# INVESTMENT POLICY OF HIMALAYA BANK LTD. AND EVEREST BANK LTD.

A THESIS

SUBMITTED BY:

**Daya Ram Acharya**

**Nepal Commerce Campus**

T. U. Regd. No: 7-1-22-630-2002

Campus Roll No: 834/064

Symbol no: 250144/066

SUBMITTED TO:

**Office of the Dean**

**Faculty of Management**

**Tribhuwan University**

In the partial fulfillment of the requirements for the Degree of

Masters inBusiness Studies**(M.B.S)**

New Baneshwor Kathmandu

April, 2014

# RECOMMENDATION

This is to certify that the thesis

Submitted by

**Daya Ram Acharya**

Entitled:

INVESTMENT POLICY OF HIMALAYA BANK LTD. AND EVEREST BANK LTD.

has been prepared as approved by this department in the prescribed format of the faculty of management. This thesis is forward for examination.

**.....**

**.....**

**(Prof. Dr. Sushil Bhakta Mathem**

**(Jyoti Pandey)**

**Head of Research Department**
**Campus chief**

**and Thesis Supervisor**

**.....**

**PitambarGhimire**

**Thesis Supervisor**

**Date……**

# VIVA- VOICE SHEET

we have conducted the viva voice examination of the thesis presented

BY

**Daya Ram Acharya**

Entitled:

**INVESTMENT POLICY OF HIMALAYAN BANK LTD. AND EVEREST BANK LTD.**

and found the thesis to be the original work of the student and written according to the prescribed format .we recommended the thesis to be accepted as partial fulfillment of the requirements for

**Master's Degree of Business Studies(M.B.S.)**

**Viva Voice Committee:**

Chairperson,(Research Department) .....

Member(Thesis Supervisor) .....

Member(Thesis Supervisor) .....

Member(External Expert) .....

Date:.....

# DECLARATION

I hereby, declare that the work reported in this thesis entitled "Investment Policy of Himalaya Bank Ltd. and Everest Bank Limited" submitted to Office of theDean, Faculty of Management, TribhuwanUniversity, is my original work done in the form of partial fulfillment for the Master's Degree in Business Studies(M.B.S.) under the supervision of **Prof. Dr. Sushil Bhakta Mathema** and **Pitambar Ghimire**of Nepal Commerce Campus.TU.

……

**Daya Ram Acharya**

**Nepal Commerce Campus**

Date:……..

# ACKNOWLEDGEMENTS

This thesis work could nothave been completed without the support and cooperation of many individuals and organizations.

I would like to express my sincere gratitude towards my respected supervisors **Prof. Dr. SushilBhaktaMathema**, Head of Research Department and **PitambarGhimire** of Nepal Commerce Campus, Tribhuvan University. I cordially appreciate their precious supervision and useful guidance and no words can fully express my feeling of gratitude to them Iexpress debt of gratitude to my friends for their continuous support in my efforts to complete this this work. I owe a special thanks to AnjanKhadka who provided valuable support inmy efforts to complete this thesis work.

Needless to say to error is human being's I am not exception from it, so I am responsible for some deficiencies that may have remained in this work.

**Daya Ram Acharya**

**Nepal Commerce Campus**

# TABLE OF CONTENT

**VIVA VOICE SHEET**

**RECOMMENDATION**

**DECLARATION**

**ACKNOWLEDGEMENTS**

**TABLE OF CONTENTS**

**LIST OF TABLE**

**LIST OF FIGURES**

**ABBREVIATIONS**

**CHAPTER I**

**Introduction**

1.1 Background of the study 1

1.2 Statements of the problem 2

1.3 Objectives of the study 3

1.4 Significance of the study 4

1.5 Limitations of the study 4

1.6 Organization of the study 5

**CHAPTER II**

**Review of Literature**

2.1 Concept of Investment 6

2.2 Investment Process 10

2.3 Investment Policy 12

2.4 Characteristics of sound lending and investment policy 14

2.5 Review of Articles and Journals 18

2.6Review of thesis 21

2.7 Research gap 32

## CHAPTER III

**Research Methodology**


3.1 Research design 33

3.2 Source of data 34

3.3 Population and sample 34

3.4 Analysis of data 34

3.4.1 Financial tools 35

3.4.2 Statistics tools 43


## CHAPTER IV

**Data Presentation and Analysis**


4.1 Ratio analysis 47

4.1.1 Liquidity ratio 47

4.1.2 Assets management ratio/active ratio/turnover ratio 56

4.1.3 Profitability Ratio 64

4.1.4 Risk Ratio 73

4.1.5 Growth Ratio 76

4.2 Statistical analysis 81

4.2.1 Trend analysis 81

4.2.2 Coefficient of Correlation Analysis 87

4.3 Major findings of the study 90


## CHAPTER V

**Summary Conclusions and Recommendations**


5.1 Summary 96

5.2 Conclusion 97

5.3 Recommendations 99

**BIBLIOGRAPHY**

**ANNEXES**

# LIST OF TABLES


| Table No. | Title | Page No. |
|---|---|---|
| 4.1 | Current Ratio (Times) | 48 |
| 4.2 | Cash and Bank Balance to Current Assets Ratio (in %) | 50 |
| 4.3 | Cash and Bank Balance to Total Deposit Ratio (in %) | 51 |
| 4.4 | Investment on Government Securities to Current Assets Ratio (in %) | 53 |
| 4.5 | Loan and Advance to Current Assets Ratio (in %) | 55 |
| 4.6 | Loan and Advance to Total Deposit Ratio (In %) | 57 |
| 4.7 | Total Investment to Total Deposit Ratio | 58 |
| 4.8 | Loan and Advance to Total Working Fund Ratio | 60 |
| 4.9 | Investment on Government Securities to Total Working Fund Ratio | 62 |
| 4.10 | Investment on Share and Debenture to Total Working Fund Ratio | 63 |
| 4.11 | Return on Total Working Fund Ratio | 64 |
| 4.12 | Total Interest Earned to Total Out Side Assets Ratio | 66 |
| 4.13 | Return on Loan and Advance Ratio | 67 |
| 4.14 | Total Interests Earned to Total Working Fund Ratio | 69 |
| 4.15 | Total Interest Paid to Total Working Fund Ratio | 70 |
| 4.16 | Return on Equity Ratio | 72 |
| 4.17 | Credit Risk (Loan and Advance to Total Assets) Ratio | 74 |
| 4.18 | Liquid Risk (Cash and Bank Balance to Total Deposit) Ratio | 75 |
| 4.19 | Growth of Total Deposit | 77 |
| 4.20 | Growth of Loan and Advance | 78 |
| 4.21 | Growth Ratio of Net Income | 79 |
| 4.22 | Growth Ratio of Total Investment | 80 |
| 4.23 | Trend Value of Deposit of HBL and EBL | 81 |
| 4.24 | Trend Value of Loan and Advance of HBL and EBL | 83 |
| 4.25 | Trend Value of Total Investment of HBL and EBL | 84 |
| 4.26 | Net Income of HBL and EBL | 86 |
| 4.27 | Relationship between Total Deposit and Loan and Advance of HBL and EBL | 87 |
| 4.28 | Relationship between Total Deposit and Total Investment of HBL and EBL | 88 |

4.29 Relationship between Total Deposit and Net Income of HBL and EBL 89
4.30 Relationship Between Out Side Assets and Net Income of HBL and EBL 90

## LIST OF FIGURE

Figure No.

| | Title | Page No. |
|---|---|---|
| 4.1 | Current Ratio | 49 |
| 4.2 | Cash and Bank Balance to Current Assets | 50 |
| 4.3 | Cash and Bank Balance to Total Deposit Ratio | 52 |
| 4.4 | Investment on Government Securities to Current Assets Ratio | 53 |
| 4.5 | Loan and Advance to current Assets Ratio | 55 |
| 4.6 | Loan and Advance to Total Deposit Ratio | 57 |
| 4.7 | Total investment to Total Deposit Ratio (in %) | 59 |
| 4.8 | Loan and Advance to Total Working Fund Ratio | 60 |
| 4.9 | Investment on Government Securities to TotalWorking Fund Ratio | 62 |
| 4.10 | Investment on Share and Debenture to TotalWorking Fund Ratio | 63 |
| 4.11 | Return on Total Working Fund Ratio | 65 |
| 4.12 | Total Intrest Earned to Total Out Side Assets Ratio | 66 |
| 4.13 | Return on Loan and Advance Ratio | 68 |
| 4.14 | Total Intrest Earned to Total Working Fund Ratio | 69 |
| 4.15 | Total Intrest Paid to Total Working Fund Ratio | 71 |
| 4.16 | Return on Equity Ratio | 72 |
| 4.17 | Credit Risk Ratio | 74 |
| 4.18 | Liquid Risk Ratio | 76 |
| 4.19 | Growth of Total Deposit | 77 |
| 4.20 | Growth of Loan and Advance | 78 |
| 4.21 | Growth of Net Income | 79 |
| 4.22 | Growth of Total Investment | 80 |
| 4.23 | Trend Value of Deposit of HBL and EBL | 82 |
| 4.24 | Trend Value of Loan and Advance of HBL and EBL | 83 |
| 4.25 | Trend value of Total Investment | 85 |
| 4.26 | Trend Value of Net Income | 86 |

# ABBREVIATIONS

| | |
|---|---|
| A.D. | :Anno Domini |
| B.S | :BikramSambat |
| C .V. | : Co-efficient of Variation |
| EBL | : Everest Bank Limited |
| GDP | : Gross Domestic Production |
| HBL | : Himalayan Bank Limited |
| JVB ` | : Joint Venture Bank |
| KBL | :Kumari Bank Limited |
| MAST | : Marketability, Ascertain Ability, Stability, Transferability |
| NBBL | : Nepal Bangladesh Bank Limited |
| NIBL | : Nepal Investment Bank Limited |
| NIDC | : Nepal Industrial Development Corporation |
| NRB | : NepalRastra Bank |
| NSBI | : Nepal SBI |
| S.D. | :Standard Deviation |
| SEBON | : Security Board of Nepal |

# CHAPTER-I
# INTRODUCTION

## 1.1 Background of the Study

Financial institutions are considered as back bone of developing countries, where bank plays a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. They pursue economic growth rapidly, developing the banking habit among the people by collecting the small-scattered resources in one bulk, using them in the further productive purposes, and rendering other valuable service to the country. Thus, this gives the individual an opportunity to borrow funds against future income, which may improve the economic well being of the borrower. Bank deals with the offer of collected deposits and provides the loan for commercial purpose. In other words, bank facilities act as right hand for the growth of trade and industry for national economy of developing country like Nepal. The above fact shows that a bank plays vital role for the economic development of the country.

Commercial banks play an important role for economic development of nation. They have adopted new banking technique, management like, hypothecation, syndication lending policies, tele-banking credit card, master card from international banking technique. They render various services to their customers in order to facilitate their economic and social life. Commercial banks are operating in Nepal in an act as commercial banks are operating and performing their work under the direction of Nepal Rastra Bank. Nowadays, there are many Commercial banks and other financial institutions, but there are little opportunities to make fair investment. Meanwhile, the banks and financial institutions are offering very low deposit and credit interest rate. So to survive in the competitive banking market, one should follow the fundamental principles of sound investment policy with minimum risk and maximum profit. At present, about a dozen of the Commercial banks are operating in Nepal and are playing important role in the economic development of the country.

Investment policy is an important ingredient of overall national economic development because it ensures efficient allocation of fund to achieve the materials and economic well being of the society as a whole. In this regard, Commercial bank

investment policy push drives to achieve priority of commercial sectors in the context of Nepal's economic development. National development of any country depends upon the economic development of that country and economic development is supported by financial infrastructure of that country. Banks constitute an important segment of financial infrastructure of any country. Banking when properly organized it aids and facilities the growth of trade and industry and hence of national economy. In the modern economy, banks are to be considered not as dealers in money but as the leaders of development.

Commercial banks are major financial institution, which occupy quite important place in the framework in every economy because they provide capital for the development of industry. Commercial banks formulate sound investment policies to make it more effective, which eventually contribute to the economic growth of country. The bound policies help commercial banks maximizing quality and quantity of investment and hereby achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and co-ordinate and planned efforts pushed forward the forces of economic growth.

In the study, the word investment conceptualized the investment of income, savings or other collected fund. The term investment covers a wide range of activities. It is commonly known fact that an investment is only possible where there is adequate saving. If all the incomes and savings are consumed to solve the problem of hand to mouth and to the other basic needs. Then there is no existence of investment. Therefore, both saving and investment are interrelated. Investment policy is an important ingredient of overall national economy development because it ensures efficient allocation of fund to achieve the materials and economic well being of the society as a whole. In this regards, commercial bank investment policy push drives to achieve priority of commercial sectors in the context of Nepal's economic development.

## 1.2 Statement of the Problem

In developing countries, the contribution on industrial sector is also very low in the output and the employment. In Nepal the commercial bank has played a catalytic role in the economic growth. Its investment range from small-scale cottage industries to

large industries making investment in loans and government securities one may always wonder which investment is better. It can be hypothesized that bank portfolio variables like loans, investment, cash reserve, deposit and borrowing affects the national income and also how the government policy affects these variables, such as the effect of an interest rate on the bank portfolio variables is of great concern, therefore when monitoring money and credit conditions, the central bank has to keep an eye on the bank portfolio behavior. Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instructions and guidelines of Nepal Rastra Bank. They do not have clear view towards investment policy. Furthermore the implementation of policy is not in an effective way.

Thus the present study has made a modest attempt to analyze investment policy of Himalayan Bank Limited (HBL) and Everest Bank Limited (EBL). In this study, HBL investment policy is analyzed comparing it with EBL. Following are the major problems that have been identified for the purpose of this study.

a. What portion of the total assets does the investment of the bank covers?
b. On which sector, government securities, shares and debentures & interbank lending, does the bank gives more preference while making investment?
c. What return have been obtained by HBL and EBL from investment and what is the investment loss provision?
d. What should the bank do for having optimum investment policy?

## 1.3 Objectives of the Study

The main objective of this study is to examine investment policy of HBL and EBL. The specific objectives of the study are as follows:

a. To see the mobilization of fund in investment in relation to total assets.
b. To see the investment in each sector, i.e. in government securities, corporate shares and debentures and interbank lending.
c. To see the return on investment in government securities, corporate shares and debentures and interbank lending?
d. To evaluate the provision on possible losses to total investment.
e. To collect the opinions of bank related personnel for the improvement necessary for having optimum investment policy.

## 1.4 Significance of the Study

Return on investment first sustains the institution and provides handful income to the investors. The better the investment policy, the more valuable the company, the higher return to share holders etc. and vice versa. Since the different parties, shareholders, general public and government are directly affected by the investment policy of the financial institutions. The researcher feels the needs to study this policy effects on following stated parties.

- Management of banks
- Financial institution
- Share holder
- General public (customer, depositors and creditors)
- Related parties

Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly depend upon the instructions and guidelines of NRB. They do not have clear view towards investment policy. Further more, the implementation of policy is not in an effective way. Thus the present study has made a modest attempt to analyze investment policy of HBL and EBL. This study has provided a useful feedback for academic institution, bank employees, trainees, investors, for financial person, policy making bodies and other concerned people with bank.

## 1.5 Limitations of the Study

The followings are the limitation of the study:

a. The study encompasses only the financial investment, and hence real investment and other financial aspects have been ignored.
b. This study covers only a five year period i.e. from 2007/08 to 2011/12.
c. The accuracy of secondary data totally relies on the published annual reports of the banks' annual report, different publication, website and journals. Similarly, the reliability of primary data absolutely depends on the opinions of the respondents.
d. Only two banks, Himalayan Bank Limited and Everest Bank Limited, are taken for this study.

## 1.6 Organization of the Study

The study has divided into five chapters:

**Chapter I: Introduction**

This chapter deals with subject matters consisting of the background, statement of the problem, objectives, significance and limitation of the study.

**Chapter II: Review of Literature**

This chapter deals with review of various literatures of the study field within the framework, of which this research is conducted. Therefore, it includes conceptual framework along with the review of major journals, research works and thesis etc.

**Chapter III: Research Methodology**

This chapter deals with research methodology and includes the research design, population and sample, nature and sources data collection and data analysis tools.

**Chapter IV: Data Presentation and Analysis**

This chapter consists of an analysis and interpretation of the data, using financial tools and statistical tools as described in chapter three. Similarly this chapter also includes the major findings of the study.

**Chapter V: Summary, Conclusion and Recommendations**

This chapter summarizes and concludes the research work. Lastly, appropriate recommendations are made at the end of the chapter.

At the end of the study, Bibliography and Appendices are presented.

# CHAPTER-II
# REVIEW OF LITERATURE

This chapter basically concerned with review of literature relevant to the investment policy of commercial bank of Nepal. Every study is based on past knowledge or the previous studies should not be ignored as it provides foundation to the present study. Therefore this chapter has its own importance in this study.

## 2.1 Concept of Investment

The banks are such types of financial institution, which deal with money and substitute for money. They deal with credit and credit instrument. Good circulation of credit is very much important for the bank. Collect funds and utilize it is a good investment is not a joke for such organization. An investment of fund may be the question of life and death for the bank. View of few author on investment as under.

A distinction is often made between investments and saving. Saving is defined as foregone consumption; investment is restricted to "real" investment of the sort that increases national output in the future. While this definition may prove useful in other contexts, it is not especially helpful here. However, it is useful to make a distinction between real and financial investments. (Bosley: 1996; 1)

Real investment generally involves some kind of tangible assets, such as land, machinery, factories. Financial investment involves contracts written on piece of paper, such as common stock and bonds. In primitive economics most investment is of real variety, whereas in a modern economy, much investment is of financial variety. Highly developed institution for financial investment greatly facilitates real investment. By and large, the two forms of investment are complementary, not competitive. (Sharpe; 1985:2)

Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns *(*Gitman and Joehnk; 1991:1)

Investment, in its broadest sense, means the sacrifice of current dollars for future dollars. Two different attributed are generally involved: time and risk. The sacrifice taken place in the present and is certain. The reward comes later, if at all and magnitude is generally uncertain. In some cases the element of time predominates (for example: Government Bond). In other cases risk is the dominant attribute (for example: call option on common stock). In yet both time and risk are important" (Sharpe & Gordem:1999;1)

An investment is a commitment of money that I expected to generate additional money. Every investment entail some degree of risk, it requires a present certain sacrifice for a future uncertain benefit. *(*Francies; 1990; 3)

The World Book Encyclopedia, "Investment individual, business and government involve a present sacrifice of income to get an expected future, benefit, as a result investment raises a nation's standard of living."

Investment policy fixes responsibilities for the investment disposition of the bank assets in term of allocation funds for investment and loan and establishing responsibility for day to day management of those assets. (Bosley: 1996; 5)
From the above definitions we can conclude that investment means use of rupee of amount today by expecting more income in future. It is clear that investment is the utilization of funds today with expected additional return in future.

Above mentioned definitions of different authors about investment clarify that investment means to trade money for expected future stream of payment of benefits that will exceed the current cash outflow which is the benefit to the investors for sacrificing the time and commitment or due to uncertainty and risk factors. Financial institutions must be able to mobilize their deposit collection funds in profitable, secured and marketable sector so that they can earn good return on their investment.

An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the

time the funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of the funds. (Reilly; 1961)

Emphasizing the importance of investment policy, puts his view in this way, "Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well convinced lending policies and careful lending practices are essential if a bank is to perform its credit creation function effectively and minimize the risk inherent in any extension of credit (Crosse; 1963)

The secret of successful banking is to distribute resources between the various forms of assets in such a way as to get a sound balance between liquidity and profitability so that there is cash (on hand quickly realizable) to meet every claim and at the same time, enough income for the bank to pay its way and earn profits for its shareholders (Radhaswami and Vasudevan;1979)

Investment policy means the responsibilities for the investment disposition of the banks assets in term of allocating funds for investment and loan and establishing responsibility for day to day management of those assets (Bexley; 1987)

Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns, (Gitman and Jochnk; 1990)

The term investment can cover a wide range of activities. It often refers to investing money in certificate of deposits, bonds, common stocks or mutual funds. More knowledgeable investors would include other financial assets such as warrants, puts and calls future contracts and convertible securities. Investing encompasses very conservative position and aggressive speculation (Charles; 1998)

Investment in it's broaden sense, means the sacrifice of current dollars for future dollars. Two difference attributes are generally involved: time and risk. The sacrifice takes places in the present and its magnitude as generally uncertain (Sharpe, Alexander and Bail; 1998)

In investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flow is more important than accounting profit. It may also be pointed out of that investment decision affects the firm's value. The firm's value will increase if investments are profitable and add to the shareholders wealth. Thus, investment should be evaluated on the basis of a criterion, which is compatible with the objectives of the shareholder's wealth if it yields benefits it excess to the minimum benefits as per the opportunity cost of capital. From the above definition, it is clear that an investment means to trade a known rupee amount today for some expected future stream of payments or benefits, that will exceed the current outlay by an amount that will compensate the investor for the time the funds are committed for the expected changes in prices during the period and for the uncertainty involved in expected banks. It is the long-term commitment of bank in the uncertain and risky environment. It is a very challenging task for commercial banks. So a bank has to be very cautions while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of its investigable funds. Investment management of bank is guided by the investment policy adopted by the bank. The investment policy of the bank helps the investment operation of the bank to be efficient and profitable by minimizing the inherent risk. The field of investment is more challenging as it offers relatively greater scope to banker for judgment and discretion in selecting their loan portfolio. But this higher degree of freedom in the field of credit management is also accompanied by greater risk. Particularly during recent years, the credit function has become more complex. A commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a handsome profit as well as it should be secured and can be converted into cash whenever needed. Obviously, a firm that is being considered for loans must be analyzed, to find out why the firm needs money, how much money the firm needs and when and how it will be able to repay the loan. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success (Pandey; 1999)

Investment policy of a bank is such that its funds are distributed in different types of assets with good profitability on the one hand and provide maximum safety and

security to the depositors and banks on the other hand, moreover, risk in banking sectors tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually spring from (Bhattarai; 2006)

## 2.2 Investment Process

A discussion of an investment process deals with:

1. How to make an investment decision?
2. What marketable securities to invest in?
3. When to invest?

Therefore, the investment process includes how an investor makes decision about what securities to invest in, how extensive the investments should be, and when they should be made.

The investment process includes an analysis of the following five steps.

### Setting Investment Policy

The initial step in setting an investment policy involves determining the investment objectives and the amount of one's investable wealth. Investment is always related with risks and returns. Making money alone cannot be an appropriate objective. It is appropriate to state that the objective is to make a lot of money by recognizing the possible losses. Therefore, investment objectives should be stated in terms of both risks and returns.

Setting a clear investment policy also involves the identification of the potential categories of financial assets for consideration in the ultimate portfolio. The identification of assets depends upon many things, such as investment objectives, investable wealth, tax consideration etc.

### Performing Security Analysis

The second stage of an investment process involves the analysis of securities, which are identified in the previous stage of the process. The main purpose of analyzing securities is to find out the mis-priced securities.

Many approaches can be used to analyze the securities. These approaches, in a broad sense, can be classified into two types. One is technical analysis and the other is fundamental analysis.

1. Technical Analysis: Technical analysis of the security prices involves the study of market price in an attempt to predict the future price movement. The analysis, first, examines the past trends in the price and compares them with the recently emerging trends. This matching of emerging trends or patterns with the past ones is done in the belief that these trends or patterns repeat themselves. By identifying the emerging trends, the analyst hopes to predict accurately the future price movements.

   The person utilizing this approach is called a technician or a technical analyst and technical analyst focus most of their attention on the charts of security market prices and on related summary statistics about security transactions. Therefore, technical analysts are sometimes called chartists. Most technical analysts prepare and study the charts of various financial variables in order to make forecasts about security prices.
2. Fundamental analysis: Fundamental analysis, the second approach to security analysis, tries to identify the real or true value of financial assets. The real value of any kind of financial assets is the present value of the future cash flow given by the assets or expected by the holder. The fundamental analyst attempts to forecast the timing and size of these cash flows and then converts them into their equivalent present value by using an appropriate discount rate. Once the real value is calculated, it is thereby, compared with the current market price per share to identify whether the security is under -priced or over-priced. If current market price>Real value (price) - Overpriced or overvalued current market price<Real value (price) - Underpriced or undervalued

   These unusual cases of mis-pricing will be corrected in the future. The price of an over-priced security declines to meet the real value and the under-priced security's price increases to meet the real price. The person utilizing this technique is called a fundamentalist or a fundamental analyst.

## Portfolio Construction

Portfolio construction is the third step of our investment process. At this stage, we identify assets in which to invest and what proportion of the investor's wealth to put in each one. While constructing a portfolio, the selectivity, timing and diversification need to be addressed by the investor.

## Portfolio Revision

Portfolio revision means repeating the previous three steps of the process. Over the period of time, the objectives of the investor may change and the current portfolio may no longer be optimal.

The investor can sell some unattractive securities and introduce attractive once to form a new optimal portfolio.

Some securities that are initially unattractive may turn out to be attractive later and vice versa.

## Performance Evaluation

The last step of the investment process is to evaluate the investment performance. The performance should be evaluated not only in terms of the returns but also the risks experienced. To evaluate the performance, appropriate measures and standards are needed.

## 2.3 Investment Policy

Generally, policy will be a plan or course of future action that are proposed to be adopted, regarding a particular filed of activities. Similarly, investment policy will be plan of course of future action that is proposed to be adopted regarding the investment. The investment policy varies according to the field of operation relating particular firm or individual. Thus the investment policy will be to formulate the investment strategy based upon own objective and nature the investible fund their future use. Such investment policy must be balanced as of the risk-return character, where the risk includes the stability in value, liquidity, marketability of investment or similar inconveniencies caused by the readily unavailability of the fund and return includes the appreciation in value of investment and regular income of similar benefits. Investment

policy must also concentrates on the component of investment and usually such component will be capital markets instrument like common stock or bonds and financial/money market instruments like commercial paper government securities or some less than one year maturity bonds. Further, the investment policy must also indicate the use of the variable income components where, variable income components are where neither the principal nor the income is contractually set in advance where as fixes income components are those which promises a stated amount of income periodically. Various authors have expressed their views regarding investment policies of bank, then formulation and implementation differently. (Shakya; 2007; 13)

The investment policies of banks are conditioned to great extent, by the national policy framework, every banker has to apply his own judgment for arriving at credit decision. Keeping on course, his banker's credit (investment) policy also in mind. They further state; the field of investment is more challenging as it offers relatively greater scope to banker for judgment and discretion in selecting their loan portfolio. But this higher degree of freedom in the field of credit management is also accompanied by greater risk. Particularly, during recent years, credit function has become more complex. (Singh; 1992; 10)

Investment policy fixes responsibilities for the investment disposition of the bank assets in terms of allocating funds for investment and loan and establishing for day to day management of those assets. **(**Bexley; 1987:9)

Investment in three points they are as follows:

1. Economic investment that is an economist definition of investment
2. Investment in a mare general or extended sense, which is used by "the man of street".
3. The sense in which we are going to be very much interested normal financial investment (Bhalla; 1992:13)

## 2.4 Characteristics of Sound Lending and Investment Policy

Income and profit of the bank depend upon its lending procedure and investment of funds on different securities. The greater the credit created by a bank, greater will be the profitability. A sound lending policy is not only prerequisite for banks profitability, but also crucially significant for the promotion of commercial saving of a backward country like Nepal.

Some of the main characteristics of sound lending and investment policies are given below. (Shrestha; 1997; 9)

- Safety and Security
- Liquidity
- Propose of loan
- Profitability
- Tangibility
- Diversification
- Legality

**Safety and Security**

The bank should invest its funds in those securities, which are subject to too much depreciation and fluctuation because little difference may cause a great loss. it must not invest its funds into speculative businessman who may be bankrupt at once and who earn million in a minute also. The bank should accept the type of securities, which are commercial, durable and marketability and have high market value. In this case "MAST" should be applied for the investment (Raja Ram; 1998;19)

Where,

M - Marketability

A - Ascertain ability

S - Stability

T - Transferability

**Liquidity**

It is the position of the firm to meet current or short-term obligations. General public or customers deposit their saving at the banks in different accounts having full confidence

of repayment by the banks whenever they require. To show a good current position and maintain the confidence of the customers, every firm must keep proper cash balance with them while investing in difference securities and granting loan from excess fund. (Radhaswomi and Vasudevon; 1979)

**Purpose of Loan**

The loan should be utilized on purposed plan. Everything related with the customer should be examined before lending. If borrower misuses the loan granted by the bank they can never repay and bank will possess heavy bad debts. Detailed information about the scheme of the project activities should be examined before lending.

**Profitability**

Commercial banks can maximize its volume of wealth through maximization of return on their investment and lending. The profit of commercial bank mainly depends on the interest rate, volume of loan, and its time period and nature of investment in different securities. It is a fact that a commercial bank can maximize its volume of wealth through maximization of return on their investment and lending. So, they must invest their funds where they gain maximum profit. Ambition of profit to commercial bank seem reasonable as the bank has to cover all the expenses and make payment in the forms dividend to the shareholder who contribute to build up the bank's capital and interest to the depositors. For this the bank calculates the cost of fund and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity obligation, it will go a head for investment good bank is one who invest more of its fund in different earning assets standing safety from the problem of liquidity, i.e. keeping cash reserve to meet day to day requirements of the depositors

**Tangibility**

A commercial bank should proper tangible security to an intangible one. Though it may be considered that tangible property does not yield an income apart from intangible securities, which have lost their value due to price level inflation (Bhattarai Rabindra, 2006)

**Diversification**

"A bank should not lay all its eggs on the same basket." this is very important to bank and it should be always careful not to grant loan in only one sector. to minimize risk, a bank must diversify its investment on different sectors. Diversification of loan helps to sustain loss according to law of average, if a security of a company is deprived of there may be an appreciation in the securities of other companies. In this way, the loss can recover by commercial banks. (Bhattarai; 2006; 12)

**Legality**

Illegal securities will bring out money problems for the investor, a commercial bank must follow the rules and regulation as well as different directions issued by Nepal Rastra Bank, Ministry of finance, Ministry of law and other whole mobility its funds (Bhattarai; 2006 ;12)

**Some Other Related Terms**

Several terms related with banking are to be explained by commercial banks. The study in this section comprises of some important banking terms for which efforts have been made to clarify the meaning, which frequently used in this study, are given below.

**Deposits**

Deposit means the amounts deposited in different accounts such as fixed account saving account, current accounts etc. of a bank or financial institution. Deposit is the main source of fund of the financial institution. For a commercial bank deposit is the most important source of liquidity. For bank's financial strength, it is treated as a barometer. In the word of Eugene," A Bank's deposits are the amount that it owes to its customers". Deposits are the lifeblood of the commercial bank. Though they constitute the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposits. For accounting and analyzing purpose deposits are categorized in three headings. (Shrestha, 1991; 9)

**Types of Deposits**

1. Current Deposits
2. Saving Deposits and
3. Fixed Deposits

**Loan and Advances**

Loan, advances and overdraft are the main source of income for a bank. Bank deposit can cross beyond a desired level but the level of loans, advances and overdraft will never cross it. Commercial banks and other financial institution may take more preferential collateral while granting loan and advances. Some portion of loan, advances and overdrafts includes that amount which is given to staffs of the bank as home loan, vehicle loan, personal loan and others**.** (Katwal; 2007;13)

**Investment on Government Securities, Shares and Debentures**

Though a commercial bank can earn some interest and dividend from the investment on government securities, shares and debentures, it is not the major portion of income, but it is treated as a second source of income of banking business. A commercial bank may extend credit by purchasing government securities bond and shares for several reasons, which are

- It may want to space its maturity so that the inflow of cash coincide with expected withdrawals by depositors or large loan demands of its customers.
- It may also be forced to invest because the demand for loans of its decreased or is not sufficient to absorb its excess reserves.
- It may wish to have marketable securities to liquidate if its primary reserve becomes inadequate.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of bank liabilities that is since depositors, may demands fund in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value.

**Investment on Other Company's Share and Debenture**

Due to excess funds and least opportunity to invest these funds in much more profitable sector and to meet the requirement of Nepal Rastra Bank's directives many commercial banks have to utilize their funds to purchase shares and debentures of other financial and non-financial companies. Now a-days most of the commercial banks purchase shares and debentures of regional development bank, NIDC and other development bank's shares.

**Other Use of Fund**

Commercial banks must maintain bank balance with NRB. 6% of fixed deposits and 8 percent of each current and saving deposit account in local currency similarly 3% percent of cash balance of local cash balance, in local currency accounts must be maintained in the vault of the bank. Again the part of fund should be used for bank balance in foreign bank and to purchase fixed assets like land building furniture computer stationary etc. (Commercial Bank Act, 2013 B.S.)

**Off Balance Sheet Activities**

Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligation. These are not recognized as assets or liabilities on balance sheet. Some examples of this item are letter of credit, Letter of guarantee and bills of collection etc. These activities are very important as they are good source of profit of bank through they have risk now days some economic and finance specialist to expand the modern transaction of a bank stressfully highlight such activities.

## 2.5 Review of Article and Journals

In this section effort has been made to examine and review of some related articles in different economic journal, magazines, newspaper and other related books.

**Morris** (1990), In his article on *"Latin American Banking System in the 1980's* has concluded that most of the bank concentrated on compliance with central bank rules on reserve requirement credit allocation (Investment Decision) and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely been overlooked .He further add that miss management in financial institution has involved inadequate and over optimist loan appraisal high risk diversification. Of loan portfolio and investment high risk concentration related parties lending etc are major cause of investment and loan that has gone bad.

**Bajracharya** (1991) has mentioned in his article *"Monetary Policy and Deposit mobilization in Nepal* has concluded that the mobilization of domestic saving is one

of the monetary policies in Nepal. For this purpose commercial banks stood as the vital and active financial intermediary for generating resource in the form of deposit of the private sector so far providing credit to the investors in different aspect of the economy.

**Shrestha** (1991), in his article, *"A Study on Deposits and Credits of Commercial Bank in Nepal,"* concluded that the credit deposit ratio would be 51.30 percent other things remaining same in 2004 A.D. which was the lowest under the period of review. So it is strongly recommended that the commercial banks should try to give more credit earning field as far as possible. Otherwise, they might not be able to absorb even its total expenses.

**Shrestha, (1997)** in her article *A Study on Lending of Commercial Bank* has presented the objectives to make an analysis of contribution of commercial banks lending to gross domestic product of Nepal, she has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, "she has considered GDP as the dependent variable and various sectors as independent variable (agriculture, industrial, commercial, service and general, and social sector etc). A multiple regression techniques have been applied to analyze the contribution.

The multiple analyses show that the entire variables except service sector lending have positive impact on GDP. Thus in conclusion she has accepted the hypothesis i.e. there has been positive impact on GDP by the lending of commercial banks in various sector of economy, except service sector investment"

**Ghimire (1999)** has mentioned in his article *"Banijya Bank Haru Prathamikta chhetrama Lagani Garna Bhanda Harja Tirna Tayar as."* Most of the banks of Nepal are ready to pay the penalty in spite of investing on rural sector, poverty stricken and deprived areas. In the directives of NRB it is clearly mentioned and directed that all the banks should invest 12% of its total investments to the priority sectors. Out of this 12%, they should have invested 3% to the lower level class of countrymen. However, these banks are unable to meet the requirement of NRB. In the light of above foreign joint venture banks use to justify that they don't have any network among these areas. So if investment will be made in these areas, operational cost will be very high, which

exceeds the penalty. If investment won't be made. That is why they are interested in paying penalty than investing in priority sector.

**Bhaskar (2002)** has found the same results that the all commercial banks are establishing and operating in urban areas, in his study, "*Banking the future on competition*" the achievements are as follows:

Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the branch of Nepal Bank Ltd and Rastriya Banijya Bank Ltd are running in those areas.

- Commercial banks are charging higher interest rate on lending.
- They have maximum tax concession.
- They do not properly analyze the credit system.

According to him, "Due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and on personal guarantee, whose negative side effect would show colors only after four or five years." He has further included that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and banking activities are possible.

**Pradhan (2003)** in his article *Deposit Mobilization in Banking sector of Nepal* has highlighted following problems of deposit mobilization in Nepalese context.

1. Unavailability of the institutional services in rural areas.
2. Most of the Nepalese people do not go for saving in institutional manner due to the lack of good knowledge. However, they are very much used to saving be it in the form of cash or ornaments. Their reluctance to deal with institutional system is governed by the lower level of understanding about financial organization process, withdrawal system, and unavailability of depositing facilities and so on.
3. Due to less working hours of banking system people prefer holding the cash in the personal possessions.
4. Less mobilization and improvement of the employment of deposits in the loan sectors.

**Mr. Pradhan (2003)** has recommended the following remedies for effective mobilization of deposits:

1. By providing sufficient institutional services in the rural areas.
2. By cultivating the habit of using rural banking unit
3. By providing more service hours by the banks in rural areas
4. The Central Bank could also organize training program to develop skilled manpower
5. by spreading cooperative to rural areas to develop mini branch services

**Panthi (2005)** highlights on his article entitled "*The importance of human resource management*" published in souvenir of RBB where the banking services are only made by human skills. If the size of the employees is suitable and skillful, the optimum objectives of the bank will be nearer to achievement. The objectives of the profitability and the liquidity of the bank may be fulfilled if only if its human resources are perfect in and suitable in quality. So, the selecting process of human resources should go through the straightway of identifying workforce requirement recruiting-selecting-placing-promoting-appraising-training and retirement

## 2.6 Review of Thesis

**Tuladhar (2000),** in his study of "*Investment policy of Nepal Grindlays Bank Ltd. in comparison to other joint venture banks"* has conducted that joint venture banks are discouraging lower level depositors and interested in the higher level as paramount customers. He found the probability position of NGBL is higher than the NABIL and HBL, NGBL maintain successful liquidity position than other banks he also found that because of uncertain return depositors may withdraw high portion of deposits and invest it in newly opened organization. He has recommended following liberal lending policy so that more percentage of deposits can be invest into different profitable sectors as well as loans and advances. As analysis showed that investment and loan and advances as significance sectors which affect the profit of the banks he further suggested to invest the fund of the bank in the purchase of shares and debentures of other reputed organization. he compare NGBL with other joint venture and focused to invest more percentage of deposits but it is sometimes harmful because they give much important to the liquidity position in banks operation, when depositors demand money bank must return them to maintain creditability. Bank invests on

highly return sector so it need to search which sector is more potential and how can it identify those sectors. (Tuladhar, 2000:104-106)

**Thapa (2000),** on her studies "*A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and other Joint Venture Bank.*" On her study, the major objectives were to evaluate the liquidity, assets management efficiency, profitability and risk position of Nepal Bangladesh Bank Ltd. in comparison to NABIL and Nepal Grindlays Bank Ltd. To analyze the relationship between loan and advance and total investment with other financial variables of sample banks. To examine the fund mobilization and investment policy of Nepal Bangladesh Bank Ltd. through off-balance sheet and on-balance sheet activities and comparison on other two banks. To study the various risk in investment and to analyze the deposit utilization trend and its projection for next five years of the sample banks. And to provide the suggestion for improving the investment policy of Nepal Bangladesh bank on the basis of the findings of the analysis. Thapa (2000) on her studies has found that the liquidity position of Nepal Bangladesh Bank is comparatively better than that of NABIL and Nepal Grindlays Bank Ltd. It has the highest cash and bank balance to total deposit, cash and bank balance to current assets ratio. It has good deposit collection, it has made enough loan and advance but it has made the negligible amount of investment in government securities. The Nepal Bangladesh Bank Ltd.is not in better position regarding its on balance as well as off-balance activities in compare to NABIL and Nepal Grindlays Bank Ltd. It does not deem to follow any definite policy regarding the management of its assets. She further found that the profitability position of Nepal Bangladesh Bank Ltd. is comparatively worse than that of NABIL and Nepal Grindlays Bank Ltd. The bank most maintains its high profit margin for the wellbeing in future. Nepal Bangladesh Bank Ltd. has maintained high a growth rate in comparison ion to other bank though it is not successful to make enough investment. And can say that the bank is successful in increasing its sources of funds and its mobilization.

Finally she concluded that there is significant relationship between 'loan and advance' and 'outside assets and net profit' of Nepal Bangladesh Bank Ltd. NABIL Bank Ltd., Nepal Grindlays Bank Ltd. But there is no significant relationship between deposit and investment of Nepal Bangladesh Bank Ltd. only. The position of Nepal

Bangladesh Bank Ltd. in regard to utilization of the fund to earn profit is not better in comparison to NABIL and Nepal Grindlays Bank Ltd. Nepal Bangladesh Bank Ltd. has not provided ATM facility, credit and facility, any branch bank facilities and website etc. But these facilities are providing by the NABIL and Nepal Grindlays Bank Ltd.

**Choudhary (2006**) conducted a study on *"Investment Policy, a comparative study of Nepal Bangladesh Bank Ltd. and Himalayan Bank Ltd."* The research findings of the study are as follows: The liquidity position of NBBL is comparatively better than that of HBL. The assets management ratio of NBBL is comparatively better than that of HBL and HBL has the highest proportion of nonperforming loan and advance than NBBL. The profitability ratio of HBL is comparatively better than NBBL due to higher return on loan and advances ratio, return on equity ratio but HBL failed in total interest earned total outside ratio and total interest earned to total working fund ratio in comparison to NBBL. The degree of risk is high in NBBL due to highest credit risk and interest rate risk, which shows that NBBL has greater risk in credit recovery and in interest recovery in comparison to HBL. The trend of total deposit, total loan and advances, total investment and net profit of HBL is comparatively better than NBBL. But the main important fact is that the trend of Net Profit of NBBL shows a negative trend. Both banks are not effectively informative to their clients since the large percentage of the people doesn't know the services provided by the banks.

The respondents of HBL selected "they are profit oriented only" as the first option whereas respondents of NBBL selected "they don't want to take the risk" as the first choice.

**Maharjan, (2007)** conducted a study on "*Investment Policy Analysis of Joint Venture Banks (A comparative study of Nepal SBI Bank with Everest Bank Ltd*)" In her study, the financial tools such as ratio analysis viz. liquidity ratio, asset management ratio, profitability ratios, risk ratios, growth ratios and statistical tools like percentage, he found that mean, standard deviation, coefficient of variation, correlation and trend analysis have been used for the analysis and interpretation of the data. The data, which were employed in this research, are secondary in nature. They are obtained from annual reports of the concerned banks, likewise, the financial

statement of five years from 2001/2002 to 2005/2006 were selected for the purpose of evaluation.

NSBI has maintained good liquid position than in comparison to EBL. NSBI has higher cash and bank balance to total deposit and cash and bank balance to current assets ratio. NSBI has good deposit collection in comparison to EBL and has made moderate investment on government securities and also has maintained moderate investment policy on loan and advances.

From the point of view of asset management ratio or activity ratio, EBL has comparatively higher ratio. The total investment of NSBI is higher compared to EBL.

The analysis of loan and advances to total deposit ratio and total investment to total deposit shows the slightly higher value of EBL than NSBI. Moreover, investment on shares and debentures to total working fund ratio is higher than that of EBL.

As regards to the profitability ratios, total interest earned to total outside assets of EBL is higher than that of NSBI. EBL also has higher credit risk and average capital risk with compared to NSBI.

**Katuwal, (2007)** conducted a study on *"A Credit (Investment) Policy Analysis of Commercial Banks (with respect to Kumari Bank Ltd and Himalayan Bank Ltd. )"* , in his research study he found, after analyzing the liquidity ratios, it is found that the liquidity position of KBL is comparatively better than HBL. KBL's liquidity position is satisfactory but liquidity position of HBL is not satisfactory.

The assets management ratio (activity ratio) shows that the portion of investment of its fund made by KBL is lower than that of HBL. But the portion of loan and advances of its total deposit is higher than that of HBL. The portion of investment on government security of its total working fund made by KBL is lower than HBL. So, it can be concluded that the performance of overall assets management of KBL is not so good than that of HBL. The profitability ratio shows that the profitability position of HBL is better than that of KBL. From the study it can be concluded that KBL's profit earning capacity by utilizing available resources is weak than HBL.

The risk ratio implies that during the study period the credit risk ratio of KBL is higher than that of HBL. So, it can be concluded KBL has more risk in comparison to HBL. The analysis of growth ratios shows that the KBL has maintained the higher level of growth ratios in all ratios. HBL has not successfully collected and utilized its fund collected from the customer due to see growth rate of total deposit, loan and advances, total investment, and net profit.

From the correlation analysis it shows that the correlation coefficient (r) between total deposit and net profit of KBL is 0.989 and is greater than 6 times of probable error, which reveals that there is very strong positive and significant relationship between total deposit and net profit of KBL. Similarly, correlation coefficient (r) between total deposit and net profit of HBL is 0.86 and is greater than 6 times of probable error, which indicates that there is highly positive but lower than that of KBL and significant relationship between two variables. The correlation coefficient (r) between total deposit and total investment of KBL and HBL is 0.986 and 0.70 respectively and 6 times of probable error of both banks are low than correlation so it can be concluded that there is highly positive and significant relationship between two variables of both bank. Similarly, correlation between total deposit and loan and advance of both banks are higher than 6 times of probable error. Hence, there is highly positive and significance relationship between two variables. The correlation between CA and CL of both banks is same and greater than 6 times probable error. So, it can be concluded that there is positive and significant relationship between two variables of both banks. Since, it can be said that the increase and decrease of one variable affects the volume of one another variables.

**Bhhata (2008)** conducted a study on, *"A Comparative Study of Investment Policy of Nepal Investment Bank Ltd. and Himalayan Bank Ltd."* on her research study, recommendations are made in order to overcome the weakness and inefficiency and make better policy on utilization and investment.

- HBL has maintained the ratio of cash and bank balance to total deposit lower than that of NIBL. It is recommended to increase cash and bank balance to meet current obligations and loan demand.
- The study reveals that NIBL has not invested more funds in government securities and so is recommended to invest more funds in this sector and not making them idle because govt. securities are the less risky assets.

- The loan and advances to total deposit of HBL's is lower than NIBL which indicates it has not properly used its fund as loan and advances. Hence, HBL is recommended to follow liberal policy.
- The profitability position of NIBL is greater than HBL. So, it is recommend that HBL should properly utilize its loan and advances, investment should be done on less risky asset decrease the expenses by controlling the operating expenses. So, it can earn more profit.
- Since, the risk increases effectiveness and profitability of bank, the credit risk and liquidity risk taken by HBL is lower than that of NIBL and its consistency is unstable which may result in loss. The bank should not take high risk, HBL should carefully analyze in above risk to achieve higher returns.
- HBL growth ratio is lower than that of NIBL. It has very much fluctuating growth rate and HBL is recommended to increase its growth ratio into deposits, loans and advances, investment and net profit by designing new products and services to the depositors in order to attract them.
- Coefficient of correlation between outside asset and net profit of both banks are highly positive, however NIBL has higher coefficient of correlation than that of HBL. It shows that there is highly positive relationship between these two variables of both banks. But HBL is less capable to earn profit by mobilizing its total outside assets then NIBL. So, HBL should innovate new strategy changing its current policy for more utilizing its outside assets to earn more profit to compete with the NIBL.
- The commercial banks i.e. Nepal Investment Bank and Himalayan Bank Limited should go for some new areas of investment like hydro-electricity and infrastructure development of the economy as well as bank's operation.
- Nepal Investment Bank and Himalayan Bank should target their business segment on the middle family. For this they have to keep the affordable minimum balance to open the account. So, that they can earn more customer and generate more deposit amount.
- Both commercial banks should support the social welfare event to promote the business. The bank should formulate new strategies of serving customers in a more convenient way.

**Adhikari, (2009)** conducted a study on *"A study on the investment policy of Nabil Bank Ltd. in comparison to other Joint Venture Banks of Nepal.*" The research findings of the study are as follows:

The liquidity position of Nabil Bank Ltd. is comparatively worse than that of other JVBs. Nabil Bank has more portions of current assets as loan and advances but less portion as investment on government securities. Nabil Bank Ltd. is comparatively less successful in on-balance sheet operation as well as off-balance sheet operations than of other JVBs.

Profitability position of Nabil Bank Ltd. is comparatively not better than that of other JVBs. The mean ratio on loan and advances of Nabil Bank Ltd. has been found slightly lower than that of other JVBs and the return has been found less homogeneous than that of others JVBs. Similarly the mean ratio of total interest earned to total outside assets of Nabil Bank Ltd. has been found slightly lower than that of others JVBs. Though Nabil Bank Ltd. seems to be more successful to increase its source of funds as well as mobilization of it by increasing loan and advances and total investment. It seems to be failure to maintain its high growth rate of profit in comparison to that of other JVBs (i.e. Nepal Grindlays Bank Ltd. and Nepal Indoseuez Bank Ltd.)

There is significant relationship between deposit and loan and advances as well as outside assets and net profit but not between deposit and total investment in case of both Nabil Bank Ltd. and other JVBs.

**Dahal (2009),** conducted a study on *"A study on the investment policy of Nabil Bank Ltd. in comparison to Kumari Banks Ltd of Nepal.*" The main sources of data for the study are secondary data. According to the requirement, published balance sheets, profit and loss a/c and other related statements of accounts as well as annual report of the respective bank have also been the major source of data. Various related books, booklets, magazines, journals, newspapers and thesis are referred for the study of the topic. For the purpose of the data collected and arranged in proper form have been analyzed and interpreted through financial and statistical tools. The research study revealed following findings:

The liquidity position of Nabil Bank Ltd. is comparatively better than that of Kumari Bank Ltd. Nabil Bank has more portions of current assets as loan and advances but less portion as investment on government securities. Kumari Bank Ltd. is comparatively less successful in on-balance sheet operation as well as off-balance sheet operations than of Nabil Bank Ltd. Profitability position of Nabil Bank Ltd. is comparatively better than that Kumari Bank Ltd. The ratio of loan and advances of Nabil Bank Ltd. has been found slightly higher than that of Kumari Bank Ltd. The ratio of total interest earned to total assets of Nabil Bank Ltd. is comparatively better that than that of Kumari Bank Ltd. The findings also shows that Nabil Bank Ltd. is more successful to increase the source of funds as well as fund mobilization by increasing loan and advances and total investment.

**Regmi (2010)** has conducted a study on "*A comparative study of the financial performance of Himalayan Bank Limited and Nepal Bangladesh Bank Limited."* His study shows that NBBL is not maintaining adequate liquidity position in comparison to HBL. Therefore he suggests NBBL to increase its current assets. As capital structures of both the bank are highly levered both the banks are recommended to maintain and improve mix at debt and owner's equality by increasing equity share. He further suggests HBL to improve the efficiency in utilizing the deposits in loans and advances for generating profit. NBBL should try to maintain present position on this regards. Profitability position of HBL is comparatively beer than the same of NBBL. So NBBL is recommended to utilize its resources more efficiently for generating more profit margins. If resources held idle bank faces high cost and causes a low profit margin. An ideal dividend payout ratio is based upon shareholders expectations and his growth requirements of the banks. NBBL is suggested to increase its dividend payout ratio. The two banks should extend their resources to rural areas and promote the developments of poor and disadvantage group. In order to do so banks should open their branches in the remote area with objectives of providing cheaper banking services especially. HBL should initiate this regard because it has few branches in comparison to NBBL. Because of the competition between banking sectors both the banks are suggested to formulate and implement some sound and effective financial and effective financial and non-financial strategies to minimize adopting modern banking technologies to enhance their better and wide market.

**Adhikari (2011)** has conducted a study of *"A evaluating the financial performance of Nepal Bank Limited." The main focus of his study was evaluating the financial performance of Nepal Bank Limited."* The main focus of his study was evaluating the financial performance of Nepal Bank Limited. The other objective of his study is to examine the trend of deposit mobilization along with the cost of deposits and also to access the investment portfolio of the banks. Further his objectives is to measure liquidity, profitability and operating efficiency of the bank as well as to evaluate the earning power and dividend paying ability of the banks. He had concluded that investment portfolio of the bank had not been managed so efficiently to maximize the returns therefore the bank was suffered from series of operational losses over.

**Joshi (2012)** has conducted a study of *"Financial Performance of joint venture banks in Nepal with special reference to Nepal Bangladesh Bank Ltd."* as a Master's thesis in September 2012. The main focus of study is financial analysis and other portfolio of NBBL. The main sources of data for the study are secondary data. According to the requirement, published balance sheets, profit and loss a/c and other related statements of accounts as well as annual report of the respective bank have also been the major source of data. Various related books, booklets, magazines, journals, newspapers and thesis are referred for the study of the topic. For the purpose of the data collected and arranged in proper form have been analyzed and interpreted through financial and statistical tools. The specific objectives of the study are to evaluate various financial ratios (liquidity, profitability, capital structure, turnover, ownership position of NBBL, to analyze bank's deposits, mobilization and investment, to forecast future trends of deposit mobilization and loan and advances of NBBL, to make necessary suggestions and recommendation for effective financial performance in future on the basis of performance evaluation. The major findings of her study are discussed briefly. She had concluded that the liquidity ratio of bank is considered satisfactory as the bank is trying to meet its short-term obligations. The result of analysis of activity ratio shows that the banks are efficient utilizing its outsider's fund (i.e. total collection deposits) by extending loans and advances to generate profit. Overall, the activity ratio of NBBL indicates that the banks has utilized its resources in a best way to maximize the wealth and thus making an increment of profit for the organization, analyzing the capital structure ratio of the bank, it is concluded that incase of NBBL the shareholders stake in the banks is very low as the creditors have dominated in the

bank financial mix. She also concludes that profitability ratio indicates the degree of success in achieving desired profit level. The result indicates that the bank has been able to generate profit by utilizing deposits but the generated profit is low. So additional efficiency is required to increase earnings. The analysis indicates that profit earning in relation to shareholders equality of NBBL in better position, which exhibits better utilization of shareholders equality. Overall, it is concluded that NBBL is able to earn a positive profit but not a satisfactory level. Again, after analyzing the ownership ratio, it is concluded that in case of NBBL, the shareholders are being compensated with good returns either in the form of cash dividend or bonus shares. The bank is recommended to quicken the reliable depositing process by provide attractive schemes for the depositors. Since NBBL is not maintaining adequate liquidity position, the bank is suggested to increase its current assets. As the capital structure liquidity position, the bank is suggested to increase its current assets. As the capital structure ratio of bank is highly leveraged, NBBL required maintaining and improving an optimum mix of debts and equity by increasing equity base in order to avoid financial risk. Lending continuous to be a very important part of business but, is not a sole driver behind a corporate relationship. So, the bank should increase emphasis on cross selling and lending with higher value products in order to increase the overall value of relationship. NBBL should attract more low interest bearing saving and current deposits to minimize its cost of fund and increase profit margin by investing the same as loan and advances.

**Duwal (2013)** has conducted a study on "*A Comparative study on Financial Performance of Everest Bank Ltd and Prime Commercial Bank Ltd"*. The basic objectives of this study are to examine and evaluate the overall financial performance and effectiveness of EBL and PCBL. The objectives of the study are to examine financial statement of the bank and analyze them to see the financial soundness of the bank, to observe the return over equity and relation between debt and equity, to highlight the relationship between different variable of financial statement, to evaluate the financial ratios to calculate efficiencies, valuation, profitability, capital structure ratios and to evaluate the bank's efficiency in utilizing assets.

The major findings of the study are listed as below:

- Current Ratio of EBL and PCBL looks satisfactory level. Both the Current Assets and Current Liabilities are in increasing trend during the study period. EBL Investment is government securities to current assets is increase almost in every year.

- Cash and bank balance to Current Assets ratio of both banks shows the increasing trend.
- Total investment to total deposit ratio during the study period of both banks have increment their investment out of deposit which is very good mobilization of deposit.
- The bank could invest the liquid to various sectors maintaining minimum balance according to NRB directives. The analysis of investment of government securities assets ratio shows the bank has maintained satisfactory level of investment to government securities. The bank has not diversified the investment to other than risk free investment. The analysis of loan and advance to current assets ratio shows the high and consistency level of ratio, which says there is good mobilization of liquid assets. As per coefficient of variation analysis the investment in government securities to current assets ratio of Everest bank is preferable.
- The analysis of cash and bank balance to total deposit ratio shows the ratio is fairly good and have liquid assets enough to pay paid up capital. Loan and advances ratio shows bank have been able to mobilize the funds collected from the depositors to the borrowers. The ratio is satisfactory and encouraging. The total investment ratio to total deposit ratio shows that ratio have increased remarkably during the study period which indicates that bank is performing quite well in mobilizing deposits into income generating investment. The loan and advances to total assets ratio indicates satisfactory position of the bank. The ratio should be higher than current position.
- In the context of return on equity, the bank has been able to maintain satisfactory level of ROE. However, the mobilization of equity capital has increased in last year of study period which shows the efficiency increased by the bank. In context of interest earned to total assets ratio, the bank shows consistency level in earning interest through the proper utilization of deposits. In context of interest paid to total asset ratio, the bank have shown decrement in payment of interest, which says that the deposit of the fund have decreased. The bank should be encouraging the deposit through proper promotion tools. As per coefficient of variation analysis the net profit to total equity ratio of Everest bank is preferable.

- Coefficient of correlation between deposit and loan and advances indicates satisfactory position in mobilization of deposit as loan and advances. Coefficient of correlation between deposit and total investment indicates satisfactory position in mobilizing deposit as an investment.
- The profitability ratio of bank is very consistent. As per coefficient of variation analysis the net profit to total assets ratio of Everest bank is preferable.

## 2.7 Research Gap

EBL and HBL are the leading commercial bank of the country having huge market share and their investment activities have significant impact on the national economy. No study has been yet conducted on the topic of HBL and EBL. Some comparative studies are previously done but in depth study about the HBL and EBL is not found. Therefore this study has been done to analyze the comparative investment policy of HBL and EBL. By taking the data of 5 years of banks. The study is completely based on secondary data. The current data has been used in this research will try to show the present investment of HBL and EBL. Hence, this study will fulfill the prevailing research gap about in depth analysis of the comparative investment policy of HBL and EBL, Which is the major concern of the public shareholders and other stakeholder.

# CHAPTER-III
# RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how to research is done scientifically. In research methodology we study the various steps that are generally adopted by researcher in studying his/her research problem along with the logic behind them. It is necessary for the researcher to know not only the research methods\technique but also the methodology. Researchers not only need to know how to develop certain indices or tests, how to calculate the mean, mode median standard deviation etc, how to apply particular research techniques, which are relevant and which are not, and what could they mean indicate and why. Researcher also needs to understand the assumptions underlying various techniques and they need to know the criteria by which they can decide that certain technique and procedures will be applicable to certain problem and other will not. All this means that it is necessary for the researcher to design the methodology for his/her problem. From what has been stated above, we can say that research methodology has many dimensions and research methods do constitute a part of the research methodology (Kothari, 2000:10)

This chapter includes research design, population and sample, method of analysis.

## 3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data. Moreover the research design is the conceptual structure within which research is conducted: it constitutes the blueprint for the collection and analysis of data. This study follows descriptive and analytical research design. To achieve the objectives of the study some financial and statistical tools have been applied to evaluate investment policy of HBL and EBL

## 3.2 Source of Data

The study is conducted on the basis of the secondary data. The data required for the analysis are directly obtained from the balance sheet and P/L a/c of the concerned bank's annual reports. Supplementary data and information are collected from member of institutions and regulating authorities like NRB, Security Board of Nepal (SEBON), Nepal Stock Exchange Ltd. (NEPSE), various libraries, Economic Survey and National Planning Commission etc. All the secondary data are complied Processed and tabulated in the time series as per the need and objectives.

## 3.3 Population and Sample

It is not possible to study all the related with all bank of Nepal. There are altogether 31 listed Commercial Bank in the country and their stocks are traded actively in stock market. So the investment policy of listed two banks is being compared with that average of the same which are selected from population. From the above listed commercial banks are considered as population. So, the investment analyses are done on Everest Bank and Himalayan bank ltd which are randomly selected from population.

To calculate investment of the selected sample are as follows:-

1. Everest Bank Ltd
2. Himalayan Bank Ltd.

## 3.4 Analysis of Data

In this study, various financial, accounting and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Due to limited time and resources, simple analytical statistical tools such as percentage graph Karl Pearson's coefficient of correlation, regression, the method of least square are used in this study. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis. The various tools in this study have been briefly presented as under.

### 3.4.1. Financial Tools

Financial tools are used to examine the financial strength and weakness of bank. Ratio analysis is one of the important financial tools that have been used in the study. Although there are many ratios, only those ratios have been covered in the study, which are related to the investment operation of the bank. This study measures the following ratios.

**Ratio Analysis**

Ratio analysis is 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 financial condition can be determined. "Ratio analysis is a part of the whole process of analysis of financial statement of any business or industrial concern especially to take output and credit decision." (Kothari, 1984:265). The term ratio refers to the numerical or quantitative relationship between two terms/variables. The reason for ratio analysis lies in the fact that it makes related information comparable.

With the help of this analysis, the qualitative judgment can be done regarding firm's performance and status. Although there are many types of ratios used to analyze and interpret the financial statements, only following listed ratios related to investment policy of the bank have been covered in this study

A) Liquidity Ratios
B) Asset Management Ratios
C) Profitability Ratios
D) Risk Ratios
E) Growth Ratios

**A) Liquidity Ratios**

Liquidity ratio is the ability of a firm to meet its current/short term obligations. It reflects the short-term financial strength of the bank. In fact, liquidity is a pre-requisite for the very survival of a firm. These ratios are used to know the capacity of the concern to pay its Short-term liability. The analysis of liquidity needs the preparation of cash budgets, cash fund but liquidity ratios by establishing provide a guidance measure of liquidity. These ratios provide the insights into present cash solvency of the bank and its ability to remain solvent in the event of adversities. It is

the measurement of speed with which a bank's assets can be converted into cash to met deposit withdrawal and other current obligations.

The following rations are evaluated under liquidity ratios:

I) Current Ratio

II) Cash and Bank Balance to Total Deposit Ratio

III) Cash and Bank Balance to Current Assets Ratio

IV) Investment on Government Securities to Current Assets Ratio

V) Loans and Advances to Current Asset Ratio

**I) Current Ratio**

This ratio shows the banks short-term solvency. It shows the relationship between current assets and current liabilities. Current assets include cash and bank balance, money at call or short notice, loans and advances, investment in government securities and other interest receivables, overdraft, bills purchased and discounted and miscellaneous current assets. Similarly, current liabilities include deposits and other short-term loan, bill payable, tax provision, staff bonus, dividend and miscellaneous current liabilities.

Current Ratio (CR) can be computed as,

$$\text{Current ratio} = \frac{\text{Total current assets}}{\text{Total current liabilitie s}}$$

There is no such hard and fast rule, conventionally, a current ratio of 2:1 current assets twice of current liabilities) is considered satisfactory.

**II) Cash and Bank Balance to Total Deposit Ratio**

Cash and Bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. This ratio (Cash and Bank Balance to Total Deposit) can be computed as,

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

Cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks, balance held in foreign banks and other financial institutions. The total deposits encompass current deposits, fixed deposits, investment in other financial institution, money at call and short deposit and other deposits. A high ratio indicates the greater ability to meet their deposits liability

and vice versa. Moreover, too high ratio is unfit, as capital will be tied-up and opportunity cost will be higher.

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

The ratio measures the proportion of cash and bank balance among the total current assets of the bank. This ratio (Cash and Bank Balance to Current Assets) can be computed as,

$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Current assets}}$$

Higher the ratio, higher will be the capacity of the bank to meet the cash demand

### IV) Investment on Government Securities to Current Assets Ratio

This ratio is computed to find out the proportion of current assets invested in government securities. The treasury bills, development bonds, saving bonds etc. are treated as investment on government securities. This ratio (Investment on Government Securities to Current Assets) can be computed as,

$$\text{Investment on government securities to current assets} = \frac{\text{Investmenton governmentsecurities}}{\text{Current assets}}$$

### v) Loans and Advances to Current Asset Ratio

Loan and advances are also included in the current assets of commercial banks because generally it provides short-term loan, advances, overdrafts, cash-credit and foreign bill purchased and discounted. All commercial banks mobilize their collected funds as loan and advances to the customers. If sufficient loan and advances cannot be graded, it should be pay interest on those utilized deposit funds and may be lose some earnings, but high loan and advances may also be harmful to keep the bank in most liquid position because they can only be collected at the time of maturity only. Thus, a bank must maintain its loan and advances in appropriate level to find out portion of current assets, which is granted as loan and advances. This ratio (Loans and Advances to Current Asset) computed as,

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

**B) Asset Management Ratio/Activity Ratio/Turnover Ratio**

The second group of financial tool used to analyze the data in this research is asset management ratio. It is concerned with measuring the efficiency in asset management. At times these ratios are called efficiency or asset utilization ratios. The efficiency with which the assets are used would be reflected in the speed and rapidity with which assets are converted into revenue generating. Greater the rate of turnover or conversion, the more efficient the utilization or management other things being equal. For this reason, such ratios are also called turnover ratios. Turnover ratio is the primary mode for measuring the extent of efficient employment of assets by relating the assets to revenue. Thus, asset management ratio is a test of the relationship between revenue and the various assets of a firm. These are used to measure the bank's ability to utilize their available resources. The following listed ratios are used in this study:

I) Loan and Advances to Total Deposit Ratio
II) Total Investment to Total Deposit Ratio
III) Loan and Advances to Total Working Fund Ratio
IV) Investment on Government Securities to Total Working Fund Ratio
V) Investment on Shares and Debentures to Total Working Fund Ratio

**I) Loan and Advances to Total Deposit Ratio**

This ratio is computed to find out how successfully the bank is utilizing its total deposits on loan and advance for income generating purpose. This ratio (Loan and Advances to Total Deposit) can be computed as,

$$\text{Loan and advance to total deposit ratio} = \frac{\text{Loan and advance}}{\text{Total deposit}}$$

Here loan and advances refers to total of loan, advances and overdraft and total deposits refer to total of all kinds of deposits.

**II) Total Investment to Total Deposit Ratio**

This ratio is computed to find out how successfully the bank is utilized its total deposits on investment for income generating propose. The above ratio is computed dividing total investment by total deposit. Investment is one of the major credits created to earn income.

This implies the utilization of bank's deposit on investment in government securities and share debentures of other companies and banks. The ratio (Total Investment to Total Deposit) can be computed as,

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

A high ratio indicates that the Bank's efficiency is more investing on its deposit and vice-versa

### III) Loan and Advances to Total Working Fund Ratio

Loan and advances is an important part of total working fund (It includes current assets, fixed assets, other assets, Investment and Loan and advances). Commercial bank must be very careful in mobilizing in total assets. This ratio is success in mobilizing their assets loan and advances for the purpose If income generation. This ratio (Total Investment to Total Deposit) can be computed as,

$$\text{Loan and advance to total working fund ratio} = \frac{\text{Loan and advance}}{\text{Total working fund}}$$

A high ratio indicates better in mobilization of funds as loan and advances and vice-versa.

### IV) Investment on Government Securities to Total Working Fund Ratio

A bank mobilize its fund in various ways to some extent commercial bank seems to utilize its fund by purchasing government securities. A government security is a risk free investment. This ratio is very important to know the extent to which the banks are successful in mobilizing their total fund on different types of government securities to generate profit. This ratio (Investment on Government Securities to Total Working Fund) can be calculated as,

$$\text{Investment on government securities to total working fund} = \frac{\text{Investment on government securities}}{\text{Total working fund}}$$

A high ratio includes better mobilization of funds as invest on government security and vice-versa.

**V) Investment on Shares and Debentures to Total Working Fund Ratio**

This ratio shows the relation between the bank's investment on shares and debentures and total working fund. The investment on shares and debentures portion of the ratio includes investment on debentures, shares and bonds of other companies. This ratio (Investment on Shares and Debentures to Total Working Fund) can be calculated as,

Investment on share and debenture to total working fund ratio

$$= \frac{\text{Investment on share and debenture}}{\text{Total working fund}}$$

**C) Profitability Ratios**

Profitability ratios are computed to measure the efficiency of the bank in term of profit. It is the indicator of the financial performance of bank. Moreover higher the profitability ratio, better the financial performance of the bank and vice-versa. The following ratios are calculated under profitability ratios:

I) Return on Total Working Fund Ratio
II) Total Interest Earned to Total outside Assets Ratio
III) Return on Loan and Advances Ratio
IV) Total Interest Earned to Total Working Fund Ratio
V) Total Interest Paid to Total Working Fund Ratio
VI) Return on Equity Ratio

**I) Return on Total Working Fund Ratio**

Return is the result of investment and it measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the bank working fund is well managed and are efficiently utilized, maximizing taxes within legal options available will also improve the net profit (the profit that is left to internal equities after all costs, charges have deducted). This ratio (Return on Total Working Fund) can be calculated as,

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

**II) Total Interest Earned to Total outside Assets Ratio**

This ratio measures the proportion of interest income in total income of the bank and contribution made by the lending and investing activity. Total Interest Earned

includes total interest income from loans, advances, cash credit and overdrafts, government securities, inter-bank and other investment. Total outside Assets includes loan and advances and all types of investment. This ratio (Total Interest Earned to Total outside Assets) can be computed as,

$$\text{Total interest earned to total outside assets ratio} = \frac{\text{Total intrest earned}}{\text{Total out side assets}}$$

**III) Return on Loan and Advances Ratio**

This ratio measures the earning capacity of loan and advances. Moreover it indicates how efficiently the bank has mobilized its recourse in the form of loan and advances. This ratio (Return on Loan and Advances) can be calculated as,

$$\text{Return on loan and advance ratio} = \frac{\text{Net Income}}{\text{Loan and advance}}$$

**IV) Total Interest Earned to Total Working Fund Ratio**

This ratio gives the percentage of interests earned to total assets (working funds). Higher ratio implies better performance of the bank in terms of interest earning on its total working funds. The ratio (Total interests earned to total working fund ratio) can be calculated as,

$$\text{Total interests earned to total working fund ratio} = \frac{\text{Total intrest earned}}{\text{Total working fund}}$$

**V) Total Interest Paid to Total Working Fund Ratio**

Interest paid to total working fund ratio is defined as the ratio of total interest paid to total working fund. This ratio measures the percentage of total interest expenses against total working fund. The ratio is calculated as interest paid to total working fund:

Total Interest Paid. This ratio (Total Interest Paid to Total Working Fund) computed as,

$$\text{Total interests paid to total working fund ratio} = \frac{\text{Total intrest paid}}{\text{Total working fund}}$$

A high ratio indicates higher expenses on total working fund and vice-versa.

### VI) Return on Equity Ratio

This ratio measures how efficiently the banks have used the fund of owner. This ratio (Return on Equity) calculated as,

$$\text{Return on equity} = \frac{\text{Net income}}{\text{Equity}}$$

### D) Risk Ratios

Risk is involved in any business and risk taking occurs while undertaking business of a bank. Higher the risk, higher the return. Risk is the chance of receiving actual returns other than expected, which simply means there is variability in the returns or outcomes from the investment. The investment made by banks is more susceptible to risk. Risk taking is the main job of bank's investment management. Risk ratios indicate the amount of risk associated with the various banking operation, which ultimately influence the banks investment policy. The following ratios are calculated under risk ratios.

I) Credit Risk Ratio

II) Liquidity Risk Ratio

### I) Credit risk ratio

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank by definition. It is expressed as the percentage of non-performing loan to total loan and advances. The ratio of total loan and advances to total assets measures the credit risk ratio and the ratio calculated as,

$$\text{Credit risk (loan and advance to total assets) ratio} = \frac{\text{Loan and advance}}{\text{Total asssets}}$$

### II) Liquidity Risk Ratio

The liquidity risk ratio of a bank decides its liquidity need for deposits. The cash and bank balance are the most liquid assets and they are considered as bank's liquidity sources and deposits as the liquidity needs. The ratio of cash and bank balance to total deposits is an indicator of bank liquidity needs. The risk is low if funds are kept idle or as cash and bank balance but this affects profitability. When bank makes loan, its

profitability increases and also the risk. Thus, higher liquidity ratio indicates less risk and less profitability or vice-versa. The ratio can be computed as:

$$\text{Liquid risk (cash and bank balance to total deposit) ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposit}}$$

**E) Growth Ratio**

Growth ratio is directly related to find mobilization and investment decision of the bank. The growth ratios are calculated to examine and analysis the expansion and growth of the banking business during the study period. The higher ratios represent the better performance of the bank. This ratio represents how well the commercial banks are maintaining their economic and financial position. Growth ratio can be calculated by dividing the last period figure by the first period figure then by referring to the compound interest table the following ratios are calculated under growth ratios:

I) Growth ratio of total deposit

II) Growth ratio of total loan and advances

III) Growth ratio of total investment and

IV) Growth ratio of net profit

### 3.4.2 Statistics Tools

Any kind of research or study especially which are concerned with analysis of data is incomplete without statistics tools. So, in order to make the data analysis more comprehensive and informative the researcher has to make use of certain statistical tools some important statistics tools are used here to achieve the objectives of the study. The statistics tools, which are used, are as follows.

**I) Arithmetic Mean\Weighted Average**

This is the most popularly and widely used measure of statistical analysis. The main objective of this measure is to get one single value that describes the characteristics of the entire mass of huge and unwieldy data. This is also known as average. Arithmetic mean is the sum of all the observations divided by the number of observations. In this case all the items are equally important. The arithmetic mean (AM) is denoted by $\bar{x}$. Arithmetic mean computed as,

Where,

$\sum x$ = sum of observation

n = No. of observation

Standard Deviation (S .D.)

It is the best measure of dispersion as it satisfies most of the requisites of a good measure of dispersion and it is the absolute measure of dispersion. Standard deviation is defined as the positive square root of the mean of the square of the deviations taken from the arithmetic mean. It is also known as 'Root Mean- Square Deviation'. It is denoted by Greek letter small sigma. (σ). Standard deviation computed as,

$$\sigma = \sqrt{\frac{\sum x^2}{N-1}}$$

Where,

σ = Standard Deviation

N = No. of observation

x = X- $\overline{X}$

**II) Co-efficient of Variation (C .V.)**

The coefficient of variation is the most commonly used measure of relative variation. C.V. measures the relative dispersion. Greater the C.V. the more variable or less consistent, less uniform, less stable and less homogenous the ratio and vice-verse. C.V. calculated as,

$$\text{C.V.} = \frac{\sigma}{\overline{x}}$$

Where,

σ = Standard Deviation

$\overline{X}$= mean

**III) Trend Analysis**

Trend Analysis is an analysis of a firm's financial ratios over time. This measures the change of data over a period of time. This reveals whether the firm's ratio are improving or deteriorating over time. Under segment, current and projected trend, total investment, total deposit, total loan and total net profit are calculated. The projections are based on the following Assumption.

1. The main assumption is that other things will remain unchanged.

2. The bank will run in this present position.
3. The economy will remain in the present stage.
4. The forecast will be true only when the limitation of least square method is carried out.
5. Central governing bank will not change its guidelines to commercial banks.

The following four variables are considered for the analysis of trend.

1. Trend Analysis of Total Deposit
2. Trend Analysis of Loan and Advances
3. Trend Analysis of Total Investment
4. Trend Analysis of Net Profit

For the estimation of linear trend line following formula has been used.

$Y= a+bx$

Where,

Y=Dependent Variable

X= Independent Variable

a= intercept of the line.

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

The value of the constant 'a' and 'b' can be determined by solving the following two normal equations:

$Y= na+b x$

$xy = a x+b X$

Where,

n= no. of observation

**IV) Coefficient of Correlation (r)**

Correlation analysis enables in determining the degree and direction of relationship between two variables. In this study, the Karl Pearson's co-efficient of correlation is used, which is a numerical measure of linear relationship between them. It Is usually denoted by 'r. The result of coefficient of correlation is always between +1 and -1,

The statistical tool-correlation analysis is used in the study to measure the relationship between variables in determining within the relationship is significant or not. For the purpose decision making interpretation are based on the following terms.

1. When, r = 1, then is perfect positive correlation.

2. When, r = -1, then is perfect negative correlation.
3. When, r = 0, then is no correlation.
4. When, ‘r’ lies between 0.7 to 0.999 (-0.7 to -0.999), then is high degree of positive (or negative) correlation.
5. When, ‘r’ lies between 0.5 to 0.6999 there is moderate degree of correlation.

When, ‘r’ is less than 0.5, there is low degree of correlation

Coefficient of Correlation calculated as,

Coefficient of Correlation. (r) = $\frac{\sum xy}{\sqrt{\sum x^2}\ \sqrt{\sum y^2}}$

Where,

X = x- $\bar{x}$

Y = y- $\bar{y}$

**V) Probable Error of the Coefficient of Correlations (P. Er.)**

After the calculation of coefficient of correlation the next thing is to find out the extent to which it is dependable. For this purpose the probable error of the coefficient of correlation is calculated. If the probable error is added to and subtracted from the coefficient of correlation would give two such limits within which we can reasonably accept the value of coefficient of correlation to vary. The formula for finding out the probable of error of the Karl Pearson's co-efficient of correlation is:

$$\mathbf{P.Er.} = \frac{\mathbf{1 - r^2}}{\sqrt{n}}$$

# CHAPTER-IV
# DATA PRESENTATION AND ANALYSIS

In this chapter, all the efforts have been made to analyze and present all collected data from the various sources. This chapter determines the quality of the study because how far the collected data are presented and analyzed with the help of various financial and statistical tools, tables, graphs etc as of meaningfully and clearly. This chapter has performed to know the clear picture of comparative investment policy of Himalayan Bank Ltd and Everest Bank Ltd. The outcomes of the study solely depend upon this chapter financial and statistical tools which are presented at research methodology which used here to interpretation collected data. This chapter has been divided into two parts. The first part of the chapter includes the presentation and analysis of data while the second part includes the major finding of the study.

## 4.1 Ratio Analysis

Ratio analysis is a main tool of financial analysis. Financial ratios are the mathematical relationship between two accounting figures. It is used to evaluate a firm's financial performances and status of other firms. The quantitative judgments have gone down regarding financial performances of the firm with the help of ratio analysis. In this study all types of ratios is not done only those ratios which are important from the point of view of the investment policy are calculated these are as follows:

### 4.1.1 Liquidity Ratio

Liquidity ratio measures the firm's ability to meet its measuring short term obligations. Current assets and liabilities involve and to maintain more effectible for the short term obligation that is commonly based on within one accounting period. Liquidity ratio measures the ability of the firm to meets its current obligation. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Demand for the deposits, withdrawals and pay maturity in time and convert non-cash assets into cash to satisfy immediate need without loss to bank and consequent impact on long-run profit. Analysis of liquidity needs the

preparation of cash budget liquidity ratios by establishing a relationship between cash and other current assets to current obligations, which provide a guide measure of liquidity. The following ratios are evaluated and interpreted under liquidity ratio:

### A. Current Ratio

This is a measurement of liquidity ratio. It measures the ratio between total current assets and total current liabilities. The current asset include cash and bank balance with cheque in hand, money at call and short notices, investment in government securities, bills purchased and discovered loans, and advances and other current assets, similarly, current liability includes borrowing from other banks, deposit, bills payable, and other current liabilities. Current assets are those assets which can be converted into cash within one accounting period. And the current liabilities are those liabilities, which should be paid within the one accounting period. Current ratio indicates the ability of the bank to meet its current obligation. This is the broad measure of liquidity position of the financial

We have,

$$\text{Current Ratio} = \frac{\text{Total current assets}}{\text{Total current liabilities}}$$

**Table No.4.1**

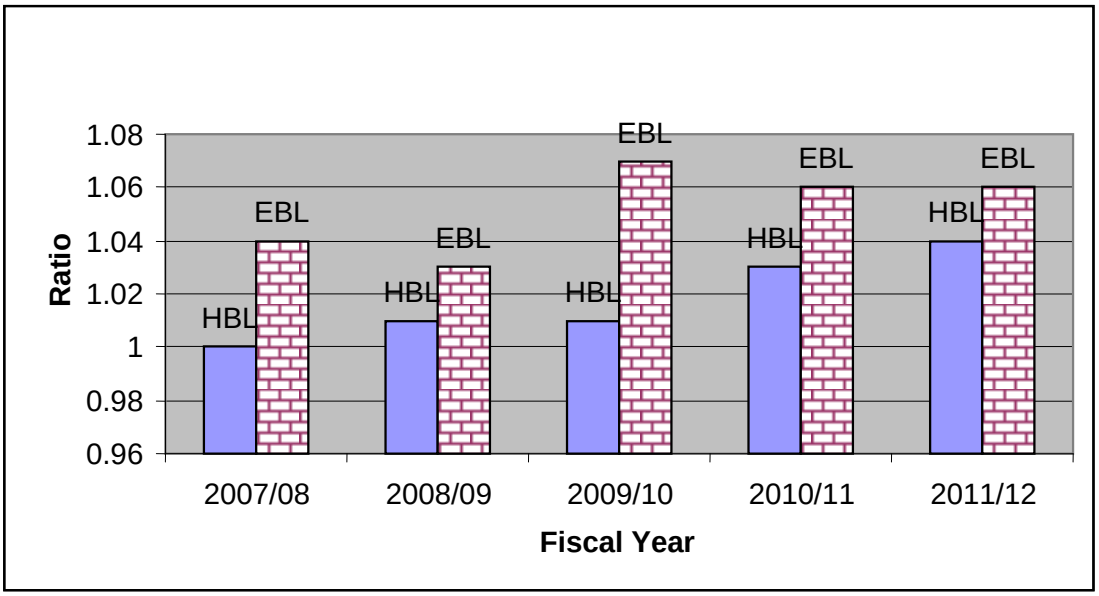
**Current Ratio (Times)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 1.00 | 1.04 |
| 2008/09 | 1.01 | 1.03 |
| 2009/10 | 1.01 | 1.07 |
| 2010/11 | 1.03 | 1.06 |
| 2011/12 | 1.04 | 1.06 |
| Mean | 1.02 | 1.05 |
| Standard deviation (S.D.) | 0.018 | 0.017 |
| Coefficient of variation (C.V.) % | 1.76 | 1.61 |

**Source: Annex 1 A & B**

**Figure 4.1**

**Current Ratio**




Above Table and figure measures the current ratio of two banks of five consecutive years (2007/08-2011/12). The ratio has been ranged from 1.00 to 1.04 of HBL. Table explains that the current ratio of EBL from 1.03 to 1.07. Current ratio of HBL is increase throughout the five year where as EBL's ratios are decrease in FY 2008/09, increase in FY 2009/10 but again decrease in FY 2010/11 and constant in FY 2011/12. Both banks are maintained lower current ratio.

The mean ratio of HBL is 1.02 and 1.05 of EBL, if we measure the performance of these banks based in this mean, the performance of HBL is weak and the EBL has maintained batter than HBL but not a good liquid assets. Standard deviation measure the variability of the ratio. According to above table HBL's standard deviation (0.018) is greater than EBL's (0.017) which shows that current ratio of the HBL is more fluctuate than EBL's current assets. Coefficient of variance of EBL (1.61%) is less than HBL's (1.76%) which shows that EBL is more consistency than HBL.

In conclusion current assets of the both bank is lower in comparison to current liabilities so both bank must increases its current assets to maintain good ratio.

### B. Cash and Bank Balance to Current Assets Ratio

The ratio measures the proportion of cash and bank balance among the total current assets of the bank this ratio shows the bank liquidity capacity on the basic of cash and bank

balance that is most liquid assets. Higher ratio indicates the bank ability to meet the daily cash requirement of their customer deposit and vice versa. But higher is not preferred as the bank has to pay more interest in deposit and will increase the cost of fund. A lower ratio is also very dangerous as the bank may not be able to make payment against the cheques presented by customers. Therefore, the bank has to maintain the cash and bank balance to current assets ratios in such a manner that it should have the adequate cash for the customers demand against deposit when required and less interest is required to be paid against the cash

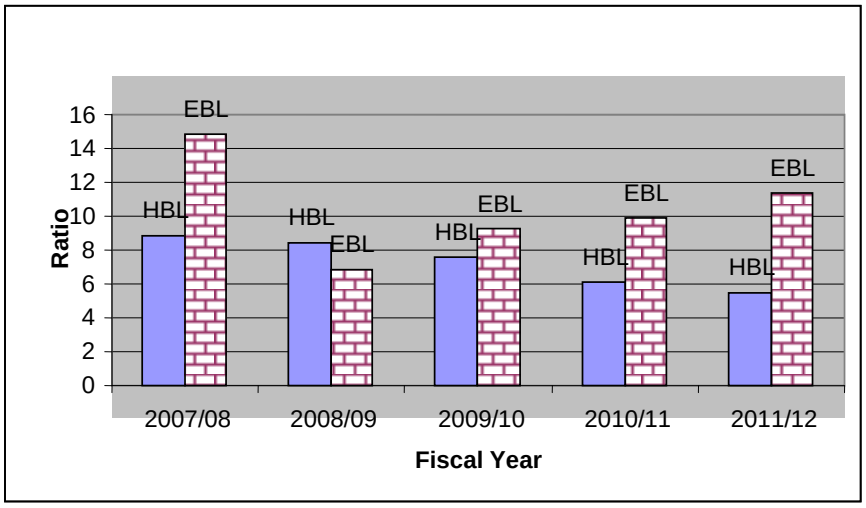
$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Current Assets}}$$

**Table 4.2**
**Cash and Bank Balance to Current Assets Ratio (in %)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 8.87 | 14.80 |
| 2008/09 | 8.47 | 6.84 |
| 2009/10 | 7.58 | 9.24 |
| 2010/11 | 6.08 | 9.94 |
| 2011/12 | 5.44 | 11.37 |
| Mean | 7.290 | 10.436 |
| Standard deviation (S.D.) | 1.489 | 2.937 |
| Coefficient of variation (C.V.) % | 20.43 | 26.46 |

**Source :Annex 2A & B**

**Figure 4.2**
**Cash and Bank Balance to Current Assets**




Above table and figure measure the Cash and Bank Balance to Current Assets Ratio of two banks of five consecutive years (2007/08-2011/12). The ratio has been ranged from 5.44 to 8.87 of HBL. Table explains that the Cash and Bank Balance to Current Assets Ratio of EBL from 6.84 to 14.80 ratio of HBL are decrease throughout the five year where as EBL's

Ratios are decrease in FY 2008/09 then increase rest fiscal year. HBL maintain the highest ratio 8.87 in the 2011/12 in the same year EBL also maintain the highest ratio. The mean ratio of HBL is 7.290 and 10.436 of EBL, if we measure the performance of these banks based in this mean, the performance of HBL is weak than EBL, HBL's standard deviation (1.489) is less then EBL's (2.937) which shows that Cash and Bank Balance to Current Assets Ratio of the EBL is more fluctuate than HBL's ratio. Coefficient of variance of HBL (20.43%) is less than EBL's (26.46%) which shows that HBL is more consistency than EBL.

In conclusion liquidity position of EBL is higher than the HBL. as it is capable of maintaining higher level pf cash and bank balance ratio but lower consistency in need to improve mobilization for quick payment of its deposits.

### C. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio is an important tool to determine the bank's financial efficiency and liquid assets. The ratio between the cash and bank balance to total deposits measure the ability of the bank to meet unanticipated demand or cash withdrawals from all types of deposits.

We have,

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

**Table 4.3**

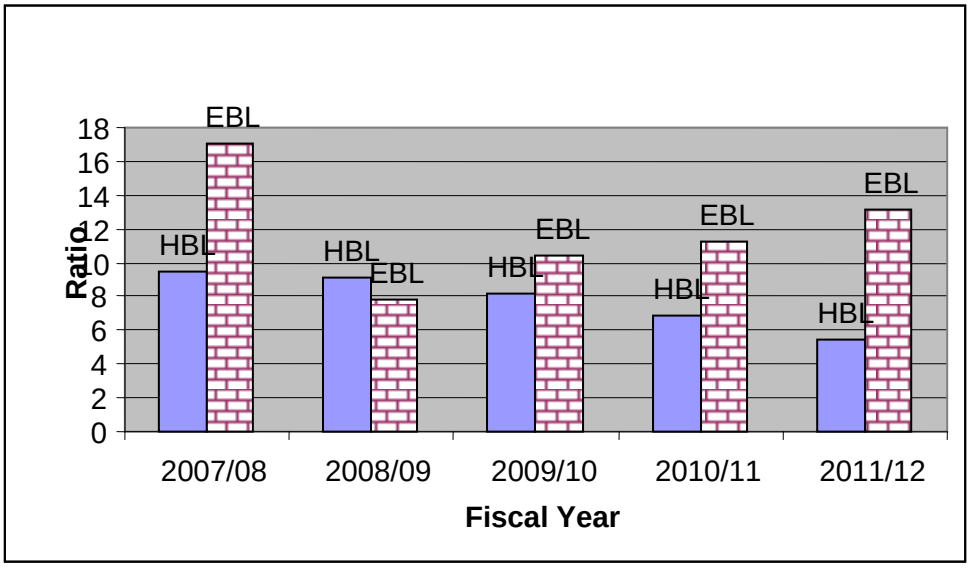
**Cash and Bank Balance to Total Deposit Ratio (in %)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 9.421 | 17.021 |
| 2008/09 | 9.092 | 7.835 |
| 2009/10 | 8.118 | 10.398 |
| 2010/11 | 6.843 | 11.251 |
| 2011/12 | 5.484 | 13.150 |
| Mean | 7.793 | 11.931 |
| Standard deviation (S.D.) | 1.577 | 3.27 |
| Coefficient of variation (C.V.) % | 20.24 | 27.41 |

**Source : Annex 3A & B**

**Figure 4.3**

**Cash and Bank Balance to Total Deposit Ratio**




Above table and figure measure the Cash and Bank Balance to total deposit Ratio of two banks of five consecutive years (2007\08-2011\12). The ratio has been ranged from 5.484 to 9.421 of HBL. Table explains that the Cash and Bank Balance to deposits Ratio of EBL from 7.835 to 17.021 Ratio of HBL are decrease throughout the five year where as EBL's ratios are decrease in FY 2008/09 then increase rest fiscal year. HBL maintain the highest ratio 9.421 in the 2011/12 in the same year EBL also maintain the highest ratio. HBL maintain lowest ratio in the year 2011/12 and EBL maintain its lower ratio in the year 2008/09.

The mean ratio of HBL is 7.793 and 11.931 of EBL, if we measure the performance of these banks based in this mean, the performance of HBL is weak than EBL. HBL's standard deviation (1.577) is less then EBL's (3.27) which shows that Cash and Bank Balance to total deposits Ratio of the EBL is more fluctuate than HBL's ratio. Coefficient of variance of HBL (20.24%) is less than HBL's (27.41%) which shows that HBL is more consistency than EBL. it indicate that HBL maintain lower liquidity position than EBL.

### D. Investment on Government Securities to Current Assets Ratio

This ratio is computed to find out the proportion of current assets invested in government securities. The treasury bills, development bonds, saving bonds etc. are treated as investment on government securities. This ratio is very important to recognize a bank's liquidity position. The government securities are not so much

liquid as cash and bank balance. But they can easily be sold in the financial market or they can be converted into cash in other ways.

We have,

Investment on Government Securities to Current Assets

$$= \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

**Table 4.4**

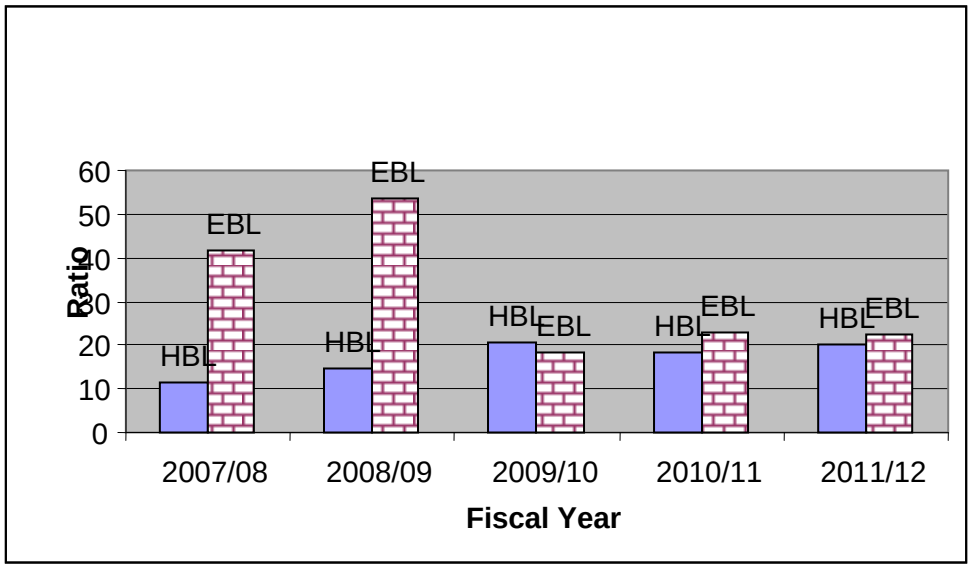
**Investment on Government Securities to Current Assets Ratio (in %)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 11.604 | 41.531 |
| 2008/09 | 14.533 | 53.392 |
| 2009/10 | 20.584 | 18.476 |
| 2010/11 | 18.207 | 22.716 |
| 2011/12 | 19.991 | 22.361 |
| Mean | 16.984 | 31.695 |
| Standard deviation (S.D.) | 3.823 | 15.083 |
| Coefficient of variation (C.V.) % | 22.51 | 47.59 |

**Source :Annex 4 A & B**

**Figure 4.4**

**Investment on Government Securities to Current Assets Ratio**



Above table and figure measure the Investment on government securities to current assets ratio of two banks of five consecutive years (2007\08-2011\12). The ratio has been ranged from 11.604 to 20.584 of HBL. Table explains that the Cash and Bank Balance to deposits Ratio of EBL from 18.476 to 53.392 Ratios of both banks are fluctuating during the period. HBL maintain the highest ratio in the 2009/10 In the year 2008/09 EBL maintain the highest ratio HBL maintain lowest ratio in the year 2011/12 and EBL maintain its lower ratio in the year 2008/09.

The mean ratio of HBL is 16.984 and 31.695 of EBL, if we measure the performance of these banks based in this mean, the performance of HBL is weak than EBL. HBL's standard deviation (3.823) is less then EBL's (15.083) which shows that Investment on government securities to current assets Ratio of the EBL is more fluctuate then HBL's ratio. Coefficient of variance of HBL (22.51%) is less than HBL's (47.59%) which shows that HBL is more consistency than EBL. it indicate that HBL maintain lower liquidity position than EBL.

**E. Loan and advance to Current Assets Ratio**

Loan and advances are also included in the current assets of commercial banks because generally it provides short-term loan, advances, overdrafts, cash-credit and foreign bill purchased and discounted. All commercial banks mobilize their collected funds as loan and advances to the customers. If sufficient loan and advances cannot be graded, it should be pay interest on those utilized deposit funds and may be lose some earnings, but high loan and advances may also be harmful to keep the bank in most liquid position because they can only be collected at the time of maturity only. Thus, a bank must maintain its loan and advances in appropriate level to find out portion of current assets, which is granted as loan and advances.

We have,

$$\text{Loan and Advance to Current Assets Ratio} = \frac{\text{Loan and Advance}}{\text{Current Assets}}$$

**Table 4.5**

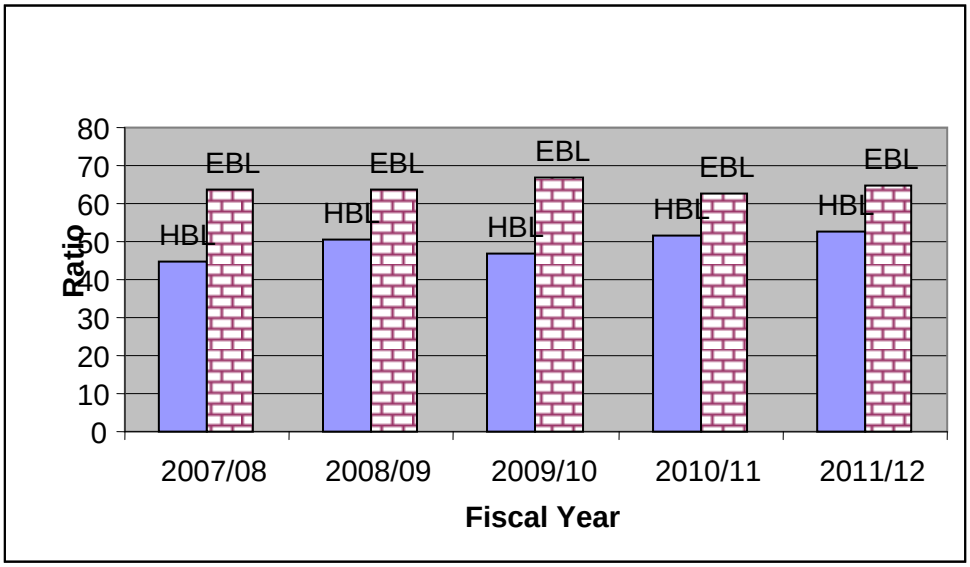
**Loan and Advance to Current Assets Ratio (in %)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 44.838 | 63.730 |
| 2008/09 | 50.613 | 63.688 |
| 2009/10 | 46.757 | 67.021 |
| 2010/11 | 51.824 | 62.741 |
| 2011/12 | 52.644 | 64.944 |
| Mean | 49.335 | 64.425 |
| Standard deviation (S.D.) | 3.378 | 1.648 |
| Coefficient of variation (C.V.) % | 6.85 | 2.56 |

**Source :Annex 5 A & B**

**Figure 4.5**

**Loan and Advance to current Assets Ratio**




Above table and figure measures the Loan and advance to current assets ratio of two banks of five consecutive years (2007\08-2011\12). The ratio has been ranged from 44.838 to 52.644 of HBL. Table explains that the Loan and advance to current assets ratio of EBL from 62.741 to 67. Ratios of both banks are fluctuating during the period. HBL maintain the highest ratio in the 2011/12 In the year 2009/10 EBL maintain the highest ratio. HBL maintain lowest ratio in the year 2011/12 and EBL maintain its lower ratio in the year 2010/11

The mean ratio of HBL is 49.335and 64.425 of EBL, if we measure the performance of these banks based in this mean, the performance of HBL is strong than EBL. HBL's standard deviation (3.378) is more then EBL's (1.648) which shows that Loan

and advance to current assets ratio of the HBL is more fluctuate then EBL's ratio. Coefficient of variance of HBL (6.85%) is more than HBL's (2.56%) which shows that EBL is more consistency than HBL. it indicate that EBL maintain lower liquidity position than HBL in the view of Loan and advance to current assets ratio.

### 4.1.2 Asset Management Ratio/Activity Ratio/Turnover Ratio

The second group of financial tool used to analyze the data in this research is asset management ratio. It is concerned with measuring the efficiency in asset management. At times these ratios are called efficiency or asset utilization ratios. The efficiency with which the assets are used would be reflected in the speed and rapidity with which assets are converted into revenue generating. Greater the rate of turnover or conversion, the more efficient the utilization or management other things being equal. For this reason, such ratios are also called turnover ratios. Assets management ratio is a test of the relationship between revenue and the various assets of a firm. These are used to measure the bank's ability to utilize their available resources.

The relationship between various resources is indicated by asset management ratio. A commercial bank must be able to manage its assets very well to earn high profit to satisfy its customers and for its own existence.

#### A. Loan and Advance to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances for the profit generation. A high ratio indicates better utilization of deposits in loan and advances and vice-versa. But too high ratios may not be good from liquidity point of view.

We have,

$$\text{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

**Table 4.6**

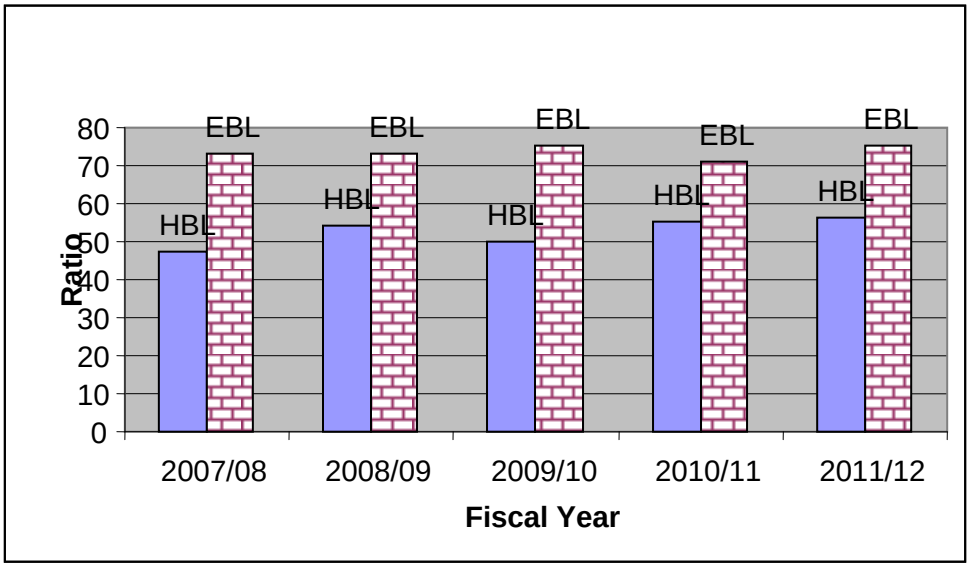
**Loan and Advance to Total Deposit Ratio (In %)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 47.611 | 73.316 |
| 2008/09 | 54.301 | 72.969 |
| 2009/10 | 50.071 | 75.450 |
| 2010/11 | 55.274 | 71.011 |
| 2011/12 | 56.569 | 75.134 |
| Mean | 52.765 | 73.576 |
| Standard deviation (S.D.) | 3.774 | 1.799 |
| Coefficient of variation (C.V.) % | 7.17 | 2.45 |

**Source :Annex 6 A & B**

**Figure 4.6**

**Loan and Advance to Total Deposit Ratio**




Above table and figure measure the Loan and advance to total deposit ratio of two banks of five consecutive years (2007/08-2011\12). The ratio has been ranged from 47.611 to 56.569 of HBL. Table explains that the Loan and advance to total deposit ratio of EBL from 71.011 to 75.450 Ratios of both banks are fluctuating during the period. HBL maintain the highest ratio in the 2011/12 in the year 2011/12 EBL maintain the highest ratio. HBL maintain lowest ratio in the year 2011/12 and EBL maintain its lower ratio in the year 2010/11.

The mean ratio of HBL is 52.975 and 73.576 of EBL, if we measure the performance of these banks based in this mean, the performance of HBL is weak than EBL. HBL's standard deviation (3.774) is more then EBL's (1.799) which shows that Loan

and advance to total deposit ratio of the HBL is more fluctuate then EBL's ratio. Coefficient of variance of HBL (7.17) is more than EBL's (2.45%) which shows that EBL is more consistency than HBL.

It can be conclude that HBL is lower position to mobilize its total deposit as loan and advance in comparison to EBL

**B. Total Investment to Total Deposit Ratio**

Investment is one of the major credits created to earn profit. This implies the utilization of a bank's deposit on investment in government securities, shares and debenture of other companies and banks. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice versa

We have

$$\text{Total Investment to Total Deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

**Table 4.7**

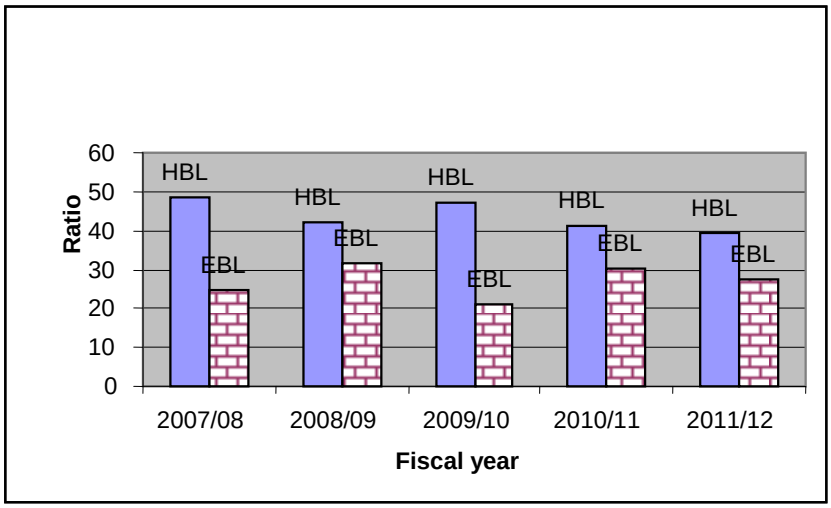
**Total Investment to Total Deposit Ratio (in %)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 48.437 | 24.705 |
| 2008/09 | 42.217 | 31.445 |
| 2009/10 | 47.120 | 21.083 |
| 2010/11 | 41.105 | 30.433 |
| 2011/12 | 39.346 | 27.407 |
| Mean | 43.645 | 27.015 |
| Standard deviation (S.D.) | 3.937 | 4.242 |
| Coefficient of variation (C.V.) **%** | 9.02 | 15.70 |

**Source : Annex 7 A & B**

**Figure 4.7**

**Total investment to Total Deposit Ratio (in %)**




Above table and figure measure the Loan and advance to total deposit ratio of two banks of five consecutive years (2007\08-2011\12). The ratio has been ranged from 39.346 to 48.437 of HBL. Table explains that the Total investment to total deposit ratio of EBL from 21.083 to 31.445 Ratio of HBL. Ratios of both banks are fluctuating during the period. HBL maintain the highest ratio in the 2011/12 in the year 2008/09 EBL maintain the highest ratio. HBL maintain lowest ratio in the year 2007/08 and EBL maintain its lower ratio in the year 2009/10

The mean ratio of HBL is 43.645 and 27.015 of EBL, if we measure the performance of these banks based in this mean, the performance of EBL is weak than HBL. HBL's standard deviation (3.937) is more than EBL's (4.242) which shows that Total investment to total deposit ratio of the EBL is more fluctuate then HBL's ratio. Coefficient of variance of HBL (9.02) is less than EBL's (15.70) which shows that HBL is more consistency than EBL.

### C. Loan and Advance to Total Working Fund Ratio

The working fund (Combination of current assets, fixed assets, other assets, Investment and Loan and advances) 0f a commercial bank plays a very significant role in profit generation through fund deployment. This ratio reflects the extent to which the commercial banks are success in mobilizing their assets loan and advances for the purpose of income generation. Loan and advances is a vital part of total assets

i.e. total working fund. Loan and advances is an important part of total working fund. A high ratio indicates better in mobilization of funds as loan and advances

We have,

$$\text{Loan and Advance to Total Working Fund Ratio} = \frac{\text{Loan and Advance}}{\text{Total Working Fund}}$$

**Table 4.8**

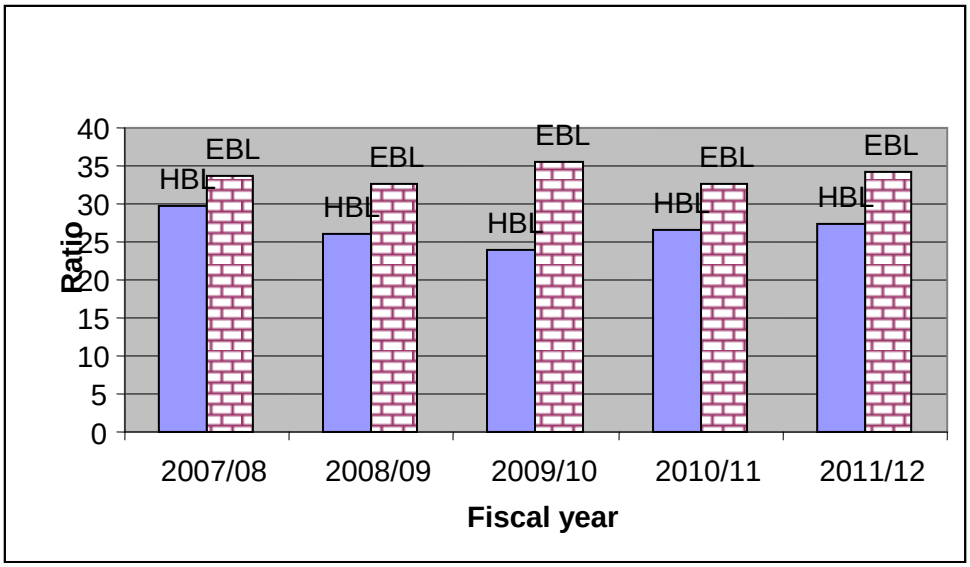
**Loan and Advance to Total Working Fund Ratio (in %)**

| Fiscal Year | HBL | EBL |
|---|---|---|
| 2007/08 | 29.779 | 33.586 |
| 2008/09 | 25.948 | 32.638 |
| 2009/10 | 23.911 | 35.468 |
| 2010/11 | 26.627 | 32.713 |
| 2011/12 | 27.267 | 34.091 |
| Mean | 26.706 | 33.699 |
| Standard deviation (S.D.) | 2.130 | 1.161 |
| Coefficient of variation (C.V.) % | 7.98 | 3.45 |

**Source : Annex 8 A & B**

**Figure 4.8**

**Loan and Advance to Total Working Fund Ratio**




Above table and figure measure the Loan and advance to total working fund ratio of two banks of five consecutive years (2007\08-2011\12). The ratio has been ranged from 23.911 to 29.779 of HBL. Table explains that the Loan and advance to total working fund ratio of EBL from 32.638 to 35.713 Ratios of both banks are fluctuating during the period. HBL maintain the highest ratio in the 2011/12 in the year 2011/12

EBL maintain the highest ratio. HBL maintain lowest ratio in the year 2009/10 and EBL maintain its lower ratio in the year 2008/09

The mean ratio of HBL is 26.706 and 33.699 of EBL, if we measure the performance of these banks based in this mean, the performance of EBL is weak than HBL. HBL's standard deviation (2.130) is more than EBL's (1.161) which shows that Loan and advance to total working fund ratio of the HBL is more fluctuate then EBL's ratio. Coefficient of variance of HBL (7.98) is more than EBL's (3.45) which shows that EBL is more success in the case of better utilization of its working fund on loan and advance and EBL is more consistency than HBL.

### D. Investment on Government Securities to Total Working Fund Ratio

Commercial banks must not utilize all their resources in loan and advances and other credit from security and liquidity point of view. Commercial bank mobilizes its some fund by purchasing government securities. A government security is a risk free investment. Government securities are a safe medium of investment though it is not as liquid as cash and bank balance this ratio is very important to know the extent to which the banks are successful in mobilizing their total fund on different types of government securities to generate profit.

We have,

$$\text{Investment on Government Securities to Total Working Fund} = \frac{\text{Investment on Government Securities}}{\text{Total Working Fund}}$$

**Table 4.9**

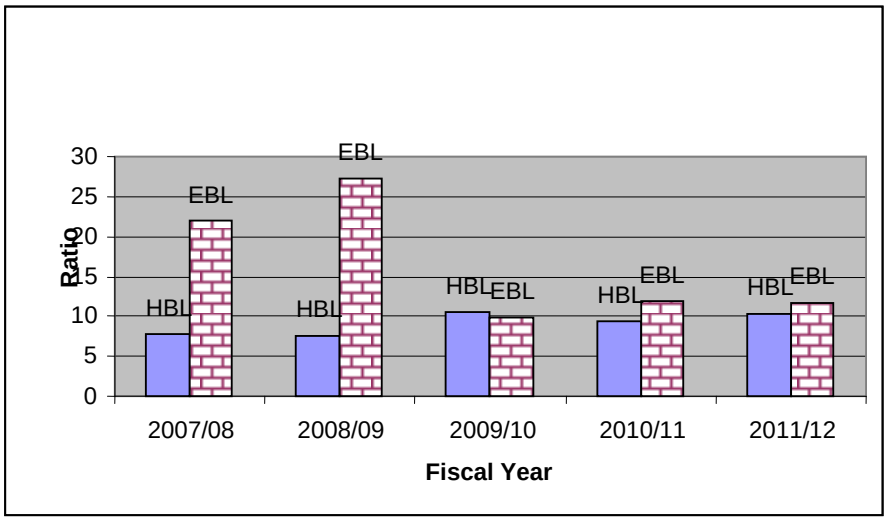
**Investment on Government Securities to Total Working Fund Ratio (in %)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 7.707 | 21.887 |
| 2008/09 | 7.450 | 27.362 |
| 2009/10 | 10.526 | 9.778 |
| 2010/11 | 9.355 | 11.844 |
| 2011/12 | 10.354 | 11.738 |
| Mean | 9.079 | 16.522 |
| Standard deviation (S.D.) | 1.443 | 7.690 |
| Coefficient of variation (C.V.) % | 15.90 | 46.54 |

**Source : Annex 9A & B**

**Figure 4.9**

**Investment on Government Securities to Total Working Fund Ratio**




Above table and figure measures the Investment on government securities to total working fund ratio of two banks of five consecutive years (2007\08-2011\12). The ratio has been ranged from 7.450 to 10.526 of HBL. Table explains that the Investment on government securities to total working fund ratio of EBL from 9.778 to 27.362 Ratios of both banks are fluctuating during the period. HBL maintain the highest ratio in the 2009/10 in the year 2011/12 EBL maintain the highest ratio. HBL maintain lowest ratio in the year 2008/09 and EBL maintain its lower ratio in the year 2009/10

The mean ratio of HBL is 9.079 and 16.522 of EBL, if we measure the performance of these banks based in this mean, the performance of HBL is weak than EBL. HBL's standard deviation (1.443) is less then EBL's (7.690) which shows that ratio of the EBL is more fluctuate then HBL's ratio. Coefficient of variance of HBL (15.90) is more than EBL's (46.54) which shows that HBL is more consistency than EBL

**E. Investment on Share and Debenture to Total Working Fund Ratio**

This ratio shows the relation between the bank's investment on shares and debentures and total working fund. The investment on shares and debentures portion of the ratio includes investment on debentures, shares and bonds of other companies. Commercial banks may invest in share and debenture of any one organization institution not exceeding than 10% of the paid of capital of such organization.

We have,

Investment on Share and Debenture to Total Working Fund Ratio

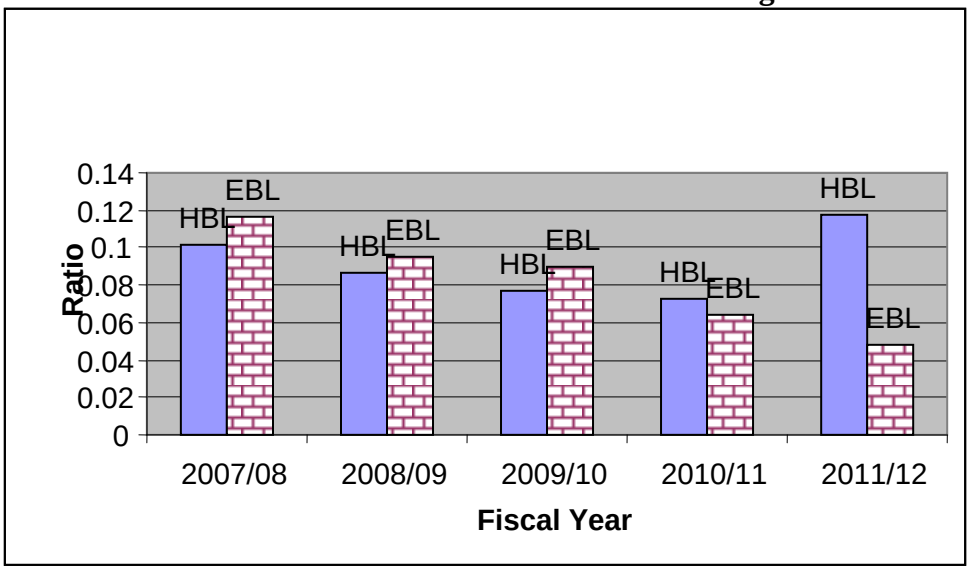
$$= \frac{\text{Investment on Share and Debenture}}{\text{Total Working Fund}}$$

**Table 4.10**
**Investment on Share and Debenture to Total Working Fund Ratio (in %)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 0.102 | 0.117 |
| 2008/09 | 0.087 | 0.095 |
| 2009/10 | 0.077 | 0.090 |
| 2010/11 | 0.073 | 0.064 |
| 2011/12 | 0.118 | 0.048 |
| Mean | 0.091 | 0.083 |
| Standard deviation (S.D.) | 0.016 | 0.0274 |
| Coefficient of variation (C.V.) % | 17.58 | 33.01 |

**Source: Annex10A & B**

**Figure 4.10**
**Investment on Share and Debenture to Total Working Fund Ratio**




Above table and figure measures the Investment on share and debenture to total working fund ratio of two banks of five consecutive years (2007\08-2011\12). The ratio has been ranged from 0.073 to 0.118 of HBL. Table explains that the Investment on share and debenture to total working fund ratio of EBL from 0.048 to 0.177 Ratios of both banks are fluctuating during the period. HBL maintain the highest ratio in the 2011/12 in the year 2011/12 EBL maintain the highest ratio. HBL maintain lowest ratio in the year 2010/11 and EBL maintain its lower ratio in the year 2011/12.

The mean ratio of HBL is 0.091 and 0.083 of EBL, if we measure the performance of these banks based in this mean, the performance of EBL is weak than HBL. HBL's standard deviation (0.016) is less then EBL's (.0274) which shows that Investment on

share and debenture to total working fund ratio of the EBL is more fluctuate then HBL's ratio. Coefficient of variance of HBL (17.58) is less than EBL's (33.01) which shows that HBL is more consistency than EBL. It means HBL consistently invest its working fund in share and debenture than EBL

### 4.1.3 Profitability Ratios

Profitability ratios are computed to measure the efficiency of the bank in term of profit. Profit maximization is the major objectives of any commercial bank. It is the indicator of the financial performance of bank. Moreover higher the profitability ratio, better the financial performance of the bank and vice-versa.

### A. Return on Total Working Fund Ratio

Return is the result of investment and it measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the bank working fund is well manage and are efficiently utilized, maximizing taxes within legal options available will also improve the return.

We have,

$$\text{Return on Total Working Fund Ratio} = \frac{\text{Net Income}}{\text{Total Working Fund}}$$

**Table 4.11**

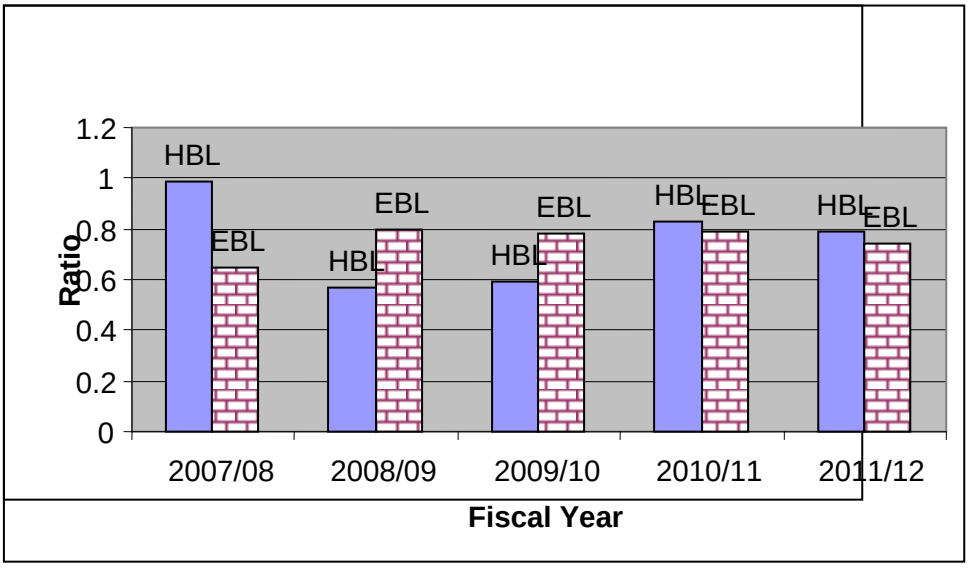
**Return on Total Working Fund Ratio (in %)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 0.990 | 0.644 |
| 2008/09 | 0.571 | 0.796 |
| 2009/10 | 0.593 | 0.783 |
| 2010/11 | 0.832 | 0.792 |
| 2011/12 | 0.789 | 0.740 |
| Mean | 0.755 | 0.751 |
| Standard deviation (S.D.) | 0.175 | 0.063 |
| Coefficient of variation (C.V.) % | 23.13 | 8.42 |

**Source :Annex 11 A & B**

**Figure 4.11**

**Return on Total Working Fund Ratio**




Above table and figure measure return on total working fund ratio of five consecutive years (2007\08-2011\12). The ratio has been ranged from 0.571% to 0.990% of HBL. Table explains ratio of EBL from 0.644% to 0.796% The above table shows that the profitability ratio of both banks fluctuating trend. HBL has highest ratio is 0.99% in year 2011/12 and lowest ratio is 0.571% in year 2008/09 EBL has highest ratio is 0.796% in year 2008/09 and lowest ratio is 0.644 in year 2011/12.

The mean ratio of EBL is lower than HBL i.e. 0.755%>0.751% So, EBL is less efficiency to earn net profit than HBL. Similarly, co-efficient of variation of HBL is higher than EBL i.e. 23.13%>8.42%. This implies that HBL ratios are less consistent than EBL. From the above figure, it can be said that HBL is strong position in the earning capacity by utilizing available resources than that of EBL. EBL must have to make effort to earn high profit by mobilizing its working assets more efficiently.

### B. Total Interest Earned to Total out Side Assets Ratio

This ratio measures the proportion of interest income in total income of the bank and contribution made by the lending and investing activity. Total Interest Earned includes total interest income from loans, advances, cash credit and overdrafts, government securities, inter-bank and other investment. Total outside Assets includes loan and advances and all types of investment. Better the ratio batter the performance. We have,

$$\text{Total Interest Earned to Total out Side Assets Ratio} = \frac{\text{Total Intrest Earned}}{\text{Total Out Side Assets}}$$

**Table 4.12**

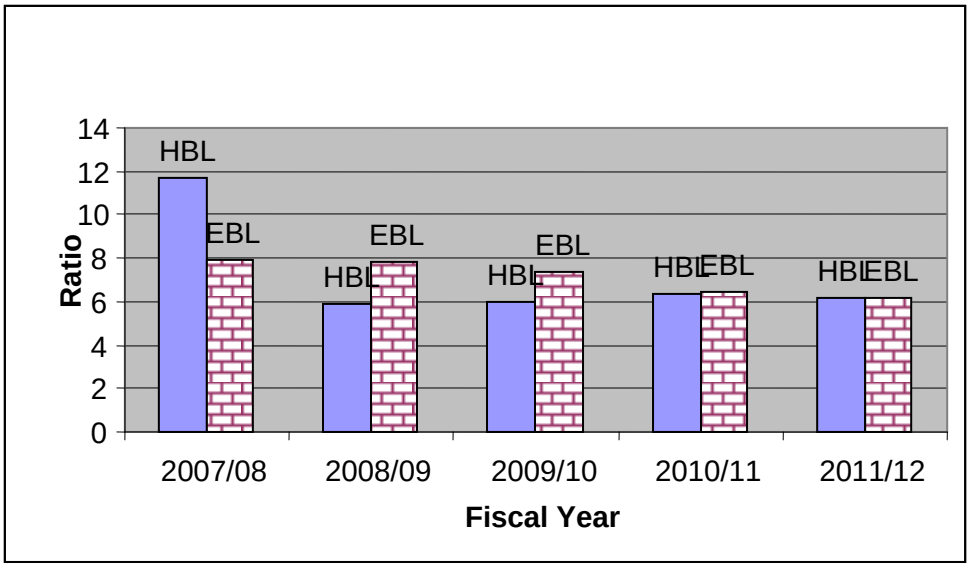
**Total Interest Earned to Total Out Side Assets Ratio (in %)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 11.740 | 7.927 |
| 2008/09 | 5.865 | 7.806 |
| 2009/10 | 5.998 | 7.379 |
| 2010/11 | 6.370 | 6.452 |
| 2011/12 | 6.161 | 6.137 |
| Mean | 7.227 | 7.140 |
| Standard deviation (S.D.) | 2.530 | 0.806 |
| Coefficient of variation (C.V.) % | 35.01 | 11.29 |

**Source :Annex 12 A & B**

**Figure 4.12**

**Total Intrest Earned to Total Out Side Assets Ratio**




Above table and figure measure Total interest earned to total outside assets ratio of five consecutive years (2007\08-2011\12). The ratio has been ranged from 5.865% to 11.74% of HBL. Table explains ratio of EBL from 6.137% to 7.927% the above table shows that the profitability ratio of both banks fluctuating trend. HBL has highest ratio is 11.740% in year 2011/12 and lowest ratio is 5.865% in year 2008/09 EBL has highest ratio is 7.927% in year 2011/12 and lowest ratio is 6.137 in year 2008/09.

The mean ratio of EBL is lower than HBL i.e. 7.140 % < 7.227% So, EBL is less efficiency to earn intrest than HBL. Similarly, standard deviation of HBL is higher than EBL it indicate that ratio of HBL is more fluctuate then EBL. Co-efficient of variation of HBL is higher than EBL i.e. 35.01%>11.29%. This implies that HBL ratios are less consistent than EBL. From the above figure, it can be said that HBL is strong position in the earning capacity by utilizing available resources than that of EBL. EBL must have to make effort to earn high profit by mobilizing its working assets more efficiently.

### C. Return on Loan and Advance Ratio

This ratio measures the earning capacity of loan and advances. Moreover it indicates how efficiently the bank has mobilized its recourse in the form of loan and advances. A high ratio indicates greater return from mobilized fund as loan and advances and vice versa.

We have,

$$\text{Return on Loan and Advance Ratio} = \frac{\text{Net Income}}{\text{Loan and Advance}}$$

**Table 4.13**

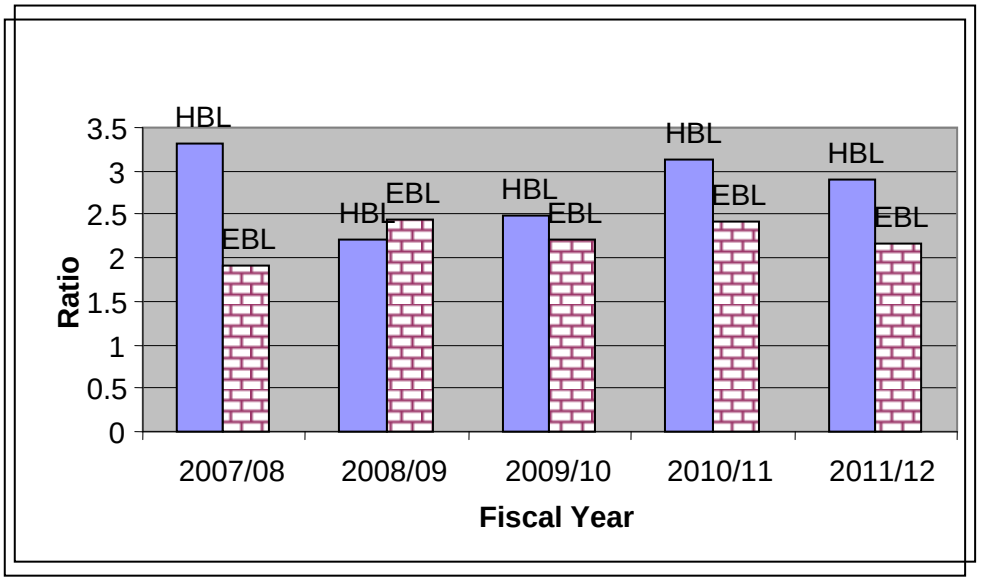
**Return on Loan and Advance Ratio (in %)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 3.324 | 1.919 |
| 2008/09 | 2.201 | 2.440 |
| 2009/10 | 2.481 | 2.208 |
| 2010/11 | 3.124 | 2.421 |
| 2011/12 | 2.893 | 2.169 |
| Mean | 2.805 | 2.231 |
| Standard deviation (S.D.) | 0.460 | 0.213 |
| Coefficient of variation (C.V.) % | 16.41 | 9.56 |

**Source :Annex 13 A & B**

**Figure 4.13**

**Return on Loan and Advance Ratio**




Above table and figure measure Return on loan and advance ratio of five consecutive years (2007\08-2011\12). The ratio has been ranged from 2.201% to 3.324% of HBL. Table explains ratio of EBL from 1.919% to 2.440% the above table shows that the profitability ratio of both banks fluctuating trend. HBL has highest ratio is 3.324% in year 2011/12 and lowest ratio is 2.201% in year 2008/09 EBL has highest ratio is 2.440% in year 2008/09 and lowest ratio is 1.919 in year 2011/12.

The mean ratio of EBL is lower than HBL i.e. 2.231%< 2.805% So, EBL is less efficiency to earn net profit than HBL. Similarly, standard deviation of HBL is higher than EBL i.e. 0.460>0.213 it indicate that ratio of HBL is more fluctuate then EBL. Co-efficient of variation of HBL is higher than EBL i.e. 16.41%>9.56%. This implies that HBL ratios are less consistent than EBL. From the above figure, it can be said that HBL is strong position in the earning capacity by utilizing available resources than that of EBL. EBL must have to make effort to earn high profit by mobilizing its working assets more efficiently.

### D. Total Interests Earned to Total Working Fund Ratio

Interest earned to total working fund ratios 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

We have,

$$\text{Total Interests Earned to Total Working Fund Ratio} = \frac{\text{Total Intrest Earned}}{\text{Total Working Fund}}$$

**Table 4.14**

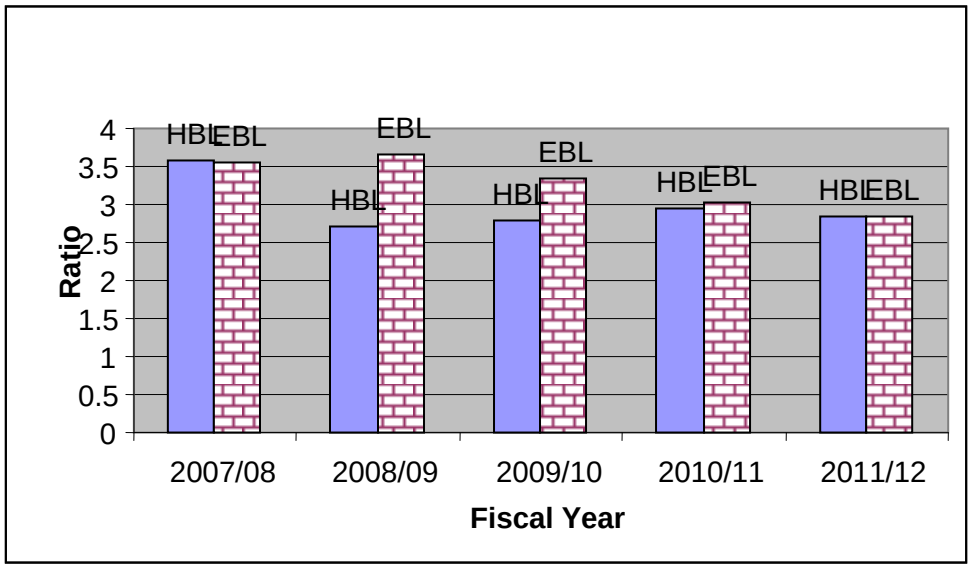
**Total Interests Earned to Total Working Fund Ratio (in %)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 3.576 | 3.559 |
| 2008/09 | 2.705 | 3.646 |
| 2009/10 | 2.784 | 3.349 |
| 2010/11 | 2.958 | 3.015 |
| 2011/12 | 2.848 | 2.855 |
| Mean | 2.974 | 3.285 |
| Standard deviation (S.D.) | 0.349 | 0.342 |
| Coefficient of variation (C.V.) % | 11.74 | 10.40 |

**Source :Annex 14A & B**

**Figure 4.14**

**Total Intrest Earned to Total Working Fund Ratio**




Above table and figure measure Return on loan and advance ratio of five consecutive years (2007\08-2011\12). The ratio has been ranged from 2.705% to 3.576% of HBL.

Table explains ratio of EBL from 2.855% to 3.646% the above table shows that the profitability ratio of both banks fluctuating trend. HBL has highest ratio is 3.576% in year 2011/12 and lowest ratio is 2.705% in year 2008/09 EBL has highest ratio is 3.646% in year 2008/09 and lowest ratio is 2.855 in year 2011/12.

The mean ratio of EBL is higher than HBL i.e. 3.285%>2.974% So, HBL is less efficiency to earn interest than HBL. Similarly, standard deviation of HBL is higher than EBL i.e. 0.349>0.342 it indicate that ratio of HBL is more fluctuate then EBL. Co-efficient of variation of HBL is higher than EBL i.e. 11.74%>10.40%. This implies that HBL ratios are less consistent than EBL. From the above figure, it can be said that EBL is strong position in the earning capacity by utilizing available resources than that of HBL.

**E. Total Interest Paid to Total Working Fund Ratio**

Interest paid to total working fund ratio is defined as the ratio of total interest paid to total working fund. This ratio is calculated to find out the proportion of interest paid against the total working fund. Higher the ratio indicate the higher expenses on total working fund and vice- versa

We have,

$$\text{Total Interests Paid to Total Working Fund Ratio} = \frac{\text{Total Intrest Paid}}{\text{Total Working Fund}}$$

**Table 4.15**

**Total Interest Paid to Total Working Fund Ratio (in %)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 1.650 | 2.105 |
| 2008/09 | 1.067 | 3.646 |
| 2009/10 | 1.081 | 3.349 |
| 2010/11 | 1.180 | 3.015 |
| 2011/12 | 1.231 | 2.855 |
| Mean | 1.242 | 2.994 |
| Standard deviation (S.D.) | 0.238 | 0.583 |
| Coefficient of variation (C.V.) % | 19.16 | 19.48 |

**Source :Annex 15 A & B**

**Figure 4.15**

**Total Intrest Paid to Total Working Fund Ratio**

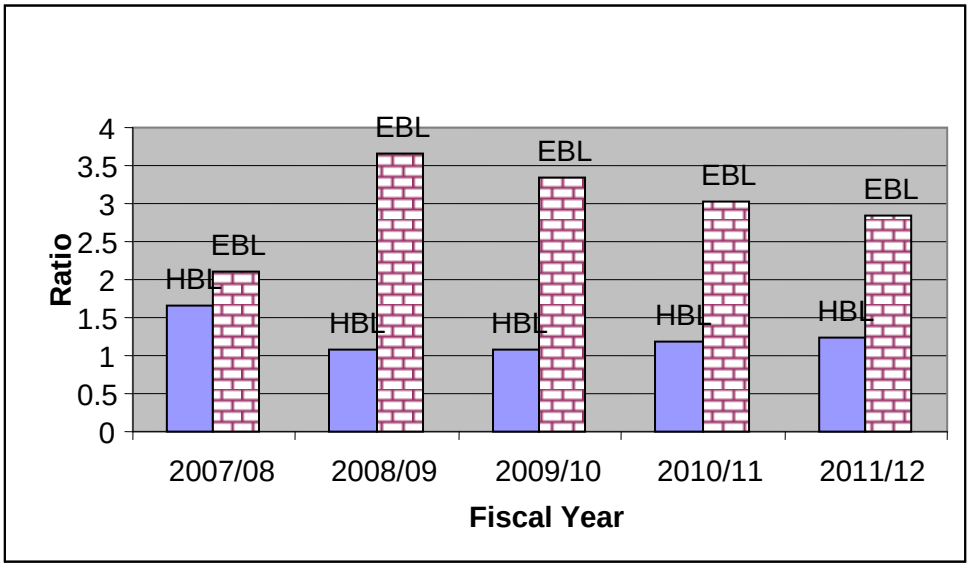



Table measures Return on loan and advance ratio of five consecutive years (2007\08-2011\12). The ratio has been ranged from 1.067% to 1.650% of HBL. Table explains ratio of EBL from 2.105% to 3.646% the above table shows that the profitability ratio of both banks fluctuating trend. HBL has highest ratio is 1.650% in year 2011/12 and lowest ratio is 1.067% in year 2008/09 EBL has highest ratio is 3.646% in year 2008/09 and lowest ratio is 2.105% in year 2011/12.

The mean ratio of EBL is higher than HBL i.e. 2.994%>1.242% So, HBL is less interest paid than HBL. Similarly, standard deviation of EBL is higher than HBL i.e. 0.583>0.238 it indicate that ratio of EBL is more fluctuate then HBL. Co-efficient of variation of EBL is higher than HBL i.e. 19.48%>19.16%. It indicates that the total interest paid of HBL is lower than EBL, and also the total interest paid to total working fund ration of HBL has more consistent than EBL

**F) Return on Equity**

This ratio measures how efficiently the banks have used the fund of owner. Higher the ratio indicate the better performance return on equity and vice- versa

We have;

$$\text{Return on Equity} = \frac{\text{Net income}}{\text{Equity}}$$

**Table 4.16**

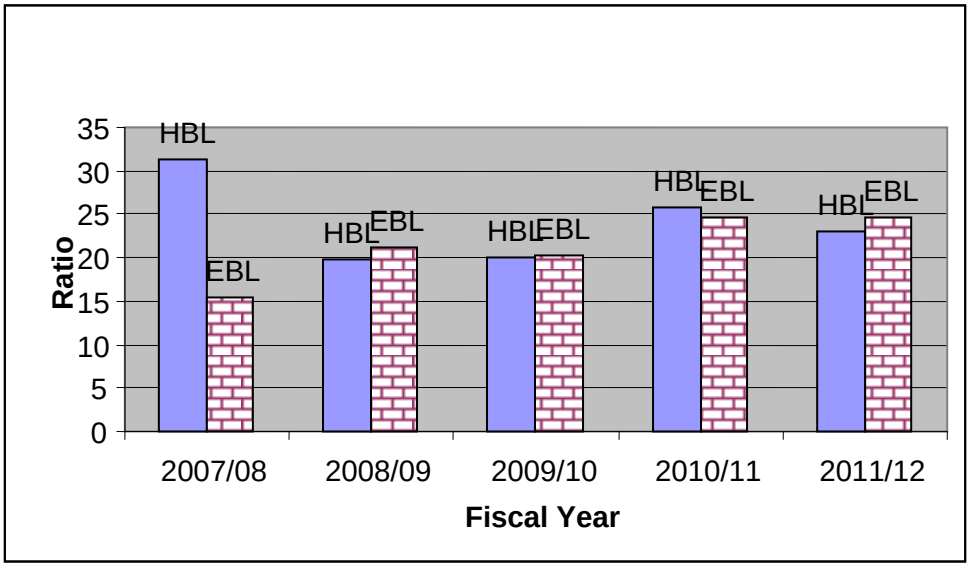
**Return on Equity Ratio (in %)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 31.269 | 15.368 |
| 2008/09 | 19.866 | 21.103 |
| 2009/10 | 19.995 | 20.203 |
| 2010/11 | 25.901 | 24.646 |
| 2011/12 | 22.913 | 24.670 |
| Mean | 23.989 | 21.198 |
| Standard deviation (S.D.) | 4.763 | 3.838 |
| Coefficient of variation (C.V.) % | 19.86 | 18.11 |

**Source :Annex 16A & B**

**Figure 4.16**

**Return on Equity Ratio**




Above table and figure measure Return on equity ratio of five consecutive years (2007\08-2011\12). The ratio has been ranged from 19.866% to 31.269% of HBL. Table explains ratio of EBL from 15.368% to 24.670% the above table shows that the profitability ratio of HBL is fluctuating trend where as EBL's ratio is increasing trend. HBL has highest ratio is 31.269% in year 2011/12 and lowest ratio is 19.866% in year

2008/09 EBL has highest ratio is 24.670% in year 2011/12 and lowest ratio is 15.368% in year 2007/08.

The mean ratio of HBL is higher than EBL i.e. 23.898%>21.198% So, EBL is less efficiency to earn net profit than HBL. Similarly, standard deviation of HBL is higher than EBL i.e. 4.763>3.383 it indicate that ratio of HBL is more fluctuate then EBL. Co-efficient of variation of HBL is higher than EBL i.e. 19.86%>18.11%. It indicates that the ratio of return of HBL less consistent than EBL. It can be said that EBL is strong position in the earning capacity for their equity holder by utilizing available resources than that of HBL.

### 4.1.4 Risk Ratios

Risk is involved in any business and risk taking occurs while undertaking business of a bank. Higher the risk, higher the return. Risk is the chance of receiving actual returns other than expected, which simply means there is variability in the returns or outcomes from the investment. Risk ratio is very important in determining the extent of risk. The possibility of risk makes bank's investment a challenging task. Bank has to take risk to get return on investment. The risk taken is compensated by the increase in profit. Bank has to take high risk if it expects high return on its investment. So, the bank opting for high profit has to accept the risk and manage it effectively. Through the following ratios, effort has been made to measure the level of risk.

#### A. Credit Risk (Loan and Advance to Total Assets) Ratio

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank by definition. It is expressed as the percentage of non-performing loan to total loan and advances of the bank due to the lack of data in the ratio measure with the help of loan and advance to total assets. The ratio of total loan and advances to total assets measures the credit risk ratio.

We have,

$$\text{Credit Risk (Loan and Advance to Total Assets) Ratio} = \frac{\text{Loan and Advance}}{\text{Total Asssets}}$$

**Table 4.17**

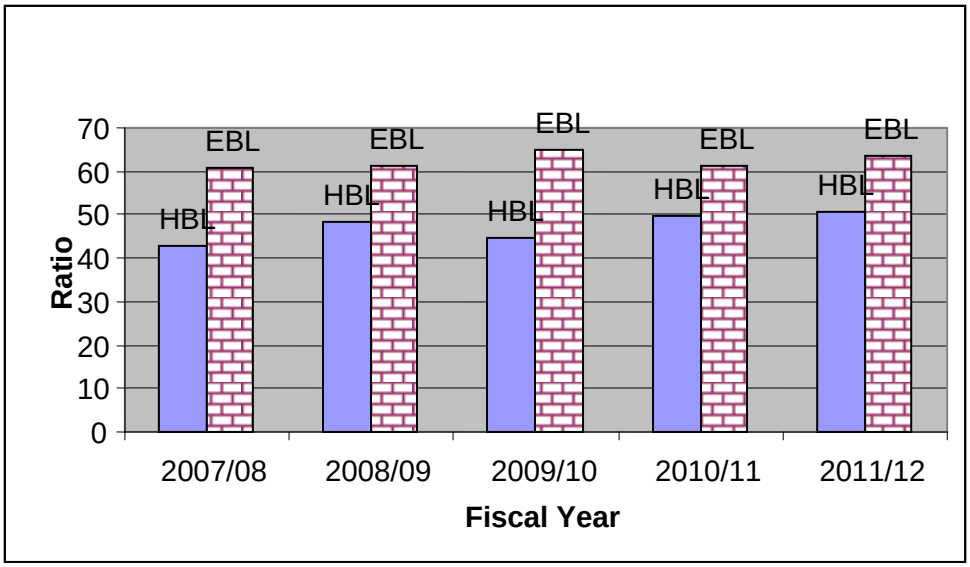
**Credit Risk (Loan and Advance to Total Assets) Ratio (in %)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 42.825 | 60.958 |
| 2008/09 | 48.159 | 61.238 |
| 2009/10 | 44.621 | 64.936 |
| 2010/11 | 49.703 | 61.414 |
| 2011/12 | 50.711 | 63.754 |
| Mean | 47.204 | 62.460 |
| Standard deviation (S.D.) | 3.378 | 1.778 |
| Coefficient of variation (C.V.) % | 7.16 | 2.85 |

**Source : Annex 17**

**Figure 4.17**

**Credit Risk Ratio**




Above table and figure measure credit risk ratio of five consecutives years (2007\08-2011\12). The ratio has been ranged from 42.825% to 50.711% of HBL. Table explains ratio of EBL from 60.958% to 64.936% the above table shows that credit risk ratio of both banks are in fluctuating trend HBL has highest ratio is 50.711% in year 2011/12 and lowest ratio is 42.825% in year 2011/12 EBL has highest ratio is 64.936% in year 2009/10 and lowest ratio is 60.958% in year 2011/12

The mean ratio of EBL is higher than HBL i.e. 62.460%>47.204% So, EBL is in high credit risk than HBL Similarly, standard deviation of HBL is higher than EBL i.e.

3.378>1.778 it indicate that ratio of HBL is more fluctuate then EBL. Co-efficient of variation of HBL is higher than EBL i.e. 7.16%>2.85%. It indicates that the ratio of credit risk of HBL less consistent than EBL. On the basis of mean we can say that credit risk of EBL is higher than the HBL. On the basis Co-efficient. and standard deviation credit risk of HBL is less consistence and more fluctuate than EBL

**B. Liquid Risk (Cash and Bank Balance to Total Deposit) Ratio**

The liquidity risk ratio of a bank defies its liquidity need for deposits. The cash and bank balance are the most liquid assets and they are considered as bank's liquidity sources and deposits as the liquidity needs. The ratio of cash and bank balance to total deposits is an indicator of bank liquidity needs. The risk is low if funds are kept idle or as cash and bank balance but this affects profitability. When bank makes loan, its profitability increases and also the risk. Thus, higher liquidity ratio indicates less risk and less profitability or vice-versa.

We have,

$$\text{Liquid Risk (Cash and Bank Balance to Total Deposit) Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

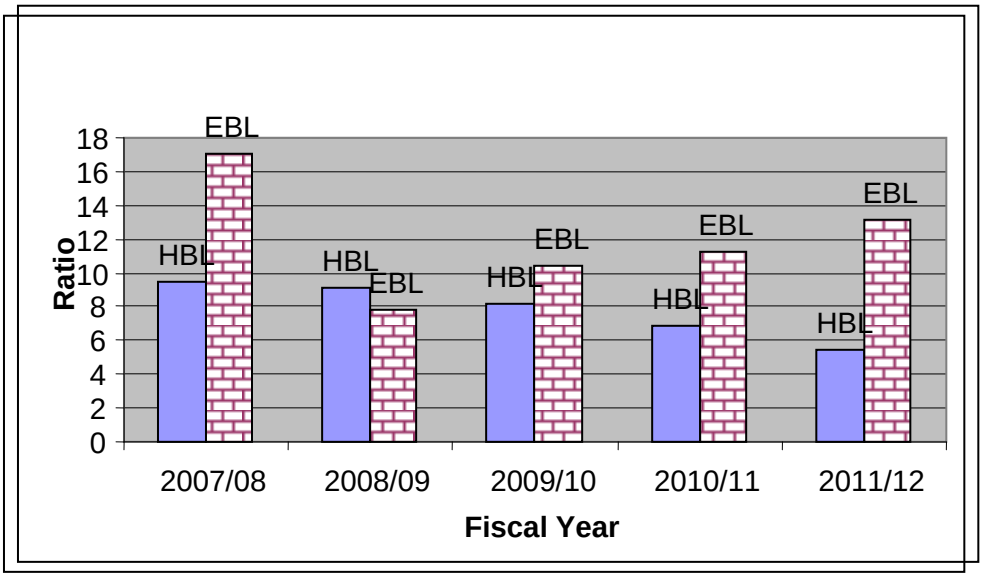
**Table 4.18**

**Liquid Risk (Cash and Bank Balance to Total Deposit) Ratio (in %)**

| Fiscal Year | **HBL** | **EBL** |
|---|---|---|
| 2007/08 | 9.421 | 17.021 |
| 2008/09 | 9.092 | 7.835 |
| 2009/10 | 8.118 | 10.398 |
| 2010/11 | 6.843 | 11.251 |
| 2011/12 | 5.484 | 13.150 |
| Mean | 7.793 | 11.931 |
| Standard deviation (S.D.) | 1.577 | 3.27 |
| Coefficient of variation (C.V.) % | 20.24 | 28.72 |

**Source :Annex 18**

**Figure 4.18**
**Liquid Risk Ratio**




Above table and figure measure Liquid risk ratio of five consecutive years (2007\08-2011\12). The ratio has been ranged from 5.484% to 9.421% of HBL. Table explains ratio of EBL from 7.835% to 17.021% the above table shows that Liquid risk ratio of EBL is in fluctuating trend whereas HBL's ratio is in decreasing trend. HBL has highest ratio is 9.421% in year 2011/12 and lowest ratio is 5.484% in year 2011/12 EBL has highest ratio is 17.021% in year 2011/12 and lowest ratio is 7.835% in year 2008/09

The mean ratio of EBL is higher than HBL i.e. 11.931%>7.793% So, EBL is in less liquid risk than HBL Similarly, standard deviation of EBL is higher than HBL i.e. 3.27>1.577 it indicate that ratio of HBL is less fluctuate then EBL. Co-efficient of variation of EBL is higher than HBL i.e. 28.72%>20.24%. It indicates that the ratio of liquid risk of HBL more consistent than EBL. On the basis of mean we can say that liquid risk of EBL is less than HBL. On the basis coefficient and standard deviation credit risk of HBL is more consistence and less fluctuate than EBL

### 4.1.5 Growth Ratio

Growth ratio is directly related to find mobilization and investment decision of the bank. The growth ratios are calculated to examine and analysis the expansion and growth of the banking business during the study period. The higher ratios represent the better performance of the bank. This ratio represents how well the commercial banks are maintaining their economic and financial position. Growth ratio can be

calculated by dividing the last period figure by the first period figure then by referring to the compound interest table the following ratios are calculated under growth ratios

**A) Growth Ratio of Total Deposit of HBL and EBL**

Growth ratios of total deposit of both banks are calculated to find out the trend of growth of the total deposits and to find better position of banks. the growth ratios are derived from the interpolation of the factor, which is calculated by dividing final year's deposit with initial deposit

**Table 4.19**

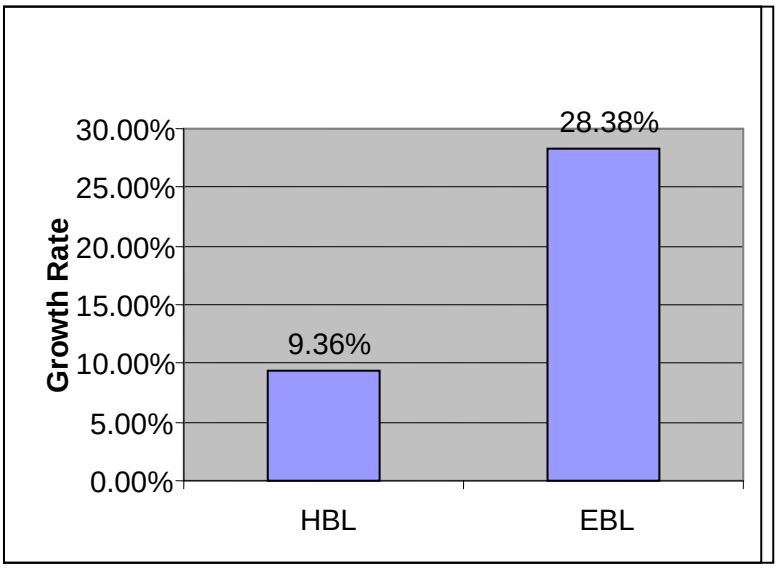
**Growth of Total Deposit**

| Total Deposit | | |
|---|---|---|
| Fiscal Year | HBL | EBL |
| 2007/08 | 21007.379 | 6694.963 |
| 2008/09 | 22010.333 | 8063.902 |
| 2009/10 | 24814.012 | 10097.691 |
| 2010/11 | 26490.852 | 13802.445 |
| 2011/12 | 30048.418 | 18186.254 |
| Growth | 9.36% | 28.38% |

**Source :Annex 19**

**Figure 4.19**

**Growth of Total Deposit**




The table shows that the growth ratio of total deposits of HBL is less than EBL. It shows that the growth rate of HBL (9.36%) is less than growth rate of EBL (28.38). Above growth rate indicate that EBL is used to increase its deposits very highly than HBL.

**B) Growth Ratio of Loan and Advance**

Growth ratio of total loan and advance of both banks are calculated to find out the trend of growth of total loan and advances and to detect better position of banks. The growth ratio are derived from the interpolation of the factor, which is calculated by dividing final loan and advance with initial loan and advance

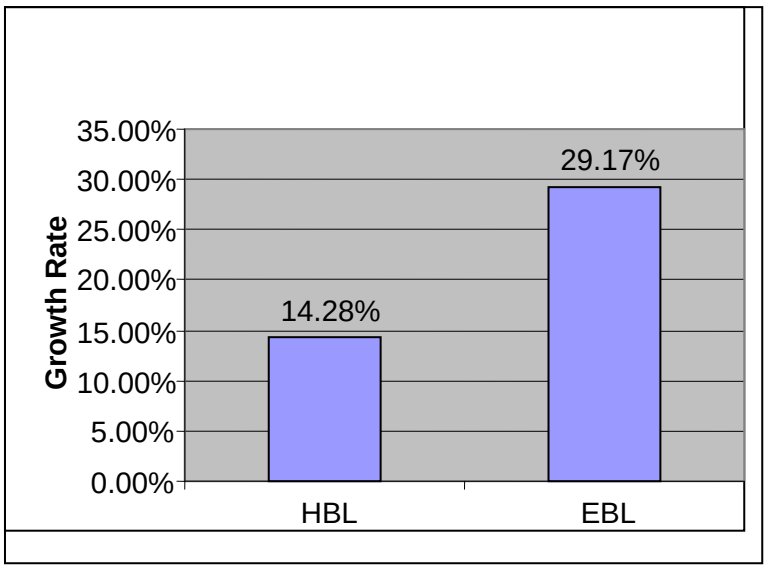
**Table 4.20**

**Growth of Loan and Advance**

| Loan and Advance | | |
|---|---|---|
| Fiscal Year | HBL | EBL |
| 2007/08 | 10001.848 | 4908.461 |
| 2008/09 | 11951.869 | 5884.113 |
| 2009/10 | 12424.521 | 7618.671 |
| 2010/11 | 14642.560 | 9801.308 |
| 2011/12 | 16997.997 | 13664.082 |
| Growth | 14.28% | 29.17% |

**Source :Annex 20 A & B**

**Figure 4.20**
**Growth of Loan and Advance**




The table and figure show that the growth of total loan and advance of HBL is less than EBL. It shows that the growth rate of HBL (14.28%) is less than growth rate of EBL (29.17). Above growth rate indicate that EBL is used to increase its loan and advance very highly than HBL

### C) Growth Ratio of Net Income

The growth on Net Profit shows the overall performance of the bank its shows that how efficiently banks use all its available resources in to income generating sector. Better the growth rate batter the performance and vice-versa

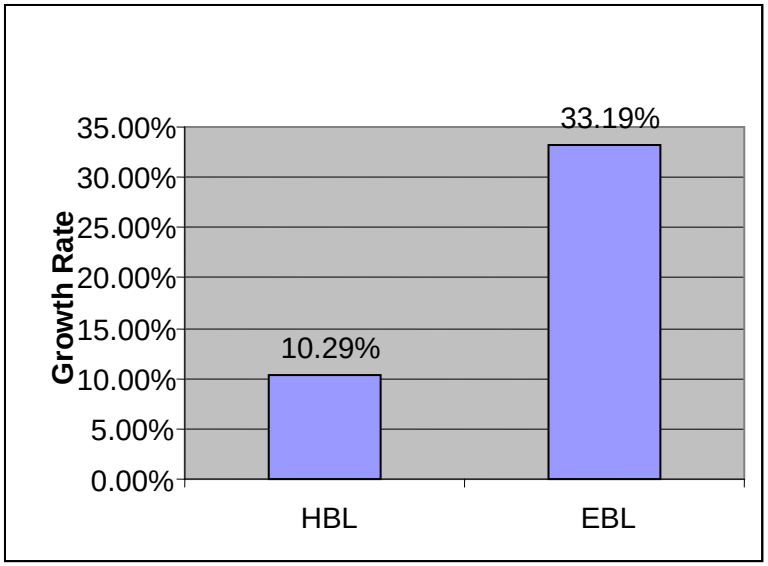
**Table 4.21**
**Growth Ratio of Net Income**

| Net income | | |
|---|---|---|
| Fiscal Year | HBL | EBL |
| 2007/08 | 332.429 | 94.180 |
| 2008/09 | 263.053 | 143.567 |
| 2009/10 | 308.275 | 168.215 |
| 2010/11 | 457.458 | 237.291 |
| 2011/12 | 491.823 | 296.409 |
| Growth | 10.29% | 33.19% |

**Source :Annex 21**

**Figure 4.21**

**Growth of Net Income**




The table and figure show that the growth of net income of HBL is less than EBL. It shows that the growth rate of HBL (10.29%) is less than growth rate of EBL (33.19). Above growth rate indicate that EBL is used to increase its net income very highly than HBL. It shows that EBL efficiently use all its available resource in profitable sector than HBL

### D. Growth Ratio of Total Investment

Growth ratio of total investment of both bank's are calculated to find out the trend of growth of total investment and to detect better position of banks. The growth ratio is derived from interpolation of the factor, which is calculated by dividing final investment with initial investment.

**Table 4.22**

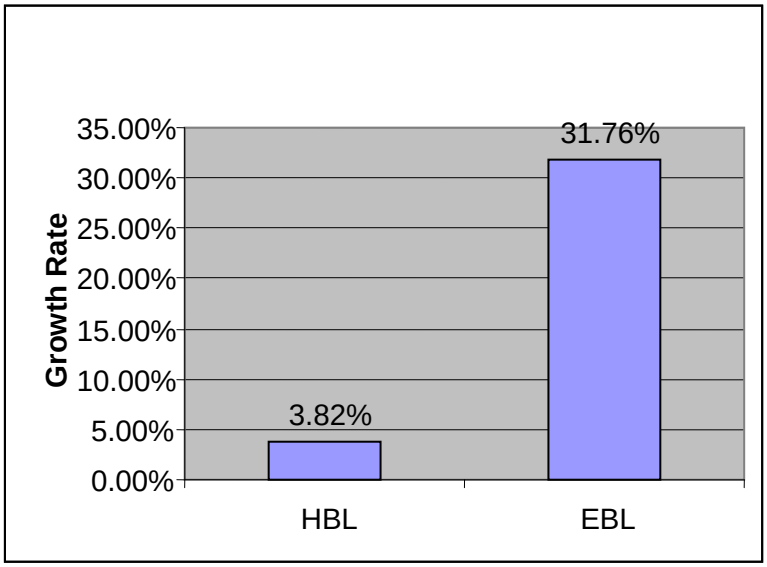
**Growth Ratio of Total Investment**

| Total investment | | |
|---|---|---|
| Fiscal Year | HBL | EBL |
| 2007/08 | 10175.435 | 1653.977 |
| 2008/09 | 9292.103 | 2535.658 |
| 2009/10 | 11692.342 | 2128.932 |
| 2010/11 | 10889.031 | 4200.515 |
| 2011/12 | 11822.985 | 4984.315 |
| Growth | 3.82% | 31.76% |

**Source :Annex 22**

**Figure 4.22**

**Growth of Total Investment**




Above table and figure show that the growth rate of total investment of HBL is less than EBL. It shows that the growth rate of HBL (10.29%) is less than growth rate of EBL (33.19). Above growth rate indicate that EBL increase its total investment very highly than HBL. On the basis of growth rate HBL is very poor condition than EBL. EBL grab very high growth rate where as HBL grab very low growth rate

## 4.2 Statistical Analysis

Under this chapter, some statistical tools such as trend analysis of deposit, loan and Advances, Investment and net profit, coefficient of correlation analysis between different variables and test of hypothesis are used to achieve the objective of the study.

### 4.2.1 Trend Analysis

The main objective of this analysis is to analyze the trend of deposit, loans and advance, investment and net income of HBL and EBL under five years of study period. Under this section we calculate the trend values of HBL and EBL by using previous five years data (2011/12-2011/12) and forecast for next five years (2008/09-2012/13)

The following four variables are considered for the analysis of trend.

- Trend Analysis of Total Deposit
- Trend Analysis of Loan and Advances
- Trend Analysis of Total Investment
- Trend Analysis of Net Profit

### A. Trend Analysis of Total Deposit

The trend analysis of total deposit of HBL and EB under five years study period and projection of trend for the next five years is calculated. The following table describes the trend value of total deposit of the HBL and EBL for five years.

**Table 4.23**

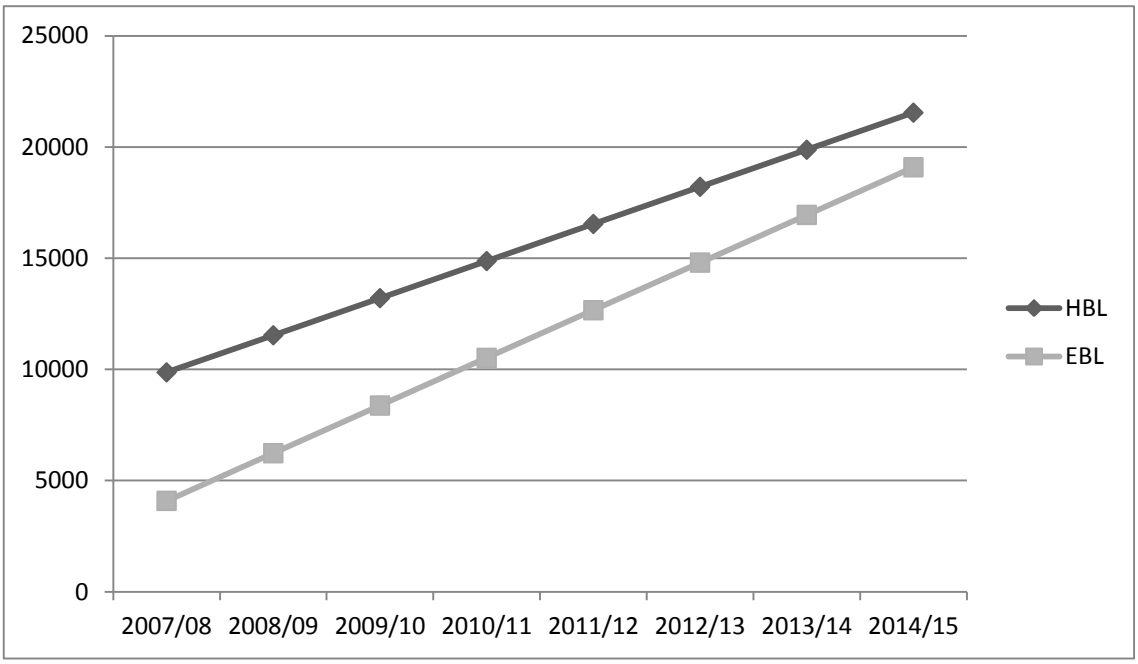
**Trend Value of Deposit of HBL and EBL**

| Fiscal Year | HBL | EBL |
|---|---|---|
| 2007/08 | 20361.68 | 5624.83 |
| 2008/09 | 22617.94 | 8496.94 |
| 2009/10 | 24874.20 | 11369.05 |
| 2010/11 | 27130.46 | 14241.16 |
| 2011/12 | 29386.72 | 17113.27 |
| 2012/13 | 31642.98 | 19985.39 |
| 2013/14 | 33899.24 | 22857.50 |
| 2014/15 | 36155.50 | 25729.61 |

**Source: Annex 23**

**Figure: 4.23**

**Trend Value of Deposit of HBL and EBL**




The above table and figure show that the trend value of total deposit of HBL and EBL is in increasing trend if all other thing remains constant. HBL has the highest trend value of 40668.02 in the year 2012/13 and EBL has the highest trend value of 31473.83 in the year 2012/13. The increasing trend of total deposits of both banks shows the good performance of the banks but trend value of total deposit of the HBL is higher than EBL

### B. Trend Value of Loan and Advance

The trend analysis of Loan and advance of HBL and EBL under five years study period and projection of trend for the next five years is calculated. The following table describes the trend value of loan and advance of the HBL and EBL for five years.

**Table 4.24**

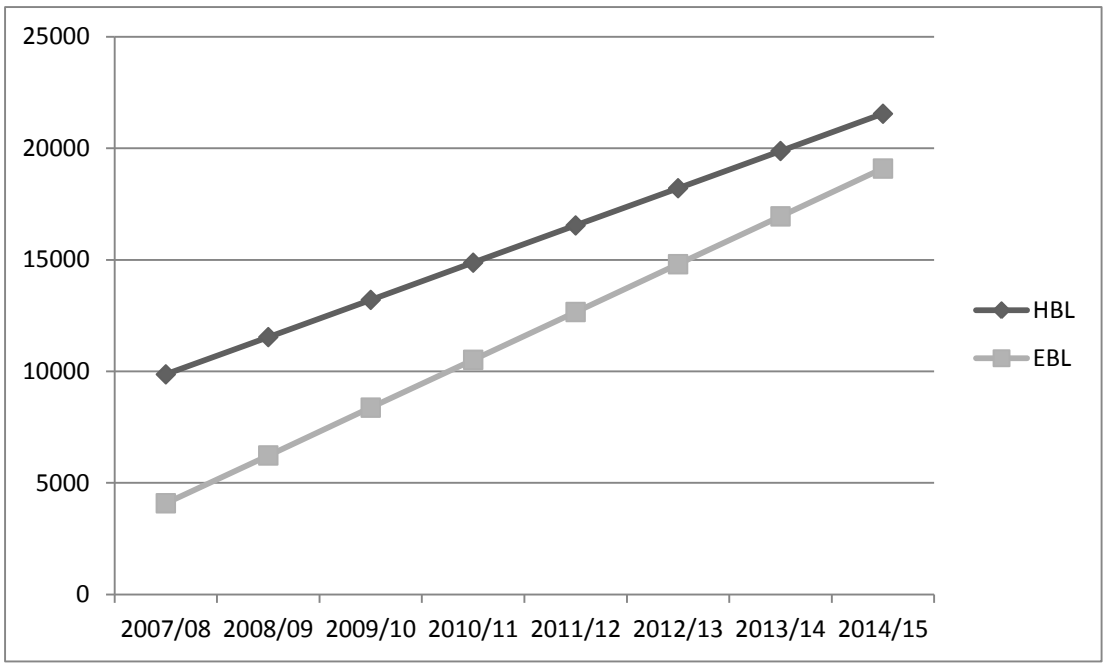
**Trend Value of Loan and Advance of HBL and EBL**

| Fiscal Year | HBL | EBL |
|---|---|---|
| 2007/08 | 9867.16 | 4089.638 |
| 2008/09 | 11535.459 | 6232.482 |
| 2009/10 | 13203.758 | 8375.326 |
| 2010/11 | 14872.057 | 10518.17 |
| 2011/12 | 16540.356 | 12661.014 |
| 2012/13 | 18208.655 | 14803.858 |
| 2013/14 | 19876.954 | 16946.702 |
| 2014/15 | 21545.253 | 19089.546 |

**Source :Annex 24**

**Figure 4.24**

**Trend Value of Loan and Advance**




The above table and figure show that the trend value of loan and advance of HBL and EBL is in increasing trend if all other thing remains constant. HBL has the highest trend value of 24881.851 in the year 2012/13 and EBL has the highest trend value of 23375.234 in the year 20012/13. The increasing trend of total deposits of both banks

shows the good performance of the banks but trend value of loan and advance of the HBL is higher than EBL

### C. Trend Value of Total Investment

The trend analysis of Total investment of HBL and EBL under five years study period and projection of trend for the next five years is calculated. The following table describes the trend value of total investment of the HBL and EBL for five years.

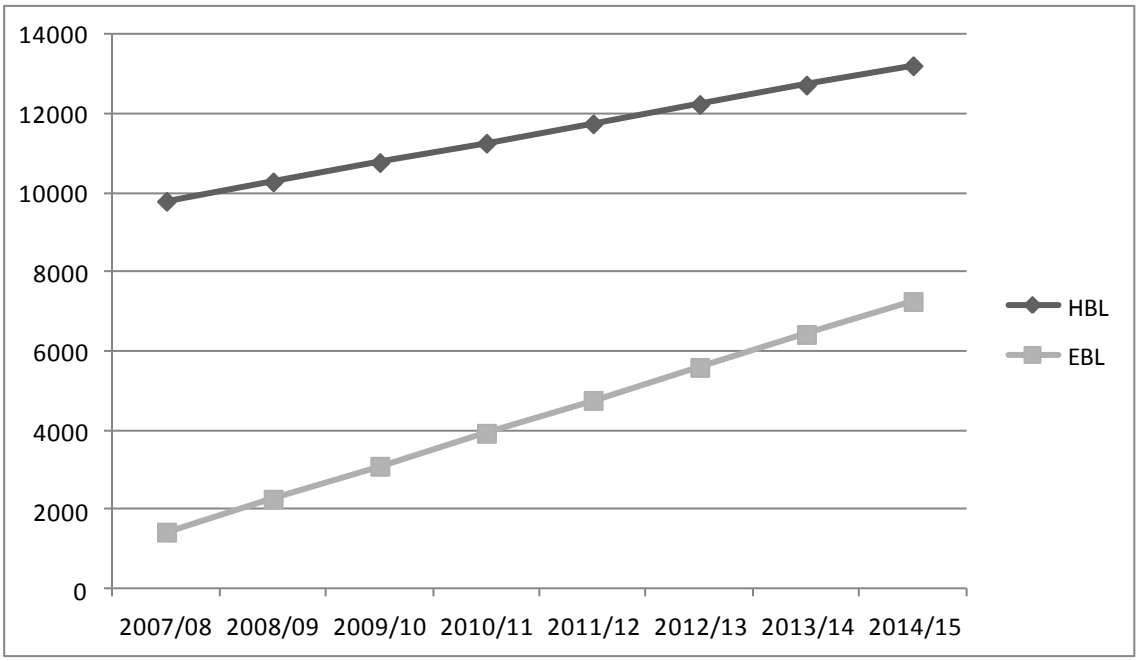
**Table 4.25**

**Trend Value of Total Investment of HBL and EBL**

| Fiscal Year | HBL | EBL |
|---|---|---|
| 2007/08 | 9795.97 | 1435.57 |
| 2008/09 | 10285.18 | 2268.13 |
| 2009/10 | 10774.38 | 3100.68 |
| 2010/11 | 11263.58 | 3933.23 |
| 2011/12 | 11752.79 | 4765.79 |
| 2012/13 | 12241.99 | 5598.34 |
| 2013/14 | 12731.19 | 6430.89 |
| 2014/15 | 13220.40 | 7263.45 |

**Figure 4.25**

**Trend value of Total Investment**




The above table and figure show that the trend value of total investment of HBL and EBL is in increasing trend if all other thing remains constant. HBL has the highest trend value of 14198.80 in the year 2012/13 and EBL has the highest trend value of 8928.55 in the year 20012/13. The increasing trend of total deposits of both banks shows the good performance of the banks but trend value of loan and advance of the HBL is higher than EBL

### D. Trend Value of Net Income

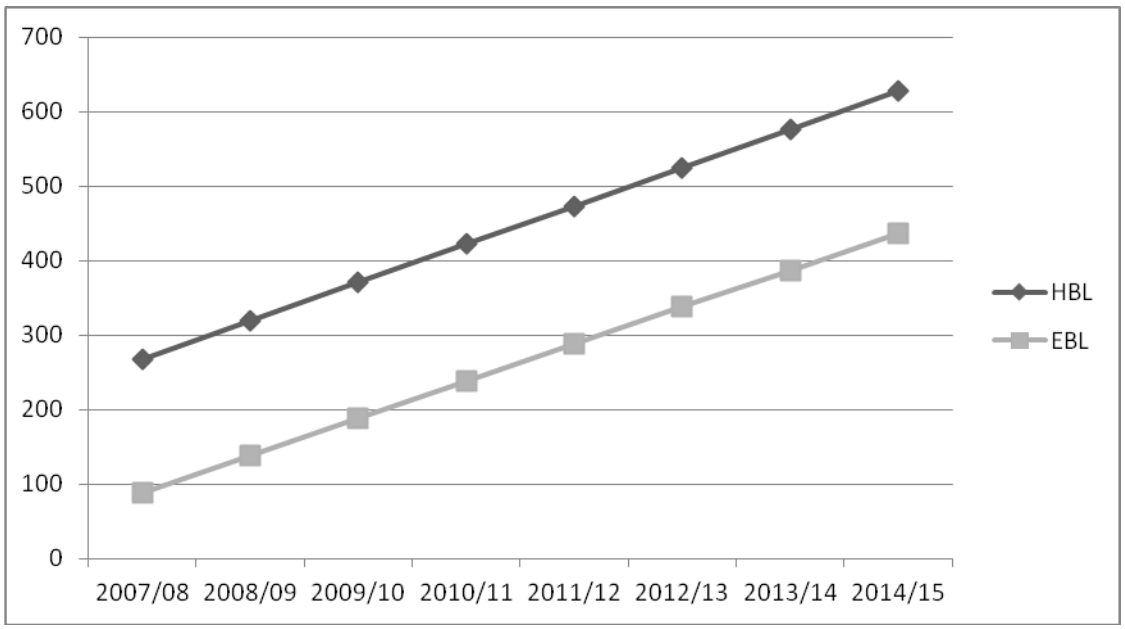
The trend analysis of net income of HBL and EBL under five years study period and projection of trend for the next five years is calculated. The following table describes the trend value of net income of the HBL and EBL for five years

**Table4.26**
**Net Income of HBL and EBL (Rs. 000)**

| Fiscal Year | HBL | EBL |
|---|---|---|
| 2007/08 | 267.97 | 88.30 |
| 2008/09 | 319.29 | 138.11 |
| 2009/10 | 370.61 | 187.93 |
| 2010/11 | 421.93 | 237.75 |
| 2011/12 | 473.25 | 287.57 |
| 2012/13 | 524.57 | 337.39 |
| 2013/14 | 575.88 | 387.20 |
| 2014/15 | 627.20 | 437.02 |

**Figure 4.26**

**Trend Value of Net Income**




The above table and figure show that the trend value of net income of HBL and EBL is in increasing trend if all other thing remains constant. HBL has the highest trend value of 729.84 in the year 2012/13 and EBL has the highest trend value of 536.66 in the year 2012/13. The increasing trend of total deposits of both banks shows the good performance of the banks but trend value of loan and advance of the HBL is higher than EBL

### 4.2.2 Coefficient of Correlation Analysis

Coefficient of Correlation is the measure of correlation between two variables that summarizes correlation in one figure. If the change in the value of are variable is accompanies by the charge in the value of the other, the variables are said to be correlated. Analysis of correlation coefficient explains to what extent two variables are correlated. In this analysis Karl Pearson's Correlation Coefficient has been used to find out the relationship between variables. Correlation analysis describes the relationship between variables i.e. positive or negative. It helps to determine the following.

- A positive or negative relationship exists.
- The relationship is significant or insignificant.
- Establish cause and effect relation if any.

### A. Relationship Between Total Deposit and Loan and Advance of HBL and EBL

Coefficient of correlation between total deposit and loan and advance measure the relationship between total deposit and loan and advance. The main objectives of the calculation are to judge weather deposits are significantly used on loan and advance or not. Table shows correlation (r), coefficient of determination ($r^2$), probable error (P.Er) and 6 P.Er. of 2011/12 to 2011/12

**Table 4.27**

**Relationship Between Total Deposit and Loan and Advance of HBL and EBL**

| Evaluation Criterion | R | $r^2$ | P. Er. | 6×P.Er. | Relation |
|---|---|---|---|---|---|
| HBL | 0.975 | 0.9506 | 0.022 | 0.132 | Significance |
| EBL | 0.998 | 0.9960 | 0.001 | 0.006 | Significance |

Above table shows the Correlation Coefficient between deposit and loans and advances of HBL and EBL is 0.975 and 0.998 respectively for the study period of 2011/12 to 2011/12 which shows that EBL used its deposit on loan advance more than HBL. Total deposits are independent variable where as loan and advance is dependent variable. There is high degree of positive relationship between deposit and loans and

advances of both banks. coefficient of determination '$r^2$'of HBL and EBL 0.9506 and 0.996 respectively indicate that 95.06% of the dependent variable variation by independent variable of HBL and 99.60% of the dependent variable variation by independent variable of EBL rest from other thing. The value of 'r' is greater than '6 P.Er.' of both banks this shows that there is significance relationship between these variable of both banks.

### B. Relationship Between Total Deposit and Total Investment of HBL and EBL

Coefficient of correlation between total deposit and total investment measure the relationship between total deposit and total investment. The main objectives of the calculation are to judge whether deposits are significantly used on total investment or not. Table shows correlation (r), coefficient of determination ($r^2$), probable error (P.Er) and 6 P.Er. of 2011/12 to 2011/12

**Table 4.28**

**Relationship Between Total Deposit and Total Investment of HBL and EBL**

| Evaluation Criterion | R | $r^2$ | P.Er. | 6×P.Er. | Relation |
|---|---|---|---|---|---|
| HBL | 0.787 | 0.6194 | 0.115 | 0.690 | Significance |
| EBL | 0.957 | 0.9158 | 0.025 | 0.150 | Significance |

Above table shows the Correlation Coefficient between deposit and total investment of HBL and EBL is 0.787 and 0.957 respectively for the study period of 2011/12 to 2011/12 which shows that EBL used its deposit on total investment more than HBL. Total deposits are independent variable where as total investment is dependent variable. There is high degree of positive relationship between deposit and total investment of both banks. coefficient of determination '$r^2$' of HBL and EBL 0.6194 and 0.9158 respectively indicate that 61.94% of the dependent variable variation by independent variable of HBL and 91.58% of the dependent variable variation by independent variable of EBL rest from other thing. The value of 'r' is greater than '6 P.Er.' of both banks this shows that there is significance relationship between these variable.

### C. Relationship Between Total Deposit and Net Income of HBL and EBL

Coefficient of correlation between total deposit and net income measure the relationship between total deposit and net income. The main objectives of the calculation are to judge whether deposits are significantly used on income generating activity or not. Table shows correlation (r), coefficient of determination ($r^2$), probable error (P.Er) and 6 P.Er. of 2007/08 to 2011/12

**Table 4.29**

**Relationship Between Total Deposit and Net Income of HBL and EBL**

| Evaluation Criterion | R | $r^2$ | P.Er. | 6×P.Er. | Relation |
|---|---|---|---|---|---|
| HBL | 0.856 | 0.7327 | 0.081 | 0.4860 | Significance |
| EBL | 0.991 | 0.9821 | 0.005 | 0.003 | Significance |

Above table shows the Correlation Coefficient between deposit and net income of HBL and EBL is 0.856 and 0.991 respectively for the study period of 2011/12 to 2011/12 which shows that EBL used its deposit on income generating activity more than HBL. Total deposits are independent variable where as net income is dependent variable. There is high degree of positive relationship between deposit and net income of both banks. coefficient of determination '$r^2$' of HBL and EBL 0.7327 and 09821 respectively indicate that 73.27% of the dependent variable variation by independent variable of HBL and 98.21% of the dependent variable variation by independent variable of EBL rest from other thing. The value of 'r' is greater than '6 P.Er.' of both banks this shows that there is significance relationship between these variable.

### D. Relationship Between Out Side Assets and Net Income of HBL and EBL

Coefficient of correlation between outside assets and net income measure the relationship between outside assets and net income. The main objectives of the calculation are to judge whether outside assets are significantly used on income generating activity or not. Table shows correlation (r), coefficient of determination ($r^2$), probable error (P.Er) and 6 P.Er. of 2007/08 to 2011/12

**Table 4.30**

**Relationship Between Out Side Assets and Net Income of HBL and EBL**

| Evaluation Criterion | R | $r^2$ | P.Er. | 6×P.Er. | Relation |
|---|---|---|---|---|---|
| HBL | 0.544 | 0.2959 | 0.212 | 1.272 | Insignificance |
| EBL | 0.992 | 0.9841 | 0.005 | 0.003 | Significance |

The above table shows the Correlation Coefficient between outside assets and net income of HBL and EBL is 0.544 and 0.992 respectively for the study period of 2011/12 to 2011/12 which shows that EBL used its outside assets on income generating activity more than HBL. Outside assets are independent variable where as net income is dependent variable. There is high degree of positive relationship between outside assets and net income of EBL and moderate relationship of HBL coefficient of determination '$r^2$' of HBL and EBL 0.2959 and 09841 respectively indicate that 29.59% of the dependent variable variation by independent variable of HBL and 98.41% of the dependent variable variation by independent variable of EBL rest from other thing. The value of 'r' is greater than '6 P.Er.' of EBL this shows that there is significance relationship between these variable. The value of 'r' is less than '6 P.Er.' of HBL this shows that there is no significance relationship between these variables

## 4.3 Major Findings of the Study

From the analysis of data following finding can be drawn.

1. The mean ratio (Current ratio) of HBL is 1.02 and 1.05 of EBL, if we measure the performance of these banks based in this mean, the performance of HBL is weak and the EBL has maintained batter than HBL but not a good.
2. EBL maintain more cash and bank balance to current assets ratio than HBL.HBL maintain the highest ratio 8.87 in the 2011/12 in the same year EBL also maintain the highest ratio (14.80). Coefficient of variance of HBL (20.43%) is less than EBL's (26.46%) which shows that HBL's ratio is more consistency than EBL's.
3. Cash and Bank Balance to total deposit Ratio of HBL is seen consistency than EBL's. It indicates that HBL maintain lower liquidity position than EBL.

4. EBL has invested its more proportion of current assets in government securities than that of HBL. Investment in government securities to current assets ratio of EBL is higher than the HBL. Which indicate that the better short liquidity position of EBL
5. Coefficient of variance of HBL (6.85%) is more than EBL's (2.56%) which shows that EBL's ratio is more consistency than HBL's. it indicate that EBL maintain lower liquidity position than HBL in the view of Loan and advance to current assets ratio.
6. HBL mobilize lower level of its total deposit as loan and advance in comparison to EBL and EBL's Loan and advance to total deposit ratio is more consistency than HBL's.
7. Total investment to total deposit ratio of the EBL is more fluctuate than HBL's ratio. Coefficient of variance of HBL (9.02) is less than EBL's (15.70) which shows that HBL's ratio are more consistency than EBL's
8. The mean ratio (Loan and advance to total working fund ratio) of HBL is 26.706 and 33.699 of EBL, the performance of HBL is weak than EBL. HBL's standard deviation (2.130) is more than EBL's (1.161) which shows ratio of the HBL is more fluctuate than EBL's ratio. Coefficient of variance of HBL (7.98) is more than EBL's (3.45) which shows that EBL's ratio are more consistency than EBL's.
9. The mean ratio (Investment on government securities to total working fund ratio) of HBL is 9.079 and 16.522 of EBL, the performance of HBL is weak than EBL. HBL's standard deviation (1.443) is less then EBL's (7.690) which shows that ratio of the EBL is more fluctuate then HBL's ratio. Coefficient of variance of HBL (15.90) is more than EBL's (46.54) which shows that HBL's ratio are more consistency than HBL's.
10. The mean ratio (investment on government securities to total working fund ) of HBL is 0.091 and 0.083 of EBL, if we measure the performance of these banks based in this mean, the performance of EBL is weak than HBL. HBL's standard deviation (0.016) is less then EBL's (.0274) which shows that Investment on share and debenture to total working fund ratio of the EBL is more fluctuate then HBL's ratio. Coefficient of variance of HBL (17.58) is less than EBL's (33.01) which shows that HBL is more consistency than EBL. It means HBL consistently invest its working fund in share and debenture than EBL

11. The mean ratio (investment on share and debenture to total working fund) of EBL is lower than HBL i.e. 0.755%>0.751% So, EBL is less efficiency to earn net profit than HBL. Similarly, co-efficient of variation of HBL is higher than EBL i.e. 23.13%>8.42%. This implies that HBL ratios are less consistent than EBL. From the above figure, it can be said that HBL is strong position in the earning capacity by utilizing available resources than that of EBL. EBL must have to make effort to earn high profit by mobilizing its working assets more efficiently
12. The mean ratio (Total interest earned to total outside assets ratio) of EBL is lower than HBL i.e. 6.161%>6.137% So, EBL is less efficiency to earn interest than HBL. Similarly, standard deviation of HBL is higher than EBL it indicate that ratio of HBL is more fluctuate then EBL. Co-efficient of variation of HBL is higher than EBL i.e. 35.01%>11.29%. This implies that HBL ratios are less consistent than EBL. From the above figure, it can be said that HBL is strong position in the earning capacity by utilizing available resources than that of EBL. EBL must have to make effort to earn high profit by mobilizing its working assets more efficiently
13. The mean ratio (Return on loan and advance ratio) of EBL is lower than HBL i.e. 2.231%<2.805% So, EBL is less efficiency to earn net profit than HBL. Similarly, standard deviation of HBL is higher than EBL i.e. 0.460>0.213 it indicate that ratio of HBL is more fluctuate then EBL. Co-efficient of variation of HBL is higher than EBL i.e. 16.41%>9.56%. This implies that HBL ratios are less consistent than EBL. From the above figure, it can be said that HBL is strong position in the earning capacity by utilizing available resources than that of EBL. EBL must have to make effort to earn high profit by mobilizing its working assets more efficiently.
14. On the basis of total interest earned to total working fund ratio EBL is strong position in the earning capacity by utilizing available resources than that of HBL.
15. The mean ratio (total interest earned to total working fund) of EBL is higher than HBL i.e. 2.994%>1.242% So, HBL is less interest paid than HBL. Similarly, standard deviation of EBL is higher than HBL i.e. 0.583>0.238 it indicate that ratio of EBL is more fluctuate then HBL. Co-efficient of variation of EBL is higher than HBL i.e. 19.48%>19.16%. It indicates that the total interest paid of HBL is lower than EBL, and also the total interest paid to total working fund ration of HBL has more consistent than EBL

16. The mean ratio (total interest paid to working fund) of HBL is higher than EBL i.e. 23.898%>21.198% So, EBL is less efficiency to earn net profit than HBL. Similarly, standard deviation of HBL is higher than EBL i.e. 4.763>3.383 it indicate that ratio of HBL is more fluctuate then HBL. Co-efficient of variation of HBL is higher than EBL i.e. 19.86%>18.11%. It indicates that the ratio of return of HBL less consistent than EBL. It can be said that EBL is strong position in the earning capacity for their equity holder by utilizing available resources than that of HBL.

17. The ratio of credit risk of HBL less consistent than EBL. On the basis of mean we can say that credit risk of EBL is higher than the HBL. On the basis Co-efficient. and standard deviation credit risk of HBL is less consistence and more fluctuate than EBL

18. The mean liquid risk ratio of EBL is higher than HBL i.e. 11.931%>7.793% So, EBL is in less liquid risk than HBL Similarly, standard deviation of EBL is higher than HBL i.e. 3.27>1.577 it indicate that ratio of HBL is less fluctuate then EBL. Co-efficient of variation of EBL is higher than HBL i.e. 28.72%>20.24%. It indicates that the ratio of liquid risk of HBL more consistent than EBL. On the basis of mean we can say that liquid risk of EBL is less than HBL. On the basis Co-efficient. and standard deviation credit risk of HBL is more consistence and less fluctuate than EBL

19. Growth ratio of total deposits of HBL is less than EBL. It shows that the growth rate of HBL (9.36%) is less than growth rate of EBL (28.38). Above growth rate indicate that EBL is used to increase its deposits very highly than HBL

20. Growth of total loan and advance of HBL is less than EBL. It shows that the growth rate of HBL (14.28%) is less than growth rate of EBL (29.17). Above growth rate indicate that EBL is used to increase its loan and advance very highly than HBL

21. Growth rate of net income of HBL (10.29%) is less than growth rate of EBL (33.19). Above growth rate indicate that EBL is used to increase its net income very highly than HBL. It shows that EBL efficiently use all its available resource in profitable sector than HBL

22. The growth rate of total investment of HBL is less than EBL. that is growth rate of HBL (10.29%) is less than growth rate of EBL (33.19). Above growth rate indicate that EBL increase its total investment very highly than HBL.

23. On the basis of growth rate HBL is very poor condition than EBL. EBL grab very high growth rate where as HBL grab very low growth rate

24. HBL has the highest trend value of total deposit 40668.02 in the year 2016/17 and EBL has the highest trend value 31473.83 in the year 20016/17. The increasing trend of total deposits of both banks shows the good performance of the banks but trend value of HBL is higher than EBL

25. HBL has the highest trend value of loan and advance 24881.851 in the year 2016/17 and EBL has the highest trend value 23375.234 in the year 2016/17. The increasing trend of total deposits of both banks shows the good performance of the banks but trend value of loan and advance of HBL is higher than EBL

26. HBL has the highest trend value of total investment 14198.80 in the year 2012/13 and EBL has the highest trend value of 8928.55 in the year 2016/17. The increasing trend of total deposits of both banks shows the good performance of the banks but trend value of total investment of HBL is higher than EBL

27. HBL has the highest trend value of net income 729.84 in the year 2012/13 and EBL has the highest trend value of 536.66 in the year 2016/13. The increasing trend of total deposits of both banks shows the good performance of the banks but trend value of net income of HBL is higher than EBL

28. Correlation Coefficient between deposit and loans and advances of HBL and EBL is 0.975 and 0.998 respectively for the study period of 2007/08 to 2011/12 which shows that EBL used its deposit on loan advance more than HBL. Total deposits are independent variable where as loan and advance is dependent variable. There is high degree of positive relationship between deposit and loans and advances of both banks. coefficient of determination '$r^2$'of HBL and EBL 0.9506 and 0.996 respectively indicate that 95.06% of the dependent variable variation by independent variable of HBL and 99.60% of the dependent variable variation by independent variable of EBL rest from other thing. The value of 'r' is greater than '6 P.Er.' of both banks this shows that there is significance relationship between these variable of both banks.

29. Correlation Coefficient between deposit and total investment of HBL and EBL is 0.787 and 0.957 respectively for the study period of 2007/08 to 2011/12 which shows that EBL used its deposit on total investment more than HBL. Total deposits are independent variable where as total investment is dependent variable. There is high degree of positive relationship between deposit and

total investment of both banks. coefficient of determination '$r^2$' of HBL and EBL 0.6194 and 0.9158 respectively indicate that 61.94% of the dependent variable variation by independent variable of HBL and 91.58% of the dependent variable variation by independent variable of EBL rest from other thing. The value of 'r' is greater than '6 P.Er.' of both banks this shows that there is significance relationship between these variable

30. Correlation Coefficient between deposit and net income of HBL and EBL is 0.856 and 0.991 respectively for the study period of 2007/08 to 2011/12 which shows that EBL used its deposit on income generating activity more than HBL. Total deposits are independent variable where as net income is dependent variable. There is high degree of positive relationship between deposit and net income of both banks. coefficient of determination '$r^2$' of HBL and EBL 0.7327 and 09821 respectively indicate that 73.27% of the dependent variable variation by independent variable of HBL and 98.21% of the dependent variable variation by independent variable of EBL rest from other thing. The value of 'r' is greater than '6 P.Er.' of both banks this shows that there is significance relationship between these variable.

31. Correlation Coefficient between outside assets and net income of HBL and EBL is 0.544 and 0.992 respectively for the study period of 2007/08 to 2011/12 which shows that EBL used its outside assets on income generating activity more than HBL. Outside assets are independent variable where as net income is dependent variable. There is high degree of positive relationship between outside assets and net income of EBL and moderate relationship of HBL coefficient of determination '$r^2$' of HBL and EBL 0.2959 and 09841 respectively indicate that 29.59% of the dependent variable variation by independent variable of HBL and 98.41% of the dependent variable variation by independent variable of EBL rest from other thing. The value of 'r' is greater than '6 P.Er.' of EBL this shows that there is significance relationship between these variable. The value of 'r' is less than '6 P.Er.' of HBL this shows that there is no significance relationship between these variables.

# CHAPTER-V

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter highlights some selected actionable conclusions and recommendation on the basis of the major findings of the study derived from the comparative analysis of HBL and EBL. The study has covered 5 years data from the year 2007/08 to 2011/12. The major findings of the study based on financial and statistical analysis listed in chapter-4, of this report in order to carry out this study mainly secondary data are used. The analysis of the data is carried out with the help of various financial and statistical tools. The findings of the study are summarized and conclusion and some recommendation drawn as below:

## 5.1 Summary

Overall development of the country depends upon economic development of a country. Therefore every country has given emphasis in development of its economy. Commercial banks are the main financial institution, which collect scattered resources as deposit from the general public and mobilize that fund among those who are associated with the economic, commercial and social activities of a country as loan and advances and investment. A sound investment policy of a commercial bank plays a vital role for mobilization of fund and development of country. Investment grandly depends on the saving behaviors of that country. The amount of saving of a typical household in Nepal is small because of the people have limited opportunities for investment. They prefer to spend savings on commodities rather than on financial assets. This restricts the process of financial intermediation, which might otherwise bring benefit such as reduction of investment risk and increase in liquidity. Investments depend on development of the capital market also. It provides and allocates funds to firms with profitable investment opportunities and offers and avenue of liquidity for individuals to invest current income or borrow against future income.

Investments in its broader sense, means the sacrifice of current income and present value for future income. The different attributes are generally involved. The sacrifice takes place in the present and its magnitudes as generally uncertain. An investment

activity of the country also depends on the development of financial institution, as financial institution is a key for investment. Industrial development is very important for economic development of any country. And there must be investment and productive activities for industrial development. Investment analysis is done to know and evaluate the investment policy which currently adapted by HBL and EBL. Investment analysis help to identify the bank's current strengths and weakness and to suggest taking action that might enable the bank to take the advantage of its strengths and correct its weakness

The main objective of the study is to evaluate investment policy of EBL and HBL and to suggest measure to improve the investment policy of the bank. This study is mainly based on secondary data from the year 2007/08 to 2011/12. The data have been basically obtained from annual reports and financial statements of related banks, official records, journals and bulletins, various published reports, relevant unpublished master's thesis and different related website. In this study, the financial tools ratio analysis viz. liquidity ratio, assets management ratio, profitability ratio, risk ratio, growth ratio and statistical tools lie mean, standards deviation, coefficient of variation trend analysis, correlation coefficient and test of hypothesis have been used for the analysis and interpretation of the data. The various ratios show the investment position of the EBL and HBL, over the five years period. Correlation analysis helps to establish the relationship between two variables, which can be useful to know how one variable affects another. Similarly, trend analysis is used to find out the trend of some important tool like total deposit, loan and advances, net profit and total investment on the basic of past data of the bank. This can be used to predict the value of these elements in future

## 5.2 Conclusion

On the basis of the major findings of the study derived from the comparative analysis of

HBL and EBL The overall performance of Everest Bank Limited is satisfactory than Himalayan Bank Limited. Following conclusion can be made after analyze performance of concern bank.

The liquidity position of the Everest bank limited is comparatively higher than that of the Himalayan bank limited. Cash and Bank Balance to total deposit Ratio of HBL is

consistence than EBL. EBL maintains lower liquidity position than HBL on the view of Loan and advance to current assets ratio. HBL mobilizes its total deposit as loan and advance lower than EBL in comparison

The assets management ratio shows that, Everest bank limited has stronger investment policy towards loan and advance to total deposit, Investment on government securities to total working fund ,Loan and advance to total working fund, but weaker in total investment to total deposit and investment on shares and debentures to total working fund. Out of five assets management ratio three ratios (total investment to total deposit, investment on government securities to total working fund and investment on share and debenture to total working fund) of HBL is more consistence than EBL and two ratios (loan and advance to total deposit and loan and advance to total working fund) of EBL is mores consistence than HBL

The profitability ratios shows that, returns on loans and advances, return on total working fund, total increase earned to outside assets ratio and return on equity of Himalayan bank ltd is greater than Everest bank lid. Total interest earned to total working fund and total interest paid to total working fund ratio of Everest bank ltd is greater than Himalayan bank ltd. Total interest paid to total working fund ratio of HBL is more consistence than EBL and rest five ratios of EBL is more consistence than HBL.

From the view point of risk ratio, credit risk (loan and advance to total assets ratio) and liquidity risk (cash and bank balance to total deposit ratio) of Everest bank ltd is higher than that of Himalayan bank limited. Which shows that Himalayan bank limited's risk ratio is higher than Everest bank ltd. Credit risk ratio of EBL is more consistence than HBL and liquidity ratio OF HBL is more consistence than EBL From the analysis of growth ratio Everest bank limited has higher growth rate in total deposit, loan and advances, total investment and net income than Himalayan bank limited Everest bank grab high level of growth where as Himalayan bank grabs lower level of growth. From the trend analysis both banks have increasing trend in total deposit, total net income, total investment and loans and advances EBL has better increasing trend than that of HBL. It shows that both banks will improve their position in future, however EBL will be comparatively better. From the coefficient of

correlation between total deposit and loans and advances, outside asset and net profit, total deposit and total investment, total deposit and net income there is highly significant relationship in case of EBL. Coefficient of correlation between total deposit and loans and advances, total deposit and total investment, total deposit and net income there is highly significant relationship but there is significant relation between outside assets and net income in cash of HBL. EBL is comparatively better than HBL. Through the analysis and finding we can conclude that EBL has better investment policy, liquidity position and growth rate is also good. Similarly, investment position of EBL is not good enough. But it has better risk ratio. HBL has also better profitability ratio, total investment to total deposit, investment on government securities to total working fund ratio.

## 5.3 Recommendations

Based on above findings and conclusion the following recommendations have been forwarded.

- As HBL has maintained the ratio of cash and bank balance to total deposit lower than that of EBL. It is recommended to increase cash and bank balance to meet current obligations and loan demand.
- The study shows that HBL has not invested more funds in government securities and so is recommended to invest more funds in this sector and not making them idle because govt. securities are the less risky assets
- The loan and advances to total deposit of HBL's is lower than EBL which indicates it has not properly used its fund as loan and advances. Hence, HBL is recommended to follow liberal policy
- The profitability position of HBL is greater than EBL. So, it is recommended that EBL should properly utilize its loan and advances investment should be done on less risky asset. decrease the expenses by controlling the operating expenses. So, it can earn more profit.
- The credit risk and liquidity risk taken by HBL is lower than that of EBL and its consistency is unstable which may result in loss. The bank should not take high risk, HBL should carefully analyze in above risk to achieve higher returns.
- HBL growth ratio is lower than that of EBL. It has very much fluctuating growth rate and HBL is recommended to increase its growth ratio into

deposits, loans and advances, investment and net income by designing new products and services to the depositors in order to attract them.

- Coefficient of correlation between outside asset and net profit of EBL is highly significant and HBL is significant. However coefficient of correlation between total deposit and net income, total deposit and loan and advance, total deposit and total investment of EBL are higher significant than that of HBL. It shows that there is highly positive relationship between variables of both banks. But HBL is less capable to earn profit by mobilizing its total outside assets then EBL. So, HBL should innovate new strategy changing its current policy for more utilizing its outside assets to earn more profit to compete with the EBL.
- The commercial banks i.e. Everest Bank and Himalayan Bank Limited should go for some new areas of investment like hydro electricity, infrastructure development and information technology of the economy as well as bank's operation.
- Everest Bank and Himalayan Bank should target their business segment on the middle family. For this they have to keep the affordable minimum balance to open the account at present both banks charge higher than other commercial banks. So that they can earn more customer and generate more deposit amount.
- Both commercial banks should support the social welfare event to promote the business. The bank should formulate new strategies of serving customers in a more convenient way
- Both commercial banks must increases there financial market for that they have to open their branches in remote areas at present which locate only in city areas.
- Now a days every customers use ATM cards. So both banks open their ATM center as per customers demand. Charge of using other banks ATM is high so they have to decrease the charge of using other banks ATM

# BIBLIOGRAPHY


Adhikari, A. (2011), A evaluating the financial performance of Nepal Bank Limited.Kathmandu: An unpublished Masters thesis, ShankerDev Campus, Tribhuwan University.

Adhikari, P.(2009), A Study in Investment Policy of Nepal Arab Bank Ltd in Comparison to Nepal SBI Bank Limited, An Unpublished Thesis, Shankar Dev Campus, Katmandu.

Annual Reports, Everest Bank Ltd 2007/08 to 2011/12

Annual Reports, Himalayan Bank Ltd 2007/08 to 2011/12

Bartaula, B. (2008),, Investment Policy of Everest Bank Ltd in Comparison With Bank of Kathmandu, Kathmandu: An unpublished master's Thesis ShankerDev Campus,

Bexley J. B. (1987), Banking Management. New Delhi: Sujeet Publication,

Bhatta R. (2008), A Comparative study of Investment policy of Nepal Investment Bank Ltd. and Himalayan Bank Ltd, An Unpublished master's Thesis ShankarDev Campus , Kathmandu.

Bhattarai, R. (2006), Investment Theory and Practice. Kathmandu,: Buddha Academic Enterprise Pvt. Ltd

Charles P. J.(1988), Investment Analysis and Management . New York : (second edition ), John Wiley and sons Inc .

Chaudhary K. (2006), A Comparative Study on investment policy of Nepal Bank Ltd. Kathmandu: An unpublished Masters thesis, ShankerDev Campus, Tribhuwan University.

Cross, H. D. (1963), Management Policies for Commercial Banks .(second edition ), . USA : Englewood Cliff, Prentic Hall Inc.

Dahal, S. (2009), A study on the investment policy of Nabil Bank Ltd. in comparison to Kumari Banks Ltd of Nepal.Kathmandu: An unpublished master's Thesis faculty of management Nepal Commerce Campus, Tribuvan university

Duwal, P. (2013), A Comparative study on Financial Performance of Everest Bank Ltd and Prime Commercial Bank Lt. Kathmandu: An unpublished master's Thesis faculty of management Nepal Commerce Campus, Tribuvan university.

Gitman, L.J. and J.(1990), Fundamental of Investment. New Dilhi : ( Fourth edition ),. Harper and Row Publishers.

Joshi P. R. (2004), Research Methodology. (4st Edition), Kathmandu: Buddha Academic Enterprise Pvt. Ltd .

Joshi,B. (2012), Financial Performance of joint venture banks in Nepal with special reference to Nepal Bangladesh Bank Lt. Kathmandu: An unpublished master's Thesis faculty of management Nepal Commerce Campus, Tribuvan university.

Joshi, P. R. (2002), Research Methodology. ( 2nd Edition), Kathmandu: Buddha Academic Enterprise Pvt. Ltd.

Journal of N. R. B. (2007), Kathmandu, Banking and Financial statistics .

Katwal, D. K. (2007), A Credit (Investment), Policy Analysis of Commercial Bank (With Respect to Kumari Bank Ltd and Himalayan Bank Ltd),. Kathmandu: An unpublished master's Thesis faculty of management ShankerDev Campus, Tribuvan university.

Kuikel, K. P. (2007), Dividend policy and Practice in Commercial Banks' In Nepal, Kathmandu: An unpublished master's Thesis, ShankerDev Campus,

Maharj M. (2007), Investment Policy Analysis of Joint Venture Banks (A Comparative Study of Nepal SBI Bank and Everest Bank Ltd), Kathmandu: An unpublished master's Thesis, ShankerDev Campus.

Morris (1990), Latine American Banking system in 1980."Discussion Paper" Washington D. C. World Bank.

Neupane, N. P. (2007), Investment Policy of Commercial Banks in Nepal( A Comparative Study of Everest Bank Ltd, NABIL and Bank of Kathmandu Ltd), An unpublished master's Thesis, ShankerDev Campus, Kathmadu .

Panday, I.M. (1999), Financial Management. New Delhi. Bikash Publication House .

Panthi, B. R. (2001), The Important of Human Resource Management. Kathmandu, RBB.

Pradhan, R. S. (2003), Role of Saving Investment and Capital Formation in Economy Development ( A case of Nepal), Katmandu. Nepal Bank Patrika.

Radhaswamy, M. and Vasudevan (1979), Text Book of Banking (second edition), New Delhi: Bikash Publication House

Regmi, G. (2010), A comparative study of the financial performance of Himalayan Bank Limited and Nepal Bangladesh Bank Limited. Kathmandu: An unpublished Master's thesis, ShankerDev Campus, Tribhuwan University.

Reilly F. K. (1986), Investment. Japan The Dryden Press CBL Publishing.

Shakya, A. (2007), Fund Mobilization and Investment policy of Everest Bank Ltd, An unpublished master's Thesis, ShankerDev Campus, Kathmandu .

Sharpe, Alexander & Bailey (1985), Investment. New Delhi: Eastern Economy Edition .

Singh S. P. & Singh S. (1985), Financial Analysis for Credit Management in Banks. New Delhi: Bikash Publication House.

Thapa, S. (2000), A Comparative Study On Investment Policy Of Nepal BangladeshBank Ltd and other Joint Venture Banks. An unpublished master's Thesis T. U. Kirtipur

Tripathee D. (2008), Investment Policy of Commercial Banks( With Respect to NABIL and Everest Bank Ltd),, An unpublished master's Thesis, ShankerDev Campus, Kathmandu.

## ANNEXES

Source of the all annexes are annual reports of the Himalayan Bank Limited and Everest Bank Limited from fiscal year 2007/08 to 2011/12

### Annex 1 "A"

### Current Ratio (Times)

| Himalayan Bank Ltd | | | Rs in million |
|---|---|---|---|
| Fiscal Year | Current Assets | Current Liabilities | Current Ratio |
| 2007/08 | 22306.59 | 22292.09 | 1.00 |
| 2008/09 | 23614.06 | 23493.20 | 1.01 |
| 2009/10 | 26572.41 | 26302.95 | 1.01 |
| 2010/11 | 28254.22 | 27334.21 | 1.03 |
| 2011/12 | 32288.35 | 31012.37 | 1.04 |

### Annex 1 "B"

### Current Ratio (Times)

| Everest Bank Ltd | | | Rs in million |
|---|---|---|---|
| Fiscal Year | Current Assets | Current Liabilities | Current Ratio |
| 2007/08 | 7702.01 | 7439.38 | 1.04 |
| 2008/09 | 9239.03 | 8928.25 | 1.03 |
| 2009/10 | 11367.59 | 10599.90 | 1.07 |
| 2010/11 | 15621.75 | 14696.48 | 1.06 |
| 2011/12 | 21039.82 | 19931.06 | 1.06 |

**Annex 2 "A"**

**Cash and Bank Balance to Current Assets Ratio (in %)**

| Himalayan Bank Ltd | | | | Rs in million |
|---|---|---|---|---|
| Fiscal Year | Cash & Bank Balance | current Assets | Ratio | In % |
| 2007/08 | 1979.209 | 22306.592 | 0.0887 | 8.87 |
| 2008/09 | 2001.184 | 23614.056 | 0.0847 | 8.47 |
| 2009/10 | 2014.471 | 26572.414 | 0.0758 | 7.58 |
| 2010/11 | 1717.352 | 28254.223 | 0.0608 | 6.08 |
| 2011/12 | 1757.341 | 32288.347 | 0.0544 | 5.44 |

**Annex 2 "B"**

**Cash and Bank Balance to Current Assets Ratio (in %)**

| Everest Bank Ltd | | | | Rs in million |
|---|---|---|---|---|
| Fiscal Year | cash and bank balance | Current Assets | Ratio | In % |
| 2007/08 | 1139.57 | 7702.01 | 0.148 | 14.80 |
| 2008/09 | 631.80 | 9239.03 | 0.068 | 6.84 |
| 2009/10 | 1049.99 | 11367.59 | 0.092 | 9.24 |
| 2010/11 | 1552.97 | 15621.75 | 0.099 | 9.94 |
| 2011/12 | 2391.42 | 21039.82 | 0.114 | 11.37 |

**Annex 3 "A"**

**Cash and Bank Balance to Total Deposit Ratio (in %)**

| Himalayan Bank Ltd | | | | RS in million |
|---|---|---|---|---|
| Fiscal Year | Cash & Bank Balance | Total Deposit | Ratio | In % |
| 2007/08 | 1979.209 | 21007.379 | 0.094 | 9.421 |
| 2008/09 | 2001.184 | 22010.333 | 0.091 | 9.092 |
| 2009/10 | 2014.471 | 24814.012 | 0.081 | 8.118 |
| 2010/11 | 1717.352 | 26490.852 | 0.065 | 6.483 |
| 2011/12 | 1757.341 | 30048.418 | 0.058 | 5.848 |

**Annex 3 "B"**
**Cash and Bank Balance to Total Deposit Ratio (in %)**

| **Everest Bank Ltd** | | | | **Rs in million** |
|---|---|---|---|---|
| Fiscal Year | Cash and Bank Balance | Total Deposit | Ratio | in % |
| 2007/08 | 1139.57 | 6694.963 | 0.170 | 17.021 |
| 2008/09 | 631.80 | 8063.902 | 0.078 | 7.835 |
| 2009/10 | 1049.99 | 10097.691 | 0.104 | 10.398 |
| 2010/11 | 1552.97 | 13802.445 | 0.113 | 11.251 |
| 2011/12 | 2391.42 | 18186.254 | 0.131 | 13.150 |

**Annex 4 "A"**

**Investment on Government Securities to Current Assets Ratio (in %)**

| **Himalayan Bank Ltd** | | | | **Rs In million** |
|---|---|---|---|---|
| Fiscal Year | Investment on Government Securities | Current Assets | Ratio | In % |
| 2007/08 | 2588.562 | 22306.592 | 0.116 | 11.604 |
| 2008/09 | 3431.729 | 23614.056 | 0.145 | 14.533 |
| 2009/10 | 5469.729 | 26572.414 | 0.206 | 20.584 |
| 2010/11 | 5144.313 | 28254.223 | 0.182 | 18.207 |
| 2011/12 | 6454.873 | 32288.347 | 0.200 | 19.991 |

**Annex 4 "B"**

**Investment on Government Securities to Current Assets Ratio (in %)**

| **Everest Bank Ltd** | | | | **Rs in million** |
|---|---|---|---|---|
| Fiscal Year | Investment on Government Securities | Current Assets | Ratio | in % |
| 2007/08 | 3198.701 | 7702.006 | 0.415 | 41.531 |
| 2008/09 | 4932.857 | 9239.030 | 0.534 | 53.392 |
| 2009/10 | 2100.290 | 11367.593 | 0.185 | 18.476 |
| 2010/11 | 3548.617 | 15621.750 | 0.227 | 22.716 |
| 2011/12 | 4704.632 | 21039.817 | 0.224 | 22.361 |

**Annex 5 "A"**

**Loan and Advance to Current Assets Ratio (in %)**

| Himalayan Bank Ltd | | | | Rs In million |
|---|---|---|---|---|
| Fiscal Year | Loan and Advance | Current Assets | ratio | In % |
| 2007/08 | 10001.848 | 22306.592 | 0.448 | 44.838 |
| 2008/09 | 11951.869 | 23614.056 | 0.506 | 50.613 |
| 2009/10 | 12424.521 | 26572.414 | 0.468 | 46.757 |
| 2010/11 | 14642.560 | 28254.223 | 0.518 | 51.824 |
| 2011/12 | 16997.997 | 32288.347 | 0.526 | 52.644 |

**Annex 5 "B"**

**Loan and Advance to Current Assets Ratio (in %)**

| Everest Bank Ltd | | | | Rs in million |
|---|---|---|---|---|
| Fiscal Year | Loan and Advance | Current Assets | ratio | in % |
| 2007/08 | 4908.461 | 7702.006 | 0.637 | 63.730 |
| 2008/09 | 5884.113 | 9239.030 | 0.637 | 63.688 |
| 2009/10 | 7618.671 | 11367.593 | 0.670 | 67.021 |
| 2010/11 | 9801.308 | 15621.750 | 0.627 | 62.741 |
| 2011/12 | 13664.082 | 21039.817 | 0.649 | 64.944 |

**Annex 6 "A"**

**Loan and Advance to Total Deposit Ratio**

| Himalayan Bank Ltd | | | | Rs in million |
|---|---|---|---|---|
| Fiscal Year | loan and advance | total deposit | Ratio | In % |
| 2007/08 | 10001.848 | 21007.379 | 0.476 | 47.611 |
| 2008/09 | 11951.869 | 22010.333 | 0.543 | 54.301 |
| 2009/10 | 12424.521 | 24814.012 | 0.501 | 50.071 |
| 2010/11 | 14642.560 | 26490.852 | 0.553 | 55.274 |
| 2011/12 | 16997.997 | 30048.418 | 0.566 | 56.569 |

**Annex 6 "B"**

**Loan and Advance to Total Deposit Ratio**

| **Everest Bank Ltd** | | | | **Rs in million** |
|---|---|---|---|---|
| Fiscal Year | loan and advance | Total deposit | Ratio | in % |
| 2007/08 | 4908.461 | 6694.963 | 0.733 | 73.316 |
| 2008/09 | 5884.113 | 8063.902 | 0.730 | 72.969 |
| 2009/10 | 7618.671 | 10097.691 | 0.754 | 75.450 |
| 2010/11 | 9801.308 | 13802.445 | 0.710 | 71.011 |
| 2011/12 | 13664.082 | 18186.254 | 0.751 | 75.134 |

**Annex 7 "A"**

**Total Investment to Total Deposit Ratio**

| **Himalayan Bank Ltd** | | | | **Rs In million** |
|---|---|---|---|---|
| Fiscal Year | total investment | total deposit | Ratio | In % |
| 2007/08 | 10175.435 | 21007.379 | 0.484 | 48.437 |
| 2008/09 | 9292.103 | 22010.333 | 0.422 | 42.217 |
| 2009/10 | 11692.342 | 24814.012 | 0.471 | 47.120 |
| 2010/11 | 10889.031 | 26490.852 | 0.411 | 41.105 |
| 2011/12 | 11822.985 | 30048.418 | 0.393 | 39.346 |

**Annex 7 "B"**

**Total Investment to Total Deposit Ratio**

| **Everest Bank Ltd** | | | | **Rs in million** |
|---|---|---|---|---|
| Fiscal Year | total investment | Total deposit | Ratio | in % |
| 2007/08 | 1653.977 | 6694.963 | 0.247 | 24.705 |
| 2008/09 | 2535.658 | 8063.902 | 0.314 | 31.445 |
| 2009/10 | 2128.932 | 10097.691 | 0.211 | 21.083 |
| 2010/11 | 4200.515 | 13802.445 | 0.304 | 30.433 |
| 2011/12 | 4984.315 | 18186.254 | 0.274 | 27.407 |

**Annex 8 "A"**

**Loan and Advance to Total Working Fund Ratio**

| **Himalayan Bank Ltd** | | | | **Rs In million** |
|---|---|---|---|---|
| Fiscal Year | loan and advance | total working fund | Ratio | In % |
| 2007/08 | 10001.848 | 33586.942 | 0.298 | 29.779 |
| 2008/09 | 11951.869 | 46061.342 | 0.259 | 25.948 |
| 2009/10 | 12424.521 | 51961.557 | 0.239 | 23.911 |
| 2010/11 | 14642.560 | 54991.981 | 0.266 | 26.627 |
| 2011/12 | 16997.997 | 62340.123 | 0.273 | 27.267 |

**Annex 8 "B"**

**Loan and Advance to Total Working Fund Ratio**

| **Everest Bank Ltd** | | | | **Rs in million** |
|---|---|---|---|---|
| Fiscal Year | loan and advance | total working fund | ratio | in % |
| 2007/08 | 4908.461 | 14614.647 | 0.336 | 33.586 |
| 2008/09 | 5884.113 | 18028.341 | 0.326 | 32.638 |
| 2009/10 | 7618.671 | 21480.120 | 0.355 | 35.468 |
| 2010/11 | 9801.308 | 29961.108 | 0.327 | 32.713 |
| 2011/12 | 13664.082 | 40080.971 | 0.341 | 34.091 |

**Annex 9 "A"**

**Investment on Government Securities to Total Working Fund Ratio**

| **Himalayan Bank Ltd** | | | | **Rs In million** |
|---|---|---|---|---|
| Fiscal Year | Investment on government securities | total working fund | ratio | In % |
| 2007/08 | 2588.562 | 33586.942 | 0.077 | 7.707 |
| 2008/09 | 3431.729 | 46061.342 | 0.075 | 7.450 |
| 2009/10 | 5469.729 | 51961.557 | 0.105 | 10.526 |
| 2010/11 | 5144.313 | 54991.981 | 0.094 | 9.355 |
| 2011/12 | 6454.873 | 62340.123 | 0.104 | 10.354 |

**Annex 9 "A"**

**Investment on Government Securities to Total Working Fund Ratio**

| **Everest Bank Ltd** | | | | **Rs in million** |
|---|---|---|---|---|
| Fiscal Year | Investment on government securities | total working fund | ratio | in % |
| 2007/08 | 3198.701 | 14614.647 | 0.219 | 21.887 |
| 2008/09 | 4932.857 | 18028.341 | 0.274 | 27.362 |
| 2009/10 | 2100.290 | 21480.120 | 0.098 | 9.778 |
| 2010/11 | 3548.617 | 29961.108 | 0.118 | 11.844 |
| 2011/12 | 4704.632 | 40080.971 | 0.117 | 11.738 |

**Annex 10 "A"**

Investment on Share and Debenture **to Total Working Fund Ratio**

| **Himalayan Bank Ltd** | | | | **Rs In million** |
|---|---|---|---|---|
| Fiscal Year | Investment on share and debenture | total working fund | ratio | In % |
| 2007/08 | 34.266 | 33586.942 | 0.001 | 0.102 |
| 2008/09 | 39.909 | 46061.342 | 0.001 | 0.087 |
| 2009/10 | 39.909 | 51961.557 | 0.001 | 0.077 |
| 2010/11 | 39.909 | 54991.981 | 0.001 | 0.073 |
| 2011/12 | 73.424 | 62340.123 | 0.001 | 0.118 |

**Annex 10 "B"**

**Investment on Share and Debenture to Total Working Fund Ratio**

| **Everest Bank Ltd** | | | | **Rs in million** |
|---|---|---|---|---|
| Fiscal Year | Investment on share and debenture | total working fund | ratio | in % |
| 2007/08 | 17.114 | 14614.647 | 0.001 | 0.117 |
| 2008/09 | 17.114 | 18028.341 | 0.001 | 0.095 |
| 2009/10 | 19.387 | 21480.120 | 0.001 | 0.090 |
| 2010/11 | 19.082 | 29961.108 | 0.001 | 0.064 |
| 2011/12 | 19.082 | 40080.971 | 0.000 | 0.048 |

**Annex 11 "A"**

**Net Income to Total Working Fund Ratio**

| Himalayan Bank Ltd | | | | Rs In million |
|---|---|---|---|---|
| Fiscal Year | Net income | total working fund | ratio | In % |
| 2007/08 | 332.429 | 33586.942 | 0.010 | 0.990 |
| 2008/09 | 263.053 | 46061.342 | 0.006 | 0.571 |
| 2009/10 | 308.275 | 51961.557 | 0.006 | 0.593 |
| 2010/11 | 457.458 | 54991.981 | 0.008 | 0.832 |
| 2011/12 | 491.823 | 62340.123 | 0.008 | 0.789 |

**Annex 11 "B"**

**Net Income to Total Working Fund Ratio**

| Everest Bank Ltd | | | | Rs in million |
|---|---|---|---|---|
| Fiscal Year | Net income | total working fund | ratio | in % |
| 2007/08 | 94.180 | 14614.647 | 0.006 | 0.644 |
| 2008/09 | 143.567 | 18028.341 | 0.008 | 0.796 |
| 2009/10 | 168.215 | 21480.120 | 0.008 | 0.783 |
| 2010/11 | 237.291 | 29961.108 | 0.008 | 0.792 |
| 2011/12 | 296.409 | 40080.971 | 0.007 | 0.740 |

**Annex 12 "A"**

**Total Interest Earned to Total Outside Assets Ratio**

| Himalayan Bank Ltd | | | | Rs In million |
|---|---|---|---|---|
| Fiscal Year | total interest earned | total out side assets | ratio | In % |
| 2007/08 | 1201.234 | 10231.719 | 0.117 | 11.740 |
| 2008/09 | 1245.895 | 21243.972 | 0.059 | 5.865 |
| 2009/10 | 1446.468 | 24116.862 | 0.060 | 5.998 |
| 2010/11 | 1626.474 | 25531.591 | 0.064 | 6.370 |
| 2011/12 | 1775.583 | 28820.982 | 0.062 | 6.161 |

**Annex 12 "B"**

**Total Interest Earned to Total Outside Assets Ratio**

| **Everest Bank Ltd** | | | | **Rs in million** |
|---|---|---|---|---|
| Fiscal Year | Intrest earned | total out side assets | ratio | in % |
| 2007/08 | 520.173 | 6562.438 | 0.079 | 7.927 |
| 2008/09 | 657.249 | 8419.770 | 0.078 | 7.806 |
| 2009/10 | 719.298 | 9747.603 | 0.074 | 7.379 |
| 2010/11 | 903.411 | 14001.823 | 0.065 | 6.452 |
| 2011/12 | 1144.408 | 18648.396 | 0.061 | 6.137 |

**Annex 13 "A"**

**Return on Loan and Advance Ratio**

| **Himalayan Bank Ltd** | | | | **Rs In million** |
|---|---|---|---|---|
| Fiscal Year | Net income | loan and advance | ratio | In % |
| 2007/08 | 332.429 | 10001.848 | 0.033 | 3.324 |
| 2008/09 | 263.053 | 11951.869 | 0.022 | 2.201 |
| 2009/10 | 308.275 | 12424.521 | 0.025 | 2.481 |
| 2010/11 | 457.458 | 14642.560 | 0.031 | 3.124 |
| 2011/12 | 491.823 | 16997.997 | 0.029 | 2.893 |

**Annex 13 "B"**

**Return on Loan and Advance Ratio**

| **Everest Bank Ltd** | | | | **Rs in million** |
|---|---|---|---|---|
| Fiscal Year | Net income | loan and advance | ratio | in % |
| 2007/08 | 94.180 | 4908.461 | 0.019 | 1.919 |
| 2008/09 | 143.567 | 5884.113 | 0.024 | 2.440 |
| 2009/10 | 168.215 | 7618.671 | 0.022 | 2.208 |
| 2010/11 | 237.291 | 9801.308 | 0.024 | 2.421 |
| 2011/12 | 296.409 | 13664.082 | 0.022 | 2.169 |

**Annex 14 "A"**

**Total Interest Earned to Total Working Fund Ratio**

| Himalayan Bank Ltd | | | | Rs In million |
|---|---|---|---|---|
| Fiscal Year | total interest earned | total working fund | ratio | In % |
| 2007/08 | 1201.234 | 33586.942 | 0.036 | 3.576 |
| 2008/09 | 1245.895 | 46061.342 | 0.027 | 2.705 |
| 2009/10 | 1446.468 | 51961.557 | 0.028 | 2.784 |
| 2010/11 | 1626.474 | 54991.981 | 0.030 | 2.958 |
| 2011/12 | 1775.583 | 62340.123 | 0.028 | 2.848 |

**Annex 14 "B"**

**Total Interest Earned to Total Working Fund Ratio**

| Everest Bank Ltd | | | | Rs in million |
|---|---|---|---|---|
| Fiscal Year | Interest earned | total working fund | ratio | in % |
| 2007/08 | 520.173 | 14614.647 | 0.036 | 3.559 |
| 2008/09 | 657.249 | 18028.341 | 0.036 | 3.646 |
| 2009/10 | 719.298 | 21480.120 | 0.033 | 3.349 |
| 2010/11 | 903.411 | 29961.108 | 0.030 | 3.015 |
| 2011/12 | 1144.408 | 40080.971 | 0.029 | 2.855 |

**Annex 15 "A"**

**Total Interest Paid to Total Working Fund Ratio**

| Himalayan Bank Ltd | | | | Rs In million |
|---|---|---|---|---|
| Fiscal Year | total interest paid | total working fund | ratio | In % |
| 2007/08 | 554.128 | 33586.942 | 0.016 | 1.650 |
| 2008/09 | 491.543 | 46061.342 | 0.011 | 1.067 |
| 2009/10 | 561.964 | 51961.557 | 0.011 | 1.081 |
| 2010/11 | 648.842 | 54991.981 | 0.012 | 1.180 |
| 2011/12 | 767.411 | 62340.123 | 0.012 | 1.231 |

**Annex 15 "B"**

**Total Interest Paid to Total Working Fund Ratio**

| Everest Bank Ltd | | | | Rs in million |
|---|---|---|---|---|
| Fiscal Year | Total intrest paid | total working fund | ratio | in % |
| 2007/08 | 307.639 | 14614.647 | 0.021 | 2.105 |
| 2008/09 | 316.366 | 18028.341 | 0.036 | 3.646 |
| 2009/10 | 299.565 | 21480.120 | 0.033 | 3.349 |
| 2010/11 | 401.397 | 29961.108 | 0.030 | 3.015 |
| 2011/12 | 517.166 | 40080.971 | 0.029 | 2.855 |

**Annex 16 "A"**

**Return on Equity**

| Himalayan Bank Ltd | | | | Rs In million |
|---|---|---|---|---|
| Fiscal Year | Net income | equity | ratio | In % |
| 2007/08 | 332.429 | 1063.132 | 0.313 | 31.269 |
| 2008/09 | 263.053 | 1324.166 | 0.199 | 19.866 |
| 2009/10 | 308.275 | 1541.746 | 0.200 | 19.995 |
| 2010/11 | 457.458 | 1766.176 | 0.259 | 25.901 |
| 2011/12 | 491.823 | 2146.500 | 0.229 | 22.913 |

**Annex 16 "B"**

**Return on Equity**

| Everest Bank Ltd | | | | Rs in million |
|---|---|---|---|---|
| Fiscal Year | Net income | equity | ratio | in % |
| 2007/08 | 94.180 | 612.825 | 0.154 | 15.368 |
| 2008/09 | 143.567 | 680.319 | 0.211 | 21.103 |
| 2009/10 | 168.215 | 832.617 | 0.202 | 20.203 |
| 2010/11 | 237.291 | 962.808 | 0.246 | 24.646 |
| 2011/12 | 296.409 | 1201.515 | 0.247 | 24.670 |

**Annex 17"A"**

**Credit Risk (Loan and Advance to Total Assets) Ratio**

| Himalayan Bank Ltd | | | | Rs In million |
|---|---|---|---|---|
| Fiscal Year | loan and advance | total assets | ratio | In % |
| 2007/08 | 10001.848 | 23355.223 | 0.428 | 42.825 |
| 2008/09 | 11951.869 | 24817.370 | 0.482 | 48.159 |
| 2009/10 | 12424.521 | 27844.695 | 0.446 | 44.621 |
| 2010/11 | 14642.560 | 29460.390 | 0.497 | 49.703 |
| 2011/12 | 16997.997 | 33519.141 | 0.507 | 50.711 |

**Annex 17"B"**

**Credit Risk (Loan and Advance to Total Assets) Ratio**

| Everest Bank Ltd | | | | Rs in million |
|---|---|---|---|---|
| Fiscal Year | loan and advance | total assets | ratio | in % |
| 2007/08 | 4908.461 | 8052.209 | 0.610 | 60.958 |
| 2008/09 | 5884.113 | 9608.571 | 0.612 | 61.238 |
| 2009/10 | 7618.671 | 11732.516 | 0.649 | 64.936 |
| 2010/11 | 9801.308 | 15959.285 | 0.614 | 61.414 |
| 2011/12 | 13664.082 | 21432.574 | 0.638 | 63.754 |

**Annex 18 "A"**

**Liquid Risk (Cash and Bank Balance to Total Deposit) Ratio**

| Himalayan Bank Ltd | | | | RS in million |
|---|---|---|---|---|
| Fiscal Year | Cash & Bank Balance | Total Deposit | Ratio | In % |
| 2007/08 | 1979.209 | 21007.379 | 0.094 | 9.421 |
| 2008/09 | 2001.184 | 22010.333 | 0.091 | 9.092 |
| 2009/10 | 2014.471 | 24814.012 | 0.081 | 8.118 |
| 2010/11 | 1717.352 | 26490.852 | 0.065 | 6.483 |
| 2011/12 | 1757.341 | 30048.418 | 0.058 | 5.848 |

**Annex 18 "A"**

**Liquid Risk (Cash and Bank Balance to Total Deposit) Ratio**

| **Everest Bank Ltd** | | | | **Rs in million** |
|---|---|---|---|---|
| Fiscal Year | Cash and Bank Balance | Total Deposit | Ratio | in % |
| 2007/08 | 1139.57 | 6694.963 | 0.170 | 17.021 |
| 2008/09 | 631.80 | 8063.902 | 0.078 | 7.835 |
| 2009/10 | 1049.99 | 10097.691 | 0.104 | 10.398 |
| 2010/11 | 1552.97 | 13802.445 | 0.113 | 11.251 |
| 2011/12 | 2391.42 | 18186.254 | 0.131 | 13.150 |

**Annex 19**

**Growth of Total Investment**

| total deposit | | |
|---|---|---|
| Fiscal Year | HBL | EBL |
| 2007/08 | 21007.379 | 6694.963 |
| 2008/09 | 22010.333 | 8063.902 |
| 2009/10 | 24814.012 | 10097.691 |
| 2010/11 | 26490.852 | 13802.445 |
| 2011/12 | 30048.418 | 18186.254 |
| Growth | 9.36% | 28.38% |

Growth rate can be calculated as follows

Here,

$D_n$ = Total deposit in fiscal year 2011/12

$D_o$ = Total deposit in fiscal year 2007/08

g = growth rate

n = No of observation = 5

We have $D_n = D_o (1+g)^{n-1}$

Calculation of growth rate of HBL of Total deposit

$D_n = D_o (1+g)^{n-1}$

$D_{2011/12} = D_{2007/08}(1+g)^{n-1}$

$30048.418 = 21007.379 (1+ g)^{5-1}$

$1+g = 1.0936$

$g = 0.0936$ or

$g = 9.36\%$

Calculation of growth rate of EBL of Total deposit

$D_n = D_o (1+g)^{n-1}$

$D_{2011/12} = D_{2007/08}(1+g)^{n-1}$

$18186.254 = 6694.963 (1+ g)^{5-1}$

$1+g = 1.2838$

$g = 0.2838$ or

$g = 28.38\%$

**Annex 20**
**Growth of Loan and Advance**

| Loan and advance | | |
|---|---|---|
| Fiscal Year | HBL | EBL |
| 2007/08 | 10001.848 | 4908.461 |
| 2008/09 | 11951.869 | 5884.113 |
| 2009/10 | 12424.521 | 7618.671 |
| 2010/11 | 14642.560 | 9801.308 |
| 2011/12 | 16997.997 | 13664.082 |
| Growth | 14.28% | 29.17% |

Growth rate can be calculated as follows

Here,

$D_n$ = Loan and advance in fiscal year 2011/12

$D_o$ = Loan and advance in fiscal year 2007/08

g = growth rate

n = No of observation = 5

We have,

$D_n = D_o (1+g)^{n-1}$

Calculation of growth rate of HBL of Loan and advance

$D_n = D_o (1+g)^{n-1}$

$D_{2011/12} = D_{2007/08}(1+g)^{n-1}$

$16997.997 = 10001.848 (1+ g)^{5-1}$

$1+g = 1.1418$

$g = 0.1418$ or

$g = 14.28\%$

Calculation of growth rate of EBL of Loan and advance

$D_n = D_o (1+g)^{n-1}$

$D_{2011/12} = D_{2007/08}(1+g)^{n-1}$

$13664.082 = 4908.461 (1+ g)^{5-1}$

$1+g = 1.2917$

$g = .2917$ or

$g = 29.17\%$

**Annex 21**

| Net income | | |
|---|---|---|
| Fiscal Year | HBL | EBL |
| 2007/08 | 332.429 | 94.180 |
| 2008/09 | 263.053 | 143.567 |
| 2009/10 | 308.275 | 168.215 |
| 2010/11 | 457.458 | 237.291 |
| 2011/12 | 491.823 | 296.409 |
| Growth | 10.29% | 33.19% |

**Growth of Net Income**

Growth rate can be calculated as follows

Here,

$D_n$ = Net income in fiscal year 2011/12

$D_o$ = Net income in fiscal year 2007/08

g = growth rate

n = No of observation = 5

We have $D_n = D_o (1+g)^{n-1}$

Calculation of growth rate of HBL of Net income

$D_n = D_o (1+g)^{n-1}$

$D_{2011/12} = D_{2007/08}(1+g)^{n-1}$

$491.823 = 332.429 (1+ g)^{5-1}$

$1+g = 1.1029$

$g = 0.1029$or

$g = 10.29\%$

Calculation of growth rate of EBL of Net income

$D_n = D_o (1+g)^{n-1}$

$D_{2011/12} = D_{2007/08}(1+g)^{n-1}$

$296.409 = 94.180 (1+ g)^{5-1}$

$1+g = 1.3319$

$g = 0.3319$ or

$g = 33.19\%$