost all sectors of the economy are facing new issues and confronting new challenges of transformation by the introduction of market economy in the country.

Today the commercial banks in Nepal are facing heavy competition. The commercial banks in Nepal can be classified into two groups-domestic commercial banks and joint venture banks. It is domestic commercial banks who are facing the most of competition. The main reason why these domestic commercial banks are facing most of the competition is of the nature of their work and responsibility.

### **1.1.2 CHALLENGES OF BANKING SECTOR AFTER 2012**

As evident financial service sector of Nepal will be completely open for foreign participation after 2012 as per the commitments of financial sector service liberalization. Further it is evident that liberalization coupled with inadequate strengthening of regulatory and supervisory framework, is an open invitation for financial crisis. Following are the challenges that can be faced by Nepalese financial sector after 2012:

1. Any financial institution will be allowed to open up branches or even a subsidiary in Nepal.
2. financial services entities will require large amounts of capital investments to remain competitive and be able to assume higher risks.
3. Another greatest challenge facing the domestic institutions is their ability to compete effectively in a more liberalized environment due to skill gaps which are still lacking in critical areas, particularly in the areas of credit and treasury risk management.

### **1.1.3 Joint Venture Banks**

Joint venture banks are the commercial banks formed by joining two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industries well as in the form of negotiation between various groups of industries or traders to achieve mutual exchange of goods & services. A joint venture is forming of forces between two or more enterprises for the purpose of carrying out specific operation (industrial or commercial investment, production trade).

When two or more independent firms mutually decide to participate in a business venture, contribute to the total equity or more or less capital and establish a new organization, it is known as a joint venture."<sup>5</sup>

"A joint venture, an association of two or more individuals or parties having exceptional advantages in a specific operation, is undertaken to make the operation highly remunerative with their collective efforts."

Functionally, JVBs offer the same services as commercial banks. The primary difference lies in the fact that JVBs are opened in collaboration between two or more banks in order to take the benefit of new methods and technologies possesses by other banks. Joint venture banks are the mode of trading to achieve mutual exchange of goods & services for sharing competitive advantage by performing joint investment scheme between Nepalese investors, financial and non financial institution as well as private investors and their parent banks each supplying 50% of investment. The parent banks which have experiences in highly merchandised and efficient banking services in many parts of the world have come to Nepal with higher technology, advance management skills. JVBs are established by joining different forces and with ability to achieve a common goal with each of the partner. They are more efficient & effective monetary institution in modern banking fields than other old types of banks in Nepalese context. JVBs are formed in Nepal as full fledged commercial bank under the Economy Act, 2012 BS and operated under the Banijya Bank Act 2032 BS.

From the establishment of first commercial bank in Nepal in 1994 BS, the banking sector has grown significantly. Nepal has witnessed a phenomenal growth in the last two decades. "There are 16 commercial banks, 13 development banks, 5 village development banks, 49 finance companies, 34 co-operative and 16 other non governmental organizations performing limited banking activities."<sup>6</sup>

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<sup>5</sup> Jauch & Glueck, *Business Policy & Strategic Management*, McGraw hill, 5th Edition, 1988 -232

<sup>6</sup> Nepal Rastra Bank, *Annual Report-2007/08*

**Table 1.1 Joint Venture Banks in Nepal**

Serial No.	Joint Venture Bank	Foreign Partner Banks	Date of Establishment (B.S.)	Date of Operation (B.S.)	Head Office
1	Everest Bank Ltd.	Punjab National Bank, India	2051/07/01	2051/07/01	KTM
2	Himalayan Bank Ltd.	Habib Bank, Pakistan	2049/10/05	2049/10/05	KTM
3	NABIL Bank Ltd.	National Bank Ltd. Bangladesh	2041/03/29	2041/03/29	KTM
4	Nepal Bangladesh Bank	IFIC Bank, Bangladesh	2050/02/23	2050/02/23	KTM
5	Nepal Credit & Com. Bank Ltd. (Formerly Nepal Bank of Ceylon Ltd.)	Bank of Ceylon, Sri Lanka	2053/06/28	2053/06/28	SiddharthNagar
6	Nepal Investment Bank Ltd. (Formerly Nepal Indosuez Bank Ltd.)		2042/11/16	2042/11/16	KTM
7	Nepal SBI Bank Ltd.	State Bank of India	2050/03/23	2050/03/23	KTM
8	Nepal NABIL Bank Ltd. (Formerly Nepal Grindlays Bank)	NABIL Bank Ltd., Australia	2043/10/16	2043/10/16	KTM

## **1.2 Role of JVBs in Nepal**

The entry of JVBs in Nepal has taken the concept of banking to a new level. The Nepalese people have been able to benefit from the state of the art and customized services these banks have to offer. There is no doubt that JVBs have become the choice of people when it comes to banking. And since the industry is still relatively a lot can be achieved in the years to come.

Joint venture banks are already playing a dynamic and vital role in the economic development of the country. This will undoubtedly purchase with the passage of time.<sup>7</sup>

In order to specifically point out the roles it can be presented as under;

- i. **Healthy Competition:**  
The induction of joint venture banks brings the benefit of healthy competition. The competition would force the domestic banks. Nepal Bank Ltd. and Rastra Banijya Bank to improve their services & efficiency.
- ii. **Foreign Investment:**  
Foreign Investment is one of the important aspects for the development of the country. When looking at the possibility of the investment of in the country (Nepal), multinational companies are unfamiliar with the local companies to build up their confidence for investment by providing necessary information and financial support.
- iii. **New Banking Techniques:**  
Modern banking services are being provided to Nepalese financial system by new JVBs. New banking techniques such as tele-banking, computerization, Automated Telling Machines, Debit Cards, Credit Cards are the important contribution of JVBs to the gradual changing commercial banking scenario.

<sup>7</sup> Sunil Chopra, *Role of Foreign Banks in Nepal*, *NRB Samachar*, *NRB KTM*, 14 Baisakh 2056 BS, P-2

### **1.3 Focus of Study:**

Nepal's entry into privately & publicly owned commercial joint venture banks is relatively new compared to other countries. It can be said that the poor performance of Nepalese commercial banks as well as the national banks owe to the lack of effective policies and measures taken by the government towards the collective improvement of the Nepalese banking sector.

This study focuses on the cash management of two joint venture banks viz; NABIL bank Ltd. and Everest Bank Ltd. Focus has been done in assessing the various signals and symptoms of weakness through cash management so that various revival measures may be conducted in these banks.

### **1.4 Statement of the problems**

Banking institutions are inevitable for the resource mobilization and all round development of the country. It is the resource for economic development; it maintains economic confidence of various segments and extends credit to people. In Nepal, the profitability ratio, operating expenses, dividend distribution among the shareholders, etc. have been found to be inconsistent. The problem of the study will ultimately find out the reason behind the differences in their cash management.

The tendency to concentrate JVBs only in urban area has certainly raised questions. This state of affairs cannot contribute much to the socio-economic development of the country where 90% of the population lives in rural areas and 81% population depends upon agriculture. These JVBs are reluctant to extend their operation in rural areas. Despite the circular of NRB, the central bank of the country, regarding compulsory investment of 10% of their total investment in the rural areas, these banks are inclined to pay fines rather than directing their resources to such less profitable sector. This problem remains to be solved as will be benefited from the services of such banks. Moreover even the existing branches of the commercial banks in the rural areas do not seem to have been able to mobilize the local resources effectively.

The present study seeks to explore the efficiency of and weakness of NABIL and EBL with the help of cash management. These banks are competing in the same economic environment and financial market and are operating fully under computerized system to meet the growing competition in banking system.

### **1.5 Objectives of the Study**

The overriding objective of this dissertation is to study the cash management system of NABIL and EBL for the years from 2061-62 to 2065-66. To be more specific, this proposal study kees the following objectives:

- i. To examine the relative cash management practices of NABIL and EBL.
- ii. To assess the financial strengths and weakness of these banks
- iii. To statistically test whether the ratios of these banks significantly differ from each other or not.
- iv. To examine the liquidity position of banks
- v. To analyze the allocation of income and expenditure of cash of the banks
- vi. To examine the cash flow statement of the banks
- vii. To recommend the viable suggestion to cope with the short comings in the banks

## **1.6 Significance of the Study**

The significance of the study can be highlights through the following points:

- i. The study enlightens the share holders about the cash management of their respective banks. This allows having a comparative retrospect whether their fund was better utilized or not.
- ii. The study also compels the management of respective banks for self assessment of what they have done in the past and guides them in their future plans and programs.
- iii. The financial agencies, stock exchanges and stock traders are also interested in the performance of the banks as well as the customers, depositors and debtors who can objectively identify the better bank to deal in terms of profitability, safety and liquidity.
- iv. Policy makers at the macro level, i.e. the government and NRB will also be benefited regarding the formulation of further policies in regard to the economic development through banking institutions.

## **1.7 Limitation of the Study**

This study suffers from the following limitations:

- i. The time is the major limitation of the study
- ii. The scope of the study is limited within the framework of cash management only. The study doesn't cover other financial performance analysis technique.
- iii. The study is fully based on the secondary data collected from various sources their relevancy will depend upon the authenticity of the publishers.
- iv. The study has been done covering five years data only.

## **1.8 Organization of the study**

This dissertation will be presented in the following order

### **Chapter 1: Introduction**

This is the very first segment of the dissertation that starts with the general background of the emergence of JVBs in Nepal. A brief concept of commercial and JVBs is given followed by the role they play in Nepal. Focus of study, statement of problem, objectives of the study, limitation of the study is also presented in this chapter.

### **Chapter 2: Review of Literature**

Various related books, journals, articles, periodicals, reports and other publications have been studies and reviewed in this part of the dissertation. This chapter broadly consists of two segments- review of conceptual framework and review of previous studies. Review of conceptual framework is done in order to make clear the concept of the study; cash management in this case. Likewise, several other related studies are reviewed in separate segment to show what types of studies were made in this field and what conclusions the previous researchers drew.

**Chapter 3: Research Methodology**

This segment of the study attempts to explain the methodology of the research undertaken. The chapter contains research design, sources of data, population and sample, methods of data collection and analysis.

**Chapter 4: Presentation and analysis of Data:**

The calculated results of each of the ratios are presented in a tabulated form in this segment of the dissertation. Along with the tabulated data, a graphical presentation is also made with the findings and interpretation of the calculated figures.

**Chapter 5: Summary conclusions & Recommendations**

The whole study is summarized and concluded in the final chapter. A list of recommendation derived from the analysis is presented at the end of the chapter. A list of Bibliography is presented after that and the necessary supplements are presented in the final segment as the annexure.

# CHAPTER II

## **1. Review of Literature**

This chapter highlights the existing literature and research related to the present study with a view to finding out what had already been explained and how the present research adds to the dimension. This has been grouped under two segments: review of conceptual framework and review of previous studies. Various books, journals, articles, periodicals, reports and other publications have been studied and reviewed in this chapter.

### **2.1 Review of conceptual Framework**

Review of conceptual framework attempts to clarify the concept of the study; cash management in this case. Meaning of cash management, function of cash management, objectives of cash management and its efficiency, techniques are presented here under.

#### **2.1.1. Meaning of cash management**

Cash is the most important current assets for the operation of the business firm. It is an idle and non-earning asset. Cash is the money, which the firm can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the firm and balance in its bank accounts. Sometimes near cash items, such as marketable securities literature. Cash is defined in yet another fashion that is totally different from earlier definitions.

The term cash with reference to cash management is used in two senses, in a narrow sense; it is used broadly to cover cash (currency) and generally accepted equivalents of cash such as cheques, drafts and demand deposits in bank. The broader view of cash also includes near cash assets, such as marketable securities and time deposits in banks. The main characteristic of these is that they can be readily sold and converted into cash. They serve as a reserve pool of liquidity that provides cash quickly when needed. They also provide a short term investment outlet for excess cash and are also useful for meeting planned outflow of funds. We employ the term cash management in the broader sense. Irrespective of the form in which it is held, a distinguished feature of cash as an asset, is that it has no earning power.

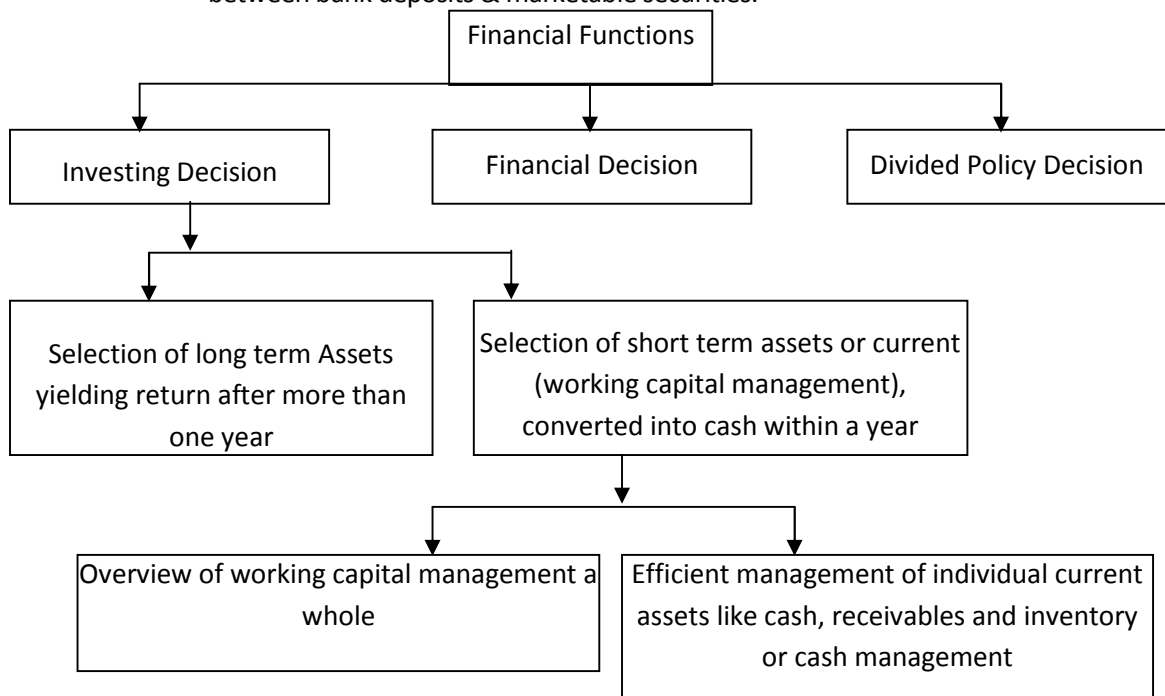
So, simply stating, management of near cash assets, i.e. marketable securities, time deposits in bank is called cash management. Broadly speaking, the management of cash includes management of cash, receivable and inventory. In broader sense, management of receivable and inventory is also termed as management of cash because receivables and inventory are also supposed to readily convert into cash.

#### **2.1.2. Functions of Cash Management**

There are various functions of cash management, they are as follows:

- i. To cash planning  
Cash flow (inflows and outflows) should be planned to project cash surplus or deficits for the period. Cash budget is prepared for this purpose.

- ii. To design managing cash flows:  
The cash flows should be properly managed. The inflows of cash should be decelerated as possible.
- iii. To maintain cash and marketable securities in amount close to optimal level  
The firm should try to maintain the appropriate level of cash balance. The cost of excess cash and the danger of cash deficiency should be matched to maintain the optimal level of cash balances.
- iv. To place the cash and marketable securities in the proper institutions and in the proper forms.  
The idle cash or precautionary cash balance should be properly invested to earn profits. The firm should take the appropriate decision about the division of such cash balances between bank deposits & marketable securities.



### 2.1.3. Objectives of cash management

The basic objectives of cash management are two fold

- a. Meeting payment schedule and
- b. minimizing funds committed to cash balances

These two folds are conflicting and mutually contradictory and the task of cash management is to reconcile them.

- a. Meeting payment schedule:  
In the normal course of business, firms have to make cash payment on a continuous & regular basis to supplier of goods, employees & soon. At the same time, there is a constant inflow of cash through collection from debtors. To meet the payment schedules, a firm should maintain adequate amount of cash balance. The advantage of maintaining adequate cash balances are:
  - i. The relationships with the bank will not strome.

- ii. It presents insolvency or bankruptcy arising out of inability of a firm to meet its obligation
  - iii. It helps in fostering good relations with trade creditors and suppliers of raw material as prompt payment by the help of own cash management
  - iv. A cash discount can be availed of if payment is made within the due date.
  - v. It leads to a strong credit rating which enables firm to purchase goods on favorable terms and to maintain its live of credit with bank and other sources of credit.
  - vi. To take advantages of favourable business opportunities that comes periodically
  - vii. The firm can meet unanticipated cash expenditure with minimum strain during emergencies such as, strikes, fires or new marketing companies.
- b. Minimizing funds committed to cash balances;
- The second objective of cash management is to minimize cash balances. In minimizing the cash balances two conflicting aspects have to be reconcile. A high level of cash balances will, as shown above, ensure prompt payment together with all the advantages. But it also implies that large funds will remain idle, as cash is a non-earning asset and the firm will have to forego profits. A low level of cash balances on the other hand may mean failure to meet the payment schedule. The aim of cash management therefore should be to have an optimal amount of cash balances. The financial manager should do arrangement of holding of enough cash which ensures payment of obligation. Effective method of collection and disbursement of cash should be adopted.

#### **2.1.4 Methods of efficient cash management**

1. Speedy cash collection:

A firm can conserve cash and reduce its requirement for cash balance if it can speed up its cash collection. A firm should reduce the lag for gap between the times a customers pays his bill can accelerate cash collection and the time the cheque is collected & funds become available for use.

2. Concentration Banking:

Concentration banking is a system of operation through number of collection centers instead of single collection center centralized of the firms head office. In this system, the firm will have a large number of bank accounts operated in the area the firm has its branches. All branches may not have the collection centers. The collection centers will transfer funds above some pre-determined minimum level to control generally at the firm head office each day. A connection bank is one where the firm has a major bank account usually the disbursement.

3. Slowly Disbursement:

Cash requirement can be reduced by slow disbursement of account payable. It may be recalled that a basic strategy of cash management is to delay payment as long as possible without imparting the credit rating of the firm. In fact slow disbursement represents a source of funds requiring to interest payments. There are some technique to delay payment avoidance of early payment, centralized disbursement, floats and accruals.

4. Using float  
Float is the difference between the balance shown in a firm (or individual) cheque book and the balance on the bank's record. Firm's net float is the function of its ability to speed up and slow down collection and cheques written.
- 5 Transferring funds:  
Transferring fund is a system for moving funds among accounts of different banks. There are two principal method wire transfer technique and electronic depository transfer. For small transfer may be too costly. With an electronic depository transfer funds are immediately transferred from one bank to another.
6. Overdraft system:  
A system where by depositors may write cheques in excess of their balances. Their banks automatically extend loans to cover the shortage. Most of the foreign countries use overdraft system.

### **2.1.5 Different techniques of cash management**

1. Cash budget  
The cash budget shows the firms projected cash inflows over some specific period. It is the most significant device to plan for and control cash receipt and payment. It provides much more detailed information concerning a firm future cash flow. It is the most important tool for managing cash. It is a useful in determining when cash surplus or shortage will occur. Plan can then be made to borrow to cover shortages or to invest surpluses.
2. Cash Planning  
Cash planning can help anticipate future cash flows and needs of the firm and reduces the possibility of idle cash. Cash planning is a technique to plan for and control the use of cash. The forecasts may be based on the present operation or anticipated future of the overall operation plans of the firm. Cash planning may be done on daily, weekly or monthly basis. It depends upon the size of the firm and philosophy of management.
3. Long term cash forecasting  
The major uses of the long term cash forecast are company's future financial needs especially for its working capital requirements to evaluate proposed capital projects and it help to improve corporate planning. Long term cash forecasting not only reflects more accuracy the impact of any recent acquisition but also fore shadows financial problems, long term cash forecasting can be used to evaluate the impact of new product development on the firm's financial condition in future.
4. Short term cash forecasting  
There are two most commonly used methods of short term cash forecasting they are as follows:
  - a. Receipt and Disbursement forecasting:  
The prime aim of receipt and disbursement forecast is to summarize the flows during a pre-determined period.

b. Adjusted net income method:

This method of cash forecasting involves the tracing of working capital flows. Sometimes, it is also called the sources and used approach. Two objectives of this method are to project the company's need for cash of some future date and to show whether the company can generate this money internally or not.

### 2.1.6 Determining the optimum cash balance

Financial manager responsibilities are to maintain a sound liquidity position of the firm so that dues may be settled in time. The firms need cash not only to purchase raw materials and pay wages but also for payment of dividend interest taxes and countless other purpose. The test of liquidity is really the availability of cash to meet the firm obligations when they become due. Thus, the cash balance is maintained for transaction purpose and additional amount may be maintained as a safety stock. The financial manager should determine the appropriate amount of cash balance, a trade off between risk and return influences such a decision. If the firm maintains a small cash balance. Its liquidity position become weak and suffers from capacity of cash to make payment but investing released funds in some profitable opportunities can attain higher profit ability. If the firm maintains a high level of cash balance it will have a sound liquidity position but forego the opportunity to earn interests, thus the firm should maintain an optimum cash balance

### 2.1.7 Some definition of cash

Cash being the medicine of exchange plays an important role in the most of the transaction entered into by enterprise. The term cash defined by different author differently some of them are follows:

"The cash of a business consist of money or any other media of exchange that a bank will accept at face value for deposit"<sup>8</sup>

"Cash consist of funds that are immediately available for disbursement without restriction. Usually, most of these funds are on deposit in checking accounts in banks and the remainder is in cash registers or other temporary storage facilities on the company's premises"<sup>9</sup>

"Cash is also a particular form of money. It is defined as ready money, a term which implies activity. It is indeed ready money for many purposes. As legal tender it is completely negotiable and is used to settle contractual obligations. It is equally ready to be managed in order to earn profit and increase itself."<sup>10</sup>

Cash includes bank deposits currencies, cheques, bank drafts, and money order. Any medium of exchange that a bank will accept at face value on deposit is usually shown on balance sheet as cash. Most of the cash may be on deposit at the bank, some of it may be in cash drawn of safe"<sup>11</sup>

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<sup>8</sup> W.W. Pyle and J.A.White, *Fundamental Accounting, Home Wood, III, 1963, 3rd edition P.64*

<sup>9</sup> Robert n. Anthony, *Management Accounting Text and Cases, Homewood, III, 1964, 3rd Edition, P45*

<sup>10</sup> G.P.E. Clarkson and B.J. Elliot, *Managing money and Finance, London 1969, P19, As quoted by R.R. Bari, Selected Readings in Cash management, Triveni Publications, Delhi, 1981, edited P.4*

<sup>11</sup> H.S. Nobel and C.R. Niswonger, *Accounting Principles, Homewood, III 1963, 8th edition P.24*

Cash consists of legal tender, checks, bank drafts, money orders and demand deposit in banks. In general, nothing should be considered unrestricted cost unless it is available to the management for disbursement of anywhere

"Cash is ready currency to which all liquid assets can be reduced"<sup>12</sup>

"Cash is ready money most easily thoughts of as bank notes and coins, and money in a current account"<sup>13</sup>

### **2.1.8 Evaluation of Cash Management**

The efficient cash management involves judicious amount of cash balance with a view to maximize profit without endangering the liquidity position or reputation of an enterprise. On the test efficiency as professor R.W. Johnson indicates, is whether a business enterprise keeps enough cash, that is neither too little nor too much for both the situation tend to cut the rate of return. An attempt has been made to analysis size control of cash, and cash flow statement to evaluate to the performance of cash management in selected industries under study.

Hunt and Donaldson suggested five approaches to effective cash management

1. Exploitation of techniques of money mobilization to reduce operating requirement for cash
2. Major efforts to increase the precision and reliability of cash flow forecasting
3. Maximum effort to define and quantify the liquidity reserve needs of the firm. To gauge the need for protective liquidity and efforts usually taken the form of:
  - a. Explicit definition of the kinds of contingencies against which protection is desirable
  - b. Assessment of the probabilities of odds that each of these will develop within a given period in the future, such as 5 years
  - c. Assessment of the probabilities that the development creating cash drains will occur at the same time
  - d. Assessment of likely amount of cash drain that will result if each of the contingencies develops.
4. The development of alternatives sources of liquidity.
5. Aggressive search for more productive use of surplus cash.

### **2.1.9 Advantages of Holding Adequate Cash:**

In addition to four motives just discussed, sound working, capital management requires that and ample supply of cash be maintained for several specific reasons.

1. It is essential that the firm have sufficient cash to take advantage of cash discounts
2. Adequate holdings of cash can help the firm to maintain its credit ratings. A strong credit rating enables the firm both to purchase goods from supplies on favorable terms and to maintain on ample line of credits with its bank

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<sup>12</sup> L.J.Gitman, *Principles of management finance, earson Education Asia, India, 9th edition, 2000, P 660*

<sup>13</sup> Brian Coyle, *Cash flow Forecasting and Liquidity, Glenlake Publishing Company Ltd. Chicago, 2000, P1*

3. Cash is useful for taking advantage of favorable business opportunities, such as special offers from suppliers or chance to acquire another firm.
4. The firm should have sufficient cash to meet emergencies as strikes, fires, or competitor's marketing campaigns and to weather seasonal and cyclical downturns.

## **2.2 Sources of Cash:**

1. Cash Sales
2. Collection of Cash from Credit sales
3. Issue of the security
4. Sales of fixed assets
5. Interest and individual receivable
6. Borrowing from bank

### **2.2.1 Disbursement of Payment of Cash**

1. Cash purchase of material
2. Payment of cash to creditors
3. Manufacturing and operating expenses payment (cash only)
4. Redemption of security
5. Payment of Loan, interest and taxes
6. Any non-operating and operating expenses payment

### **2.2.2 Motives for holding cash:**

The firm holds cash for various motives, they are:

1. Transaction motives  
The principle motive for holding cash is to conduct day to day operations. A cash balance associated with routine payments and collections, like routine payments and collectors, likes payments of purchases, labour, taxes and dividends etc, like wise in the course of daily business transactions, cash are generated from sales lot goods or services return on outside investment etc.
2. Precautionary motives  
Cash held on reserve for random, on foreseen fluctuation in cash inflow and outflow for example: flood, strike, inefficiency in collection of debtors, cancelation of order failure of important customers, sharp increase in cost of raw materials etc.
3. Speculative motives  
A cash balance that is held by the firms purpose that might arise, for example; purchasing of raw material at a reduced price on payment of immediate cash falls in price of shares and securities, purchasing at favorable price
4. Compensating Balance/ Compensative Motives  
A cash balance that a firm must maintain with a bank to compensate the bank for services rendered for granting a loan, firm after maintains bank in excess, of

transactions needs as a means of compensating for the various services. Bank provides various service to the firm like; payment of cheque information of credit loan etc.

Out at the four motives for holding cash, the most important ones are the transaction motive and the compensation motive. This is because precautionary balance can be met by short term borrowings and business firm normally do not speculated and thus does not require speculative balances.

### **2.2.3 Factors influencing cash availability in a Business**

The cash flow in a business is influenced by a number of factors. These can be classified into two categories - internal and external. Internal factors are those factors which are internal to the business, and by and large arise as a result of management decisions. These are under the direct control of management. External factors, on the other hand, are such environmental factors which are not under the direct control of the management. Such factors affect the economy as a whole and their ramifications are felt by an individual business as well. It is a case of macro affecting micro. Another kind of external factors are the factors which affect the concerned industry as a whole and not the whole economy. These too, exercise influence on the availability of cash in a business. We shall study these factors in detail.

#### **Internal Factors**

Internal factors are products of management policies followed either consciously and positively, or unconsciously by default, or combination of both. These are unique to the concerned business concern and are under its direct control. Following are some of the avenues from where these factors emanate and affect the cash in a business.

a. **Operating Policies:**

These refer to all types of decisions which make the business operative. Every business desires to operate at its optimum level. For this it has to gear up all its segments to the utmost efficiency. On the production front decisions are taken to determine utilizable level of capacity based on the break-even analysis, make or buy decisions considering its own production line, pricing policy, etc, which have direct bearing on cash flow. Also, a business has to decide about salary structures which constitute a substantial part of administrative expenses. For selling of the products and important decision is whether to have its own dedicated outlets or selling should be done by giving franchise to other parties. Both the alternatives shall require cash but the magnitude in the case of former will be substantially more than the latter. Another important decision is regarding fund allocation for research and development. All these decisions have a direct impact on cash in business.

b. **Fixed Assets:**

Fixed assets are the long lived properties of a business which it owns and used as an aid to generate profits. These are not bought and sold in the normal course of business. So far as cash is concerned investment in fixed assets embodies two important features. First, it requires cash outlay of high order and secondly, the cash is 'sunk' for a longer period whenever these are purchased. Business policies towards automation, expansion, technological development, competition in the market etc are

some of the important factors which influence its policy towards investments in the fixed assets which, in turn, affect the requirements of cash in the business.

c. Management of Receivables:

In the modern competitive business environment there is no escape from selling goods on credit. Such a course entitles the customer's business is financed through the cash resources of the seller. The credit policy followed by the business has a direct bearing on the cash in business. The cash remains 'blocked' to the extent and period of credit allowed. Also terms of credit like cash discount will affect the flow of cash from debtors. Weak credit controls increase the possibilities of bad debts which result in depletion of cash.

d. Inventory

Inventory refers to stocks held by a business. Funds are normally tied up in three kinds of inventory- raw materials, work in process (semi finished goods) and finished goods. Investment in inventory has great impact on business cash. In addition to cost of goods lying in stock, cash is required to meet carrying cost of inventory, e.g. interest, godown rent, insurance, etc. A business endeavours to strike a balance between two conflicting aims -one of minimizing inventory and second ensuring that enough quantity is always available to meet the demand as and when it arises. This is done by efficiently organizing the production and sales operations. Business is also guided by basic parameters of material management like minimum and maximum level of stock, re-ordering level of quantity, stock-velocity ratio etc. At times management ignores all these parameters and buys heavy inventory when it expects substantial price in the near future. Obviously, it affects business cash adversely.

e. Payment Policies:

It refers to policies concerning the payments to be released to creditors and suppliers. A business's efficiency to exploit this element of OPM (Other Peoples Money) has a important affect on business cash. 'Pay only when due' is the guiding rule. Extracting maximum credit from suppliers, utilizing cash discount offered by them are some of the ingredients of prudent purchase management policies resulting in decelerating of cash outflow.

f. Miscellaneous:

Other factors which affect the cash flow may arise due to commercial and statutory requirements. Some of the examples are periodic of advance tax installment, contribution of provident fund, payment for electricity, telephone bills etc. In their own ways these also have an impact on the cash in business.

## External Factors

External factors cover all determinants relevant to the overall economy and/or a particular industry. First, we will discuss the factors which influence the economy in general.

a. Monetary and Fiscal Factors:

These factors relate to the money supply in the economy. During periods of inflation, the economy is flushed with money, price rise has a cascading effect on the output and

the business has cash in abundance. On the other hand, during recessionary conditions demand for contracts and economy faces cash drought. The result is an epidemic of bankruptcy of the cash starved businesses.

The fiscal factors too, have a direct bearing on the cash availability in a business. Tax is an important fiscal factor which determines the size of disposable cash in the hands of business. For instance, corporate tax is a charge against profit and has direct influence in reducing the amount of cash in a business to that extent. Higher the tax rates lower the cash volume. Indirect tax also has its toll. An increase in excise or custom duty on the raw materials consumed by a business shall increase the cash outflow of the business.

b. Special factors Relevant to an Industry:

In addition to monetary and fiscal factors, there may be some special factors unique to a particular industry as well. These also influence the cash flow of a business. Some examples are given below:

- i. Some retailers have the advantage of having favourable cash flow position because sale proceeds are collected in cash over the counter whereas payments to the suppliers on account of the products sold is made much later. Contrary to it, in some retail business cash is collected from innumerable small customers over a period of time for sale of merchandise which have been purchased by depositing money in advance.
- ii. Some industries warrant blocking of funds for a considerable period of time in the inventories before it could mature in sale, for instance tea, tobacco, wine distilling etc
- iii. The peaks and valleys of cash movement are glaringly visible in the case of building and construction industry. The industry is fed at a given point of time, with a relatively small number of large discrete contracts. The initial cash inflow under such contracts is normally restricted to limited percentage of payment as mobilization advance whereas substantial cash outflow has to be arranged for principal cost components material, machines and manpower. The regular inflow, however, starts when the construction activity picks up. This is in the form of progress payments against running account bills but that too is invariably subject to deduction on account of retention money, and unamortized amount of advance paid earlier. The endeavour in such contracts is to execute the contract as a 'self financing project'- finance for the period of deficit when the payment is made to supplier/sub contractor and amount is received from client, Any prolongation in the completion schedule of the project has a multiplier effect in the escalation of cost and outflow. This probably, is the reason that this industry produces bumper crop of bankruptcies and unhappily will continue to do so because of unique constraints which it have to encounter.
- iv. Some firms deal in highly volatile products like pop records, newspapers, and there is little time to regulate the cash movement if the things begin to move adversely.

- v. Consultancy and professional firms because of their relatively low overhead cost and receipt of good part of funds before the initiation of activity normally do not face cash crunch.

Thus we see that cash supply to a business is dependent on a plethora of factors both internal and external. The supreme art of handling these factors is to control internal factors and manage external factors. The only way this can be done is by implementing an efficient and effective cash management programme in the business.

### **2.3 Cash flow Statement:**

A cash flow statement is the statement showing cash outflows and inflows during the current year. A cash flow statement indicates the sources from which the cash has been collected and the expenditure heads on which the cash has been spent. A cash flow statement in current year is prepared by comparing the balance sheet of current year with the balance sheet of previous year. Two years balance sheet & current year income statement are required to prepare the cash flow statement. The cash flow statement is prepared only in cash basis. The transactions which occur in cash are only recorded in cash flow statement. The non-cash transactions are not considered while preparing cash flow statement.

#### **2.3.1 Preparation of cash flow statement**

The cash flow statement is prepared on the basis of cash basis accounting. There are two methods that are used in calculating and reporting the amount of net cash flow.

- i. Direct Method
  - a. Cash from Operating activity
  - b. Cash from Investing activity
  - c. Cash from Financing activity
- ii. Indirect Method

Although both methods produce identical results the indirect method is used more often because it reconciles the difference between net income and net cash flow provided by operations.

#### **2.3.2 Cash flow statement (Direct Method)**

- A. Cash from Operating Activity
    - a. Cash collection from Debtors or Sales
    - b. Cash payment to creditors or purchase
    - c. Cash payment for operating expenses
    - d. Cash payment for Tax
    - e. Cash payment for interest
- Cash from operating activity excluding extra ordinary items  
Adjustment for extra ordinary items  
Cash from operating activity (A)

- B. Cash from investing Activities:
  - Purchase of fixed assets
  - Purchase of fixed assets
  - sales of fixed assets
  - Interest or dividend received from other investment
  - Cash from investing Activities (B) :
- C. Cash from financing Activities:
  - Issue of share/ debenture with premium or discount
  - Redemption of potential share/ debenture at premium or discount
  - Payment of dividend (Provision for last year dividend)
  - Interim dividend paid
  - Cash from financing Activities (C)
  - Cash equivalent (A+B+C)
  - Add: Opening cash and Bank Balance
  - Closing cash and Bank Balance

### 2.3.3 Cash flow statement (Indirect method)

Closing balance of retained earnings or P/L or reserve and surplus or undistributed profit appearing in balance sheet

Less: Opening balance of undistributed profit appearing transfer from current year profit.

Add: Non- operating and non-cash expenses:

- i. Depreciation (Current year)
- ii. Loss on sales of fixed assets
- iii. Loss on sale of investment
- iv. Intangible assets written off
- v. Fictitious assets written off
- vi. Provision for tax (current year)
- vii. Provision for dividend (current year)
- viii. Revaluation loss
- ix. Any types of expenses either non operating or non-cash

Less: Non-operating and non-cash incomes:

- i. Gain on sale of fixed assets
- ii. Gain on sale of investment
- iii. Dividend received from another company
- iv. Revaluation gain
- v. Any types of incomes either non operating or non-cash

Funds from operation

Adjustment of current assets excluding cash & bank (item wise)

Adjustment of current liability (item wise)

Less: Tax paid

Cash from operating activity (A)

Cash from investing activities (B)

Cash from financing activities (C)

Cash equivalent (A+B+C)

Add: Opening cash and bank balance

Closing cash and bank balance

Note: The calculated closing cash and bank balance must be equal to closing cash and bank balance of the balance sheet. If not some calculation errors are there.

## 2.4 Cash Budget or Cash collection & Disbursement Budget

The cash budget is the statement showing the sources of income from which the cash can be collected and the expenditure heads in which the cash will be spent. A cash budget is the statement of cash inflow and cash outflow. The non cash expenses are not recorded in cash budget.

The cash budget is a forecast of expected cash receipts and payments for a future period, which gives planned beginning and ending cash positions for the budget period. The objective of cash budget is to ensure that sufficient cash is available at all times to meet the level of operations that are outlined in the various budgets.

The cash budget is composed of four major sections:

- i. The receipt section
- ii. The disbursement section
- iii. The cash excess or deficiency section
- iv. The financing section

### 2.4.1 Format of Simple cash budget

Particulars	Jan	Feb	March
Cash Collection			
Opening Cash Balance			
Cash Sales			
Cash collection from Debtors			
Issue of Security in Feb			
Sale of Fixed assets on March			
(A) Total Cash Collection			
Cash Payment or Disbursement			
Cash Purchase			
Cash payment to creditors			
Manufacturing expenses			
Operating expenses			
Purchase of fixed assets on Jan			
Redemption of loan on Feb			
(B) .....			
Closing Cash balance (A-B)			

#### 2.4.2 Reviews of previous Studies:

Different research, journals & books relevant to the area of interest are the primary sources of the literature review, various studies have been under taken to compare the cash management system of JVBs in Nepal. However, much study has not been carried out on the cash management system of JVBs. Therefore the researcher has made an attempt to review the previous studies that the closely related to the topic of the study.

One study was conducted by Prakash Sharma titled "Nepal's best joint venture banks (1999-2001)" with the objectives as:

- i. To analyze their financial, operational, productivity and profitability, conditions
- ii. To find out the comparative competitive position of the JVBs.
- iii. To rank the JVBs according to their financial, operational, productivity and profitability conditions.

Several conclusions were made by Mr. Sharma at the end of his study, which have been summarized and presented below;

- i. NABIL had the strongest financial position as it enjoyed large profit compared to other JVBs. NABIL was strong in average working fund and reported net profit. NSBIBL and EBL's financial condition was not so good.
- ii. NBBL, NABIL & EBL were stronger than other JVBs in a operational aspect. NBBL had highest interest as well as non- interest income.
- iii. In terms of profitability, NABIL was undoubtedly the highest profit- earner among the JVBs. NBBL was another strong bank in profitability on the other had, EBL, NSBIBL and NABIL were not doing well in generation profit.

Almost all selected JVBs had followed a moderate working capital approach. The selected JVBs had sufficient liquidity. There is improvement in the use of current assets in selected JVBs.

It was observed that the goal of working capital is to manage each of the firm current assets efficiently in order to maintain the firms liquidity while not keeping any assets to high level. Cash the most liquid asset, if the common denominator all can be reduced because the major liquid assets get eventually converted into cash.

Every JVBs should develop both long term and short term plans about their cash flows. Researchers have suggested the JVBs in the adoption of std. costing as well as marginal costing techniques, formulation of sound working capital policy and training to financial employees to acquaint about latest development in the area of working capital management.

Vanhorne, in his book financial management and policy, has categorized, the various components, of cash management. There are the functions of cash management, lock box system, concentration banking and other procedures, control of cash disbursements payroll and dividend disbursement, zero balance account, electronic fund transfer, balancing cash and marketable securities, compensating balance and foes, model for determining optimal cash, inventory model, a probabilities approach, optimum level of cash.

The well known professor Weston and Brigham in has book 'Managerial Finance have given some theoretical insights into cash management. The bond conceptual finding of the writers provides sound knowledge and guidance for the future studies on the field of management.

A well known Indian Professor I.M. Pandey has described conceptual ingredients in his book "Financial Management, which are based on his various research studies. He has described various aspects of cash management as fact of cash management motive of holding cash, cash planning cash forecasting and budgeting, managing the cash flows, determining the optimum cash balance etc.

# CHAPTER III

## 3. Research Methodology

Research methodology is the research method used to test the hypothesis. In designing methodology for a thesis project the following element should be taken into account. They are research design, population and sample, sources of data, data collection techniques and presentation and analysis of data. Research methodology is the way to solve the research problem systematically.

“Research Methodology refers to the various sequential steps to adopt by a researchers in studying a problem with certain objective in view”<sup>14</sup>

“Research methodology is a vital and absolutely indispensable part of social scientific and educational research. Without research methodology modern social scientific and educational research would still be in the dark age.”<sup>15</sup>

### 3.1 Research Design

Research design is the main part of thesis or any research works. “By research design we mean an overall framework or plan for the collection and analysis of data.”<sup>16</sup> Research design presents a series of guide posts to enable the researchers

to progress in right direction in order to achieve the goals. The study tries to evaluate the dividend policy of some selected joint venture banks.

“Research design is the plan, structure and strategy of investigation concerned so as to obtain answers to research questions and to control variances.” Research design is conceptual structure within which a research is conducted. It is a purposeful scheme of action proposed to be carried out in sequence during the process of research. The study is descriptive, analytical and comparative employing various historical secondary data for the analysis of dividend pattern of Nepalese commercial banks.

### 3.2 Sources of Data

Secondary sources of data have been used exclusively for the purpose of this study, viz. the amount reports published by these banks at the end of each fiscal year. Similarly articles, journals related to the cash management, financial performance, previous research reports etc are also taken into account while collecting information. Bulletins and reports published periodically by various government bodies have also been helpful in undertaking this research study.

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<sup>14</sup> C.R.KOTHARI; *Quantities Techniques*, Vikash Publishing House Pvt. Ltd, New Delhi (1992), P-119

<sup>15</sup> F.N.Kerlinger, (1986), “ *Foundation of Behaviour Research* ‘ 3<sup>rd</sup> Edition, Holt, Rimehart and Winston, New york.

<sup>16</sup> K. Wolfe, Howard and Prem raj Pant,, *Social science research and thesis writing*, Buddha Academic publisher and distributor pvt. Ltd, 3<sup>rd</sup> edition,2002, P-74, P-65.

### 3.3 Population & Sample

All joint venture banks currently operation in Nepal is the population. On the basis of the researcher's judgment, the study will cover only 2 samples out of all the JVBS, viz. NABIL & EBL. The published financial statement of these banks for the year from 1998-99 to 2005-06 (6 yrs) have been taken as sample data.

### 3.4 Data Collection Procedure

Once the purpose of statistical investigation has been defined the next step is to collect the data. The research is based on the historical data of the banks available in annual reports of the banks. The annual reports were collected from the respective banks as well as the website ([www.nepalstock.com](http://www.nepalstock.com)). Books, periodicals, journals, articles on the related subject were extensively reviewed in the library. Quotations from various authors on the related topic have been placed throughout the chapters.

### 3.5 Method of Data Analysis

The study basically uses secondary data, which were firstly collected & tabulated into a separate form systematically. These are presented and analyzed in a descriptive way. Graphs, tables are presented where necessary. In order to make a clear presentation, calculating of the figures has been done separately and the resulting figures are then presented in tables. Simple statistical analysis such as percentage, ratio and arithmetical mean is used to represent the resultant figures.

#### 3.5.1 Financial Tools

Several relevant financial tools are used to find out the best appropriate results as per the designated objectives of the study. The types of financial ratios used for this study are presented below.

##### 3.5.1.1 Liquidity Ratios

The liquidity ratio measures the ability of a firm to meet its short term obligations and reflect the short term financial strength/solvency of a firm. Analysis of liquidity needs the preparation of cash budgets and cash and funds flow statements. Liquidity ratio establishes a relationship between cash and other current assets to current obligations to provide a quick measurement of liquidity position of firm. A firm should ensure that it does not suffer from lack of liquidity and excess liquidity. The failure of a company to meet its obligations due to lack of sufficient liquidity will result in a poor credit worthiness, loss of creditors confidence or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad; idle cash earn nothing. The firms fund will be unnecessarily tied up in current asset. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

The types of liquidity used in this study are as follows:

- i. Cash & Bank Balance to Current Assets Ratio

$$X \frac{\text{Cash \& Bank Balance}}{\text{Current Assets}} X 100$$

- ii. Loans & Advances to Current Assets Ratio

$$X \frac{\text{Loan \& Advances}}{\text{CurrentAssets}} X100$$

- iii. Fixed Deposit to Total Deposit Ratio

$$X \frac{\text{FixedDeposit}}{\text{TotalDeposit}} X100$$

- iv. Saving Deposit to Total Deposit Ratio

$$X \frac{\text{Saving Deposit}}{\text{Total Deposit}} X100$$

- v. Investment on Government Securities to Current Assets Ratio

$$X \frac{\text{Investment on Governme ntSecuriti es}}{\text{CurrentAss ets}} X100$$

### 3.5.1.2 Activity Ratio/ Turnover Ratio:

It reflects the firm's efficiency in utilizing its assets. They are employed to evaluate the efficiency of assets with which the firm has utilized its resources. These ratios are called turnover ratios because they indicate the speed with which assets are being converted or turned over into sales. Activity ratio, thus involves a relationship between sales and assets.

The types of activity ratios used in this study are as follows:

- i. Loans and advances to total deposit ratio

$$X \frac{\text{Loans \& Advances}}{\text{TotalDeposit}}$$

- ii. Loans and Advances to fixed deposit ratio

$$X \frac{\text{Loans \& Advances}}{\text{FixedDeposit}}$$

- iii. Loans & Advances to saving deposit ratio

$$X \frac{\text{Loans \& Advances}}{\text{SavingDeposit}}$$

- iv. Operating Profit to Net worth Ratio

$$X \frac{\text{Operating Profit}}{\text{Networth}}$$

### 3.5.1.3 Profitability Ratio

"The future stream of cash flows is the result of a large number of policies and decisions. We start with historical data about cash flow and profitability but emphasize that these represent only the starting point. Further strategic and operating analysis is required to make a meaningful projections for the future."

Profitability ratio measures the overall performance and effectiveness of the firm. Besides management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and pmt of principal regularly. Owners want to get the required rate of return on their investment. This is possible only when the company earns enough profits.

Profit & Loss items determine the extent to which operating profits are sufficient to cover the fixed charges.

Some of the leverage ratios used are:

- i. Long term Debt to Net worth ratio

$$X \frac{\text{Longtermdebt}}{\text{Networth}} X 100$$

- ii. Long term debt to Net fixed assets ratio

$$X \frac{\text{Longtermdebt}}{\text{Netfixedassets}} X 100$$

- iii. Total debts (liabilities) to net worth ratio

$$X \frac{\text{Totalliabilities}}{\text{Networth}} X 100$$

#### 3.5.1.4 Other financial Indicators

Other financial indicators such as price earning ratios, earning per share and dividend per share reveal the potentiality of an institution to earn in the future.

- i. Price earning (P/E) Ratio

$$X \frac{\text{MarketValueofshare(ClosingValue)}}{\text{Earningpershare}}$$

- ii. Earning per share

$$X \frac{\text{MarketValueofshare(ClosingValue)}}{P / Eratio}$$

- iii. Dividend Per share

$$X \frac{\text{DividendDeclared}}{\text{No.ofshareoutstanding}}$$

#### 3.5.2 Statistical Tools

Several numbers of statistical tools can be employed to examine the financial data of NABIL and EBL. Some of the statistical tools that are used for the purpose of this study are presented below;

##### 3.5.2.1 Arithmetic Mean

Arithmetic mean or simply a 'mean' of a set of observations is the sum of all the observations divided by the number of observations. Arithmetic mean is also known as the arithmetic average.

$$\bar{x} = \frac{\sum x}{n}$$

Where,

$\bar{x}$  = mean

$\sum x$  = sum of values of all observations

n = no. of elements in the sample

### 3.5.2.2 Standard Deviation (S.D.)

S.D. is defined as the positive square root of the mean of the square of the deviations taken from the arithmetic mean. It is denoted by 'S'

$$S.D. = \sqrt{\frac{1}{n} \sum (x - \bar{x})^2}$$

x = value of each of the n observation

$\bar{x}$  = Mean of the sample

n-1 = No. of observations in the sample minus -1

### 3.5.2.3 Coefficient of Variation (C.V.)

The C.V. is the relative measure of dispersion based on S.D. multiplied by 100. C.V. is the independent of unit. So two distributions can be compared with the help of C.V. for their variability less the C.V., more will be the uniformity, consistency, etc and more the C.V. less will be the uniformity consistency etc.

$$C.V. = \frac{S}{\bar{x}} \times 100$$

Where,

S = Standard Deviation

$\bar{x}$  = Mean

### 3.5.2.4 Student's t-test

The student's t-test is used to test the null hypothesis (H<sub>0</sub>): "There is no significant difference between the mean value of each of the selected ratio of NABIL and EBL. "Since this study is a comparative analysis of selected ratios of the two JVBs, each type of ratio is analyzed and tested individually.

The test of hypothesis is a process of testing of significance regarding the parameter of the population on the basis of the sample drawn from the population. In testing hypothesis, we examine, on the basis of a statistic computed from the sample drawn in this case the financial ratios of two JVBs, whether the sample drawn belongs to the parent. Population with certain specified characteristics. The computed value of the statistic may differ from the hypothetical value of the parameter due to sampling fluctuations if the difference is small, we consider that it has arisen due to sampling fluctuations. Hence the difference is considered to be insignificant and the hypothesis is accepted. If the difference is large, we consider that it has not arisen due to sampling fluctuations but it is due to some other reasons.

Hence the difference is considered to be significant and the hypothesis is rejected. Thus the test of hypothesis disclosed the fact whether the difference between the computed statistic and hypothetical parameter is significant.

The test of statistics under  $H_0$  is given by;

$$t = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$\bar{x}_1$  = mean ratio of NABIL

$\bar{x}_2$  = mean ratio of EBL

$n_1$  = Number of observations in NABIL

$n_2$  = Number of observations in EBL

The value of "S<sup>2</sup>" is calculated by using following formula;

$$S^2 = \frac{1}{n_1 + n_2 - 2} \left( \sum_{i=1}^{n_1} (x_{1i} - \bar{x}_1)^2 + \sum_{i=1}^{n_2} (x_{2i} - \bar{x}_2)^2 \right)$$

Where, Degree of freedom (d.f) =  $n_1 + n_2 - 2$

BY comparing the computed value of |t| with the tabulated value of t for  $(n_1 + n_2 - 2)$  degree of freedom (d.f.) and at desired level of significance, the null hypothesis ( $H_0$ ) is accepted or rejected.

### 3.5.2.5 Regression Analysis

The main objective of this analysis is to derive an equation that provides estimates of the dependent variable from values of the two or more independent variables and to obtain a measure of the proportion of variance in the dependent variable, which is explained by the independent variable. Under this topic following subtopic has been presented:

- i. Regression analysis on Net Profit to total loan and advance of NABIL & EBL.
- ii. Regression analysis on NPL/ Total Loan and advance
- iii. Regression analysis on LLP/ Total loan and advance.

# CHAPTER IV

## PRESENTATION AND ANALYSIS OF DATA

### 4 DATA PRESENTATION AND ANALYSIS

This chapter presents and analyzes the various data obtained from two joint venture banks in Nepal, namely Everest Bank Ltd and Standard Charter Bank Ltd. Those data are presented which are relevant to study i.e. analysis of Non-performing Assets, Loan loss provision and its impact on profitability position.

#### **Analysis of Everest Bank Ltd.**

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professional and efficient banking services to various segments of the society. EBL joined hands with Punjab National Bank (PNB), India as its joint venture partner in 1997.

PNB is the latest nationalized bank in India having 110 years of banking history with more than 4500 offices all over India. Of which 1400 branches are interconnected. PNB has over 1000 ATMs spread across India. As on 31/3/2005, PNB had a total business of INR 163000 crores and posted a net profit of INR. 1,410.00 Crores. Drawing its strength from its joint venture partner, EBL has been steadily growing in its size and operations and established itself as a leading Private Sector Bank. EBL is ranked as No2 bank by NRB as per CAMEL.

Despite fragile Law and order situation especially during last 3-4 years, the Bank has recorded spectacular performance.

The bank is providing its services through a wide network of 18 branches across the nation and over 250 correspondents across the globe. All the major branches of the bank are connected through Anywhere Branch Banking System (ABBS) a facility, which enables a customer to do banking transactions from any of the branches irrespective of having their accounts in other branch.

EBL is playing a pivotal role in facilitating remittance to and from across globe. Being the first Nepalese bank to open a representative office in Delhi, India, the Nepalese in India can open account in Nepal from the designated branches of Punjab National bank and remit their savings economically through a banking channels to Nepal. The bank has a Drafts Drawing Arrangement with 175 branches of PNB all over India.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries which enable quick remittance of funds by the Nepalese citizens in countries like UAE. Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and UK.

The Bank recognizes the value of offering a complete range of service. The bank have pioneered in extending various customer friendly products such as Home Loan, Education Loan. EBL Flexi Loan, EBL Property Plus (Future Lease Rentals), Home, Equity Loan, Car loan, Loan against Shares, Loan against life Insurance Policies and Loan for Professionals. EBL have always endeavored in delivering innovative products suiting the consumer's requirements and needs thus enriching, enabling and beautifying their lives.

### **Capital Structure of Everest Bank Ltd.**

As at 2061/62

Particulars	Rs. In Millions
Authorized Capital	750.00
Issued Capital	466.00
Paid up Capital	455.00

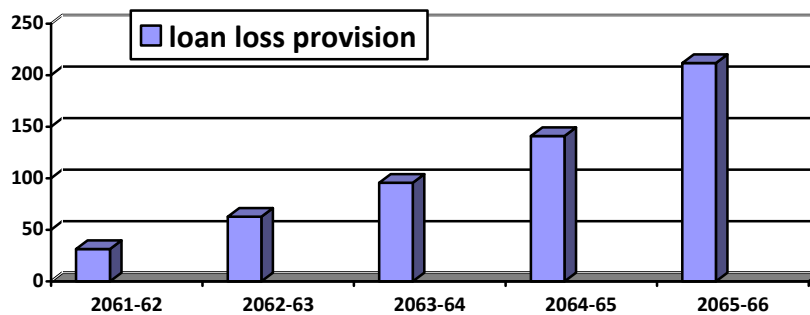
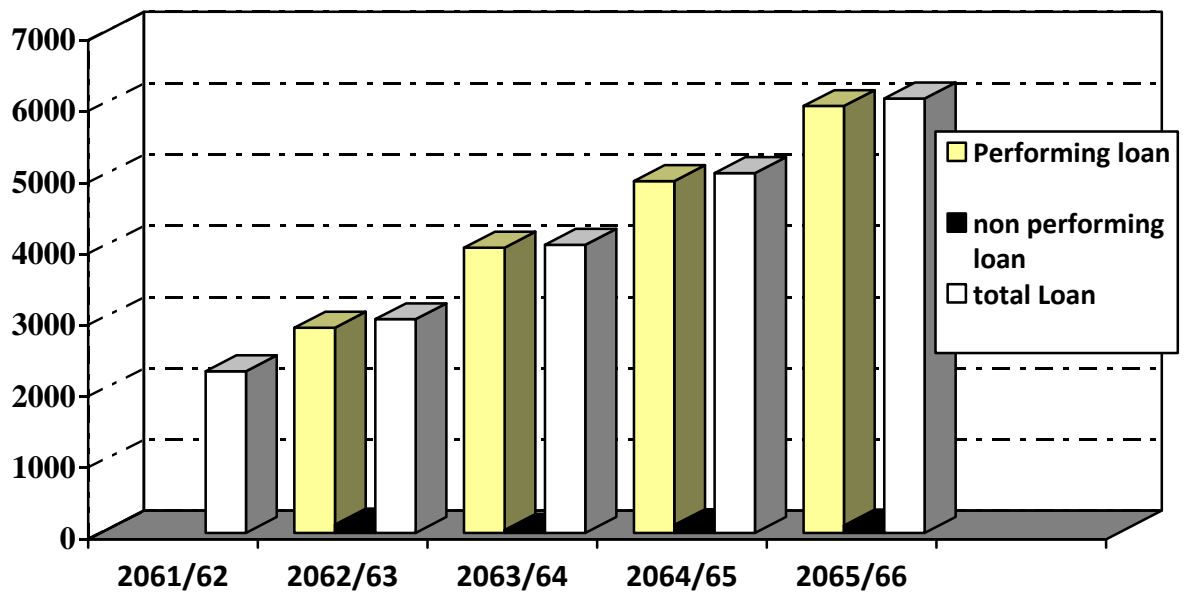
### **Classification of loans, advance, bills purchased and Loan Loss provision of EBL [2061/062 - 2065/066]**

**TABLE 4.1**

Rs In Million

Particulars	2061/62	2062/63	2063/64	2064/65	2065/66
<b><u>1.Performing loan</u></b>		2881.37	4001.84	4938.39	5991.09
1.1 Pass Loan		2881.37	4001.84	4938.39	5991.09
<b>Total</b>		<b>2881.37</b>	<b>4001.84</b>	<b>4938.39</b>	<b>5991.09</b>
<b><u>2.Non performing Loan</u></b>		118.02	42.39	111.2	104.75
2.1 Substandard		92.65	15.73	41.95	11.08
2.2 Doubtful		22.18	13.33	38.06	40.49
2.3 Loss		3.19	13.33	31.18	53.18
<b>Total Loan(1+2)</b>	<b>2270.18</b>	<b>2999.39</b>	<b>4044.23</b>	<b>5049.58</b>	<b>6095.84</b>
<b><u>3.Loan Loss Provision</u></b>					
3.1 Pass		<b>28.32</b>	<b>68.66</b>	<b>80.42</b>	<b>135.52</b>
3.2 Substandard		<b>21.22</b>	<b>3.93</b>	<b>10.49</b>	<b>2.77</b>
3.3 Doubtful		<b>11.01</b>	<b>6.66</b>	<b>19.03</b>	<b>20.25</b>
3.4 Loss		<b>2.24</b>	<b>16.50</b>	<b>31.18</b>	<b>53.18</b>
<b>Total Povision</b>	<b>31.25</b>	<b>62.79</b>	<b>95.75</b>	<b>141.12</b>	<b>211.72</b>

Sources: Annual Report of Everest Bank Ltd.



From the above table we can see that total loan of Everest Bank is in increasing trend. The total loan aggregated to Rs 6095.84 at the end FY 2065/66. This refers to an increase of 168.2% in FY2065/66 from the FY 2061/62. Similarly; the proportion of performing loan is also increasing. On the other hand, proportion of non-performing loan is showing a fluctuating trend.

Loan loss provision (LLP) is the accumulated fund that is kept aside as a safeguard to cover possible losses arising from default in payment by the borrower. The amount of LLP is directly correlated to the total credit of bank. Here, in case of Everest Bank Ltd, the total loan loss provision that has been kept aside by the bank is also gradually increasing. LLP amounted to Rs211.72 m in the FY2065/66. This refers to 577.50% increase in LLP in the FY2065/66 as compared to the FY2061/62. In the LLP also, the provision for pass loan and loss loan is gradually increasing whereas the provision for substandard and doubtful loan is fluctuating.

**TABLE 4.1****Key Profitability Indictors of EBL**

Particulars	Indicators	2061/62	2062/63	2063/64	2064/65	2065/66
1. Net profit/Total income	%	12.6	15	15.8	14.8	18.3
2. Earning per share	Rs	34.84	31.56	32.91	29.90	45.58
3. Market value per share	Rs	995	650	405	445	680
4. Interest Income/loan & Advance	%	10.7	11.5	9.8	10.5	9.2
5. Interest Expenses on Deposit & Loans	%	5.8	5.1	4.6	4.6	3.9
6. Net profit/Loan & Advance	%	1.8	2.3	2.1	1.9	2.4
7. Net profit/Total assets	Ratio	1.2	1.3	1.3	1.2	1.5
8. Total Loan/ Deposit	%	74.3	65.7	74	75.4	75.6
9. Liquidity (CRR)	Ratio	1.7	2.4	3.2	2.04	1.6
10. Non performing Loan/ Total Loan	%	2.99	6.79	1.04	2.2	1.7

**Sources: Annual Report of Everest Bank Ltd.**

The net profit of EBL was Rs 413 Lakh in the FY2061/62, which has amplified to Rs. 1436 lakh in the FY2065/66. This represents a growth of 247.7% in net profit. Similarly, the operating profit of EBL is also increasing. In the FY2061/62 the total operating profit of EBL was Rs.954 lakh. But in the FY 2065/66. It has reached Rs.3,164 lakh. So, such increment in the profit may be due to the various reasons like efficient cost control, increase in incomes etc. similarly, the NP/ Total Income ratio of EBL is also increasing.

#### **4.2. Analysis of NABIL Bank Limited**

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern

technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Telebanking system.

### Capital Structure of NABIL Bank Ltd.

As at 2062/63

Rs. in million

Authorized Capital	339.55
Issued Capital	339.55
Paid up Capital	339.55

### Share subscription of NABIL bank ltd

Nepal Industrial Development	10%
Rasriya Beema Sansthan	9.6%
Nepal Stock Exchange Ltd.	0.33%
Nepalses Public	30%

**TABLE 4.2**

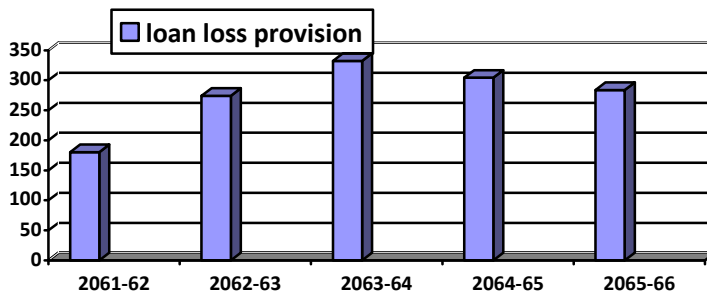
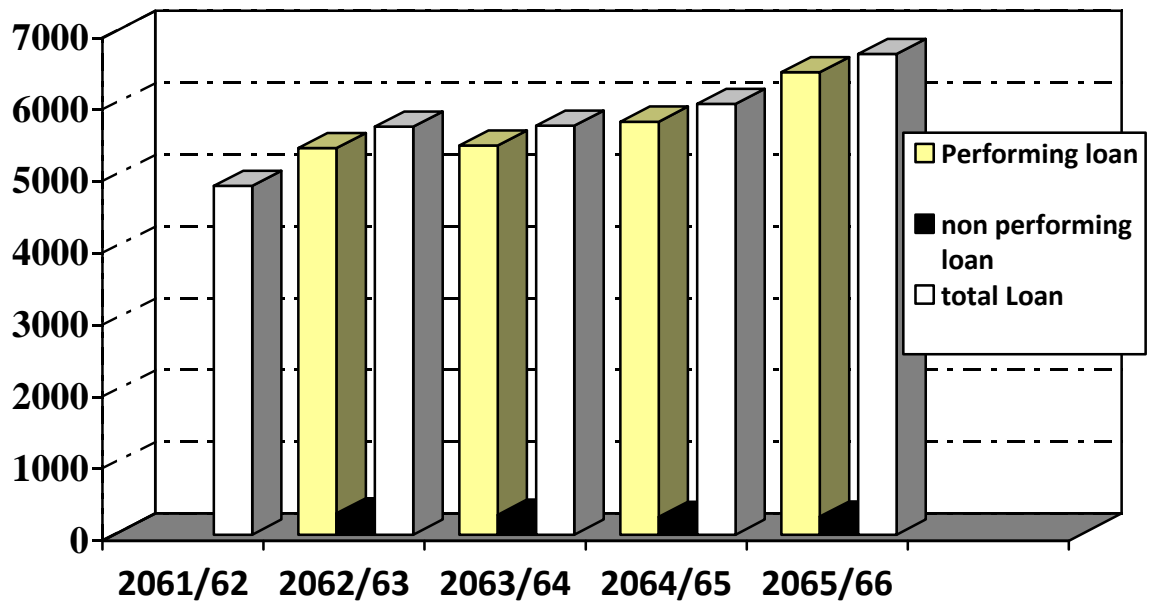
### Classification of Loans, Advances, Bill Purchased and Loan Loss Provision of NABIL

Rs in million

Particulars	2061/62	2062/63	2063/64	2064/65	2065/66
<b><u>1.Perfoming loan</u></b>		5384.30	5420.25	5752.21	6441.66
1.1 Pass Loan		5384.30	5420.25	5752.21	6441.66
<b><u>2. Non-performing Loan</u></b>		297.05	275.93	247.95	252.2
2.1 Substandard		9.31	3.33	7.05	-
2.2 Doubtful		148.26	140.29	130	130.9
2.3 Loss		139.48	132.31	110.90	121.21
<b>Total Loan(1+2)</b>	<b>4857.17</b>	<b>5681.35</b>	<b>5696.18</b>	<b>6000.16</b>	<b>6693.86</b>
<b><u>3.Loan Loss Provision</u></b>					
3.1 Pass		58.32	93.88	94.18	64.42
3.2 Substandard		2.33	0.84	1.76	-
3.3 Doubtful		74.13	105.15	97.5	97.99
3.4 Loss		139.48	132.31	110.90	121.21
<b>Total Provision</b>	<b>180.41</b>	<b>274.26</b>	<b>332.18</b>	<b>304.34</b>	<b>283.62</b>

Source: Annual report of NABIL Bank ltd

Trend of TL,PL & NPL



From the above table we can observe that the trend of total the loan of NABIL is rising. Total loan figure of NABIL have reached RS.6693.86 m in the FY2065/66 from Rs. 4857.17 m in the FY2061/62, which represents a growth of 37.81%. In the total loan category, the proportion of performing loan is in rising trend whereas the proportion of non-performing loan is sowing a mixed trend during the review period of five years. In the total non-performing loan, the portion of doubtful loan is decreasing but the portion of loss/bad loan is fluctuating. In the FY2065/66, NPL hae decreased to R.252.2 m from Rs.297.05 m in the FY2062/63, even though it is an increment in comparison to the FY2064/65.

Similarly the total loan loss provision (LLP) that has been kept aside by the bank is also showing the mixed trend. Up to FY2064/65, the total LLP is increasing but after 2064/65 the total LLP is slightly decreasing. In total LLP the provision for all types of loans i.e. pass & restructured, substandard, doubtful and bad loan are showing a mixed trend, As a result, the LLP is also fluctuation. During the FY2065/66 the total LLP have increased to Rs283.62 m from Rs. 180.41 m in the FY2061/62. The LLP have reached the highest in the FY2063/64 aggregation Rs332.018m, during the review period of five years.

**TABLE 4.2****Key Profitability Indicators of NABIL**

<b>Particulars</b>	<b>Indicators</b>	<b>2061 /62</b>	<b>2062/63</b>	<b>2063/64</b>	<b>2064/65</b>	<b>2065/66</b>
1. Net profit /Total income	%	28.62	25.92	33.12	33.71	33.95
2. Earning per share	Rs	115.62	126.88	141.13	149.30	143.55
3. Market value per share	Rs	1985	2144	1575	1640	1745
4. Interest Income/ loan & Advance	%	12	10.22	10.31	10.11	8.83
5. Price Earning Ratio	Ratio	17.17	16.90	11.16	10.98	12.16
6. Net profit/ Loan & Advance	%	8.93	8.12	9.13	9.09	8.51
7. Net profit / Total assets	%	2.36	2.26	2.60	2.42	2.27
8. Total Credit Deposit	%	37.99	36.82	35.97	31.99	31.63
9. Liquidity (CRR)	%	10.76	10.76	9.87	9.07	9.46
10. Non performing Loan/ Total Loan	Ratio	6.32	2.62	2.39	1.97	1.83

**Sources: Annual report of NABIL Bank Nepal Ltd.**

A continuous rising trend has been observed in the net profit of the NABIL Bank in past five years. The Net Profit amounted to Rs. 393 m in the FY2059/60, which has increased to Rs. 538 m in the FY2063/64, registering a growth of 37% but the percentage of interest income/loan advances is gradually decreasing. The reason behind such reduction may be reduced interest income or the increase loans and advances.

**TABLE 4.2.1**  
**Key Profitability Indicators of Joint Venture Bank for the FY2065/66**

Particulars	Indicators	EBL	NABIL
1. Net profit /Total income	%	18.3	33.95
2. Earning per share	Rs	45.58	143.55
3. Market value per share	Rs	680	1745
4. Interest Income/ loan & Advance	%	9.2	8.83
5. Price Earning Ratio	Ratio	3.9	12.16
6. Net profit/ Loan & Advance	%	2.4	8.51
7. Net profit / Total assets	%	1.5	2.27
8. Total Credit Deposit	%	75.6	31.63
9. Liquidity (CRR)	%	1.6	9.46
10. Non performing Loan/ Total Loan	Ratio	1.7	1.83

Between the two joint venture banks NABIL proved itself as a market leader in Nepal's Banking Industry. This is reflected in its earning pre share (EPS) of RS143.55 EPS of NABIL is far away from EBL, whose EPS is only Rs. 45.58 in the FY2065/66.

The market strength of a bank can also be reflected by the market value per share (MVPS) recorded in the Nepal Stock Exchange. In this regard, NABIL again leads the whole industry with its share being quoted at Rs1745 per share in the FY2065/66.

Similarly, NP/ Total income ratio of NABIL is highest than EBL. The NP/ Total income ratio of EBL bank is 18.3% one major yardstick to measure the performance of the bank is its profitability. In this regard also, NABIL stands ahead in comparison with other banks. In the FY2065/66, it has earned the Net profit of Rs 537.80m, which is highest then EBL banks of the study. Whereas, Everest bank have earned Rs, 143.6m.

Each bank has its responsibility to provide maximum return to its shareholders and on the other hand the safety aspect of the public money, which they are mobilizing. Hence, they have to consider liquidity of the deposits they have. To ensure the liquidity, NRB, the regulatory authority has fixed a certain percent of total deposit as cash reserve ratio, in terms of which

liquidity is measured. Every commercial bank manages liquidity in the form of cash & bank balances, money at call and short notice, short-term investment in Treasury bill. In this regard, every bank seems to have maintained enough CRR. So, in the FY2063/64, EBL, NABIL have maintain CRR of 1.6%, 9.46% respectively. From this we can observe that Everest bank ltd have maintained lowest liquidity of 1.6% and NABIL have maintained the highest liquidity of 9.46%, this data suggest that all these banks have been managing their funds quite efficiently ensuring both liquidity as well as profitability.

Since, the major function of a commercial bank is deposit collection and lending. It is very important to have a look at the CD ratio i.e. Total Credit to Total Deposit. In this count, NSBI bank has the highest CD ratio of 76.85% whereas NABIL has the lowest CD ratio of 31.63% similarly; Everest bank has maintained 75.6% CD ratio.

### **4.3 Adequacy of Loan Loss Provision**

Nepal Rastra Bank has issued some directives for maintaining loan loss provision for different categories of loan of commercial banks. In this way, this analysis comprises the adequacy of loan loss provision as per NRB directives of sampled banks for the study period. Adequacy is measured by calculation the ratio of loan loss provision to loan & advances of different classified loan.

This ratio describes the quality of assets in the form of loans & advances that a bank is holding. Since, there is risk inherent in loan and advances, NRB has directed commercial banks to classify its loans and advances into different categories and accordingly make provision for probable loss. Loan loss provision signifies the cushion against future contingencies created by default of the borrower in the payment of loans and ensures the continued solvency of the banks. Since, high provisioning has to be made for non-performing loan volume of total loans & advances. The low ratio signifies the good quality of volume of total loans & advances. It indicated how efficiently it manages loan and advances and makes efforts to cope with probable loan loss. Higher ratio implies, higher portion in the total loan portfolio.

#### **4.3.1 Adequacy of Loan Loss Provision (LLP) for pass Loan**

Table below presents the adequacy ratio of loan loss provision for pass loan for the sample period of the selected banks for the study. A bank is required to maintained 1% loan loss provision for its pass loan as per NRB directives. This ratio is calculated by dividing LLP of pass loan by total pass loan.

This ratio determines the proportion of provision held on pass loan to pass loan of the banks. This ratio measure into what extent of risk inherent in pass loan is covered by the provision maintained for pass loan. Higher ratio signifies that the banks are the provision maintained for pass loan. Higher ratio signifies that he banks are safeguard against future contingency for loan loss. This ratio also determines that banks have maintained or not the loan loss provision for pass loan as per the NRB directives.

**TABLE 4.3.1**

**Adequacy of Loan Loss Provision (LLP) for Pass Loan (in %)**

<b>Fiscal Year</b>	<b>EBL</b>	<b>NABIL</b>	<b>Average</b>
<b>2062/63</b>	<b>.98</b>	<b>1.08</b>	<b>1.03</b>
<b>2063/64</b>	<b>1.72</b>	<b>1.73</b>	<b>1.725</b>
<b>2064/65</b>	<b>1.63</b>	<b>1.64</b>	<b>1.63</b>
<b>2065/66</b>	<b>2.26</b>	<b>1.00</b>	<b>1.63</b>
<b>Average</b>	<b>1.65</b>	<b>1.36</b>	

From the above table, we can see that loan loss provision maintained by EBL, NABIL, for the FY2062/63 were 0.98%, 1.08% respectively. In this year, EBL all other banks have been successful to maintain the LLP of 1% for pass loan as per the NRB directives. Here, EBL has slightly failed to maintain provision for pass loan as per the NRB directives.

Similarly, in the FY 2063/64 the adequacy of loan loss provision for pas loan of EBL, NABIL, bank were 1.72%, 1.73%, respectively. The above figures indicate that two banks have maintained the LLP for their pass loan as per the NRB directives in the FY2062/63.

In the FY2064/65, the adequacy ratio of loan loss provision for pass loan of EBL, NABIL bank was 1.63%, 1.64% & respectively. In this year also all the selected banks have maintained the LLP for pass loan as per the NRB directives. Likewise, in the FY2065/66, the adequacy ratio of LLP for pass loan of EBL, and NABIL bank was 2.26%, 1% & respectively. In this year, NABIL bank had maintained only 1% but EBL bank have maintained more provision than the requirement. Only NABIL bank has maintained exactly 1% provision in the FY 2065/66.

Hence, above analysis clearly shows that except Everest bank Ltd. In FY 2061/62, all other banks have maintained adequate provision for pass loan as per the NRB directives.

**4.3.2 Adequacy of Loan Loss Provision (LLP) for Substandard Loan.**

Table shown below present the adequacy ratio of loan loss provision for substandard loan for the sampled period of the selected banks of the study. A bank is required to maintain 25 percent loan loss provision for its substandard loan as per NRB directives. This ratio is calculated by dividing LLP of substandard loan by Total substandard loan.

This ratio determines the proportion of provision held on substandard loan of the banks. This ratio measure into what extent of risk inherent in substandard loan is covered by the provision maintained for substandard loan. Higher ratio signifies that the banks are safeguard against future contingency for loss loan. This ratio also determines whether the banks have maintained or not the loan loss provision for substandard loan as per the NRB directives.

**TABLE 4.3.2**

**Adequacy of Loan Loss Provision (LLP) for Substandard Loan**

<b>Fiscal Year</b>	<b>EBL</b>	<b>NABIL</b>	<b>Average</b>
<b>2062/63</b>	<b>22.91</b>	<b>25.03</b>	<b>23.97</b>
<b>2063/64</b>	<b>25.00</b>	<b>25.23</b>	<b>25.11</b>
<b>2064/65</b>	<b>27.56</b>	<b>24.96</b>	<b>26.26</b>
<b>2065/66</b>	<b>25.00</b>	<b>NA</b>	<b>12.5</b>
<b>Average</b>	<b>25.12</b>	<b>25.07</b>	

Form the above table, we can see that the LLP for substandard loan maintained by EBL, NABIL bank were 22.91%, 25.03% respectively. This figure indicates that in this year Everest bank has failed to maintain the provision of 25% as per the NRB directives. NABIL has maintained the highest provision.

Similarly, in the FY 2063/64 the adequacy of LLP for substandard loan of EBL, NABIL bank were 25%, 25.23% respectively.

In the FY2064/65, the LLP for substandard loan maintained by EBL, NABIL, bank were 27.56% , 24.96% respectively. In this year, NABIL Bank has failed to maintain the provision as per the NRB directives.

Likewise, in the FY2065/66 the LLP for Substandard loan maintained EBL bank have 25% respectively.

**4.3.3 Adequacy of Loan Loss Provision (LLP) for Doubtful Loan**

Table shown below presents the adequacy ratio of loan loss provision for doubtful loan for the sampled period banks of the study. A bank is required to maintain 50 percent loan loss provision for its doubtful loan as per NRB directives. This ratio is calculated by dividing LLP of doubtful loan by Total doubtful loan.

This ratio determines the proportion of provision held on doubtful loan of the banks. This ratio measure what extent of risk inherent in doubtful loan is covered by the provision maintained for doubtful loan. Higher ratio signifies that the banks are safeguard against future contingency for loss loan. This ratio also determines whether the banks have maintained or not the loan loss provision for doubtful loan as per the NRB directives.

**TABLE 4.3.3**

**Adequacy of Loan Loss Provision (LLP) for Doubtful Loan**

<b>Fiscal Year</b>	<b>EBL</b>	<b>NABIL</b>	<b>Average</b>
<b>2062/63</b>	<b>49.65</b>	<b>50.00</b>	<b>49.82</b>
<b>2063/64</b>	<b>50.00</b>	<b>74.95</b>	<b>62.47</b>
<b>2064/65</b>	<b>50.00</b>	<b>75.00</b>	<b>62.50</b>
<b>2065/66</b>	<b>50.00</b>	<b>74.81</b>	<b>62.40</b>
<b>Average</b>	<b>49.91</b>	<b>68.69</b>	

From the above table, we can see that LLP for doubtful loan maintained by EBL, NABIL, for the FY 2062/63 were 49.65%, 50% respectively. This figure indicated that EBL bank have failed to maintain the provision according to NRB directives for doubtful loan in FY 2062/63. whereas, NABIL have exactly 50% provision.

Similarly, in the FY 2063/64 the adequacy of LLP for Doubtful loan of EBL, NABIL bank were 50.00%, 74.95% respectively. In the FY 2063/64 NABIL bank has maintained the highest provision of 74.95%

Likewise, in the FY 2065/66, the LLP for Doubtful loan maintained by EBL & NABIL bank were 50% ,74.81 respectively

The analysis of secondary data along with their results and interpretations. The chapter starts with the presentation of secondary data in a tabular form. A graphical representation is also made followed by analysis and interpretation of the calculated data. Several relevant tools such as mean, standard deviation and coefficient of variation have been used for analysis. Finally, the (t) student's test is performed to accept or reject the null hypothesis (Ho): "There is no significant difference between the mean value of each of the selected ratio of NABIL & EBL."

Financial statements serve as a means to various stakeholders of the to analyze the organization's financial strengths weaknesses, and performance. There are various ways to conduct the financial performance study. One of them is the financial ratio analysis.

A financial ratio is a relationship between two financial variables. It helps to ascertain the financial condition of a firm. Ratio analysis a process of identifying the financial strengths and weaknesses of the firm. This may by accomplished either through a trend analysis of the firm's ratios over a period of time or through a comparison of the firm's ratios with its nearest competitors and with the industry average.

Therefore, this chapter particularly analyzes and interprets the following aspects of financial position of NABIL and EBL;

- ❖ Liquidity position
- ❖ Activity/Turnover Position
- ❖ Profitability position
- ❖ Capital structure/ Leverage position
- ❖ Other financial positions such as; price earnings ratio, earnings per share & dividends per share.

#### **4.4. Liquidity Ratio**

A satisfactory liquidity positions is one of the distinguishing characteristics of a sound bank. As a critical factor of evaluation, liquidity is the ability of a bank to satisfy the credit needs of the community, to meet demands for deposit, withdrawals, pay maturing obligations on time, and to convert non-cash assets into 'cash' to satisfy immediate needs without loss to bank and consequent impact in the long-term profitability.

Liquidity ratios such as cash and bank balance to current assets ratio, loans and advances to current assets ratio, fixed deposit to total deposit ratio, saving deposit to total deposit ratio, and investment in government securities to current assets ratio attempts to figure out the liquidity position of the two banks under study.

##### **4.4.1 Cash & Bank Balance to Current Assets Ratio**

The Cash & Bank Balance to Current Assets Ratio measures the portion of cash & bank balances maintained against its current assets. In order to analyze and interpret the cash and bank balance to current assets position of the sampled banks, researcher obtained the required data from these banks and put them in Table 4.4.1. The results of the analysis have also been presented in the same table.

**Table 4.4.1**

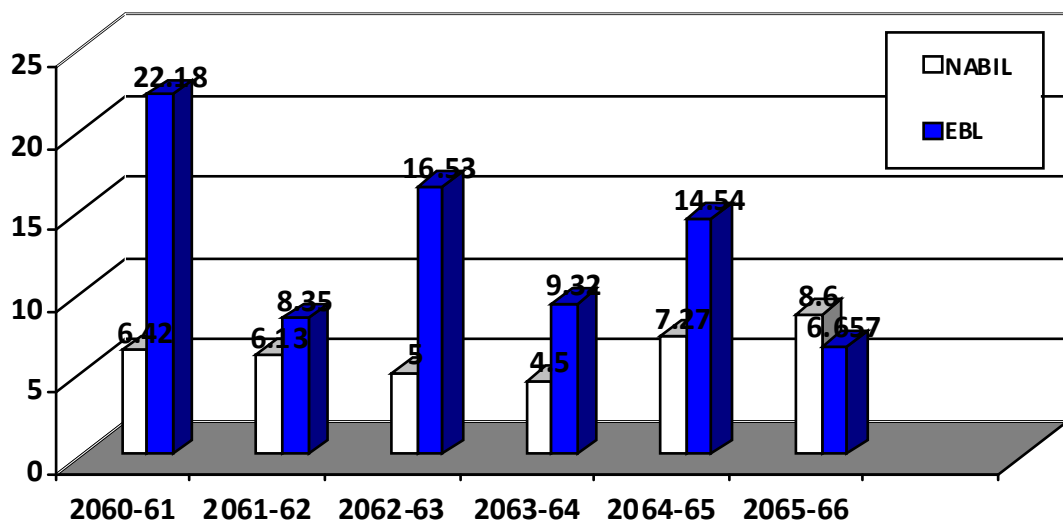
**Cash & Bank Balance to Current Assets Ratio**

YEAR	NABIL			EBL		
	Cash&bank Balance	Current Assets	Ratio %	Cash & bank balance	Current Assets	Ratio%
2060/61	826.15	12862.22	6.42	460.71	2077.32	22.18
2061/62	1020.46	16650.32	6.13	278.60	3334.59	8.35
2062/63	961.05	19224.18	5.00	834.99	5049.85	16.53
2063/64	825.26	18330.82	4.50	592.76	6359.66	9.32
2064/65	1512.3	20797.6	7.27	1139.57	7836.89	14.54
2065/66	2023.16	23505.82	8.60	631.8	9490.19	6.657
		Mean	6.32		Mean	12.92
		S.D.	1.49		S.D.	5.90
		C.V.	24.00		C.V.	45.67

Cash and bank balances are assets that constitute the bank's first line of defence and consist of cash in hand, foreign cash on hand, cheques and other near cash items, balance with domestic/foreign banks etc. These are bank's highly liquid and immediately available funds to meet its anticipated and unanticipated calls on deposit. Current Assets, on the other hand, also have high liquidity. These are investment assets that can be converted into cash in a short span of time. However, cash and balances have a high liquidity ratio than current assets and it is necessary for banks to maintain a certain level of highly liquid assets at any time to meet contingent demands. It is also necessary to ensure that a certain level of ratio of highly liquid assets to less liquid assets is maintained. While highly liquid assets are important for an organization, high ratio of the same can result in potential assets lying idle.

In the table presented above, we can observe that the cash and bank balance of NABIL was Rs. 826.15 million in 2060/61 and Rs 2023.16 million in 2065/66. Similarly, the cash and bank balance of EBL was Rs. 460.71 million in 2060/61 and Rs 631.80 million in 2065/66. Current assets of NABIL increased from Rs. 12862.22 million in 2060/61 to Rs23505.82 million in 2065/66. Similarly, current assets of EBL gradually increased from Rs. 2077.32 million in 2060/61 to Rs 9490.19 in 2065/66. The average/ mean Cash & Bank Balances to Current Assets ratio of NABIL and EBL is 6.32 and 12.92 respectively. A graphical presentation of the cash and bank balance to current assets ratio of NABIL and EBL for the year from 2060/61 to 2065/66 is given below.

Graph 4.4.1 Cash and Bank Balance To Current Assets Ratio



The mean cash and bank balance to current assets ratio indicates that while EBL maintained 12.92% of its current assets as cash and bank balances; NABIL maintained only 6.32% on average for the five fiscal years from 2060/61 to 2065/66. This is because while NABIL has largely invested in other forms of deposits such as money at call and government securities, EBL's concentration is more on its cash and bank balances. The coefficient of variation (C.V) between ratios of EBL (45.67%) is considerably greater than the C.V. of NABIL (24%). It indicates that the variability of the ratios of NABIL is more uniform than that of EBL.

It can be suggested that EBL should increase its investment on government securities as these securities offer stable and regular return. EBL should also increase the amount of investment on money at call and short notice so that a proper balance is maintained.

The calculated value of |t| for the cash and bank balance to current assets ratio is 2.17, which is more than the table value of |t| for 10 degrees of freedom. Hence, the null hypothesis is rejected, i.e. there is a significant difference between the mean ratios of cash and bank balance to current assets ratio of NABIL and EBL.

#### 4.2.2 Loans & Advances to Current Assets Ratio

This ratio measures the portion of current assets that have been given as loans and advances to other organization. The current assets and loans & advances of NABIL and EBL for the year's form 2060/61 to 2065/66 have been collected and presented in the table 4.4.2 below.

**Table 4.4.2**

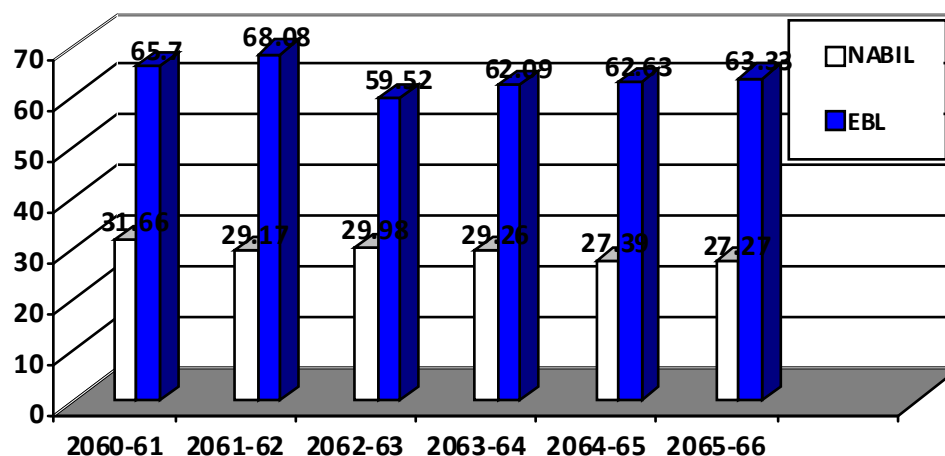
**Loan & Advances to Current Assets Ratio**

YEAR	NABIL			EBL		
	LOANS & ADVANCES	CURRENT ASSETS	RATIO %	LOANS & ADVANCES	CURRENT ASSETS	RATIO %
2060/61	4071.63	12862.22	31.66	1364.89	2077.32	65.7
2061/62	4857.17	16650.32	29.17	2270.18	3334.59	68.08
2062/63	5763.13	19224.18	29.98	3005.76	5049.85	59.52
2063/64	5364.00	18330.82	29.26	3948.48	6359.66	62.09
2064/65	5695.82	20797.60	27.39	4908.46	7863.89	62.63
2065/66	9410.24	23505.82	27.27	5884.12	9490.19	63.33
		Mean	29.12		Mean	63.56
		S.D.	1.650		S.D.	2.98
		C.V.	5.67		C.V.	4.68

Loans and advances include loans, cash credit, overdrafts; bill discounted, and bill purchases. These are profit-earning assets of a commercial bank. Generally speaking, an increase in bank's investment on loans and advances would lead to an increase in its profit earning capacity, but it is necessary to ensure that the quality of investment is maintained so that it may not turn into Non- Performing loan (NPLs). Assets turn into NPAs when the borrower becomes incapable to repay the debt.

In the above table, we can see that the amount of loans and advance of NABIL has increased form Rs. 4071.63 million in 2060/61 to Rs9410.24 million in 2065/66. Similarly, its currents assets has also increased form Rs. 12862.22 million in 2060/61 to Rs. 23505.82 million 2065/66. EBL's loans and advances have also increased from Rs1364.89 million in 2060/61 to Rs5884.12 million in 2065/66. The amount of current assets increased from Rs 2077.32 million in 2060/61 to Rs 9490.19 million in 2065/66. We can see that the loans and advances to current assets ratio of both the bank have decreased. The ratio was 31.66% for NABIL and 65.70% for EBL in 2060/61. In 2065/66, the ratio decreased to 27.27% for NABIL and 63.33% for EBL. The mean loans and advances to current assets ratio was 29.12% and 63.35% for NABIL and EBL respectively. The standard deviation between the ratios of NABIL was 5.67% and it was 4.68% for NABIL. The loans and advances to current assets ratio of the two banks for the years from 2060/61 to 2065/66 has been graphically presented below.

**Graph 4.4.2 Loans and Advances To Current Assets Ratio**



NABIL and EBL have witnessed a declining trend in the amount of loans and advances made against its current assets. This could be due to the fact that the Nepalese economy has experienced a set back in the recent years due to the political instability in the country. The mean ratios of both the banks reveal that NABIL maintained only 29.12% of its current assets as loans an advances while EBL maintained 3.56%. It indicates that NABIL has been conservative or directing the resources to other alternatives in its approach of advancing loans and advances. The coefficient of variation (C.V.) for the two banks are 5.67% for NABIL and 4.68% for EBL which means that the mean ratios arrived at for each of the years under study are relatively similar for the respective banks.

As loans and advances are insterst earning assets for bank, they should concentrate at not only increasing the business bookings but at the same time maintaining the quality of credit. The loans and advances to current assets ratio of EBL shows that they are aggressively extending loans and advances. While this is good for the bank, its long-term consequences need to be carefully analyzed.

The calculated value of  $|t|$  for the loans and advances to current assets ratio is 20.21, which is more than the table value of  $|t|$  for 10 degrees of freedom. Hence, the hypothesis is rejected, i.e. there is a significant difference between the mean ratios of loans and advances to current assets ratio of NABIL and EBL.

#### 4.4.3 Fixed Deposit to Total Deposit Ratio

This Ratio measures the proportion of fixed deposits against the total deposit maintained by banks. Fixed deposit and total deposit of NABIL and EBL for the years from 2060/61 to 2065/66 have been collected and presented in the table below. The fixed deposit to total deposit ratio has also been calculated for each year and tabulated there under.

**Table 4.4.3**

**Fixed Deposit to Total Deposit Ratio**

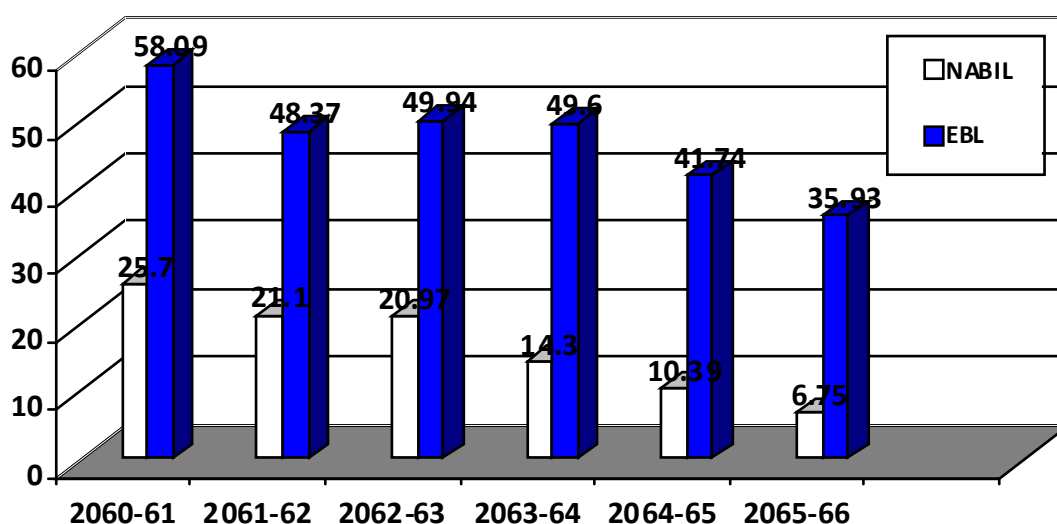
YEAR	NABIL			EBL		
	FIXED DEPOSIT	TOTAL DEPOSIT	RATIO%	FIXED DEPOSIT	TOTAL DEPOSIT	RATIO%
2060/61	2868.91	11165.16	25.70	1132.08	1948.94	58.09
2061/62	2651.65	12563.49	21.10	1478.89	3057.43	48.37
2062/63	3236.03	15430.05	20.97	2284.64	4574.51	49.94
2063/64	2264.77	15835.75	14.30	2711.58	5466.61	49.60
2064/65	1948.60	18755.64	10.39	2794.74	6694.95	41.74
2065/66	1428.50	21161.44	6.75	2897.96	8063.90	35.93
		Mean	16.53		Mean	47.27
		S.D	7.25		S.D	7.62
		C.V	43.87		C.V	16.12

Fixed deposits are term deposits and these are these are the funds that banks can fully utilize until it matures. As funds from fixed deposits will be uncalled for unit it is matured, the provision made for unanticipated calls will be very low. As a result, bank will have the capacity to invest more. Profitability, however, depends on how productively and efficiently the funds have been utilized for the purpose of income generation.

Total deposits are constituted from fixed deposits, savings deposits, and current deposits call & short deposits etc. While fixed and savings deposits are interest bearing deposits, other kinds of deposits may or may not be interest bearing Fixed and savings deposits are likely to have less transactions than the other kinds of deposits, example, current deposits.

In the table and graph presented below, we can observe that the fixed deposit to total deposit ratio of both the banks have decreased through the period of the study. While the volume of fixed and total deposit increased, the ratios revealed otherwise. The fixed deposit to total deposit ratio has declined for both the banks. When the volume of total deposit of NABIL was Rs 11165.16million in 2060-61, the ratio was 25% and in 065-66, when total deposit increased to Rs.21161.44 million, the ratio decreased to 6.75%. the fixed deposits have reduced considerably at NABIL, more significantly during the year 2065-66. the fixed deposits at NABIL for the year 2065-66 was NPR 1,428.50 millions whereas the amount was NPR 2,88.91 for the year 2060-61, the ratio was 58.09% and in 2065-66, the total deposit increased to Rs 8063.90million in 2065-66, the fixed deposit to total deposit ratio declined to 35.93%. the standard deviation of NABIL and EBL was 7.25 and 7.62 respectively. The mean fixed deposit to total deposit ratios of NABIL and EBL are 16.53% and 47.27% respectively.

**Graph 4.4.3 Fixed Deposit to Total Deposit Ratio**



While NABIL,s fixed deposit against total against its total deposits was 16.53%, the portion of fixed deposits on total deposits for EBL was 47.27%, almost half of the total deposits. It was observed that although the volume of total deposit increased every year, the fixed deposit to total deposit ratio declined every year. It can be understood that other types of deposits (savings and current) increased and fixed deposit was less favorable. The coefficient of variation between the ratios of NABIL and EBL are 43.87% and 16.12% respectively which indicate that the ratios of EBL have remained more uniform than the ratios of NABIL.

Although a high percentage of fixed deposits will increase a bank's lending investment capacity, it will also increase its operation cost, as these are high interest bearing deposits. A proper balance of the various types of deposits is necessary to ensure that the costs of funds are kept at a minimum level.

The calculated value of 't' for the fixed deposit to total deposit ratio is 8.1, which is more than the table value of 't' for 10 degrees of freedom. Hence, the null. Hypothesis is rejected, i.e. there is a significant difference between the mean ratios of fixed deposit to total deposit ratios of NABIL and EBL.

#### 4.4.4 Saving Deposit to total deposit ratio:

The saving deposit to total deposit ratio represents the proportion of savings deposits in the total deposits. In order to assess the saving deposit to total deposit ratio, the volume of saving and total deposit of NABIL and EBL for the yers from 2060-61 to 2065-66 have been conected and presented in the table below. The calculated results (tario) have also been presented in the table.

**Table 4.4.4**

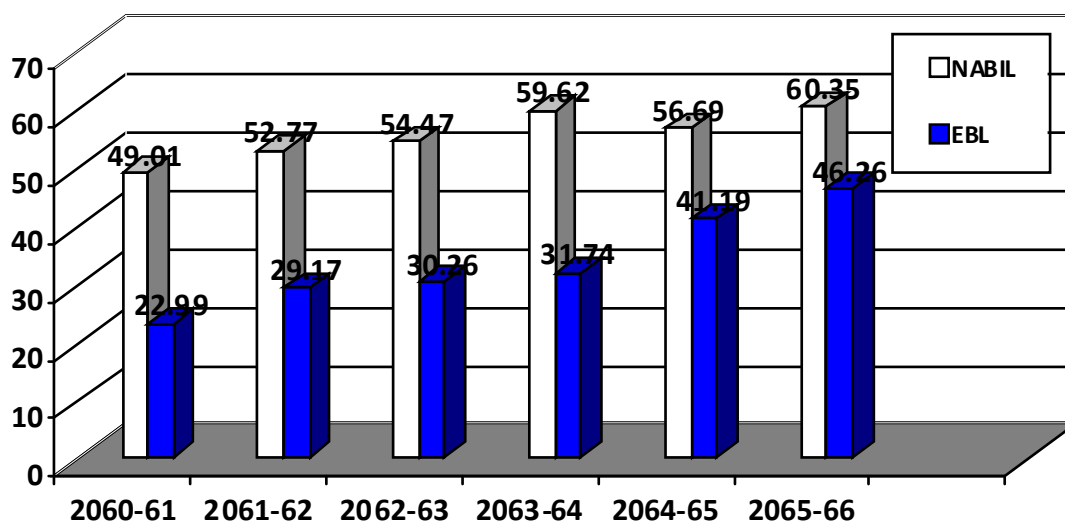
#### **Saving Deposit to Total Deposit Ratio**

YEAR	NABIL			EBL		
	SAVING DEPOSIT	TOTAL DEPOSIT	RATIO%	SAVING DEPOSIT	TOTAL DEPOSIT	RATIO%
2060/61	5471.68	11165.06	49.01	448.00	1948.94	22.99
2061/62	6632.70	12568.49	52.77	891.75	3057.43	29.17
2062/63	8404.61	15430.05	54.47	1384.06	4574.51	30.26
2063/64	9441.91	15835.75	59.62	1735.37	5466.61	31.74
2064/65	10633.16	18755.64	56.69	2757.95	6694.95	41.19
2065/66	12771.82	21161.44	60.35	3730.61	8063.90	46.26
		Mean	55.48		Mean	33.60
		S.D	4.27		S.D	8.53
		C.V	7.69		C.V	25.38

Savings deposits are interest-bearing deposits. However, the interest paid on this type of deposits is comparatively cheaper than interest paid on fixed deposits. Transactions on savings deposits are higher compared to fixed deposits.

In the table presented above, we can observe that the saving deposit to total deposits of NABIL has witnessed an increasing trend. The amount of saving deposit of NABIL, in the year 2060-61 was Rs. 5,471.68,million and it increased deposit to total deposit ratio of both the banks have increased as well. The saying deposit to total deposit ratio of NABIL was 49.01% in 2060-61 and 60.35% in 2065-66. EBLs saving deposit to total deposit ratio was 22.99% in 2060-61 and 46.26% in 2065-66. The mean saving deposit to total deposit ratio of NABIL and EBL was 55.48% and 33.60% respectively. Standard deviation of NABIL and EBL was 4.27 and 8.53 respectively. A graphical representation of the ratios of the two banks during the study period is presented below.

**Graph 4.4.4 Saving deposit to total deposit Ratio**



The ratio for NABIL for the year 2060-61 was 49.01% for the year 2065-66. On average, the ratio was 54.51%. On the other hand, the mean ratio of EBL was 22.60% for the years from 2060-61 to 2065-66. The mean ratio of NABIL is higher than the mean ratio of EBL indicating that NABIL's proportion of savings deposits on its total deposits is comparatively higher than that of EBL. On the whole, both the banks have been able to increase its saving deposits, EBL has witnessed a substantial growth in its saving deposits to total deposits ratio from 22.99% in the year 2060-61 to 46.26% in the year 2065-66. The coefficient of variation for NABIL (7.69%) and EBL (25.38%) indicate that the ratio of NABIL is more uniform in nature than that of EBL.

While it is admirable that the banks have been able to increase its volume of saving deposit every year, the saving deposit constitute more than half of NABIL's total deposit and the saving deposit of EBL constitute about 31% of its total deposit. It can be recommended that EBL should attempt to increase its saving deposit.

The calculated value of 't' for the saving deposit to total deposit ratio is 8.87 which is more than the table value of 't' for 10 degrees of freedom. Hence, the hypothesis is rejected, i.e. there is a significant difference between the mean ratios of saving deposit to total deposit ratio of NABIL and EBL.

**4.4.5 Investment in Govt. Securities to Current Assets Ratio**

This ratio measures the percentage of investment made by banks in government securities relative to its total current assets. In order to calculate the investment on government securities to current assets ratio, the amount invested on government securities and amount of current and assets have been collected and presented in the table below

**Table 4.4.5**  
**Investments on Govt. Securities to Current Assets Ratio Rs. In million**

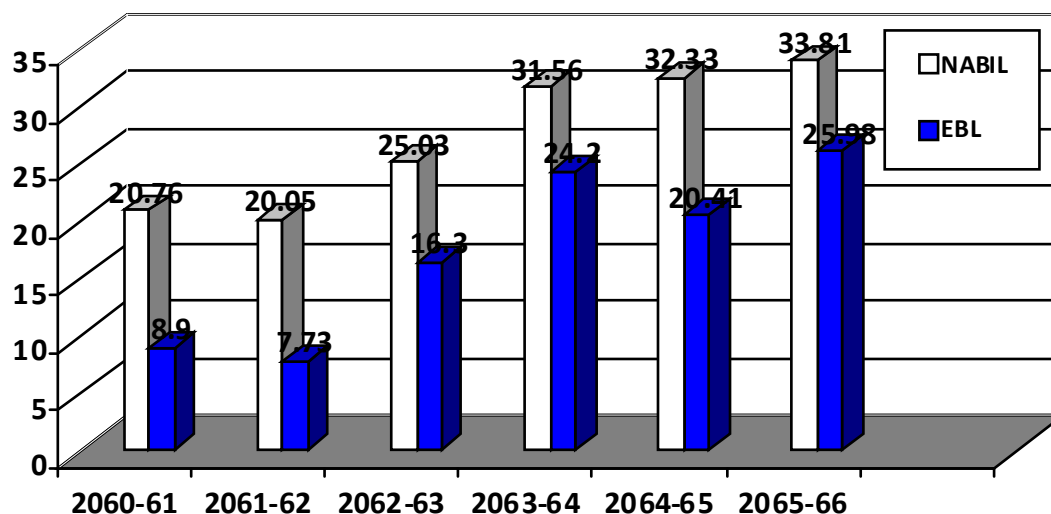
YEAR	NABIL			EBL		
	INVESTMENT ON GOVT.SECURITIES	CURRENT ASSETS	RATIO%	INVESTMENT ON GOVT.SECURITIES	CURRENT ASSETS	RATIO %
2060-61	2,669.88	12,862.22	20.76	184.91	2,077.32	8.90
2061-62	3,338.67	16,650.32	20.05	257.61	3,334.59	7.73
2062-63	4,811.01	19,224.18	25.03	823.00	5,049.85	16.30
2063-64	5,784.72	18,330.82	31.56	1,538.90	6,359.66	24.20
2064-65	6,722.83	20,797.60	32.33	1,599.35	7,836.89	20.41
2065-66	7948.21	13505.82	33.81	2466.42	9490.13	25.98
		Mean	27.25		Mean	17.25
		S.D.	6.10		S.D.	7.86
		C.V	22.39		C.V	45.56

Government securities are treasury bills and govt bonds, which provide a stable income to the banks. Banks usually invest in government securities to earn a regular income and still maintain sufficient liquidity. The amount that banks invest on these types of securities depends on the policies adopted by them.

From the table 4.4.5, we can observe that the investment on government securities to current assets ratio of both the bank have increased increased during the period of the study. The amount of investment on government securities for NABIL was Rs. 2,669 million in 2060-61 and the ratio was 20.76%. The volume of investment on government securities increased to Rs, 7,948.21 Million in 2065-66 and the ratio was 33.81%. Similarly, EBL's investment on government securities increased form Rs. 184.91 million in 2060-61 to Rs. 2,466.42 million in 2065-66. The ratio also increased form 8.90% in 2060-61 to 25.98% in 2065-66. The mean investment on government securities to current assets ratio for NABIL and EBL was 27.25% respectively. The standard deviation was 6.10 for NABIL and 7.86 for EBL.

The mean investment on government securities to current assets ratio reveal that NABIL has investment about 27.25% of its current assets in government securities whereas whereas EBL's investment is only 17.25%. The coefficient of variation is 22.39%for NABIL and 45.56% for EBL higher than that of NABIL. In the graph below, we can observe that there was a decline in the ratio for both the banks in 2060-62 only. The ratio has increased for the rest of the years under study.

**Graph 4.4.5 Investment on Govt. Securities to Current Assets**



Government securities offer stable returns and default risk free assets. While it is common for all banks to invest to a certain portion of its current assets in these securities, the volume of investment depends upon the individual policies of the banks. The interest rates on these types of securities have recently declined to very minimum and banks have started to loose preference on them. The responsibility is on the banks to assess to what degree the investment is to be made since the risk-free securities have a bearing on cost of funds.

The calculated value of 't' for the investment on government securities to current assets ratio is 2.26, which is less than the table value of 't' for 10 degrees of freedom. Hence, the hypothesis is accepted, i.e. there is no significant difference between the mean ratios of investment on government securities to current assets ratio of NABIL and EBL.

#### **4.5 Activity/Turnover Ratios :**

Activity ratios reflect the firm's efficiency in utilizing its assets. They are employed to evaluate the efficiency with which the firm manages and utilizes its assets. These ratios are called turnover ratios because they indicate the speed with which assets are being converted or turned over into sales. Activity ratios, thus, involve a relationship between sales and assets.

##### **4.5.1 Loans & Advances to Total Deposit Ratio**

The loans and advances to total deposit ratio reflect the extent to which the banks are successful in mobilizing their total deposits on loans and advances. It is calculated by dividing loans and advances by total deposits. The required data in order to calculated the loans and advances to total deposit ratio of NABIL and EBL for the fiscal years from 2060-61 to 2065-66 is presented in the table below;

**Table 4.5.1**  
**Loans & Advances to Total Deposit Ratio**

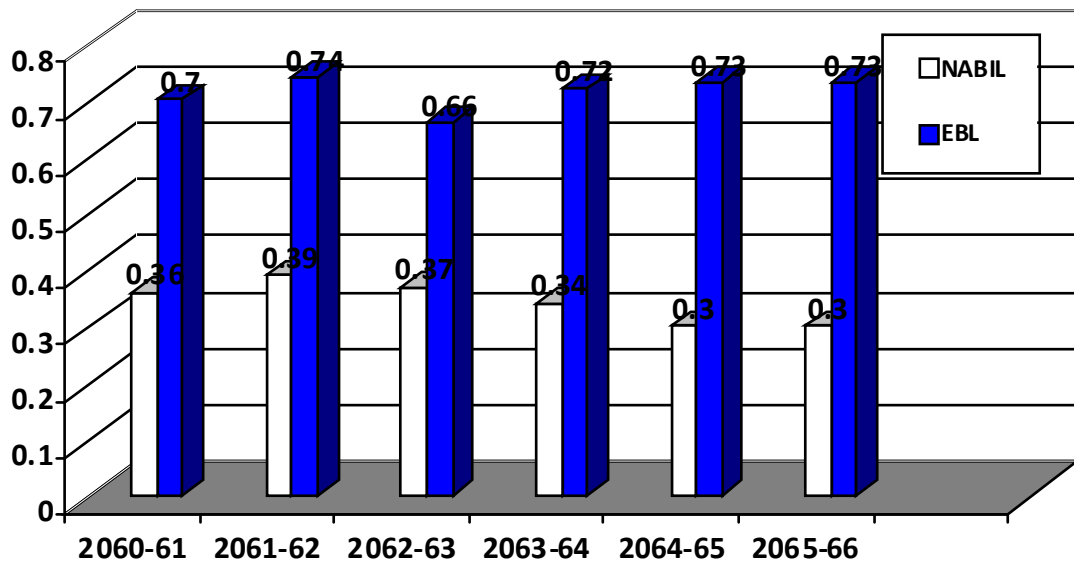
Rs. In million

YEAR	NABIL			EBL		
	LOANS & ADVANCES	TOTAL DEPOSIT	RATIO%	LOANS & ADVANCES	TOTAL DEPOSIT	RATIO
2060-61	4,071.63	11,165.16	0.36	1,364.48	1,948.94	0.70
2061-62	4,857.17	12,568.49	0.39	2,270.18	3,057.43	0.74
2062-63	5,763.13	15,430.05	0.37	3,005.76	4,574.51	0.66
2063-64	5,364.00	15,835.75	0.34	3,948.48	5,466.61	0.72
2064-65	5,695.82	18,755.54	0.30	4,908.46	6,694.95	0.73
2065-66	6410.24	2116.44	0.30	5884.12	8063.90	0.73
		Mean	.34		Mean	.71
		S.D.	.037		S.D.	.029
		C.V	10.88		C.V	4.08

Loans & Advances are investments made by banks in order to earn interest income. In comparative table presented above, it can be observed that both the banks have witnessed mixed trend in the loans and advances to total deposit ratio during the period of the study. The ratio of NABIL was 0.36 in 2060-61 and it increased to 0.39 in 2061-62. Then its started to decrease and the ratio was 0.30 in 2065-66.the case of EBL, the loans and advances to total deposit ratio was 0.70. It decreased to 0.66 in 2062-63 and again increased to 9.73 at the end of 2065-66. the mean loans and advances to total deposit ratio of NABIL and EBL was 0.34 and 0.71 respectively.

While both the banks have increased the amount of loans and advances every year, the percentage of loans and advances against its fixed deposits has slightly decreased for NABIL. The mean ratio of loans and advances to total deposits ratio of NABIL and EBL indicates that EBL has been able to invest 71% of its total deposit on loans and advances to total deposit ratio. NABIL has been experiencing a decling whereas EBL experienced a slight increase during 2064-65 and 2065-66. The coefficient of variation for NABIL and EBL is 10.88% and 4.08% respectively denoting that the variability in the loans and advances to total deposit ratio of EBL is lower than that of NABIL. The coefficient of variation was 10.88 for NABIL and 4.08 for EBL. The varying trend of loans and advances to total deposit ratio of NABIL and EBL has also been presented in the graph below.

**Graph 4.5.1 Loans & Advances to Total Deposit Ratio**



The amount of total deposit determines the extent to which, loans and advances can be forward because a bank can give loan only from what deposit it has. EBL seems to have aggressively extended loans and advances. In 2065-66, the loans and advances to total deposit ratio of EBL was 0.73, which means that bank had given credit equaling 73% of its total deposit. While it is good for the bank as more loans mean more income, but too much aggressiveness is not recommended.

The calculate value of 't' for the loans and advances to total deposit ratio is 662.07, which is more than the table of 't' for 10 degrees of freedom. Hence, the hypothesis is rejected, i.e. there is a significant difference between the mean ratios of loans and advances to total deposit ratio of NABIL and EBL.

#### **4.5.2 Loans & Advances to Fixed Deposit Ratio**

The loans and advances to fixed deposit ratio measure the extent to which the fixed deposits have been utilized as loans and advances. The amount of loans and advance and fixed deposit of NABIL and EBL for the years from 2058-59 to 2063-64 have been presented in the table below.

**Table 4.5.2****Loans & Advance to Fixed Deposit Ratio Rs. In million**

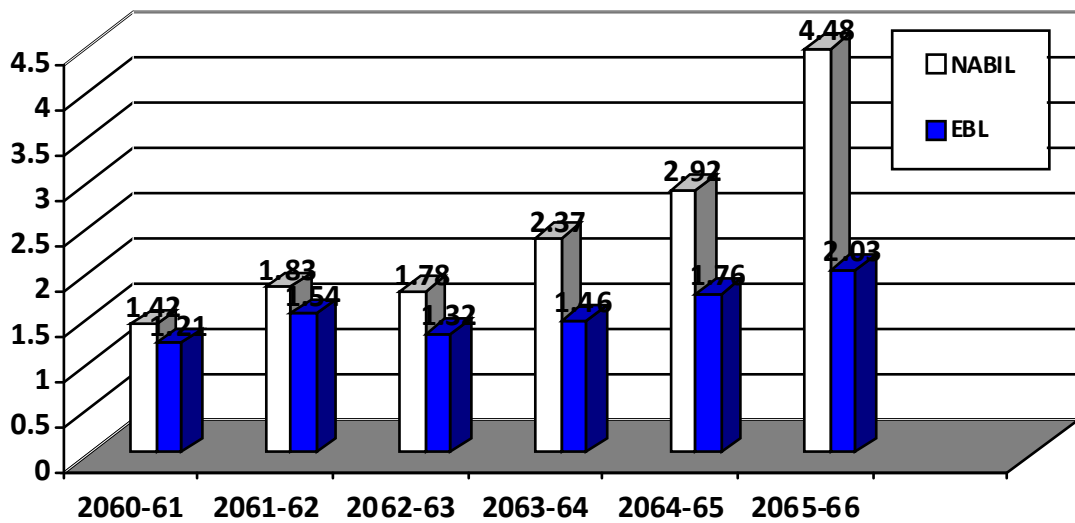
YEAR	NABIL			EBL			
	LOANS & ADVANCES	FIXED DEPOSIT	RATIO	LOANS & ADVANCES	FIXED DEPOSIT	RATIO	
2060-61	4,071.63	2,865.91	1.42	1,364.89	1,132.08	1.21	
2061-62	4,857.17	2,651.65	1.83	2,270.18	1,1478.89	1.54	
2062-63	5,763.13	3,236.03	1.78	3,005.76	2,284.64	1.32	
2063-64	5,364.00	2,264.77	2.37	3,948.48	2,711.58	1.46	
2064-65	5,695.82	1,948.60	2.92	4,908.46	2,794.74	1.76	
2065-66	6410.24	1428.50	4.48	5884.12	2897.96	203	
		Mean	2.46			Mean	1.55
		S.D.	1.113			S.D.	0.30
		C.V	45.26			C.V	19.35

Fixed deposits are interest-bearing deposits. These are term deposits usually maturing after a year or more. Since fixed deposits are less likely to have unanticipated calls than other types of deposits, the funds thus collected will have less transaction than savings deposits.

In the above, we can see that amount of loans and advances of NABIL have increased from Rs. 4,071.63 million in 2060-61 to Rs. 6,410.24 million in 2065-66. On the other hand, its fixed deposit also decreased from 2,865.91 million in 2060-61 to Rs. 1,428,50 million in 2065-66. The loans and advance to fixed deposit ratio of NABIL was 1.42 in 2060-61 and 4.48 in 2065-66. The amount of loans and advances of EBL increased from Rs. 1,364.89 million in 2060-61 to Rs. 5,884.12 million in 2065/66. Similarly, its total deposits increased from Rs. 1,132.08 million in 2060-61 to Rs. 2897.96 million in 2065-66. The mean loans and advances to total deposit ratio of NABIL and EBL is 2.46 and 1.55 respectively. The standard deviation of the ratio of NABIL is 1.113 and coefficient of variation is 45.26. Similarly standard deviation of the ratio of EBL is 0.30 and coefficient of variation is 19.35.

The mean loans and advances to fixed deposit of NABIL and EBL indicate that the loans and advances made by NABIL are 2.06 times of its fixed deposits. Similarly EBL has been able to invest up to. 1.42 time of its fixed deposits as loans and advances. However, although we see that NABIL's loans and advancer to fixed deposit ratio have increased in 2065-66, it is because the amount of fixed deposit has deceased. EBL's growth in the amount of loans and advances made is more regular than that of NABIL. These are substantiated by the coefficient of variation of NABIL (45.26) and EBL (19.35).

**Graph 4.5.2 Loans & Advances to Fixed Deposit Ratio**



The loans and advances to fixed deposit ratio of both the banks are satisfactory in terms of the ratio. However, total dependency on the ratios alone is not suggested as we see that although NABIL's ratio increased from 2.37 in 2063-64 to 4.48 in 2065-66, it was due to a decrease in its total fixed deposit.

The calculated value of 't' for the loans and advances to fixed deposit ratio is 1.96, which is less than the table value of 't' for 10 degrees of freedom. Hence, the hypothesis is accepted, i.e. there is no significant difference between the mean ratios of loans and advances of fixed deposit ratio of NABIL and EBL.

**4.5.3. Loans & advances to saving Deposit Ratio :**

In order to calculate the loans and advances to saving deposit ratio for NABIL and EBL from 2060-61 to 2065-66, the researcher collected the required data and presented it in the table below. The amount of loans and advances, saving deposit, and the calculated values of loans and advances to saving deposit ratio. Its standard deviation, coefficient of variation have also been presented in the table.

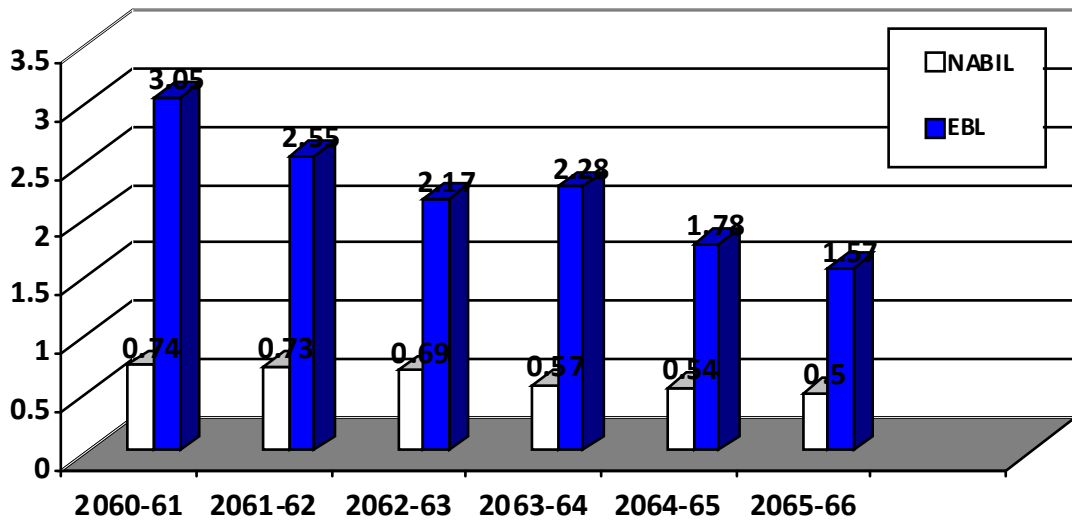
**Table 4.5.3****Loans & advances to Saving Deposit Ratio**

YEAR	NABIL			EBL		
	LOANS & ADVANCES	FIXED DEPOSIT	RATIO	LOANS & ADVANCES	FIXED DEPOSIT	RATIO
2060-61	4071.63	5471.68	0.74	1364.89	448.00	3.05
2061-62	4857.17	6632.70	0.73	2270.18	891.75	2.55
2062-63	5763.13	8404.61	0.69	3005.76	1384.06	2.17
2063-64	5364.00	9441.91	0.57	3948.48	1735.37	2.28
2064-65	5695.82	10633.16	0.54	4908.46	2757.95	1.78
2065-66	6410.24	12771.82	0.50	5884.12	3730.61	1.57
		Mean	0.628		Mean	2.23
		S.D.	0.102		S.D.	0.52
		C.V	16.45		C.V	23.31

Saving deposit is interest-bearing deposit and the transaction in this type of deposit is relatively higher compared to fixed deposits. The table above shows that the amounts of loans and advances and saving deposit of both the bank have increased through the years. The loans and advances of NABIL increased from Rs. 4,071.63 million in 2060-61 to Rs. 6,419.24 million in 2065-66. its saving deposit also increased from Rs. 5,471.68million in 2060-61 to Rs. 12,771.82 million in 2065-66. EBLs loans and advances increased from rs 1364.89million in 2060-61 to Rs 5,884.12 million in 2065-66. A substantial growth in EBL's loans and advances was in the year 2065-66. The mean loans and advances to saving deposit of NABIL and EBL is 0.26 and 2.23 respectively. The standard deviation of the ratios for two banks is 0.102 (NABIL) and 0.52 (EBL).

The mean loans and advances to saving deposit ratio for NABIL and EBL is 9.628 and 2.23 respectively indicating that whole NABIL has been able to utilize only 0.65 times of its saving deposit as loans and advances, EBL's utilization is 2.36 times on average. In conclusion, the loans and advances to saving deposit ratio have decreased for both the banks. The reason can be attributed to the disproportionate increase in loans and advances compared to the increase in its saving deposit. There has been a significant decrease in the ratio for EBL, which is also depicted by the coefficient of variation of 23.31% compared to the coefficient of variation of the loans and advances to saving deposit ratios of NABIL for the years from 2060/61 to 2065-66 (16.45%)

**Graph 4.5.3 Loans & advances to saving Deposit Ratio**



Considering the mean loans and advances to saving deposit of NABIL (9.62) and EBL (2.23), it is noticed that the difference in ratios between the two banks is significant. This again represents EBL's aggressiveness in extending loans and advances compared to NABIL. While more loans and advances is good, effective monitoring of the quality of credit is suggested.

The calculated value of 't' for the loans and advances to saving deposit ratio is 7.11, which is more than the table value of 't' for 10 degrees of freedom hence, the hypothesis is rejected, i.e. there is a significant difference between the mean ratio of loans and advances to saving deposit ratio of NABIL and EBL.

**4.5.4. Operating Profit to Net Worth Ratio :**

Operating profit to Net worth ratio for both the banks for the years from 2060-61 to 2065-66 is presented below. In order to calculate the ratio, the amount of operating profit and net worth have been collected and tabulated below.

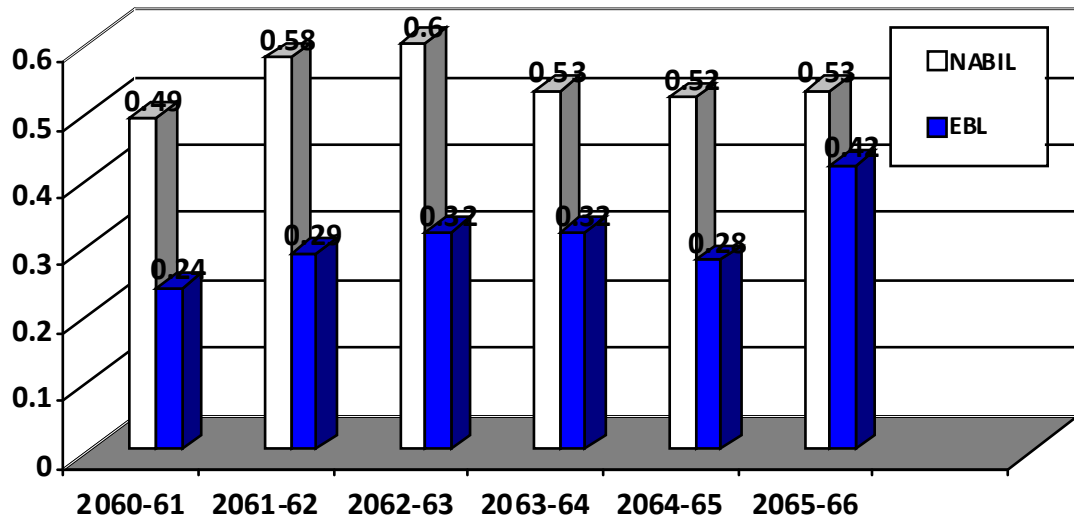
**Table 4.5.4****Operating Profit to Net worth Ratio**

YEAR	NABIL			EBL		
	OPERATING PROFIT	NET WORTH	RATIO	OPERATING PROFIT	NET WORTH	RATIO
2060-61	532.15	1080.41	0.49	34.74	145.16	0.24
2061-62	587.83	1014.85	0.58	59.31	202.85	0.29
2062-63	663.28	1112.02	0.60	100.66	319.40	0.32
2063-64	658.34	1235.49	0.53	126.23	390.91	0.32
2064-65	710.78	1368.91	0.52	134.63	472.83	0.28
2065-66	797.11	1495.74	0.53	316.4	762	0.42
		Mean	0.54		Mean	0.29
		S.D.	0.0450		S.D.	0.0332
		C.V	8.27		C.V	11.44

In the table 4.5.4 above, we see that the operation profit of NABIL in 2065-66 has increased to Rs. 797.11m from Rs. 532.15million in 2060-61. Similarly, its net worth in 2065-66 has also increased to Rs. 1,495.74m from Rs. 1,080.41million in 2060-61. the growth of EBL in terms of operating profit is also noticeable. Its operating profit in 2065-66 has also increased to Rs. 316.4m from Rs. 34.74million in 2060-61. its net worth in 2065-66 has also increased to Rs. 762m from Rs. 145.16million in 2060-61. However, the operating profit to net worth ratio of both the banks say otherwise. The ratio has witnessed increasing and decreasing trend during the period of the study. The ratio of NABIL was 0.49 in 2060-61 and went up to 0.60 in 2062-63. it then declined to 0.53 in 2065-66. in the case of EBL's ratio as well, it was 0.24 in 2060-61 which increased to 0.42 in 2065-66.

The mean of the operating profit to net worth ratio for NABIL and EBL are 0.54 and 0.29 respectively indicating that while NABIL was able to generate operating profit equaling more than half of its total net worth. On the other hand, EBL was only able to generate operating profit equaling 29% of its total net worth. Although both the banks have been able to increase their operating profit through the years, the operating profit to net worth ratio reflects otherwise. The ratio has been decreasing every year due to the disproportionate increase in operating profit and net worth of the banks. The coefficient of variation of NABIL is 8.27% while EBL's coefficient of variation is 11.44% indicating that the operating profit to net worth ratio of NABIL stood more uniform than that of EBL. The increasing and decreasing trend of operating profit to net worth ratio of both the banks have also been depicted in the graph below.

**Graph 4.5.4 operating Profit to Net Worth Ratio**



The operating profit to net worth ratio of NABIL (9.54) and EBL (9.29) vary significantly from each other. It is to be noted that NABIL is a large organization and its operations are wide spread. Its network in the national as well as international area is certainly greater than EBL. Hence, it is quite obvious that the ratio of NABIL will be greater than EBL.

The calculated value of 't' for the operating profit to net worth ratio is 8.94, which is more than the table value of 't' for 8 degrees of freedom. Hence, the hypothesis is rejected, i.e. there is a significant difference between the mean ratios of operating profit to net worth ratio of NABIL and EBL.

#### 4.6. Profitability Ratios:

Profitability ratios measure overall performance and effectiveness of the firm. Besides management of the company, creditors and owners are also infested in the profitability of the firm. Creditors want to get interest and payment of principal regularly. Owners want to get a required rate of return on their investment. This is possible only when the company earns enough profits.

##### 4.6.1. Interest Earned to Working fund ratio:

The interest earned to working fund ratio measures the amount of interest earned against the working fund employed. In order to calculate the interest earned to working fund ratio, the researcher collected the required data and the calculated results have been presented in the table below. Table 4.6.1. contains the amount of interest earned and working fund, interest earned to working fund ratio, standard deviation, and coefficient of variation of NABIL and EBL for the years from 2060-61 to 2065-66.

**Table 4.6.1****Interest Earned to Working Fund ratio**

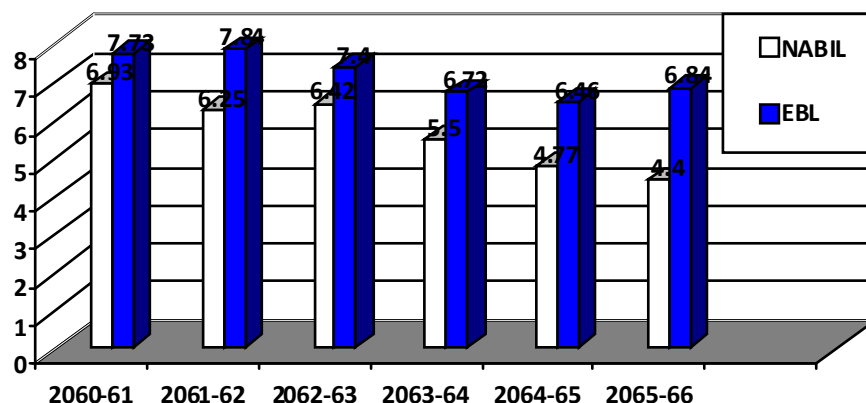
Rs. In million

YEAR	NABIL			EBL		
	INTEREST EARNED	WORKING FUND	RATIO	INTEREST EARNED	WORKING FUND	RATIO
2060-61	902.45	13016.98	6.93	175.94	2275.01	7.73
2061-62	1052.36	16832.23	6.25	267.44	3411.70	7.84
2062-63	1242.92	19357.18	6.42	385.02	5202.58	7.40
2063-64	1013.64	18443.07	5.50	443.82	6607.18	6.72
2064-65	1001.36	21000.50	4.77	520.17	8052.20	6.46
2065-66	1042.17	23642.05	4.40	657.24	9608.57	6.84
		Mean	5.71		Mean	7.165
		S.D.	.990		S.D.	.568
		C.V	17.34		C.V	7.94

Interest earned is the income generated through loans and advances. This income constitutes a major portion of the banks' earnings. In the graph presented above, we can see that while NABIL witnessed increasing and decreasing trend through the years under study, EBL witnessed a decreasing trend. The amount of interest earned by NABIL was Rs 902.45 million in 2060-61, which increased to Rs. 1,242.92 million in 2062-63 and again decreased to Rs 1,042.17 million. On the other hand, the amount of interest earned by EBL was Rs. 175.94 million in 2060-61, which increased to Rs. 657.24 million in 2065-66. The mean interest earned to working fund ratio of NABIL and EBL is 5.71% and 7.16% respectively. The coefficient of variation of NABIL and EBL is 17.34 and 7.94 respectively.

We can observe that the amount of interest earned by NABIL was highest in the year 2062-63 and has witnessed a decline since then EBL has witnessed an increase in its interest earned through the years. The decrease in the interest earned to working fund ratio is due the disproportionate increase the amount of interest earned and working fund. The coefficient of variation of NABIL and EBL is 17.34% and 7.94% indicating that the ratio of EBL has varied less in comparison to the ratio of NABIL.

**Graph 4.6.1 Interest Earned to working fund ratio**



Although the interest earned to working fund ratio has declined for both the banks, there is an increase in the volume of interest earned for EBL. EBL's amount of interest earned has increased considerable from Rs.443.82 million in 2063-64 to Rs.657.24 million in 2065-66. On the other hand, NABIL's decrease in the amount of interest earned from Rs.1,013.64 million in 2063-64 to Rs.1,001.36 million in 2064-65.

**4.6.2. Interest paid to working fund ratio :**

The interest paid to working fund ratio for NABIL and EBL for the years from 2060-61 to 2065-66 is presented in the table below. In order to calculate the ratio, the amount of interest paid and working fund was collected from the banks' financial statements. The calculated interest paid to working fund ratio, their mean, standard deviation, coefficient of variation have also been presented in the table.

**Table 4.6.2**

**Interest Paid to Working Fund Ratio**

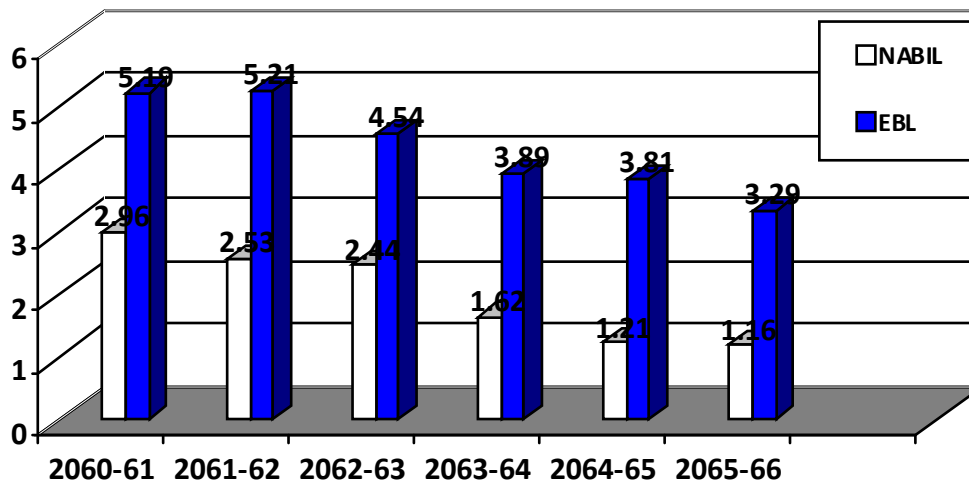
Rs. In million

YEAR	NABIL			EBL		
	INTEREST PAID	WORKING FUND	RATIO	INTEREST PAID	WORKING FUND	RATIO
2060-61	384.85	13016.98	2.96	118.12	2275.01	5.19
2061-62	425.93	16832.23	2.53	177.89	3411.70	5.21
2062-63	472.37	19357.18	2.44	236.14	5202.58	4.54
2063-64	298.36	18443.07	1.62	257.05	6607.18	3.89
2064-65	255.13	21000.50	1.21	306.41	8052.20	3.81
2065-66	278.80	23642.05	1.16	313.36	9608.57	3.29
		Mean	1.98		Mean	4.32
		S.D.	.754		S.D.	.781
		C.V	38.08		C.V	18.07

The amount of interest paid for NABIL has decreased through the years under study. The amount of interest paid by NABIL was Rs. 384.85 million in 2060-61, which decreased to Rs. 278.80 million in 2065-66. Contrary to this, EBL's amount of interest paid increased from Rs. 117.22 million in 2060-61 to Rs 313. 36 million in 2065-66. However, the interest paid to working fund ratio for both the banks have decrease. The ratio of NABIL decreased from 2.96% in 2060-61 to 1.16% in 2065-66. the mean interest paid to working fund ratio of NABIL and EBL is 1.98% and 4.32% respectively. The standard deviation of NABIL and EBL is 0.754 and 0.781 respectively. And the coefficient of variation of NABIL and EBL is 38.08 and 18.07 respectively.

Although EBL's amount of interest paid has decrease through the years under study, its interest paid to working fund ratio has declined as the amount working fund has increased disproportionately compared to the amount of interest paid. Compared to the interest paid to working fund ratio of NABIL in the fiscal year 2064-65 (1.21). The coefficient of variation of NABIL and EBL are 38.08% and 18.7% respectively suggesting that the ratios of NABIL varied more compared to the ratios of EBL.

**Graph 4.6.2. Interest Paid to Working Fund Ratio**



In the above graph, we can see the decreasing pattern of interest paid to working fund ratio. The decrease in the amount of interest paid is certainly good for the banks, as it will ultimately affect their profits.

The calculated value of 't' for the interest paid to working fund ratio is 4.84, which is more than the table value of 't' for 10 degrees of freedom. Hence, the hypothesis is rejected, i.e. there is a significant difference between the mean ratio of interest paid to working fund ratio of NABIL and EBL.

#### 4.6.3. Net Profit to Working Fund Ratio :

This ratio measures the percentage of net profit against the company's total working fund. This ratio is calculated by dividing working fund by net profit. In order to calculate the net profit to working fund ratio the required data; the amount of net profit and working fund have been collected and presented in the table below;

**Table 4.6.3**

#### Net profit to Working Fund Ratio

Rs. In million

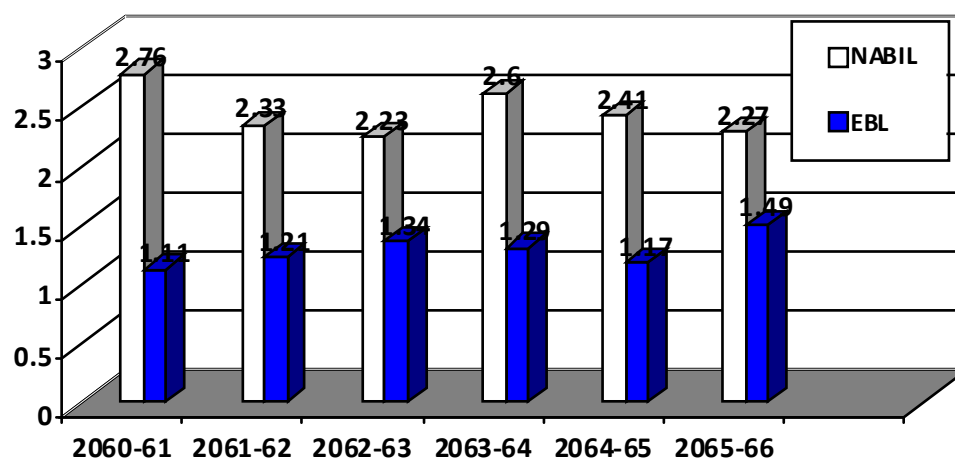
YEAR	NABIL			EBL		
	NET PROFIT	WORKING FUND	RATIO	NET PROFIT	WORKING FUND	RATIO
2060-61	359.46	13016.98	2.76	25.24	2275.01	1.11
2061-62	392.59	16832.23	2.33	41.27	3411.70	1.21
2062-63	430.83	19357.18	2.23	69.70	5202.58	1.34
2063-64	472.21	18443.07	2.60	85.33	6607.18	1.29
2064-65	506.95	21000.50	2.41	94.17	8052.20	1.17
2065-66	537.80	23642.09	2.27	143.56	9608.57	1.49
		Mean	2.47		Mean	1.22
		S.D.	0.2131		S.D.	0.0922
		C.V	8.64		C.V	7.53

Net profit is the net amount available to the company after deducting all its expenses. Generally, the net profit represents the bank's capacity to earn. While large companies tend to generate huge amounts of net profit, they do not actually reflect a true picture of the company's profitability. The net profit to working fund ratio measures the amount of net profit earned against its working fund in terms of percentage.

In the above table, we see that the net profit has increased for both the banks. The amount of net profit of NABIL was Rs. 359.46 million in 2060-61 and it increased to Rs. 537.80 million in 2065-66. Similarly, EBL's net profit increased from Rs. 25.24 million in 2060-61 to Rs. 143.56. The net profit to working fund ratio of both the banks has witnessed an increasing and decreasing trend. NABIL's net profit to working fund ratio has declined from 2.76% in 2060-61 to 2.27% in 2065-66. On the other hand, EBL's net profit to working fund ratio increased from 1.11% in 2060-61 to 1.49% in 2065-66 and declined to 1.17% in 2064-65. The mean net profit to working fund ratio of NABIL and EBL is 2.43% and 1.26% respectively. The standard deviation of NABIL and EBL is 0.205 and 0.1356 respectively.

The mean net profit to working fund ratio of NABIL and EBL are 2.43% and 1.26% respectively implying that while NABIL was able to generate net profit equaling 2.43% of its working fund, EBL was able to generate net profit equaling only 1.26% of its working fund. The ratios also reveal that NABIL is more capable of generating income compared to EBL. The increment in net profit to both the banks reveals their competency in generating profits. The degree of variability of the ratios is measured by coefficient of variation, which is 8.64% for NABIL and 7.53% for EBL. The coefficient of variation indicates that the net profit to working fund ratio of EBL varied less compared to NABIL. A graphical representation of the net profit to working fund ratio is given below.

**Graph 4.6.3. Net Profit to Working Fund Ratio**



The fluctuating trend of net profit to working fund ratio can be accounted for the political instability faced by the Nepalese economy in the recent years. But the amount of net profit earned is satisfactory compared to its working funds.

The calculated value of 't' for the net profit to working fund ratio is 10.77, which is more than the table value of 't' for 10 degrees of freedom. Hence, the hypothesis is rejected, i.e. there is a significant difference between the mean ratios of net profit to working fund ratio of NABIL and EBL.

**4.6.4. Net Profit to Total Deposit Ratio:**

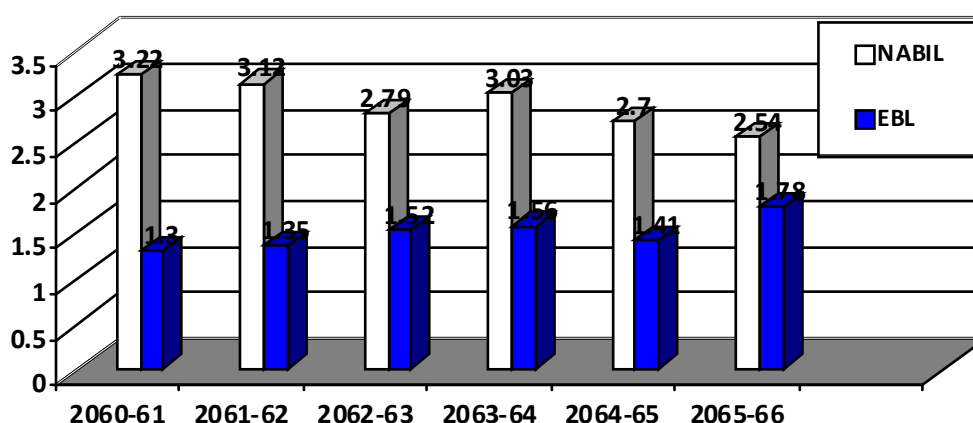
The net profit to total deposit ratio measures the percentage of net profit earned against its total deposit. In order to calculate the net profit to total deposit ratio of NABIL and EBL for the years from 2060-61 to 2065-66, the required data have been collected and presented below. The table contains the amount of net profit and total deposit of both the banks for the study period. Net profits to total deposit ratio, its standard deviation, and coefficient of variation have also been presented in the table below.

**Table 4.6.4****Net Profit to Total Deposit Ratio**

Rs. In million

YEAR	NABIL			EBL		
	NET PROFIT	TOTAL DEPOSIT	RATIO	NET PROFIT	TOTAL DEPOSIT	RATIO
2060-61	359.46	11165.16	3.22	25.24	1948.94	1.30
2061-62	392.59	12568.49	3.12	41.27	3057.43	1.35
2062-63	430.83	15430.05	2.79	69.70	4574.51	1.52
2063-64	472.21	15835.75	3.03	85.33	5466.61	1.56
2064-65	506.95	18755.64	2.70	94.17	6694.95	1.41
2065-66	537.80	21161.44	2.54	143.56	8063.90	1.78
		Mean	2.9		Mean	1.48
		S.D.	.262		S.D.	.1732
		C.V	9.05		C.V	11.70

While net profit is the amount earned by an organization after deducting all its expenses, total deposit is the total of all types of deposit collected by a bank. The types of deposit are; saving deposit, fixed deposit, current deposit etc. the amount of net profit as well as total deposit for both the banks has witnessed an increase through the period of the study. The amount of total deposit of NABIL increased from Rs. 11,165.16 million in 2060-61 to Rs. 21,161.44 million in 2065-66. Similarly, EBL's total deposit increased from Rs. 1,948.94 million in 2060-61 to Rs. 8,063.90 million in 2065-66. The net profit to total deposit ratio of both the banks have a different story to tell as they witnessed a fluctuating trend. While NABIL's ratio has decreased from 3.22% in 2060/61 to 2.54% in 2065-66, EBL's ratio jumped from 1.30% in 2060/61 to 1.78% in 2065-66. The mean net profit to total deposit ratio of NABIL and EBL is 2.9% and 1.48% respectively. The standard deviation of NABIL and EBL is 0.262 and 0.1732 respectively. A graphical representation of the net profit to total deposit ratio is given below.

**Graph 4.6.4. net profit to total deposit Ratio**

The mean ratio indicates that NABIL's profitability is quite higher than EBL's profitability. NABIL has the capacity to earn more than EBL. While EBL was able to earn net profit equaling only 1.48% of its total deposit, NABIL was able to earn net profit equaling 2.90% of its total deposit. The pattern of increase and decrease has been similar for both the banks, which has been substantiated by the coefficient of variation. The coefficient of variation for NABIL and EBL is 9.05% and 11.70% respectively which shows that the degree of variability between the ratios of both banks is quite similar.

Although the amount of both net profit and total deposit increased during the period of the study the net profit to total deposit ratio declined. This is because there was a disproportionate increase in the net profit and total deposit.

The calculated value of 't' for the net profit to total deposit ratio is 12.51, which is more than the table value of 't' for 10 degrees of freedom. Hence, the hypothesis is rejected, i.e. there is a significant difference between the mean ratios of net profit to total deposit ratio of NABIL and EBL.

#### **4.7. Capital structure/ Leverage Ratios:**

Leverage ratios show the proportions of debt and equity in financing the firm's assets. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. Leverage ratios may be calculated from the balance sheet items to determine the proportion of debt in total financing. Many variations of these ratios exist but all these ratios indicate the same thing the extent to which the firm has relied on debt in financing assets. Leverage ratios are also computed from the profit and loss items by determining the extent to which operating profits are sufficient to cover the fixed charges.

##### **4.7.1. Long Term Debt to Net worth ratio:**

Long-term debts are term loans taken by an institution for the operation of its business. While it is common for most institutions to finance its assets through term loans, banks perform otherwise. Almost all of the banks in Nepal are operated without debt to maximize its profits and since there are no debts, leverage ratios and long-term debt to net worth ratio could not be calculated for this study.

##### **4.7.2. Net fixed assets to long term debt ratio:**

Similarly, the net fixed assets to long-term debt ratio could not be calculated, as both the banks do not have any long-term liability.

##### **4.7.3. Total debt to net worth ratio :**

As NABIL and EBL do not have any long-term obligation such as term loans to finance its assets, the total debt to net worth ratio could not be calculated for this study.

#### 4.8. Other financial indicators :

Other financial indicators such as price earnings ratio, earnings per share, and dividend per share reveal the potentiality of an institution to earn in the future. Investors contemplating to invest in the common stocks would be keen to know the investment potentiality of a company, which is revealed by these indicators.

##### 4.8.1. Price earnings (P/E) ratio :

The price earnings ratio is used as a going concern method of valuing stock. As long as the company is a viable business entity, its real value is reflected in its profits. A low P/E ratio of the stock is the indicator of under valuation of the stock and vice-versa the ratio is the most important measure of value used by investors in the market place. The market price of an quit share is influenced by many factors like the dividend and earnings rate record, stability and rate of growth of earnings and services, credit rating and financial strength, management competitiveness and efficiency, competitive position of the bank etc. P/E ratio expresses the relationship between market price of a share of a share of the stock and the Stock's earnings per share. Thus, it is calculated by dividing market price of share (MPS) by earnings per share (EPS). In order to calculate the price-earning ratio of NABIL and EBL, the required data has been collected and presented in the table below.

**Table 4.8.1**

#### Price Earning Ratio

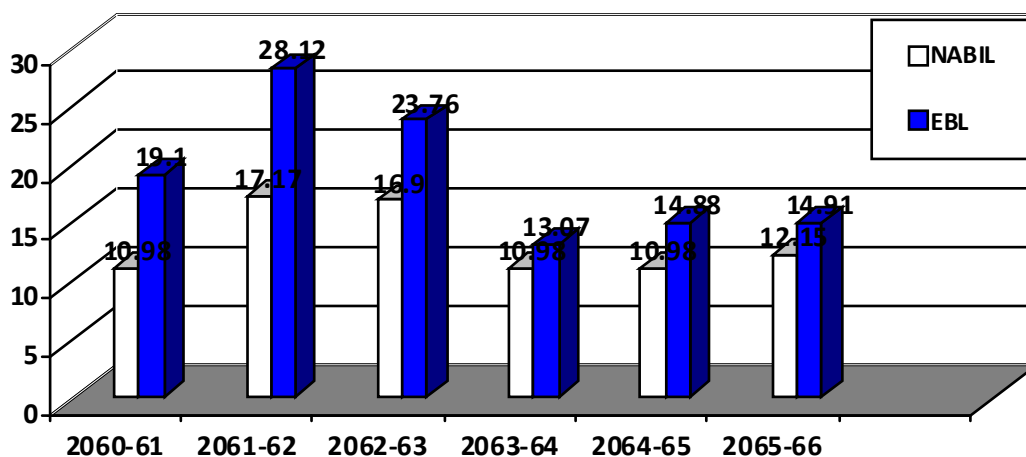
Rs. In million

YEAR	NABIL			EBL		
	CLOSING VALUE OF SHARE	EARNING PER SHARE	RATIO (TIMES)	CLOSING VALUE OF SHARE	EARNING PER SHARE	RATIO (TIMES)
2060-61	1162.00	105.85	10.98	407.00	21.31	19.10
2061-62	1985.00	115.62	17.17	980.00	34.85	28.12
2062-63	2144.00	126.88	16.90	750.00	31.56	23.76
2063-64	1550.00	141.13	10.98	430.00	32.91	13.07
2064-65	1640.00	149.30	10.98	445.00	29.90	14.88
2065-66	1745.00	143.55	12.15	680.00	45.58	14.91
		Mean	13.19		Mean	18.97
		S.D.	2.65		S.D.	5.910
		C.V	20.15		C.V	31.15

In the table presented above, we can see that the closing value or market price of the shares of NABIL and EBL has fluctuated through the period of the study. The market price of each of the shares of NABIL was Rs. 1,1162/ in 2060/61 and increased to Rs. 2144/- in 2062/63. It then decreased to Rs. 1550/- in 2063/64. AT the end of 2065/66, the market price of NABIL's shares was Rs.1745/-. Similarly, EBL's market price of shares increased from Rs.407/- in 2060/61 to Rs. 980/- in 2061/62. Then it decreased to Rs. 750/- in 2062/63 and yet again decreased to Rs. 430/- in 2063/64. There was a slight increase in the market price of EBL's shares (Rs.445/-). The price earnings ratios of both the banks have also trend. From P/E ratio of 19.10 times in 2060/61, EBL witnessed and increase in the year 2061/62 (28.12) times. It decreased to 13.07 times in 2063/64 However, there was a slight increased in 2064/65 (14.88). The mean P/E ratio of NABIL and EBL was 13.19 times and 18.97 times. The standard deviation was 2.65 for NABIL and 5.91 for EBL.

The mean price earnings ratio of NABIL and EBL respectively indicate that on an average, EBL has had higher price earnings ratio compared to NABIL. NABIL witnessed the highest market price of its share in 2062/63 at Rs. 2144/-. Similarly, EBL had the highest market price of its shares in 2061/62 at Rs. 980/-. The coefficient of variation between the ratios of NABIL is less (20.15%) than that of EBL (31.15%) indicating that the variability of the ratios of NABIL is more uniform than the variability of the ratios of EBL.

**Graph 4.8.1 Price Earning Ratio**



In the graph presented above, a fluctuating trend of price earning a ratio is observed for both the banks. The level of price earnings ratio indicates the degree of confidence or certainty that investors have in the bank's future performance. The higher the price earnings ratio, the greater will be the investors' confidence in the bank's future. Hence, increasing market prices of the shares imply that the organization has a prospective future and investor's are willing to invest on it

The calculated value of  $|t|$  for the price-earning ratio is 2.86, which is more than the table value of  $|t|$  for 10 degree of freedom. Hence, the hypothesis is rejected, i.e. there is a significant difference between the mean price- earning ratio of NABIL and EBL.

#### 4.8.2. Earnings Per Share (EPS) :

Shareholders pay special heed to the EPS of their companies because it expresses the ratio of return on their share. It is calculated by dividing the closing value of share by its P/E. ratio. In order to calculate the EPS of NABIL and EBL, the researcher collected the required data for the years form 2060/61 to 2065/66, the closing value of shares, P/E ratio, calculated EPS have been presented in the closings value of shares, EPS have been presented in the table below; The mean earnings per share, their standard deviation and coefficient of variation have also been calculated and their results presented in the table below

**Table 4.8.2**

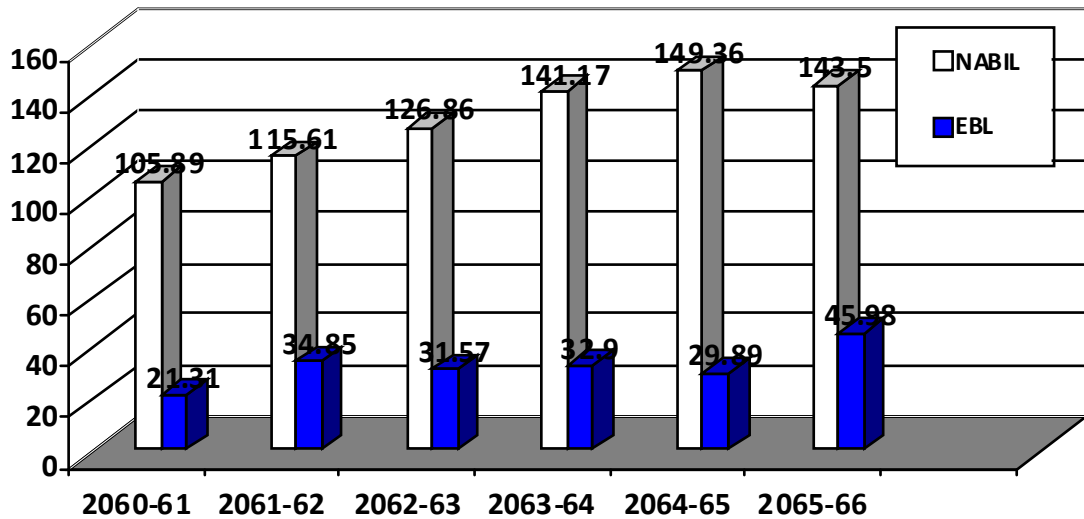
#### Earning Per Share

Rs. In million

YEAR	NABIL			EBL			
	CLOSING VALUE OF SHARE	P/E RATIO (TIMES)	EPS	CLOSING VALUE OF SHARE	P/E RATIO (TIMES)	EPS	
2060/61	1162.00	10.93	105.83	407.00	19.10	21.31	
2061-62	1985.00	17.17	115.61	980.00	28.12	34.85	
2062-63	2144.00	16.90	126.86	750.00	23.76	31.57	
2063-64	1550.00	10.93	141.17	430.00	13.07	32.90	
2064-65	1640.00	10.93	149.36	445.00	14.89	29.89	
2065-66	1745.00	12.16	143.50	680.00	14.98	45.98	
		Mean	130.38			Mean	32.75
		S.D.	17.21			S.D.	8.00
		C.V	13.20			C.V	24.42

In the above, in the above table, we see that while EPS of NABIL has increased over the years, the same has been fluctuating in the case of EBL. NABIL's increased from Rs105.83 in 2060/61 to Rs143.50 in 2065/66 .On other hand, the EPS of EBL had increased from Rs21.31 in 2060/61 to Rs34.85% in 2061/62 . When the EPS dropped to Rs 31.57. In 2062-63 EBL' EPS increased to Rs32.90 and again increased to Rs. 45.98 in 2065/66. The mean EPS of NABIL and EPS can be clearly seen in the graph below.

**Graph 4.8.2 Earning Per Share**



On a share- to share – basis , NABIL has been able to earn more than EBL. While each of NABIL’s shares earned Rs.130.38 each share of EBL was able to earn only Rs. 32.75. This indicates NABIL’s high capacity to earn profits compared to EBL. The coefficient of Variation of NABIL is less (13.20%) than that of EBL (24.42%) indication that the EPS of NABIL was more uniform than that of EBL during the period under study.

Every company would prefer the income on very share to be high. As EPS tend to reveal an organization’s profit making capacity, the highest it is the better for the company’s image. However, companies normally do not distribute all of its earning to shareholders. A Part is retained to make future expansion. How much of it is retained depend on the policy of the individual companies.

The calculated value of  $|t|$  for the earnings per share is 10.49, which is more than the table value of  $|t|$  for degrees of freedom. Hence, the hypothesis is rejected, i.e. there is a significant difference between the mean earnings per share of NABIL and EBL.

**4.8.3. Dividends Per Share (DPS) :**

DPS is also one of the inputs of valuing stock. It is the amount that is paid out to shareholders. Usually, the amount of dividend that is paid out to its shareholders is from the organization’s earnings after deducting all its expenses including taxes and retaining a portion of it for future investments. The amount of dividends also depends on the various dividend policy adopted by organizations.

In order to calculate the DPS of NABIL and EBL required data was collected for the years 2060/61 to 2065/66. The amount of dividend paid by the banks each year have been collected and tabulated. The dividends per share, its mean, standard deviation, and coefficient of variation have also been presented in the table below.

**Table 4.8.3****Dividend Per Share**

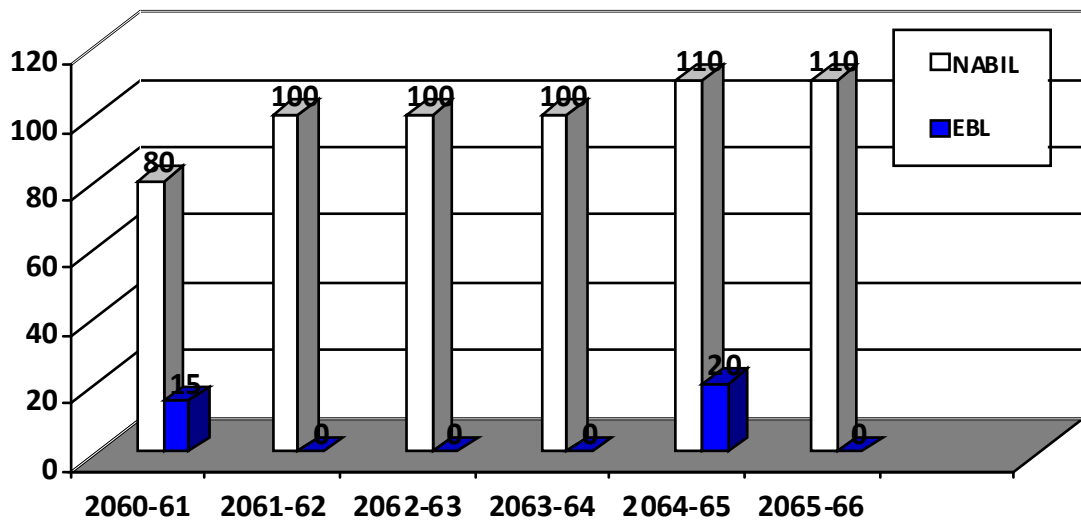
Rs. In million

YEAR	NABIL			EBL			
	FACE VALUE OF SHARE(F.V)	DIVIDEND % ON F.V OF SHARE	(RS)	FACE VALUE OF SHARE(F.V)	DIVIDEND % ON F.V OF SHARE	(RS)	
2060-61	100.00	80.00	80.00	100.00	15.00	15.00	
2061-62	100.00	100.00	100.00	100.00	-	0.00	
2062-63	100.00	100.00	100.00	100.00	-	0.00	
2063-64	100.00	100.00	100.00	100.00	-	0.00	
2064-65	100.00	110.00	110.00	100.00	20.00	20.00	
2065-66	100.00	110.00	110.00	100.00	-	0.00	
		Mean	100			Mean	5.83
		S.D.	10.95			S.D.	7.547
		C.V	10.95			C.V	1.29

We see in the above table that NABIL has constantly paid out dividends every year and EBL declared dividends only during 2060/61 and 2064/65. Except 2060/61, NABIL declared dividends equaling 100% of the face value of the shares during 2061/62, 2062/63 and 2063/64. In the year 2064/65, NABIL declared 110% dividend on the face value of the shares. EBL on the other hand declare 15% dividend for the year 2060/61 and didn't declare any dividend for the next three years. A 20% dividend was declared in the 2064-65. The Mean DPS of NABIL is RS. 100/- whereas the mean DPS of EBL is RS. 5.83/-. Since the face value of the shares of both the banks is Rs. 100/-, we can see that while NABIL paid dividends equaling almost the face value of its shares, EBL was able to pay only 5.83% of the face value of its shares as dividend. The standard deviation of NABIL and EBL are 10.954 and 7.547 respectively.

While it is a normal practice for all organization to declare a portion of its year end profits as dividends, some retain all the profits for future investment.. The coefficient of variation of NABIL and EBL is 10.95% and 1.29% indicating that the DPS of EBL has highly varied during the period under study. The DPS of NABIL and EBL has highly varied during the period under study. The DPS of NABIL and EBL for the years from 2060/61 to 2065/66 has been depicted in the graph below.

Graph 4.8.3 Dividend Per Share



The graph portraying the DPS of NABIL and EBL shows that DPS of NABIL was somewhat stable than that of EBL. A high level of DPS indicates the degree of investors' confidence in the bank's future and vice-versa. Since the DPS of NABIL is higher than that of EBL, we can conclude that the common stock of NABIL is less risky compared to the common stock of EBL.

The calculated value of  $|t|$  for the price-earning ratio is 1.41, which is more than the table value of  $|t|$  for 10 degrees of freedom. Hence, the hypothesis is rejected, i.e. there is a significant difference between the mean price-earning ratio of NABIL and EBL.

**Table 4.9**  
**Test of Hypothesis**

	Ratios	Calculated Value of  t	Table Value of  t  for 10 d.f.	Inference
liquidity				
1	Cash & Bank Balance to Current Assets Ratio	2.17	2.306	S.D.
2	Loans & Advances to Current Assets	2.228	do	S.D.
3	Fixed deposit to total deposit	8.1	do	S.D.
4	Saving Deposit to total Deposit	8.87	do	S.D.
5	Investment on Govt. Securities to Total Deposit.	2.26	do	N.S.D.
Activity/Turnover				
6	Loans & Advances to Total Deposit	662.07	do	S.D.
7	Loans & Advances to Fixed Deposit	1.96	do	N.S.D.
8	Loans & Advances to saving Deposit	7.11	do	S.D.
9	Operation Profit to New Worth	8.94	do	S.D.
Profitability				
10	Interest Earned to Working Fund.	2.41	do	S.D.
11	Interest Paid to working Fund	4.84	do	S.D.
12	Net profit to Working Fund	10.77	do	S.D.
13	Net Profit to Total deposit	12.51	do	S.D.
Capital Structure/ Leverage.				
14	Long Term Debt to Net Worth	-	do	N/A.
15	Net Fixed Assets to Long Term Debt.	-	do	N/A
16	Total Debt to Net Worth	-	do	N/A
Other Financial Indicators				
17	Price Earnings Ratio	2.86	do	S.D.
18	Earnings Per Share	10.49	do	S.D.
19	Dividend Per Share	1.41	do	S.D.

## Note

S.D. = Significant Difference

N.S.D. = No Significant Difference

N/A = Not Applicable

### 4.10 Finding

The findings of the study have been summarized and presents below;

#### 1. Liquidity Ratios;

- ) The cash & bank balance to current assets ratio of both banks reveal a fluctuation trend. The degree of fluctuation for EBL is higher than NABIL. For example. This ratio for EBL in 2060/61 was 22.18% and it declined to 8.35% in 2061/62. It again jumped up to 16.53% in 2062/63. This fluctuation can also be interpreted through the coefficient of variation, which is 45.67%. The ratios of NABIL were more uniform than that of EBL.
- ) The loans & advances to current assets ratio were somewhat stable for both the banks. The mean ratios of the banks reveal that EBL's ratio of loans and advances to its current assets is higher than that of NABIL. However, the variability is similar for both the banks.
- ) The mean of fixed deposit to total deposit reveal that a major portion of EBL's fixed deposit constitute its total deposit. The mean of fixed deposit to total deposit ratio of NABIL and EBL is 16.53% and 47.27% respectively. However, the degree of variability between the ratios NABIL throughout the study period is less than that of EBL.
- ) While the saving deposit to total deposit ratio of NABIL has witnessed a fluctuating trend, EBL has witnessed and an increasing trend. The mean ratio of NABIL( 55.48%) and EBL (33.60%) reveal that saving deposit constitutes a more than half of NABIL's total deposit. The coefficient of variation suggests That the ratio of NABIL is more uniform than that of EBL.

#### 2. Activity/ Turnover Ratios:

- ) The mean investment on government securities to current assets ratio for NABIL and EBL are 27.25% & 17.25% respectively. The coefficient of variation of both banks reveals that the ratio of EBL(45.56%) is more uniform than that of NABIL (22.39%)
- ) The loans & advances to total deposit ratio of NABIL and EBL are .34 and 0.71 respectively. While EBL has been able to float 71% of total deposit as loans and advances, NABIL has only been able to float up to 34% of its total deposit as loans & advances. EBL has on the other hand, EBL's ratios varied less compared to NABIL's ratios.

- J NABIL's mean loans & advances to fixed deposit ratio is 2.46 while EBL's mean loans & advances to fixed deposit ratio is 1.55 revealing that NABIL had been able to book loans & advances almost the double of its fixed deposit. The coefficient of variation of NABIL (45.26%) and EBL (19.35%) suggest that the ratios of EBL varied less.
- J The table presenting the loans & advances to saving deposit ratio shows that NABIL has huge amounts of fixed deposit compared to EBL. Hence, the mean ratio interprets that while EBL had loans & advances made equaling more than double of its saving deposit; NABIL was able to book only 62.8% of its saving deposit as loans & advance. The ratios of NABIL are more uniform as suggested by the coefficient of variation.
- J The mean operating profit to net worth ratio of NABIL and EBL are 0.54 and 0.29 respectively. NABIL was able to generate operating profit equaling more than 50% of its net worth. The coefficient of variation for the ratios of both the banks reveals that NABIL's ratios were more uniform than EBL's

### **3. Profitability Ratios;**

- J The amount of interest earned by NABIL was highest in the year 2062/63 and has witnessed a decline. Since, then EBL has witnessed an increase in its interest earned through the years. The mean of interest earned to working fund ratio for NABIL an EBL is 5.71% and 7.16% respectively. The coefficient of variation of NABIL and EBL is 17.34% and 7.94% indicating that the ratio of EBL has varied less in comparison to the ratio of NABIL.
- J While NABIL has witnessed an increasing and decreasing trend in the amount of interest paid, EBL on the other hand has witnessed an increase in the amount of interest paid every year. The mean interest paid to working fund ratio for NABIL and EBL is 1.98% and the coefficient of variation of NABIL an EBL are 38.08% and 18.07% respectively suggesting that the ratios of NABIL varied more compared to the ratios of EBL. 4.32 respectively.
- J The mean net profit to working fund ratio of NABIL and EBL are 2.47% and 1.22% respectively implying that while NABIL was able to generate net profit.0. The ratios also reveal that NABIL is more capable of generate income compared to EBL. The degree of validity of the ratios is measured by coefficient of variation, which is 8.64% for NABIL and 7.53% for EBL. The coefficient of variation indicates that the et profit to working fund ratio of EBL varied less compared to NABIL.
- J The mean net profit to total deposit ratio of NABIL and EBL are 2.9% and 1.48% respectively. NABIL has the capacity to earn more than EBL .while EBL was able to earn net profit equaling only 1.48% of its total deposit, NABIL was able to earn net profit equaling 2.9% of its total deposit. The coefficient of variation for NABIL and EBL is 9.05% and 11.70% respectively which shows that the degree of variability between the ratios of both banks is quite similar.

#### 4. Capital Structure/ Leverage Ratios:

- ) Long-term debts are term loans taken by an institution for the operation of its business. While it is common for most institutions to finance its assets through term loans, banks perform otherwise. Almost all of banks in Nepal is operated without debt to maximize its profits and since there are no debts, leverage ratios and long-term debt to net worth ratios could not be calculated for this study.
- ) Similarly, the net fixed assets to long-term debt ratio could not be calculated, as both the banks do not have any long-term liability.
- ) As NABIL and EBL do not have any long-term obligation such as term loans to finance its assets, the total debt to net worth ratio could not be calculated for this study.

#### 5. Other Financial Indicators:

- ) The mean price earnings ratio of NABIL and EBL are 13.19 and 18.97 respectively indicating that on an average, EBL has had higher price earnings ratio compared to NABIL. The coefficient of variation between the ratios of NABIL is less (20.15%) than that of EBL (31.15%) indicating that the variability of the ratios of NABIL is more uniform than the variability of the ratios of EBL. Uniformity in this ratio also interprets investor's confidence in the company's performance and its future.
- ) We see an increasing trend in the Earnings Per Share (EPS) of NABIL while there is a fluctuating trend for EBL. The mean EPS of NABIL and EBL are Rs. 130.38 and Rs.32.75 respectively. This implies that NABIL's profitability of shareholder's investment is better than that of EBL. The coefficient of variation of NABIL is less (13.20%) than that of EBL (24.42%) indicating that the EPS of NABIL has been more uniform than that of EBL during the 4 period under study.
- ) The Mean Dividends Per Share (DPS) of NABIL is Rs. 100/- whereas the mean DPS of EBL is Rs5.83/- Since the face value of each share of both the banks is Rs.100/- we can see that while NABIL paid dividends equaling almost the face value of its shares, EBL was able to pay only 5.83% of the face value of its shares as dividend. The coefficient of variation of NABIL and EBL is 10.39% and 129.45% indicating that the DPS of EBL has highly varied during the period under study.

The calculated value of 't' revealed that while some of ratios are similar between the two banks, most of the ratios are significantly different. Lists of ratios, which are similar, are;

- i. Interest on Government Securities to Total Deposit Ratio
- ii. Loans & Advances to Fixed Deposit Ratio

And the ratios, which were significantly different between the banks, are;

- i. Cash & bank Balance to Current Assets Ratio.
- ii. Loans & Advances to Current Assets Ratio
- iii. Fixed Deposit to Total Deposit Ratio
- iv. Saving Deposit to Total Deposit ratio
- v. Loan & Advances to total Deposit Ratio
- vi. Loan & Advances to saving Deposit Ratio
- vii. Interest Earned to Working fund ratio
- viii. Interest Paid to Working Fund Ratio
- ix. Net Profit to Working Fund Ratio
- x. Net Profit to Total Deposit Ratio
- xi. Price Earning Ratio
- xii. Earnings Per Share

## CHAPTER V

### SUMMARY CONCLUSION AND RECOMMENDATIONS

A summary of the study is presented in this chapter outlining the study's introduction, purpose, objectives, and methodology. The findings of the study are also presented in a summarized form and recommendations are made where possible.

#### **5.1. Summary:**

Financial information required for financial planning, analysis and decision-making. The financial statement, Balance Sheet and profit & Loss a/c are the basic instrument of an accounting system to communicate financial information to users. Balance Sheet shows the financial condition of the state of affairs of the firm at a particular point of time while the profit & Loss a/c shows the profitability of the firm by giving details about revenues and expenses for accounting period.

The financial statements serve as a means to the various stakeholders of the firm to analyze the organization's financial strengths, weakness, performance. There are various ways to conduct a financial performance study. One of them is the financial ratio analysis. A financial ratio is a relationship between two financial variables. It helps to ascertain the financial condition of a firm. Ratio analysis is a process of identifying the financial strengths and weaknesses of the firm. This may be accomplished either through a trend analysis of the firm's ratios over a period of time or through a comparison of the firm's ratios with its nearest competitors and with the industry average.

Banks play a vital role in the economy of most of the countries in the world. They are the backbone of a country's financial system. Although banking is relatively new concept in Nepal compared to its centuries old traditional cultural existence, this sector has witnessed a phenomenal growth in the last two decades. With the entry of joint-venture banks, customers have been receiving specialized and efficient services. Competitive interest rates, customer-focused services, extra benefits are what customers look in order the choose the institution they want to bank with. This has certainly led to cutthroat competition among the various national and joint-venture –banks operating in Nepal. While nature of service and rate of interest attract customers to a great extent, the nature and state of the bank's financial performance also play a vital role.

In order to fulfill the partial requirement for the Degree of Masters in Business studies, a study titled "Cash management of Joint Venture Banks in Nepal (NABIL Bank Ltd. and Everest Bank. Ltd.)" was undertaken.

The study seeks to assess the financial performance of the two banks with the help of ratio analysis as well as other relevant analysis(i.e.study of loan loss provision) for the period starting from 2060/61 to

2065/66 (6 years). As the study is analytical-cum-descriptive in nature, research is based on the historical data of the banks available in the annual reports of the banks. The annual reports were collected from the respective banks as well as the internet ([www.nepalstock.com](http://www.nepalstock.com)) books, periodicals, journals, articles on the related subject were extensively reviewed in the library quotations from various authors on the related topic have been placed throughout the chapters. Reviews of the previously undertaken research studies have also been made in order to highlight the difference and significance of this study.

Financial as well as statistical tools have been used to determine the financial performance of the two banks. While ratio analysis is used to assess the liquidity, profitability position of the banks for which statistical tools such as; mean, standard deviation, coefficient of variation, student's t-test have been used to determine the extent of variability and similarity between the ratios of the banks. The findings of the study have been presented in tables and graphs. Analysis and interpretation of the findings are also presented for each of the ratios.

Finally, the student's t-test is done for each ratio to determine whether the similar ratios of the two banks significantly differ or not.

## **5.2 Conclusion:**

The conclusion of the study have been summarized and presented below.

- ) The liquidity position of EBL is not better than NABIL. It has the lower current ratio, cash & bank balance to deposit and investment on government securities to current assets ratio. The liquidity ratios of NABIL are more stable than EBL. It can be concluded that EBL is less solvent than NABIL & it does not seem to have enough liquidity assets in comparison to NABIL
- ) Through the trend analysis it is found that the utilization of deposits collected has been poorly utilized to generate net profit of EBL. EBL is not better than NABIL.
- ) Through the analysis of activity ratio it can be concluded that the NABIL is more efficient in utilizing collected fund as compared to EBL. Although EBL has a higher loan advance to total deposit ratio, the efficiency of the use of shareholder's fund as revealed in operating profit to net worth is higher for NABIL.
- ) NABIL has maintained high growth rate in comparison to EBL. We must say that the bank should be successful to use its resources. We must say that bank is successful in increasing its sources of funds & its mobilization. Further the bank is maintaining better financial position.
- ) The profitability position of EBL is better than NABIL. The interest earned to total working fund ratio for EBL is higher than NABIL. While NABIL has mixed trend in the interest paid, and EBL is the higher interest paid to working fund ratio with reveals that the bank is collecting. Fund from expensive source. Similarly, EBL has lower Net profit to working fund ratios than the ratios for NABIL during the study period so EBL should try to augment its profitability like NABIL

- ) For the valuation of stock the price-earning ratio can also be used. A high profit-earning ratio indicates over valuation of stock of an organization either vice-versa. The price earning ratio of NABIL 13.19 times and EBL 18.97 times respectively indicating that on an average EBL has higher price earning ratio compared to NABIL. This indicates that EBL stock is overvalued.
- ) Both the banks have not used Long-term loans in their financing sources. This means both the banks have relied on public deposits, borrowing and finally the shareholder's equity. Partially their capital structures consist of other liabilities like bill payables.

### 5.3 **Recommendations**

Based on the analysis and findings of the study, following recommendation can be advanced:

#### ) **Portfolio Diversification:**

As we see the two ratios cash and bank to current assets and loan and advances to current assets, for these two financial institutions are not using its liquidity in investment in securities other than government securities. I think because of the current political situation they are not interest in investment. But if this financial institution invests in investment, it will help the country to boost the economic growth. Financial institution plays an important role in economic growth of the country so I will recommend these banks to have little eye on investment.

#### ) **Credit Supervision and Monitoring Mechanism**

Liquidity is the ability to turn investment into cash quickly at a value close to the face value of investment. The degree liquidity maintained varies from institution to institution. While it is necessary for all organizations, including banks, to have a comfortable liquidity position, absence of liquidity can prove to be hazardous as it can lead to tying up of assets. Current ratio of 1:2 is the standard norm. However, this can vary from industry to industry.

Although, EBL seem to have floated tremendous amount of loan and advances, this can lead to tying up of liquidity go income generating assets. We can see that more than half of its total assets constituted its loans and advances. In the long term, this can create a liquidity crisis if these assets were to stop performing properly. Negligence in controlling the performance of these assets can bring about failure in the banks performance as a whole. Credit supervision and monitoring mechanism must be put in operation to maintain the quality of credit.

#### ) **Investment Policy**

Loans and advances are profit-earning assets of a commercial bank, which include loans cash credit, overdrafts; bill discounted and bill purchase. A bank is able to earn more if it is able to increase its investment in loan and advances. However, it is necessary to strictly maintain the quality of credit. EBL has been able to invest amounts equaling 63.60% its current assets as loan and advances. While the looks impressive, it would be appropriate to suggest that a proper balance be maintained between loan and advance and current assent. So as to help increase returns as much as possible and still maintain the required liquidity.

) **Reduce the cost of deposits:**

As we see the statistic I will recommend EBL to provide some benefit to the depositors, which will lure them to have their income to be deposited in fixed deposits. Similarly NABIL should discourage its depositor to deposit in saving deposit. For financial Institution if they have placed to invest them in long-term assets, fixed deposit is better than saving deposits.

) **Focused on other income generation activities**

When we see the ratio, NABIL has used its deposit on loan advance to the extend only 34%, and this shows it has focused on other income generating activities. Similarly EBL should book fewer loans to be safe at the time of crisis. It has disposed twice its saving deposit, which seems risky.

) **Ensure the effective utilization of total deposits:**

When we compare price-earning ratio of these two banks it shows that NABIL has lower P/E ratio than EBL. Then lower P/E ratio implies that the stock price of NABIL is undervalued in comparison to EBL. NABIL is advised to take measures to increase the P/E ratio which reflect the welfare maximization of the shareholders of the bank; Similarly, EBL should maintain its higher P/E ratio in the days to come.

) **Maintain the shareholder's welfare:**

When we compare price-earning ratio of these two banks it shows that NABIL has lower P/E ratio than EBL. The lower P/E ratio implies that the stocks price of NABIL is undervalued in comparison EBL. NABIL is advised to take measures to increase the P/E ratio which reflect the welfare maximization of the shareholder of the bank; Similarly EBL should maintain its maintain its higher P/E ratio in the days to come.

) **Adaptation of stable dividend policy:**

When we see DPS of these two commercial banks, it shows that DPS of EBL is not good so it will reduce the shareholders confidences. So to get confidences of shareholders it should provide dividend regularly to its shareholder by generating more profit. And it should also maintain a stable dividend policy as NABIL has maintained.

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## APPENDICES

### Appendix-1

#### Sample calculation of Mean, Standard Deviation (S.D), and Coefficient of Variation (C.V)

Cash & Bank Balance to Current Assets Ratio of NABIL and EBL assuming

$x_1$  = Cash & Bank Balance to Current Assets Ratio of NABIL

$x_2$  = Cash & Bank Balance to Current Assets Ratio of EBL

$x_1$	$x_1 - \bar{x}_1$	$(x_1 - \bar{x}_1)^2$	$x_2$	$x_2 - \bar{x}_2$	$(x_2 - \bar{x}_2)^2$
6.42	.100	.01	22.18	9.26	85.74
6.13	-.19	.0361	8.35	-4.57	20.88
5.00	-1.32	1.7424	16.53	3.61	13.03
4.50	-1.82	3.3124	9.32	-3.6	12.96
7.27	.95	.9025	14.54	1.62	2.62
8.60	2.28	5.1984	6.657	-6.263	39.22
37.92		11.2018	77.577		174.45

$$\sum x_1 = 37.92$$

$$\bar{x} = \frac{\sum x_1}{n_1}$$

$$= \frac{37.92}{6}$$

$$= 6.32$$

$$\sum (x_1 - \bar{x}_1)^2 = 11.2018$$

$$\sum x_2 = 77.577$$

$$\bar{x}_2 = \frac{\sum x_2}{n_2}$$

$$= \frac{77.577}{6}$$

$$= 12.92$$

$$\sum (x_2 - \bar{x}_2)^2 = 174.45$$

The standard Deviation (S.D) for NABIL is given by;

$$S.D_1 = \sqrt{\frac{1}{n_1 - 1} \sum (x_1 - \bar{x}_1)^2}$$

$$= \sqrt{\frac{1}{6 - 1} \cdot 11.2018}$$

$$= \sqrt{2.24036}$$

$$= 1.49$$

And the Coefficient of Variation (C.V.) for NABIL is given by;

$$\begin{aligned} \text{C.V.}_1 &= \frac{S.D._1}{\bar{x}_1} \times 100 \\ &= \frac{1.49}{6.32} \times 100 \\ &= 23.57 \sim 24\% \end{aligned}$$

The Standard Deviation (S.D.) of EBL is given by;

$$\begin{aligned} \text{S.D.}_2 &= \sqrt{\frac{1}{n_2 - 1} \sum (x_2 - \bar{x}_2)^2} \\ &= \sqrt{\frac{1}{6 - 1} - 1.7445} \\ &= \sqrt{34.89} \\ &= 5.90 \end{aligned}$$

And the Coefficient of Variation (C.V.) of EBL is given by;

$$\begin{aligned} \text{C.V.}_2 &= \frac{S.D._2}{\bar{x}_2} \times 100 \\ &= \frac{5.90}{12.92} \times 100 \\ &= 45.67\% \end{aligned}$$

## Appendix- 2

sample calculation of Null Hypothesis

Loan & Advances to Current Assets Ratio:

Null Hypothesis (H<sub>0</sub>):  $\sim_1 \neq \sim_2$

i.e. there is no significant difference between the Loans & Advances to Current Assets Ratio of NABIL and EBL. In other words, there is a significant relationship between the similar ratios of NABIL and EBL.

Alternative Hypothesis (H<sub>o</sub>):  $\sim_1 = \sim_2$  (Two Tailed Test)

The Value of 't' is calculated with the formula given below;

$$|t| = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{s^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} \quad \text{Whit degree of freedom (d.f.)} = n_1 + n_2 - 2$$

Where,

$$s^2 = \frac{1}{n_1 + n_2 - 2} \left[ \sum (x_1 - \bar{x}_1)^2 + \sum (x_2 - \bar{x}_2)^2 \right]$$

$$\begin{aligned} \therefore s^2 &= \frac{1}{6 + 6 - 2} [13.6271 + 44.4103] \\ &= \frac{1}{10} \times 58.03 \end{aligned}$$

= 5.803

$$\text{and, } |t| = \frac{29.12 - 63.56}{\sqrt{5.803 \left( \frac{1}{5} + \frac{1}{5} \right)}}$$

$$\frac{-34.44}{\sqrt{2.9015}} = \frac{-34.44}{1.7033} = 20.21 \sim -20.22$$

$$|t| = -20.21 = 20.22$$

Tabulated value of at 5% level of significance for of 10(=12+12-2) d.f. is 2.228

Decision: Since the calculated value of |t| (=20.22) is greater then the tabulated value of t(=2.228), the hypothesis is rejected, i.e. there is a significant difference between the Loand & Advances to Current Assets Ratio of NABIL and EBL.

**Appendix 3**

**Multipal Regression Analysis I**

Let  $x_1, x_2$  and  $x_3$  denotes NP/Total Loan, NPL/Total Loan and LPP/Total loan respectively

Let the Multiple regression equation of  $x_1$  on  $x_2$  and  $x_3$  be;

$$X_1 = a_1 + b_1 x_2 + b_2 x_3 \dots \dots \dots (1)$$

The Value of constant  $a_1, b_1$  and  $b_2$  can be obtained by solving the following three equations:

$$\sum X_1 = n a_1 + b_1 \sum X_2 + b_2 \sum X_3 \dots \dots \dots (2)$$

$$\sum X_1 X_2 = a_1 \sum X_2 + b_1 \sum x_2^2 + b_2 \sum X_2 X_3 \dots \dots \dots (3)$$

$$\sum X_1 X_3 = a_1 \sum X_3 + b_1 \sum X_2 \sum X_3 + b_2 \sum X_3^2 \dots \dots \dots (4)$$

Here,

The estimated equation is

$$X_1 = a_1 + b_1 X_2 + b_2 X_3 \dots \dots \dots (5)$$

Where,

$X_1$  = Net profit\Total Loan and Advance

$X_2$  = NPL\Total Long & Advance

$X_3$  = LLP\Total Loan & Advance

Sample calculation of regression equation and ANOV (one way)

BANKS	$X_1$	$X_2$	$X_3$	$X_1 X_2$	$X_2 X_3$	$X_1 X_3$	$X_1^2$	$X_2^2$	$X_3^2$
EBL	2.1	2.94	2.4	6.17	7.114	5.082	4.41	8.64	5.85
SCBN	8.76	3.03	4.14	26.543	14.362	14.522	76.74	9.18	22.46
TOTAL	$\sum X_1 =$ 10.86	$\sum X_2 =$ 5.9	$\sum X_3 =$ 7.16	$\sum X_1 X_2 =$ 3271	$\sum X_2 X_3 =$ 21.42	$\sum X_1 X_3 =$ 46.6	$\sum X_1^2 =$ 8115	$\sum X_2^2 =$ 1782	$\sum X_3^2 =$ 2832

Now substituting the value in the above normal equation we get;

$$10.86 = 2a_1 + 5.97b_1 + 7.16b_2 \dots \dots \dots (5)$$

$$32.72 = 5.97a_1 + 71.82b_1 + 21.48b_2 \dots \dots \dots (6)$$

$$43.60 = 7.16a_1 + 21.48b_1 + 28.32b_2 \dots \dots \dots (7)$$

By solving the above equations we get following equation:

$$X_1 = -2.835 - 72X_2 + 2.91X_3 \dots \dots \dots (8)$$

Hypothesis Testing:

Null Hypothesis ( $H_0$ ):  $\sim_1 = \sim_2 = \sim_3$  i.e. that is the regression equation of  $X_1$  on

$X_2$  &  $X_3$  in not significant. In other words, there is no relationship between dependent variable  $X_1$  & two independent variable  $X_2$  &  $X_3$

Alternative Hypothesis ( $H_1$ ):  $\sim_1 \neq \sim_2 \neq \sim_3$  i.e. In words there is a relationship between dependent variable  $X_1$  at least one independent variable  $X_2$  or  $X_3$

Here ,

$$\text{Grand Total (T)} = \sum X_1 + \sum X_1 + \sum X_3 = 24$$

$$\text{Correction Factor (C.F)} = T^2/N$$

$$= 576/6$$

$$= 96$$

$$\text{The Total Sum of Square (SST)} = \sum X_1^2 + \sum X_1^2 + \sum X_3^2 - C.F = 31.29$$

The Total Sum of Squares Between the samples; (SSC)

$$= \sum X_1^2 / 2 + \sum X_2^2 / 2 + \sum X_3^2 / 2 - C.F = 6.42$$

$$\text{The Total Sum of Squares with samples (SSE)} = \text{SST} - \text{SSC} = 31.29 - 6.42 = 24.87$$

$$\text{The Mean Square Between the samples (MSC)} = \text{SSC} / C - 1 = 1883.294 / 3 - = 941.647$$

$$\text{The Mean Square Within samples (MSE)} = \text{SSE} / d.f = \text{SSE} / N - C = 3.2 \setminus 8.29 = 38$$

We have,

$$\text{The tabulated value, } F_{0.05} i., (2,2) = 3.89$$

Since, computed value of F.i.e.38 is less than that of the tabulated value i.e.3.89. Null

Hypothesis is accepted & alternative hypothesis is rejected. There is regression equation  $X_1$ ,  $X_2$  and  $X_3$  is not significant.

**Appendix 4**

**Comparative Balance Sheet and profit & Loss Account of NABIL  
NABIL BANK LTD.**

**COMPARATIVE BALANCE SHEET**

PARTICULARS	YEAR (Rs in million)					
	2060-61	2061-62	2062-63	2063-64	2064-65	2065-66
<b>A. Current Assests</b>						
1. Cash & Bank Balance	826.15	1020.46	961.05	825.26	1512.3	2023.16
2. Money at Call & Short Notice	5175.93	7243.16	26.12	2061.96	1657.911	2218.59
3. Loans & Advances for Commercial Banks						
i. Loans, Cash B12 & Overdrafts	3970.65	4658.17	5660.8	5248.36	5574.06	6410.24
ii. Bill Discounted & Purchase	100.98	199	102.33	115.64	121.76	122.76
4. Investment						
Govt. Securities	2669.88	3338.67	4811.01	5784.72	6722.83	7948.21
Other			4736.97	3479.96	3623.66	4628.66
5. Interest Receivable	97.69	154.69	139.03	105.21	121.64	116
6. Misc. Current Assets	20.94	36.17	200.99	709.71	1463.44	1493.49
<b>TOTAL (A)</b>	<b>12862.22</b>	<b>16650.32</b>	<b>19224.18</b>	<b>18330.82</b>	<b>20797.6</b>	<b>24956.12</b>
<b>B. FIXED ASSETS</b>						
7. Gross Block	261.59	296.55	262.04	261.87	415.22	404.44
Less Depreciation	-118.02	-125.83	-140.23	-160.81	-223.51	-268.25
<b>TOTAL (B)</b>	<b>143.57</b>	<b>170.72</b>	<b>121.81</b>	<b>101.06</b>	<b>191.71</b>	<b>136.19</b>
<b>C.9. LOANS FOR DEV. BANKS</b>	-	-	-	-	-	-
<b>D.10. INVESTMENTS</b>						
Shares	11.19	11.19	11.19	11.19	11.19	11.19
Debentures	-	-	-	-	-	-
Others	-	-	-	-	-	-
<b>TOTAL (D)</b>	<b>11.19</b>	<b>11.19</b>	<b>11.19</b>	<b>11.19</b>	<b>11.19</b>	<b>11.19</b>
<b>E.11. MISC. ASSETS</b>						
<b>TOTAL ASSETS (A+B+C+D+E)</b>	<b>13016.93</b>	<b>16832.23</b>	<b>16357.18</b>	<b>18443.07</b>	<b>21000.5</b>	<b>25103.49</b>
<b>BILLS FOR COLLECTION (CONTRA)</b>	<b>195.86</b>	<b>159.56</b>	<b>1362.24</b>	-	-	-
<b>ACCEPTANCES (CONTRA)</b>	<b>235.72</b>	<b>163.13</b>	<b>209.98</b>	-	-	-
<b>BALANCE SHEET TOTAL (TOTAL ASSETS CONTRA ENTRY)</b>	<b>13448.56</b>	<b>17154.92</b>	<b>19703.4</b>	<b>18443.07</b>	<b>2000.5</b>	<b>25103.49</b>
<b>F. CURRENT LIABILITIES</b>						
12. Deposit & Other A/C's						
Saving	5471.68	6632.7	8404.04	9441.91	10633.16	12771.82
Fixed	2868.91	2651.65	3236.03	2264.77	1948.6	1428.49
Current	2334.27	2417.09	3279.43	3808.39	5768.62	5816.93
Call & Short Deposit	235.78	274.59	235.62	101.12	185.2	940.99
Other	254.52	592.46	274.36	219.56	220.06	203.18
13. Short Term Loan	1908.08	2430.21	1666.71	684.72	79.16	78.28
14. Bills Payabil	41.6	25.99	35.21	51.4	54.84	59.02
15. Tax Provision	21.16	-	-	-	-	-
16. Staff Bonus	59.27	72.78	85.48	72.15	76.08	85.95
17. Dividend Payables	4.28	5.3	212.8	8.11	9.47	10.72
18. misc. current Liabilities	422.17	678.42	765.76	497.92	594.19	652.42
<b>TOTAL (F)</b>	<b>11903.72</b>	<b>15781.19</b>	<b>18196.01</b>	<b>17150.05</b>	<b>19569.38</b>	<b>22047.8</b>
<b>G.19. DEFERRED LIABILITIES</b>						
Long term loan	-	-	-	-	-	-
Other Deferred Liabilities	32.83	36.21	49.17	59.57	62.21	67.41
<b>TOTAL (G)</b>	<b>32.83</b>	<b>36.21</b>	<b>49.17</b>	<b>57.58</b>	<b>62.21</b>	<b>67.41</b>
<b>G.SHARE CAPITAL</b>						
20. Ordinary share	50	50	50	50	50	50
21. Bonus Share	289.55	289.55	289.55	289.55	289.55	289.55
22. Preference Share	-	-	-	-	-	-
<b>TOTAL (H)</b>	<b>339.55</b>	<b>339.55</b>	<b>339.55</b>	<b>339.55</b>	<b>339.55</b>	<b>339.55</b>
<b>SHAREHOLDERS RESERVE</b>						
23. General Reserve	430.36	508.88	595.05	679.1	679.1	749.2
24. Capital Reserve	-	-	-	-	33.95	37.46
25. Exchange Fluctuation Reserve	64.81	71.89	77.78	85.97	100.32	116.73
26. Other Reserves	122	-	-	-	-	-
27. Unappropriated Profit/Loss	123.69	94.53	99.64	130.87	215.99	217.58
<b>TOTAL (I)</b>	<b>740.86</b>	<b>675.3</b>	<b>772.47</b>	<b>895.94</b>	<b>1029.36</b>	<b>1120.97</b>
<b>TOTAL LIABILITIES (F+G+H+I)</b>	<b>13016.96</b>	<b>16832.25</b>	<b>19357.2</b>	<b>18443.12</b>	<b>21000.5</b>	<b>23575.73</b>
<b>BILLS FOR COLLECTION (CONTRA)</b>	<b>195.86</b>	<b>159.56</b>	<b>136.24</b>	-	-	-
<b>ACCEPTANCES (CONTRA)</b>	<b>235.72</b>	<b>163.13</b>	<b>209.98</b>	-	-	-
<b>BALANCE SHEET TOTAL (TOTAL ASSETS +CONTRA ENTRY)</b>	<b>13448.54</b>	<b>17154.94</b>	<b>19703.42</b>	<b>18443.12</b>	<b>21000.5</b>	<b>23575.73</b>
<b>NET WORTH (EQUITY FINANCE)</b>	<b>1080.41</b>	<b>1014.85</b>	<b>1112.02</b>	<b>1235.49</b>	<b>1368.91</b>	<b>1495.74</b>
<b>WORKING FUND (TOTAL LIABILITIES-CONTRA ENTRY ITEMS)</b>	<b>13016.98</b>	<b>16832.23</b>	<b>19357.18</b>	<b>18443.07</b>	<b>21000.5</b>	<b>23642.05</b>

**NABIL BANK LTD.**

**COMPARATIVE PROFIT & LOSS A/C**

PARTICULARS	YEAR (Rs in million)					
	2060-61	2061-62	2062-63	2063-64	2064-65	2065-66
A. Operating Income						
1. Interest (Earned)	902.45	1052.36	1242.92	1013.64	1001.36	1042.17
2. Commission and discount	134.75	154.34	179.46	163.46	215.2	198.94
3. Exchange Income	140.01	157.08	214.86	228.1	<b>232.52</b>	273.05
4. Dividend	-	-	-	-	-	-
5. Other	3.22	3.14	3.02	36.52	50.13	69.83
<b>TOTAL(A)</b>	<b>1180.43</b>	<b>1366.92</b>	<b>1640.26</b>	<b>1441.72</b>	<b>1499.21</b>	<b>1583.99</b>
B. Cost of service						
6. Interest Paid						
i. On borrowing	6.02	49.16	97.99	22.67	10.7	15.53
ii. On deposit	378.83	376.77	374.38	275.69	244.43	256.7
7. Salary, allowances and P.F.	84.66	87.55	102.12	126.51	128.33	134.68
TOTAL (B)	469.51	513.48	574.49	424.87	383.46	406.9
C.8. Provision for Bonus	59.27	72.78	85.48	72.15	76.09	86.1
D.9. Other General Expenses	90.64	16.93	26.27	258.96	261.27	266.8
<b>GROSS PROFIT(A-B-C-D)</b>	<b>561.01</b>	<b>617.73</b>	<b>711.02</b>	<b>685.74</b>	<b>778.39</b>	<b>824.18</b>
Less: Depreciation	28.86	29.9	47.74	27.4	67.61	66.2
<b>Operating Profit</b>	<b>532.15</b>	<b>587.83</b>	<b>663.28</b>	<b>658.34</b>	<b>710.78</b>	<b>757.98</b>
Add Income From Other Sources	4.33	5.88	10.98	5.1	4.93	6.98
<b>Pre-Tax Profit</b>	<b>536.48</b>	593.71	674.26	663.44	715.17	764.96
Less: Provision For Taxes	177.02	201.12	243.43	184.23	208.22	227.16
<b>Net Profit</b>	<b>359.46</b>	<b>392.59</b>	<b>43.083</b>	<b>479.21</b>	<b>506.95</b>	<b>537.8</b>

Transfer from Previous Year	<b>236.79</b>	<b>123.69</b>	<b>94.53</b>	<b>99.64</b>	<b>130.87</b>	<b>215.98</b>
<b>Profit Distributed</b>						
i. Equity Dividend	<b>271.64</b>	<b>339.55</b>	<b>339.55</b>	<b>339.55</b>	<b>373.5</b>	<b>412.1</b>
ii. Preference Dividend	-	-	-	-	-	-
iii. Other	<b>16.24</b>	<b>3.69</b>	-	<b>16.2</b>	-	-
<b>Profit Retained</b>	<b>308.37</b>	<b>173.04</b>	<b>185.81</b>	<b>223.71</b>	<b>242.63</b>	<b>196.12</b>

Comparative Balance Sheet and profit & Loss Account of EBL

EVEREST BANK NEPAL LTD.

COMPARATIVE BALANCE SHEET

PARTICULARS	YEAR (Rs in million)					
	2060-61	2061-62	2062-63	2063-64	2064-65	2065-66
<b>A. Current Assests</b>						
1. Cash & Bank Balance	460.71	278.6	834.99	592.76	1139.57	631.8
2. Money at Call & Short Notice	-	410.35	240.08	86.13	-	187.44
3. Loans & Advances for Commercial Banks						
i. Loans, Cash B12 & Overdrafts	1316.01	2230.78	2959.45	3923.6	4882.79	5884.12
ii. Bill Discounted & Purchase	48.88	39.4	46.31	24.88	25.67	26.67
4. Investment						
i. Govt. Securities	184.91	257.61	823.00	1538.9	1599.35	2466.42
ii. Other	-	-	-	-	-	-
5. Interest Receivable	46.23	76.16	94.28	105.29	122.74	128.64
6. Misc. Current Assets	20.58	41.69	51.74	88.1	66.77	215.16
<b>TOTAL (A)</b>	<b>2077.32</b>	<b>3334.59</b>	<b>5049.85</b>	<b>6359.66</b>	<b>7836.89</b>	<b>9576.25</b>
<b>B. FIXED ASSETS</b>						
7. Gross Block	43.02	65.09	72.98	125.95	159.78	178.07
Less Dipresiation	-8.74	-16.04	-22.61	-32.56	-50.9	-64.64
<b>TOTAL (B)</b>	<b>34.28</b>	<b>49.05</b>	<b>50.37</b>	<b>93.39</b>	<b>109.59</b>	<b>113.43</b>
C.9. LOANS FOR DEV. BANKS	60	-	-	-	-	-
D.10. INVESTMENTS						
i. Shares	2.5	2.5	3.7	17.11	17.11	17.11
ii. Debuntures	-	-	-	-	-	-
iii. Others	95.67	-	75.02	101.86	37.51	-
<b>TOTAL (D)</b>	<b>98.17</b>	<b>2.5</b>	<b>78.72</b>	<b>118.97</b>	<b>54.62</b>	<b>17.11</b>
E.11. MISC. ASSETS	5.24	25.56	23.64	35.16	51.1	55.2
<b>TOTAL ASSETS (A+B+C+D+E)</b>	<b>2275.01</b>	<b>3411.7</b>	<b>5202.58</b>	<b>6607.18</b>	<b>8052.2</b>	<b>9761.99</b>
BILLS FOR COLLCTION (CONTRA)	18.12	6.16	16.1	-	-	-
ACCEPTANCES ( CONTRA)	-	-	-	-	-	-
<b>BALANCE SHEET TOTAL (TOTAL ASSETS +CONTRA ENTRY)</b>	<b>2293.13</b>	<b>3417.86</b>	<b>5218.68</b>	<b>6607.18</b>	<b>8052.2</b>	<b>9761.99</b>
<b>F. CURRENT LIABILITIES</b>						
12. Deposit & Other A/C's						
i. Saving	448	891.75	1384.06	1735.37	2757.95	12771.82
ii. Fixed	1132.08	1478.89	2284.64	2711.58	2794.74	2897.96
iii. Current	206.07	274.39	470.07	481.92	562.39	719.755
iv. Call & Short Deposit	47.95	185.35	225.65	445.5	428.08	565.57
v. Other	114.84	227.05	210.09	92.24	151.79	132.42
13. Short Term Loan	-	-	80	81.77	-	-
14. Bills Payable	7.78	3.85	11.62	2.13	22.1	22.02
15. Tax Provision	13.46	32.97	32.35	-	0.33	-
16. Staff Bonus	4.42	6.75	11.34	14.15	15.1	208.85
17. Dividend Payables	-	2.02	1.63	1.34	1.29	7.35
18. misc. current Liabilities	152.49	101.25	163.34	497.87	268.96	805.22
<b>TOTAL (F)</b>	<b>2127.09</b>	<b>3204.27</b>	<b>4874.79</b>	<b>6063.87</b>	<b>7420.73</b>	<b>8901.755</b>
G.19. DEFERRED LIABILITIES						
i. Long term loan	-	---	-	-	-	-
ii. Other Deferred Liabilities	2.72	4.59	8.39	152.4	158.64	155.5
<b>TOTAL (G)</b>	<b>2.75</b>	<b>4.59</b>	<b>8.39</b>	<b>152.4</b>	<b>158.64</b>	<b>155.5</b>
<b>G. SHARE CAPITAL</b>						
20. Ordinary share	118.43	118.42	197.02	235.48	239.76	239.76
21. Bonus Share	-	-	23.84	23.84	75.24	75.24
22. Preference Share	-	-	-	-	-	-
<b>TOTAL (H)</b>	<b>118.43</b>	<b>118.42</b>	<b>220.86</b>	<b>259.32</b>	<b>315</b>	<b>315</b>
<b>SHAREHOLDERS RESERVE</b>						
23. General Reserve	5.13	13.38	27.33	44.4	64.46	91.94
24. Capital Reserve	-	0.79	-	-	37.93	-
25. Exchange Fluctuation Reserve	2.06	3.23	8.73	14.27	14.59	15.82
26. Other Reserves	16.78	31.25	-	-	-	-
27. Unappropriated Profit/Loss	2.76	35.78	62.48	72.92	42.85	46.89
<b>TOTAL (I)</b>	<b>26.73</b>	<b>84.43</b>	<b>98.54</b>	<b>131.59</b>	<b>157.83</b>	<b>154.65</b>
<b>TOTAL LIABILITIES (F+G+H+I)</b>	<b>2275</b>	<b>3411.71</b>	<b>5202.58</b>	<b>6607.18</b>	<b>8052.2</b>	<b>9526.905</b>
BILLS FOR COLLECTION (CONTRA)	18.12	6.16	16.1	-	-	-
ACCEPTANCES (CONTRA)	-	-	-	-	-	-
<b>BALANCE SHEET TOTAL (TOTAL ASSETS +CONTRA ENTRY)</b>	<b>2293.12</b>	<b>3417.87</b>	<b>5218.68</b>	<b>6607.18</b>	<b>8052.2</b>	<b>9526.905</b>
NET WORTH (EQUITY FINANCE)	145.16	202.85	319.4	390.91	472.83	762
WORKING FUND (TOTAL LIABILITIES-CONTRA ENTRY ITEMS)	2275.01	3411.7	5202.58	6607.18	8052.2	9608.57

**EVEREST BANK LTD.**  
**COMPARATIVE PROFIT & LOSS A/C**

PARTICULARS	YEAR (Rs in million)					
	2060-61	2061-62	2062-63	2063-64	2064-65	2065-66
A. Operating Income						
1. Interest (Earned)	175.94	267.44	385.02	443.82	520.17	657.24
2. Commission and discount	23.56	25.9	30.56	36.77	61.5	74.33
3. Exchange Income	3.18	3.5	16.5	45.41	<b>32.21</b>	27.79
4. Dividend	-	-	-	-	-	-
5. Other	12.82	28.94	32.04	13.78	20.2	23.81
<b>TOTAL(A)</b>	<b>215.5</b>	<b>325.78</b>	<b>464.12</b>	<b>539.78</b>	<b>634.08</b>	<b>783.17</b>
B. Cost of service						
6. Interest Paid						
i. On borrowing	0.09	0.5	0.71	3.09	1.44	6.33
ii. On deposit	118.03	177.39	235.43	253.96	304.97	313.81
7. Salary, allowances and P.F.	13.39	18.63	26	32.19	37.37	48.52
<b>TOTAL (B)</b>	<b>131.51</b>	<b>196.52</b>	<b>264.14</b>	<b>289.24</b>	<b>343.78</b>	<b>368.67</b>
C.8. Provision for Bonus	4.42	6.75	11.34	14.15	15.1	16.5
D.9. Other General Expenses	40.63	55.9	81.07	100.1	121.07	125.8
<b>GROSS PROFIT(A-B-C-D)</b>	<b>38.64</b>	<b>66.61</b>	<b>109.57</b>	<b>136.29</b>	<b>154.13</b>	<b>272.2</b>
Less: Depreciation	3.9	7.3	8.91	10.06	91.5	19.74
<b>Operating Profit</b>	<b>37.74</b>	<b>59.31</b>	<b>100.66</b>	<b>126.23</b>	<b>134.63</b>	<b>252.46</b>
Add Income From Other Sources	3.96	1.47	1.39	1.14	1.25	2.01
<b>Pre-Tax Profit</b>	<b>38.7</b>	<b>6.78</b>	<b>102.05</b>	<b>127.37</b>	<b>135.88</b>	<b>254.47</b>
Less: Provision For Taxes	13.46	19.51	32.35	42.04	41.71	110.91
<b>Net Profit</b>	<b>25.24</b>	<b>41.27</b>	<b>69.7</b>	<b>85.33</b>	<b>94.17</b>	<b>143.56</b>

Transfer from Previous Year	<b>0.34</b>	<b>2.76</b>	<b>35.78</b>	<b>62.48</b>	<b>72.92</b>	<b>40.84</b>
<b>Profit Distributed</b>						
i. Equity Dividend	<b>17.76</b>	-	-	-	<b>63</b>	<b>63</b>
ii. Preference Dividend	-	-	-	-	<b>12.6</b>	<b>12.6</b>
iii. Other	-	-	<b>3.96</b>	<b>0.43</b>	-	-
<b>Profit Retained</b>	<b>7.82</b>	<b>44.03</b>	<b>101.52</b>	<b>147.38</b>	<b>91.49</b>	<b>61</b>

**Table 5.1****Summary of the Mean and Coefficient of Variation the ratios of NABIL and EBL**

	Ratios	NABIL		EBL	
		Mean	C.V	Mean	C.V
Liquidity		6.32	24	12.92	45.67
1.	-Cash Bank Balance to Current Assets Ratio	29.12	5.67	63.56	4.60
2.	-Loans & Advances to Current Assents	16.53	43.87	47.27	16.12
3.	-Fixed Deposit to Total Deposit	55.48	7.69	33.60	25.38
4.	-Saving Deposit to Total Deposit	27.25	22.39	17.25	45.56
5.	-Investment on Govt. Securities to Total Deposit				
Activity/Turnover					
6.	-Loans & Advances to Total Deposit	0.34	10.88	0.71	4.08
7.	-Loans & Advances to Fixed Deposit	2.46	45.26	1.55	19.35
8.	-Loans & Advances to saving Deposit	0.62	16.45	2.23	23.31
9.	-Operating profit to Net Worth	0.54	8.27	0.29	11.44
Profitability					
10.	-Interest Earned to Working Fund	5.71	17.34	7.16	7.94
11.	-Interest paid to Working Fund	1.98	38.08	4.32	18.07
12.	-Net profit to Working Fund	2.9	9.05	1.26	10.76
13.	-Net profit to Total Deposit	2.43	8.46	1.26	10.76
Capital Structure/Leverage					
14.	-Long Term Debt to Net Worth	N/A	N/A	N/A	N/A
15.	-Net Fixed Assets to Long Term Debt	N/A	N/A	N/A	N/A
16.	-Total Debt to Net Worth	N/A	N/A	N/A	N/A
Other Financial Indicators					
17.	-Price Earnings Ratio	13.19	20.15	18.97	31.15
18.	-Earnings per Share	127.77	13.95	30.10	17.41
19.	-Dividend per Share	98.00	11.18	7.00	139.24