# Chapter -1

# INTRODUCTION

## 1.1) Background of the study

Banking sector plays an important role for the country's economic development. Bank is a resources mobilizing institution that accepts deposit from various sources and invests such accumulated resources in primary, secondary and tertiary sector the level of overall development of a country be it social, cultural, political or economical is characterized by the level of economic growth lies in the economics growth lies in the development of a well managed banking system. Hence, banks can be considered as the backbone of a country's overall development. In short, banks are extremely necessary for the healthy and perennial process of a country. By creating and mobilizing the capital and rendering various financial services. Banks are contributing to the establishment and development of so many small and large scale industries and domestic as well as international trade and commerce. Though bank refers to transaction of money but modern banks are established with specific purposes. Depending upon the nature of bank it serves differently to its customers though the underlying principal is same.

Banks provide an effective payment and credit system, which facilitates the channeling of funds from the surplus spending units (savers) to the deficit Spending units (investors) in the economy.[1] by accepting deposits, the banks promote the habit of saving among the people. These saving of

[1] S.Graphal, "Commercial Banking & Economic Development," pointer Publishers, Jaipur. 1993

the people later result in capital information, which is basis of economic process in the country. Moreover, banks also encourage industrial innovations and business expansions through the funds provide by them to the entrepreneurs. Banks exercise considerable influence on the level of economic activity through their ability to create money in the economy. Banks perform an indispensable task of intermediating between the deficit spending individuals or institutions and the surplus spending individuals or institutions in order to raise funds and then loaning those funds to deficit spending individuals or institutions. In addition another contribution banks make is their willingness to accept risky ventures such as loans from borrowers. While issue low risk securities to their depositors.

The various utility functions performed by banks are of great economic significance for the economy, which can influence the course and direction of economic activity with in the economy. They pool together the savings of the community and arrange for their productive use by providing short as well as long term loan in different forms necessary for the trade and commerce. They discharge various functions on behalf of their customers and in turn they are paid for their services.[2] Commercial banks undertake the payment of subscriptions, insurance premium, rent etc and collection of cheques, bills, salaries, pensions, dividends, interest and so on. On behalf of their customers they charge the small amount of commission of their services .In addition; they purchase and discount bills of exchange, promissory Notes and exchange foreign currency .Furthermore commercial banks also arrange to remit money from a place to another at very low price by means of cheques, drafts, SWIFT, etc. They buy and sell

[2] Commercial Bank Act 2031 B.S.

shares and securities on behalf of customers act as the custodian of yhe valuables such as jewelry and other goods, belonging to the customers. In fact the economic development of a country is not possible without a sound banking system.

## 1.2) Origin and Historical Growth of Banking

Banking is of ancient origin though little is known about it before the middle ages. The origin of commercial banking can be traceable in the ancient era of Greeks and Mesopotamians as well as Romans. When the practice of storing precious metals and coins at safe places and loaning out money to the people on interest was prevalent .The traces of rudimentary banking are found in the Chaldean Egyptian and Phoenician history.[3] According to Alfred Marshall. "In Greece, the temples of Delphi and other safer places acted as store houses for the precious metals before the days of coinage and private purpose at interest though they paid non themselves. Private money changers began with the task of reducing many metallic currencies, more or less exactly , to a common unit of value , and went on to accept money on deposit at insert and to lend it out at higher interest permitting mean while drafts to be drawn on them ."

Modern banking made its first appearance in medieval Italy, despite strong Christian prohibitions against Usury (the charging of interest) according to canon law. Florence, Genoa and Lucca became the centre of finance and trade in Twelfth and Thirteenth Centuries.[4] The first bank called the ‘Bank of Venice ‘, Italy in 1157 AD to finance the monarch in his wars. Following

[3] S. Vaidys Banking Management, Monitor Nepal, 1999, pg.18
[4] Ibid

its establishment the banks established were the Bank of Barcelona and the bank of Genoa in 1401 and 1407 respectively. Banking slowly spread to the rest of Europe, and by the late Thirteen century, in Barcelona even the clergy was engaged in Banking. The Germens and Swiss rose to per-eminence in the 1480s. The Banks of Amsterdam was the great banks of the 17$^{th}$ Century and it enjoyed a prestigious position, no less important than is held currently by the Bank of England, for a long time in the sphere of international commerce.

In England, banking had its origin with the London goldsmith who in the 17$^{th}$ century, began to accept deposits from merchants and others for safe keeping of money and others valuables. Crude money lending and money changing were presents during the reign of Elizabeth I ( 1533AD- 1603AD), and the practice developed where by merchants would deposits money ( coins ) in the Tower of London , which served as the British mint . In 1640, Charles I expropriated the sum then on deposit (approximately $ 200000). Having learned from this loss, the merchants decided to seek a depository free from the danger of royal confiscation. A natural place was the strong boxes owned by goldsmiths , and these business soon commenced the practice of accepting deposits for which they gave a receipts ( or goldsmith notes ) i.e. claims against deposits ) were negotiable they passed from hand to hand in exchange for goods and services and became a medium of exchange and a means of payment. From time to time they would be presented for conversion into coin. This first innovation was the forerunner of the bank note or bankers' currency.[5]

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[5] G.E.Makinen, 'Money Banking and economic Activity" , Academic Press, 1981,pg.191

Shortly there after as, early as 1680, the practice developed where by the depositor could write a note requesting that a sum of money be paid to a third party or to the bearer. This innovation was the forerunner of the modern check, which is merely an order to a bank requesting that a deposit be transferred to a third person or bearer. The next stage in development of banking arises when the goldsmith becomes a money lender.[6] This development was based on discovery or realization of the goldsmith that it was not necessary to maintain 100% reserve against deposit liabilities held with them , as it as unlike that all depositors would ask for their deposits on the same day . The goldsmith soon realized that on average, daily withdrawals were equal to daily deposits only a contingency reserve was required for the periods when withdrawals exceeded deposits. After keeping the contingency reserve, the goldsmith found it feasible to loan out the remaining deposits by charging interest. Fractional reserve banking must have developed shortly after the goldsmith entered the banking business because periodically, they computed balance sheet or as they called it "Casting up ye shop."[7] In this way, the goldsmith money lender became bankers who started performing the two major functions of a bank i.e. receiving deposits and advancing loans.

The concepts of modern commercial banks come into existence by the emergence of Bank of England in 1694 with a capital of $1.2 million by a group of wealthy London merchants and financiers. At that, time there was no concept of Joint stock Company it was necessary to obtained a special charter from the crown to pool their money in common venture. King

[6] R.R.Paul, "Money Banking and International Trade", Kalyani Publishers 1996, Pg 5-B
[7] G.E.Makinen, " Money Banking Study & Economic Activity," Academic Press, 1981 Pg. 102

William III was too pleased to grant a royal charter to bank of England, because in return a capital subscribed of $1.2 million was lent to him to finance his was against France. The charter also gave the new bank the right to issue notes, payable on demand, up to the amount of the loan to the king.[8]

In spite of the establishment of the Bank of England in 1694, the development of commercial banking institutions had to wait for another century and four decades until the passage of Banking Act of 1833, which provided freedom for the establishment of joint stock banks. While banking arose far early and rapidly in some countries than in other, it was only in the 19th century that the modern Joint Stock Commercial banking system developed in the leading countries of the world. When colonies were established in North & South America old banking services were transferred to the New World.[9]

## 1.3) Evolution of Banking in Nepal

The development of modern banks in Nepal does not have old history as developed countries. Albeit there are mentions of lending and other banking activities in the ancient books "Manusmriti" and "Kautilya's" Economics." Evidences have proved that in the seventh century King Guna Kamdeva collected loans from the people to rehabilitate the Katmandu valley. According to ancient "Vanshavali ", during the last decade of Eighth century, Shankhadhar, a local merchant from Katmandu started the Nepal Era after freeing the people by paying off their loans and liabilities. By this

[8] R.R.Joshi, "A Comparative Study on Financial Performance of NABIL & NGBL," A Master's degree Thesis 2001
[9] S. Vaidya, "Banking Management", Monitor Nepal, 1999, Pg.19

instance, it can be understood that there might have the transaction of money depositing and lending. In fourteenth century, the ruler of the Katmandu Jayasthiti Malla segregated the local domiciles into 64 different classes according to professions they had undertaken. 'Tankadhari' was one of those classes who used to deal in coins and precious metals such as gold. These Tankadaharis were said to have carried out the borrowings and lending of money (coins). Hence Tankadharis can be regarded as the traditional bankers of Nepal.[10] During the Rana Regime, the Rana Prime Minister Ranoddip Singh Rana established a state owned lending institution called 'Tejarath Adda' which would provide financial assistance in the form of loans to the government employees against their personal guarantee (Dhan Jamani) and deduction of a certain amount of their salary as installment charging five percent interest. Later, this institute started providing loans to the general people against pledge of precious and valuable materials like gold, silver etc. In the over all development of the banking system in Nepal, the Tejarath Adda may be regarded as the father of modern banking institution and for a quite long time it tendered a good service to government employees as well as to the general public.[11] After the establishment of Tejarath Adda, its popularity grew up which resulted in increase of its branches in several parts of the country in later years. In addition to that, there were moneylenders, scattered in different parts of the country that also carried out the transaction of lending of money at excessively high rates of interest). The history of modern banks in Nepal began only after when the first organized and modern bank-Nepal Bank Ltd established in 1937AD as a semi –government organization with an authorized capital, issued capital and paid up capital of

[10] Singh, H.& khadka. S.J., "Banking Principles, Legislation and Practice, Nabin Prakashan".2056

[11] Sunity Shrestha, "Portfolio Behaviour of Commercial Bank in Nepal", Shrestha, S., Kathmandu

Rs. 1 crore, Rs.25 lakh and Rs. 8.45 lakh respectively. Before that unorganized money market was the only source of financing for investors in Nepal Lack of economic development programs in those days confined the services of Nepal Bank Ltd. In accepting deposits from the public and financing they trade transactions. Later, the Nepal Rastra Bank was established in 1995AD that helped to make banking system more systematic and dynamic during that time. The Rastriya Banijya Bank was established in 1966 AD in order to plays a major role not only in domestic banking but also in the foreign trade.

To encourage healthy competition in the Nepalese financial sector Government introduced financial sector reforms policy in 1980, which allowed the entry of foreign banks in the form of joint venture bank in Nepal.[12] There are several joint venture banks operating in Nepal that aim at contributing to trade and commercial sector of the nation. All the Nepalese joint venture Banks (JVBS) are formed under the company Act. 2021B.S and operate under the rules , regulation and guidance of central Bank, Nepal Rastra Bank (NRB).Because of the new commercial bank's Act and Liberalization policy of 2037 B.S there are operating 15 joint venture banks out of 17 commercial banks and 58 finance companies in Katmandu. Today Nepal can take legitimate pride in the remarkable growth and progress in the banking industry.

[12] R.R.Joshi, "A Comparative Study on financial performance of NABIL & NGBL," A Master's Degree Thesis, 2001

## 1.4) Profile of Everest Bank Limited

By nature, Nepalese commercial banks can be classified into two categories viz. domestic commercial banks and commercial banks with foreign collaboration. The commercial banks with foreign collaboration are also called joint venture banks. Joint Venture is a general model for foreign direct investment. Joint venture means joining of forces between two and more enterprises for the purpose of carrying out a specific operation. Joint venture is the mode of trading through partnership among the nations and is also a form of negotiation between various groups of industries and traders. If one talks about Joint Venture there must be at least two parties and concepts of complementary and synergy. The joint venture concept has become more acceptable and popular than other concepts these days. Hence banks operating in the form of joint venture are known as Joint Venture Banks (JVBs). In common parlance, JVB in Nepal refers to foreign joint venture banks which foreign parent banks purchase certain percentage of share (not exceeding to 50%), apply their international management and network.

In Nepal, to encourage joint venture in banking sector three major reforms were carried out in 1980. The reforms include allowing the foreign banks to operate as joint venture, lifting of control on interest rate and introduction of the auctioning of government securities. The government's policy of allowing foreign JVB to operate in Nepal is basically targeted to encourage local traditionally run commercial banks to enhance their banking capacity through Competition, efficiency, modernization, mechanization via computerization and prompt customer's services.[13]

[13] Deepak Babu Mainali, On his thesis for partial fulfillment of MBA 2058

Joint Venture Banks are registered in Nepal under company Act.2021 BS and operated under the commercial Bank Act. 2031. They have joint venture between Nepalese investors and their parent Banks. Financial and non – financial institutions as well as private investors have to share the domestic Portion of investment. At present, there has been various JVBs established, the research has taken into consideration of "Everest Bank Limited" (EBL). EBL has been established with the objectives to expending professionals banking services to various sections of society in the kingdom of Nepal and thereby contributes in the economic development of the country. The Bank had come into formal operations from 18th October 1994 (1st Kartik 2051B.S). The operations take place from head office, which is in Naya Baneshowre Kathmandu. EBL is a joint venture with Punjab National Bank (PNB), one of the largest commercial banks in India having over 3700 branches and more than 300 foreign correspondents around the glove. PNB has the century old tradition of successful banking and is known for its financial strength and will laid down modern banking systems and procedures. PNB is providing the top management services to EBL under a technical services agreement signed between two institutions. EBL thus has advantage of banking expertise and financial strength of its partner. Currently with 14 branches in the various parts of the kingdom of Nepal, EBL operated with the objectives of providing the full range of quality banking services to both the business Community and the common man. As per articles and memorandum of Association of the Bank, the capital structure of the Bank is as under:-

| Share Capital | NPRs.In Million |
|---|---|
| Authorized Capital | 750.00 |
| Issued Capital | 466.80 |
| Paid Capital | 455.00 |

| Shareholding Pattern | Present | Amount ( Rs.in Million) |
|---|---|---|
| Nepalese promoters | 50 | 233.40 |
| Punjab National Bank | 20 | 93.36 |
| General Public | 30 | 140.04 |

Numbers of Shareholder's is 24222.

## 1.5) Focus of the study

Commercial banks play an important role in affairs of the economy in various ways. The operations of Commercial banks record the economic pulse of the economy. The size and composition of their transactions mirror the economic happening in the country. They are essential instruments to accelerated growth. By mobilizing community savings and diverting them into productive channels, commercial banks expand the tempo and appreciate the value of aggregate economic activity. Financial performance covers financial analysis and other portfolios of a JVBs. Financial is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statements. This study confines a analysis of performance of EBL. Financial ratio analysis is widely use tool of financial analysis and its performance. To determine the efficiency and the performance of the form's management as reflected in the financial records and reports.

Besides financial Analysis emphasizing profitability the study will focuses on:-

a. Income and Expenditure Analysis
b. Correlation Analysis
c. Trend analysis

Financial ratio introduces the financial strength and weaknesses of JVBs with the help of basic financial statement namely balance sheet and P/L account. It measures the banks liquidity, leverage, activity and profitability in rational way. It helps the researcher to make qualitative judgment about the banks financial position and performance. Therefore, financial analysis of the JVBs can be undertaken by management of the banks or by parties outside the banks viz. creditors, shareholders and others.

## 1.6) Statement of the problem

Nepal is an economically back pushed country. Most of the resources of the country are remained unused due to lack of financing. This inadequacy of financing can be removed by participation of foreign investors in the commercial banks to some extent. With this view welcomed the joint venture banks in Nepal. JVBs are in many numbers to these days. Although various joint venture foreign commercial banks are operating in Nepal after the HMG/N adopted the open liberal and market oriented economic policy, the financial sectors has not been enough to meet the growing need to the economy. Why is so and what are the problems? It's a very that how well the commercial banks of Nepal are doing is the matter of query. What will be their situation in future, are some arose question.

To answer the question, an analysis of their present financial performance is necessary. A well performance resembles the well combination of all factors. So the effectiveness of policy, managerial skill, Mobilization of funds and assets will be reflected by the achievement. In fact, efficient financial performance is a mirror, which shows the weakness and strength of the banks. Therefore, the paramount significant is not the establishment of commercial banks but how effectively they are doing their performance. Thus, the study for this purpose only takes into consideration the financial performance of the "Everest Bank Limited." This study attempts to answer the following research questions.

i) What is the position of its profit, loan and deposit over different periods?
ii) How does the bank manage and utilize the assets efficiently?
iii) What is the liquidity position of the bank?
iv) What is the relationship between loan and deposit?
v) How efficiently does the bank use his capital?

## 1.7) Objective of the study

The basic objectives of this study are to examine and evaluate the financial performance of "Everest Bank Limited." To achieve these prime objectives, the following general objectives are included in the study:-

i) To observe the return over the equity.
ii) To examine the financial statement of the bank and analyze them to see the financial soundness of the bank.
iii) To evaluate the status of collection and utilization of financial resources.

iv) To highlight the relationship between different variables.

v) To provide meaningful suggestion and recommendation for the improvement of the future performance of Everest Bank Ltd. Based on the finding of analysis.

## 1.8) Significance of the study

The change and challenges being witnessed in the financial sector have transformed the traditional business priorities and made it inevitable to redefine objectives, strategies and role of banks. The banking sector is gearing up to operate in a more competitive and market oriented system. It is modernizing its operations and moving towards providing a range of financial products and services in a innovation and competitive way. In this context no bank can be regarded as competent and well managed unless they manage their resources well, generate adequate profits and provide a decent return to the shareholder.

Thus, the present study well be more helpful to aware the shareholder regarding financial performance of this bank. Besides that other beneficiaries of the study can be categorize as follows:-

i) Lenders and borrowers of this bank.

ii) Management of this bank.

iii) Policy makers of this bank.

iv) Academicians / researchers.

v) General interested public.

vi) And also to HMG for making plans and policies of the country.

## 1.9) Assumptions and Limitations of this study

This, study has been carried out within certain assumptions and limitations that are as follows:

i) This study is based especially on secondary data like annual reports of the banks under review, journals, unpublished as well as published thesis works and other published articles and reports.

ii) The balance sheet, profit and loss account accompanying notes have been basically considered as the subject matters of the study and they are assumed to be correct and true.

iii) This study covers the data of the five years from fiscal year 2059/60 to fiscal year 2064/65

iv) Among the various commercial banks, this study is confined to evaluate financial performance of "Everest Bank Limited" only.

v) Time, resource and money are also constraints for the study.

## 1.10) Tentative chapter scheme

This study reports has been divided into following five chapters.

Chapter 1- Introduction

Chapter 2- Review of Literature

Chapter 3- Research Methodology

Chapter 4- Presentation and Analysis of data

Chapter 5- Summary, Conclusion and Recommendations.

## Chapter I: - Introduction

In this chapter includes the general introduction of bank and commercial bank, historical growth of bank, evolution of banking in Nepal, important of commercial bank has been briefly explained. Similarly, focus of the study, statement of the study and assumptions and limitations of the study are also highlighted.

## Chapter II: - Review of Literature

In the second chapter, the various articles and past studies pertinent to this research study are reviewed precisely. Moreover, the various accounting, as well as financial concepts such as financial statement analysis, ratio analysis etc. have been briefly defined so as to facilitate in the various banking related acts, NRB directives and government polices in the areas of banking are also reviewed.

## Chapter III: - Research Methodology

The third chapter briefly explains about the research methodology that has been used to evaluate the financial performance of the banks under consideration .This chapter consists of research design, source of data population & sample and financial and statistical performance of EBL.

## Chapter IV: - Presentation and Analysis of Data

This chapter is the heart of the study. In this chapter includes presentation and analysis of data using financial tools such as ratio analysis and statistical tools i.e. coefficient of correlation of different variables and trend lines.

## Chapter V: - Summary, Conclusion and Recommendations

The fifth chapter is the final chapter of the study, which consists of the summary of the four earlier chapters. The last chapter tries to fetch out a conclusion of the study, finding of the study and attempts to offer various recommendations for the bank under review.

Finally bibliography and annexure and presented at the end of the study.

# Chapter – II

# Review of Literature

## 2.1) Introduction

Review of literature means to collect the information about the selected topic of the research through the different sources. Review of literature helps till of the last step of the research process. It gives knowledge about which type of process of adopted, which type of data are collected, what are the difficulties arises in completing the research process, which type of study had been made in the past on that topic. So, this chapter highlights the literature related to the present study available from libraries, documents collection centers, studying encyclopedias, different magazines, journals, periodicals, research articles and information managing bureaus. Besides these this unit highlights the literature that is available in concerned subject as to my knowledge, review of reports related to concerned bank, review of research works, review of books, review of articles and relevant study on this topic and review of this thesis works performed previously.

Therefore, the chapter is categorized under two major headings: review of supportive text and related studies.

## 2.2) Concept of Bank

Banks are among the most important financial institution in the economy. Banks are those institutions that perform the indispensable task of intermediating between two individuals and institutions in order to raise funds and then provide loan to deficit spending individuals and institutions.

There is no unanimity among the economists about the origin of word 'banking'. Some of them insist that the 'bank' derives from the Latin 'bancus', which refers to the bench on which the banker would keep his money and his records. Some people trade the origin to the French word 'banque' and the Italian word 'banca' which means a bench for keeping , lending and exchanging of money or coins in the market place by moneylenders and moneychangers. The bank operates in the modern and competitive business environment. So it is very difficult to illustrate any absolute definition of bank. Different economists have offered different definitions, such as:

According to crowther, "the banker's business is to take the debts of other people to offer his own in exchange, and there by create money."

Prof. Sayers has described," Ordinary banking business consists of changing cash for bank deposits and bank deposits for cash; transfusing bank deposits from one person or corporation to another; giving bank deposits in exchange, for bills of exchange, government bonds. The secured on unsecured promises of businessman to repay and so forth."

Kent defines, "A bank is an organization whose principal operations and concerned with the accumulation of the temporarily idea money of the general public for the purpose of advancing to other for expenditure."

Thus a bank is an institution that accepts deposits from the public and in turn advances loans by creating credit. Therefore, it should be differentiated from other financial institutions, as they cannot create credit though they accept deposits. According to us Low, "any institution offering deposits subject to withdrawal on demand and making loans of a commercial or business nature is a bank."

Therefore summarizing the above, banks are those financial institutions that offer the widest range of financial services especially credit, saving and payment services and perform the widest range of financial functions of any business firm in the economy. The multiplicity of bank services and functions has led to banks being labeled "financial supermarkets" and to such familiar advertising slogans as Your Bank-a Full service financial institution.[14]

According to ancient "Vanshavali ", during the last decade of Eighth century, Shankhadhar, a local merchant from Katmandu started the Nepal Era after freeing the people by paying off their loans and liabilities. By this instance, it can be understood that there might have the transaction of money depositing and lending. In fourteenth century, the ruler of the Katmandu Jayasthiti Malla segregated the local domiciles into 64 different classes according to professions they had undertaken. 'Tankadhari' was one of those classes who used to deal in coins and precious metals such as gold. These Tankadaharis were said to have carried out the borrowings and lending of money (coins). Hence Tankadharis can be regarded as the traditional bankers of Nepal. During the Rana Regime, the Rana Prime Minister Ranoddip Singh Rana established a state owned lending institution called 'Tejarath Adda' which would provide financial assistance in the form of loans to the government employees against their personal guarantee (Dhan Jamani) and deduction of a certain amount of their salary as installment charging five

[14] S. Vadiya, "Banking Management", Monitor Nepal, Kathmandu, 1999

percent interest. Later, this institute started providing loans to the general people against pledge of precious and valuable materials like gold, silver etc. In the over all development of the banking system in Nepal, the Tejarath Adda may be regarded as the father of modern banking institution and for a quite long time it tendered a good service to government employees as well as to the general public .After the establishment of Tejarath Adda, its its popularity grew up which resulted in increase of its branches in several parts of the country in later years. In addition to that, there were moneylenders, scattered in different parts of the country that also carried out the transaction of lending of money at excessively high rates of interest). The history of modern banks in Nepal began only after when the first organized and modern bank-Nepal Bank Ltd established in 1937AD as a semi –government organization with an authorized capital, issued capital and paid up capital of Rs. 1 crore, Rs.25 lakh and Rs. 8.45 lakh respectively. Before that unorganized money market was the only source of financing for investors in Nepal Lack of economic development programs in those days confined the services of Nepal Bank Ltd. In accepting deposits from the public and financing they trade transactions. Later, the Nepal Rastra Bank was established in 1995AD that helped to make banking system more systematic and dynamic during that time.The Rastriya Banijya Bank was established in 1966 AD in order to plays a major role not only in domestic banking but also in the foreign trade.

To encourage healthy competition in the Nepalese financial sector Government introduced financial sector reforms policy in 1980, which allowed the entry of foreign banks in the form of joint venture bank in Nepal. There are several joint venture banks operating in Nepal that aim at contributing to trade and commercial sector of the nation. All the Nepalese joint venture Banks (JVBS) are formed under the company Act. 2021B.S and operate under the rules , regulation and guidance of central Bank, Nepal Rastra Bank (NRB).Because of the new commercial bank's Act and Liberalization policy of 2037 B.S there are operating 15 joint venture banks out of 17 commercial banks and 58 finance companies in Katmandu. Today Nepal can take legitimate pride in the remarkable growth and progress in the banking industry.

## 2.3) Concept of Commercial Bank

More often than not, banks and commercial banks are interpreted as being synonym of each other but in reality they are two different areas of study, commercial bank is one of the various types of bank and wood need a separate identity before one should go any further on study of performance of commercial banks.

There are several types of banks like commercial bank, central bank, Industrial bank, agriculture bank, rural development bank, saving bank, exchange bank, equipment bank etc. Commercial banks contribute significantly in the financial the saving community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand or on short notice. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance fixed assets.[15] They grant loans in the form of cash credits and over drafts. Apart from financing, the role of

[15] Ibid

commercial banks, in modern time, is more vital in (a) agency services, and (b) general utility services. Under agency services, a commercial bank performs a number of activities on behalf of its customers. A commercial bank undertakes the payment of subscriptions, insurance premium, rent etc and collection of Cheques, bills salaries, pensions, dividends, interest etc. on behalf of the customer. In addition, it undertakes to buy and sell securities on behalf of its customers. It also arranges to remit money from one place to another by means of cheques, drafts, T.T, SWIFT, etc. Apart from agency services, the commercial bank also renders some useful services known as general utility services which include safe keeping of valuables, providing assistance in foreign trade, issuing credit instruments like letters of credit and travelers cheques, acceptance bill of exchange, financial advising, offering security brokerage services and so on.

Commercial bank act 2031 BS of Nepal has defined commercial bank as, "An organization which exchange money, accept deposits, grants loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose."[16]

According to American institute of Banking defines commercial bank, as "Commercial bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprise regardless of the scope of its other services."[17]

The name commercial bank was first used to indicate that the loans extended were short-term loans to business, though loans later were extended to

[16] Commercial Bank Act. 2031 B.S
[17] American institute of Banking, "Principles of Bank Operation" USA 1972 P.P. 345

consumers, governments and the non-business institutions as well. In general, the assets of commercial banks tend to be more liquid and carry less risk than the assets held by other financial intermediaries.[18]

In this way, commercial banks are the important financial institutions in the economy. They are the vital medium for monetary policy transmission. The stability & profitability of a commercial bank depends on the sound management of their assets & liabilities. Thus, the aim of every commercial bank management is to optimize the portfolio of assets an liabilities with regard to its specific business policy.

## 2.4) Review of Financial Statements

A business enterprise communicates financial information to the users through financial statements and reports. The financial statements contain summarized information of the enterprise's financial affairs, organized systematically. It is a means to present the firm's financial situation to uses. Investors and financial analysts use financial statements to examine the firm's performance in order to make investment decisions; they should be prepared very carefully and contain as much information as possible.

Financial According is the "art of recording, classifying and summarizing, in a significant manner and in terms of money, transactions and events, which are in the part at least, of a financial character and interpreting the results thereof." Financial Accounting, therefore, produces a significant summary is

[18] The New Encyclopedia Britannica, USA, 1991, Vol. 3

called the financial statements that comprises the balance sheet and profit and loss statement.

Financial statements are prepared from the accounting records maintained by the firm. The generally accepted accounting principals and procedures are followed to prepare these statements. The basic objective of financial statements is to assist in decision-making.

The definition of financial statements by Vanhorn and Watchowlez."Financial statement analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet, which represents a snapshot of the firm's financial position at a moment in time and next, income statement, that depicts a summary of the firm's profitability overtime."[19] Thus "the analysis of financial statement is an important aid to financial analysis. It is helpful in assessing the financial position and profitability of a business concern."[20]

Weston, Besely and Brigham have stated," Financial statement analysis involves a comparison of a firm's performance with that of other firms in the same line of business, which often is identified, by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current, strengths and weakness and to suggest actions that might enable the firm to take advantage of the strengths and correct its weaknesses."[21]

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[19] J.C Vanhorne, & J.M Watchowlez , Fundamentals of Financial management, Prentice Hall of India Pvt. Ltd. 1997, Pg. 120

[20] I.M Pandey,., "Financial Management," 1970 Pg.50

[21] J.F. Weston. S Basely, &, E.F Brigham. Essential Managerial Finance. The Dryden Press, Harcourt

American Institute of Public Accounts has defined as, "Financial statement are prepared for the purpose of the presenting a periodical review or report on the progress by the management. They deal with the status of investment in the business as also with the results achieved during the period. They reflect a combination of recorded facts, accounting conventions and personal judgments. And the judgments and conventions applied affect them materially. The soundness of judgments necessarily depends upon the competence and integrity of those who make them and on their adherence to generally accepted accounting principles and conventions."

They definition succinctly but nonetheless effectively brings out the characteristics features of the financial Statements, their strengths and weakness and their reliability and limitations. Some of the features are enumerated below:-

- ❖ They are periodical review of the status of investment and progress made by the Management.
- ❖ They contain facts recorded on the basic of accounting conventions and exercise of personal judgments.
- ❖ Integrity and competence of accountants who prepare them have a vital bearing on the ultimate results furnished by them.

A major weakness of Financial Statement is its lack of objectivity, being influenced largely by subjective exercise of judgments. For instant, in the hands of unscrupulous management with fraudulent intentions, manipulations are possible, which could distort, to a large extent, the

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Brace College Publishers, 1996, Pg. 78

ultimate results, thus camouflaging the real picture. Nevertheless, if the accountant complies the statements diligently and without personal bias and on the basis of established and generally accepted accounting practices, and procedures and comment on whether the Financial Statements give a true and fair view of the state of affairs and the net result. The Auditor's Report is therefore, an independent professional guarantee for compliance with the generally accepted accounting principles and to the extent, takes care of lack of the objectivity and an intelligent scrutiny of the Annual Report is bound to bring out Auditor's reservations on this subject.

Nepal Rastra Bank has specified some guidelines in respect of preparation of financial statements by the commercial banks that are as follows.

a) The commercial banks should prepare the statements of Balance sheet and profit and loss Account as per the format and procedures prescribed by NRB. The Statements of Balance sheet and profit and loss A/C as well as Schedules thereto should be considered as statutory forms. Section (25) of commercial Banking Act, 2031 requires completion of audit of such statements within 5 (five) months from the closure of the fiscal year. The period of shrawan to Ashad is considered as the fiscal year of the commercial banks.
b) Banks should, after completing the audit, publish the Annual report containing the Balance Sheet, profit and loss A/C and cash Flow statement, including the schedules relating to such financial statement in the national level principal newspapers for the information of the general public.
c) The Balance sheet and profit and loss A/C have to be prepared on the basis of the generally accepted accounting principles, the prepared on the

basis of the generally accepted accounting principles, the prevailing accounting standards. Accounting policies once adopted by the management should be followed consistently. In the case of any change In the policies, the particulars of the previous as well as new policy and the effect in the bank's profitability should be disclosed.

d) The commercial banks must complete the Annual General Meeting within 6 months from the closure of financial year (within the end of poush of each fiscal year).

e) The auditors, upon completion of the audit work of banks, shall submit a scopy of preliminary audit report presented to the bank management to NRB. Unless approval is given after detail scrutiny of above reports and inspection of financial statement of each bank by NRB, publishing the Annual Report for the purpose of Annual General Meeting is prohibited.

### 2.1.1) Balance Sheet

Balance sheet is one of the most significant financial statements. Balance Sheet, as the name indicates, is a statement of balances, depicting the state of affairs or financial condition of a business enterprise at a particular moment of time. As on the data of reckoning, it discloses to the user of the statement of the investment of funds by the enterprise on various classes or categories of assets and the various sources from which funds have been drawn to enable such investment. More specifically, balance sheet contains information about resources and obligations of a business entity and about its owners' interests in the business at a particular of time. It provides a snapshot of the financial position of the firm at the close of the firm's accounting period.

The Balance Sheet can be presented in a vertical order, beginning with assets. Assets and liabilities are the two constituents of Balance Sheet. Assets represent economic resources possessed by the firm. Normally assets and liabilities are detailed in their order of permanence. For instance assets start from fixed assets – the near permanent assets – and go down to "current assets, loans and advances" which are regarded as being closest to cash in terms of their convertibility to cash within a short period, while fixed assets are used in business for more than an accounting period of one year. Similarly liabilities represent claims against enterprise, requiring payment at a point in future by converting the assets into cash. In other words, the liabilities are the sources from which funds were drawn by the enterprises to acquire the various assets. Liabilities payable within an accounting period are called current liabilities and those payable after a year or so on are called long-term liabilities. There are three major sources (liabilities) from which funds are drawn. They are (i) proprietor or owners or shareholders who contribute the risk capital; (ii) The lenders- banks and who grant the debt capital; and (iii) The outsiders (creditors) who defer payments due to them for materials delivered or services rendered to the enterprise. Thus, balance sheet gives a concise summary of the firm's liquidity and solvency.

### 2.1.2) Profit and Loss Statement

Balance sheet is a significant by bankers and other lenders because it indicates the firm's financial strength, as measured by its resources and obligations. However, creditors, particularly banks in Nepal and India and financial analysts have recently started paying more attention to the firm's earning capacity as a measure of its financial strength. Balance sheet, income statement or profit and loss account reflects the financial health and potential of the firm. The profit and loss account is the "score-board" of the firm's performance during a particular period of time. The generally accepted convention is to show one year's events in the profit and loss account (also called P/L A/C).Since the P/L A/C reflects the results of operations for a period of time, it is a flow statement. In contrast, the balance sheet is a stock or status statement as it shows asset, liabilities and owners equity at a point of time. Analysis of P/L A/C for several years may reveal desirable or undesirable trends in the profit earning capacity of a business enterprise. The P/L A/C presents the summary of revenues, expenses and net income (or net loss) of a firm for a period of time. Revenues are benefits, which customers contribute to the firm in exchange for goods or services provided by the firm. The cost of the economic resources used in providing goods or services to the customers is called expenses. So expenses are costs incurred for generating revenue and are therefore related to the operations of a business firm. The excess of earned revenues over the incurred expenses in a specific period is called profit or, income which results increase in owner's equity. If expenses exceed revenues the difference is called a loss resulting in net decrease in owner's equity.

### 2.1.3) Assets and Liabilities of Commercial Banks as per NRB Directives

The statement that shows the assets and liabilities of a commercial bank is its balance sheet. We have so much discussed about Balance sheet above. So there is no need repeat the definition of it.

The following are the items that appear in the assets and liabilities sides of the balance sheet.

### 2.1.3.1) Assets of the Banks

Under this head, the researcher will be explaining about the assets and liabilities of a commercial bank, a brief knowledge of which may be helpful further course of our research study.

### A) Cash

Cash is the first asset in the portfolio of a commercial bank. Cash is completely liquid from of asset that that refers to cash in hand, and cash with the central bank. Cash is held to meet the demands of the customers. Cash is the primary reserve of the bank and the bank knows by its experience that it must keep a certain percentage of its deposits liabilities in the form of cash for its contingent reasons. The structure of the cash of a commercial bank will be in the form of cash in its vault, with central bank and some portion with other commercial banks for their inter bank adjustments. The cash reserve with central bank and other banks are equally good as cash lying in its vault.[22]

The liquidity position of a bank is measured by the ratio of its cash and bank balance to its total deposit, which is called Cash Reserve Ratio and in this regard the following arrangements have been put into force by the central bank of Nepal i.e. Nepal Rastra Bank.

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[22] S. Vaidya, Banking Management, Monitor Nepal, Kathmandu, 1999

| | |
|---|---|
| a) Balance to be maintained with Nepal Rastra Bank | 1. 8% of current and saving deposit liabilities.<br>2. 6% of fixed deposit liabilities |
| b) Cash in Vault | 3% of total deposits liabilities |

In the event of shortfall in maintenance of the cash reserve Ratio as above, banks are penalized as per section 32(2) of NRB Act, 2012.

The success of a bank depends on the maintenance of adequate cash reserves required to honor the cheques presented by the customer. A bank usually synchronizes the deposits and withdrawals through investigations and research. A commercial bank has to manage these two in such a way that the good banker always keeps an extra amount of cash for the sake of safety. However, the bank must avoid excessive holding of since it is an idle asset and do not generate any income from this.

## B) Money at Call and Short Notice

The amount of all interest bearing placements with other banks (local or foreign) with maturity period of non-exceeding 7 days with stipulated condition for payment at call or at short notice (48 hours) are exhibited under this head.

## C) Bills Discounted and Purchased

Commercial banks prefer to invest in bills for several reasons. The bills are negotiable and can be bought and sold easily. Bills may be promissory notes, bills of exchange or treasury bills. Commercial banks prefer to have these types of assets due to its ready liquidity nature. That is, they can be easily marketed and they also bring some revenue to the bank. Most of the bills are eligible for rediscounted at the central bank. This enhances the liquidity of the bills. They are regarded as ideal bank assets because they satisfy the principles of liquidity, safety and profitability.

## D) Investment

Investments constitute a banker's third line of defense, after cash and bills discounted. Investments yield a higher return than that obtained from liquid assets but is less than loans and advances. Banks invest a large proportion of their in funds in government securities and other gilt-edged securities. These securities can be converted into cash easily and without much loss of value. But the banks do not prefer to invest their funds in corporate shares and debentures due to risk involved in them. The commercial banks of Nepal also make considerable amount of investments in government treasury bills and bonds.

## E) Loans and Advances, cash credits and Overdrafts

Loans and advances are most profitable of all the assets of a commercial bank. This is the primary source of income and the most profitable of all the assets of the banks. Loans advances account for the largest part of the revenue of the bank. It is therefore, a bank is always willing to lend as much of its fund as possible. But it has to be careful about the safety of such advances as well. If the bank is too liberal, it may be influenced by bad debts whereas its timidity may fail to obtain adequate returns from the allocated funds for it. In the mean time, they are the least liquid of all the assets. In other words, it is very difficult to realize them at short notice except those that are repayable on demand. Therefore a bank cannot rely on such funds at the time of emergency.

There are different types of loans and advances and different types of securities are required for such loans and advances. Whatever is the nature of the security, it should lend money for short periods rather than long periods so that such short loans can be collected at short notice.[23] Further commercial banks are not bound to supply money for long-term credit or investment in fixed capital. The nature of its collected deposits determines the nature of lending of commercial bank. Even if the bank receives long-term deposits, it is profitable for it to make advances for short term.

Banks lend money in different forms. The main types of loans and advances granted by banks in Nepal are cash credit i.e. working capital loan, overdraft demand loan, term loan, trust receipt loan and discounting of bills of exchange. The over draft is a running loan, and discounting of bills of exchange. The over draft is a running loan account, which is given against the security of bonds, fixed deposits or is given without any security. Its drawing is permitted on current account. Cash credit loan is also a running loan account, whose drawing power is regulated by stock statements of the borrower and wherein credit/debit transactions are permitted with in the sanctioned limit. Cash credit is always granted against security of certain commodities products, or book debit/ receivables. Demand loan is a loan on repayment basis and is not a running account. Demand loan once granted will have a debit for the quantum sanctioned and thereafter only credits for repayment normally personal nature are permitted. A term loan has all the

[23] IBID

characteristics of a Demand loan expect that the repayment period is normally more than five years. Trust Receipt Loans are sanctioned as a limit to be utilized against hypothecation of stocks imported under the bank's own L/C, normally for a period, of 90 days. It is in the nature of demand loan; the limit is not canceled with liquidation but is reinstated. The discounting of bills of exchange is the best form of advance in terms of credit discipline, as it is self-liquidating in nature. Any trade/ industrialist receive payments by mode of cheques of draws Hindis/ documents on the buyer. The bank discount these cheques/ bills of exchange.

## F) Fixed Assets

All assets of long- term nature (fixed) owned by bank are accounted and exhibited under this head at written down value after deducting the depreciation from the total cost. In case of disposal of asset, sold or written off, for the purpose of determining profit and loss on such sale or writing off, the (fixed) Assets Account will be credited with the amount equivalent to the written down value, and the different in cash receipt will be adjusted to profit and loss A/C. Fixed assets are the least liquid assets of the bank such as land and building, vehicles, machinery owned by the bank. They cannot be considered as the liquid assets of the bank.

## G) Other Assets

Other assets of the banks include any other tangible and intangible assets, not mentioned above, stationery stock, Accrued interest on investment, Accrued interest on Loan, Sundry Debtors, Assets-in-transit, Non-Banking

Assets, Expenses not written off like prepaid expenses, development expenses etc. which are exhibited under this head.

### H) Contingent Liabilities

Claims on bank but not accepted by the bank, the amount of letter of credit opened, the amount of rediscounted bills, full value of unmatured guarantees, the full value of unmatured forward exchange contract, the amount of acceptances and endorsements etc. are disclosed under contingent liabilities.

## 2.1.3.2) Liabilities of the Banks

The liabilities of a commercial bank represent the sources of its funds that are employed by the bank in the ordinary course of its business. The items, which appear in the liabilities side of the Balance Sheet, are as follows:

### A) Capital

The authorized capital is the maximum amount of capital that a bank can issue under its Memorandum of Association. The issued capital is that capital which is issued for public for subscription. Subscribed capital may be the whole of issued capital of its part. Called up capital is the amount that the shareholders are required to pay. Paid up capital is the actual amount that the shareholders have paid. So the paid up capital is the actual cash capital of the bank. The difference between the called up capital and paid up capital is known as uncalled capital. It is an additional margin of safety for the depositors and creditors of the bank in case of their doubt the financial situation of the bank.

## B) Reserve Fund

Reserve fund is the presentation of accumulation of profit-appropriated over a period of time. The objective of the reserve fund is to meet the unforeseen contingencies. It is not made from the original capital of shareholder but by the profit generated by the bank. Generally, the amount of reserve funds is invested in first class securities. At the time of heavy losses by banks, this fund is used. In other words, the figure of the reserve presents an additional security of the banks to their customers. Generally Reserve Fund or the Statutory Reserve Fund, Capital Reserve Fund, Share premium, other Reserve falls under this heading including Accumulated Profit/Loss.

## C) Deposits

This item represents are liability of the bank. Since the deposits are the borrowed amount from the depositors or from general public, it is the largest portion of liability of the banks. A bank can collect deposits in various forms- saving, time, current or demand deposits, etc. Today we can see different types of deposits by bank in Nepal. Banks usually adopts different policy of the withdrawals of money from bank by the depositors. Similarly, different interest rates are entitled for different types of deposits. Deposits are the main source of fund, which the banks usually use for the generation of profit .Therefore, the efficiency of the banks depends on its ability to attract deposits.

The deposits are highly affected by number of factors-types of customers, physical facilities, and management accessibility of customers, participation in community activities, types and range of services offered, and rate of interest paid on deposits. In addition, the prevailing economic conditions exert a decisive influence on the amount of deposits the banks receive. The nature of the bank such as retail or wholesale, or the environment of the community-industrial, agriculture etc. is other factors that influence the bank deposits.

### D) Borrowings from other Banks

It includes the amount that a bank has borrowed from other banks during the course of operation. For this the bank pays certain amount of interest to the lending bank.

### E) Bills Payable

Under this heading, outstanding amounts pertaining to draft, T.T, Mail transfer and pay-orders issued by one branch to another branch of the bank, as well as bills drawn on the bank by other local and foreign banks are accounted.

### F) Other Liabilities

Other than the capital and liabilities accounts mentioned above, all other liabilities of whatsoever nature such as pension fund, insurance fund, Unclaimed dividends, un-expired discounts, etc. included under this heading.

### G) Profit and Loss Account

It is the balance of profits left after making all adjustment that also appears in the liability side of the balance sheet.

## 2.5) Cash Flow Analysis

The cash flow or cash budget as it is called sometimes is basically a functional statement, concerning itself with the pure cash management aspect. It is designed to throw light on:

1. How much cash are likely to arise within short span of time and
2. How much cash resources will be available to meet them? For instance, if the Finance Manager has to pay an installment of a term loan to a financial institution within a period of three months, he needs to visualize a cash budget to decide whether he can meet his commitment within any additional bank draft. Similarly the cash budget would be a very useful and handy tool if the banker, examining a request from the borrower for opening an L/C for import of materials, has to decide whether the borrower would be able to meet the L/C liability without any increase in the sanctioned cash credit limit. A cash budget is a simple projection of cash account- usually month-wise indicating cash receipts and cash disbursement. For the Preparation of a cash budget, we need some information of corporate Policy in terms of sales, purchases and other payables, other discretionary outlays like capital expenditure, dividends, retirements of debts, etc. Following are the parameters for the purpose.
   a) Terms of sales-cash and credit with respective rations,
   b) Period of credit allowed and period of realization of sundry debtors,
   c) Period of credit available on purchases of raw materials stores and spares,
   d) Terms of payment for other expenses payable,
   e) Production and sales budget.

From these basic parameters and other data on miscellaneous receipts and payments, a cash budget can be drawn up.

## 2.6) Ratio Analysis

Ratio analysis is a significant tool of performance analysis. It is one of the techniques of measuring the financial activities of enterprises. Ratio analysis is defined as the systematic use of ratio to interpret the financial statements, so that the strengths and weaknesses of a firm as well as its historical performance and current performance can be determined. The term ratio indicates a numerical or quantities relationship between two items or variables within a particular financial statement or within financial statements, which helps to make a quantitative judgment and can be expressed as proportion of numbers, function and percentage.

Ratio analysis is such a powerful tool of performance analysis that through it economic and financial position of a business unit can be fully x-rayed. They also measure of work efficiency and prove to be basic instruments in the control process: they are the backbone in schemes of business forecasts. Besides, they enable us to take rational and profitable investment decisions. Thus, "the technique of ratio analysis is of a considerable significance in studying the financial stability, liquidity, profitability and the quality of the management of the business and industrial concerns."[24]

"Ratio analysis is technique of analysis and interpretation of financial statement. To evaluate the performance of an organization by creating the

[24] C.R.Kothari, "Quantitative Technique," Vikash Publishing House Pvt. Ltd. New Dheli, 1992. P.487

ratio from the figure of different accounts consisting in balance sheet and income statements is known as ratio analysis." [25]

The financial statements and balance sheets published by EBL contain important information for analyzing that has been extracted to determine its historical and current performance. In other words, important information extracted from the published financial statement and balance sheet of EBL presented and interpreted by ratios would be effective to analyze the overall financial performance of this bank. Thus, the ratios have been classified into following three main groups.

a) Financial policy measures,
b) Operating efficiency measures,
c) Performance measures.

These above ratios have been dealt in chapter three.

## 2.7) Regulations Pertaining to Commercial Banking Activities in Nepal

Regulation is a procedure of institutional arrangements established to reduce the likelihood and severity of a banking of a banking panic. It is also institute to limit the risk that any one may take, with a goal of limiting vulnerability of the system as a whole.

1. Commercial banks are registered under company Act, 2021 and Commercial Bank Act, 2031 in order to begin operation in Nepal. The Bank is registered under company Act only if NRB approves the application for opening the bank and makes recommendation.

[25] R.M. Dangol, "Management Accounts" 2052 Page 269

2. Minimum paid up capital required for a new commercial bank is Rupees 30 million to operate in rural areas except in Kathmandu valley and other municipalities, Rupees 50 million to operate in five adjoining districts except Kathmandu valley, Rupees 120 million to operate all over Nepal except Kathmandu valley, and Rupees 500 million to operate all over Nepal. Existing banks have been instructed to raise their capital funds to minimum Rupees 500 million by fiscal year 2057/58 Ashad.[26]
3. Banks are required to transfer 20% of their net profit to general reserve, and 25% of exchange fluctuation gain to exchange fluctuation reserve. Likewise, they are required to make loan loss provision based on the classifications of loans. Interest income in excess of 5% spread should be deposited in special fund.
4. Banks are required to obtain approval from NRB to open any branch or counter. They need to open at least two branches in adjoining semi urban areas, at least one branch rural area if they want to open a branch in Kathmandu, Lalitpur, Bhaktapur, Pokhara, Birgunj, Biratnagar, and Narayanghat. Normally, banks are not allowed to open counters in the metropolitan and semi – metropolitan cities expect for short special occasions. Expect for the counters established in the premises of Royal Palace, hospital and foreign diplomatic missions and for specific purpose like remittance and pension distributions, all other counters should be converted to branches within two years failing which they should be automatically closed.

[26] R.R. Joshi, "A comparative study on financial performance of NABIL & NGBL," A Master's Degree Thesis, 2001

5. Banks have to extend a certain percentage of loan and advances in the deprived and priority sectors. In case of shortfall of any sector ( deprived and priority ), penal interest at the highest lending rate of the period is charged to the bank,
6. Commercial banks may extend to a single borrowed or group of related borrowers the amount of Fund Based loans and advances up to 25% of the bank have maintained low- liquidity than required. Gradual increase in the amount of funded debt and highly geared capital structure seem to be negative performance for the bank. Moreover, return on assets is not satisfactory. The research suggests that the bank should invest its resources in more productive sectors and equity financing should be emphasized.[27]

Bishnu Dev Pandeya has conducted another study to ascertain, analyze and evaluate the financial position of HBL for the period of 1994/95 to 1998/99. In the study, researcher has tried to examine the growth of the sampled bank. In his research, he concluded that overall liquidity and capital structure position of the bank is not satisfactory. Overall profitability condition was highly appreciable profit generating capability through loans and advances appeared satisfactory. Trend of deposit collection showed that the bank was in a higher risk with respect to saving deposits as against the fixed deposits.[28]

Similarly, another study done for the period 7 years (from 1988/89 to 1994/95) has attempted to the functions and policies of NGBL. The study

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[27] Deepak Joshi, "A study on commercial Banks of Nepal with social reference to financial analysis of RBB, an unpublished master degree's dissertation, T.U.

[28] Bishnu Dev, Pandeya, " A Study of financial analysis on HBL. "Unpublished Master's Degree Thesis, T.U.2000

has been performed to diagnose the strength, weakness, opportunity and threat of the bank. Study showed that liquidity ratio of the bank is below the normal standard. Capital structure is extremely levered. Coverage ratio, interest earned to total assets and RON are lower. Capital adequacy ratio of the bank is above the standard set by NRB. ROCE is decreasing as well as ROSE is seems to be commendable. However, EPS is enough high while DPS is in fluctuating trend.[29]

The general objectives of the next research carried out by Sridhar Adhikari for the period of five fiscal year (from 1994/95 to 19998/99) examined and evaluated the financial performance of the two JBVS i.e. EBL and NSBIBL. For the study researcher has set null hypothesis as; there is no significant difference between the financial performance of EBL and NSBIBL. According to the finding derived form Mr.Adhikari, EBL is found superior regarding the liquidity, quality assets they possessed and capital adequacy, the core Capital Fund and Non –Fund Based ( Off-Balance Sheet ) facilities like Letters of credit, Guarantees, acceptances up to 50% of its core Capital Fund.

## 2.8) Some Transactions not permitted for Commercial Banks under Section 13 of Commercial Banking Act. 2031.[30]

The following transactions are specifically prohibited from undertaking by the commercial banks under Section 13 of Commercial banking Act, 2031.

[29] Rajendra Prasad Siwakoti " A study on an appraisal of financial position of NGBL. " Unpublished Master's thesis, T.U. 1998

[30] Directives of Nepal Rastra bank, 2001 Edition, Complied by R. Bajracharya & Company

1. To extend advances against security of own shares.
2. To extend advances to directors or their family members. The term " members of the same family" as mentioned in Section 13 (f) of Commercial Banking Act, 2031, shall include the concerned person's husband, wife, son, daughter, adopted son/daughter, father, mother, elder/ younger brother, elder/ younger sister, and all other persons residing jointly in the same house or persons residing separately by being supported by the concerned partly.
3. To extent advances to companies' organizations in which the director or his family members, jointly or separately, has financial interest (10% of more paid up capital held).
4. To extend advances beyond the stipulated limit to a single borrower group.
5. To hold non-banking assets (acquired in satisfaction of claim) for more than 7 years.

## 2.9) Review of Cases Related to the studies

Prior to this study, numerous researches had been carried out by students in respect to various aspects of "Commercial bank financial performance or soundness."
In this section, some relevant theses have been reviewed in order to facilitate the subject matter of current study.

"A study of financial performance of Commercial Banks" has found that the liquidity positions of commercial banks are highly leveraged than those of joint venture commercial banks. Loan and advances are the major form of investment. Two third of the assets have used for earning purpose.

Profitability position of NABIL is stronger than of other commercial banks.[31]

In other study entitled, "An appraisal of financial position of Nepal Bank Limited" has indicated the liquidity position satisfactory maintained and the bank has been found to adopt conservative financing policy that is low portion of equity capital has been resorted to finance total assets. The bank has successfully performed beyond the break-even point over the study period the research recommends the use of proportionately more equity capital.[32]

Another research for the four years period from F.Y. 1993/1994 to 1996/1997 has highlighted the growth, objectives, functions and role of commercial JVBs. In the study, Mr.Jha has examined the comparative strength and weakness of four comparative JVBs. He has studied the operational aspects of these JVBs taking into account the products they offer. According to his study, NLBL had better results in case of the profitability except return on net worth. Similarly, it had better liquidity, credit deposit and capital adequacy position as compared to HBL, NABIL and NGBL. NGBL holds highest rank regarding perforating assets ratio ant other indicators like D/p ratio; EPS and BVPS. All the selected JVBs are extremely levered, though NIBL and NABIL had relatively lower ratios. Trend analysis showed NABIL's growth in terms of PBT, loans and

[31] Keshav Raj Joshi, "A Study of Financial Performance of Commercial bank, an unpublished master degree's desertion, T.U. 1989.
[32] N.B Amatya, 1993, "An appraisal of financial position of Nepal Bnak Limited" – an unpublished MBA thesis, T.U.

advances and total deposits has been increasing rapidly that of remaining 3 selected JVBs.[33]

Similarly, the study carried out by Pramesh K.C has analyzed the different polices formulated and implemented by NABIL, NIBL and NGBL regarding the dividend since their establishment to 1990. He remarked that "JVBs in Nepal are growth bank. Their market value per share are significantly fluctuated and traded on high price. They are less risk. Dividends per share of these banks are raised at the satisfactory level. Price earning ratio and earning yield ratios is inconsistent. These banks are declaring higher divided return on paid up capital." He has focused only in the dividend policy and other divided related matters.[34]

"A study on Commercial Banks of Nepal with special reference to financial analysis of RBB" by Deepak Joshi concluded that liquidity position of overall capital structure of NSBIBL appears more levered than that of EBL. But NSBIBL is found superior in terms of profitability and turn over. Comparatively, interest remained more dominant in the total income and expenses of NSBLBL than that of EBL. Regarding the test of hypothesis is (at five percent level of significance) the performance of the sampled banks significantly different with respect to the ratio; loans and advances to saving deposit. Loan loss provision on total deposit, interest earned to total asset,

[33] R. Jha, "A comparative analysis of financial performance of the selected JVBs", unpublished master's Thesis, T.U. 1999
[34] Pramesh K.C." Divided Policy of Joint Venture Banks in Nepal. " Unpublished Master Degree Thesis, T.U. 1991

and tax per share. Correlation analysis signifies that EBL is successful to utilize its resources more efficiently than NSBIBL. [35]

Mr. Pradhan has done a research for which he carried out a survey of 78 enterprises. According to him, "The most important finance function appeared to be working capital management while, the least important one appeared to be maintaining good relation with stock older." [36]

Mr.Uttam Raj Pant, in his thesis paper entitled, "A study of commercial banks deposits and its utilization" had made a resources utilization is due to their lending confined for short term only. So he recommended that commercial banks should give emphasis also on long term lending for better utilization of the deposits. [37]

Mrs. Ramala Bhattarai, in her thesis paper entitled "Lending policy of commercial banks in Nepal, " has tried to examine the lending policy of the commercial banks and she has concluded that efficient utilization resources is more important than collection of the same lower investment means lower capital formation that hampers economic development that banks showed emphasis on efficient utilization of resources.[38]

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[35] S. Adhikari, "A comparative study of financial performance of NSBIBL and EBL. " Unpublished Master's Thesis. T.U. 2001.

[36] Radeshyam. Pradhan, Financial Management Practice in Nepal ( New Delhi, Vikash Publishing House, 1994)

[37] U.R. Pant, "A study of Commercial Banks deposit and Its utilization, " An unpublished master's theory T.U. 2033 B.S.

[38] Ramala Bhattarai , "Lending Policy of Commercial Banks in Nepal" an unpublished master's thesis. T.U 1978

For the period from F.Y 1993/94 to 1996/97, another study of NGBL and HBL was Sangita with view of being familiar with comparative strength and weakness and their ability through the analysis of liquidity ratios. The major findings drawn from the study are –HBL is more efficient in case of liquidity. As well as it is more levered than NGBL where as, HBL is in better condition from the aspect of capital adequacy, activity and profitability ratios. Study showed positive correlation between loans and advances to total debts of both banks. According to the trend analysis, profit before tax of NGBL has been increasing at the higher rate than of HBL. [39]

Similarly, in another study for the period of F.Y 047/048 to 057/052, researcher has predefined his objective as comparative study of NBL and NGBL in term of function, growth developments, and financial performance. Finally, he has concluded that current assets of the both banks are adequate to meet the current liabilities. However, NGBL is better in term of utilization of resources in short-term resources and is fast growing, the over all profitability are higher where as, NBL has better turnover but low profit making capability and gradually decreasing. [40]

Sunil Chopra in his article "Role of foreign banks in Nepal " undoubtedly conducted that the joint venture banks are playing in increasingly dynamic and vital role in the economic development of the country. That will undoubtedly increase with time.[41]

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[39] Sangita Shakya," Comparative Analysis of financial performance of selected JVBs. A case study of NGBL and HBL, " unpublished master's thesis T.U. 2000

[40] Ramji Paudel, , " A comparative analysis of financial performance between NBL and NGBL unpublished master's Thesis, T.U 1997

[41] Sunil Chopra, " Role of foreign Banks in Nepal," Nepal Rastra Bank Samacahr, NRB, Baisakh 2049, PPI-2

Mr. Acharya's study entitled "A comparative study of financial performance of JVBS in Nepal, "especially on NABIL and NIBL concluded that the liquidity position of both the banks is below normal standard of 2:1 (i.e. unsatisfied), comparatively this ratio if NIBL is better on an average. Both the banks are found to be efficient in utilized most of their total assets.

Based on the finding of analysis, the research suggest finding out the root cause of weak liquidity position to improve liquidity of both banks. Similarly both the banks are suggests to maintain improved capital structure in increasingly equity base to extend loan advance to utilize more of the total deposits to minimize operational expenses or to mobilize resources more efficiently and to mobilize resources more efficiently and to extend their banking facilities even in rural areas.[42]

Mr Regmi in his thesis "A comparative study of the financial performance of HBL and NBBL," he suggests NBBL to increase its current assets because the bank is not maintaining adequate liquidity position in comparison with HBL. As capital structure of both the bank is highly levered, both the banks are recommended to maintain and improve mix at debt. And owner's quality by increasing equity share. He further suggests to HBL to improve the efficiency in utilizing the deposits in loan and advances for generating the profit, NBBL should try to maintain present position on this regards. Profitability position of HBL is comparatively better than the same of NBBL. So, NBBL is recommended to utilize its resources held idle, bank

[42] Gyanendra Acharya, "A comparative study of financial performance of JVBs in Nepal especially on NABIL and NIBL, an unpublished thesis of master degree, T.U. 1997

faces high cost and causes the low profit margin. An ideal dividend payout ratio is based upon shareholders expectations and the growth requirements of the banks. NBBL is suggested to increase its dividend payout ratio.[43]

The review of the above mentioned bunch of research writes have definitely enrich of researcher vision to elaborate analysis to come to the meaningful conclusion in realistic term and thereby come with some conclusion, few key suggestions that help in improvement of commercial banks.

[43] Ganesh Regmi, "A comparative study of the financial performance of Himalayan Bank limited and Nepal Bangladesh bank Limited" An unpublished master level thesis, TU 2001

# CHAPTER III

# Research Methodology

## 3.1) Introduction

Research methodology may be defined as a systematic process that is adopted by the researcher in studying a problem with certain objectives in view. In other words, research methodology describes the methods and process applied in the entire aspect of the study.

Thus, this chapter highlights the research methodology used in the study for analysis of financial performance of EBL to draw some potential conclusion from this. The unit focuses on the research that had been made on research design, nature and sources of data; population and sample, data collection procedure and analysis are described serially.

## 3.2) Research Design

The research design refers to the conceptual structure within which the research is conducted; it constitutes him blue print for the collection, measurement and analysis of data. As such the design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data. A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to bring relevance to the research purpose with economy in course of action. Research design is very helpful while conducting research. It facilities smooth operation of research work; there by making research as efficient as possible yielding maximal information with minimal expenditure of effort, time and resources, A research design is helpful because it specifies the sources and types of information relevant to the research problem. Further it is a strategy specifying which approach will be used for gathering and analyzing the data. "A good design is often characterized by activities like flexible, appropriate, efficient, and economical and so on. Generally, the design that minimizes bias and maximizes the reliability of the data collected and analyzed is considered a good design. The design, which gives the smallest experimental error, is supposed to be the design in many investigations." [44]

## 3.3) Nature and sources of data

This study is mainly based on secondary data provided by EBL. It constitutes mostly the prospects of the company and audited annual reports that contain balance sheet and profit and loss account. Other supplementary data and information have been obtained from the central library of T.U; various bulletins published by the banks, unpublished by the banks, unpublished document and report and important data will be collected from internet.

## 3.4) Population and Sample

Seventeen commercial banks are operating in Nepal at the present time, out of which two banks are partially owned by government. More over the remaining fifteen banks are joint ventures with other foreign banks. Thus, all the commercial banks that are operating in Nepal are considered as the population. It is not possible to study all the data related with all JVBs

[44] C.R.Kothari, Research Methodology Methods & Techniques Wishwa Prakashan Second Edition, 1995, Pg 41

because of the limited time period and showed also taken into consideration of the partial fulfillment of the Master's Degree. So one joint venture banks i.e. EBL has been selected as sample for the year 2061/62 to 2065/66 (2004/2005 to 2008/2009).

## 3.5) Data processing procedure

All secondary data and information have been collected from head office of Naya Baneshowre Kathmandu and some are collected from internet. The financial and statistical tools and techniques have been rearranged, presented, analyzed and interpreted.

## 3.6) FINANCIAL TOOLS

### 3.6.1) RATIO ANALYSIS

An arithmetical relationship between two figures is known as ratio. Ratio analysis is a powerful tool of financial analysis. The relationship between two accounting figures expressed mathematically, is known as financial ratio (or simply as a ratio). [45]

According to Wixon, Kell and Bedford, "A ratio is an expression of the quantitative relationship between two numbers."

Similarly, according to Kohler, "A ratio is the relationship of one amount to another expressed as the ratio of or as a simple function, integer, decimal, fraction or percentage.

[45] I.M. Pandey, Financial Management, Chapter 4, " Financial ratio Analysis, " Pg 109 Eight edition

Thus, Ratio analysis, which is a powerful tool of financial analysis, is identifying financial strength and weakness of business firm. It is of important ways to stage meaningful relationship between components of financial statements. The primary purpose of ratio is to point out area for further investigation. Ratio analysis has been a major tools used in the interpretation and evaluation of financial statements since late 1800.

"Ratio analysis is technique of analysis and interpretation of financial statement. To evaluate the performance of an organization by creating the ratio from the figure of different accounts consisting in balance sheet and income statements is known as ratio analysis."[46]

A ratio helps to the researcher to make qualitative judgment about the firm's financial position and performance.[47]

Therefore, a ratio is used as a yardstick for evaluating the financial position and performance of a firm. Ratios help to summarize large quantities of financial data and to make qualitative judgment about the firm's financial performance. The advantages of ratio analysis are as a follows:

- Ratio analysis is very helpful in financial forecasting and planning. The ratio calculation of past years works as a guide for the future.
- Ratio analysis is also helpful for effective control of the business; comparison of actual ratio with standard will help in control.
- Different financial ratios communicate the strength and financial soundness of the firm to the related parties.

[46] R.M. Dangol, "Management Accounts" , 2052, Pg 369
[47] Webster's, " New Collegiate Dictionary", 8th Edition, Springfield Mass: G & C, Merriam, 1975 Pg 958

- ❖ The information is provided by ratio analysis can be used for decision making on financial activities.
- ❖ For simple assessment of liquidity, profitability and activity ratios are very useful of the firm.
- ❖ Ratio analysis does inter-firm comparison, so it helps management to shape in market strategies.

Therefore, ratio analysis is used in the study as a major tool to evaluate the financial performance of EBL.

An overview of financial ratio analysis is as follows.

3.6.1.1) Liquidity Ratios

3.6.1.2) Activity Ratios

3.6.1.3) Profitability Ratios

## 3.6.1.1) Liquidity Ratio

Liquidity ratios measure the ability of the firm to meet its current obligations. In fact, analysis of liquidity needs the preparation of cash budgets and cash and fund flow statements, but liquidity ratio, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity.[48]

Commercial banks must maintain its satisfactory liquidity position to meet the credit need of the community liquidity provide honor, strength, health and prosperity to an organization. It is extremely essential for an organization to meet its obligations as they become due. A firm should

[48] I.M Pandey, "Financial Ratio Analysis ", Financial Management

ensure that it has not lack of liquidity ratios are analyzed under the following five classifications.

1) Current ratio,
2) Cash and Bank balance to current Assets ratio,
3) Investment on government securities to current assets ratio,
4) Loan and advance to current assets ratio,
5) Cash and Bank balance to total deposit ratio,

## 1) Current Ratio

This ratio is applied to test the solvency as well as in determining shorts term financial strength of the business. This ratio is indication of relationship between total of current assets and total of current liabilities." [49]It is calculated by dividing current assets by current liabilities, which is presented as follows.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liability}}$$

The current ratio indicates the availability of current assets in rupees for every one rupee of current liabilities. A current ratio greater than one means that the firm has more current assets that are either cash or can be converted into cash within a short span of time and current liabilities are the liabilities that mature with a short span of time. This ratio is the short-term financial position of the business unit or industry. Standard of current ratio is 2:1.

## 2) Cash and Bank balance to Current Assets Ratio

Cash and Bank balance is the most liquid form of current assets. This ratio

[49] Anil B. Roy, Chaudhary , "Working Capital Management"

reveals the position of cash and bank into cash and bank balance in total of current assets. It is calculated by dividing cash and bank balance by currents assets, which is as bellows.

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

### 3) Investment on government securities to Current Assets Ratio.

Government security is slightly liquid assets as well as confidential investment unit the state is living. So it is also a very important and very near cash item of current assets. Investment on government security to current asset ratio visualizes the proportion of investment on government security to current assets.

We have,

$$\text{Investment on Government Security to Current Assets Ratio} = \frac{\text{Investment on government}}{\text{Current Assets}}$$

### 4) Loan and advance to current assets Ratio

loan and advances to current assets ration reflects the capability of Bank discounting and purchasing the bills loan and overdraft facilities to the customer to make a high profit mobilizing its funds in best way a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as a loan and advances to the customers this find out by using by following formula:-

$$\text{Loan and advance to current assets} = \frac{\text{Loan and advance}}{\text{Current Assets}}$$

## 5) Cash and Bank balance to total deposit ratio (cash reserve ratio)

Cash and Bank Balance is said to be the first defense of every banks. The ratio between the cash and bank balance and total deposits measure the ability of bank to meet the unanticipated cash and all types of deposit. Cash reserve ratio is calculated by using following formula:-

$$\text{Cash Reserve Ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposits}}$$

## 3.6.1.2) Activity Ratios

Activity ratio is intended to measure the effectiveness of the resource employed in a business concern. It also shows the efficiency in utilizing the collected resources to generate income. This ratio is also called turnover ratio because it indicates the speed of collection of funds and utilization of those funds to increase revenue by providing loans and advances, investments and other services rendered by banks. Under this unit following ratios are studies:-

1) Loan and advances to total Deposits ratio
2) Total investment to total Deposit ratio
3) Loan and Advances to working fund ratio

## 1) Loan and Advances to total Deposits Ratio

Loans and advances are most profitable of all the assets of a commercial bank that account for the largest part of the revenue of the bank. The bank has to mobilize deposits collected in income generation purposes so that it will be able to pay interest to its depositors and to earn profit. The loans and advances to total deposits ratio measures the extent to which the banks under consideration are successful in utilizing the outsides' funds for the profit generating purpose. In other words this ratio measures the bank's ability to mobilize its deposits, in terms of granting loans and advances, which yield higher returns. It can be calculated as given below:-

$$\text{Loans and advances to total deposits ratio} = \frac{\text{Loan and advances}}{\text{Total deposits}}$$

## 2) Total investment to total Deposits Ratio

A bank has two types of fund for investment, namely, capital (which include share capital, shareholders' equity or net worth) and deposits. Deposit constitutes the major portion of investment funds of a bank. A sound investment policy of bank is such that its funds are distributed on different types of assets with good profitability on one hand and provides maximum safety and security to the depositors and the bank on the other hand. The objective of a bank is to earn maximum profit and its income accrues mostly from its investments. Hence, the bank should try to invest its funds as far as possible in productive assets.

The major avenues in which the bank investment its funds are loans, overdrafts, cash credit, discounting bills of exchange, investment in government securities, investment in shares of well-established industrial concerns and money at call and short notice. This ratio is calculated by dividing total investment by the amount of total deposits in the bank.

$$\text{Total investment to total deposits Ratio} = \frac{\text{Total investment}}{\text{Total deposit}}$$

### 3) Loan and Advances to working fund Ratio

This ratio reflects the extent to which the commercial banks are success in mobilizing their assets as loan and advances for the purpose of income generation. A high ratio indicates better in mobilization of funds as loan and advances and vice versa. This ratio is derived by dividing loan and advances by the amount of total working funds in the banks, which is given below:-

$$\text{Loan and advances to working fund Ratio} = \frac{\text{Loan and advances}}{\text{Total working fund}}$$

### 3.6.1.3) Profitability Ratio

Profit is the difference between revenues and expenses over a period of a period of time. Profit is the ultimate output of a business enterprise and it will have no further if it fails to make sufficient profits. Bank is a business institution and the primary objective is to earn maximum profit. Moreover, the private commercial banks, JVB's in particular, are specially concentrating in profit and they serve in profit generating sector. They must earn sufficient income in order to meet the cost of running the bank, sound liquidity position, payment of interest obligation and other expenses, and finally to yield reasonable return for the owners. A bank should earn profit to survive and grow over a long period of time and to contribute towards the social overheads for the welfare of society. Profit is the major aspect that influences entire decision-making process.

Profitability ratio indicates the degree of success in achieving desired profit. Profitability ratio gives answer to how effectively the bank is being managed. The measurement of profit of JVB's operating in Nepal can be given greatest weight since it is probably the best indicator of overall efficiency. Albeit the profitability ratio mainly studied the earning power of firm (bank) it the bank is being managed. The following profitability ratios are related to study in this heading.

1) Return on Equity
2) Interest Earned to working fund ratio
3) Interest paid to working fund ratio
4) Interest Earned to operating income Ratio
5) Return on total working fund ratio
6) Return on loans and advances ratio
7) Earning per share

## 1) Return on Equity

Return on Equity indicates how well the firm has used the resources of owners. In fact, this ratio is one of the most important relationships in financial analysis. The earning of a satisfactory return is the most desirable objective of a business. This ratio is thus, of great interest to the present as well as the prospective shareholders and also of great concern to management, which has the responsibility of maximizing the owners' welfare. If bank can mobilize its equity capital property, they can earn high profit. The return on equity capital measures the extend to which a bank is successful to mobilize its equity. The return on equity is calculated by dividing the Net profit by the total equity capitals.

$$\text{Return on Equity} = \frac{\text{Net Profit}}{\text{Total equity capitals}}$$

## 2) Interests Earned to working fund Ratio

The interest is a major source of earning and it holds large proportion in total operating income of the bank. Thus, this ratio reflects the extent to which the banks are successful in mobilizing their total assets to generate high income as interest ' A high ratio is high earning power of the bank on its total working fund and vice-versa. This ratio is calculated with the help of following formula.

$$\text{Interest Earned to working fund Ratio} = \frac{\text{Interest Earned}}{\text{Working Fund}}$$

## 3) Interest paid to working fund Ratio

Interest is the main source of earning of commercial banks. Banks receive interest from loans and advances, money at call and short notice, investment in government securities and so on. Bank pay interest to their depositors. They should mobilize deposits in such a way that they are able to pay interest to their depositors and also to earn profit. This ratio measures the percentage of total interest paid against the total working fund. A high ratio indicates the interest expenses on total working fund and vice-versa. This ratio is calculated as follows:-

$$\text{Interest paid to working fund Ratio} = \frac{\text{Interest Paid}}{\text{Working fund}}$$

## 4) Interest Earned to operating income ratio

The major components of income of a bank are interest earned, commission and discount, exchange income and other miscellaneous incomes. In this analysis the miscellaneous incomes from divided and other incomes are not included since it holds very small proportion of total operating income. A bank receives interest from loans, advances and overdraft, investment in government securities and bonds, money at call and short notice, debenture, inter-bank loan, and others. This ratio reflects the extend to which the bank has successfully mobilized its fund in interest bearing assets. It measures the magnitude of interest income in total income .It is calculated as below:-

$$\text{Interest Earned to operating income ratio} = \frac{\text{Total interest Earned}}{\text{Total operating income}}$$

## 5) Return on total working fund Ratio

It measures the profit earning capacity by utilizing available resource i.e. total assets. Total assets include all the items in assets side of the Balance Sheet i.e. cash and Bank balance, money at call, investment in government securities and others, interest receivables, loan and advances, bills discounted and purchased, next fixed assets, miscellaneous assets, and so on. Total working fund (Total assets) involve all the resources in the bank that might be performing or none performing. The return on total working fund ratio assesses the profitability of all the financial resources invested in the bank in aggregate. Hence this ratio assesses to identify the efficiency of overall managed financial resources. If return will be higher, the banks working fund is well managed and efficiency utilized. This ratio is calculated by dividing net profit by total working fund of the banks.

$$\text{Return on total working fund Ratio} = \frac{\text{Net Profit}}{\text{Total working fund}}$$

## 6) Return on loans and advances Ratio

This ratio measures the extent to which the banks are successful to utilized the outsider's fund (total deposits) for the profit generating purpose on the loans and advance. Generally high ratio reflects higher efficiency to the utilized of outsiders fund and vice-verse. It can be calculated by dividing the amount of net profit by the amount of loans and advances, which is given below:-

$$\text{Return on loans and advances Ratio} = \frac{\text{Net Profit}}{\text{Loan and advances}}$$

### 7) Earning per Share (EPS)

The performance and achievement of a bank can be identified with the earning power of the bank. Higher earning implies the strength in general case. However, the earning associate with different assets and liabilities are not adequate to satisfy in its earning per share over the years. Therefore the earning per share is another ratio that shows how well the banks get return from a unit share. This ratio is an important factor for decision making to those associated with stock exchange. The earning per share is calculated by dividing the Net Income available to the common stock holders by the total number of common stock outstanding.

$$\text{EPS} = \frac{\text{Net income available to the common stockholders}}{\text{Total number of common stock outstanding}}$$

## 3.6.1.4) Statistical Tools

Under this heading various statistical tools can be used in research in order to draw the reliable conclusion according to the financial data available to the researcher. For this purpose, the researcher in this study uses following statistical tools.

## 3.6.1.4.1) Coefficient of Correlation Analysis

Of the various mathematical methods of measuring correlation, researcher uses the Karl person's method. The Karl Pearson's or pearsonian coefficient of correlation is denoted by the symbol "r". It is one of the very few symbols that are used universally for describing the degree of correlation between two series.

The value of the coefficient of correlation as obtained by the formula shall always lie between +ve/-ve 1. When r = +1, it means there is perfect positive correlation between the variables. When r = -1, it means there is perfect negative correlation between the variables. When r = 0, it means there is no relationship between the two variables. The coefficient of correlation describes not only the magnitude of correlation but also its direction.[50] The formula for computing Karl Pearson' coefficient 'r' is:-

$$r = \frac{\sum dx.\,dy - (\sum dx)(\sum dy)}{\sqrt{[\,Nd\sum dx^2 - (\sum dx^2)\,]\,[\,N\sum dy^2 - (\sum dy)2\,]}}$$

## 3.6.1.4.2) Coefficient of Determination

One very convenient and useful way of interpreting the value of coefficient of correlation between two variables is to use the square of coefficient of correlation, which is called coefficient of determination thus, equals $r^{2.}$

Tuttle has beautifully pointed out that, " the coefficient of correlation has been grossly overrated and is used entirely too much. Its square the coefficient of determination is a much more useful measure of the linear co-

[50] S.C Gupta, 1991, Elementary Statistical Methods, Ninth Edition, New Delthi: Sultan Chand & Sons

variation of two variables. The reader should develop the habit of squaring every correlation coefficient he finds cited or stated before coming to any conclusion about the extent of the linear relationship between the two correlated variables."

The coefficient of determination is a highly useful measure. Suppose the value of coefficient of correlation ( r ) = 0.8, coefficient of determination ( $r^2$ )= 0.6 and this would means that 764 percent of the variation in the dependent variable has been explained by the independent variable. However, $r^2$ is always a positive number and the range of $r^2$ is from 0 to 1.

The coefficient of determination (r2) is defined as the ratio of the explained variation to the total variance.

$$\text{Coefficient of determination } (r^2) = \frac{\text{Explained variance}}{\text{Total variance}}$$

### 3.6.1.4.3) Probable Error of correlation Coefficient

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

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

Where,

r= Karl Pearson's Correlation Coefficient

N= Number of pairs of observation

If r < p.Er. there is no evidence of correlation, i.e the value of r is not at all significance.

If r> 6 p.Er. the coefficient of correlation is practically certain i.e. the, value of r is significant. In other situation nothing can be calculated with certainty.

### 3.6.1.4.4) Regression / Trend Analysis

Regression analysis is a statistical device with the help of which are in apposition to estimate or predict the unknown values of one variable from known values of another variables. Amongst the various methods to determine trend analysis, the method of "Least Square' is used for the analysis of the bank. The least square method is the best in estimating the regression lines. There are two regression lines and two regression equations. They are

a) Regression equation of Y on X, which determines the variation in the values of Y for given change in X.

b) Regression equation of X on Y, which determines the variation in the value of X for the given changes in Y. In this study researcher has applied the above number (a) regression equation, i.e. regression equation Y on X.

a) The regression equation Y on X is expressed as,

$$Yc = a+bx$$

Where,

Yc = value of Y computed from relationship for a given X.

a=Numerical constant measures the distance of the fitted line directly above or below the origin or Y-intercept.

b= Numerical Constant which measures the change in Y per unit change in X or slope of the line.

In order to determine the value of the constant 'a' and 'b' the following two normal equations are solved.

$\sum Y = Na + b\sum X$ ………………….. (i)

$\sum XY = a\sum X + b\sum X^2$ ………………….(ii)

Where,

N = number of year.

We can measure the variable X from any point of time origin such as the first year. But the calculation are very much simplified when the mid- point in time is taken as the origin because in that case the negative values in the first half of the series balance out the positive values in the second half so that $\sum x = 0$, the above two normal equation would take the form.

Since, $\sum Y = Na$

Again,

Or, $a = \dfrac{\sum Y}{N}$

$\sum XY = b\sum X$

0r, $b = \dfrac{\sum XY}{X^2}$

### 3.6.1.4.5) Diagrammatic and Graphical Representation

The techniques of presentation used here in are most of descriptive and analytical nature and the data have been presented basically in diagrammatic thereafter some of important diagrammatic information of the data has been graphical represented.

# Chapter – IV

# Presentation and Analysis of Data

The main aim of this chapter is presenting and analyzing data according to research methodology to attain the objectives of this study. The heart of this chapter will be the ratio analysis, which is the powerful financial tool to measure the financial performance of a sample joint venture bank i.e. EBL. Here, analysis and interpretations are categorized in two headings.

4.1) Financial Analysis

4.2) Statistical Tools

## 4.1) Financial Analysis

Ratio analysis is one of the most powerful techniques of measuring the financial activities of business enterprises. Ratio analysis is defined as the systematic use of ratio interprets the financial statements, so that the strength and weakness of a firm as well as its historical performance current performance can be determined. The term ratio indicates a numerical and quantitative relationship between two variables or figures within particular financial statements or within financial statements that helps to a quantitative judgment and can be expressed as proportion of numbers, function and percentage or times.

In this study financial ratios have been grouped into three types viz, liquidity, activity and profitability ratios.

### 4.1.1) Analysis to Liquidity Position

Profitability of a bank is more closely related to liquidity of a commercial bank than the other business firm since it has to gain confidence from depositors and customers, which are the largest sources of fund as well as earning. Liquidity ratio examine the adequacy of funds, the solvency of the firm and the firms ability to pay its obligations when due. This ratio measures the firm's ability to meet short- term obligations. Liquidity ratios ascertain the solvency of the company and its ability to remain solvent even in difficult times. The following ratios are evaluated and interpreted under liquidity ratios:-

Investment on government securities to current assets ratio

- ❖ Loan and advance to current assets ratio
- ❖ Cash and Bank balance to total deposits

### 4.1.1.1) Current Ratio

Current ratio indicates whether the concern has instant ability to payout the current liabilities as they mature. This ratio is the yardstick to judge the soundness of the short-term financial position of the business unit or industry. The position of current ratio of EBL has been presented as follows.

**Table 4.1**
**Current Ratio of EBL**

(Rs in million)

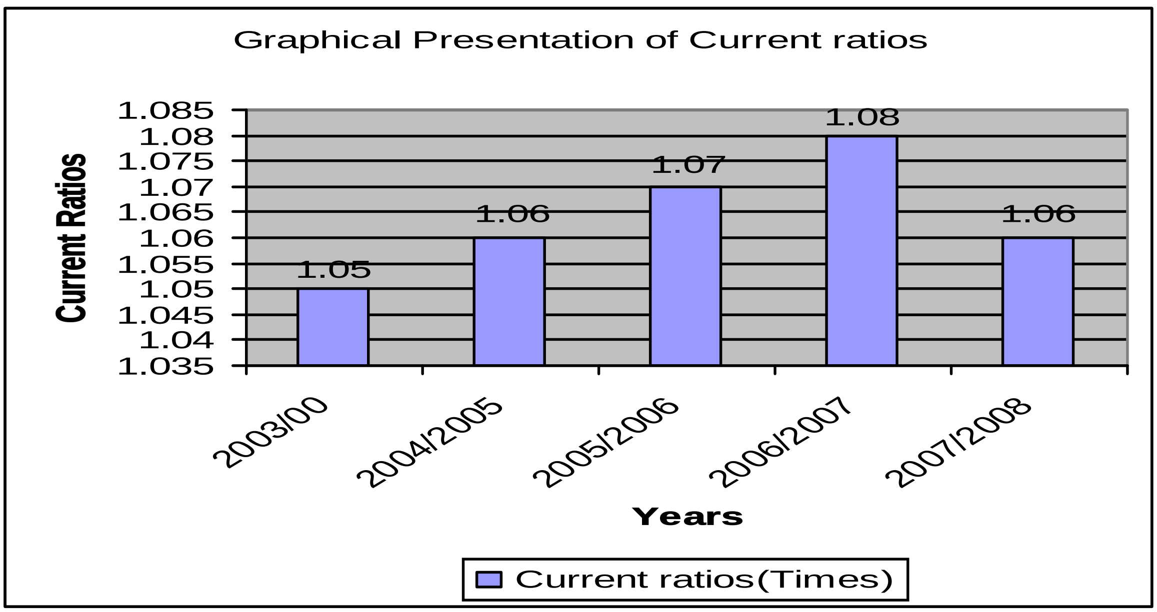
| FY | Current Assets | Current liabilities | Ratio (%) |
|---|---|---|---|
| 2003/00 | 10045.68 | 9546.54 | 1.05 |
| 2004/2005 | 11245.69 | 10580.35 | 1.06 |
| 2005/2006 | 12436.82 | 11532.56 | 1.07 |
| 2006/2007 | 14539.82 | 13424.63 | 1.08 |
| 2007/2008 | 15423.67 | 14428.79 | 1.06 |

Source: http://www.nepal stock.com

Table 4.1 shows that current ratios are in increasing trend from FY 2003 to 2006/2007but FY 2007/2008 is decreasing trend i.e. 1.06 times from the just above years i.e. 2004/2005.

As the current ratio is below the normal standard however we cannot conclude the liquidity position is only quantities measures not quantities and the situation of the bank is quite different than that is of general business enterprise.

**Figure 4.1**




## 4.1.1.2) Cash and Bank Balance to Current Assets Ratio

Cash and bank balance to current assets ratio reveals the position of cash and bank into cash and bank balance in total of current assets.

Following table shows the data relating to cash and bank balance to current assets.

## Table 4.2

**Cash and Bank balance to current Assets Ratio**

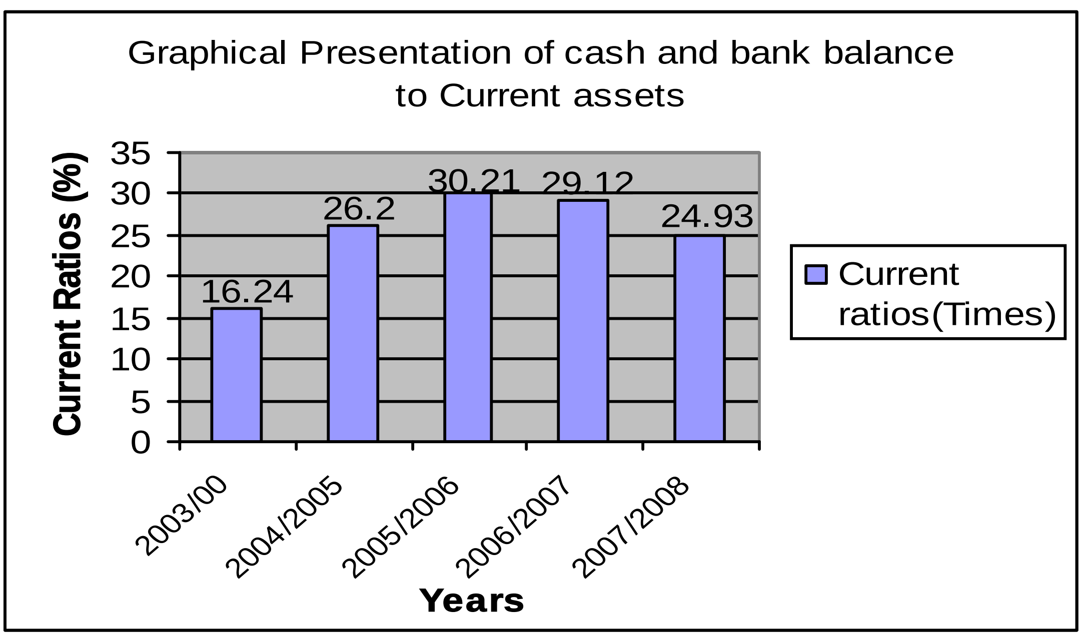
(Rs in million)

| F/Y | Cash and Bank balance (Rs) | Current Assets (Rs) | Ratios (%) |
|---|---|---|---|
| 2003/00 | 1631.81 | 10045.68 | 16.24 |
| 2004/2005 | 2946.79 | 11245.69 | 26.20 |
| 2005/2006 | 3757.43 | 12436.45 | 30.21 |
| 2006/2007 | 4234.55 | 14539.82 | 29.12 |
| 2007/2008 | 3846.35 | 15423.67 | 24.93 |

Source: Annual report of EBL

Table 4.2 depicts that cash and bank balance to current assets ratio is better as it shows the ability to manage the deposits withdraws from the customers. The data have followed fluctuating trend through out the study period the highest ratio is 30.21% in FY 2005/2006 and the lowest ratio is 16.24% in FY 2003/00.

**Figure 4.2**



## 4.1.1.3) Investment on Government securities to Current Assets Ratio

This ratio is a very important and very near cash item of current assets. It can be calculated as follows:-

The following table shows the figure of this Ratio:

**Table 4.3**

**Investment on government securities to Current Assets Ratio**

(Rs. In Million)

| F/Y | Investment on Government securities(Rs) | Current Assets (Rs) | Ratio (%) |
|---|---|---|---|
| 2003/00 | 3424.45 | 10045.68 | 34.08 |
| 2004/2005 | 4564.36 | 11245.69 | 40.58 |
| 2005/2006 | 5879.53 | 12436.45 | 47.27 |
| 2006/2007 | 5995.42 | 14539.82 | 41.23 |
| 2007/2008 | 6783.44 | 15423.67 | 43.98 |

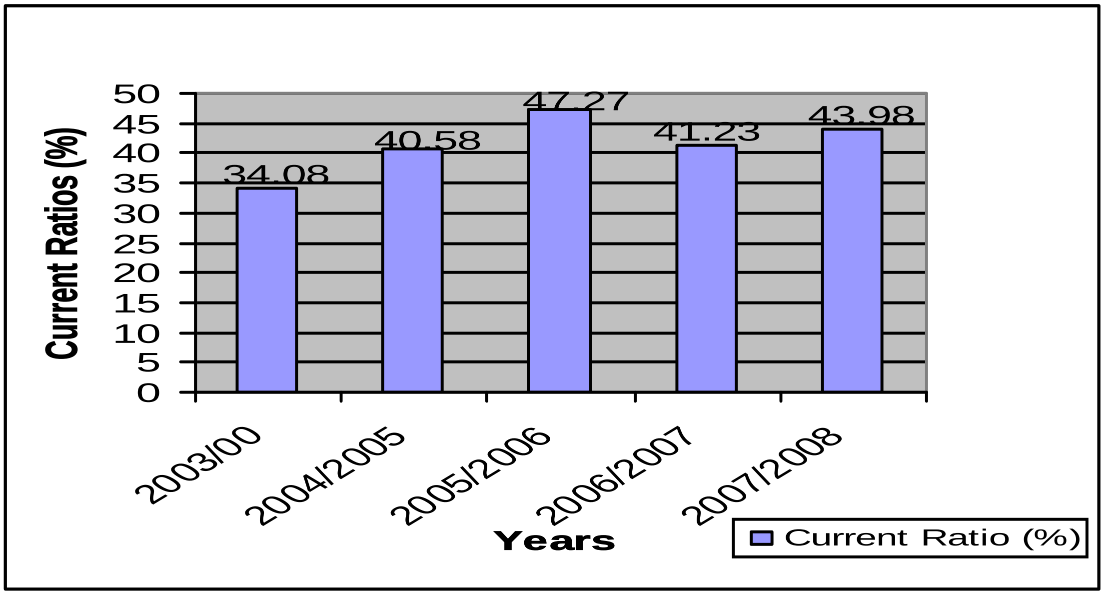
Source: http/www. Nepal stock .Com

Table 4.3 reveals that EBL's Investment on Government securities to current assets ratio is in increasing trend, expect 41.23% in FY 2006/2007 but at end of the study period, i.e. 2007/2008 trend is 43.98% which indicates that bank's future will be good. Investment on government securities is the more safe investment than current assets. In addition it can earn additional interest income by investing instead of keeping idle cash.

In conclusion, it can be regarded that EBL has invested its remarkable portion of current assets on government securities.

**Figure 4.3**

**Graphical Presentation of investment on government Securities to current assets ratio**




## 4.1.1.4) Loan and advances to current assets Ratio

Loan and advances is the major assets used for income generating purpose in commercial banks. The table below shows the ratio of loan and advances to current asset ratio.

**Table 4.4**

**Loan and advances to Current Assets Ratio**

(Rs. In Million)

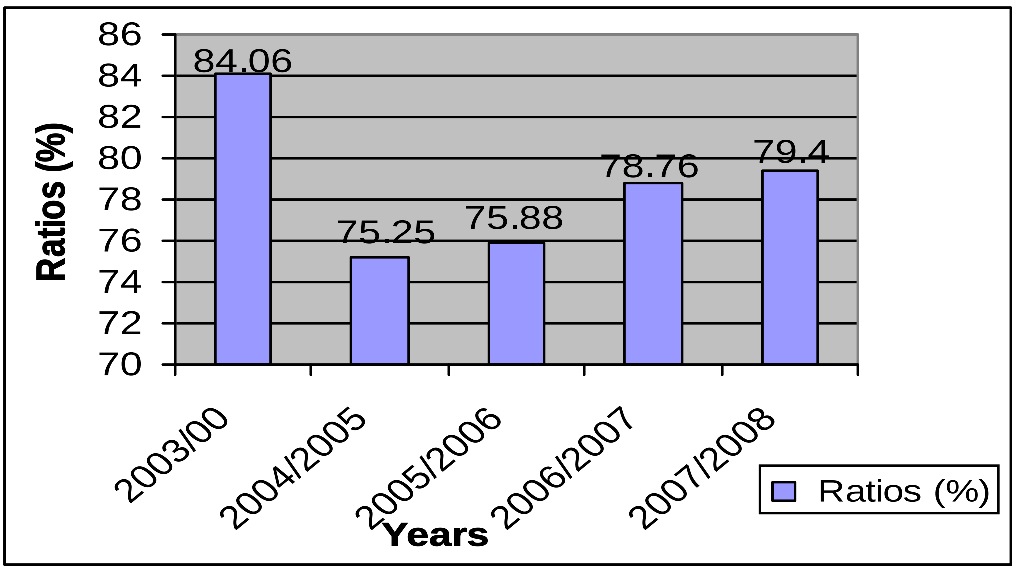
| FY | Loan and advances (Rs) | Current Assets (Rs) | Ratios (%) |
|---|---|---|---|
| 2003/00 | 8445.32 | 10045.68 | 84.06 |
| 2004/2005 | 8463.24 | 11245.69 | 75.25 |
| 2005/2006 | 9437.42 | 12436.45 | 75.88 |
| 2006/2007 | 11452.25 | 14539.82 | 78.76 |
| 2007/2008 | 12246.22 | 15423.67 | 79.40 |

Source: Annual report of EBL

Table 4.4 shows that the loan and advance to current assets ratio has followed the fluctuating trend I positive manner through out the study period. However, the highest ratio is 84.06% in FY 2003/00 and lowest ratio is 75.88% in FY 2005/2006. The above discussion helps to conclude that the bank is successful to mobilize its current deposit on loan and advances.

**Figure 4.4**

**Loan and advances to Current Assets ratio**




## 4.1.1.5) Cash and Bank Balance to total deposit Ratio

Cash is the most liquid but non-earning asset and is considered as the first line of defense of commercial banks. Banks keep certain amount of cash in order to meet its cash requirements of its depositors. Cash is the primary reserve of the bank and bank knows by its experience that it must keep a certain percentage of deposits in the form of cash its contingent reasons. This ratio measures liquidity position of the bank.

The following table shows the ratio measurement years.

**Table 4.5**

**Cash and Bank Balance to total Deposit**

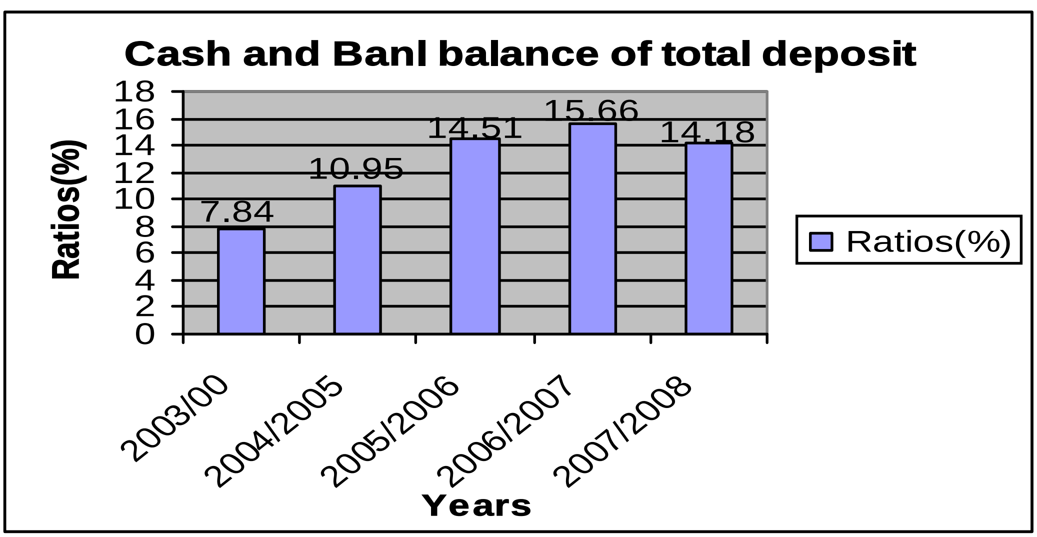
(Rs. In Million)

| FY | Cash and Bank Balance (Rs) | Total Deposit (Rs) | Ratio (%) |
|---|---|---|---|
| 2003/00 | 631.81 | 8063.90 | 7.84 |
| 2004/2005 | 1054.62 | 9632.50 | 10.95 |
| 2005/2006 | 1546.59 | 10654.39 | 14.51 |
| 2006/2007 | 1795.73 | 11464.83 | 15.66 |
| 2007/2008 | 1963.55 | 13845.92 | 14.18 |

Source: http://www.Nepal stock. Com

Table 4.5 shows fluctuating trend on cash and bank balance to total deposits ratio during the study period, in average it has maintained remarkable cash and bank balance to total deposit ratio. It shows that the improve or execute modification on the satisfactory position regarding the meeting of demand of its customers on their deposit at any time. That means it operates in higher risks. That means it operates in higher risks. Through high ratio indicates its high ability but very high ratio shows the inefficiency.

**Figure 4.5**



## 4.1.2) Activity Ratios

Activity or turnover ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner these ratios are employed to evaluate the efficiency with which the firm manages and utilize its assets.

A commercial bank must manage its property to earn high profit. Under this unit following ratios are selected.

1) Loan and Advances to total deposits Ratio
2) Total investment to total Deposits Ratio
3) Loan and Advances to working fund Ratio.

**1) Loan and Advances to Total Deposits Ratio**

This ratio measures the extent to which the banks are successful to mobilize their total deposits on loan and advances.

The table below shows the ratio of loan and advances to total deposits ratio.

**Table 4.6**

**Loan and advances to total deposit Ratio**

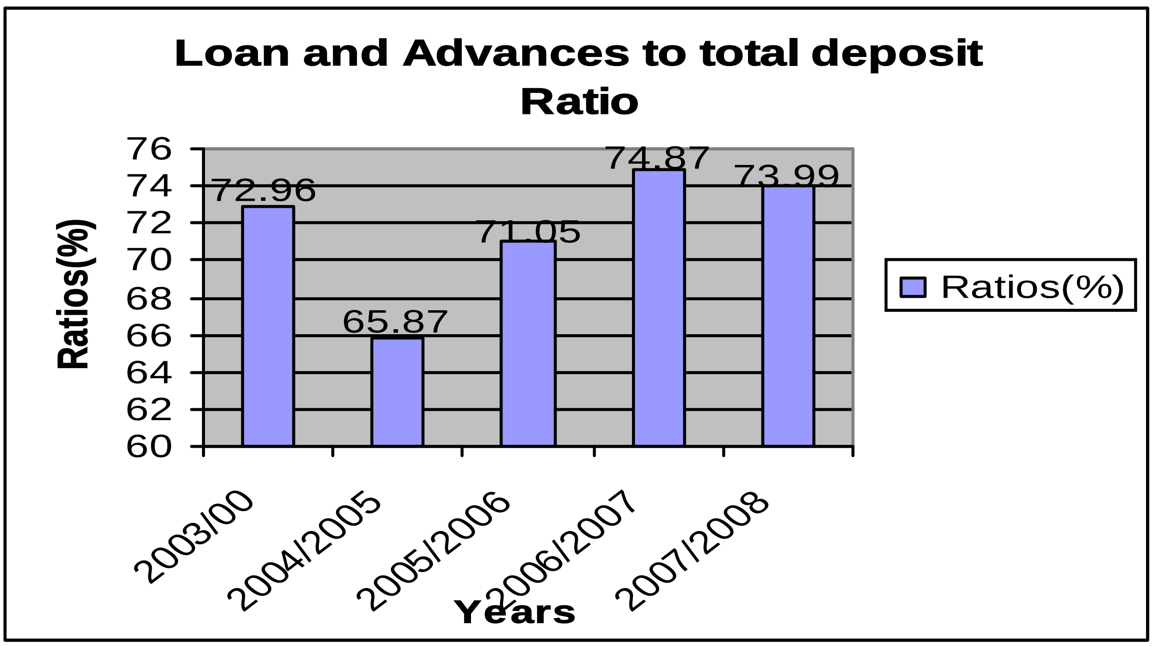
(Rs.In. million)

| FY | Loan and advances | Total Deposit | Ratio (%) |
|---|---|---|---|
| 2003/00 | 5884.12 | 8063.90 | 72.96 |
| 2004/2005 | 6345.23 | 9632.50 | 65.87 |
| 2005/2006 | 7569.51 | 10654.39 | 71.05 |
| 2006/2007 | 8583.65 | 11464.83 | 74.87 |
| 2007/2008 | 10245.36 | 13845.92 | 73.99 |

Source: Annual report of EBL

Table 4.6 shows that the ratio in different year have fluctuating trend. It has highest 74.87%in the FY 2006/2007 and lower ratio is 65.87% in the FY 2004/2005. In conclusion the bank has strong position regarding the mobilization of total deposit on loan and advance and acquiring higher profit. But higher ratio is not better from the point of view of liquidity as the loan and advances is as liquid as cash and bank balance.

**Figure 4.6**




## 2) Total investment to total deposits ratio

This ratio measures the extent to which the banks are able to mobilize their deposits on investment in various securities. A high ratio indicates the success in mobilizing deposits in securities and vice-verse.

The following table exhibits the ratio of total investments to total deposit.

**Table 4.7**

**Total investment to Total Deposits Ratio**

(Rs.In Million)

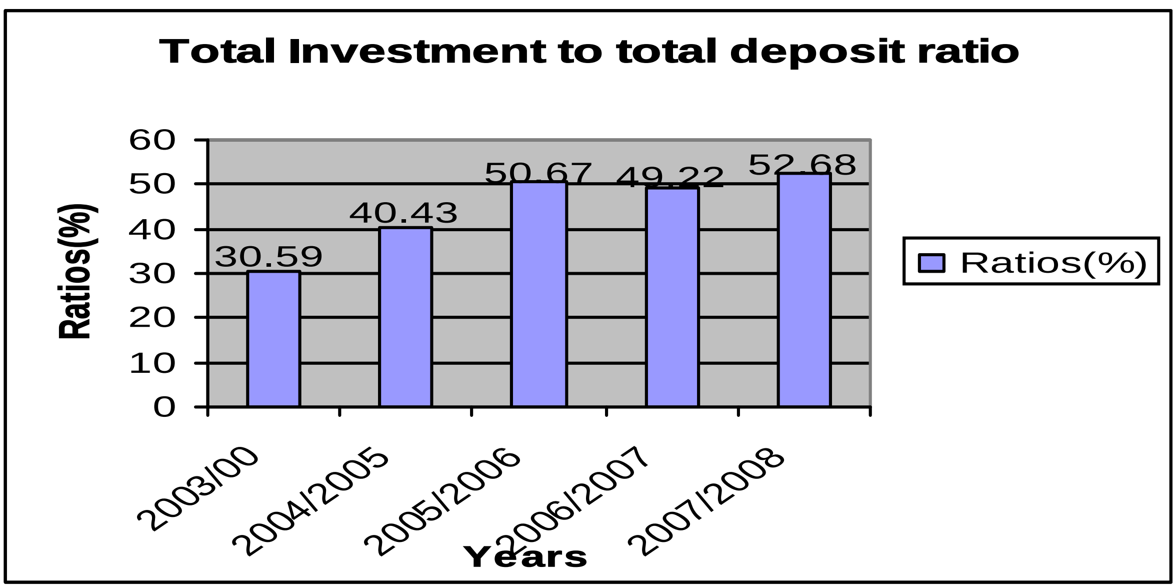
| FY | Total Investment (Rs) | Total Deposits(Rs) | Ratio (%) |
|---|---|---|---|
| 2003/00 | 2466.43 | 8063.90 | 30.59 |
| 2004/2005 | 3894.64 | 9632.50 | 40.43 |
| 2005/2006 | 5398.23 | 10654.39 | 50.67 |
| 2006/2007 | 5642.81 | 11464.83 | 49.22 |
| 2007/2008 | 7294.24 | 13845.92 | 52.68 |

Source: http://www.Nepal Stock .Com

Table 4.7 the ratio is in increasing trend till 2005/2006 but in FY 2006/2007 it decrease to 49.22% and end of the study period ratio is increased by 52.68 % i.e. FY 2007/2008.

The above analysis, we can say that the investment in various securities should be increased to utilize its deposit.

**Figure 4.7**



## 3) Loan and Advances to working fund Ratio

This ratio reflects the extent to which the commercial banks are success in mobilizing their assets as loan and advances for the purpose of income generation. A high ratio indicates better in mobilization of funds as loan and advance and vice versa.

The following table exhibits the ratio of loan and advance to total working fund.

**Table 4.8**

**Loan and Advances to Total working fund Ratio**

(Rs. in million)

| FY | Loan and Advances (Rs) | Total Working fund (Rs) | Ratio (%) |
|---|---|---|---|
| 2003/00 | 5884.12 | 9608.56 | 61.24 |
| 2004/2005 | 6345.23 | 10438.46 | 60.78 |
| 2005/2006 | 7569.51 | 11245.91 | 67.31 |
| 2006/2007 | 8583.65 | 12136.41 | 70.73 |
| 2007/2008 | 10245.36 | 13246.11 | 77.35 |

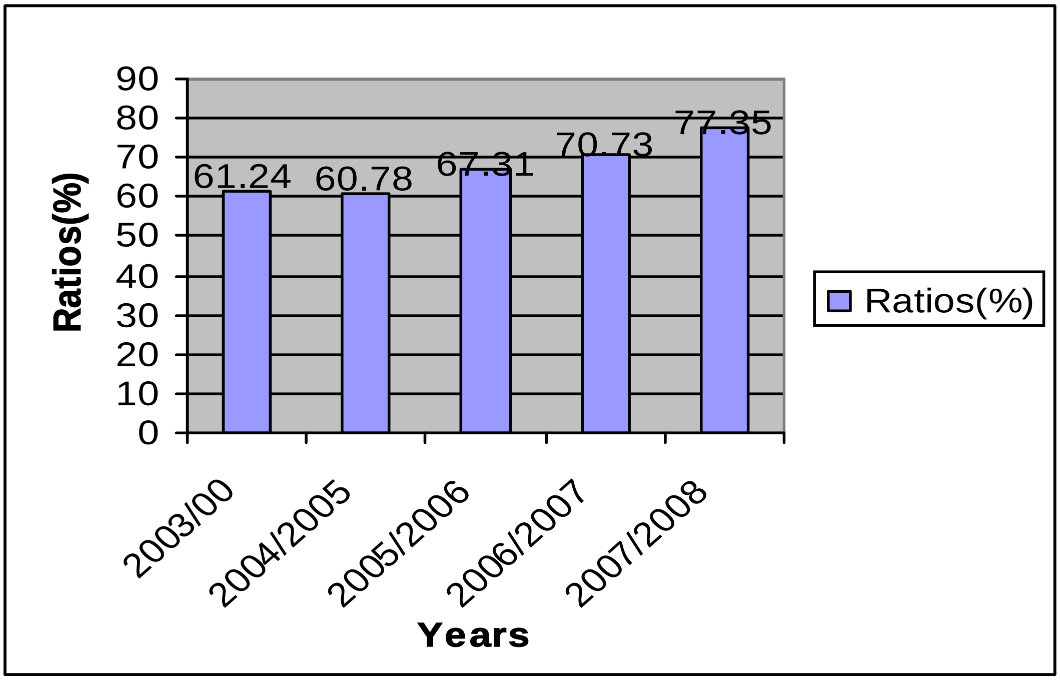
Source: Annual report of EBL

Table 4.8 highest ratio is 77.35% in FY 2007/2008 and lowest ratio is 60.78% in FY 2004/2005. The year of 2004/2005 to 2007/2008 the loan and advances to total working fund ratio exhibits a systematic increasing trend.

This ratio indicates better in mobilization of funds as loan and advance.

**Figure 4.8**

**Loan and Advances to total working Fund Ratio**




## 4) Profitability Ratio

Profitability ratios indicate degree of success in achieving desired profit level. Profitability ratio, which measures management overall effectiveness, are shown by the returns generated on sales and investment. A bank should be able to earn profit to survive and grow over a long period time. Profit is the indicator of efficient operation of a bank. The banks acquire profit by providing different services to its customers or by making investment of different kinds. Under this head, following ratios are calculated:-

1. Return on Equity
2. Interest Earned to working fund Ratio
3. Interest paid to working fund Ratio

4. Interest Earned to operating income Ratio
5. Return on Total working fund Ratio
6. Return on loans and advances Ratio
7. Earnings per share

**1) Return on Equity**

If bank can mobilize its equity capital property, they can earn high profit. The return on equity capital measures the extent to which a bank is successful to mobilize its equity.

The table below shows the ROE in different years during the study period.

**Table 4.9**

**Return on Equity Ratio**

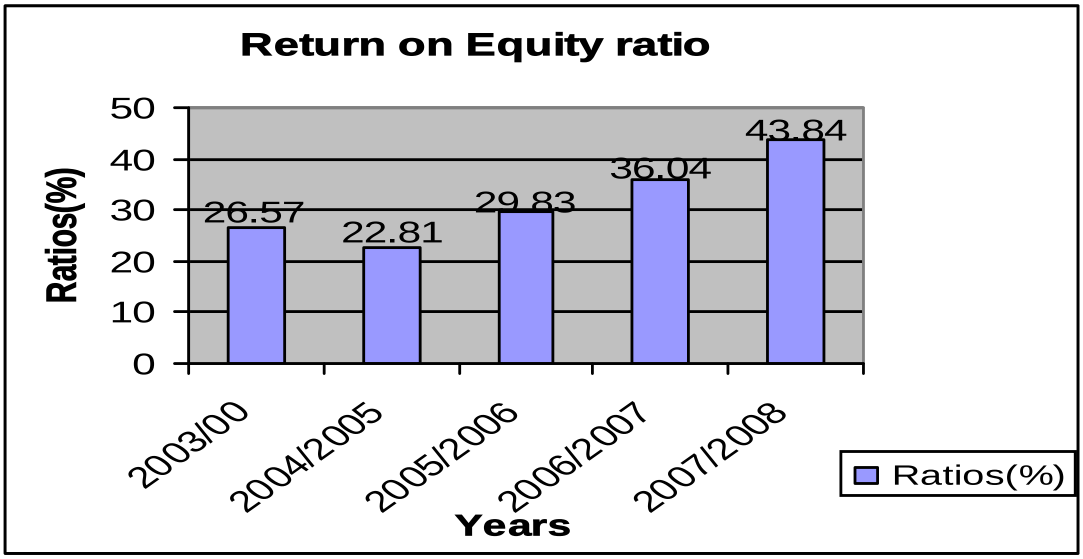
(Rs.in million)

| FY | Net Profit (Rs) | Total Equity Capital (Rs) | Ratio (%) |
|---|---|---|---|
| 2003/00 | 143.57 | 540.33 | 26.57 |
| 2004/2005 | 156.24 | 684.95 | 22.81 |
| 2005/2006 | 234.56 | 786.42 | 29.83 |
| 2006/2007 | 322.88 | 895.87 | 36.04 |
| 2007/2008 | 396.45 | 904.32 | 43.84 |

Source: http//www.Nepal Stock.com

The 4.9 highest ratios is 43.84% in FY 2007/2008 and lowest ratio is 22.81 in FY 2004/2005.The year 2005/2006 to 2007/2008 the return on equity ratio exhibits a systematic increasing trend. It can be concluded that the bank has been efficiently utilizing its equity capital. The bank seems to be having lack of sound investment policy for the mobilization of its equity capital.

**Figure 4.9**




## 2) Interest Earned to Working fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing their total assets to generate high income as interest. A high ratio is indicator of high earning power of the bank on its total working fund and vice versa.

**Table 4.10**

**Total interest earned to working fund ratio.**

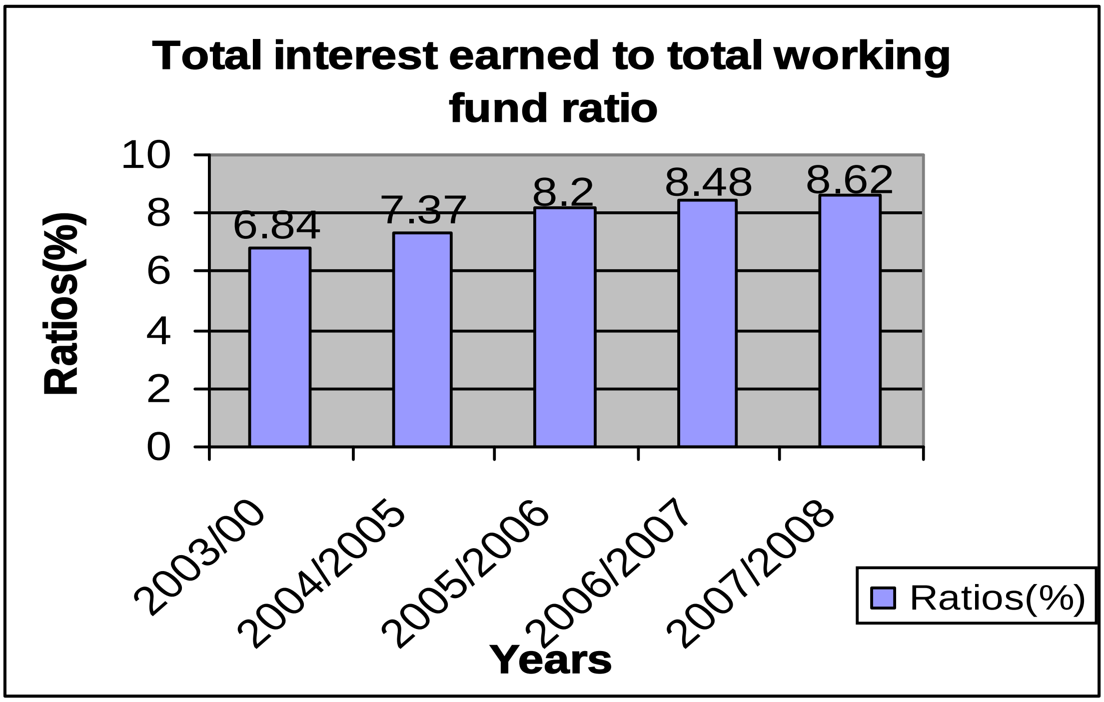
(Rs. In. Million)

| FY | Total interest earned (Rs) | Total working fund (Rs) | Ratio (%) |
|---|---|---|---|
| 2003/00 | 657.25 | 9608.56 | 6.84 |
| 2004/2005 | 725.48 | 9845.97 | 7.37 |
| 2005/2006 | 824.69 | 10054.32 | 8.20 |
| 2006/2007 | 953.47 | 11245.89 | 8.48 |
| 2007/2008 | 1048.97 | 12165.32 | 8.62 |

Source: http://www.Nepal Stock. Com

Table 4.10 shows that the ratio is in increasing ratio. It has the highest ratio of 8.62% in F/Y 2007/2008 and the lowest of 6.84% in FY 2003/00.From the above table it can be concluded that the ratio of total interest earned to total working fund is satisfactory.

**Figure 4.10**




## 3) Interest Paid to Working fund Ratio

It can be calculated the percentage of total interest paid against the total working fund. A high ratio indicates the higher interest expenses on total working fund and vice-versa.

The following table shows the figures of this ratio.

**Table 4.11**

**Interest paid to working fund ratio**

(Rs.In million)

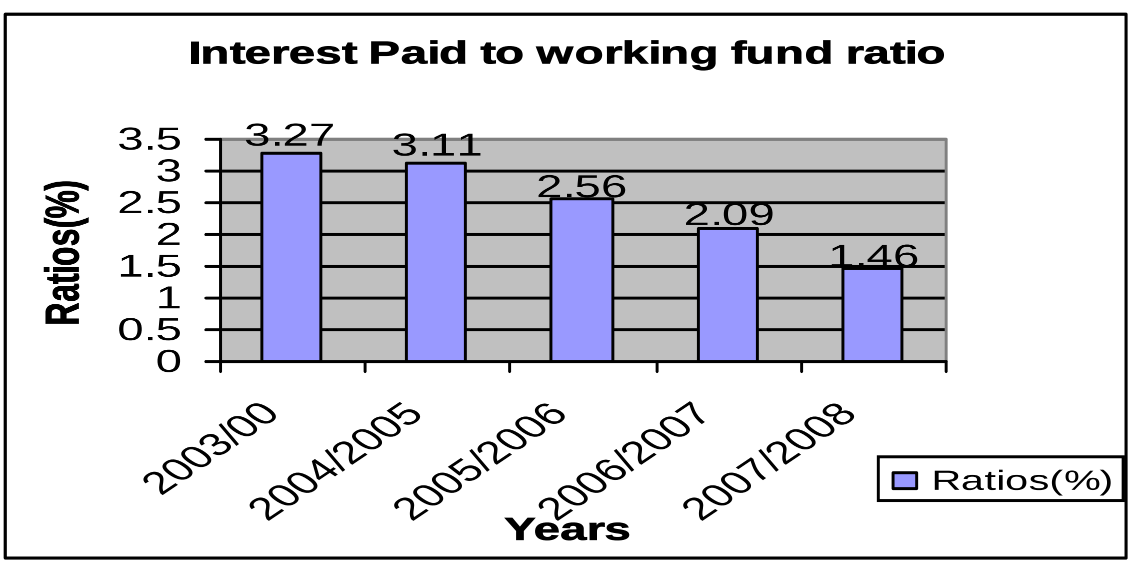
| FY | Total interest earned (Rs) | Total working fund (Rs) | Ratio (%) |
|---|---|---|---|
| 2003/00 | 314.44 | 9608.56 | 3.27 |
| 2004/2005 | 306.41 | 9845.97 | 3.11 |
| 2005/2006 | 257.05 | 10054.32 | 2.56 |
| 2006/2007 | 236.14 | 11245.89 | 2.09 |
| 2007/2008 | 177.89 | 12165.32 | 1.46 |

Source: Annual report of EBL

Table 4.11 shows that the total interest paid to total working fund ratio is in decreasing trend. The ratio ranges from 3.27% to1.46% which lies on the FY 2003/00 and 2007/2008 respectively.

In conclusion, we can say that bank is in good position from payment of interest point of view; it seems to be successful to collect its working fund from less expensive sources:

**Figure 4.11**



## 4) Interest Earned to operating Income Ratio

This ratio reflects the extent to which the bank has successfully mobilized its fund in interest bearing assets. It measures the magnitude total income.

The following table shows the figure of this ratio.

**Table 4.12**

**Interest Earned to Operating Income Ratio**

(Rs.In million)

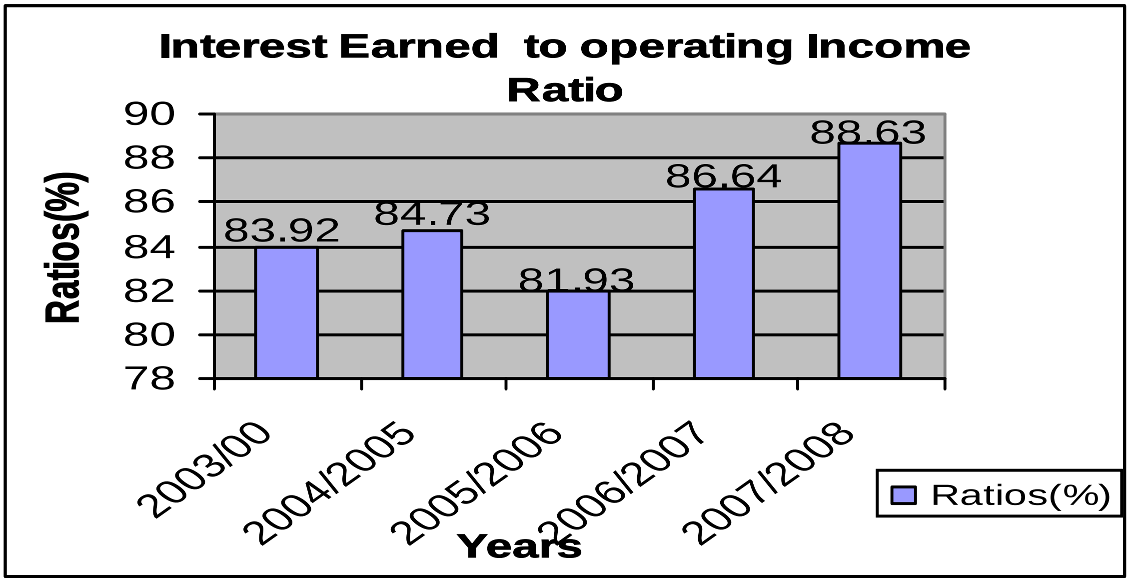
| FY | Total interest earned (Rs) | Total working fund (Rs) | Ratio (%) |
|---|---|---|---|
| 2003/00 | 657.25 | 783.19 | 83.92 |
| 2004/2005 | 725.48 | 856.24 | 84.73 |
| 2005/2006 | 824.69 | 982.39 | 81.93 |
| 2006/2007 | 953.47 | 1054.27 | 86.64 |
| 2007/2008 | 1048.97 | 1183.55 | 88.63 |

Source: http://www.nepal stock.com

Table 4.12 exhibits that the bank ratio of total interest earned to total operating income are in neither increasing nor decreasing trend. During the study period, the period the highest ratio is 88.63% in FY 2007/2008 where as the lowest ratio is 81.93% in FY 2005/2006.

It can be concluded that the bank has the satisfactory position regarding the mobilization of interest bearing assets such as loan and advances and investment though the investment in such fund based investment in such fund based investment are more risky than the fee based activities.

**Figure 4.12**




## 5) Return on total working fund ratio

It measures the profit earning capacity by utilizing available resource i.e. total assets. Return will be higher if the banks working fund is well managed and efficiently utilized.

Following table shows the figure of this ratio.

**Table 4.13**

**Return on total working fund Ratio**

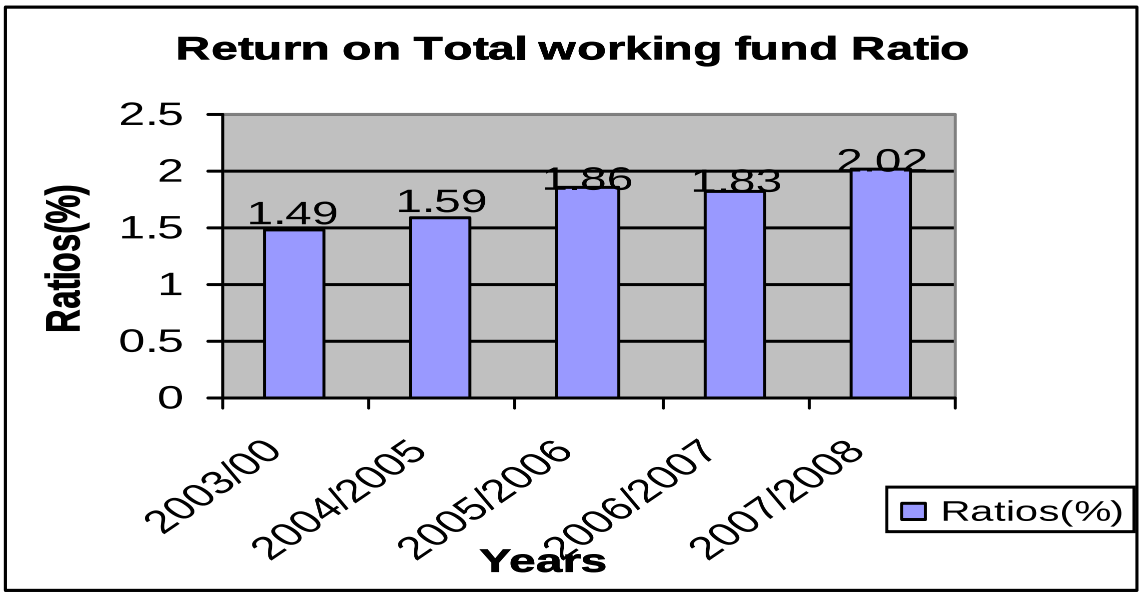
(Rs.In million)

| FY | Net Profit (Rs) | working fund (Rs) | Ratio (%) |
|---|---|---|---|
| 2003/00 | 143.57 | 9608.56 | 1.49 |
| 2004/2005 | 156.98 | 9845.97 | 1.59 |
| 2005/2006 | 187.42 | 10054.32 | 1.86 |
| 2006/2007 | 205.33 | 11245.89 | 1.83 |
| 2007/2008 | 245.49 | 12165.32 | 2.02 |

Source: Annual report of EBL

Table 4.13 shows that the profitability ratio of bank is not consistent. It has the fluctuating trend. In this study highest ratio is 2.02% in it is decreasing which ratio is 1.83%. From the above analysis it can be concluded that the profitability with respect to financial resources investment of the bank asset is not satisfactory as well as unstable.

**Figure 4.13**




## 6) Return on Loans and advances ratio

It measures the earnings capacity of commercial banks on its deposits mobilized on loan and advances.

The following table shows the figure of this ratio.

**Table 4.14**

**Return on loans and advances Ratio**

(Rs.In million)

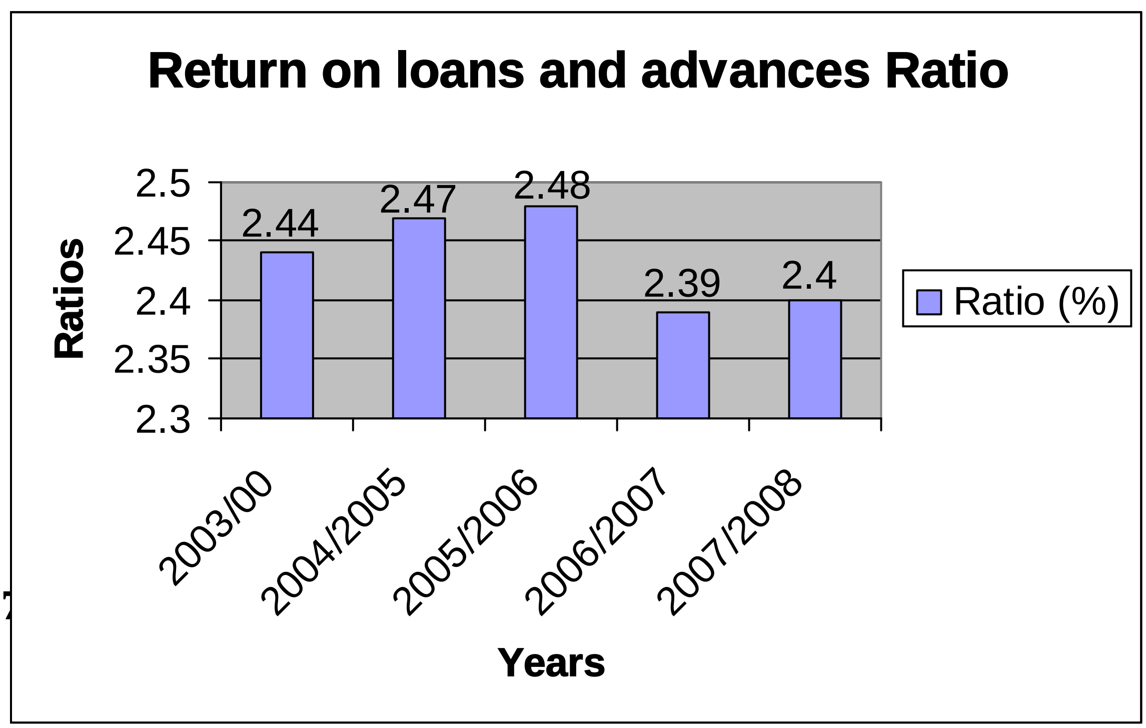
| FY | Net Profit (Rs) | working fund (Rs) | Ratio (%) |
|---|---|---|---|
| 2003/00 | 143.57 | 5884.12 | 2.44 |
| 2004/2005 | 156.98 | 6345.23 | 2.47 |
| 2005/2006 | 187.42 | 7569.51 | 2.48 |
| 2006/2007 | 205.33 | 8583.65 | 2.39 |
| 2007/2008 | 245.49 | 10245.36 | 2.40 |

Source: http://www.nepal stock.com

Table 4.14 reveals that EBL's return on loan and advances ratios have not satisfactory. In the study of five years it has positive but volatile trend. During the study period, the highest ratio is 2.48% in FY 2005/2006 and the lowest ratio is 2.39% in FY 2006/2007.

Thus it can be concluded that the bank is not so able to earn on loan and advances.

**Figure 4.14**



EPS measures the profitability of common shareholder. The earning may be on a per share basis. The following table shows the EPS.

**Table 4.15**

**Earning Per Share**

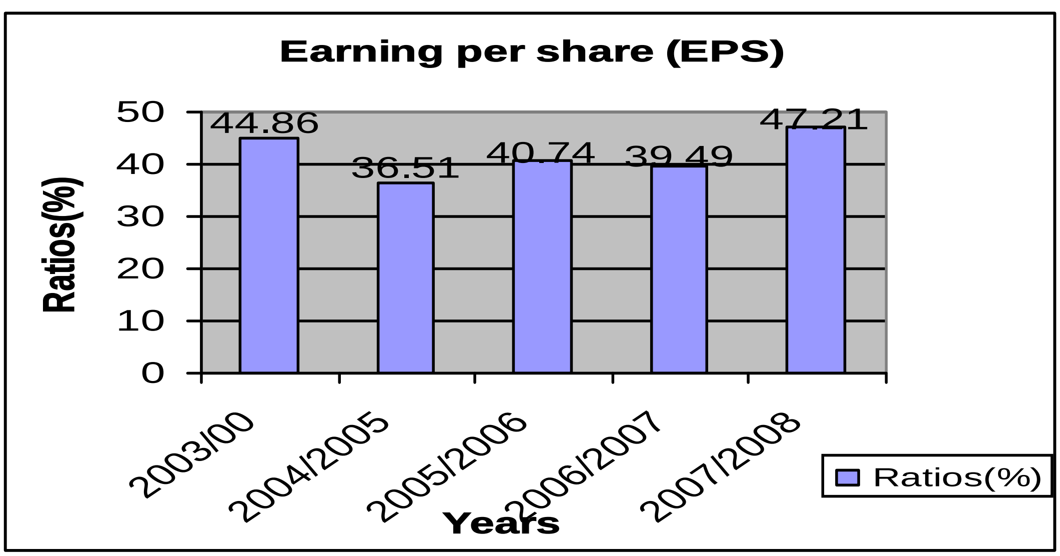
(Rs.In million)

| FY | Net Profit (Rs) | No. of share | Rs. Per share |
|---|---|---|---|
| 2003/00 | 143.57 | 3.2 | 44.86 |
| 2004/2005 | 156.98 | 4.3 | 36.51 |
| 2005/2006 | 187.42 | 4.6 | 40.74 |
| 2006/2007 | 205.33 | 5.2 | 39.49 |
| 2007/2008 | 245.49 | 5.2 | 47.21 |

Source: Annual report of EBL

Table 4.15 we can see the EPS of bank is in fluctuating trend. During the study period the highest Rs. per share is 47.21 in FY 2007/2008 and lowest Rupees per share is 36.51 in FY 156.98.

**Figure 4.15**



## 4.2) Statistical Tools

Under this heading some statistical tools such as coefficient of correlation analysis, coefficient of determination and probable error of correlation coefficient between different variables, trend analysis of deposits, net profit, loan and advances and EPS are used to achieve the objectives of the study.

### 4.2.1) Coefficient of Correlation Analysis

Under this chapter Karl Pearson's coefficient is used to find out the relationship between deposit and total investment and outside asset and net profit.

#### 4.2.1.1) Coefficient of Correlation between deposit and loan and advances.

Deposits have played a very important role in performance of a commercial bank and similarly loan and advances are important to mobile the collected deposits. Coefficient of correlation between deposit and loan and advances measures the degree of relationship between their two variables.

In this analysis, deposit is independent variable (X) and loan and advance is dependent variables (Y). The main objectives of computing 'r' between these variables are to justify whether deposits are significantly used on loan and advances on a proper way or not. The following table shows the value of '(r1)',(r2). Probable Error (P.Er) and 6P.Er. between deposit and loan and advances for the study period 2003/00 to 2007/2008.

**Table 4.16**

**Correlation coefficient between Deposit and Loan and Advances**

| | Evaluation Criterions | | |
|---|---|---|---|
| r | $r^2$ | P.Er | 6 P.Er |
| 0.9829 | 0.9661 | 0.0102 | 0.0612 |

(The detail of calculation is in Annexure-1)

Table 4.16 shows that coefficient of correlation between deposit and loan and advance is0.9829, which shows higher positive correlation between these two variables. Similarly the value 0.0198, we of coefficient of determination ($r^{2)}$ is to be found 0.9661, which shows that 96.61% in the dependent variable has been explained by the independent variable. More over by application of P.Er i.e. 0.0102, which means the relation between deposit and loan and advances is significant. In others words EBL is successful to mobilize its fund in proper way in loan and advances. Similarly considering the value of (r) i.e. 0.9829 and comparing it with 6 P.Er i.e. we can say that the value of 'r' is more than 6 P.Er this reveals that there is significant relationship between deposit and loan and advances.

## 4.2.1.2) Coefficient of Correlation between deposit and total investment

Coefficient of correlation between deposit and total investment measure the degree these two variables. Here deposit is independent variable (X) and total investment is dependent variable (Y). The purpose of computing coefficient correlation between deposit and total investment to find whether deposit is significantly used as investment or not.

The following table shows the variable of ( r ), ( $r^2$ ), P.Er and 6 P.Er between deposit and total investment for the study period 2003/00 to 2007/2008.

**Table 4.17**
**Correlation between Deposit and Total investment**

| | Evaluation Criterions | | |
|---|---|---|---|
| r | $r^2$ | P.Er | 6 P.Er |
| 0.9843 | 0.9688 | 0.0937 | 0.5622 |

(The detail of Calculation is in Annexure- 2)

Table 4.17, we find that coefficient of correlation between deposits (independent) and total investment (dependent) value of ‘r’ is 0.9843. It shows positive relation between two variables however by application of coefficient of determination the value of ($r^2$) is 0.9688 which indicates that the 96.88% of the variation of the dependent variable (total investment) has been explained by the dependent variable (deposits). Moreover by considering the probable error since the value of ‘r’ is i.e. 0.9843 is more than six times of P.Er i.e. 0.5622. So we can say that there is significant relationship between total deposit and total investment. Lastly it can be said that the bank has followed the policy of maximizing the investment of their deposits.

## 4.2.1.3) Coefficient of Correlation between outside Asset and Net Profit

Coefficient of correlation 'r' between outside asset and net profit measures the degree of relationship between these variables. Here outside asset in independent variable (X) and net profit is dependent variable (Y). The purpose of computing coefficient of correlation between outside asset and net profit is to find out weather the net profit is significantly correlated with respective total asset or not. The following table shows the value of r, $r^2$, P.Er and 6p.Er. between outside asset and net profit for the study period 2003/00 to 2007/2008.

**Table 4.18**
**Coefficient of Correlation between outside Asset and Net profit**

| | Evaluation Criterions | | |
|---|---|---|---|
| r | $r^2$ | P.Er | 6 P.Er |
| 0.9806 | 0.9615 | 0.0116 | 0.0939 |

(The detail of Calculation is in Annexure- 3)

Table 4.18 it has been found that the coefficient of correlation between total outside assets (independent) and net profit (dependent) is 0.9806, which indicates positive correlation between these two variables. Considering the value of coefficient of determination is $r^2$ i.e. 0.9615indicates that 96.15% of the variation in the dependent variables (net profit) has been explained by the independent variables (total outside assets). Moreover by considering the probable error we can further say that there is significant relationship between total outside assets and net profit because the value of r i.e. 0.9806 is greater than six times P.Er i.e. 0.0939.

It indicates that EBL is capital of earning net profit by mobilizing its total outside assets.

## 4.2.2) Trend analysis and Projection for next five years

The measurement used in financial management analysis may be classified into two groups those who measure in the relation among the items. Insight set of statements, and those who measure the analysis measuring position at a point of time of for a period the second is a dynamic analysis, measuring change of position. Both types of analysis, measuring change of position. Both types of analysis are necessary for a comprehensive interpretation, since it is important to know not only the proportion as on a certain data but also the trends on the enterprises. Here, in this study the trend analysis of the financial condition are presented which is object to provide the insight of the bank position. In this study, the method of least square is used for the analysis of the bank's total deposit trend, net profit trend, loan and advances and EPS trend. The projections are based on the following assumptions:-

- The main assumption is that other things being will remain unchanged.
- The bank will run in the present position.
- The economy will remain in the present stage.
- The forecast will be true only when the limitation of least square method is carried out.

### 4.2.2.1) Trend Analysis of total Deposit

Under this topic, an effort has been made to calculate the trend value of deposit for five years from 2003/00 to 2007/2008 and forecast for next five years till next 2012/2013.The following table shows the trend value of 10 years from 2003/00 to 2012/2013.

**Table 4.19**

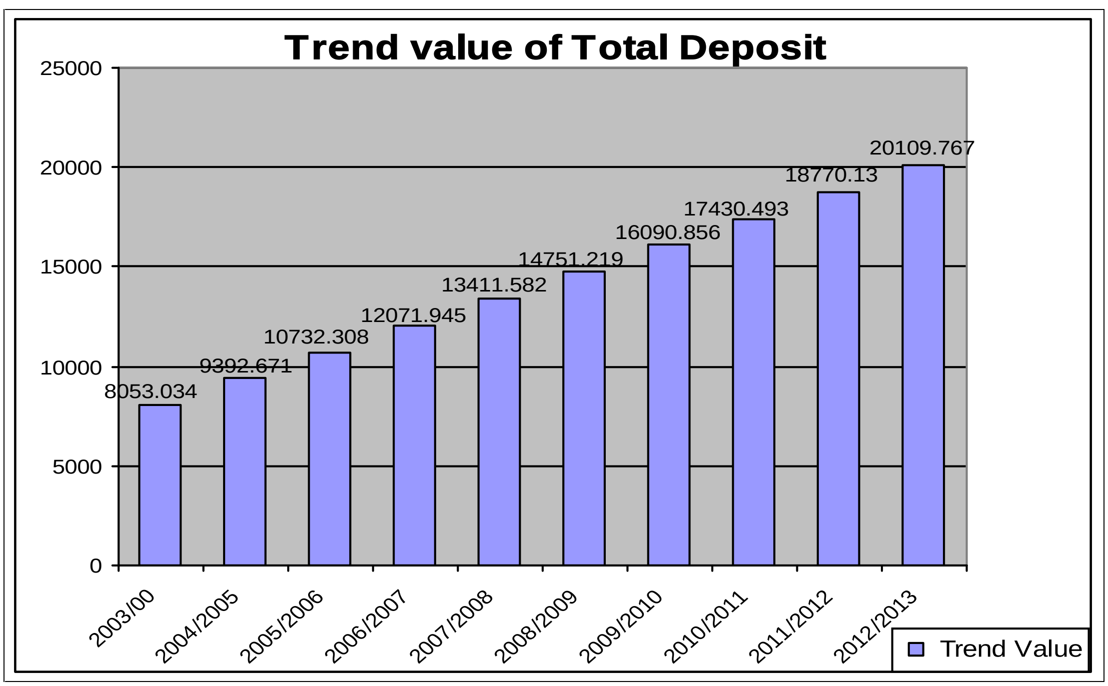
**Trend value of Total Deposit**

(Rs. In million)

| Years | Trend Value |
|---|---|
| 2003/00 | 8053.034 |
| 2004/2005 | 9392.671 |
| 2005/2006 | 10732.308 |
| 2006/2007 | 12071.945 |
| 2007/2008 | 13411.582 |
| 2008/2009 | 14751.219 |
| 2009/2010 | 16090.856 |
| 2010/2011 | 17430.493 |
| 2011/2012 | 18770.13 |
| 2012/2013 | 20109.767 |

(The details for the calculation is given in Annexure-4)

**Figure 4.16**



Annexure 4 indicates that a (Y intercept) and b (slope of trend line) of total deposit in EBL appeared Rs. 10732.308 and 1339.637 million respectively. During the study period total deposit showed increasing trend with the rate of Rs. 1339.637 millions per year. According to above calculation, trend, and equation of total deposit as:-

$Y = 10732.308 + 1339.637X$

This trend equation is obtained from the above calculation and forecasted total deposit of the bank for next five years i.e. 2008/2009 to 2012/2013 would be Rs. 14751.219, 16090.856, 17430.493, 18770.13 and 20109.767 million respectively.

### 4.2.2.2) Trend Analysis of Net Profit

Here, the trend values of net profit have been calculated for five years from 2003/00 to 2007/2008 and the forecast for next five years up to 2012/2013.

The following table shows the trend values of net profit.

**Table 4.20**

**Trend values of net profit**

(Rs.In million)

| **Year** | **Trend value** |
|---|---|
| 2003/00 | 137.32 |
| 2004/2005 | 162.539 |
| 2005/2006 | 187.758 |
| 2006/2007 | 212.977 |
| 2007/2008 | 238.196 |
| 2008/2009 | 263.415 |
| 2009/2010 | 288.634 |
| 2010/2011 | 313.853 |
| 2011/2012 | 339.072 |
| 2012/2013 | 364.291 |

(The detail of calculation is in Annexure-5)

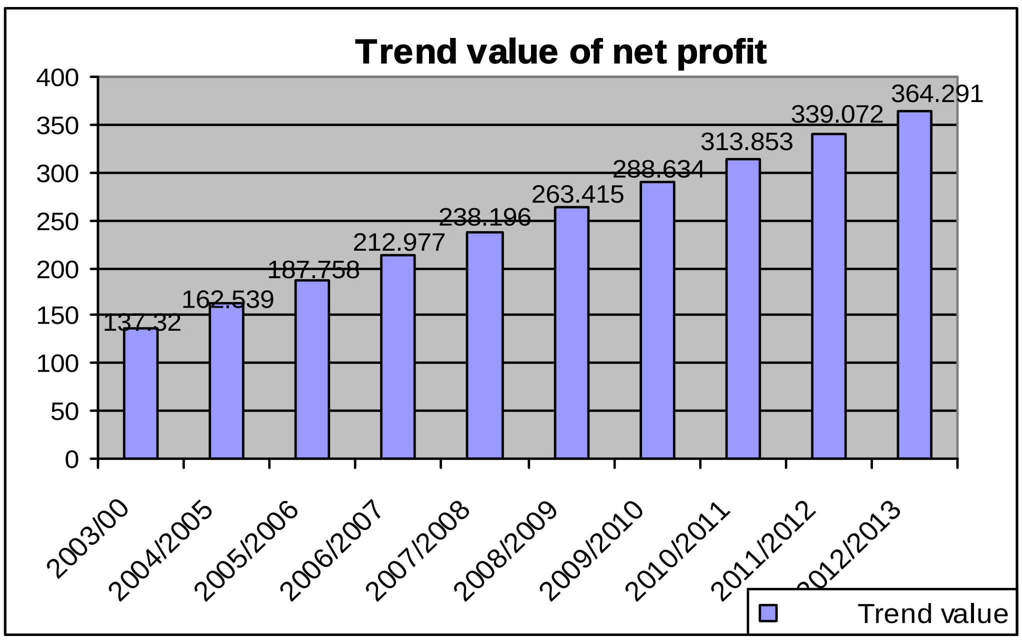
Annexure-5 highlighted that the value of a and b of net profit of bank is Rs. 187.758 and Rs. 25.219 millions respectively. Net profit of the bank showed increasing trend through out the study period.

Therefore, trend equation of net profit is,

Y= 187.758 + 25.219x

As per the trend equation presented above, net profit for next five years would be Rs. 263.415, 288.634, 313.853, 339.072 and 364.291 millions respectively.

**Figure 4.17**




## 4.2.2.3) Trend Analysis of Loan and Advances

Under this topic, the trend values of loan and advances have been calculated for five years from FY 2003/00 to 2007/2008 and forecast for next five years up to 2012/2013.The following table shows the trend values of loan and advance.

**Table 4.21**

**Trend values of loan and advance**

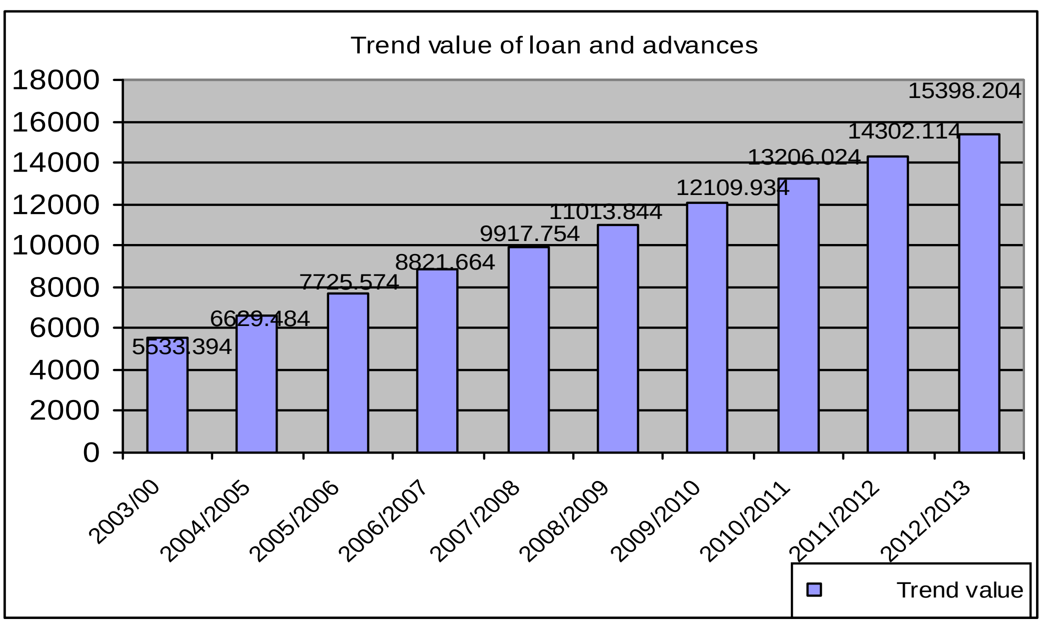
(Rs. In million)

| **Year** | **Trend value** |
|---|---|
| 2003/00 | 5533.394 |
| 2004/2005 | 6629.484 |
| 2005/2006 | 7725.574 |
| 2006/2007 | 8821.664 |
| 2007/2008 | 9917.754 |
| 2008/2009 | 11013.844 |
| 2009/2010 | 12109.934 |
| 2010/2011 | 13206.024 |
| 2011/2012 | 14302.114 |
| 2012/2013 | 15398.204 |

(The detail of calculation is in Annexure-6)

Annexure-6 depicts that a and b of loan and advances are Rs. 7725.574 and Rs. 1096.09 millions respectively. During the study period loan and advances showed increasing trend with the rate of Rs. 1096.09 millions per year.

**Figure 4.18**



Thus, the trend equation of loan and advances is: - Y= 7725.574 + 1096.09X
According to trend equation obtained above forecasted loan and advances for the period from 2008/2009 to 2012/2013 are Rs. 11013.844, 12109.934, 13206.024, 14302.114 and 15398.204 millions respectively in increasing trend.

## 4.2.2.4) Trend Analysis of Earning Per Share

In this head, the trend values of EPS have been calculated for five years from FY 2003/00 to 2007/2008 and forecast for next years up to 2012/2013.

The following table shows the values of EPS.

**Table 4.22**

**Trend values of Earning per Share**

(Rs. In million)

| Year | Trend value |
|---|---|
| 2003/00 | 40.226 |
| 2004/2005 | 40.994 |
| 2005/2006 | 41.762 |
| 2006/2007 | 42.53 |
| 2007/2008 | 43.298 |
| 2008/2009 | 44.066 |
| 2009/2010 | 44.834 |
| 2010/2011 | 45.602 |
| 2011/2012 | 46.37 |
| 2012/2013 | 47.138 |

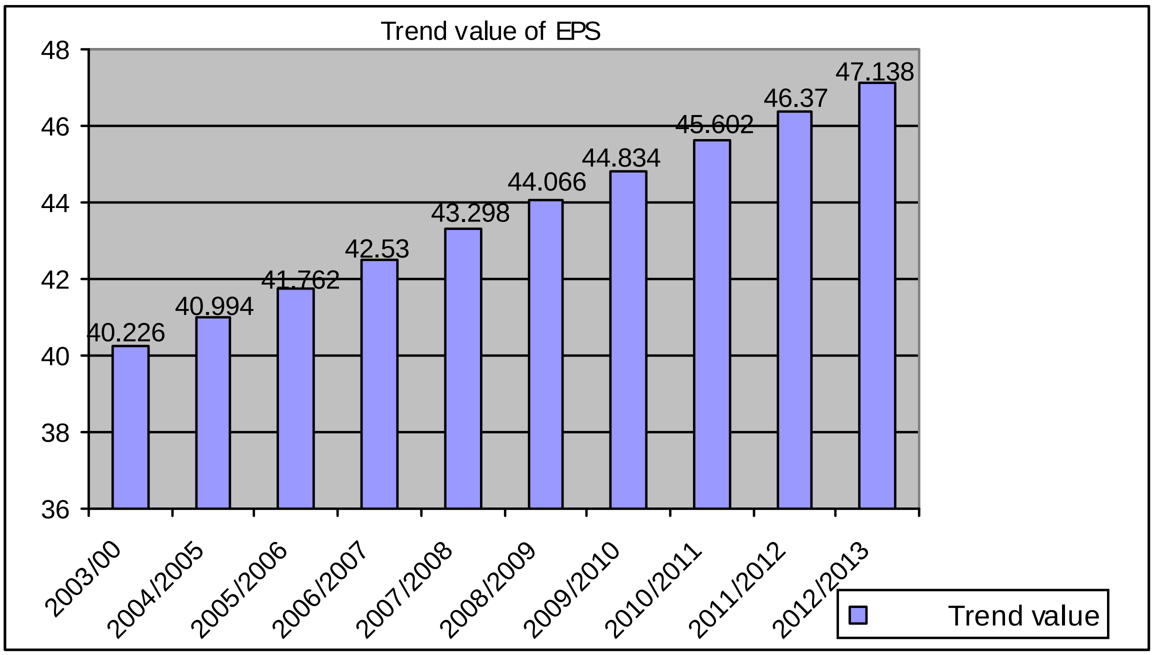
(The detail of calculation is in Annexure-7)

Annexure- 7 exhibits that a and b of EPS is Rs. 41.762 and Rs. 0.768 millions respectively. During the trend year's period, trend value is increasing which indicates above table 4.22. Increasing trend with the rate of Rs. 0.768 millions per year. Thus, the trend equation of EPS is:-

$$Y = 41.762 + 0.768X$$

According to the trend equation obtained above, forecasted EPS for the period from 2007/08 to 2012/2013 are 44.066, 44.834, 45.602, 46.37 and 47.138 millions respectively.

**Figure 4.19**



# Chapter –V

# SUMMARY, CONCLUSION AND RECOMMENDATION

This is the final chapter of the study that consists of the summary of previous topics. This chapter briefly explains summary, finding and recommendations on the basis of research conducted, it also aims to give forth some suggestions that must be helpful for further enhancement of the performance of EBL.

## 5.1) Summary

This study has conducted with a view to examine and evaluate the financial performance of EBL, which is working is working as JVB in Nepal by providing the quality and banking services with latest technology.

In global market condition, banking has become highly complex and sophisticated. Several changes create threats and opportunities that have direct impact on the performances of the banks. Therefore, future is going to be more challenging than what it is today. These days, the services oriented banks in the new competitive banking industry with quality and speedy services will to able to attain objectives including profit generation along with maintaining social responsibility.

Financial analysis is the key for financial decision – making and for making plans and program before using sophisticated forecasting and budgeting procedures. The value of this approach is to form the quantitative relation, which can be used to diagnose strength and weakness in a firm's performance. Such analysis is considerable thing for the company's common stockholder, investors, bondholders and others. Financial policies of any concern are directly influenced by the financial performance. Thus, it is a base for a firm's survival, growth and expansion.

Financial performance of EBL is done on the basis of financial statement from 2003/00 to 2007/2008. To approach the result, some financial and statistical tools have been used. As financial tools, ratio analysis has been used massively. In the same way, some statistical tools such as coefficient of correlation analysis between variables and trend analysis have been used to accomplish the objectives. This study is mainly based on the secondary data that have been first processed and analyzed. From this analysis of financial performance of the banks the following findings and conclusion are made:-

## 5.2) Summary of major Finding of the Study:-

Based on the analysis of data, the main findings are given below.

## A) Liquidity ratio

From the analysis of liquidity ratios the following findings can be presented:

a. After studying the current ratio of EBL, during the study period it revealed that the highest ratio is 1.08 times in FY 2005/2006 and the lowest ratio is 1.05 times in FY 2003/00.

b. The highest and lowest ratio of cash and bank balance to current assets ratio of EBL is 30.21% and 16.24% in FY 2005/2006 and FY 2003/00 which shows the decreasing trend respectively.

c. The investment on government securities to current assets ratio is in increasing trend in five years period. The lowest ratio of study period is 34.08% in FY 2003/00 and the highest ratio is 47.27% in FY 2004/2005.

d. After the study of loan and advances to current assets ratio of the bank, it has been found that the highest and lowest ratio is 84.06% and 75.25% in FY 2003/00 and FY 2004/2005 respectively. After the FY 2004/2005 the ratio is increasing slowly in every year.

e. As per the analysis of cash and bank balance to total deposits ratio of bank is in volatile trend during the five years period i.e. FY 2003/00 to 2007/2008 is 7.84%, 10.95%, 14.51%, 15.66% and 14.18% respectively.

## B) Activity Ratio

From the analysis of various activity ratios, the following findings are categorized.

I. After the study of loans and advances to total deposits ratio of bank have volatile trend in different five years. During the study period, the highest and lowest ratio is 74.87% and 65.87% in FY 2006/2007 and 2004/2005 respectively.

II. As per the analysis of total investments to total deposit ratio of bank is in increasing trend during the five years period. The highest and lowest ratio is 52.68% and 30.59% in FY 2007/2008 and 2003/00 respectively.

III. After studying the loan and advances to total working fund ratio, during the study period the highest ratio is 77.35% in FY 2007/2008 and the lowest ratio is 60.78% in FY 2004/2005. After the FY 2003/00 to FY 2007/2008 the loan and advances to working fund ratio is increasing positive manner.

## C) Profitability Ratio

From the analysis of various profitability ratios, the following findings can be categorized.

1) After the study of return on equity ratio the bank have increasing trend during the five years period i.e. FY 2003/00 to 2007/2008 is 26.57% to 43.84% except in FY 2004/2005 is 22.821%.
2) The interest earned to working fund ratio the bank has increasing trend during the study period i.e. FY 2003/00 to 2007/2008 is 6.84% to 8.62%. So the ratio of total interest earned to working fund is satisfactory.
3) After studying the interest paid to working fund ratio of EBL, during the study period ratio is in decreasing trend. The ratio ranges from 3.27% to 1.46%, which lies on the FY 2003/00 to 2007/2008 respectively.
4) As per the analysis of interest earned to operating income ratio of bank is in low increasing trend during the five years period. The highest ratio is 88.63% in FY 2007/2008, where as the lowest ratio is 81.93% in 2005/2006.
5) From the analysis of return on total working fund ratio of bank is not consistent during the study period in FY 2003/00 to 2007/2008 ratio is 1.49%, 1.59%, 1.86%, 1.83% and 2.02%.
6) According to the study, return and loans and advances ratio of bank have volatile trend like 2.44%, 2.47%, 2.48%, 2.39% and 2.40% during the FY 2003/00 to 2007/2008 respectively. Thus it can be concluded that the bank is not able to earn satisfactory income on loans and advances.
7) After analyzing the earning per share of bank is in fluctuating trend, during the study period. It has positive but volatile trend like 44.86, 36.51, 40.74, 39.49 and 47.21 rupees per share the FY 2003/00 to 2007/2008 respectively.

## D) Coefficient of Correlation Analysis

Coefficient of correlation analysis between different variables reveals that:

1) From the analysis of correlation coefficient between deposit and loan and advance (r) is 0.9829, which shows greater positive correlation between this two variables.
2) After studying the correlation coefficient between deposit and total investment value of r is 0.9843. It shows higher positive relationship between two variables.
3) As per the analysis of coefficient of correlation between outside asset and Net profit (r) is 0.9806, which indicates higher positive correlation between these two variables.

## E) Trend Analysis

On the basic of trend analysis of total deposit, it can be concluded that 'a' (Y intercept) and 'b' (slope of trend line) of total deposit in EBL appeared Rs. 10732.308 and Rs 1339.637 million respectively during the study period.

Where, trend equation of total deposit is:-

Y = 10732.308 + 1339.637X

1) After the study of trend analysis of Net Profit, the value of loan and advances are Rs. 187.758 and Rs. 187.758 and Rs. 25.219 millions respectively during the study period.

   Thus, trend equation of Net Profit is:-

   Y = 187.758 + 219 X

2) After reviewing the trend analysis of loan and advance exhibits that 'a' and 'b' of loan and advances are Rs. 7725,574 and Rs. 1096.09 millions respectively during the study period.

   Therefore, trend equation of loan and advances is:-

Y = 7725.574 + 1096.09 X

3) After studying the trend analysis of earning per share depicts that ‘a’ and ‘b’ of EPS is Rs. 41.762 and Rs. 0.768 millions respectively during the study period.

   So, the trend equation of EPS is:-

   Y = 41.762 + 0.768X

## 5.3) Conclusion

Current ratio is below the normal standard however we cannot conclude the liquidity position is poor as it is only quantitative measures not qualitative and the situation of the bank is quite different than of general business enterprises. Cash and Bank balance can have negative impact on the goodwill and reputation of the bank. But in the other aspect this ratio is better as it indicates the ability to manage the deposit withdraws from the customers.

Government securities are the more safe investment than current assets. In addition it can earn additional interest income by investing instead of keeping idle cash. In conclusion, it can be regarded that EBL has invested its remarkable portion of current assets on government securities. After the study of loan and advances to current assets ratio of the bank reveals that the bank is successful to mobilize its current deposits on loan and advances. Cash and bank balance to total deposit ratio of bank indicates its high ability but very high ratio shows the inefficiency of the bank. Bank will keep a certain percentage of deposits in the form of cash for its contingent reasons. Loan and advances to total deposit ratio shows that the bank is successfully utilizing its resources in profit generating field. So it will be better for EBL to increase the portion of loan and advance to earn more interest. Total investments to total deposit ratio of bank has more successfully allocated its deposits in investment portfolio. It shows, bank has normal and increased position to utilize its total deposit as investment.

Loan and advances to total working fund ratio of bank indicates better in mobilization of funds as loan and advance and vice-versa. The bank has average position towards the utilization of working fund on loan and advance. Return on equity ratio of the bank has been not successfully utilizing its equity capital because it has not efficiently utilized. The interest earned to working fund ratio of the bank has decreasing trend during the study period .So, the ratio of total interest earned to total working fund is not satisfactory as it is decreasing of interest earned every year. Interest paid to total working fund ratio of EBL indicates the higher interest expenses on total working fund. It seems to be successful to collect its working fund from less expensive source.

Interest earned to operating income ratio of bank shows the magnitude of interest income is high, as the bank seems to be successful to mobilize of interest bearing assets such as loan, advances and investment. Return on total working fund ratio of bank will be higher of the banks working fund is well managed and investment. Return on loans and advances ratio of bank can be concluded that the bank is not able to earn satisfactory income on loan and advances. Earning per share of bank shows that at the end of five years study period, 2007/2008 is the highest rupees per share i.e. 47.21, which indicates the bank's future will be good position. Coefficient of correlation between deposit and loan and advances indicates satisfactory position in mobilization of deposit as loan and advances.

Correlation coefficient between deposit and total investment value is successful to mobilize its fund in proper way as an investment. Coefficient of correlation between outside asset and Net profit is capable of earning net profit by mobilizing its total outside assets. Trend analysis of total deposit is increasing trend through the study and the forecasting for next five years period, which indicates that the bank has satisfactory position in ten years period. Trend analysis of net profit can be said that net profit of the bank is increasing trend forecasting for next five years period, which indicates that the bank has satisfactory position.

Trend analysis of loan and advances of the bank is increasing trend with the rate of Rs. 913.058 millions per year during the study and forecasting for next five years period, which indicates that the position of the EBL is satisfactory. Trend analysis of earning per share can be concluded that EPS of the bank during the ten years period is increasing trend with the rate of Rs. 1.98 millions per year, which shows that the satisfactory position of the bank.

## 5.4) Recommendation

A clear financial picture of EBL can be viewed from all above presentation. Now, some valuable and timely suggestions and recommendation can be advanced to overcome weakness, inefficiency and to improve present financial position of the bank. On the basis of findings mentioned above some of recommendation have been drawn as follows:-

1) The bank is suggested to maintain to its liquidity position in normal standard, as their liquidity position is below of the normal standard and also recommended to follow consistency liquidity policy.
2) As joint venture commercial bank in private sector, EBL cannot keep its eyes off from the profit motive, so it should be always careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and its customers. Thus the bank is strongly recommended to utilize its risky assets and shareholders fund to gain profit margin. Similarly, it should reduce its expenses and should try to collect cheaper fund being more profitable.
3) In regard, investment on government securities, it has been revealed that EBL has given more priority to invest its fund in government securities than other investment sector. Though securities issued by government are considered to be free risk of default, but such securities yield the lower interest rate of a particular maturity due to low risk feature. So EBL is recommended not to give much of important to the government securities and diversity the investment policy on more yield base funds.
4) Although joint venture banks are found to be profit oriented, but they should not forget social responsibilities. So the bank should render their service in rural areas to promote and mobilize are small investors. Mostly joint venture banks are concentrating their focus only in urban areas, deals with big industries, corporate houses, and multinational companies, large NGOs and INGOS and they neglect the small depositors. Thus, the bank should expand their branches in rural areas and it should encourage the small depositors for promoting small investors.
5) As the company has highly expanded its network by issuing loan massively. It may create problem to the bank if it becomes failure to

recover it timely. Issuing of short-term loan doesn’t carry more risk to the bank but issuing of long- term loan as compared to short-term loan may sometimes lead to bankruptcy. So it is recommended to balance regarding this fact.

6) EBL has existing branches that are not sufficient to cover the banking business. Coverage of limited areas by the bank will not boost up its campaign of deposit mobilization and credit disbursement as desired. Therefore the bank is recommended to open new branches at certain particular place for opening a branch, saving and business potentiality of that area should be studied well, which will be very helpful to the bank in tapping the resources of different places.

7) The fee- based activities of bank are found to be very profitable and important these days in banking business. These are commission, discount and fees; they yield high return to a bank. EBL is not in better position regarding the proportion of fee- based activities in respect to loan and advances.

8) Looking at the current trend of banking business a bank must be very careful while formulation marketing strategies to serve customers. The marketing strategies should be innovative so that it would attract and retain the customers. It is recommended that the bank should develop innovative approach to banks marketing for its well- being and sustain ability business. So the bank is suggested to introduce the ATM facilities, credit card facilities, Telebanking facilities and many more.

9) Before mobilization funds, the bank is recommended to collect a large variety deposit through schemes like cumulative deposit scheme, price band scheme, gift cheque scheme, house building deposit scheme, direct

finance housing scheme, education loan scheme, vehicle loan scheme and many others.

10) It is recommended to boost up foreign investment, as EBL does not seem to be successful in this aspect. To be successful in the investment sector, it should initiate strong step for the recovery part too.

11) EBL should also try to reduce staff expenses by increasing staff productivity because in the modern time bank competition is increasing every day.

12)

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# Annexure-1

## Calculation of Correlation Coefficient between Deposits and Loan and Advance

(Rs in million)

| FY | Deposits (X) Rs | Dx = ( x-x) = x – 10732.3 | $dx^2$ | Loan and Advance (y) | dy= (y-y) = y-7725.57 | $dy^2$ | dx.dy |
|---|---|---|---|---|---|---|---|
| 2003/00 | 8063.90 | -2668.4 | 7120358 | 5884.12 | -1841.45 | 3390938 | 4913725 |
| 2004/2005 | 9632.50 | -1099.8 | 1209560s | 6345.23 | -1380.34 | 1905338 | 1518098 |
| 2005/2006 | 10654.39 | -77.91 | 6070 | 7569.51 | -156.06 | 24355 | 12158 |
| 2006/2007 | 11464.83 | 732.53 | 536600 | 8583.65 | 858.08 | 736301 | 628569 |
| 2007/2008 | 13845.92 | 3113.62 | 9694629 | 10245.36 | 2519.79 | 6349342 | 7845668 |
| N=5 | ∑x=53661.54 | ∑dx=0 | $\sum dx^2$= 18567217 | ∑y= 3862787 | ∑dy=0 | $\sum dy^2$= 12406274 | ∑dx.dy= 14918218 |

**We have,**

$$\text{X Mean} = \frac{\sum X}{N} \qquad \text{where N= 5} \qquad \text{Y Mean} = \frac{\sum Y}{N}$$

$$= \frac{53661.54}{5} \qquad\qquad = \frac{38627.87}{5}$$

$$= 10732.3 \qquad\qquad = 7725.57$$

$\sum dx = 0$ $\qquad$ $\sum dy = 0$

$\sum dx^2 = 18567217$ $\qquad$ $\sum dy^2 = 12406274$

$\sum dx.dy = 14918218$

**Correlation of coefficient can be calculated by following formula:-**

$$r = \frac{\sum dx.dy - (\sum dx)(\sum dy)}{\sqrt{[N\sum dx^2 - (dx)^2][N\sum dy^2 - (\sum dy)^2]}}$$

$$r = \frac{5\,(14918218) - (0)\,.\,(0)}{\sqrt{[5 \times (18567217) - (0)^2][5 \times 12406274 - (0)^2}}$$

$$= \frac{74591090}{75886425.26}$$

$$= 0.9829$$

**Now, Computation of Coefficient of determination,**

$r^2 = (0.9829)^2$
$= 0.9661$

**Again, Computation of probable error of correlation coefficient**,

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

$$P.Er = 0.6745 \times \frac{1 - 0.9661}{\sqrt{5}}$$

$$P.Er = 0.6745 \times \frac{0.0339}{2.236}$$

$P.Er = 0.0102$

**Again, Calculation of 6 P.Er** = 6 x 0.0102
= 0.0612

## Annexure-2

### Calculation of Correlation Coefficient between deposit and total investment

(Rs in million)

| FY | deposits (X) Rs | dx = ( x-x) = x – 10732.3 | $dx^2$ | Total investment (y) Rs | dy= (y-y) = y-4939.27 | $dy^2$ | dx.dy |
|---|---|---|---|---|---|---|---|
| 2003/00 | 8063.90 | -2668.4 | 7120358 | 2466.43 | -2472.84 | 6114937 | 6598526 |
| 2004/2005 | 9632.50 | -1099.8 | 1209560 | 3894.64 | -1044.63 | 1091252 | 1148884 |
| 2005/2006 | 10654.39 | -77.91 | 6070 | 5398.23 | -458.96 | 210644 | 35757 |
| 2006/2007 | 11464.83 | 732.53 | 536600 | 5642.81 | 703.54 | 494968 | 515364 |
| 2007/2008 | 13845.92 | 3113.62 | 9694629 | 7294.24 | 2354.97 | 5545883 | 7332482 |
| N=5 | ∑x= 53661.54 | ∑dx=0 | $\sum dx^2$= 18567217 | ∑y= 24696.35 | ∑dy=0 | $\sum dy^2$= 13457684 | ∑dx.dy= 15559499 |

**We have,**

$$\text{X Mean} = \frac{\sum X}{N} \qquad \text{where } N = 5 \qquad \text{Y Mean} = \frac{\sum Y}{N}$$

$$= \frac{53661.54}{5} \qquad\qquad = \frac{24696.35}{5}$$

$$= 10732.3 \qquad\qquad = 4939.27$$

$\sum dx = 0$ $\qquad$ $\sum dy = 0$

$\sum dx^2 = 18567217$ $\qquad$ $\sum dy^2 = 12406274$

$$\sum dx.dy = 14918218$$

**Correlation of coefficient can be calculated by following formula:-**

$$r = \frac{\sum dx.dy - (\sum dx)(\sum dy)}{\sqrt{[N \sum dx^2 - (dx)^2][N\sum dy^2 - (\sum dy)^2]}}$$

$$r = \frac{5\,(15559499) - (0).(0)}{\sqrt{[5 \times (18567217) - (0)^2][5 \times 13457684 - (0)^2}}$$

$$= \frac{77797495}{79036659.08}$$

$$= 0.9829$$

**Now, Computation of Coefficient of determination,**

$$r^2 = (0.9843)^2$$
$$= 0.9688$$

**Again, Computation of probable error of correlation coefficient,**

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

$$P.Er = 0.6745 \times \frac{1 - 0.9688}{\sqrt{5}}$$

$$P.Er = 0.6745 \times 0.0139$$

$$P.Er = 0.0937$$

**Again, Calculation of 6 P.Er** = 6 x 0.0937
= 0.5622

## Annexure-3

### Calculation of Correlation Coefficient between outside Asset and net Profit

( Rs in million )

| FY | Outside assets (X) Rs | dx=(x-x) = x – 10732.3 | $dx^2$ | Net profit (y) Rs | dy= (y-y) = y-7725.57 | $dy^2$ | dx.dy |
|---|---|---|---|---|---|---|---|
| 2003/00 | 8419.77 | -2322.89 | 5395818 | 143.57 | -44.19 | 1953 | 102648 |
| 2004/2005 | 9324.86 | -1417.8 | 2010156 | 156.98 | -30.78 | 947.40 | 43639 |
| 2005/2006 | 10534.24 | -208.42 | 43438 | 187.42 | -0.34 | 0.1156 | 70 |
| 2006/2007 | 12235.87 | 1493.21 | 2229676 | 205.33 | 17.57 | 308.70 | 26236 |
| 2007/2008 | 13198.58 | 2455.92 | 6031543 | 245.49 | 57.73 | 3332.75 | 141780 |
| N=5 | ∑x= 53713.32 | ∑dx=0 | $\sum dx^2$= 15710631 | ∑y= 938.79 | ∑dy=0 | $\sum dy^2$= 6542 | ∑dx.dy= 314373 |

**We have,**

$$\text{X Mean} = \frac{\sum X}{N} \qquad \text{where N= 5} \qquad \text{Y Mean} = \frac{\sum Y}{N}$$

$$= \frac{53713.32}{5} \qquad\qquad = \frac{938.79}{5}$$

$$= 10742.66 \qquad\qquad = 187.76$$

$\sum dx = 0$ $\sum dy = 0$

$\sum dx^2 = 15710631$ $\sum dy^2 = 6542$

$\sum dx.dy = 314373$

**Correlation of coefficient can be calculated by following formula:-**

$$r = \frac{\sum dx.dy - (\sum dx)(\sum dy)}{\sqrt{[N\sum dx^2 - (dx)^2][N\sum dy^2 - (\sum dy)^2]}}$$

$$r = \frac{5(314373) - (0).(0)}{\sqrt{[5 x(1571063) - (0)^2][5 x 6542 - (0)^2}}$$

$$= \frac{1571865}{1602957}$$

$$= 0.9806$$

**Now, Computation of Coefficient of determination,**

$$r^2 = (0.9806)^2$$
$$= 0.9615$$

**Again, Computation of probable error of correlation coefficient,**

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

$$P.Er = 0.6745 \text{ x} \sqrt{\frac{1 - 0.9615}{5}}$$

$$P.Er = 0.6745 \text{ x } 0.0385$$

$$\overline{\quad 2.236 \quad}$$

P.Er = 0.0116

**Again, Calculation of 6 P.Er** = 6 x 0.0116
= 0.0939

## Annexure – 4

### The Trend Value of Total Deposit

(Rs. In Million)

| **Year (t)** | **Total deposit (Y) Rs** | **X=(t-2005/2004)** | **$X^2$** | **X .Y** | **Yc= a + bx** |
|---|---|---|---|---|---|
| 2003/00 | 8063.90 | -2 | 4 | - 16127.8 | 8053.034 |
| 2004/2005 | 9632.50 | -1 | 1 | -9632.50 | 9392.671 |
| 2005/2006 | 10654.39 | 0 | 0 | 0 | 10732.308 |
| 2006/2007 | 11464.83 | 1 | 1 | 11464.83 | 12071.945 |
| 2007/2008 | 13845.92 | 2 | 4 | 27691.84 | 13411.582 |
| Total | ∑Y= 53,661.54 | ∑ X = 0 | $\sum X^2 = 10$ | ∑XY=13396.37 | |

**We have,**

$$a = \frac{\sum Y}{N} = \frac{53661.54}{5} = 10732.308$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{13396.37}{10} = 1339.637$$

**Now, Straight line method of Total Deposit**

$Yc = a + bx = 10732.308 + 1339.637 X$

| **Year ( t )** | **X = ( t-2005/06 )** | **Yc = a + bx** |
|---|---|---|
| 2008/2009 | 3 | 14751.219 |
| 2009/2010 | 4 | 16090.856 |
| 2010/2011 | 5 | 17430.493 |
| 2011/2012 | 6 | 18770.13 |
| 2012/2013 | 7 | 20109.767 |

## Annexure – 5

### The Trend Value of Net Profit

( Rs. In Million)

| **Year (t)** | **Net Profit (Y) Rs** | **X=t-2005/2004)** | **$X^2$** | **X .Y** | **Yc=a+bx** |
|---|---|---|---|---|---|
| 2003/00 | 143.57 | -2 | 4 | -287.14 | 137.32 |
| 2004/2005 | 156.98 | -1 | 1 | -156.98 | 162.539 |
| 2005/2006 | 187.42 | 0 | 0 | 0 | 187.758 |
| 2006/2007 | 205.33 | 1 | 1 | 205.33 | 212.977 |
| 2007/2008 | 245.49 | 2 | 4 | 490.98 | 238.196 |
| Total | $\sum Y = 938.79$ | $\sum X = 0$ | $\sum X^2 = 10$ | $\sum XY=252.19$ | |

**We have,**

$$a = \frac{\sum Y}{N} = \frac{938.79}{5} = 187.758$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{252.19}{10} = 25.219$$

**Now, Straight line method of Total Deposit**

Yc = a + bx = 187.758 + 25.219 X

| Year (t) | X = (t-2005/2006) | Yc = a + bx |
|---|---|---|
| 2008/2009 | 3 | 263.415 |
| 2009/2010 | 4 | 288.634 |
| 2010/2011 | 5 | 313.853 |
| 2011/2012 | 6 | 339.072 |
| 2012/2013 | 7 | 364.291 |

# Annexure – 6

## The Trend Value of Loan and Advances

(Rs.in million)

| Year (t) | Loan and advances (Y) Rs | X= (t-2005/2004) | X | X .Y | Yc= a + bx |
|---|---|---|---|---|---|
| 2003/00 | 5884.12 | -2 | 4 | -11768.24 | 5533.394 |
| 2004/2005 | 6345.23 | -1 | 1 | -6345.23 | 6629.484 |
| 2005/2006 | 7569.51 | 0 | 0 | 0 | 7725.574 |
| 2006/2007 | 8583.65 | 1 | 1 | 8583.65 | 8821.664 |
| 2007/2008 | 10245.36 | 2 | 4 | 20490.72 | 9917.754 |
| Total | $\sum Y = 38627.87$ | $\sum X = 0$ | $\sum X^2 = 10$ | $\sum XY=10960.9$ | |

**We have,**

$\sum Y$ 38627.87

$$a = \frac{}{N} = \frac{}{5} = 7725.574$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{10960.9}{10} = 1096.09$$

**Now, Straight line method of Total Deposit**

$$Yc = a + bx = 7725.574 + 1096.09\ X$$

| Year (t) | X = ( t-2005/2006) | Yc = a + bx |
|---|---|---|
| 2008/2009 | 3 | 11013.844 |
| 2009/2010 | 4 | 12109.934 |
| 2010/2011 | 5 | 13206.024 |
| 2011/2012 | 6 | 14302.114 |
| 2012/2013 | 7 | 15398.204 |

# Annexure – 7

## The Trend Value of Earning Per Share (EPS)

(Rs.In Million)

| Year (t) | EPS (Y) Rs | X=(t-2005/2004) | $X^2$ | X .Y | Yc= a + bx |
|---|---|---|---|---|---|
| 2003/00 | 44.86 | -2 | 4 | -89.72 | 40.226 |
| 2004/2005 | 36.51 | -1 | 1 | -36.51 | 40.994 |
| 2005/2006 | 40.74 | 0 | 0 | 0 | 41.762 |
| 2006/2007 | 39.49 | 1 | 1 | 39.49 | 42.53 |
| 2007/2008 | 47.21 | 2 | 4 | 94.42 | 43.298 |
| Total | $\sum Y = 208.81$ | $\sum X = 0$ | $\sum X^2 = 10$ | $\sum XY=7.68$ | |

**We have,**

$\sum Y$ 208.81

$$a = \frac{\quad}{N} = \frac{\quad}{5} = 41.762$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{7.68}{10} = 0.768$$

**Now, Straight line method of Total Deposit**

Yc = a + bx = 41.762+ 0.768 X

| Year (t) | X = ( t-2005/2006) | Yc = a + bx |
|---|---|---|
| 2008/2009 | 3 | 44.066 |
| 2009/2010 | 4 | 44.834 |
| 2010/2011 | 5 | 45.602 |
| 2011/2012 | 6 | 46.37 |
| 2012/2013 | 7 | 47.138 |